

2016
Annual
Report



Timbercreek Financial





**Portfolio
>\$1.0 billion**




**86% of portfolio
secured by
income-producing
properties**




**123 total
mortgages**



**66% weighted
average
loan-to-value**



**83% first
mortgage
positions**



**68% of new
business
from repeat
borrowers***



**\$0.171 in
quarterly
dividends**
(7.8% annualized yield)

*Since inception. Inception date of April 2008 to December 31 2016.

Timbercreek Financial is a leading non-bank lender providing shorter-duration, structured financing solutions to commercial real estate investors. Through our sophisticated service-oriented approach, we provide faster execution and more flexible terms than those typically provided by Canadian financial institutions. Borrowers are willing to pay higher rates and fees for access to this speed and flexibility.

We Deliver High Returns with Low Risk

Our People

Our origination team has completed more than \$5.3 billion in mortgage loans at Timbercreek.

The team looks at opportunities across Canada, generating significant repeat business from existing borrowers and new deal-flow from our extensive network of borrowers, mortgage brokers and investment bankers.

We look to deliver the best risk-adjusted returns by leveraging the full capabilities of the Manager, Timbercreek Asset Management.

Our Strategy

Our investment focus is to preserve shareholder capital and provide strong risk-adjusted returns.

We do this by lending primarily against income-producing commercial and investment real estate, diversifying our portfolio by geography, asset type and borrower, maintaining a conservative loan-to-value ratio, and passing all lender fees through to investors.

Superior Customer Service

We work directly with borrowers to develop customized solutions and formulate strong exit strategies to help ensure a successful investment from start to finish.

This commitment, combined with ongoing communication with borrowers throughout the lifecycle of each loan, has earned Timbercreek a reputation for exceptional customer service.

TRANSFORMATIONAL STRATEGIC TRANSACTION

In June 2016, Timbercreek Mortgage Investment Corporation and Timbercreek Senior Mortgage Investment Corporation came together to create Timbercreek Financial, a leading commercial real estate lender and the largest publicly traded MIC in Canada. The merger provided significant benefits to shareholders of both companies. Less than a year later, we have made great progress realizing the benefits of the merger.

Merger Benefit

Enhanced Capital Markets Profile

Timbercreek Financial has a greater market capitalization, increased trading volume and better access to capital. These are key factors in attracting institutional investors, acquisition opportunities and research coverage.

Book Value and Earnings Per Share Accretion

Timbercreek Financial is targeting to distribute approximately 95% of annual earnings, reinvesting the remainder to grow book value and earnings.

Superior Diversified Portfolio Delivering Strong Risk-Adjusted Yield

The Company's portfolio of more than \$1 billion provides greater diversification for investors.

Simplified Structure with Cost Synergies

The combination resulted in a single entity, reducing market confusion between the different portfolios and creating operational synergies.





Progress Report

Enhanced Capital Markets Profile

- Market capitalization of \$644 million at year end
- Increased research coverage from one to three analysts
- Added to MSCI Canada Index
- Increased average daily trading volume to ~180,000¹ shares, post-merger
- Grew share price 5.2% from closing of merger to year-end
- Completed two bought-deal convertible debenture financings post-merger, totaling \$91.8 million (gross)

Book Value and Earnings Per Share Accretion

- Delivered earnings per share of \$0.70 basic and diluted in 2016
- Book value increased to \$647 million

Superior Diversified Portfolio Delivering Strong Risk-Adjusted Yield

- 123 mortgages in the portfolio
- Average mortgage size of \$8.2 million
- Well diversified by geography, borrower and asset type
- Yield of 7.84% as at December 30, 2016

Simplified Structure with Cost Synergies

- Eliminated performance fees
- Reduced management fee to 0.85% of total assets
- Realized approximately \$1 million of annualized cost-savings, post-merger

¹ 30-day average, as at December 31, 2016

CASE STUDIES

Oakville



Office

Amount: \$2,022,300
2nd Mortgage
6 Months
LTV: 65%

Whitby



Retirement

Amount: \$16,300,000
1st Mortgage
24 Months
LTV: 69%

B.C.



Retail Portfolio

Amount: \$12,000,000
2nd Mortgage
36 Months
LTV: 75%

Hamilton



Multi-Residential

Amount: \$3,920,000
1st Mortgage
25 Months
LTV: 73%

Calgary



Multi-Residential

Amount: \$7,250,000
2nd Mortgage
24 Months
LTV: 62%

Scarborough



Industrial

Amount: \$2,100,000
1st Mortgage
36 Months
LTV: 79%

Saskatoon



Multi-Residential

Amount: \$1,800,000
1st Mortgage
24 Months
LTV: 78%

Waterloo



Multi-Residential

Amount: \$24,800,000
1st Mortgage
24 Months
LTV: 83%

Dear Fellow Shareholder,

2016 was a transformational year for the company as we combined Timbercreek MIC and Timbercreek Senior MIC to create Timbercreek Financial, a leading non-bank lender that provides shorter-duration, structured financing solutions to commercial real estate investors.

At the time of this writing, it has been eight months since the merger and already we are seeing significant benefits. We are more than twice the size of the next largest public mortgage investment corporation, which has helped to significantly raise our capital markets profile. Our market cap and share price are up more than 10% since the merger, daily trading volume is up, we were added to the MSCI Canada Index and we have increased our research coverage from one analyst to three.

We have also grown our capital base, by increasing the size of our credit facility to \$350.0 million and completing two convertible debenture financings for gross proceeds of more than \$91 million. These transactions give us an opportunity to increase portfolio returns while at the same time lowering overall portfolio risk. The additional leverage enables us to invest in lower-yielding investments, which are inherently lower-risk, while still increasing returns on a per share basis.

As before, our investment focus remains set on preserving shareholder capital and providing strong risk-adjusted returns. With a portfolio size of greater than \$1.0 billion in value, we have more investment opportunities today than at any time in the past and our portfolio is now more diversified than it has ever been.

Strong Financial Performance

Post-merger, our results were characterized by solid earnings and cash flow. We generated \$0.18 in earnings per share in the fourth quarter, which equates to \$0.72 per share annualized and meets the target we set at the time of the merger. Our dividends paid in the fourth quarter of \$0.171 per share, equates to \$0.684 per share annualized, which translates to a pay-out ratio of 96.6% on an earnings per share basis.

Diversified Portfolio Holdings

A cornerstone of our approach to risk management is to maintain a portfolio that is well diversified by borrower, property type and geography. At year-end, we had 123 loans in the portfolio with an average size of \$8.2 million. An investment of that size represents less than 1% of the portfolio's total assets.

At year-end, 85.8% of our mortgage investments were secured by properties with existing rental income, with approximately 50% of the entire portfolio secured by multi-residential real estate – or rental apartments. We focus on income-producing assets, and in particular rental apartments, as they provide stable cash flow streams due to the strong and unwavering demand for living space in our target geographies. Other income-producing segments we focus on include retail, office, retirement and hotel.

Our exposure to first mortgages was 83.3% at year-end, again, well ahead of our internal target of 75%. Our weighted average loan-to-value ratio was 65.7% and our weighted-average interest rate in the fourth quarter was 7.4%, both were in-line with our expectations. Our forecast contemplates a weighted-average interest rate in the low-to-mid 7% range in order for us to consistently meet our target earnings per share of \$0.72 per share.

Geographically, our top three markets at the end of the year were: 53.4% in Ontario, 12.7% in Quebec, 12.2% in BC, and, our exposure to Alberta remains low at 8.2%.

We had strong deal flow in the second half of the year – funding over \$303 million of investments – which reflects our ability to attract and identify quality investment opportunities.

Growing Market Opportunity

We believe that fundamentals in the commercial mortgage market remain healthy. We remain cautious in some markets, such as Alberta, but our overall assessment is based on the ongoing demand seen for investment properties from domestic and foreign investors – both institutional and private.

Demand for our type of loans is growing. Traditional financial institutions now have to contend with stricter regulations and certain structural issues, and therefore find themselves less competitive in the mid-market. This is opening-up new opportunities for us.

Our outlook for interest rates is that short-term rates will likely remain low and relatively stable over the near-term. While five- and ten-year rates have increased, the cost of capital for most short-term borrowers has not changed, nor do we see significant changes on the horizon for them.

In closing, we're very pleased with how the business has performed since the merger. The business is operating efficiently with reduced expenses, we are meeting our earnings targets and the quality of our loan portfolio is better than ever. We are very excited about the potential for our platform.

On behalf of management and the Board of Directors, thank you for your continued support and we look forward to reporting to you in 2017.

Sincerely,



Andrew Jones
Chief Executive Officer
Timbercreek Financial
April 2017

Management's Discussion and Analysis

For the year ended December 31, 2016

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

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 Financial Corp. (the "Company" or "Timbercreek Financial"). 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. For more information on risks, please refer to the "Risks and Uncertainties" section in this MD&A, and the "Risk Factors" section of our Annual Information Form ("AIF"), which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

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 February 27, 2017. 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 Company's website at www.timbercreekmic.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

BUSINESS OVERVIEW

Timbercreek Financial Corp, previously known as Timbercreek Mortgage Investment Corporation ("TMIC"), is a leading non-bank lender providing financing solutions to qualified real estate prospective borrowers who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement for real estate investors that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term loans to bridge a period (generally one to five years) during which they conduct property repairs, redevelop the property, or purchase another investment. These short-term "bridge" loans are typically repaid with traditional bank mortgages (lower cost and longer-term debt) once the transitional period is over or a restructuring is complete or from proceeds generated on the sale of assets.

Timbercreek Financial, through its Manager, has established preferred lender status with many active real estate investors by providing prompt response to requests made by borrowers to facilitate quick execution on investment opportunities and by providing market loan terms that combine the flexibility required by borrowers in order to maximize their efficiencies in executing on opportunities and realizing on profits. Timbercreek Financial works with borrowers throughout the terms of their loans to ensure that their capital requirements are met and, if requested, considers modifications of or extensions to the terms of their loans to accommodate additional opportunities that may arise or changes that may occur.

The Company is, and intends to continue to be, qualified as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada) ("ITA").

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, 2016 (the "Year"). This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 and 2015, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 SEDAR and may be accessed through the SEDAR website at 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 Company's ability to earn and distribute cash dividends to shareholders and to evaluate its performance.

