

Annual Report 2013

# Timbercreek Mortgage Investment Corporation



Timbercreek  
Asset Management



### 2013 Financial Highlights

\$317.2 million of net mortgage and loan investments

\$198.7 million in new mortgage investments funded

69 new mortgage investments funded

50 mortgage investments fully repaid

\$283.1 million in full repayments and partial paydowns

\$39.7 million in net interest income

\$3.6 million in non-refundable lender fees (cash)

\$0.65 EPS / \$0.79 adjusted EPS

### 2013 Portfolio Highlights

96 mortgage and loan investments

Average mortgage and loan investment size of \$3.3 million

9.8% weighted average interest rate

1.8% weighted average lender fee

**Timbercreek MIC's objective is to preserve capital while generating attractive, inflation-protected income for shareholders.**

Established in 2008, Timbercreek Mortgage Investment Corporation (Timbercreek MIC) provides investors with the opportunity to invest indirectly in a diversified portfolio of short duration, customized mortgage and loan investments. The investments are primarily secured by income-producing real estate principally located in and around urban markets. Timbercreek MIC's portfolio currently consists of over 95 mortgage and loan investments with a net aggregate value of approximate \$317.2 million.

## Company Highlights



# Strong, Steady, Inflation-Protected Income

# 8.3%

annualized yield\*

Weighted average loan term to maturity of 2.2 years

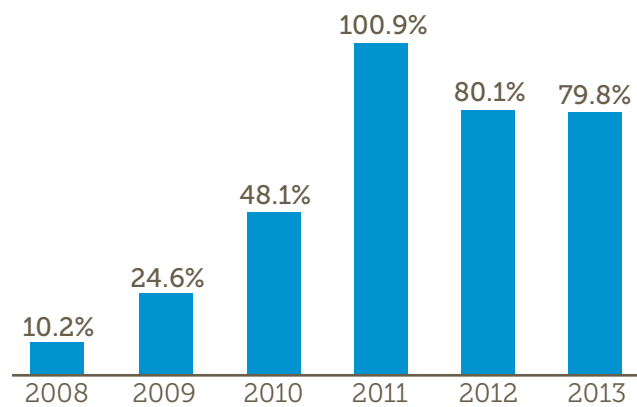
Short-duration mortgage and loan investments and early prepayment privileges drive high portfolio turnover. As such, Timbercreek MIC is able to charge higher interest rates in a rising rate environment as new mortgage and loan investments are placed, resulting in higher yields for investors.

Inflationary periods, which can be tied to rising interest rates, also typically encourage increased real estate activity, driving increased demand for short-duration, customized loans.

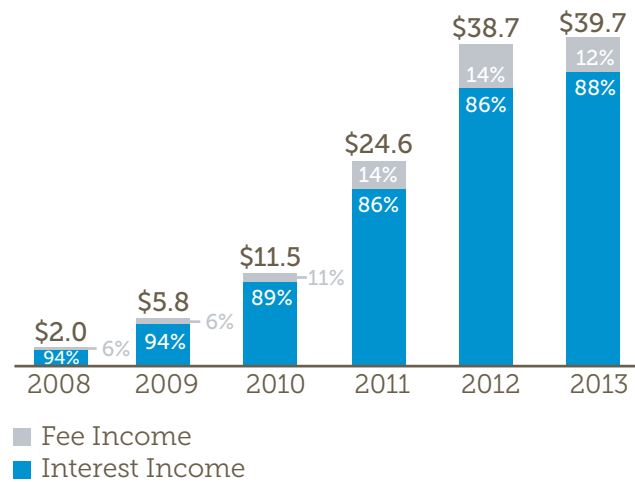
\$3.6 million of lender fees received and paid to investors

Additional income is generated from lender fees, which are collected each time a new loan is issued – 100% of which is paid to Timbercreek MIC, for the benefit of shareholders. Short-term mortgage and loan investments and high portfolio turnover allow shareholders to enjoy enhanced revenue from lender fees.

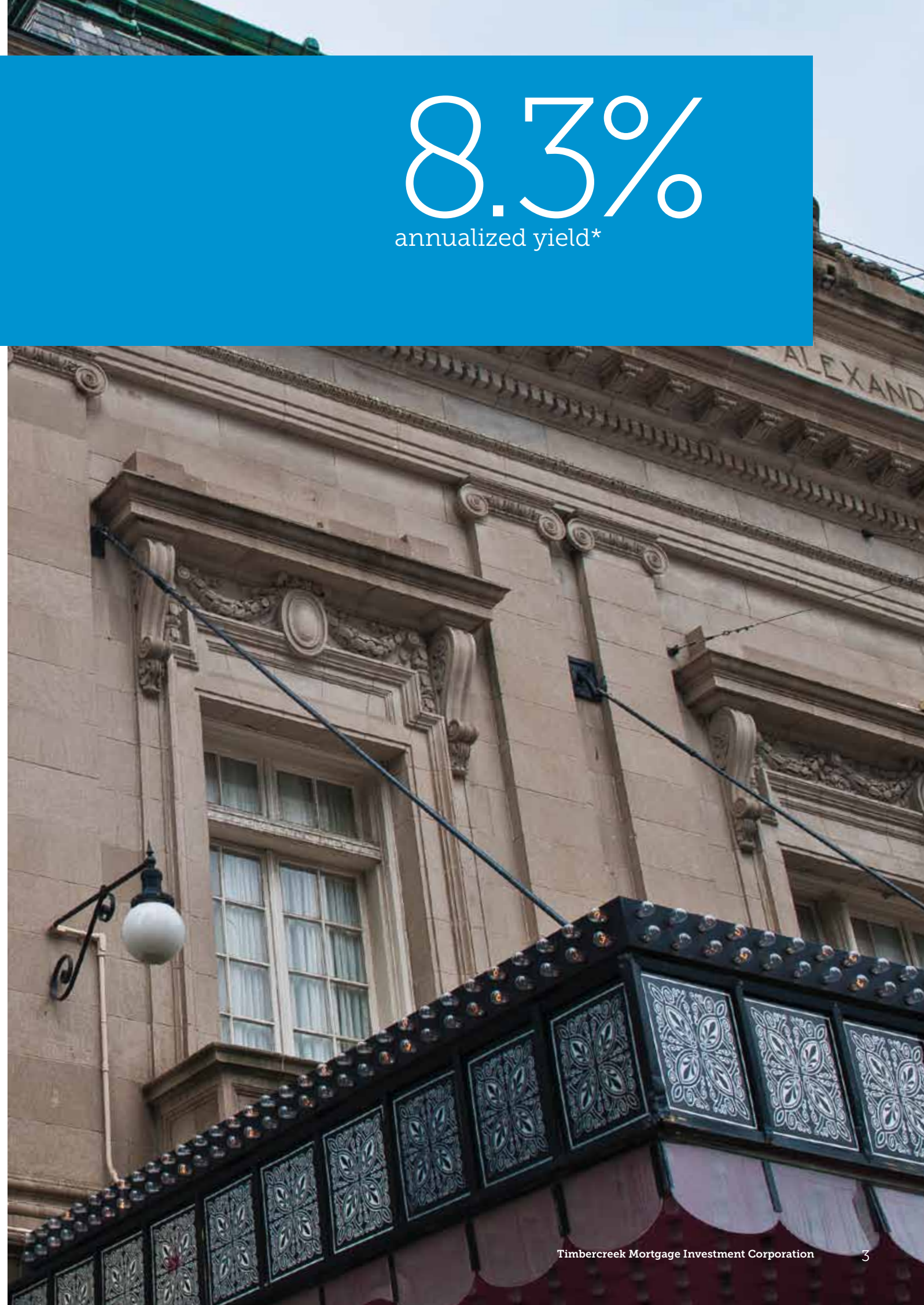
Healthy Portfolio Turnover



Stable Growth in Income (in millions)



\* Actual dividend yield equals the total per share dividend for the year ended December 31, 2013 for Class A shares and common shares, divided by the trading close price on December 31, 2013.





