

Consolidated Financial Statements of

# Timbercreek Senior Mortgage Investment Corporation

Years ended December 31, 2013 and 2012



# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Senior Mortgage Investment Corporation

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

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

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

Chartered Professional Accountants, Licensed Public Accountants

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath.

March 5, 2014

Toronto, Canada

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Other assets (note 12(d))	\$ 3,209,643	\$ 734,308
Restricted cash (note 5)	–	1,404,562
Mortgage investments, including mortgage syndications (note 4)	515,797,118	373,928,564
<b>Total assets</b>	<b>519,006,761</b>	<b>376,067,434</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and accrued expenses	1,091,467	1,433,021
Dividends payable (note 8(a) and 9(b))	1,577,831	1,586,505
Due to Manager (note 12(a))	322,505	12,280
Credit facility (note 6)	108,745,727	33,601,500
Mortgage funding holdbacks	1,459,055	357,800
Prepaid mortgage interest	1,636,355	1,400,501
Mortgage syndication liabilities (note 4(b))	115,412,273	41,618,959
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b>230,245,213</b>	<b>80,010,566</b>
<b>Net assets attributable to holders of redeemable shares</b>	<b>–</b>	<b>296,056,769</b>
<b>Shareholders' equity</b>	<b>288,761,548</b>	<b>99</b>
<b>Total liabilities and equity</b>	<b>\$ 519,006,761</b>	<b>\$ 376,067,434</b>
Commitments and contingencies (note 17)		
Subsequent event (note 6)		

*See accompanying notes to the consolidated financial statements.*

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

Years ended December 31, 2013 and 2012

	2013	2012
Interest income:		
Interest, including mortgage syndications	\$ 29,748,582	\$ 12,281,134
Fees, including mortgage syndications	2,602,743	1,030,191
	32,351,325	13,311,325
Interest and fees expense on mortgage syndications	(4,117,248)	(369,995)
Net interest income	28,234,077	12,941,330
Expenses:		
Management fees (note 10(a))	3,989,872	2,429,003
Trailer fees (note 10(b))	805,292	827,020
Transition related costs (note 1)	3,870,883	-
General and administrative	990,414	520,211
	9,656,461	3,776,234
Income from operations	18,577,616	9,165,096
Financing costs:		
Interest on credit facility (note 6)	2,855,450	996,037
Issuance costs of redeemable shares	3,301,363	13,434,922
Dividends to holders of redeemable shares (note 8(a))	18,873,760	13,390,591
	25,030,573	27,821,550
<b>Net loss and comprehensive loss</b>	<b>\$ (6,452,957)</b>	<b>\$ (18,656,454)</b>
<b>Net income per share (note 11)</b>		
Basic and diluted	\$ 0.43	-

See accompanying notes to the consolidated financial statements.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

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

Years ended December 31, 2013 and 2012

2013	Class A Shares	Class B Shares	Class I Shares	Class J Shares	Common Shares	Total
Net assets attributable to holders of redeemable shares, beginning of year	\$289,697,929	\$ -	\$ 3,261,849	\$ 3,096,991	\$ -	\$ 296,056,769
Gross proceeds from issuance of redeemable shares	58,276,993	2,205,590	1,840,000	300,000	-	62,622,583
Issuance of redeemable shares under dividend reinvestment plan	1,339,079	-	-	-	-	1,339,079
Redemption of redeemable shares	(50,668,542)	(318,462)	(724,460)	-	-	(51,711,464)
Repurchase of redeemable shares	(9,936,801)	-	-	-	-	(9,936,801)
Exchange of redeemable shares	2,792,360	(9,330)	(148,950)	(2,634,080)	-	-
Exchange of redeemable shares to common shares	(291,501,018)	(1,877,798)	(4,228,439)	(762,911)	298,370,166	-
Dividends to shareholders	-	-	-	-	(3,155,661)	(3,155,661)
Issuance of common shares under dividend reinvestment plan	-	-	-	-	63,791	63,791
Repurchase of common shares	-	-	-	-	(63,791)	(63,791)
Net loss and comprehensive loss	-	-	-	-	(6,452,957)	(6,452,957)
<b>Shareholders' equity, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 288,761,548</b>	<b>\$ 288,761,548</b>
<hr/>						
2012	Class A Shares	Class B Shares	Class I Shares	Class J Shares	Total	
Net assets attributable to holders of redeemable shares, beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -	-
Gross proceeds from issuance of redeemable shares	306,000,531	-	3,447,000	4,781,000	314,228,531	
Issuance of redeemable shares under dividend reinvestment plan	484,692	-	-	-	484,692	
Exchange of redeemable shares	1,621,000	-	(150,000)	(1,471,000)	-	
Net loss and comprehensive loss	(18,408,294)	-	(35,151)	(213,009)	(18,656,454)	
<b>Net assets attributable to holders of redeemable shares, end of year</b>	<b>\$ 289,697,929</b>	<b>\$ -</b>	<b>\$ 3,261,849</b>	<b>\$ 3,096,991</b>	<b>\$ 296,056,769</b>	

