Consolidated Financial Statements of

Timbercreek Mortgage Investment Corporation

Years ended December 31, 2013 and 2012

Timbercreek
Asset Management

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Mortgage Investment Corporation

We have audited the accompanying consolidated financial statements of Timbercreek Mortgage Investment Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of net income (loss) and comprehensive income (loss), changes in shareholders' equity and net assets attributable to holders of redeemable shares and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

KPMG LLP

March 5, 2014

Toronto, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 12,348,449	$ 992,671
Other assets (note 14(e))	1,540,102	366,634
Restricted cash (note 6)	–	395,088
Mortgage and loan investments, including mortgage syndications (note 4)	442,165,777	407,140,364
Foreclosed properties held for sale (note 5)	11,351,435	–
Total assets	**467,405,763**	**408,894,757**
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	592,421	868,300
Dividends payable (notes 10(a) and 11(b))	2,476,592	2,428,105
Due to Manager (note 14(a))	2,349,736	2,469,511
Credit facility (note 7)	–	8,706,383
Mortgage funding holdbacks	28,809	129,262
Prepaid mortgage and loan interest	1,011,565	357,235
Mortgage syndication liabilities (note 4)	124,378,929	38,407,891
Total liabilities (excluding net assets attributable to holders of redeemable shares)	**130,838,052**	**53,366,687**
Net assets attributable to holders of redeemable shares	**–**	**355,527,970**
Shareholders' equity	**336,567,711**	**100**
Total liabilities and equity	**$ 467,405,763**	**$ 408,894,757**
Commitments and contingencies (notes 4 and 19)		
Subsequent event (note 21)		

See accompanying notes to the consolidated financial statements.

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

Years ended December 31, 2013 and 2012

	2013	2012
Interest income:		
Interest, including mortgage syndications	$ 39,024,302	$ 35,479,082
Fees, including mortgage syndications	5,083,354	5,436,148
	44,107,656	40,915,230
Interest and fees expense on mortgage syndications	(4,376,377)	(2,260,275)
Net interest income	39,731,279	38,654,955
Expenses:		
Management fees (note 12(a))	4,974,029	4,812,148
Performance fees (note 12(a))	1,940,688	2,460,947
Trailer fees (note 12(b))	737,199	1,432,823
Transition related costs (note 1)	3,530,417	–
Provision for mortgage and loan investments loss (note 4(d))	2,150,000	–
Net unrealized foreign exchange (gain) loss	5,436	–
General and administrative	906,208	771,254
	14,243,977	9,477,172
Income from operations	25,487,302	29,177,783
Net operating loss from foreclosed properties held for sale	181,845	–
Financing costs:		
Interest on credit facility (note 7)	474,778	351,882
Issuance costs of redeemable shares	2,680	26,851
Dividends to holders of redeemable shares (note 10(b))	24,321,067	29,201,015
	24,798,525	29,579,748
Net income (loss) and comprehensive income (loss)	**$ 506,932**	**$ (401,965)**
Net income per share (note 13)		
Basic and diluted	$ 0.65	–

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

Years ended December 31, 2013 and 2012

2013	Class A Shares	Class B Shares	Common Shares	Total
Net assets attributable to holders of redeemable shares, beginning of year	$ 319,585,511	$ 35,942,459	$ –	$ 355,527,970
Gross proceeds from issuance of redeemable shares	–	5,000,000	–	5,000,000
Issuance of redeemable shares under dividend reinvestment plan	3,706,252	–	–	3,706,252
Redemption of redeemable shares	(15,511,769)	(2,553,549)	–	(18,065,318)
Repurchase of redeemable shares	(5,154,943)	–	–	(5,154,943)
Exchange of redeemable shares	1,037,375	(1,037,375)	–	–
Exchange of redeemable shares to common shares	(303,662,426)	(37,351,535)	341,013,961	–
Dividends to shareholders	–	–	(4,953,182)	(4,953,182)
Issuance of common shares under dividend reinvestment plan	–	–	319,073	319,073
Repurchase of common shares	–	–	(319,073)	(319,073)
Net income and comprehensive income for the year	–	–	506,932	506,932
Shareholders' equity, end of year	**$ –**	**$ –**	**$ 336,567,711**	**$ 336,567,711**

2012	Class A Shares	Class B Shares	Common Shares	Total
Net assets attributable to holders of redeemable shares, beginning of year	$ 282,536,697	$ 35,674,222	$ –	$ 318,210,919
Gross proceeds from issuance of redeemable shares	–	34,005,730	–	34,005,730
Issuance of redeemable shares under dividend reinvestment plan	3,859,179	–	–	3,859,179
Redemption of redeemable shares	(145,893)	–	–	(145,893)
Exchange of redeemable shares	33,823,230	(33,823,230)	–	–
Net income (loss) and comprehensive income (loss) for the year	(487,702)	85,737	–	(401,965)
Net assets attributable to holders of redeemable shares, end of year	**$ 319,585,511**	**$ 35,942,459**	**$ –**	**$ 355,527,970**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31, 2013 and 2012