# Mitigating Risk with Well-Diversified Portfolio of Income-Producing Properties

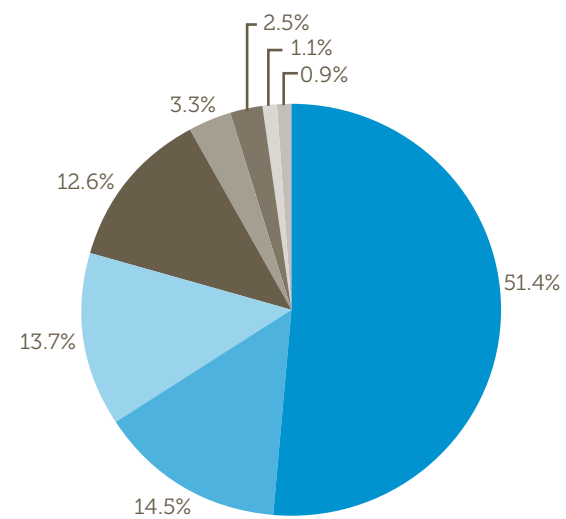
# 96

mortgage and loan investments secured by 173 properties

Timbercreek MIC focuses on mortgage and loan investments that are primarily secured by income-producing, investment real estate, such as multi-residential, retirement, office, retail and industrial properties, rather than land, construction or single-family residential properties. Focusing on lending against income-producing real estate ensures that there is income from the property to service the mortgage investment, which reduces the likelihood of defaults. In addition, due to the increased liquidity of income-producing properties in and around urban markets, the properties provide less volatile values for the underlying security relative to land or construction where a slowed or stalled development cycle can substantially change the value.

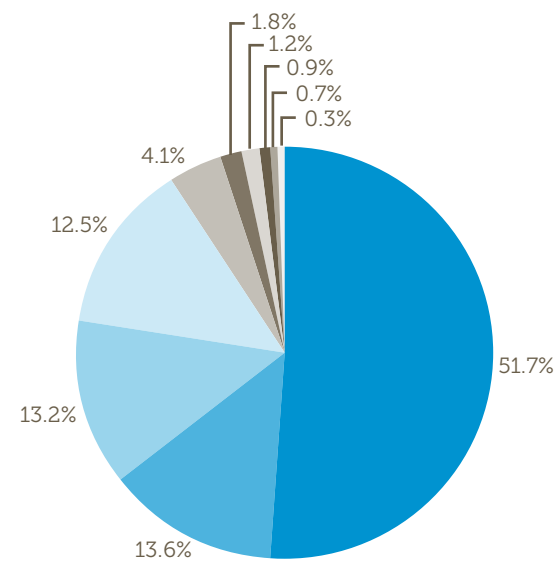
## Asset Allocation

### Regional Mix

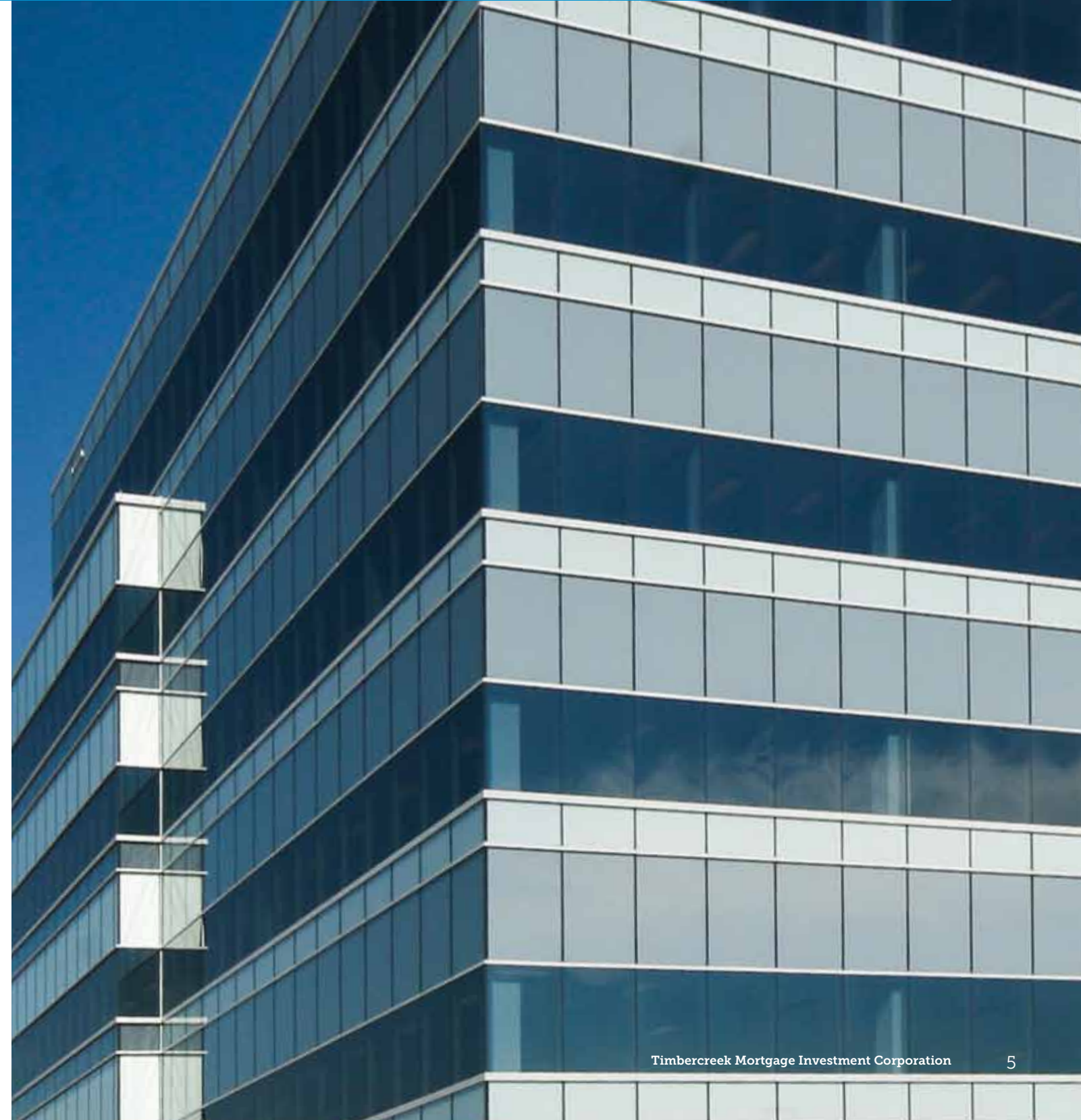


- Ontario
- British Columbia
- Quebec
- Alberta
- Saskatchewan
- Manitoba
- Other
- Nova Scotia

### Asset Type



- Multi-residential
- Office
- Retail
- Retirement
- Unimproved land
- Industrial
- Hotels
- Other - residential
- Self-storage
- Single-family residential



## Disciplined Approach

Thorough underwriting, active management and strong governance are only three ways that Timbercreek MIC manages risk from origination to mortgage and loan repayment. Our disciplined approach to mortgage and loan investing ensures that shareholders' capital is preserved.

Timbercreek MIC leverages a strong real estate and mortgage and loan investment management infrastructure, including a comprehensive team of mortgage specialists that are dedicated to origination, underwriting, funding and servicing of all mortgage and loan investments.

# Five-year

track record with no principal impairments

over  
**195 years**  
 of combined  
 investment experience

### Mortgage Specialist Team

Origination



Andrew Jones  
 Managing Director of Debt Investments, Timbercreek Asset Management



Julie Neault  
 Director, Debt Origination



Karen Leeson  
 Director, Debt Origination



Charles Lingren  
 Director, Debt Origination - Western Canada Region



Patrick Smith  
 Senior Associate, Debt Origination

Underwriting & Risk



Ugo Bizzarri  
 Founding Managing Director, Portfolio Management and Investments



Paul Jones  
 Executive Director, Debt Portfolio Management



Alexandra Mulkeytych  
 Analyst



Rob Kansun  
 Analyst



Talia Zon  
 Analyst



Luca Pasquali  
 Research Valuations Associate



David Smith  
 Senior Associate

Funding



Laura Wheller  
 Mortgage Administrator



Kim Casey  
 Mortgage Administrator



Denel Black  
 Assistant Mortgage Administrator





	Timbercreek MIC	vs.	Canadian Financial Institution Conventional Mortgages
Loan size	\$1MM - \$25MM		50MM+
Approval to funding period	Less than 1 month		2-3 months
Term	3 months – 3 years		> 5 years
Loan type	Primarily interest-only		Principal repayment plus interest
Loan-to-value ratio	Up to 85%		Up to 60%
Cost (fees plus interest)	Premium		Moderate

## Customized Loan Solutions for the Non-Bank Mortgage Sector

Real estate investors often require short-term loans to bridge a period of one to five years where they require temporary capital for property repairs, redevelopment or purchase of another investment. This segment of the Canadian borrower market is typically under-served by Canadian financial institutions that are reluctant to dedicate resources to these smaller, shorter-term mortgage investments and cannot typically provide the customization required to meet the borrower's needs.