These non-IFRS measures should not be construed as alternatives to total net income and comprehensive income or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date;
- Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period;
- Weighted average loan-to-value – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an "as completed" basis;

- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period;
- Leverage – represents the total of gross convertible debentures and the total credit facility balance divided by total assets less mortgage syndication liabilities;
- Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period;
- Weighted average lender fees – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company’s advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company’s unadvanced commitment;
- Net interest income – represents interest income, fee income and other income excluding any income, fee income and other income from mortgage syndications;
- Income from operations – represents income before non-operating items such as net operating gain (loss) from foreclosed properties held for sale (“FPHFS”), fair value adjustments on FPHFS, termination of management contracts, transaction costs relating to the Amalgamation, bargain purchase gain and financing costs;
- Adjusted total net income and comprehensive income – represents total net income and comprehensive income for the stated period excluding termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain;
- Adjusted earnings per share – represents the total adjusted total net income and comprehensive income divided by the weighted average outstanding shares for the stated period;
- Distributable income – represents the Company’s ability to generate recurring cash flows for dividends by removing the effect of lender fees, amortization, accretion, unrealized fair value adjustments, provisions for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain from total net income and comprehensive income;
- Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period;
- Expense ratio – represents total expenses excluding financing costs, net operating (gain) loss on FPHFS, fair value adjustment on FPHFS, provision for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;
- Fixed expense ratio – represents expenses as calculated under expense ratio, less performance fees, for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities; and
- Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.
- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

2016 included two full quarters - Q3 and Q4 - of operations for Timbercreek Financial. As one of Canada’s largest non-bank commercial mortgage lenders, our vision is to be the preferred provider of short-term custom financing solutions to commercial real-estate investors and to generate strong risk-adjusted returns for our shareholders. Financial and operational results in the second half of the year reflect progress towards achieving that vision.

Portfolio Activity

The net value of our commercial mortgage portfolio was approximately \$1.0 billion at the end of Q4 2016. Risk management remains a top priority for our portfolio, which is achieved through a variety of strategies, including a focus on lending against income-producing assets. At quarter end, 85.8% of the mortgage investments were secured by properties with existing rental income, which is in-line with management’s expectations. At year-end, 48.8% of the portfolio was secured by multi-residential real estate (apartment buildings), which we believe is an asset class with good yields and highly stable cash-flow streams.

Our exposure to first mortgages, which are lower risk, was 83.3%, up from 82.3% in Q3 2016, and well ahead of our internal target of 75%. Our weighted average loan-to-value ratio was 65.7%, which compares favorably to our internal target of below 70%. Our weighted average interest rate during Q4 2016 was 7.4%.

With a seasoned origination team and national platform, Timbercreek Financial continues to see strong new transaction activity. We funded 12 new loans in the quarter totaling \$74.3 million and had additional advances of \$34.8 million. Portfolio turnover was 12.2% in Q4 2016, compared to 7.4% in Q3 2016. Portfolio turnover in Q4 2016 was at more traditional levels and we expect it to remain around that level in future quarters. Our draw on the credit facility stood at \$300.6 million at the end of Q4 2016 compared to \$307.7 million at the end of Q3 2016 and \$235.0 million at the end of Q2 2016.

Diversification remains a key component of our risk management strategy and we continue to focus on maintaining portfolio diversification by geography, property type and borrower. Exposure in Alberta remained steady in Q4 2016, compared to Q3 2016. While we are starting to see more quality investment opportunities in Alberta, we continue to exercise caution in that market.

Market Activity

We believe that fundamentals in the commercial mortgage market generally remain healthy. Our market assessment is based primarily on the continued demand we see for investment properties from both domestic and foreign institutional investors. For domestic investors, low mortgage rates are a stimulative force, while foreign investors are also attracted by the low Canadian dollar.

To capitalize on this favourable market environment, subsequent to year-end, on January 18, 2017, we announced a \$46 million bought-offering of convertible debentures. The bought-offering was completed to further support our overall corporate vision and objectives. It will allow us to further diversify our portfolio and we believe it will also be accretive to earnings per share.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

| As at | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|----------------------|----------------------|----------------------|
| KEY FINANCIAL POSITION INFORMATION | | | |
| Mortgage investments, including mortgage syndications | \$ 1,559,677 | \$ 750,704 | \$ 616,174 |
| Total assets | \$ 1,573,970 | \$ 766,734 | \$ 634,069 |
| Credit facility balance | \$ 300,580 | \$ 53,812 | \$ 9,075 |
| Convertible debentures | \$ 76,757 | \$ 32,778 | \$ 32,387 |
| Total liabilities | \$ 927,298 | \$ 404,405 | \$ 269,123 |
| CAPITAL STRUCTURE | | | |
| Shareholders' equity | \$ 646,672 | \$ 362,329 | \$ 364,946 |
| Convertible debentures, par | \$ 80,300 | \$ 34,500 | \$ 34,500 |
| Credit facility limit | \$ 350,000 | \$ 60,000 | \$ 35,000 |
| Leverage ¹ | 37.0% | 19.3% | 10.5% |
| COMMON SHARE INFORMATION | | | |
| Number of common shares outstanding | 73,858,499 | 40,523,728 | 40,701,528 |
| Closing trading price | \$ 8.72 | \$ 7.58 | \$ 8.32 |
| Market capitalization | \$ 644,046 | \$ 307,170 | \$ 338,637 |

OPERATING RESULTS

| | Three months ended | | Year ended December 31, | | |
|--|--------------------|-----------|-------------------------|-----------|-----------|
| | December 31, | | 2016 | 2015 | 2014 |
| | 2016 | 2015 | 2016 | 2015 | 2014 |
| Net interest income ¹ | \$ 20,583 | \$ 10,814 | \$ 61,422 | \$ 43,003 | \$ 36,710 |
| Income from operations ¹ | \$ 17,940 | \$ 8,427 | \$ 51,231 | \$ 32,750 | \$ 28,272 |
| Total net income and comprehensive income (basic and diluted) | \$ 13,078 | \$ 6,905 | \$ 45,999 | \$ 28,021 | \$ 24,917 |
| Earnings per share (basic and diluted) | \$ 0.18 | \$ 0.17 | \$ 0.80 | \$ 0.69 | \$ 0.63 |
| Adjusted total net income and comprehensive income (basic and diluted) ¹ | \$ 13,162 | \$ 6,905 | \$ 39,940 | \$ 28,021 | \$ 24,917 |
| Adjusted earnings per share (basic and diluted) ¹ | \$ 0.18 | \$ 0.17 | \$ 0.70 | \$ 0.69 | \$ 0.63 |
| Dividends to shareholders | \$ 12,630 | \$ 7,296 | \$ 39,895 | \$ 29,253 | \$ 30,263 |
| Dividends per common share | \$ 0.171 | \$ 0.180 | \$ 0.702 | \$ 0.720 | \$ 0.762 |
| Payout ratio on earnings per share ¹ | 96.6% | 105.7% | 86.7% | 104.4% | 121.5% |
| Distributable income ¹ | \$ 13,911 | \$ 7,256 | \$ 42,681 | \$ 29,484 | \$ 27,899 |
| Distributable income per share ¹ | \$ 0.19 | \$ 0.18 | \$ 0.74 | \$ 0.73 | \$ 0.71 |
| Payout ratio on distributable income ¹ | 90.8% | 100.6% | 93.5% | 99.2% | 108.5% |

1 Refer to non-IFRS measures section, where applicable.

ACQUISITION OF TSMIC

On June 30, 2016 (the "Effective Date"), TMIC amalgamated with Timbercreek Senior Mortgage Investment Corporation ("TSMIC") to form a single entity called Timbercreek Financial Corp. under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "TF".

On the Effective Date, TMIC and TSMIC amalgamated to form the Company under the laws of the Province of Ontario by Articles of Arrangement (the "Amalgamation"). As a result of the Amalgamation, the Company has become a leading non-bank commercial real estate lender. The synergies and scale of the Company will create a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

The Amalgamation resulted in each TMIC shareholder receiving one share of the Company for each TMIC share held and each TSMIC shareholder receiving 1.035 shares of the Company for each TSMIC share held.

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

The Company recorded the identifiable assets and liabilities of TSMIC at fair value resulting in the recognition of a bargain purchase gain of \$15.2 million, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC at \$8.34 per TMIC share as at the June 29, 2016 closing share price.

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

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

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility
- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. The new management agreement has a management fee that equals to 0.85% per annum and a servicing fee equal to 0.10% per annum on certain syndicated senior tranches of mortgages that are held by third parties. The new management agreement does not have any performance fees and has a significantly lower management fee when compared with the old agreement. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of \$7.4 million which was settled in cash of \$0.9 million for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of \$1.2 million accrued for the period prior to the Amalgamation is payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016
- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of expenses such as filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. As a result, TMIC's share of transaction costs relating to the Amalgamation was \$1.6 million and was accrued by TMIC prior to the Amalgamation

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's net interest income for 2016 would have been approximately \$76.0 million and the net income for the year would have been \$53.7 million, inclusive of \$4.8 million of net non-recurring gains and costs related to the Amalgamation.

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

The year ended December 31, 2016 include the financial positions and operations of TSMIC beginning on June 30, 2016, the Effective Date. Results prior to June 30, 2016, reflect the operations of the Company formerly known TMIC only.

For the three months ended December 31, 2016 ("Q4 2016") and December 31, 2015 ("Q4 2015")

- The Company funded 12 new net mortgage investments (Q4 2015 – 10) totalling \$74.3 million (Q4 2015 – \$62.6 million), made additional advances on existing mortgage investments totalling \$34.8 million (Q4 2015 – \$23.8 million) and received full repayments on 10 mortgage investments (Q4 2015 – 20) and partial repayments totalling \$119.6 million (Q4 2015 – \$91.2 million). As a result, the net mortgage investment portfolio as at December 31, 2016 has decreased by \$10.5 million to \$1,010.0 million (September 30, 2016 – \$1,020.5 million), or 1.0% from September 30, 2016.
- Non-refundable cash lender fees received was \$1.5 million (Q4 2015 – \$0.9 million) or a weighted average lender fee of 0.8% (Q4 2015 – 1.4%) which is in-line with management's expectations.
- Net interest income earned was \$20.6 million (Q4 2015 – \$10.8 million), an increase of \$9.8 million, or 90.3% from Q4 2015. The increase is mainly attributable to the Amalgamation as Q4 2016 is the second full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$17.9 million (Q4 2015 – \$8.4 million), an increase of \$9.5 million or 112.9% from Q4 2015. The increase is mainly attributable to the Amalgamation as Q4 2016 is the second full quarter in operations reflects the results of the Amalgamation.
- The Company generated total net income and comprehensive income of \$13.1 million (Q4 2015 – \$6.9 million) or earnings per share \$0.18 (Q4 2015 – \$0.17). The Company declared \$12.6 million in dividends (Q4 2015 – \$7.3 million) to common shareholders resulting in a payout ratio of 96.6% (Q4 2015 – 105.7%) on an earnings per share basis. Total dividends to common shareholders has increased as a direct result of the Amalgamation. The Company generated distributable income of \$13.9 million (Q4 2015 – \$7.3 million) or distributable income per share of \$0.19 (Q4 2015 – \$0.18) resulting in a payout ratio of 90.8% (Q4 2015 – 100.6%) on a distributable income basis.
- The Company recorded \$500 (Q4 2016 – \$374 in Quebec) in unrealized fair value loss on one of its FPHFS located in British Columbia.
- On February 7, 2017, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40.0 million plus additional \$6.0 million from the over-allotment option and net proceeds of \$43.5 million. The unsecured convertible debentures will mature on March 31, 2022 and pay interest semi-annually on March 31 and September 30 at a rate of 5.45% per annum.