	2013	2012
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	$ 506,932	$ (401,965)
Amortization of lender fees	(4,266,467)	(4,524,819)
Financing costs	24,798,525	29,579,748
Net unrealized foreign exchange gain	(33,456)	–
Impairment provision on mortgage and loan investments	2,150,000	–
Change in non-cash operating items:		
Restricted cash	395,088	5,512,859
Interest receivable	(2,392,721)	1,849,643
Other assets	(1,065,865)	(170,807)
Accounts payable and accrued expenses	(347,575)	394,999
Due to Manager	(119,775)	1,329,040
Prepaid mortgage and loan interest	654,330	(5,543,180)
Mortgage funding holdbacks	(100,453)	(528,911)
Lender fees	3,633,287	5,054,523
	23,811,850	**32,551,130**
FINANCING ACTIVITIES		
Redemption of Class A redeemable shares	(15,511,769)	(145,893)
Proceeds from issuance of Class B redeemable shares	5,000,000	34,005,730
Redemption of Class B redeemable shares	(2,553,549)	–
Advances from (repayment of) credit facility	(8,836,425)	8,836,425
Interest paid	(452,440)	(237,347)
Repurchase of redeemable shares for cancellation	(5,154,943)	–
Issuance costs of redeemable shares	(2,680)	–
Dividends to holders of redeemable shares	(23,042,920)	(25,263,969)
Dividends to holders of common shares	(2,476,590)	–
	(53,031,316)	**17,194,946**
INVESTING ACTIVITIES		
Capital improvements to foreclosed properties held for sale	(1,251,462)	–
Funding of mortgage and loan investments, net of mortgage syndications	(241,306,257)	(327,810,084)
Discharge of mortgage and loan investments, net of mortgage syndications	283,132,963	262,913,692
	40,575,244	**(64,896,392)**
Increase (decrease) in cash and cash equivalents	11,355,778	(15,150,316)
Cash and cash equivalents, beginning of year	992,671	16,142,987
Cash and cash equivalents, end of year	**$ 12,348,449**	**$ 992,671**

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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. Effective September 13, 2013 (the "Effective Date"), the Company filed articles of amendment with the Ministry of Government Services of Ontario in connection with the Transition, as defined in note 1 below, to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing redeemable Class A, Class B and voting classes of shares, and provide for the creation of a new class of common shares for which all existing classes of redeemable shares will be exchanged on November 29, 2013.

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

1. TRANSITION TO PUBLIC COMPANY REGIME

On September 12, 2013, the Company received shareholder approval for the Company's transition (the "Transition") from the Canadian securities regulatory regime for investment funds to the regulatory regime for non-investment fund reporting issuers (the "Public Company Regime").

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

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption"). The Company redeemed requests from holders of 1,674,568 Class A shares and 259,771 Class B shares for the Special Redemption. The total redemption payable of $18,026,557 was paid on November 27, 2013. On November 29, 2013 (the "Exchange Date"), the Company exchanged all of the 32,829,013 outstanding Class A shares and 3,887,053 outstanding Class B Shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on November 29, 2013, continuing under the symbol 'TMC' and the Class A shares ceased to trade after the close of market on November 28, 2013.

Also effective September 13, 2013, the Company entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services for the Company's mortgage and loan investments.

Additionally, Messrs. Ugo Bizzarri and Andrew Jones have been elected as additional directors of the Company.

In connection with the Transition, the Company has incurred total costs of $3,780,417, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. Timbercreek Asset Management Inc., in its capacity as the Manager, elected to assume responsibility for $250,000 of costs relating to the Transition.

2. BASIS OF PREPARATION

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors on March 5, 2014.

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for foreclosed properties held for sale and foreign exchange forward contract and which are measured at fair value on each reporting date.

(d) Principles of consolidation:

These consolidated 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.

(e) Use of estimates and judgments:

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

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

Mortgage and loan investments:

The Company is required to make an assessment of the impairment of mortgage and loan investments. Mortgage and loan 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. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

Measurement of fair values:

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

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

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

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or 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.

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

Note 5 - Foreclosed properties held for sale; and

Note 18 - Fair value measurements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents:

The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost.

(b) Mortgage and loan investments:

The mortgage and loan investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage and loan investments are measured at amortized cost using the effective interest method, less any impairment losses. The mortgage and loan investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset.