Timbercreek MIC is a market leader in the non-bank mortgage sector in Canada, providing shorter-duration, customized financing solutions for professional real estate investors. With a sophisticated and service-oriented approach, focused on meeting the needs of borrowers, Timbercreek MIC is able to provide quick execution of mortgage and loan investments and more flexible terms than typically offered by Canadian financial institutions. Servicing this niche market, allows Timbercreek MIC to generate strong risk-adjusted returns for investors.





## Multi-Residential

Edmonton, Alberta

The Conference Board of Canada estimates that Edmonton will remain one of Canada's fastest growing economies for years to come. This multi-residential building is located in central Edmonton with outstanding views of the North Saskatchewan River. The buildings securing the mortgage investment include six- and 12-unit apartment complexes situated on a 15,000 square foot infill development site.

### Meeting Rigorous Investment Criteria to Balance Risk & Return for Investors

<u>Criteria</u>	<u>Investment</u>
Asset Type	Multi-Residential
Loan size (\$1MM - \$25MM)	\$1,500,000
Term (3 months - 3 years)	24 months
Interest	12.00%
Fees	1.00%

### Special Situation: Leveraging Hands-On Property Management Expertise to Reduce Investor Risk

In October 2008, Timbercreek granted a mortgage to the owner of this Edmonton complex. However, in October 2010, the borrower began to have financial difficulty related to other owned assets and was unable to continue making payments on the loan. With its extensive real estate experience, Timbercreek was able to immediately assume management of the property. Timbercreek collected rents from the tenants, leased up a number of vacant units and, over a three-month period, was able to foreclose on the property conveying title to itself. Timbercreek invested rental income to make some minor improvements to the property, while also covering scheduled payments for the mortgage. After approximately seven months of improving and stabilizing the property, it was listed for sale and sold at a profit four months later for \$1.9 million enabling the mortgage and all accrued interest to be repaid.

## Office

Oakville, Ontario

Oakville is a dynamic community of over 180,000 residents. With a focus on growing clusters in knowledge-based industries and one of the lowest non-residential property tax rates in the Greater Toronto Area, Oakville is becoming an increasingly attractive location for businesses.

This beautiful brand new office building enjoys a suburban location with excellent access to a major cross-region highway and is directly adjacent to a commuter transit station, making it a prime location for companies to locate. The building has also been awarded a Class-A, LEED Gold certification.

### Meeting Rigorous Investment Criteria to Balance Risk & Return for Investors

<u>Criteria</u>	<u>Investment</u>
Asset Type	Office
Loan size (\$1MM - \$25MM)	\$7,000,000
Term (3 months - 3 years)	30 months
Interest	11.01%
Fees	2.10%







## Letter to Shareholders

Andrew Jones

Timbercreek Mortgage Investment Corporation (Timbercreek MIC) enjoyed another **strong year in 2013**. Our success is built on a strategy of providing shorter-duration, **customized financing solutions** for professional real estate investors, which generated net interest income of \$39.7 million. Because of these results, our Board of Directors approved a 6% increase to our dividend, increasing the monthly dividend to \$0.067 per common share. As always, we are proud to be able to reward our dedicated shareholders with dividends. We have been providing them with dividends monthly since our inception in 2008.

This was a watershed year for Timbercreek MIC, as our Board made the proactive decision to undertake a major reorganization following a proposed regulatory change released by the Canadian Securities Administrators. On September 12, 2013, our shareholders approved a resolution to **transition Timbercreek MIC from an investment fund to a corporate reporting issuer** (a full description is available in the Management's Discussion & Analysis). The transition benefits our shareholders by:

- i. increasing stability with the elimination of the redemption feature,
- ii. improving governance and transparency with more frequent financial reporting,
- iii. providing shareholders with full voting rights,
- iv. eliminating trailer fees, and
- v. opening up new opportunities for growth.

We believe it is important to be a leader in our sector, which is why we acted on the proposed regulatory reforms before they were enacted into law. If we had waited, our ability to manage the transition would have been more limited. We were pleased that our investors overwhelmingly voted in favour of the resolution. Importantly, the successful underlying business model of Timbercreek MIC was unchanged.

As a market leader in the Canadian non-bank mortgage sector, **our goal is to preserve capital while providing shareholders with strong, inflation-protected income**. We achieve that by employing a sophisticated and service-oriented approach for borrowers that provides faster execution and more flexible terms than traditional financial institutions. The strength of our strategy is evident not only in the fact that we have **exceeded our target yield every month since inception, but also that we have completed another year without any principal impairments**.

In 2013, Canadian investment-grade real estate fundamentals remained stable and sustainable, leading to an **attractive lending environment**. On the investment front, pension funds and private investors continued to seek out properties with strong cash-flow, in most cases requiring some form of mortgage financing. The continued lack of activity in the commercial mortgage-backed securities markets and tightening of bank regulations continues to constrain mortgage capital.

When taken together, these facts demonstrate the fact that deal-flow remains healthy and those with capital are able to invest in high-quality loans with less competitive pressure. Furthermore, medium-term Canadian bond yields continued to rise, narrowing the gap between institutional lenders' and non-bank lenders' costs of capital, making the latter more competitive.

As a result of our portfolio strategy and positive market fundamentals, **our financial performance in 2013 was strong** despite market sensitivities around rising interest rates. Our total assets grew by 14.3% to \$467.4 million. In addition, we advanced 69 new investments totaling \$198.7 million in 2013, and had additional advances on existing mortgage and loan investments of \$42.6 million. We received full repayments and partial pay-downs on mortgage and loan investments totaling \$283.1 million with 50 mortgage investments fully repaid in 2013. This reflected the quality of our mortgage and loan investments. The redeployment of this principal continued to generate significant fee income, which contributed to our dividends.

So as we look ahead to 2014 with interest rates expected to remain low, we are encouraged by the growth we are seeing in our portfolio and continued strength in Canadian real estate fundamentals. **We are confident that our disciplined approach to investing will continue to provide our shareholders with preservation of capital**. Furthermore, with a greater than 75% turnover rate in the portfolio annually, shareholders will continue to benefit from full participation in lender fees on new mortgage and loan investments, providing a **strong, stable, inflation-protected income**.

Subsequent to year-end, we announced the completion of a bought deal offering of \$34.5 million aggregate principal amount of 6.35% convertible unsecured subordinated debentures due March 31, 2019. These funds will help us grow the portfolio in an accretive manner and take advantage of the low interest rate environment to secure low-cost, fixed-term debt.

I will conclude by **thanking everyone who has been critical to our success this year**. For their guidance and insight, I would like to thank our Board of Directors and Mortgage Advisory Committee. I would also like to recognize the dedication and hard work of our entire investment team from origination to funding – their expertise and experience are invaluable. Finally, to our shareholders, thank you for your continued confidence and support. **Our entire team is committed to working on your behalf and we look forward to another year of success.**



Andrew Jones  
Chief Executive Officer  
Timbercreek Mortgage Investment Corporation  
March 2014



# Management's Discussion and Analysis

For the year ended December 31, 2013

## FORWARD-LOOKING STATEMENTS

### Forward-looking statement advisory

The terms, the "Company", "we", "us" and "our" in the following Management Discussion & Analysis ("MD&A") refer to Timbercreek Mortgage Investment Corporation (the "Company"). This MD&A may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like "believe", "expects", "anticipates", "would", "will", "intends", "projected", "in our opinion" and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Company will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results intended by the Manager, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages of a quality that will generate returns that meet and/or exceed the Company's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company's public disclosures.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Company and Timbercreek Asset Management Inc. (the "Manager") do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

This MD&A is dated March 5, 2014. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Manager's website at [www.timbercreek.com](http://www.timbercreek.com). Additional information about the Company, including its Annual Information Form ("AIF"), can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## 2013 Management's Discussion and Analysis and Financial Statements



## BUSINESS OVERVIEW

Timbercreek Mortgage Investment Corporation (the "Company") is incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008. On September 13, 2013, in connection with the Transition as explained below, the Company filed articles of amendment effective as of September 13, 2013 (the "Effective Date"), to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing Class A, Class B and voting 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 "Exchange Date"), all issued and outstanding Class A and Class B shares were exchanged into common shares.

The Company invests in mortgage and loan investments selected and determined to be high quality by the Manager. The Company intends to qualify as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada).

The fundamental investment objectives of the Company are to:

- Preserve shareholder capital of the Company; and
- Provide shareholders with a stable stream of monthly dividends.

The Company intends on meeting its investment objectives by investing in a diversified portfolio of mortgage and loan investments, consisting primarily of conventional mortgage and loan investments secured directly by multi-residential, retirement homes, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

## 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 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 redemptions payable of \$18,027 were paid on November 27, 2013. On 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.

Effective September 13, 2013, the Company entered into a new management agreement with 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 \$3.8 million, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. The Manager elected to assume responsibility for \$0.3 million of costs relating to the Transition.

## BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the year ended December 31, 2013 (the "Year"). This MD&A should be read in conjunction with the consolidated financial statements for the years ended December 31, 2013 and 2012, which are prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The functional and reporting currency of the Company is Canadian dollars and unless otherwise specified, all amounts in this MD&A are in thousands of Canadian dollars, except per share and other non-financial data.

Copies of these documents have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## NON-IFRS MEASURES

The Company prepares and releases consolidated financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the "non-IFRS measures"). These non-IFRS measures are further described below. The Company has presented such non-IFRS measures because the Manager believes they are relevant measures of the ability of the Company to earn and distribute cash dividends to shareholders and to evaluate the Company's performance. These non-IFRS measures should not be construed as alternatives to net income (loss) and comprehensive income (loss) or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Expense ratio – represents total expenses (excluding financing costs, transition-related costs and net operating loss on foreclosed properties held for sale) for the stated period expressed as an annualized percentage of the average net mortgage and loan investment portfolio;
- Fixed expense ratio – represents total expenses (excluding performance fees, financing costs, transition-related costs, impairment provision and net operating loss on foreclosed properties held for sale) for the stated period expressed as an annualized percentage of the average net mortgage and loan investment portfolio;
- Net mortgage investments – represent total mortgage and loan investments net of mortgage syndication liabilities and before adjustments for interest receivable and unamortized lender fees as at the reporting date;
- Average net mortgage and loan investment – represents the total net mortgage and loan investments divided by the total number of mortgage and loan investments at the reporting date;
- Average net mortgage and loan investment portfolio – represents the monthly average of the net mortgage and loan investment portfolio over the stated period;
- Weighted average interest rate – represents the weighted average interest rate on the net mortgage and loan investments at period end;
- Average lender fees – represents the cash lender fees received as a percentage of new net mortgage and loan investments funded during the stated period;
- Turnover ratio – represents total mortgage and loan repayments during the stated period expressed as a percentage of the average net mortgage and loan investment portfolio for the stated period; and
- Payout ratio – represents total dividends paid to the holders of redeemable shares and common shares divided by distributable income.

## RECENT DEVELOPMENTS AND OUTLOOK

During the year ended December 31, 2013 (the "Year"), the Manager continued to view Canadian investment-grade real estate fundamentals as being stable and sustainable, contributing to an attractive lending environment.

Although REIT valuations in the public markets were more volatile, the demand for cash-flowing properties remained strong, with little change to healthy underlying market fundamentals. There were minimal adjustments to average prices (based on capitalization rates) in most asset classes, with some asset classes, such as rental apartments and class A commercial properties, remaining generally flat.

There was a diminishing supply of mortgage capital in the second half of the Year as a result of institutional lenders meeting their annual allocations, and the continued lack of activity in the Commercial Mortgage Backed Securities market. In addition, there was less competition from non-bank lenders, as a result of substantially less new capital being raised in the public markets in comparison to 2012. In addition, certain publically traded non-bank lenders actually saw their availability of capital shrink as they were required to meet redemption requests from shareholders, further limiting the supply of non-bank mortgage financing. At the same time, deal flow



remained healthy, allowing those with capital available to invest in high quality mortgage and loan investments with less pressure from competitors.

In the second half of the year, medium-term Canadian bond yields continued to rise, further narrowing the gap between institutional lenders' and non-bank lenders' cost of capital, making the non-bank lenders more competitive.

Given these factors and the resulting environment, the Manager is very comfortable that it can continue to meet the investment objectives of the Company, particularly as the Company is able to take advantage of its strategic relationship with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") to offer flexible lending solutions to qualified borrowers.

Given the current availability of high quality mortgage and loan investments and general market trends observed by the Manager, there has been no need to modify the Company's Asset Allocation Model ("AAM") during the Year. The Manager and the Mortgage Advisory Committee ("MAC") continue to place emphasis on mortgage and loan investments secured by cash-flowing real estate assets, a geographically diversified portfolio and larger, individual mortgage and loan investments secured by institutional quality real estate assets. This strategy is expected to continue throughout 2014 and beyond.

In summary, the Company has been competitive and successful in establishing itself as a market leader in the non-bank mortgage sector in Canada. The Manager believes this success is a result of being conservative and selective in making mortgage and loan investments that meet the Company's investment objectives, while at the same time focusing on providing responsive, flexible and unique lending solutions to qualified borrowers.

## FINANCIAL HIGHLIGHTS

The financial highlights of the Company are as follows:

	Three months ended		Year ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (as at)</b>				
Mortgage and loan investments, including mortgage syndications	\$ 442,166	\$ 407,140	\$ 442,166	\$ 407,140
Total assets	\$ 467,406	\$ 408,895	\$ 467,406	\$ 408,895
Credit facility	\$ –	\$ 8,706	\$ –	\$ 8,706
Net assets attributable to Class A and B shareholders	\$ –	\$ 355,528	\$ –	\$ 355,528
Shareholders' equity	\$ 336,568	\$ –	\$ 336,568	\$ –
<b>FINANCIAL INFORMATION (for the period ended)</b>				
Distributable income	\$ 7,536	\$ 6,451	\$ 30,204	\$ 29,505
Targeted dividend yield <sup>1</sup>	6.61%	6.59%	6.61%	6.61%
Actual dividend yield <sup>2</sup>	8.51%	7.40%	8.33%	7.68%
Closing trading price	\$ 9.17	\$ 10.16	\$ 9.17	\$ 10.16
Payout ratio	97.76%	112.82%	96.92%	98.97%
Net income per share (basic and diluted)	\$ 0.17	–	\$ 0.65	–
Adjusted net income per share (basic and diluted)	\$ 0.20	–	\$ 0.79	–
Dividends per share:				
Class A	\$ 0.063	\$ 0.189	\$ 0.630	\$ 0.780
Class B	\$ 0.067	\$ 0.201	\$ 0.670	\$ 0.828
Common	\$ 0.134	\$ –	\$ 0.134	\$ –
<b>MORTGAGE AND LOAN INVESTMENTS INFORMATION<sup>3</sup></b>				
Net mortgage and loan investments	\$ 317,154	\$ 368,253	\$ 317,154	\$ 368,253
Average net mortgage and loan investment	\$ 3,304	\$ 4,783	\$ 3,304	\$ 4,783
Weighted average interest rate	9.81%	10.14%	9.81%	10.14%
Average lender fee	1.38%	1.67%	1.83%	1.71%
Turnover ratio	24.22%	13.48%	79.76%	80.07%

<sup>1</sup> Targeted dividend yield equals the average 2-Year Government of Canada Bond Yield plus 550 basis points.

<sup>2</sup> Actual dividend yield equals the total per share dividend for the stated period for Class A shares and common shares divided by the trading close price for the stated period (annualized).

<sup>3</sup> Refer to Non-IFRS Measures section, where applicable.

## For the three months ended December 31, 2013 ("Q4 2013") and December 31, 2012 ("Q4 2012")

- The Company advanced 18 new mortgage investments (Q4 2012 – 13) totaling \$51.8 million (Q4 2012 – \$83.1 million), had additional advances on existing mortgage investments totaling \$2.1 million (Q4 2012 – \$4.5 million) and received full repayments on 11 mortgage investments (Q4 2012 – 10) and partial pay downs totaling \$85.8 million (Q4 2012 – \$47.6 million), resulting in net mortgage and loan investments of \$317.2 million as at December 31, 2013 (December 31, 2012 – \$368.3 million).
- Net interest income earned by the Company in Q4 2013 was \$9.9 million (Q4 2012 – \$9.8 million), an increase of \$0.1 million, or 0.97%, over the same period last year.
- The Company received non-refundable lender fees of \$0.7 million (Q4 2012 – \$1.4 million) or 1.38% (Q4 2012 – 1.67%) of new mortgage and loan investments funded in Q4 2013.
- The Company generated income from operations of \$6.8 million (Q4 2012 – \$6.4 million), an increase of \$0.5 million, or 7.8%, over the same period last year. The increase over the same period last year is a result of an increase in the average net mortgage and loan investment portfolio over the same period last year.
- Prior to the Transition, the Company paid dividends of \$0.063 per Class A share for a total of \$2.2 million (Q4 2012 – \$0.189; \$6.5 million) and \$0.067 per Class B share for a total of \$0.2 million (Q4 2012 – \$0.201; \$0.8 million).
- Subsequent to the Transition, the Company declared dividends of \$0.13 per common share for a total \$5.0 million (Q4 2012 – Nil).
- 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 \$18.1 million was paid on November 27, 2013.
- On 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 36,964,028 common shares.
- 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 \$18.1 million to fund the Special Redemption. The bulge was repaid in full prior to December 31, 2013.