For the years ended December 31, 2016 ("2016") and December 31, 2015 ("2015")

- As part of the Amalgamation, the Company acquired the net mortgage investment portfolio of \$469.5 million from TSMIC on June 30, 2016. In addition, the Company funded 58 new net mortgage investments (2015 – 50) totalling \$336.4 million (2015 – \$262.6 million), made additional advances on existing mortgage investments totalling \$104.2 million (2015 – \$70.9 million), and received full repayments on 41 mortgage investments (2015 – 55) and partial repayments totalling \$339.6 million (2015 – \$291.3 million). As a result, the net mortgage investment portfolio as at December 31, 2016 has increased by \$570.5 million or 129.8% to \$1,010.0 million (December 31, 2015 – \$439.5 million), or an increase of \$570.5 million or 129.8% from December 31, 2015.
- Non-refundable cash lender fees received was \$5.9 million (2015 – \$4.3 million) or a weighted average lender fee of 1.1% (2015 – 1.2%).
- Net interest income was \$61.4 million (2015 – \$43.0 million), an increase of \$18.4 million or 42.8%, from 2015. The increase is mainly attributable to the Amalgamation as Q4 2016 is the second full quarter in operations after the Amalgamation.
- The Company generated income from operations of \$51.2 million (2015 – \$32.8 million), an increase of \$18 million or 56.4%, from 2015. The increase is mainly attributable to the Amalgamation as Q4 2016 is the second full quarter in operations after the Amalgamation.
- The Company generated total net income and comprehensive income of \$46.0 million (2015 – \$28.0 million) or basic and diluted earnings per share of \$0.80 in 2016 (2015 – \$0.69, basic and diluted). The adjusted earnings per share for 2016 was \$0.70 (2015 – \$0.69), which removes the net impact of \$6.1 million resulting from bargain purchase gain, termination of management contracts and transaction costs associated for the 2016 total net income and comprehensive income. The Company declared \$39.9 million in dividends (2015 – \$29.3 million) to common shareholders resulting in a payout ratio of 86.7% (2015 – 104.4%) on an earnings per share basis. Total dividends to common shareholders has increased as a direct result of the Amalgamation.

- During 2016, the Company generated distributable income of \$42.6 million (2015 – \$29.5 million) resulting in a payout ratio of 93.5% (2015 – 99.2%) on a distributable income basis.
- The Company recorded \$1,075 of unrealized fair value loss on two of its FPHFS located in Saskatchewan and British Columbia (2015 – \$524 in Quebec and Saskatchewan).
- On July 29, 2016, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40 million. The unsecured convertible debentures will mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31 at a rate of 5.40% per annum. On August 3, 2016, the underwriters exercised the over-allotment option for an additional \$5.8 million.
- Commencing June 30, 2016, the Company has instituted a non-executive director deferred share unit plan (the “Plan”) whereby up to 100% of the compensation for a director may be paid to the director in the form of deferred share units (“DSUs”), payable quarterly in arrears. The independent directors have elected to receive 100% of their director’s fees in DSU or \$37 in DSUs. This Plan will create better alignment with shareholders of the Company.
- On July 14, 2016, the Company implemented a dividend reinvestment plan (“DRIP”). The DRIP provides eligible beneficial and registered holders of common shares of the Company to reinvest cash dividends in additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|----------------|----------------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Total net income and comprehensive income | \$ 13,078 | \$ 6,905 | \$ 45,999 | \$ 28,021 |
| Less: amortization of lender fees | (1,814) | (1,076) | (5,720) | (4,966) |
| Add: lender fees received | 1,543 | 950 | 5,905 | 4,280 |
| Add: amortization of financing costs, credit facility | 280 | 57 | 775 | 221 |
| Add: amortization of financing costs, debentures | 214 | (10) | 566 | 277 |
| Add: accretion expense, debentures | 41 | 29 | 135 | 113 |
| Add: net operating (gain) loss from FPHFS | (3) | 28 | (23) | 114 |
| Add: unrealized fair value adjustments on FPHFS | 500 | 374 | 1,075 | 524 |
| Add: foreign exchange (gain) loss | (18) | - | (17) | - |
| Add: provision for mortgage investments loss | - | - | - | 900 |
| Add: termination of management contracts | - | - | 7,438 | - |
| Add: transaction costs relating to the Amalgamation | 84 | - | 1,657 | - |
| Less: bargain purchase gain | - | - | (15,154) | - |
| Distributable income¹ | 13,905 | 7,256 | 42,635 | 29,484 |
| Less: dividends on common shares | (12,630) | (7,296) | (39,895) | (29,253) |
| Under (over) distribution | \$ 1,275 | \$ (40) | \$ 2,740 | \$ 231 |
| Distributable income per share | \$ 0.19 | \$ 0.18 | \$ 0.74 | \$ 0.73 |

1 Refer to non-IFRS measures section, where applicable.

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

STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

| | Three months ended December 31, | | % Change | Year ended December 31, | | % Change |
|---|------------------------------------|-----------------|--------------|----------------------------|------------------|--------------|
| | 2016 | 2015 | | 2016 | 2015 | |
| Net interest income ¹ | \$ 20,583 | \$ 10,814 | 90.3% | \$ 61,422 | \$ 43,003 | 42.8% |
| Expenses | (2,643) | (2,387) | (10.7%) | (10,191) | (10,253) | 0.6% |
| Income from operations ¹ | 17,940 | 8,427 | 112.9% | 51,232 | 32,750 | 56.4% |
| Net operating gain (loss) from FPHFS | 3 | (28) | 110.7% | 23 | (114) | 120.2% |
| Unrealized fair value adjustment of FPHFS | (500) | (374) | (33.7%) | (1,075) | (524) | (105.2%) |
| Termination of management contracts | 0 | 0 | – | (7,438) | – | (100.00%) |
| Transaction costs relating to the Amalgamation | (84) | 0 | (100.0%) | (1,657) | – | (100.00%) |
| Bargain purchase gain | 0 | 0 | – | 15,154 | – | 100.00% |
| Financing costs: | | | | | | |
| Interest on credit facility | (2,833) | (554) | (411.4%) | (6,281) | (1,520) | (313.2%) |
| Interest on convertible debentures | (1,448) | (566) | (155.8%) | (3,958) | (2,571) | (53.9%) |
| Total net income and comprehensive income (basic and diluted) | \$ 13,078 | \$ 6,905 | 89.4% | \$ 45,999 | \$ 28,021 | 64.2% |
| Adjusted total net income and comprehensive income (basic and diluted)¹ | \$ 13,162 | \$ 6,905 | 90.6% | \$ 39,940 | \$ 28,021 | 42.5% |
| Earnings per share (basic and diluted) | \$ 0.18 | \$ 0.17 | | \$ 0.80 | \$ 0.69 | |
| Adjusted earnings per share (basic and diluted)¹ | \$ 0.18 | \$ 0.17 | | \$ 0.70 | \$ 0.69 | |

1 Refer to non-IFRS measures section, where applicable.

Net interest income²

For Q4 2016 and 2016, the Company earned net interest income of \$20.6 million and \$61.4 million (Q4 2015 – \$10.8 million; 2015 – \$43.0 million). Net interest income includes the following:

(a) Interest income

During Q4 2016 and 2016, the Company earned \$18.7 million and \$55.5 million (Q4 2015 – \$9.7 million; 2015 – \$37.9 million) in interest income on the net mortgage investments. For Q4 2016 and 2016, the increase is mainly partially attributable to the Amalgamation, as Q4 2016 is the second full quarter in operations after the Amalgamation, offset by a decrease in the weighted average interest rate to 7.4% and 7.9% (Q4 2015 and 2015 – 8.9% and 9.1%) which is in-line with management's expectations.

(b) Lender fee income

During Q4 2016 and 2016, the Company received non-refundable cash lender fees of \$1.5 million and \$5.9 million (Q4 2015 – \$0.9 million; 2015 – \$4.3 million), or a weighted average lender fee of 0.8% and 1.1%, respectively (Q4 2015 – 1.4%; 2015 – 1.2%). Lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income but are received upfront. For Q4 2016 and 2016, lender fees of \$1.5 million and \$5.9 million (Q4 2015 – \$1.1 million; 2015 – \$5.0 million) were amortized to lender fee income. Lender fees continue to be a significant component of income as a result of mortgage investment turnover. The Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders.

Expenses

For Q4 2016 and 2016, the expense ratio was 1.0% (Q4 2015 – 2.1%; 2015 – 2.0%), including a fixed expense ratio of 1.0% and 0.9% (Q4 2015 – 1.6%; 2015 – 1.5%). The decrease in expense ratio is mainly driven by higher total assets base in 2016 compared to 2015. Concurrent with the Amalgamation, the Company has entered into a new management agreement with the Manager, which has reduced management fees from 1.20% to 0.85% and included a removal of performance fees. As a result, the Company expects to see a lower expense ratio going forward from 2015 levels.

² 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. Refer to non-IFRS measures.

Management fees

(a) Management fees

Concurrently with the Amalgamation, the Company and the Manager entered into a new management agreement. The new management fee is equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross Assets is defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties.

The previous management agreement between TMIC and the Manager was terminated on the Effective Date and the old management fee was 1.20% per annum of the gross assets of TMIC, plus applicable taxes.

For Q4 2016 and 2016, the Company incurred management fees of \$2.5 million and \$7.9 million (Q4 2015 – \$1.6 million; 2015 – \$6.0 million). The increase is directly related to the increase in gross assets averaging \$703.9 million in 2016, compared to \$444.2 million in 2015.

Servicing and performance fees

(a) Servicing fees

As part of the new management agreement, the Manager is entitled to a servicing fee equal to 0.10% per annum, plus applicable taxes, of the amount of any senior tranche of a mortgage asset that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion.

For Q4 2016 and 2016, the Company incurred \$0.2 and \$0.3 million in servicing fees.

(b) Performance fees

Under the management agreement prior to the Amalgamation, the Manager was entitled to a performance fee from TMIC equal to 20%, plus applicable taxes, of the 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. Under the new management agreement, the Manager does not receive any performance fees.

Performance fees of \$1.2 million were accrued up to June 29, 2016, prior to the Amalgamation and were paid to the Manager upon termination of the management agreement in August 2016. During Q4 2015 and 2015, the Company incurred performance fees of \$0.6 million and \$2.4 million.

As consideration for the termination of the performance fee and the reduction in management fees from 1.2% to 0.85% under the new management agreement, TMIC issued a one-time payment to the Manager in the form of 782,830 TMIC shares and \$0.9 million for the related HST portion in cash.

General and administrative

For Q4 2016 and 2016, the Company incurred general and administrative expenses of \$218 and \$758 (Q4 2015 – \$228 ; 2015 – \$967) offset by a one-time adjustment of provincial tax recovery from the Canada Revenue Agency of \$240 during Q4 2016 and 2016. General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage investments portfolio.