See accompanying notes to the consolidated financial statements.

# TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31, 2013 and 2012

	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net loss and comprehensive loss	\$ (6,452,957)	\$ (18,656,454)
Amortization of lender fees	(2,330,218)	(813,928)
Financing costs	25,030,573	27,821,550
Change in non-cash operating items:		
Restricted cash	1,404,562	(1,404,562)
Interest receivable	(554,666)	(1,622,708)
Other assets	(2,475,335)	(734,308)
Accounts payable and accrued expenses	(341,554)	1,433,021
Due to Manager	310,225	12,280
Prepaid mortgage interest	235,854	1,400,501
Mortgage funding holdbacks	1,101,255	357,800
Lender fees	3,266,812	3,126,328
	<b>19,194,551</b>	<b>10,919,520</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of Class A redeemable shares	58,276,993	306,000,531
Redemption of Class A redeemable shares	(50,668,542)	-
Proceeds from issuance of Class B redeemable shares	2,205,590	-
Redemption of Class B redeemable shares	(318,462)	-
Proceeds from issuance of Class I redeemable shares	1,840,000	3,447,000
Redemption of Class I redeemable shares	(724,460)	-
Proceeds from issuance of Class J redeemable shares	300,000	4,781,000
Redemption of Class J redeemable shares	-	-
Net proceeds from credit facility	74,670,240	34,300,406
Interest paid	(2,381,559)	(1,694,943)
Repurchase of redeemable shares for cancellation	(9,197,864)	-
Issuance costs of redeemable shares	(3,301,363)	(13,434,922)
Dividends to holders of redeemable shares	(19,860,125)	(11,319,394)
Dividends to holders of common shares	(1,577,831)	-
	<b>49,262,617</b>	<b>322,079,678</b>
<b>INVESTING ACTIVITIES</b>		
Funding of mortgages investments, net of mortgage syndications	(398,507,517)	(435,792,330)
Discharge of mortgages investments, net of mortgage syndications	330,050,349	102,793,033
	<b>(68,457,168)</b>	<b>(332,999,297)</b>
Increase (decrease) in cash and cash equivalents	-	(99)
Cash and cash equivalents, beginning of year	-	99
<b>Cash and cash equivalents, end of year</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to consolidated financial statements.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

Timbercreek Senior Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 1000 Yonge Street, Suite 500, Toronto, Ontario M4W 2K2.

The Company is incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011. On September 13, 2013, in connection with the Transition as defined in note 1 below, the Company filed articles of amendment with the Ministry of Government Services of Ontario, effective as of September 13, 2013 (the "Effective Date"), to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing redeemable Class A, Class B, Class I, Class J and voting classes of shares and provided for the creation of a new class of common shares for which all existing classes of redeemable shares were exchanged on November 29, 2013.