## For the years ended December 31, 2013 (the "Year") and December 31, 2012 ("2012")

- The Company completed a non-brokered private placement of 508,647 Class B shares for gross proceeds of \$5.0 million (2012 – 3,400,573; \$34.0 million).
- 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 redemptions payable of \$18.1 million were paid on November 27, 2013.
- On 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 36,964,028 common shares.
- During the Year, the Company advanced 69 new mortgage investments (2012 – 51) totaling \$198.7 million (2012 – \$295.4 million), had additional advances on existing mortgage investments of \$42.6 million (2012 – \$32.4 million) and received full repayments on 50 mortgage investments (2012 – 40) and partial pay downs totaling \$283.1 million (2012 – \$262.9 million), resulting in net mortgage and loan investments of \$317.2 million (December 31, 2012 – \$368.3 million) as at December 31, 2013.
- Net interest income earned by the Company for the Year was \$39.7 million (2012 – \$38.7 million), an increase of \$1.1 million, or 2.8%, over the same period last year. The increase over the same period last year is a result of an increase in the average net mortgage and loan investment portfolio over the Year.
- The Company received non-refundable lender fees of \$3.6 million (2012 – \$5.1 million) or 1.83% (2012 – 1.71%) of new mortgage and loan investments funded in the Year.
- The Company generated income from operations of \$25.5 million (2012 – \$29.2 million), a decrease of \$3.7 million, or 12.67%, from the same period last year. The decrease from the last



year is mostly a result of incurring the one time transition related costs of \$3.5 million and provision for mortgage and loan investments of \$2.1 million.

- Prior to the Transition, the Company paid dividends of \$0.630 per Class A share for a total of \$21.9 million (2012 – \$0.780; \$25.8 million) and \$0.670 per Class B share for a total of \$2.4 million (2012 – \$0.828; \$3.4 million).
- Subsequent to the Transition, the Company declared dividends of \$0.13 per Common Share for a total \$5.0 million (Q4 2012 – Nil).
- The Company's actual dividend yield of 8.33% (2012 – 7.68%) exceeded its targeted dividend yield of the 2-Year Government of Canada Bond Yield ("2-Yr GOC Yield") plus 550 basis points of 6.61% for the year ended December 31, 2013 (December 31, 2012 – 6.61%).
- On February 24, 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.
- On January 20, 2014 the Board of Directors appointed Andrew Jones as Chief Executive Officer of the Company, effective immediately, to replace Blair Tamblin. Blair Tamblin will remain as Chairman of the Board of Directors.

## ANALYSIS OF FINANCIAL INFORMATION FOR THE YEAR

### Distributable income

	Year ended December 31, 2013	Year ended December 31, 2012
Net income (loss) and comprehensive income (loss)	\$ 507	\$ (402)
Less: amortization of lender fees	(4,266)	(4,525)
Add: one-time Transition related costs	3,530	–
Add: lender fees received during the year	3,633	5,055
Add: amortization of financing costs	144	149
Add: issuance cost of redeemable shares	3	27
Add: net operating loss from foreclosed properties held for sale	182	–
Add: provision for mortgage and loan investments loss	2,150	–
Add: dividends to shareholders	24,321	29,201
<b>Distributable income</b>	<b>30,204</b>	<b>29,505</b>
Less: Dividends to holders of redeemable shares	(24,321)	(29,201)
Less: Dividends to common shareholders	(4,953)	–
<b>(Over) / under distributions</b>	<b>\$ 930</b>	<b>\$ 304</b>
Payout ratio	96.92%	98.97%
Turnover ratio	79.76%	80.07%

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements, and its ability to generate recurring profit for dividends.

## Statements of income (loss) and comprehensive income (loss)

	Three months ended December 31,			Year ended December 31,		
	2013	2012	% Change	2013	2012	% Change
Net interest income	\$ 9,926	\$ 9,831	1.0%	\$ 39,731	\$ 38,655	2.8%
Expenses	(3,082)	(3,481)	(27.3%)	(14,244)	(9,477)	50.3%
Income from operations	6,844	6,350	16.4%	25,487	29,178	(12.6%)
Net operating loss from foreclosed properties held for sale	(182)	–	–	(182)	–	–
Financing costs:						
Interest on credit facility	(195)	(91)	(114.4%)	(475)	(352)	(34.9%)
Issuance costs of redeemable shares	(3)	(10)	(73.2%)	(3)	(27)	(90.0%)
Dividends to holders of redeemable shares	(2,414)	(7,278)	(66.8%)	(24,321)	(29,201)	(16.7%)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 4,050</b>	<b>\$ (1,029)</b>	<b>547.4%</b>	<b>\$ 506</b>	<b>\$ (402)</b>	<b>225.8%</b>

### Net interest income<sup>1</sup>

The Company earned net interest income for the three months and year ended December 31, 2013 of \$9.9 million (Q4 2012 – \$9.8 million) and \$39.7 million (2012 – \$38.7 million), respectively. Net interest income is made up of the following:

#### (a) Interest income

For the three months and year ended December 31, 2013, the Company earned \$8.7 million and \$34.9 million (Q4 2012 – \$8.6 million; 2012 – \$33.2 million) in interest income on the net mortgage and loan investments, respectively. The weighted average interest rate on the net mortgage and loan investments decreased slightly over the Year, to 9.81% at December 31, 2013 from 10.14% at December 31, 2012. While the average net mortgage and loan investment decreased over the Year, it is still within the Company's targeted range.

#### (b) Lender fee income

During the three months and year ended December 31, 2013, the Company received non-refundable lender fees of \$0.7 million and \$3.6 million (Q4 2012 – \$1.4 million; 2012 – \$5.1 million), or 1.38% and 1.83% (Q4 2012 – 1.67%; 2012 – 1.71%) of new net mortgage and loan investments funded in the respective periods. These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income. For the three months and year ended December 31, 2013, \$1.0 million and \$4.3 million (Q4 2012 – \$1.2 million; 2012 – \$4.5 million) of non-refundable lender fees were amortized to lender fee income. The lender fees generated by the Company continue to be a significant component of income resulting from mortgage turnover, unlike other competing mortgage investment corporations, ensuring management interests are aligned with the Company.

#### (c) Other income

For the three months and year ended December 31, 2013, the Company earned \$0.3 million and \$0.5 million (Q4 2012 – \$0.03 million; 2012 – \$0.9 million) in other income. Other income includes fees earned on net mortgage and loan investment fundings, prepayment penalties and exit fees earned on mortgage and loan investment repayments and other miscellaneous fees. The Manager does not retain any portion of fees, thus maximizing the income of the Company.

### Expenses

For the three months and year ended December 31, 2013, the Company's expense ratio<sup>2</sup> was 2.2% and 2.4% (Q4 2012 – 3.9%; 2012 – 2.9%), including a fixed expense ratio<sup>2</sup> of 1.8% and 1.9% (Q4 2012 – 2.1%; 2012 – 2.1%), respectively. As the Company continues to grow its mortgage and loan investments portfolio, its expense ratio will decrease as several of the operating costs of the Company do not increase in proportion to the size of the Company.

<sup>1</sup> For analysis purposes, net interest income and its component parts are discussed net of payments made on account of mortgage syndications to provide the reader with a more representative reflection of the Company's performance.

<sup>2</sup> Defined in Non-IFRS Measures section.



## Management fees

### (a) Management fees

As part of the Transition, the Company has 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. Under the new management agreement, the Company pays the Manager an annual management fee of 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets are calculated 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.

For the three months and year ended December 31, 2013, the Company incurred management fees of \$1.2 million and \$5.0 million (Q4 2012 – \$1.2 million; 2012 – \$4.8 million). The management fee has increased due to an increase in the average net mortgage and loan investment portfolio over the Year.

### (b) Performance fees

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 financial statements for that calendar year.

During the Year, the Manager accrued a Performance Fee of \$2.0 million (2012 – \$2.5 million). The annualized Hurdle Rate for the Year was 5.61% (2012 – 5.61%).

## Trailer fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay trailer fees to the brokers effective for the quarter ended September 30, 2013. Prior to Q3 2013, the Company paid each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. For the Year, the Company incurred trailer fees of \$0.7 million (2012 – \$1.4 million) for Class A shares.

## Transition-related costs

In connection with the Transition, the Company incurred a one-time expense of \$3.8 million, which includes soliciting dealer fees of \$2.5 million, soliciting broker fees of \$0.7 million and audit, legal and other related fees of \$0.6 million. The Manager elected to assume responsibility for \$0.3 million of costs relating to the Transition.