Net operating gain (loss) from foreclosed properties held for sale

The Company consolidates the operating activities of the FPHFS. The net operating gain from FPHFS for Q4 2016 and 2016 was \$3 and \$23 (Q4 2015 – loss of \$28; 2015 – loss of \$114).

Fair value adjustment on foreclosed properties held for sale

During Q4 2016 and 2016, the Company recorded an unrealized fair value loss of \$500 and \$1,075 (Q4 2015 – \$374; 2015 – \$524), respectively on FPHFS.

Interest on credit facility

The Company actively monitors its advances and repayments while efficiently using bankers' acceptances for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q4 2016 and 2016 relating to the credit facility were \$2.8 million and \$6.3 million (Q4 2015 – \$0.6 million; 2015 – \$1.5 million). The increase over the comparable 2015 periods is directly related to the increase in credit facility utilization in 2016. During Q4 2016 and 2016, the average credit utilization, including credit facility balance assumed as part of the Amalgamation, was \$307.4 million and \$156.9 million compared to \$51.4 million \$30.9 million during Q4 2015 and 2015.

In connection with the Amalgamation, the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility. The interest rates incurred on the new credit facility have decreased from TMIC's previous credit facility. Interest rates have been lowered to either the prime rate of interest plus 1.25% per annum (December 31, 2015 – 1.50%) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2015 – 2.50%).

Interest on convertible debentures

The Company has \$34.5 million of 6.35% convertible unsecured subordinated debentures outstanding as at September 30, 2016. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method.

On July 29, 2016, the Company issued an unsecured convertible debenture bearing interest at a fixed rate of 5.4% for gross proceeds of \$40 million. The unsecured convertible debentures will mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31. On August 3, 2016, an additional \$5.8 million of the debentures were issued from an over-allotment option.

For 2016, interest on the debentures of \$1.4 million and \$4.0 million (Q4 2015 – \$0.6 million; 2015 – \$2.6 million), is made up of the following:

| | Three months ended December 31, | | Year ended December 31, | |
|---|------------------------------------|--------|----------------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Interest on the convertible debentures | \$ 1,193 | \$ 548 | \$ 3,257 | \$ 2,181 |
| Amortization of issue costs | 214 | (10) | 566 | 277 |
| Accretion of the convertible debentures | 41 | 29 | 135 | 113 |
| | \$ 1,448 | \$ 567 | \$ 3,958 | \$ 2,571 |

Earnings per share

For Q4 2016 and 2016, basic and diluted earnings per share were \$0.18 and \$0.80 (Q4 2015– \$0.17; 2015 – \$0.69) and the adjusted basic and diluted earning per share were \$0.18 and \$0.70 (Q4 2015 – \$0.17; 2015 – \$0.69) after removing the effects of one-time amounts for the Amalgamation which includes termination of management contracts, transaction costs and bargain purchase gain.

Statements of Financial Position

On the Effective Date, all of TSMIC's mortgage investments were amalgamated with the mortgage investments of the Company. Of the 62 TSMIC mortgage investments, 56 of the mortgage investments had been co-invested with the Company prior to Amalgamation

Net mortgage investments

The balance of net mortgage investments is as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---------------------|-------------------|
| Mortgage investments, including mortgage syndications | \$ 1,559,677 | \$ 750,703 |
| Mortgage syndication liabilities | (543,505) | (310,049) |
| | 1,016,172 | 440,654 |
| Interest receivable | (14,159) | (6,534) |
| Unamortized lender fees | 6,856 | 4,204 |
| Allowance for mortgage investments loss | 1,150 | 1,150 |
| Net mortgage investments | \$ 1,010,019 | \$ 439,474 |

| | Three months ended | | Year ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Net mortgage investments statistics and ratios¹ | | | | |
| Total number of net mortgage investments | 123 | 100 | 123 | 100 |
| Average net mortgage investment | \$ 8,212 | \$ 4,395 | \$ 8,212 | \$ 4,395 |
| Average net mortgage investment portfolio | \$ 1,016,152 | \$ 435,374 | \$ 701,659 | \$ 415,840 |
| Weighted average interest rate for the period | 7.4% | 8.9% | 7.9% | 9.1% |
| Weighted average lender fees | 0.8% | 1.4% | 1.1% | 1.2% |
| Turnover ratio | 12.2% | 21.1% | 48.9% | 69.2% |
| Weighted average term (years) | 2.3 | 2.1 | 2.3 | 2.1 |
| Remaining term to maturity (years) | 1.3 | 1.2 | 1.3 | 1.2 |
| Net mortgage investments secured by cash-flowing properties | 85.8% | 87.2% | 85.8% | 87.2% |
| Weighted average loan-to-value | 65.7% | 70.4% | 65.7% | 70.4% |

1. Refer to non-IFRS measures section, where applicable.

Portfolio allocation

The Company's net mortgage investments, excluding FP HFS, were allocated across the following categories:

(a) Security Position

| | December 31, 2016 | | December 31, 2015 | |
|---------------------|----------------------|----------------------|----------------------|----------------------|
| | # of Net Investments | % of Net Investments | # of Net Investments | % of Net Investments |
| First mortgages | 102 | 83.3% | 82 | 78.0% |
| Non-first mortgages | 21 | 16.7% | 18 | 22.0% |
| | 123 | 100.0% | 100 | 100.0% |

(b) Region

| | December 31, 2016 | | December 31, 2015 | |
|----|----------------------|----------------------|----------------------|----------------------|
| | # of Net Investments | % of Net Investments | # of Net Investments | % of Net Investments |
| ON | 60 | 53.4% | 36 | 35.1% |
| QC | 21 | 12.7% | 22 | 19.9% |
| BC | 13 | 12.2% | 12 | 9.4% |
| AB | 9 | 8.2% | 7 | 5.7% |
| SK | 10 | 6.8% | 9 | 15.3% |
| OT | 4 | 4.2% | 4 | 9.5% |
| NS | 2 | 2.1% | 2 | 0.9% |
| MB | 4 | 0.4% | 8 | 4.2% |
| | 123 | 100.0% | 100 | 100.0% |

(c) Maturity

| | December 31, 2016 | | December 31, 2015 | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | # of Net Investments | % of Net Investments | # of Net Investments | % of Net Investments |
| Maturing 2016 | – | – | 41 | 45.4% |
| Maturing 2017 | 63 | 47.1% | 49 | 35.8% |
| Maturing 2018 | 38 | 31.9% | 10 | 18.8% |
| Maturing 2019 | 17 | 15.1% | – | – |
| Maturing 2020 | 2 | 2.9% | – | – |
| Maturing 2021 and thereafter | 3 | 3.0% | – | – |
| | 123 | 100.0% | 100 | 100.0% |

(d) Asset Type

| | December 31, 2016 | | December 31, 2015 | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | # of Net Investments | % of Net Investments | # of Net Investments | % of Net Investments |
| Multi-residential | 70 | 48.8% | 59 | 60.7% |
| Retail | 13 | 15.8% | 12 | 17.9% |
| Hotels | 5 | 8.7% | 2 | 1.3% |
| Retirement | 5 | 7.8% | 5 | 2.2% |
| Office | 7 | 5.7% | 8 | 8.9% |
| Unimproved land | 9 | 5.6% | 6 | 5.7% |
| Other-residential | 3 | 3.3% | 3 | 0.7% |
| Industrial | 7 | 2.4% | 3 | 0.9% |
| Other | 1 | 1.0% | – | – |
| Self-storage | 1 | 0.6% | 1 | 0.8% |
| Single-family residential | 2 | 0.3% | 1 | 0.9% |
| | 123 | 100.0% | 100 | 100.0% |

Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position. 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. The Company has mortgage syndication liabilities of \$545.5 million (December 31, 2015 – \$310.0 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time, and not necessarily indicative of a future trend.

Foreclosed properties held for sale

The fair value of the remaining FPHFS as at December 31, 2016 is \$11.0 million (December 31, 2015 – \$12.8 million). The Company has engaged third party managers to operate the properties while they are held for sale.

During 2016, the Company sold five residential units (2015 – three) from one of the foreclosed properties for net proceeds of \$0.7 million (2015 – \$0.6 million). During 2016, the Company recorded an unrealized fair value loss of \$1.1 million on two (2015 – two) foreclosed properties (2015 – \$0.5 million).

Allowance for mortgage investments loss

As at December 31, 2016, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. No additional collective impairment was recognized during 2016 (2015 – nil).

As at December 31, 2016, the Company has a specific impairment allowance of \$0.9 million (December 31, 2015 – \$0.9 million) and a collective impairment allowance of \$0.25 million (December 31, 2015 – \$0.25 million). During the year ended December 31, 2015, the Company had recognized a specific impairment allowance of \$0.9 million relating to one impaired mortgage investment, which represented the outstanding principal and accrued interest as at December 31, 2015.

During the year ended December 31, 2016, the borrower of a first mortgage investment of \$27.6 million (December 31, 2015 – \$47.9 million) located in Saskatchewan filed for protection under the Companies' Creditor Arrangement Act in order to stay all creditors and prepare a plan of arrangement. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

Subsequent to December 31, 2016, the Company filed for receivership against a borrower of a first mortgage investment of \$3.4 million (December 31, 2015 - \$0.5 million) located in Ontario. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

Net working capital

Net working capital increased by \$7.6 million to \$9.4 million at December 31, 2016 from \$1.8 million at December 31, 2015. The increase is mainly due to the increase in interest receivable as a result of the Amalgamation.

Credit facility

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement effective June 30, 2016 and will mature in May 2018. The new credit facility has an available credit limit of \$350.0 million (December 31, 2015 - \$60.0 million) with interest at either the prime rate of interest plus 1.25% per annum (December 31, 2015 - prime rate of interest plus 1.50% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2015 - 2.50%). The new credit facility has a standby fee of 0.5625% per annum (December 31, 2015 - 0.55%) on the unutilized credit facility balance. The credit facility is secured by a general security agreement over the Company's assets and its subsidiaries. The credit facility also includes an accordion feature that allows the available limit to be increased by up to a further \$50.0 million, subject to certain conditions. As at December 31, 2016, the Company's qualified credit facility limit is \$321.5 million and is subject to a borrowing base as defined in the new amended and restated credit agreement.

The Company incurred financing costs of \$2.1 million relating to the new credit facility, which includes upfront fees, amalgamation fees and legal costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For 2016, included in financing costs is interest on the credit facility of \$2.6 million and \$5.5 million (Q4 2015 - \$0.5 million; 2015 - \$1.3 million) and financing costs amortization of \$0.3 million and \$0.8 million (Q4 2015 - \$0.1 million; 2015 - \$0.2 million).

Convertible debentures

(a) Servicing fees

On February 25, 2014, TMIC completed a public offering of \$30.0 million, plus an over-allotment of \$4.5 million on March 3, 2014, of 6.35%, convertible unsecured subordinated debentures for net proceeds of \$32.5 million (the "2014 debentures"). The 2014 debentures mature on March 31, 2019 and pays interest semi-annually on March 31 and September 30 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.25 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures. The 2014 debentures are redeemable on and after March 31, 2017 and prior to the maturity date by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 2014 debentures in the aggregate principal amount of \$34.5 million.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$545, has been recorded as equity with the remainder allocated to long-term debt.