The Company considers evidence of impairment for mortgage and loan investments at both a specific asset and collective level. All individually significant mortgage and loan investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identifiable at an individual mortgage level. Mortgage and loan investments that are not individually significant are collectively assessed for impairment by grouping together mortgage and loan investments with similar risk characteristics.

In assessing collective impairment, the Company reviews historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgments as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of specific mortgage and loan investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage and loan investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(c) Foreclosed properties held for sale:

When the Company obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises of principal, costs incurred, accrued interest and a provision for mortgage investment loss, if any, is reclassified from mortgage and loan investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Company uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgage or loan investment is discontinued from the date of transfer from mortgage and loan investments to FPHFS. Net income or loss generated from FPHFS (including fair value adjustments), if any, is recorded as net operating income or loss from FPHFS.

(d) Foreign exchange forward contract:

The Company holds a derivative financial instrument to hedge its foreign currency risk exposure. Derivatives are recognized initially at fair value, with transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss 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 a hedge.

(e) Dividends:

Dividends payable to holders of common shares are recognized in the consolidated statement of changes in shareholders' equity and net assets attributable to holders of redeemable shares. Prior to the Transition, dividends payable to holders of redeemable shares were recognized in the consolidated statements of net income (loss) and comprehensive income (loss) as financing costs.

(f) Income taxes:

It is the intention of the Company to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or deferred taxes is required for the Company and its subsidiaries.

(g) Financial instruments:

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus in the case of financial instruments not FVTPL any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classifications of the Company's financial instruments are outlined in note 18.

Prior to the Transition, net assets attributable to holders of redeemable shares were carried on the consolidated statements of financial position at net asset value. The presentation of net assets attributable to holders of redeemable shares reflected, in total, that the interests of the holders were limited to the net assets of the Company. After the Transition, redeemable shares were exchanged to common shares and are classified as shareholders' equity in the statement of financial position as at December 31, 2013, as outlined in note 1.

(h) Derecognition of financial assets and liabilities:

Financial assets:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire; or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Company enters into transactions whereby it transfers mortgage investments recognized on its statement of financial position, but retains either all, substantially all, or a portion of the risks and rewards of the transferred mortgage investments. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities:

The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(i) Interest and fee income:

Interest income is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgage or loan investments and are amortized to profit and loss over the expected life of the specific mortgage or loan 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.

(j) Changes in accounting policies:

Except for the changes below, the Company has consistently applied the accounting policies set out to all periods presented in these consolidated financial statements. The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

a) IFRS 10 Consolidated Financial Statements (2011)

b) IFRS 11 Joint Arrangements

c) IFRS 12 Disclosure of Interests in Other Entities

d) IFRS 13 Fair Value Measurement

e) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

f) IAS 19 Employee Benefits (2011)

With the exception of IFRS 13, Fair Value Measurements, there were no material effects upon adoption of these new standards and amendments to standards.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Company has included additional disclosures in this regard (see notes 2(e), 5 and 18).

(k) Future changes in accounting policies:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) IFRS 9, Financial instruments, ("IFRS 9"):

In November 2009 the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010 published amendments to IFRS 9 (IFRS 9 (2010)). IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The mandatory effective date is not yet determined. The extent of the impact of adoption of these amendments has not yet been determined.

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

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The Company intends to adopt the amendments to IAS 32 in its consolidated financial statements for the annual period beginning January 1, 2014. The Company does not expect the implementation of these standards to have a significant impact on the consolidated financial statements.

(ii) Levies

In 2013, the International Accounting Standards Board (IASB) issued IFRIC 21, "Levies" ("IFRIC 21"). The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets" ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

4. MORTGAGE AND LOAN INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

December 31, 2013	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (c)	$ 441,136,647	$ (123,982,494)	$ 317,154,153
Interest receivable	5,384,798	(694,227)	4,690,571
	446,521,445	(124,676,721)	321,844,724
Unamortized lender fees	(3,805,668)	297,792	(3,507,876)
Provision for mortgage and loan investments loss (d)	(550,000)	–	(550,000)
	$ 442,165,777	**$ (124,378,929)**	**$ 317,786,848**

December 31, 2012	Gross mortgage and loan investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (c)	$ 390,216,024	$ (38,483,813)	$ 351,732,211
Loan investments (b)	16,520,826	–	16,520,826
Interest receivable	4,721,310	(100,819)	4,620,491
	411,458,160	(38,584,632)	372,873,528
Unamortized lender fees	(4,317,796)	176,741	(4,141,055)
	$ 407,140,364	**$ (38,407,891)**	**$ 368,732,473**

(a) Mortgage investments:

	%	December 31, 2013	%	December 31, 2012
Interest in first mortgages	61	$ 193,574,221	45	$ 159,136,575
Interest in non-first mortgages	39	123,579,932	55	192,595,636
	100	**$ 317,154,153**	**100**	**$ 351,732,211**

The mortgage investments are secured by real property, bear interest at a weighted average interest rate of 9.81% (December 31, 2012 – 10.14%) and mature between 2014 and 2017 (December 31, 2012 – 2013 and 2016).