## General and administrative

For the three months and year ended December 31, 2013, the Company incurred general and administrative expenses of \$0.4 million and \$0.9 million (Q4 2012 – \$0.3 million; 2012 – \$0.8 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees and other operating costs associated with operating the Company and administration of the mortgage and loan investment portfolio. The operating expenses ratio equates to 0.3% of the average net mortgage and loan investments portfolio for the Year (2012 – 0.2%). The increase is mainly due to costs associated with additional reporting requirements.

## Interest on credit facility

Financing costs include interest paid on amounts drawn on the Credit Facility, stand-by fees charged on unutilized Credit Facility amounts and amortization of financing costs which were incurred on closing of the Credit Facility. Financing costs for the three months and year ended December 31, 2013 were \$0.2 million and \$0.5 million (Q4 2012 - \$0.09 million and 2012 – \$0.4 million).

## Issuance costs of redeemable shares

As the Class A and B shares were classified as liabilities under IFRS, the issuance costs associated with periodic equity offerings were recorded as financing costs and were recognized in profit and loss. For the Year, the Company incurred issuance costs of \$3 (2012 – \$27) relating to the issuance

of Class B shares on total gross proceeds of \$5.0 million (2012 – \$34.0 million). The issuance costs include legal, professional and other costs relating to the offering.

## Dividends to holders of redeemable shares and common shares

The Company intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month. Below is a summary of the dividends to holders of redeemable shares and to common shareholders for the three months and year ended December 31, 2013 and 2012.

	Three months ended December 31, 2013		Year ended December 31, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.063	\$ 2,170	\$ 0.630	\$ 21,876
Class B	0.067	244	0.670	2,445
Common	0.134	4,953	0.134	4,953

	Three months ended December 31, 2012		Year ended December 31, 2012	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.189	\$ 6,523	\$ 0.780	\$ 25,793
Class B	0.201	755	0.828	3,408
Common	–	–	–	–

The current dividend yield of 8.33% on combined Class A and common shares, (based on the closing market price of common shares at the reporting date) is in excess of the Company's targeted dividend yield of 6.61% (2-Yr GOC Yield plus 550 basis points).

## STATEMENT OF FINANCIAL POSITION

### Mortgage and loan investments

The balance of net mortgage and loan investments is as follows:

	December 31, 2013	December 31, 2012	Change
Net mortgage and loan investments	\$ 317,154	\$ 368,253	\$ (51,099)
Interest receivable	4,691	4,620	71
	321,845	372,873	(51,028)
Unamortized lender fees	(3,508)	(4,141)	633
Provision for mortgage and loan investments	(550)	–	(550)
	<b>\$ 317,787</b>	<b>\$ 368,732</b>	<b>\$ (50,945)</b>

During the Year, the Company advanced 69 new mortgage investments (2012 – 51) totaling \$198.7 million (2012 – \$295.4 million), had additional advances on existing mortgage investments of \$42.6 million (2012 – 32.4 million) and received full repayments on 50 mortgage investments (2012 – 40) and partial pay downs totaling \$283.1 million (2012 – \$262.9 million, resulting in net mortgage and loan investments of \$317.2 million (December 31, 2012 – \$368.3 million) as at December 31, 2013, or a portfolio turnover rate of 79.8% (2012 – 80.1%). As at December 31, 2013, the average net mortgage and loan investment was approximately \$3.3 million (December 31, 2012 – \$4.8 million), a reduction over the Year as the Company continues to share mortgage investments with TSMIC and other third party lenders, which results in a lower exposure to individual mortgage investments. Further, the new net mortgage and loan investments for the Year equate to approximately 62.7% of the Company's net mortgage and loan investments at year end (December 31, 2012 – 80.2%).

The Company enters 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. These agreements generally provide an option to the Company 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. During the Year, the non-recourse mortgage syndications have increased to \$124.4 million (December 31, 2012 – \$38.4 million), as the Company is expanding its relationships with various lenders. These syndications provide the Company with flexibility through the ability to buy-back the existing investments at a future date if desired.

#### Net mortgage and loan investment portfolio allocation

As at December 31, 2013, the Company's mortgage and loan investments portfolio is comprised of 96 mortgage investments (December 31, 2012 – 77), which were allocated across the following categories:

#### (a) Security Position

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
First mortgages	72	61.1%	49	48.5%
Non-first mortgages	24	38.9%	28	51.5%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The Company's allocation of first vs. non-first mortgages has changed moderately from December 31, 2012 to December 31, 2013 with a 12.6% change in the portfolio allocation between these two positions at Year end. For the Year, the Company co-invested in several mortgage investments with TSMIC and holds subordinate mortgage positions in these co-investments in relation to TSMIC.

#### (b) Region

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
ON	47	51.4%	37	43.4%
AB	15	12.6%	7	13.7%
QC	14	13.7%	13	19.2%
BC	9	14.5%	9	7.0%
SK	5	3.3%	6	3.1%
MB	3	2.5%	4	9.1%
OT	2	1.1%	1	4.5%
NS	1	0.9%	0	0.0%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The Company continues to maintain a diversified portfolio of net mortgage and loan investments primarily across Canada, with its greatest concentration in Canada's largest provinces. As at December 31, 2013, 92.2% (December 31, 2012 – 83.3%) of the net mortgage and loan investments were allocated across Ontario, Quebec, British Columbia and Alberta. The Company has continued to maintain significant exposure to Ontario as it has benefited from sourcing mortgages secured by high-quality, cash-flowing multi-family residential, retirement and office assets in good markets, with multiple repeat borrowers with proven track records.

#### (c) Maturity

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
Maturing 2013	–	–	38	32.2%
Maturing 2014	38	32.0%	24	33.2%
Maturing 2015	41	51.3%	13	27.0%
Maturing 2016	16	15.1%	2	7.6%
Maturing 2017	1	1.6%	–	0.0%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The Company's portfolio turnover rate for the Year was strong at 79.76% (December 31, 2012 – 80.07%). The Company's strong portfolio turnover helps generate fee income, all of which goes to the Company, and helps ensure the Company is able to respond quickly to a changing interest rate environment. The weighted average term to maturity as at December 31, 2013 is 2.2 years (December 31, 2012 – 2.9 years), in-line with the portfolio's target maturity of 1.5 – 3.0 years.

#### (d) Asset Type

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
Multi-residential	36	51.7%	27	37.0%
Office	15	13.6%	8	7.6%
Retail	14	13.2%	15	21.8%
Retirement	8	12.5%	9	15.9%
Industrial	7	1.8%	6	5.5%
Unimproved land	6	4.1%	5	4.2%
Other-residential	4	0.9%	5	7.9%
Hotels	2	1.2%	0	0.0%
Self-storage	2	0.7%	0	0.0%
Single-family residential	2	0.3%	2	0.1%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The Company has developed a lending niche predominantly targeting short-term mortgages, secured by cash-flowing assets, while specializing in multi-residential real estate assets. Historically, the Company has had very little exposure to land development, single-family residential, construction mortgages and construction loans, where demand is largely impacted by the strength or weakness of the Canadian housing market.

#### (e) Interest Rate

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
9.99% or lower	47	59.3%	24	43.2%
10.00%–10.99%	23	22.7%	25	38.1%
11.00%–11.99%	17	12.3%	16	13.5%
12.00%–12.99%	4	2.8%	6	3.9%
13.00%–13.99%	3	0.3%	4	0.9%
14.00% or greater	2	2.6%	2	0.4%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The weighted average interest rate, excluding lender fee income, on the mortgage investments at December 31, 2013 was 9.81% (December 31, 2012 – 10.14%). Although the weighted average interest rate has slightly decreased over the Year, it is still significantly greater than the Company's



target dividend return for the Year of 6.61% (December 31, 2012 – 6.61%), equal to the 2-Yr GOC Yield plus 550 basis points, while providing sufficient margin for operating expenses of the Company.

#### (f) Loan-to-value

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage and Loan Investments	# of Loans	% of Net Mortgage and Loan Investments
55% or less	26	15.1%	12	9.4%
56%–60%	6	3.0%	3	2.5%
61%–65%	9	5.1%	6	4.3%
66%–70%	11	9.8%	13	10.3%
71%–75%	10	13.1%	11	27.3%
76%–80%	13	19.1%	15	20.9%
81%–85%	21	34.8%	17	25.3%
	<b>96</b>	<b>100.0%</b>	<b>77</b>	<b>100.0%</b>

The loan-to-value on the mortgage and loan investment portfolio at December 31, 2013 was 61.7% (December 31, 2012 – 69.5%), well below the AAM’s ceiling of 85%.