The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$34.5 million. The issue costs of \$1.9 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

(b) On July 29, 2016, the Company completed a public offering of \$40.0 million, plus an overallotment option of \$5.8 million on August 5, 2016, of 5.40%, convertible unsecured subordinated debentures for net proceeds of \$43.1 million (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pays interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

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

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45.8 million. The issue costs of \$2.3 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

Shareholders' equity

(a) Common shares

The Company is authorized to issue an unlimited number of common shares. The common shareholders 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 are entitled to receive dividends as and when declared by the Board of Directors.

As a result of the Amalgamation, 40,523,728 of the Company's common shares were issued to shareholders of TMIC at a ratio of one-to-one; and 32,551,941 of the Company's common shares were issued to shareholders of TSMIC at an exchange ratio of 1.035. The Company also issued 782,830 common shares to the Manager in connection with the termination of management contracts with TMIC. As a result, the number of common shares outstanding as at December 31, 2016, are 73,858,499.

(b) Dividends

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. For the year ended December 31, 2016, TF declared dividends of \$39.9 million, or \$0.702 per share, to the holders of TF common shares (2015 – \$29.3 million, \$0.720 per share). As at December 31, 2016, \$4.2 million in aggregate dividends (December 31, 2015 – \$2.4 million) was payable to the holders of common shares of TF by the Company. Subsequent to December 31, 2016, the Board of Directors of the Company declared dividends of \$0.057 per common share to be paid on February 15, 2017 to the common shareholders of record on January 31, 2017.

(c) Dividend reinvestment plan

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

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provides eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. During Q4 2016 and 2015, 116,428 and 382,306 common shares were purchased on the open market (Q4 2016 – 106,425; 2015 – 397,612).

(d) Normal course issuer bid

On January 4, 2016, TMIC received TSX approval to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,105,569 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced on January 6, 2016 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on January 5, 2017, or such earlier date as the Bid is complete. During 2016, the Company did not acquire any common shares for cancellation (2015 – 177,800 common shares at a cost of \$1.4 million). Pursuant to the Amalgamation, the Bid was terminated on the Effective Date.

(e) Non-executive director deferred share unit plan

Pursuant to the Amalgamation, on the Effective Date, the DSU plan for TMIC was terminated and the outstanding DSUs were settled by TMIC in accordance with the terms of the respective plans. As a result, TMIC's outstanding DSUs of 30,497 were cancelled and \$0.3 million was paid to the directors in July 2016.

Commencing July 1, 2016, the Company instituted a non-executive director deferred share unit plan, whereby a director can elect up to 100% of the compensation be paid in the form of DSUs, credited quarterly in arrears. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value of the DSU is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). The directors are entitled to also accumulate additional DSUs equal to the monthly cash dividends, on the DSUs already held by that director determined based on the Fair Market Value of the common shares on the dividend payment date.

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

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

For the year ended December 31, 2016, 6,114 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$54 based on a Fair Market Value of \$8.84 per common share. As at December 31, 2016, \$35 in quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2016 at the Fair Market Value.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for 2016 was \$41.4 million (2015 – \$30.9 million) which was attributable to the Amalgamation as well as an increase in mortgage investments as a result of the 2016 Debentures and the increased credit facility.

Cash from financing activities

Uses of cash from financing activities for 2016 consisted of the Company's net advances on the credit facility of \$65.1 million (2015 – \$44.7 million). The company received \$45.1 million from the issuance of convertible debentures after issue costs. The Company paid interest on the debentures and credit facility of \$11.8 million (2015 – \$3.7 million) and common share dividends of \$39.7 million (2015 – \$29.3 million). The Company did not repurchase any shares for cancellation under the normal course issuer bid of (2015 – \$1.4 million). The net cash provided by financing activities for 2016 was \$58.8 million (2015 – \$10.4 million).

Cash used in investing activities

Net cash used in investing activities in 2016 was \$100.3 million (2015 – \$41.6 million) and consisted of the funding of net mortgage investments of \$440.6 million (2015 – \$333.5 million), offset by the repayments of net mortgage investments of \$339.6 million respectively, (2015 – \$291.3 million), proceeds from disposal of FPHFS of \$720 for YTD 2016 (2015 – \$550) offset by capital improvement costs of FPHFS of \$60 during YTD 2015.

QUARTERLY FINANCIAL INFORMATION

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

| | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|--|------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net interest income ¹ | \$ 20,583 | \$ 19,119 | \$ 10,922 | \$ 10,798 | \$ 10,814 | \$ 10,161 | \$ 11,532 | \$ 10,496 |
| Expenses | (2,643) | (2,695) | (2,418) | (2,436) | (2,387) | (3,145) | (2,481) | (2,239) |
| Income from operations ¹ | 17,940 | 16,424 | 8,504 | 8,362 | 8,427 | 7,016 | 9,051 | 8,257 |
| Net operating gain (loss) from FPHFS | 3 | 53 | (39) | 5 | (28) | 25 | (30) | (82) |
| Fair value adjustment of FPHFS | (500) | (575) | – | – | (374) | – | (150) | – |
| Non-recurring transaction costs relating to the Amalgamation | (84) | – | 6,143 | – | – | – | – | – |
| Financing costs: | | | | | | | | |
| Interest on credit facility | (2,833) | (2,321) | (600) | (527) | (554) | (208) | (477) | (281) |
| Interest on convertible debentures | (1,448) | (1,178) | (667) | (664) | (566) | (673) | (672) | (660) |
| Total financing costs | (4,281) | (3,499) | (1,267) | (1,191) | (1,120) | (881) | (1,149) | (941) |
| Total net income and comprehensive income (basic) | \$ 13,078 | \$ 12,403 | \$ 13,341 | \$ 7,176 | \$ 6,905 | \$ 6,160 | \$ 7,722 | \$ 7,234 |
| Total net income and comprehensive income (diluted)¹ | \$ 14,526 | \$ 13,581 | \$ 14,008 | \$ 7,841 | \$ 7,471 | \$ 6,833 | \$ 8,394 | \$ 7,894 |
| Earnings per share (basic) | \$ 0.18 | \$ 0.17 | \$ 0.33 | \$ 0.18 | \$ 0.17 | \$ 0.15 | \$ 0.19 | \$ 0.18 |
| Earnings per share (diluted) | \$ 0.18 | \$ 0.17 | \$ 0.32 | \$ 0.18 | \$ 0.17 | \$ 0.15 | \$ 0.19 | \$ 0.18 |
| Adjusted earnings per share (basic and diluted)¹ | \$ 0.18 | \$ 0.17 | \$ 0.18 | \$ 0.18 | \$ 0.17 | \$ 0.15 | \$ 0.19 | \$ 0.18 |

¹ Refer to non-IFRS measures section, where applicable.

The variations in total net income and comprehensive income by quarter are mainly attributed to the following:

- (i) In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;
- (ii) Within expenses, the Company accrues the performance fee payable to the Manager. Given that the performance fee is adjusted for cash items, the volatility of cash receipts in the year (mainly relating to lender fees) will typically have an impact on the amount expensed in any quarter;
- (iii) In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and provision for mortgage investment loan resulting in fluctuations in quarterly total net income and comprehensive income;
- (iv) The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs; and
- (v) Q2 2016 and Q4 2016 includes one-time amounts relating to the Amalgamation which includes termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain.

RELATED PARTY TRANSACTIONS

As at December 31, 2016, Due to Manager mainly includes management and servicing fees payable of \$819. As at December 31, 2015, Due to Manager included \$2.4 million management and performance fees payable.

As at December 31, 2016, included in other assets is \$0.8 million (December 31, 2015 – \$2.2 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

As at December 31, 2016, the Company has four mortgage investments, which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage with a total gross commitment of \$84.1 million (December 31, 2015 – nil). The Company's share of the commitment is \$29.1 million (December 31, 2015 – nil), of which \$7.3 million (December 31, 2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of \$15.6 million (December 31, 2015 – nil). The Company's share of the commitment is \$6.0 million (December 31, 2015 – nil), of which \$3.6 million (December 31, 2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of \$6.0 million (December 31, 2015 – nil), where one independent director of the Company is an officer of an indirect investor in the borrower. The Company's share of the commitment is \$5.1 million (December 31, 2015 – nil), of which \$2.0 million (December 31, 2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2015 – nil). The Company's share of the commitment is \$1.9 million (December 31, 2015 – nil), of which \$1.9 million (December 31, 2015 – nil) has been funded as at December 31, 2016.

As at December 31, 2016, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in ten gross mortgage investments totaling \$254.9 million (December 31, 2015 – \$702.6 million). As at December 31, 2016, the Company's share in these gross mortgage investments is \$109.5 million (December 31, 2015 – \$286.3 million). Included in these amounts are two (December 31, 2015 – one) net mortgage investments of \$17.7 million (December 31, 2015 – \$1.3 million) loaned to a limited partnership in which T4Q is invested.

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

COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgage investments 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

In the preparation of the 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 the 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 investments

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: (i) payment default by a borrower; (ii) whether security of the mortgage negatively impacted by some event; and (iii) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local

real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

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

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.

Information about the assumptions made in measuring fair value is included in notes 5, 6 and 18 to the consolidated financial statements for the year ended December 31, 2016.

Convertible debentures

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

Business Combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 4 of the consolidated financial statements for the year ended December 31, 2016, which was accounted for in accordance with IFRS 3 – Business Combinations ("IFRS 3"). The Manager considered the guidance in IFRS 3 in determining which entity is considered the "acquirer" based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective in future periods and have not been applied in preparing these 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) Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

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

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

The amendments provide requirements on the accounting for:

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

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

(iii) **IFRS 9, Financial Instruments (“IFRS 9”)**

On July 24, 2014, the IASB issued IFRS 9 (2014). IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions with early adoption permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(iv) **IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)**

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

(v) **Disclosure Initiative (Amendments to IAS 7)**

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

OUTSTANDING SHARE DATA

As at February 27, 2017, the Company’s authorized capital consists of an unlimited number of common shares, of which 73,895,518 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 believes that the conservative amount of structural leverage gained from the debentures and credit facility is accretive to net earnings, appropriate for the risk profile of the business. The Company anticipates meeting all of its contractual liabilities (described below) using its mix of capital structure and cash flow from operating activities.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA 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 and the credit facility. The Company has a borrowing ability of \$350 million through its credit facility and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at December 31, 2016, the Company is in compliance with its credit facility covenants and expects to remain in compliance going forward.