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

The Company commenced operations on January 19, 2012 when it completed an initial public offering of Class A shares and issued subscription receipts, which were subsequently converted into Class A shares.

### 1. TRANSITION TO PUBLIC COMPANY REGIME

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

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

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption"). The Company redeemed requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemptions payable of \$51,549,583 was paid on November 27, 2013. On November 29, 2013 (the "Exchange Date"), the Company exchanged all of the 30,825,108 outstanding Class A shares, 186,626 outstanding Class B shares, 424,700 outstanding Class I shares and 86,250 outstanding Class J shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on November 29, 2013, continuing under the symbol 'MTG', and the Class A shares ceased to trade after the close of market on November 28, 2013.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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

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

In connection with the Transition, the Company has incurred total costs of \$4,120,883, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. The Manager elected to assume responsibility for \$250,000 of costs relating to the Transition.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance:

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

#### (b) Functional and presentation currency:

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

#### (c) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis.

#### (d) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and a wholly owned subsidiary of the Company, Timbercreek Senior Mortgage Trust (the "Trust"). All intercompany transactions and balances are eliminated upon consolidation.

#### (e) Use of estimates and judgments:

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

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



## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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

Measurement of fair values:

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

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

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

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Manager assesses 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 note 16.

### 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.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

### **(b) Mortgage investments:**

The 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. The 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 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 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.

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

An impairment loss in respect of specific mortgage 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.

### **(c) Dividends:**

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

### **(d) 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 distribution results in the Company being effectively exempt from taxation and no provision for current or deferred taxes is required for the Company and its subsidiary Trust.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

### **(e) Financial instruments:**

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus in the case of financial instruments not FVTPL any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classification of the Company's financial instruments are outlined in note 16.

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

### **(f) 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 or 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 or a portion of them. 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.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

Financial liabilities:

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

**(g) Interest and fee income:**

Interest income is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgage 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 at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

**(h) Changes in accounting policies:**

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

- a) IFRS 10 Consolidated Financial Statements (2011)
- b) IFRS 11 Joint Arrangements
- c) IFRS 12 Disclosure of Interests in Other Entities
- d) IFRS 13 Fair Value Measurement
- e) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- f) IAS 19 Employee Benefits (2011)

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

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs, including IFRS 7. As a result, the Company has included additional disclosures in this regard (see notes 2(e) and 16).

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**(i) Future changes in accounting policies:**

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

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

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

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

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

## 4. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

December 31, 2013	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications	\$ 516,642,938	\$ (115,186,473)	\$ 401,456,465
Interest receivable	2,638,539	(461,165)	2,177,374
	519,281,477	(115,647,638)	403,633,839
Unamortized lender fees	(3,484,359)	235,365	(3,248,994)
	<b>\$ 515,797,118</b>	<b>\$ (115,412,273)</b>	<b>\$ 400,384,845</b>

December 31, 2012	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications	\$ 374,599,297	\$ (41,600,000)	\$ 332,999,297
Interest receivable	1,767,283	(144,575)	1,622,708
	376,366,580	(41,744,575)	334,622,005
Unamortized lender fees	(2,438,016)	125,616	(2,312,400)
	<b>\$ 373,928,564</b>	<b>\$ (41,618,959)</b>	<b>\$ 332,309,605</b>

**(a) Mortgage investments:**

The mortgage investments are secured by a first priority charge, bearing interest at a weighted average interest rate of 6.52% (December 31, 2012 – 6.66%) and mature between 2014 and 2016 (December 31, 2012 – 2013 and 2016).