#### Foreclosed properties held for sale

During the Year, the Company foreclosed on two properties and reclassified the carrying amount of the outstanding principal, interest receivable and related impairment provision on the underlying security, as of the dates of foreclosure, to foreclosed properties held for sale. The fair value of the foreclosed properties held for sale as at December 31, 2013 is \$11.4 million (December 31, 2012 – nil), which is based on valuations by independent external appraisers accredited by professional institutes with recent experience in the location of the properties being valued. The Company has engaged a third party manager to operate the properties while they are held for sale.

#### Provision for mortgage and loan investments loss

For the three months and year ended December 31, 2013 the Company has recognized an impairment provision of \$950,000 and \$2,150,000 (Q4 2012 – Nil, 2012 – Nil) relating to impaired mortgage investments, which represents the total amount of the Manager’s estimate of the shortfall between the principal balances and accrued interest and the estimated recoverable amount of the underlying security of the mortgage investment. Overall, this provision equates to approximately 0.68% of the net mortgage and loan investments and foreclosed properties held for sale of the Company. During the Year, the Company foreclosed two properties and \$1.6 million was reclassified from impairment provision to foreclosed closed properties held for sale.

#### Net working capital

The net working capital increased by \$11.9 million to \$12.0 million at December 31, 2013 from \$0.1 million at December 31, 2012, mainly due to the cash on hand from the repayment of the loan investment in December 2013. The Company has available its Credit Facility to manage its working capital while ensuring idle cash is minimized.

#### Credit facility

In November 2013, the Company amended the terms of its Credit Facility with its bank. Under the amended terms, the Company was provided a temporary bulge of \$18.1 million to fund the Special Redemption. The bulge was repaid in full prior to December 31, 2013. Following repayment of the bulge the Credit Facility limit was \$25.0 million (December 31, 2012 – \$25.0 million). The Credit Facility is primarily used to bridge timing differences between new mortgage and loan 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 – \$8.8 million).

Interest paid related to the Credit Facility is amortized to financing costs using the effective interest rate method. For the year ended December 31, 2013, interest on the Credit Facility of \$0.5 million (December 31, 2012 – \$0.4 million), was amortized to financing costs.

As at December 31, 2013, there were \$0.1 million (December 31, 2012 – \$0.1 million) in unamortized financing costs related to the Credit Facility. For the year ended December 31, 2013, the Company has amortized financing costs of \$0.1 million (2012 – \$0.1 million) respectively, to interest expense using the effective interest rate method.

#### Net assets attributable to holders of redeemable shares

Under IFRS, IAS 32 requires that shares of an entity, which include a contractual obligation for the issuer to repurchase or redeem the shares for cash or another financial asset, to be classified as a financial liability. Prior to the Transition, the Company’s Class A and Class B shares did not meet the criteria in IAS 32 for classification as equity and therefore, were classified as financial liabilities. In addition, the dividends and issuance costs related to these shares were also presented as financing costs in the statement of net income (loss) and comprehensive income (loss). Subsequent to the Transition, as described in the ‘Transition to Public Company Regime’ section of this MD&A, Class A and Class B shares were exchanged into common shares and are classified as shareholders’ equity.

During the Year, the Company completed a non-brokered private placement of 508,647 Class B shares, for gross proceeds of \$5.0 million (2012 – 3,400,573; \$34.0 million).

#### Dividend reinvestment plan

As part of the Transition, the Company has amended and restated its dividend reinvestment plan (“DRIP”) effective as of November 20, 2013. The amended and restated DRIP (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.

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 commons. During the Year, 393,522 (2012 – 388,288) Class A shares were issued under the Original DRIP using reinvested dividends of \$3.7 million (2012 – \$3.9 million) and 35,250 (2012 – nil) common shares were issued under the Amended DRIP using reinvested dividends of \$0.3 million. Of these, 194,948 Class A shares and 35,250 common shares were acquired from the market under the DRIP.

#### 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 provides 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 purchased for cancellation 362,800 Class A shares at a cost of \$3,352. 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.

#### Common shares

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

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

	December 31, 2013
<b>Year ended December 31, 2013</b>	
Common shares issued as a result of exchange	36,964,028
Repurchased	(35,250)
Issuance of common shares under Amended DRIP	35,250
<b>Common shares outstanding, end of year</b>	<b>36,964,028</b>



## QUARTERLY FINANCIAL INFORMATION

The following is a quarterly summary of the Company's results for the eight most recently completed quarters:

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest income	\$ 9,926	\$ 9,889	\$ 9,397	\$ 10,520	\$ 9,831	\$ 10,200	\$ 9,677	\$ 8,947
Expenses	(3,082)	(5,622)	(2,690)	(2,851)	(3,481)	(2,173)	(2,023)	(1,800)
Income from operations	6,844	4,267	6,707	7,669	6,350	8,027	7,654	7,147
Net operating loss from FPFFS	(182)							
Financing costs:								
Interest on credit facility	(195)	(98)	(91)	(90)	(91)	(87)	(82)	(93)
Issuance costs of redeemable shares	(3)	-	-	-	(10)	59	(69)	(7)
Dividends to holders of redeemable shares	(2,414)	(7,299)	(7,311)	(7,297)	(7,278)	(7,263)	(7,701)	(6,959)
	(2,612)	(7,397)	(7,402)	(7,387)	(7,379)	(7,291)	(7,852)	(7,059)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$4,050</b>	<b>\$(3,130)</b>	<b>\$(695)</b>	<b>\$ 282</b>	<b>\$(1,029)</b>	<b>\$ 736</b>	<b>\$(198)</b>	<b>\$ 88</b>

The variations in net income (loss) by quarter are attributed to the following:

- Since Q1 2012, the Company has raised gross proceeds of approximately \$39.0 million and the related issuance costs incurred were expensed in profit and loss in the period raised. Further, the proceeds from these offerings have been used to fund net mortgage and loan investments, the timing of which typically occur around periodic offerings and existing investment maturities, which vary throughout the years;
- The dividends to holders of redeemable shares were presented in the statement of income (loss) and comprehensive income (loss) through October 2013, with the dividends to common shareholders now presented in the statement of changes in equity from the Exchange Date to December 31, 2013.

## RELATED PARTY TRANSACTIONS

As at December 31, 2013, due to Manager includes management and performance fees payable of \$2,347 (December 31, 2012 – \$2,461) and \$3 (December 31, 2012 – \$9) related to costs incurred by the Manager on behalf of the Company.

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 (December 31, 2012 – \$29,850). On December 24, 2013, the loan investment, which was co-invested in by these related parties was repaid in full, leaving a balance of nil (December 31, 2012 – \$16,521) as at December 31, 2013. As at December 31, 2013, no amount (December 31, 2012 – \$213) is receivable from T4Q and no amount (December 31, 2012 – \$44) is payable to TGREF in relation to these investments. Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager, has been retained by TGREF and T4Q to provide fund management and portfolio advisory services.

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, totaling \$681,961 (December 31, 2012 – \$392,870), which are secured primarily by multi-residential, office, retail, retirement and other commercial properties. The Company holds subordinated positions in these co-investments in relation to TSMIC. The Company's net share in these investments is \$215,999 (December 31, 2012 – \$86,202), and included in this amount is a mortgage investment of \$1,044 to a limited partnership, which is co-owned by T4Q. In addition, \$281 (December 31, 2012 – \$4) is receivable by the Company from TSMIC relating to amounts paid on behalf of the Company.

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 \$667 (December 31, 2012 – \$4,000).

As at December 31, 2013, included in other assets is \$1,040 (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 holdbacks and prepaid interest received from the borrowers.

The Manager has borne total costs of \$250 relating to the Transition and are not included in the Transition related costs in the statement of income (loss) and comprehensive income (loss).

## 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.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The critical accounting estimates and judgments have been set out in detail in note 2 of the Company's consolidated financial statements for the year ended December 31, 2013.

## 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 the consolidated financial statements of the Company. 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 this standard to have a significant impact on the consolidated financial statements.

### (iii) 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.

## OUTSTANDING SHARE DATA

As at March 5, 2013, the Company's authorized capital consists of an unlimited number of common shares, of which 36,964,028 are issued and outstanding.

## CAPITAL STRUCTURE AND LIQUIDITY

### Capital structure

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.

### Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company intends to qualify as a MIC as defined under Section 130.1(6) of the Income Tax Act (Canada) and as a result is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations, equity offerings and the Credit Facility. The Company routinely forecasts cash flow sources and requirements to ensure cash is efficiently utilized. In addition, the Company has the borrowing ability of \$25.0 million through its Credit Facility and seeks manage the fluctuations in cash flows as a result of the timing of mortgage and loan investment fundings and repayments and other working capital needs. Of note, the Credit Facility was utilized by the Company to assist with funding the Special Redemption.