The Company routinely forecasts cash flow sources and requirements, including unadvanced commitments, to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities as at December 31, 2016, including expected interest payments:

| | Carrying Values | Contractual cash flows | Within a year | Following year | 3-5 years |
|--|--------------------|---------------------------|-------------------|-------------------|------------------|
| Accounts payable and accrued expenses | \$ 2,188 | \$ 2,188 | \$ 2,188 | \$ – | \$ – |
| Dividends payable | 4,210 | 4,210 | 4,210 | – | – |
| Due to Manager | 819 | 819 | 819 | – | – |
| Mortgage funding holdbacks | 137 | 137 | 137 | – | – |
| Prepaid mortgage interest | 682 | 682 | 682 | – | – |
| Credit facility ¹ | 299,000 | 317,365 | 11,873 | 305,492 | – |
| Convertible debentures ² | 76,757 | 87,237 | 37,521 | 2,473 | 47,243 |
| Total liabilities | \$ 383,793 | \$ 412,638 | \$ 57,430 | \$ 307,965 | \$ 47,243 |
| Unadvanced gross mortgage commitments ³ | – | 164,607 | 164,607 | – | – |
| Total contractual liabilities | \$ 383,793 | \$ 577,245 | \$ 222,037 | \$ 307,965 | \$ 47,243 |

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

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

3 Unadvanced mortgage commitments include syndication commitments from third party investors totaling \$82.3 million.

In connection with the Amalgamation, the Company increased its credit facility to \$350 million (December 31, 2015 – \$60.0 million). As at December 31, 2016, the Company had a cash position of \$61 (December 31, 2015 – \$0.1 million) and an unutilized credit facility of \$49.0 million (December 31, 2015 – \$6.2 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments, \$82.3 million (December 31, 2015 – \$75.3 million) is related to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

FINANCIAL INSTRUMENTS

Financial assets

The Company's cash and cash equivalents, other assets and mortgage investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of cash and cash equivalents and other assets approximate their carrying amounts due to their short-term nature. The fair value of mortgage investments, including mortgage syndications, approximate their carrying value given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of convertible debentures and mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. The fair value of the convertible debentures is based on the market trading price of convertible debentures at the reporting date.

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 investments at rates consistent with rates historically achieved, not having adequate mortgage investment opportunities presented to us, and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

(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, 2016, \$132.7 million of net mortgage investments bear interest at variable rates. Of these, \$122.2 million of net mortgage investments include a "floor rate" to protect their negative exposure or a "ceiling rate", while two mortgage investments totalling \$10.5 million bear interest at a variable rate without a "floor rate". If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$53. 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 \$664. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

In addition, the Company is exposed to interest rate risk on the credit facility, which has a balance of \$300.6 million as at December 31, 2016. Based on the outstanding credit facility balance as at December 31, 2016, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1,503 annually.

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

(b) 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) ensuring all new mortgage investments are approved by the investment committee before funding; and
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at December 31, 2016 is the carrying values of its net mortgage investments, in addition to interest receivable recorded within other assets of \$951 (December 31, 2015 – \$343), amounting to \$1,025.1 million (December 31, 2015 – \$446 million). The Company has recourse under these mortgage investments in the event of default by the borrower, in which case the Company would have a claim against the underlying collateral.

(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 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. For a discussion of the Company's liquidity, cash flow from operations and mitigation of liquidity risk, see the "Capital Structure and Liquidity" section in this MD&A.

For a full discussion of the risks and uncertainties affecting the Company, please also refer to the "Risk Factors" section of our AIF for the Year.

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company evaluated, or caused to be evaluated under their direct supervision, the design of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) at December 31, 2016 and, based on that evaluation, have concluded that the design of such disclosure controls and procedures was appropriate.

The Manager is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design of the Company's internal controls over financial reporting as at December 31, 2016 in accordance with the COSO Internal Control – Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment they determined that the design of the Company's internal controls over financial reporting was appropriate.

There were no changes made in our design of internal controls over financial reporting during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

ADDITIONAL INFORMATION

Phone

Carrie Morris, Managing Director Capital Markets & Corporate Communications at 1-844-304-9967

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 923-9967 ext. 7266 (collect if long distance).

Internet

Visit SEDAR at www.sedar.com; or the Company's website at www.timbercreekfinancial.com

Mail

Write to the Company at:

Timbercreek Financial
Attention: Corporate Communications
25 Price Street
Toronto, Ontario M4W 1Z1

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Financial Corp.

We have audited the accompanying consolidated financial statements of Timbercreek Financial Corp. (the "Company") formerly Timbercreek Mortgage Investment Corporation, which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of net income and comprehensive income, changes in shareholders' equity 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, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

February 27, 2017
Toronto, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Canadian dollars

| | Note | December 31, 2016 | December 31, 2015 |
|---|-----------------|---------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | | \$ 61 | \$ 140 |
| Other assets | 14(b) | 3,191 | 3,054 |
| Mortgage investments, including mortgage syndications | 5 | 1,559,677 | 750,704 |
| Foreclosed properties held for sale | 6 | 11,041 | 12,836 |
| Total assets | | \$ 1,573,970 | \$ 766,734 |
| LIABILITIES AND EQUITY | | | |
| Accounts payable and accrued expenses | | \$ 2,188 | \$ 1,104 |
| Dividends payable | 9(b) | 4,210 | 2,431 |
| Due to Manager | 14(a) | 819 | 2,426 |
| Mortgage funding holdbacks | | 137 | 822 |
| Prepaid mortgage interest | | 682 | 1,170 |
| Credit facility | 7 | 299,000 | 53,625 |
| Convertible debentures | 8 | 76,757 | 32,778 |
| Mortgage syndication liabilities | 5 | 543,505 | 310,049 |
| Total liabilities | | 927,298 | 404,405 |
| Shareholders' equity | | 646,672 | 362,329 |
| Total liabilities and equity | | \$ 1,573,970 | \$ 766,734 |
| Commitments and contingencies | 5, 9(b) and 20 | | |
| Subsequent events | 9(b), 10 and 21 | | |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per share amounts

| | | Years Ended December 31, | |
|--|-------------|---------------------------------|------------------|
| | Note | 2016 | 2015 |
| Interest income: | | | |
| Interest, including mortgage syndications | | \$ 76,120 | \$ 49,292 |
| Fees and other income, including mortgage syndications | | 6,882 | 5,901 |
| Gross interest income | | 83,002 | 55,193 |
| Interest and fees expense on mortgage syndications | | (21,580) | (12,190) |
| Net interest income | | 61,422 | 43,003 |
| Expenses: | | | |
| Management fees | 11 | 7,926 | 5,956 |
| Servicing fees | 11 | 300 | – |
| Performance fees | 11 | 1,207 | 2,430 |
| Provision for mortgage investment loss | 5(c) | – | 900 |
| General and administrative | | 758 | 967 |
| Total expenses | | 10,191 | 10,253 |
| Income from operations | | 51,231 | 32,750 |
| Net operating gain (loss) from foreclosed properties held for sale | | 23 | (114) |
| Fair value adjustment on foreclosed properties held for sale | 6 | (1,075) | (524) |
| Termination of management contracts | 4 | (7,438) | – |
| Transaction costs relating to the Amalgamation | 4 | (1,657) | – |
| Bargain purchase gain | 4 | 15,154 | – |
| Financing costs: | | | |
| Interest on credit facility | 7 | 6,281 | 1,520 |
| Interest on convertible debentures | 8 | 3,958 | 2,571 |
| Total financing costs | | 10,238 | 4,091 |
| Total net income and comprehensive income | | \$ 45,999 | \$ 28,021 |
| Earnings per share | | | |
| Basic and diluted | 12 | \$ 0.80 | \$ 0.69 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

| Year Ended December 31, 2016 | | Common Shares | Retained Earnings | Equity Component of Convertible Debentures | Total |
|--|-------------|--------------------------------|------------------------------------|---|-------------------|
| | Note | | | | |
| Balance, December 31, 2015 | | \$ 369,162 | \$ (7,378) | \$ 545 | \$ 362,329 |
| Issuance of convertible debentures | | – | – | 226 | 226 |
| Common shares issued as part of the acquisition of TSMIC | 4 | 271,483 | – | – | 271,483 |
| Common shares issued to the Manager | 4 | 6,528 | – | – | 6,528 |
| Dividends | | – | (39,893) | – | (39,893) |
| Issuance of common shares under dividend reinvestment plan | | 3,156 | – | – | 3,156 |
| Repurchase of common shares under dividend reinvestment plan | | (3,156) | – | – | (3,156) |
| Total net income and comprehensive income | | – | 45,999 | – | 45,999 |
| Balance, December 31, 2016 | | \$ 647,173 | \$ (1,272) | \$ 771 | \$ 646,672 |

| Year Ended December 31, 2015 | | Common Shares | Retained Earnings | Equity Component of Convertible Debentures | Total |
|--|--|--------------------------------|------------------------------------|---|-------------------|
| | | | | | |
| Balance, December 31, 2014 | | \$ 370,547 | \$ (6,146) | \$ 545 | \$ 364,946 |
| Dividends | | – | (29,253) | – | (29,253) |
| Issuance of common shares under dividend reinvestment plan | | 3,161 | – | – | 3,161 |
| Repurchase of common shares under dividend reinvestment plan | | (3,161) | – | – | (3,161) |
| Repurchase of common shares under dividend reinvestment plan | | (1,385) | – | – | (1,385) |
| Total net income and comprehensive income | | – | 28,021 | – | 28,021 |
| Balance, December 31, 2015 | | \$ 369,162 | \$ (7,378) | \$ 545 | \$ 362,329 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

Years ended December 31, 2016 and 2015

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

| | Note | Years Ended December 31, | |
|--|-----------|--------------------------|-----------------|
| | | 2016 | 2015 |
| OPERATING ACTIVITIES | | | |
| Total net income and comprehensive income | \$ | 45,999 | \$ 28,021 |
| Amortization of lender fees | | (5,720) | (4,966) |
| Lender fees received | | 5,905 | 4,280 |
| Interest income, net of syndications | | (55,488) | (37,917) |
| Interest income received, net of syndications | | 52,656 | 35,774 |
| Financing costs | | 10,245 | 4,091 |
| Provision for mortgage investments loss | | – | 900 |
| Fair value adjustment on foreclosed properties held for sale | | 1,075 | 524 |
| Termination of management contracts | | 6,528 | – |
| Bargain purchase gain | | (15,154) | – |
| Net change in non-cash operating items | 13 | (4,596) | 204 |
| | | 41,450 | 30,911 |
| FINANCING ACTIVITIES | | | |
| Common shares purchased for cancellation | | – | (1,385) |
| Net credit facility advances | | 65,118 | 44,737 |
| Net proceeds from issuance of convertible debentures | | 43,498 | – |
| Interest paid | | (10,167) | (3,680) |
| Dividends paid | | (39,688) | (29,263) |
| | | 58,761 | 10,409 |
| INVESTING ACTIVITIES | | | |
| Capital improvements to foreclosed properties held for sale | | – | (60) |
| Proceeds from disposition of foreclosed properties held for sale | | 720 | 550 |
| Funding of mortgage investments, net of mortgage syndications | | (440,650) | (333,478) |
| Discharges of mortgage investments, net of mortgage syndications | | 339,640 | 291,345 |
| | | (100,290) | (41,643) |
| Decrease in cash and cash equivalents | | (79) | (323) |
| Cash and cash equivalents, beginning of year | | 140 | 463 |
| Cash and cash equivalents, end of year | \$ | 61 | \$ 140 |

See accompanying notes to the consolidated financial statements.