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 year ended December 31, 2013, the Company received total lender fees, net of fees relating to mortgage syndication liabilities of $3,633,287 (2012 – $5,054,523), respectively, which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

The unadvanced mortgage commitments under the existing mortgage investments amounted to $61,563,733 as at December 31, 2013 (December 31, 2012 – $39,177,491). Subsequent to the year end, $1,863,751 of the commitments have expired.

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

2014	$ 100,999,210
2015	163,473,066
2016	47,581,877
2017	5,100,000
Total	**$ 317,154,153**

(b) Loan investment:

As at December 31, 2012, the loan investment was secured by a note portfolio secured against individually manufactured housing communities, an inventory of manufactured homes in the United States and first charges on two manufactured housing communities. The interest rate on the loan investment was 10.00%. On December 24, 2013, the loan investment's principal and interest outstanding was repaid in full.

(c) Non-recourse mortgage syndication liabilities:

The Company has entered into certain mortgage participation agreements with mainly 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. The difference between the carrying value of such interest sold and the proceeds on sale are recognized as gain or loss in profit and loss.

For those investments which have not met the derecognition criteria, the participation transactions have resulted in the Company recognizing the participating mortgages and corresponding non-recourse mortgage syndication liabilities on its statements of financial position. As at December 31, 2013 the carrying value of the transferred assets and corresponding non-recourse liabilities is $124,378,929 (December 31, 2012 – $38,407,891). The Company has also recognized interest and fee income and a corresponding interest and fee expense of $4,376,377 (December 31, 2012- $2,260,275) in the statements of net income (loss) and comprehensive income (loss). The fair value of the transferred assets and non-recourse mortgage syndicated liabilities approximate their carrying values (see note 18).

(d) Provision for mortgage and loan investments loss:

The mortgage and loan investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage or loan investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For the year ended December 31, 2013 the Company has recognized an impairment provision of $2,150,000 (December 31, 2012 – nil) relating to impaired mortgage investments, which represents the total amount of the Manager's estimate of the shortfall between the principal balances, costs incurred and accrued interest and the estimated recoverable amount of the underlying security of the mortgage investment. During the Year, the Company foreclosed on the underlying security relating to two impaired mortgage investments and $1,600,000 was reclassified from impairment provision to FPHFS.

The changes in the provision for mortgage and loan investments loss during the year was as follows:

	2013	2012
Balance, beginning of year	$ –	$ –
Impairment provision recognized	2,150,000	–
Provision reclassified to FPHFS	(1,600,000)	–
Provision for mortgage and loan investments, end of year	**$ 550,000**	**$ –**

5. FORECLOSED PROPERTIES HELD FOR SALE

As at December 31, 2013, there are two properties (December 31, 2012 – nil) which are FPHFS and are recorded at their fair value of $11,351,435 (December 31, 2012 – nil). The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values.

	Year ended December 31, 2013	2012
Balance, beginning of year	$ –	$ –
Foreclosed properties reclassified from Mortgage and loan investments	10,099,973	–
Capital expenditures	1,251,462	–
Balance, end of year	**$ 11,351,435**	**$ –**

The fair value is based on valuations by independent external appraisers accredited by professional institutes with recent experience in the location of the property being valued. 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 foreclosed properties 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.	• Stabilized NOI is based on the location, type and quality of the property and supported 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 taking into account market data at the valuation date.	The estimated fair value would increase (decrease) if: • 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.

6. RESTRICTED CASH

Restricted cash consists of cash received from borrowers in connection with interest reserves on certain mortgage and loan investments.

7. CREDIT FACILITY

In November 2013, the Company amended the terms of its revolving credit facility (the "Credit Facility") with its bank. Under the amended terms, the Company was provided a temporary bulge of $18,026,557 to fund the Special Redemption. The bulge was repaid in full prior to expiry on December 31, 2013. Following repayment of the bulge the Credit Facility limit was $25,000,000 (December 31, 2012 – $25,000,000). The Credit Facility is primarily used to bridge timing differences between new mortgage advances and repayments or follow-on equity offerings. The Credit Facility expires in October 2014 and is subject to an interest rate equal to the bank's prime rate of interest plus 1.50% (December 31, 2012 – bank's prime rate of interest plus 1.50%). The Credit Facility is secured by a general security agreement over the Company's assets. As at December 31, 2013, no amount was outstanding on the Credit Facility (December 31, 2012 – $8,836,425).