The following are the contractual maturities of financial liabilities as at December 31, 2013, including expected interest payments:

	Carrying Values	Contractual cash flows	Within a year	Following year	3-5 years	Over 5 years
Mortgages funding holdbacks	\$ 29	\$ 29	\$ 29	\$ -	\$ -	\$ -
Dividends payable	2,477	2,477	2,477	-	-	-
Due to Manager	2,350	2,350	2,350	-	-	-
Prepaid mortgage and loan interest	1,012	1,012	1,012	-	-	-
Accounts payable and accrued expenses	592	592	592	-	-	-
Unadvanced mortgage and loan commitments	-	61,564	61,564	-	-	-
	<b>\$ 6,460</b>	<b>\$ 68,024</b>	<b>\$ 68,024</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

As at December 31, 2013, the Company's cash position was \$12.3 million (December 31, 2012 - \$0.9 million) including an undrawn Credit Facility of \$25.0 million (December 31, 2012 - \$16.2 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations, the Credit Facility and the proceeds raised in subsequent offerings.

### FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

	Classification	Measurement
<b>Financial assets</b>		
Mortgage and loan investments, including mortgage syndications	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Credit facility	Other financial liabilities	Amortized cost
Non-recourse mortgage syndication liabilities	Other financial liabilities	Amortized cost
Prepaid mortgage and loan interest	Other financial liabilities	Amortized cost
Mortgage funding holdbacks	Other financial liabilities	Amortized cost
Due to Manager	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost

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

The fair value of mortgage and loan investments and mortgage syndication liabilities approximate

to their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

The Company's use of financial instruments exposes the Company to various related risks, which are outlined in note 17 of the consolidated financial statements of the Company.

### RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties that may affect the Company's future performance and its ability to execute on its investment objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while other risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage and loan investments at rates consistent with rates historically achieved, not having adequate mortgage and loan investment opportunities presented to us, and not having adequate sources of bank financing available.

For a full discussion of the risks and uncertainties, please also refer to the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2013.

### DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO on a timely basis so appropriate decisions can be made regarding public disclosures.

The preparation of this information is supported by a set of disclosure controls and procedures ("DC&P") implemented by management. In fiscal 2013, these controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2013. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Company and the requirements of National Instrument 52-109 of the Canadian Securities Administrators titled, Certification of Disclosure in Issuers' Annual and Interim Filings.

The Company continues to review the design of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is properly communicated to certifying officers responsible for establishing and maintaining disclosure controls and procedures, as those terms are defined in National Instrument 52-109 certification of disclosure in issuers' annual and interim filings as at December 31, 2013. The Company confirmed the effectiveness of the design of Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial statements and information the Company may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business.

There were no changes made in the Company's internal controls over financial reporting during the year ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### ADDITIONAL INFORMATION

#### Phone

Calling the Company at 1-866-898-8868, Carrie Morris, Managing Director Capital Markets & Corporate Communications

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 306-9967 ext. 7266 (collect if long distance).

#### Internet

Visiting SEDAR at [www.sedar.com](http://www.sedar.com); or

#### Mail

Writing to the Company at:

Timbercreek Mortgage Investment Corporation  
Attention: Corporate Communications  
1000 Yonge Street, Suite 500  
Toronto, Ontario M4W 2K2

# Independent Auditors' Report

# Consolidated Statements of Financial Position

December 31, 2013 and 2012

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.

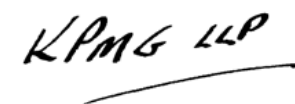
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether 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



March 5, 2014  
Toronto, Canada

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
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	–
<b>Total assets</b>	<b>467,405,763</b>	<b>408,894,757</b>
<b>LIABILITIES AND EQUITY</b>		
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
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b>130,838,052</b>	<b>53,366,687</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>–</b>	<b>355,527,970</b>
<b>Shareholders' equity</b>	<b>336,567,711</b>	<b>100</b>
<b>Total liabilities and equity</b>	<b>\$ 467,405,763</b>	<b>\$ 408,894,757</b>
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
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 506,932</b>	<b>\$ (401,965)</b>
<b>Net income per share (note 13)</b>		
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
<b>Shareholders' equity, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 336,567,711</b>	<b>\$ 336,567,711</b>
<b>2012</b>				
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)
<b>Net assets attributable to holders of redeemable shares, end of year</b>	<b>\$319,585,511</b>	<b>\$35,942,459</b>	<b>\$ -</b>	<b>\$355,527,970</b>

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flow

Years ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING ACTIVITIES</b>		
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
	<b>23,811,850</b>	<b>32,551,130</b>
<b>FINANCING ACTIVITIES</b>		
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)	-
	<b>(53,031,316)</b>	<b>17,194,946</b>
<b>INVESTING ACTIVITIES</b>		
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
	<b>40,575,244</b>	<b>(64,896,392)</b>
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
<b>Cash and cash equivalents, end of year</b>	<b>\$ 12,348,449</b>	<b>\$ 992,671</b>

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.

**(iii) 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)
	<b>\$ 442,165,777</b>	<b>\$ (124,378,929)</b>	<b>\$ 317,786,84</b>

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)
	<b>\$ 407,140,364</b>	<b>\$ (38,407,891)</b>	<b>\$368,732,473</b>

##### (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
	<b>100</b>	<b>\$ 317,154,153</b>	<b>100</b>	<b>\$ 351,732,211</b>

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
<b>Total</b>	<b>\$ 317,154,153</b>

##### (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	<b>\$ 550,000</b>	<b>\$ –</b>

#### 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	<b>\$ 11,351,435</b>	<b>\$ –</b>

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.	<ul style="list-style-type: none"> <li>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.</li> <li>Capitalization rate is based on location, size and quality of the property and taking into account market data at the valuation date.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>Stabilized NOI was higher (lower)</li> <li>Overall capitalization rates were lower (higher)</li> </ul>
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)
<b>Redeemable shares outstanding, end of year</b>	<b>–</b>	<b>–</b>

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)	–
<b>Redeemable shares outstanding, end of year</b>	<b>34,561,122</b>	<b>3,742,597</b>

### 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:

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

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

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:

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

**(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.

<b>2013</b>	
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.

<b>2013</b>	
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.

**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:

December 31, 2013	Carrying Value			Fair Value
	Loans and receivable	FVTPL	Other financial liabilities	
<b>Assets not measured at fair value</b>				
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
<b>Financial liabilities measured at FVTPL</b>				
Foreign exchange forward contract	–	71,696	–	71,696
<b>Financial liabilities not measured at fair value</b>				
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			Fair Value
	Loans and receivable	FVTPL	Other financial liabilities	
<b>Assets not measured at fair value</b>				
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
<b>Financial liabilities not measured at fair value</b>				
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 non-recourse 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.

## Board of Directors

The directors of Timbercreek Mortgage Investment Corporation have deep experience, established reputations and extensive contacts in the commercial real estate and mortgage lending community, as well as in the capital markets and asset management sectors in Canada.



**Zelick L. Altman**

Independent Director, Timbercreek MIC  
Managing Director, LaSalle Investment Management (Canada)



**Ugo Bizzarri**

Director and CFO, Timbercreek MIC  
Director, Founding Managing Director of Portfolio Management and Investments, Timbercreek Asset Management



**Craig A. Geier**

Independent Director and Audit Committee Chair, Timbercreek MIC  
Chairman and CEO, Microbonds Inc.



**Andrew Jones**

Director and CEO, Timbercreek MIC  
Managing Director of Debt Investments, Timbercreek Asset Management



**W. Glenn Shyba**

Independent Director, Timbercreek MIC  
Principal, Origin Merchant Partners



**Blair Tamblyn**

Chairman, Timbercreek MIC  
Director, CEO and Founding Managing Director, Timbercreek Asset Management



**Derek J. Watchorn, LL.B.**

Independent Director, Timbercreek MIC  
Consultant

## Independent Mortgage Advisory Committee



**Chris Humeniuk**

Managing Partner, Canadian Mortgage Strategies & Investments  
President & CEO, Community Trust Company



**Ken Lipson**

CFO, TMDL Asset Management Inc.



**Pamela Spackman**

Committee Chair  
Consultant

### Head Office

1000 Yonge Street, Suite 500  
Toronto, Ontario M4W 2K2  
(t) 416-306-9967  
(e) [inquiries@timbercreek.com](mailto:inquiries@timbercreek.com)  
Website: [www.timbercreek.com](http://www.timbercreek.com)

### Stock Exchange Listing

TSX: TMC

### Transfer Agent & Registrar

CST Trust Company  
320 Bay Street  
Toronto, Ontario M5H 4A6

### Auditors

KPMG LLP

### Legal Counsel

McCarthy Tétrault LLP