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved by the Board of Directors on February 27, 2017.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund and Timbercreek Senior Mortgage Trust. The financial statements of the subsidiaries included in these consolidated financial statements are from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated upon consolidation.

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for foreclosed properties held for sale, which are measured at fair value on each reporting date.

(d) Critical accounting estimates, assumptions and judgments

In the preparation of these consolidated financial statements, Timbercreek Asset Management Inc. (the "Manager") has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these 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:

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 – Mortgage investments, including mortgage syndications;
Note 6 – Foreclosed properties held for sale; and
Note 18 – Fair value measurements.

Mortgage investments

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

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

Convertible debentures

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

Business Combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES

(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 investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage 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 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 materially. The Company considers evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage 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 is not yet identifiable at an individual mortgage level. Mortgage investments that are not individually significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

An impairment loss in respect of specific mortgage 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 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.

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

(c) Business Combinations

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

(d) 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 principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage 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 investment is discontinued from the date of transfer from mortgage investments to FPHFS. Net income or loss generated from FPHFS, if any, is recorded as net operating (gain) loss from FPHFS, while fair value adjustments on FPHFS are recorded separately.

(e) Convertible debentures

The convertible debentures are a compound financial instrument as they contain both a liability and an equity component.

At the date of issuance, the liability component of the convertible debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible debenture is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised at maturity. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(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 classified as 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.

(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 includes interest earned on the Company's mortgage investments and interest earned on cash and cash equivalents. Interest income earned on the mortgage investments is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgage investments and are amortized to profit and loss over the expected life of the specific mortgage 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) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective in future periods and have not been applied in preparing these 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) Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

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

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

The amendments provide requirements on the accounting for:

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

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

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

On July 24, 2014, the IASB issued IFRS 9. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their

contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions with early adoption permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

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

(v) Disclosure Initiative (Amendments to IAS 7)

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

4. ACQUISITION OF TSMIC

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

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

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

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

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

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility (note 7)
- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of \$7,438 (note 11) which was settled in cash of \$910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of \$1,207 accrued for the period prior to the Amalgamation was payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016. The new management agreement has a lower management fee, a servicing fee and does not have any annual performance fee
- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of, expenses such as, filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. As a result, TMIC's share of transaction costs relating to the Amalgamation was \$1,657

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

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

5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

| As at December 31, 2016 | Note | Gross mortgage investments | Mortgage syndication liabilities | Net |
|---|--------------|---|---|---------------------|
| Mortgage investments, including mortgage syndications | 5(a) and (b) | \$ 1,552,071 | \$ (542,052) | \$ 1,010,019 |
| Interest receivable | | 16,611 | (2,452) | 14,159 |
| | | 1,568,682 | (544,504) | 1,024,178 |
| Unamortized lender fees | | (7,855) | 999 | (6,856) |
| Allowance for mortgage investments loss | 5(c) | (1,150) | – | (1,150) |
| | | \$ 1,559,677 | \$ (543,505) | \$ 1,016,172 |

| As at December 31, 2015 | | Gross mortgage investments | Mortgage syndication liabilities | Net |
|---|--|---|---|-------------------|
| Mortgage investments, including mortgage syndications | | \$ 749,225 | \$ (309,751) | \$ 439,474 |
| Interest receivable | | 7,649 | (1,114) | 6,535 |
| | | 756,874 | (310,865) | 446,009 |
| Unamortized lender fees | | (5,020) | 816 | (4,204) |
| Allowance for mortgage investments loss | | (1,150) | – | (1,150) |
| | | \$ 750,704 | \$ (310,049) | \$ 440,655 |

As at December 31, 2016, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$164,607 (December 31, 2015 ("2015") – \$119,888) of which \$82,325 (2015 – \$75,274) belongs to the Company's syndicated partners.

(a) Net mortgage investments

| | % | December 31, 2016 | % | December 31, 2015 |
|---------------------------------|------------|--------------------------|------------|--------------------------|
| Interest in first mortgages | 83 | \$ 841,097 | 78 | \$ 342,573 |
| Interest in non-first mortgages | 17 | 168,922 | 22 | 96,901 |
| | 100 | \$ 1,010,019 | 100 | \$ 439,474 |

The mortgage investments are secured by real property and will mature between 2017 and 2022 (2015 – 2016 and 2018). The weighted average interest rate earned on net mortgage investments for the year ended December 31, 2016 was 7.9% (2015 – 9.1%).

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, 2016, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$5,905 (2015 – \$4,280), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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

| | |
|---------------------|---------------------|
| 2017 | \$ 475,496 |
| 2018 | 321,786 |
| 2019 | 152,979 |
| 2020 | 28,958 |
| 2021 and thereafter | 30,800 |
| Total | \$ 1,010,019 |

(b) Mortgage syndication liabilities

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

(c) Allowance for mortgage investments loss

As at December 31, 2016, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. No additional collective impairment was recognized during 2016 (2015 – nil).

As at December 31, 2016, the Company has a specific impairment allowance of \$900 (2015 – \$900) and a collective impairment allowance of \$250 (2015 – \$250). During the year ended December 31, 2015, the Company recognized a specific impairment allowance of \$900 relating to one impaired mortgage investment, which represented the outstanding principal and accrued interest as at December 31, 2015.

During the year ended December 31, 2016, the borrower of a first mortgage investment of \$27,644 (2015 – \$47,893) located in Saskatchewan filed for protection under the Companies' Creditor Arrangement Act in order to stay all creditors and prepare a plan of arrangement. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

Subsequent to December 31, 2016, the Company filed for receivership against a borrower of a first mortgage investment of \$3,363 (2015 - \$549) located in Ontario. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

6. FORECLOSED PROPERTIES HELD FOR SALE

As at December 31, 2016, there are three foreclosed properties held for sale ("FPHFS") (2015 – three) which are recorded at their fair value of \$11,041 (2015 – \$12,836). The fair value has been categorized as a level 3 fair value, based on inputs to the valuation techniques used based on internal fair value assessments.

During the year ended December 31, 2016, the Company sold five residential units (2015 – three) in one of the foreclosed properties for net proceeds of \$720 (2015 – \$550).

During the year ended December 31, 2016, the Company has recorded a fair market value adjustment of \$1,075 on two (2015 – two) of its FPHFS in Saskatchewan and British Columbia (2015 – \$524 in Quebec and Saskatchewan).

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

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

The changes in the FPHFS during the years ended December 31, 2016 and 2015 were as follows:

| | Years ended December 31, | |
|------------------------------|--------------------------|------------------|
| | 2016 | 2015 |
| Balance, beginning of year | \$ 12,836 | \$ 13,850 |
| Capital improvements | – | 60 |
| Fair market value adjustment | (1,075) | (524) |
| Disposition of FPHFS | (720) | (550) |
| Balance, end of year | \$ 11,041 | \$ 12,836 |

7. CREDIT FACILITY

| | December 31, 2016 | December 31, 2015 |
|------------------------------|-------------------|-------------------|
| Credit facility balance | \$ 300,580 | \$ 53,812 |
| Unamortized financing costs | (1,580) | (188) |
| Total credit facility | \$ 299,000 | \$ 53,625 |

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement, effective June 30, 2016, which will mature in May 2018. The Credit Facility is secured by a general security agreement over the Company's assets and its subsidiaries. The new credit facility has an available credit limit of \$350,000 (2015 – \$60,000) with interest at either the prime rate of interest plus 1.25% per annum (2015– prime rate of interest plus 1.50% per annum) or bankers' acceptances with a stamping fee of 2.25% (2015 – 2.50%). The new credit facility has a standby fee of 0.5625% per annum (2015 – 0.55%) on the unutilized credit facility balance.

The credit facility also includes an accordion feature that allows the available limit to be increased by up to a further \$50,000, subject to certain conditions. As at December 31, 2016, the Company's qualified credit facility limit is \$321,525 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

The Company incurred financing costs of \$2,137 relating to the new credit facility, which includes upfront fees, legal costs and other costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2016, included in financing costs is interest on the credit facility of \$5,506 (2015 – \$1,299) and financing costs amortization of \$775 (2015 – \$221).

8. CONVERTIBLE DEBENTURES

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

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

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

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

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

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

The debentures are comprised of as follows:

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Issued | \$ 80,300 | \$ 34,500 |
| Issue costs, net of amortization | (3,117) | (1,388) |
| Equity component | (814) | (577) |
| Issue costs attributed to equity component | 43 | 33 |
| Cumulative accretion | 345 | 210 |
| Debentures, end of year | \$ 76,757 | \$ 32,778 |

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

| | Years ended December 31, | |
|---|---------------------------------|-----------------|
| | 2016 | 2015 |
| Interest on the convertible debentures | \$ 3,257 | \$ 2,181 |
| Amortization of issue costs | 566 | 277 |
| Accretion of the convertible debentures | 135 | 113 |
| Total | \$ 3,958 | \$ 2,571 |

9. COMMON SHARES

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

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

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

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

| | | Years ended December 31, | |
|--|-------------|---------------------------------|-------------------|
| | Note | 2016 | 2015 |
| Balance, beginning of year | | 40,523,728 | 40,701,528 |
| Common shares issued as part of acquisition of TSMIC | 4 | 32,551,941 | - |
| Common shares issued to the Manager | 4 and 11 | 782,830 | - |
| Repurchased under normal course issuer bid | | - | (177,800) |
| Repurchased under dividend reinvestment plan | | (382,306) | (397,612) |
| Issued under dividend reinvestment plan | | 382,306 | 397,612 |
| Balance, end of year | | 73,858,499 | 40,523,728 |

(a) Dividend reinvestment plan

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

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which

will not be less than the book value per common share. For the year ended December 31, 2016, 382,306 common shares were purchased on the open market (2015 – 397,612).

(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. For the year ended December 31, 2016, TF declared dividends of \$39,895, or \$0.702 per share, to the holders of TF common shares (2015 – \$29,253, \$0.720 per share). As at December 31, 2016, \$4,210 in aggregate dividends (2015 – \$2,431) was payable to the holders of common shares of TF by the Company. Subsequent to December 31, 2016, the Board of Directors of the Company declared dividends of \$0.057 per common share to be paid on February 15, 2017 to the common shareholders of record on January 31, 2017.

(c) Normal course issuer bid

On January 4, 2016, TMIC received TSX approval to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,105,569 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced on January 6, 2016 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on January 5, 2017, or such earlier date as the Bid is complete. During 2016, the Company did not acquire any common shares for cancellation (2015 – 177,800 common shares at a cost of \$1,385). Pursuant to the Amalgamation, the Bid was terminated on the Effective Date.