Interest costs related to the Credit Facility are recorded in financing costs using the effective interest rate method. For the year ended December 31, 2013, interest on the Credit Facility of $474,778 (December 31, 2012 – $351,882), is included in financing costs.

As at December 31, 2013, there were $107,603 (December 31, 2012 – $130,042) in unamortized financing costs related to the placement of the Credit Facility. For the year ended December 31, 2013, the Company has amortized financing costs of $143,859 (2012 – $149,120), to interest expense using the effective interest rate method.

8. FOREIGN EXCHANGE FORWARD CONTRACT

The Company entered into a foreign exchange forward contract with its bank to lock in the Company's rate to exchange U.S. dollars into Canadian dollars. At December 31, 2013, the fair value of the foreign currency contract was a liability of $71,696 (December 31, 2012 – nil).

9. VOTING SHARES

As part of the Transition outlined in note 1, on the Exchange Date, all voting shares were re-purchased for a nominal amount and cancelled.

Prior to the Transition, the Company was authorized to issue an unlimited amount of voting shares. As at December 31, 2012, the Company had $100 of issued and fully paid voting shares. The voting shares were held by certain shareholders of Timbercreek Asset Management Inc.

10. REDEEMABLE SHARES

As part of the Transition outlined in note 1, on the Exchange Date all classes of redeemable shares including Class A and Class B shares were exchanged into common shares at the ratios specified in note 11.

Prior to the Transition, Class A shares were publicly listed on the TSX under the symbol 'TMC'. Class B shares were privately held and there was no market through which these shares could be sold. The Company was authorized to issue these classes of shares, which were redeemable at the holder's option and were subject to different fee structures. The Company classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The redeemable shares were classified as financial liabilities and presented as 'net assets attributable to holders of redeemable shares' in the statements of financial position.

The changes in the number of Class A and Class B shares were as follows:

Year ended December 31, 2013	Class A	Class B
Redeemable shares outstanding, beginning of year	34,561,122	3,742,597
Issued	–	508,647
Issuance of redeemable shares under dividend reinvestment plan	393,522	–
Exchanged	110,685	(104,420)
Redeemed	(1,678,568)	(259,771)
Repurchased	(557,748)	–
Exchanged to common shares	(32,829,013)	(3,887,053)
Redeemable shares outstanding, end of year	**–**	**–**

Year ended December 31, 2012	Class A	Class B
Redeemable shares outstanding, beginning of year	30,618,903	3,724,347
Issued	–	3,400,573
Issuance of redeemable shares under dividend reinvestment plan	388,288	–
Exchanged	3,569,453	(3,382,323)
Redeemed	(15,522)	–
Redeemable shares outstanding, end of year	**34,561,122**	**3,742,597**

2013:

During the year ended December 31, 2013, the Company completed a non-brokered private placement of 508,647 Class B shares for gross proceeds of $5,000,000. In connection with the above-noted share offering, the Company incurred $2,680 in issuance costs. Under IFRS, Class A and Class B shares were considered debt instruments prior to the Transition, and accordingly, the Company has recorded these issuance costs through profit and loss.

2012:

During the year ended December 31, 2012, the Company completed a non-brokered private placement of 3,400,573 Class B shares for gross proceeds of $34,005,730. In connection with the above-noted share offering, the Company incurred $26,851 in issuance costs.

(a) Dividends to holders of redeemable shares:

Prior the Transition, the Company paid the following dividends to holders of redeemable shares:

Year ended December 31, 2013		Dividends per share		Total
Class A shares	$	0.630	$	21,876,011
Class B shares		0.670		2,445,056
Total			**$**	**24,321,067**

Year ended December 31, 2012		Dividends per share		Total
Class A shares	$	0.780	$	25,793,050
Class B shares		0.828		3,407,965
Total			**$**	**29,201,015**

As at December 31, 2013, no amount (December 31, 2012 – $2,428,105) was payable to the holders of redeemable shares.

(b) Normal course issuer bid:

On June 6, 2013, the Company received the approval of the TSX to commence a normal course issuer bid (the "NCIB") to purchase for cancellation up to 3,476,193 Class A shares; representing approximately 10% of the Class A shares float on June 4, 2013. The purchases were limited, during any 30-day period during the term of the NCIB, to 695,458 Class A shares in the aggregate. The NCIB commenced on June 18, 2013, and provided the Company with the flexibility to repurchase Class A shares for cancellation, with an expiry date of June 9, 2014, or such earlier date as the NCIB is complete. From June 18, 2013 to November 29, 2013, the date of the exchange of the Company's Class A shares to common shares, the Company acquired for cancellation 362,800 Class A shares at a cost of $3,351,744. Following the exchange of the Class A shares, further purchases pursuant to a NCIB will require the re-filing of certain documentation with the TSX in respect of the common shares.

11. COMMON SHARES

As outlined in note 1, on the Effective Date, the shareholders of the Company approved the automatic exchange of all outstanding Class A shares and Class B shares into a new class of common shares. The exchange ratio approved was 1 to 1 for each Class A share and an exchange ratio for each of the Class B Shares equal to the quotient obtained by dividing the net redemption value per Class B share by the net redemption value per Class A share on the last business day of the month immediately preceding such exchange date. On the Exchange Date, 32,829,013 Class A shares and 3,887,053 Class B Shares were exchanged into 36,964,028 common shares.

On the Exchange Date, upon the completion of the exchange in accordance with the Company's articles, the common shares commenced trading on the TSX, continuing under the symbol 'TMC'.

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

The common shares are classified as 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.

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

Year ended December 31, 2013	December 31, 2013
Common shares issued as a result of exchange	36,964,028
Repurchased	(35,250)
Issuance of common shares under dividend reinvestment plan	35,250
Common shares outstanding, end of year	36,964,028

(a) Dividend reinvestment plan:

The Company has amended and restated its dividend reinvestment plan effective as of November 20, 2013. The amended and restated dividend reinvestment plan (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on May 19, 2010.

The Amended 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. For purposes of the Amended DRIP, common shares includes any Class A shares of the Company prior to their exchange into common shares on the Exchange Date, pursuant to the amendment to the articles of the Company that came into effect on September 13, 2013.

Under the Amended DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 95% 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. For the year ended December 31, 2013, 393,522 (2012 – 388,288) Class A shares were issued under the Original DRIP and 35,250 (2012 – nil) common shares were issued under the Amended DRIP.

(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.

Subsequent to the Exchange Date, the Company has declared $4,953,183 ($0.134 per share) to holders of common shares. As at December 31, 2013 $2,476,592 (2012 – Nil) was payable to the holders of common shares. Subsequent to the Year end, the Company declared dividends of $0.134 per common share.

12. EXPENSES

(a) Management and performance fees:

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company’s mortgage and loan investments. As a part of the Transition detailed in note 1, the Company has entered into a new management agreement with the Manager effective from September 13, 2013. Under the new 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 syndicated liabilities related to syndicated mortgage investments that are held by third parties. The initial term of the new management agreement is 10 years from the Effective Date and is automatically renewed for successive five year terms at the expiration of the initial term. For the year ended December 31, 2013, the Company incurred management fees of $4,974,029 (2012 – $4,812,148).

Under the new management agreement, the Manager continues to be 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. 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 fees accrued for the year ended December 31, 2013 is $1,940,688 (December 31, 2012 - $2,460,947).

(b) Trailer fees:

Prior to September 13, 2013, the Company paid each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share for each Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. The Company paid $737,199 in Class A service fee for the year ended December 31, 2013 (2012 – $1,432,823). In conjunction with the Transition, effective September 13, 2013 the Company no longer pays trailer fees on Class A shares to registered dealers.

13. NET INCOME PER SHARE

Net income per share has been calculated as if the Transition occurred on January 1, 2013 and as a result, dividends to holders of redeemable shares and issuance costs of redeemable shares for the year ended December 31, 2013 have been added back to the net loss of the Company.

The Company has not disclosed net loss per share for the year ended December 31, 2012 as the Company did not have equity instruments, as defined in IAS 33, Earnings per Share, as the redeemable shares were classified as a financial liability in the statements of financial position.

(a) Basic and diluted earnings per share:

Basic and diluted earnings per share are calculated by dividing net income attributable to common shares by the sum of the weighted average number of common shares during the year.

		2013
Numerator for net income per share:		
Net income of the Company	$	506,932
Issuance costs of redeemable shares		2,680
Dividends to holders of redeemable shares		24,321,067
Net income of the Company attributable to common shares		24,830,679
Denominator for net income per share:		
Weighted average of common shares (basic and diluted)		38,444,103
Net income per share – basic and diluted	$	0.65

(b) Adjusted basic and diluted earnings per share:

The adjusted basic and diluted net income per share attributable to common shares for the year ended December 31, 2013 is presented to provide an indication of the performance of the Company, excluding non-recurring expenditures. In addition to the adjustments made to the net income of the Company in the calculation of basic and diluted net income per share in note 13(a) above, the Company has added back one-time Transition related costs and a non-cash provision for mortgage and loan investments loss. The weighted average number of common shares is the same as in the calculation of basic and diluted net income per share in note 13(a) above.