10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

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

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

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

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

For the year ended December 31, 2016, 6,114 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$54 based on a Fair Market Value of \$8.84 per common share. As at December 31, 2016, \$35 quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2016 at the Fair Market Value.

11. MANAGEMENT AND PERFORMANCE FEES

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

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

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

For the year ended December 31, 2016, the Company incurred management fees of \$7,926 (2015 – \$5,956) and servicing fees of \$300 (2015 – nil).

12. EARNINGS PER SHARE

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

The following table shows the computation of per share amounts:

| | Year ended December 31, | |
|--|----------------------------|----------------|
| | 2016 | 2015 |
| Total net income and comprehensive income | \$ 45,999 | \$ 28,021 |
| Adjustment for dilutive effect of convertible debentures | 1,284 | 2,571 |
| Total net income and comprehensive income (diluted) | 47,283 | 30,592 |
| Weighted average number of common shares (basic) | 57,373,271 | 40,631,219 |
| Convertible debentures | 1,942,419 | 3,066,667 |
| Weighted average number of common shares (diluted) | 59,315,690 | 43,697,886 |
| Earnings per share – basic and diluted | \$ 0.80 | \$ 0.69 |

13. CHANGE IN NON-CASH OPERATING ITEMS

| | Year ended December 31, | |
|---------------------------------------|----------------------------|---------------|
| | 2016 | 2015 |
| Change in non-cash operating items: | | |
| Other assets | \$ 473 | \$ 573 |
| Accounts payable and accrued expenses | (1,329) | 234 |
| Due to Manager | (2,047) | 450 |
| Prepaid mortgage interest | (992) | (1,391) |
| Mortgage funding holdbacks | (701) | 338 |
| | \$ (4,596) | \$ 204 |

14. RELATED PARTY TRANSACTIONS

- (a) As at December 31, 2016, Due to Manager includes mainly management and servicing fees payable of \$819. As at December 31, 2015, Due to Manager included \$2,426 management and performance fees payable.

- (b) As at December 31, 2016, included in other assets is \$819 (2015 – \$2,189) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.
- (c) As at December 31, 2016, the Company has four mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:
- A mortgage investment with a total gross commitment of \$84,108 (2015 – nil). The Company's share of the commitment is \$29,108 (2015 – nil), of which \$7,270 (2015 – nil) has been funded as at December 31, 2016.
 - A mortgage investment with a total gross commitment of \$15,600 (2015 – nil). The Company's share of the commitment is \$5,970 (2015 – nil), of which \$3,634 (2015 – nil) has been funded as at December 31, 2016.
 - A mortgage investment with a total gross commitment of \$6,000 (2015 – nil). The Company's share of the commitment is \$5,100 (2015 – nil), of which \$2,029 (2015 – nil) has been funded as at December 31, 2016.
 - A mortgage investment with a total gross commitment of \$1,920 (2015 – nil). The Company's share of the commitment is \$1,920 (2015 – nil), of which \$1,920 (2015 – nil) has been funded as at December 31, 2016.
- (d) As at December 31, 2016, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co invested in ten gross mortgage investments totaling \$254,935 (2015 – \$702,624). The Company's share in these gross mortgage investments is \$109,493 (2015 – \$286,311). Included in these amounts are two net mortgage investments (2015 – one) of \$17,681 (2015 – \$1,266) loaned to a limited partnership in which T4Q is invested.

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

15. INCOME TAXES

As of December 31, 2016, the Company has non-capital losses carried forward for income tax purposes of \$29,750 (2015 – \$24,511), which will expire between 2027 and 2036 if not used. The Company also has future deductible temporary differences resulting from share issuances, provision for impairment, prepaid mortgage interest and unearned income tax purposes of \$10,639 (2015 – \$4,001).

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, debentures and the credit facility.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

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

At December 31, 2016, the Company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facility, the Company is required to meet certain financial covenants, including a minimum interest coverage ratio, minimum adjusted shareholders' equity and maximum non-debenture indebtedness to adjusted shareholders' equity. As at December 31, 2016, the Company was in compliance with all financial covenants.

17. RISK MANAGEMENT

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2016, \$132,735 of net mortgage investments bear interest at variable rates. Of these, \$122,172 of net mortgage investments include a "floor rate" to protect their negative exposure or a "ceiling rate", while two mortgage investments totalling \$10,563 bear interest at a variable rate without a "floor rate". If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$53. 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 \$664. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

In addition, the Company is exposed to interest rate risk on the credit facility, which has a balance of \$300,580 as at December 31, 2016. Based on the outstanding credit facility balance as at December 31, 2016, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1,503 annually.

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

(b) Credit risk

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

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

The maximum exposure to credit risk at December 31, 2016 is the carrying values of its net mortgage investments, in addition to interest receivable recorded within other assets of \$951 (2015 – \$343), amounting to \$1,025,129 (2015 – \$446,008). The Company has recourse under these mortgage investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

(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 the normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities as at December 31, 2016, including expected interest payments:

| December 31, 2016 | Carrying value | Contractual cash flow | Within a year | Following year | 3–5 years |
|--|-----------------------|------------------------------|----------------------|-----------------------|------------------|
| Accounts payable and accrued expenses | \$ 2,188 | \$ 2,188 | \$ 2,188 | \$ – | \$ – |
| Dividends payable | 4,210 | 4,210 | 4,210 | – | – |
| Due to Manager | 819 | 819 | 819 | – | – |
| Mortgage funding holdbacks | 137 | 137 | 137 | – | – |
| Prepaid mortgage interest | 682 | 682 | 682 | – | – |
| Credit facility ¹ | 299,000 | 317,365 | 11,873 | 305,492 | – |
| Convertible debentures ² | 76,757 | 87,237 | 37,521 | 2,473 | 47,243 |
| Total liabilities | \$ 383,793 | \$ 412,638 | \$ 57,430 | \$ 307,965 | \$ 47,243 |
| Unadvanced mortgage commitments ³ | – | 164,607 | 164,607 | – | – |
| Total contractual liabilities | \$ 383,793 | \$ 577,245 | \$ 222,037 | \$ 307,965 | \$ 47,243 |

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

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

3 Unadvanced mortgage commitments include syndication commitments of which \$82,325 belongs to the Company's syndicated partners.

As at December 31, 2016, the Company had a cash position of \$61 (2015 – \$140) and an unutilized credit facility balance of \$49,420 (2015 – \$6,188). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is \$82,325 relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

18. FAIR VALUE MEASUREMENTS

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

| As at December 31, 2016 | Carrying Value | | | Fair value |
|---|----------------------|------------------------------------|-----------------------------|------------|
| | Loans and receivable | Fair value through profit and loss | Other financial liabilities | |
| Assets measured at fair value | | | | |
| Foreclosed properties held for sale | \$ – | \$ 11,041 | \$ – | \$ 11,041 |
| Assets not measured at fair value | | | | |
| Cash and cash equivalents | 61 | – | – | 61 |
| Other assets | 3,191 | – | – | 3,191 |
| Mortgage investments, including mortgage syndications | 1,559,677 | – | – | 1,559,677 |
| Financial liabilities not measured at fair value | | | | |
| Accounts payable and accrued expenses | – | – | 2,188 | 2,188 |
| Dividends payable | – | – | 4,210 | 4,210 |
| Due to Manager | – | – | 819 | 819 |
| Mortgage funding holdbacks | – | – | 137 | 137 |
| Prepaid mortgage interest | – | – | 682 | 682 |
| Credit facility | – | – | 299,000 | 300,581 |
| Convertible debentures | – | – | 76,757 | 80,416 |
| Mortgage syndication liabilities | – | – | 543,505 | 543,505 |

| As at December 31, 2015 | Carrying Value | | | Fair value |
|---|----------------------|------------------------------------|-----------------------------|------------|
| | Loans and receivable | Fair value through profit and loss | Other financial liabilities | |
| Assets measured at fair value | | | | |
| Foreclosed properties held for sale | \$ – | \$ 12,836 | \$ – | \$ 12,836 |
| Assets not measured at fair value | | | | |
| Cash and cash equivalents | 140 | – | – | 140 |
| Other assets | 3,054 | – | – | 3,054 |
| Mortgage investments, including mortgage syndications | 750,704 | – | – | 750,704 |
| Financial liabilities not measured at fair value | | | | |
| Accounts payable and accrued expenses | – | – | 1,104 | 1,104 |
| Dividends payable | – | – | 2,431 | 2,431 |
| Due to Manager | – | – | 2,426 | 2,426 |
| Mortgage funding holdbacks | – | – | 822 | 822 |
| Prepaid mortgage interest | – | – | 1,170 | 1,170 |
| Credit facility | – | – | 53,625 | 53,812 |
| Convertible debentures | – | – | 32,778 | 34,759 |
| Mortgage syndication liabilities | – | – | 310,049 | 310,049 |

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

(a) Mortgage investments and mortgage syndication liabilities

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

(b) Other financial assets and liabilities

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

(c) Convertible debentures

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

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during December 31, 2016 and 2015.

19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The compensation expense of the members of the Board of Directors amounts to \$223 (2015 - \$183), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

20. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages. Where required, management records adequate provisions in the accounts.

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

21. SUBSEQUENT EVENTS

On February 7, 2017, the Company closed on an unsecured convertible debenture offering for gross proceeds of \$40,000 as well as the over-allotment option for additional gross proceeds of \$6,000. The unsecured convertible debentures mature on March 31, 2022 and pay interest semi-annually on March 31 and September 30 of each year at rate of 5.45%.

Board of Directors

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



Zelick L. Altman
Independent Director,
Timbercreek Financial

Managing Director,
LaSalle Investment
Management (Canada)



Ugo Bizzarri
Director,
Timbercreek Financial

Senior Managing Director, CIO,
Global Head of Direct & Debt
Investments, Timbercreek
Asset Management



Andrew Jones
Director and CEO,
Timbercreek Financial

Senior Managing Director,
Debt Investments,
Timbercreek Asset Management



Steven R. Scott
Independent Director,
Timbercreek Financial

President and CEO,
The Access Group of Companies



W. Glenn Shyba
Lead Independent Director
Timbercreek Financial

Principal,
Origin Merchant Partners



Blair Tamblyn
Chairman,
Timbercreek Financial

Senior Managing Director and CEO,
Timbercreek Asset Management



Derek J. Watchorn, LL.B.
Independent Director,
Timbercreek Financial

Consultant

Officers

Blair Tamblyn
Chairman of the Board

Andrew Jones
Chief Executive Officer

Cameron Goodnough
President*

Craig Geier
Chief Financial Officer

Ugo Bizzarri
Vice President, Investments

Gigi Wong
Treasurer

Carrie Morris
Vice President

Peter Hawkings
Vice President & Corporate Secretary

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Transfer Agent & Registrar
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Auditors
KPMG LLP

Legal Counsel
McCarthy Tétrault LLP

*Mr. Goodnough was appointed President effective March 15, 2017




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Financial
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