		2013
Numerator for net income per share:		
Net income of the Company	$	506,932
Transition related costs		3,530,417
Provision for mortgage and loan investments loss		2,150,000
Issuance costs of redeemable shares		2,680
Dividends to holders of redeemable shares		24,321,067
Adjusted net income of the Company attributable to common shares		30,511,096
Denominator for net income per share:		
Weighted average of common shares (basic and diluted)		38,444,103
Adjusted net income per share – basic and diluted	$	0.79

14. RELATED PARTY TRANSACTIONS

(a) As at December 31, 2013, due to Manager includes management fees payable of $2,346,745 (December 31, 2012 – $2,460,947) and $2,991 (December 31, 2012 - $8,564) related to costs incurred by the Manager on behalf of the Company.

(b) As at December 31, 2013, the Company, Timbercreek Global Real Estate Fund ("TGREF") and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), related parties by virtue of common management, have co-invested in three (December 31, 2012 – two) mortgage investments amounting to $21,210,032 (December 31, 2012 – $29,850,000). On December 24, 2013, a loan investment which was co-invested in by these related parties was repaid in full, leaving a balance of nil (December 31, 2012 – $16,520,826) as at December 31, 2013. As at December 31, 2013, no amount (December 31, 2012 – $213,254) is receivable from T4Q and no amount (December 31, 2012 – $43,640) is payable to TGREF in relation to these investments. Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manger, has been retained by TGREF and T4Q to provide fund management and portfolio advisory services.

(c) As at December 31, 2013, the Company and Timbercreek Senior Mortgage Investment Corporation ("TSMIC"), a related party by virtue of common management, have co-invested in several mortgage investments, including mortgage syndications, totaling $681,960,996 (December 31, 2012 – $392,869,519), which are secured primarily by multi residential, office, retail, retirement and other commercial properties. The Company holds subordinated mortgage positions in these co-investments in relation to TSMIC. The Company's net share in these investments is $215,999,878 (December 31, 2012 – $86,202,042), and included in this amount is a mortgage investment of $1,044,252 (December 31, 2012 - $886,186) to a limited partnership, which is co-owned by T4Q. In addition, $281,126 (December 31, 2012 – $4,462) is receivable by the Company from TSMIC relating to amounts paid on behalf of the Company.

(d) As at December 31, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in a mortgage investment secured by a retail property. The Company's share in this mortgage investment is $666,667 (December 31, 2012 – $4,000,000).

(e) As at December 31, 2013, included in other assets is $1,040,374 (December 31, 2012 – nil) of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management. The balance relates to mortgage funding deposits and prepaid interest received from the borrowers.

(f) The Manager has borne total costs of $250,000 relating to the Transition, which are not included in the Transition related costs in the statements of income (loss) and comprehensive income (loss).

15. INCOME TAXES

As of December 31, 2013, the Company has non-capital losses carried forward for income tax purposes of $14,672,000 (December 31, 2012 – $12,064,216), which will expire between 2029 and 2032 if not used. The Company also has future deductible temporary differences resulting from share issuances, prepaid mortgage and loan interest, unearned income and financing costs for income tax purposes of $12,040,000 (December 31, 2012 – $12,340,075).

16. 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 and the Credit Facility.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage and loan 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 and loan investments. The asset allocation model dictates the allocation of the mortgage and loan investments based upon geographical, economic sector, term, borrower and loan-to-appraised value criteria. There has been no change in the process since the previous year. In addition, the Company may utilize leverage from time to time at the discretion of the Manager through a Credit Facility.

At December 31, 2013, the Company was in compliance with its investment restrictions and the asset allocation model parameters.

Pursuant to the terms of the Credit Facility, the Company is required to meet certain financial covenants, including a minimum interest coverage ratio, minimum total equity and maximum indebtedness of the Company. For the year ended December 31, 2013, the Company was in compliance with all financial covenants.

17. 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 interest rate risk, credit risk, and liquidity risk.

(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 December 31, 2013, $25,258,477 of mortgage and loan investments (December 31, 2012 – nil) bear interest at variable rates; however out of these $22,858,477 of mortgage investments include a “floor rate” to protect its negative exposure and one mortgage investment of $2,400,000 bears 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 $12,000. 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 $126,292. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage and loan investments or adding a “floor-rate” to protect its negative exposure.

In addition, the Company is exposed to interest rate risk on the Credit Facility, which has a balance of nil as at December 31, 2013 (December 31, 2012 - $8,836,425). Based on the outstanding balance of the Credit Facility as at December 31, 2013, a 0.50% decrease in interest rates, with all other variables constant, will increase net income by nil (December 31, 2012 – $44,182) annually, arising mainly as a result of lower interest expense payable on the Credit Facility. A 0.50% increase in interest rates would have an equal but opposite effect on the net income of the Company.

The Company's interest receivable, other assets, accounts payable and accrued expenses, prepaid mortgage and loan 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 and restricted cash carry a variable rate of interest and are subject to minimal interest rate risk.

(b) Credit risk:

Credit risk is the possibility 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) all mortgage and loan investments are approved by the independent mortgage advisory committee before funding; and

(iii) actively monitoring the mortgage and loan investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at December 31, 2013 is the carrying values of its mortgage and loan investments, including interest receivable, which total $321,844,724 (December 31, 2012 – $372,873,528). The Company has recourse under these investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

(c) 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 normal operations from fluctuations in cash flow as a result of the timing of mortgage and loan 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 December 31, 2013, including expected interest payments:

December 31, 2013

	Carrying Values	Contractual cash flows	Within a year
Mortgage funding holdbacks	$ 28,809	$ 28,809	$ 28,809
Dividends payable	2,476,592	2,476,592	2,476,592
Due to Manager	2,349,736	2,349,736	2,349,736
Prepaid mortgage and loan interest	1,011,565	1,011,565	1,011,565
Accounts payable and accrued expenses	592,421	592,421	592,421
Unadvanced mortgage and loan commitments	–	61,563,733	61,563,733
	$ 6,459,123	$ 68,022,856	$ 68,022,856

18. FAIR VALUE MEASUREMENTS

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

	Carrying Value			
December 31, 2013	Loans and receivable	FVTPL	Other financial liabilities	Fair Value
Assets not measured at fair value				
Mortgage and loan investments, including mortgage syndications	$ 442,165,777	$ –	$ –	$ 442,165,777
Foreclosed properties held for sale (note 5)	11,351,435	–	–	11,351,435
Other assets	1,540,102	–	–	1,540,102
Cash and cash equivalents	12,348,449	–	–	12,348,449
Financial liabilities measured at FVTPL				
Foreign exchange forward contract	–	71,696	–	71,696
Financial liabilities not measured at fair value				
Non-recourse mortgage syndication liabilities	–	–	124,378,929	124,378,929
Mortgage funding holdbacks	–	–	28,809	28,809
Dividends payable	–	–	2,476,592	2,476,592
Due to Manager	–	–	2,349,736	2,349,736
Prepaid mortgage and loan interest	–	–	1,011,565	1,011,565
Accounts payable and accrued expenses	–	–	520,725	520,725

December 31, 2012	Carrying Value: Loans and receivable	Carrying Value: FVTPL	Carrying Value: Other financial liabilities	Fair Value
Assets not measured at fair value				
Mortgage and loan investments, including mortgage syndications	$ 407,140,364	$ –	$ –	$ 407,140,364
Restricted cash	395,088	–	–	395,088
Other assets	366,634	–	–	366,634
Cash and cash equivalents	992,671	–	–	992,671
Financial liabilities not measured at fair value				
Credit facility	–	–	8,706,383	8,706,383
Non-recourse mortgage syndication liabilities	–	–	38,407,891	38,407,891
Mortgage funding holdbacks	–	–	129,262	129,262
Dividends payable	–	–	2,428,105	2,428,105
Due to Manager	–	–	2,469,511	2,469,511
Prepaid mortgage and loan interest	–	–	375,235	375,235
Accounts payable and accrued expenses	–	–	868,300	868,300

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

(a) Mortgage and loan investments and mortgage syndication liabilities:

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

(b) Other financial assets and liabilities:

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

(c) Foreign exchange forward contracts:

Foreign exchange forward contracts are measured at fair value using market comparison technique. The fair values are based on broker quotes from Bloomberg. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. As a result, the fair value of foreign exchange forward contracts is based on level 2 inputs.

(d) Net assets attributable to holders of redeemable shares:

As at December 31, 2012, the fair value of the net assets attributable to holders of redeemable shares was $360,267,352 which represents net redemption value. The carrying value was adjusted for unearned lender fees, deferred financing charges and costs associated with establishment, structuring and offering of redeemable shares to arrive at net redemption value. As outlined in note 1, all the outstanding redeemable shares were exchanged to common shares on the Exchange Date.

There were no transfers between level 1, level 2 and level 3 during the years ended December 31, 2013 and 2012.

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 and loans. Where required, management records adequate provisions in the accounts.

Although it is not possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the Company's financial position.

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid $136,750 (December 31, 2012 - $140,560) to the members of the Board and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 12(a)).

21. SUBSEQUENT EVENT

On February 25, 2014, the Company closed on an unsecured convertible debenture offering for gross proceeds of $30.0 million. The unsecured convertible debentures mature on March 31, 2019 and pay interest semi-annually on March 31 and September 30 of each year at rate of 6.35%. On February 27, 2014, the underwriters exercised the over-allotment option for an additional $4.5 million.