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

For the year ended December 31, 2013, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$3,266,812 (2012 – \$3,126,328), respectively, which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

The unadvanced mortgage commitments under the existing mortgage investments amounted to \$34,909,805 as at December 31, 2013 (December 31, 2012 – \$65,752,840). Subsequent to the year end, \$6,621,775 of the commitments have expired.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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

2014	\$ 68,724,966
2015	238,567,280
2016	94,164,219
<b>Total</b>	<b>\$ 401,456,465</b>

**(b) Non-recourse mortgage syndication liabilities:**

The Company has entered into certain mortgage participation agreements with mainly third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position, all of which is secured by first mortgage positions. The Company generally retains an option to repurchase the senior position, not the obligation, at a purchase price equal to the outstanding principal amount of the lender's proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment and therefore has not met the de-recognition criteria. As a result, the lender's portion of the mortgage is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss. In addition, the Company may sell pari-pasu interests in certain mortgage investments which meet the criteria for derecognition under IFRS. The difference between the carrying value of such interest sold and the proceeds on sale are recognized as a gain or loss in profit and loss.

For those investments which have not met the derecognition criteria, the participation transactions have resulted in the Company recognizing the participating mortgages and corresponding non-recourse mortgage syndication liabilities on its statements of financial position. As at December 31, 2013 the carrying value of the transferred assets and corresponding non-recourse liabilities is \$115,412,273 (December 31, 2012 – \$41,618,959). The Company has also recognized interest and fee income and a corresponding interest and fee expense of \$4,117,248 (December 31, 2012 – \$369,995) in the statements of net loss and comprehensive loss. The fair value of the transferred assets and non-recourse mortgage syndicated liabilities approximate their carrying values (see note 16(a)).

**5. RESTRICTED CASH**

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

### 6. CREDIT FACILITY

The Company has a credit facility (the "Credit Facility") with a syndicate of lenders in an amount of up to \$130,000,000 bearing interest at either, the prime rate of interest plus 1% or bankers' acceptances ("BA") with a stamping fee of 2% of the face amount of such BA. The Company also has an option to increase the limit by another \$60,000,000, subject to certain terms and conditions. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The Company intends to utilize leverage representing approximately 30% of the aggregate value of assets of the Company at any time, with the remaining portion of the Credit Facility reserved for general working capital purposes. The Credit Facility is secured by a general security agreement over the Company's asset and expires in March 2014. In February, 2014 the Company received an approval to extend the credit facility until June 28, 2014.

On October 2, 2013, the Credit Facility was amended to incorporate changes to the borrowing base criteria providing the Company with enhanced borrowing flexibility.

At December 31, 2013 \$108,970,646 (December 31, 2012 – \$37,500,000) was outstanding on the Credit Facility and is offset against cash and cash equivalents of nil (December 31, 2012 – \$3,199,594).

Interest costs related to the Credit Facility are recorded in financing costs using the effective interest rate method. For the year ended December 31, 2013, interest on the Credit Facility of \$2,855,450 (December 31, 2012 – \$996,037), is included in financing costs.

As at December 31, 2013, there were \$224,919 (December 31, 2012 – \$698,906) in unamortized financing costs related to the Credit Facility. For the year ended December 31, 2013, the Company has amortized financing costs of \$552,022 (2012 – \$346,266) to interest expense using the effective interest rate method.

### 7. VOTING SHARES

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

Prior to the Transition, the Company was authorized to issue unlimited voting shares. As at December 31, 2012, the Company had \$99 issued and fully paid voting shares. The voting shares were held by certain shareholders of the Manager.



## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**8. REDEEMABLE SHARES**

As part of the Transition outlined in note 1, on the Exchange Date all classes of redeemable share including Class A, Class B, Class I and Class J shares were exchanged into common shares at the ratios specified in note 9.

Prior to the Transition, the Class A shares were publicly listed on the TSX under the symbol 'MTG'. Class B shares were issued to fee-based and institutional investor accounts and were not listed on any stock exchange. Class I shares and Class J shares were issued by private placement from time to time to accredited investors, institutions, trusts, endowment funds and other discretionary pools of capital and were not listed on any stock exchange. The Company was authorized to issue these classes of shares, which were redeemable at the holder's option and were subject to different fee structures. The Company classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The redeemable shares were classified as financial liabilities and presented as "net assets attributable to holders of redeemable shares" in the statements of financial position.

The changes in the number of Class A, Class B, Class I and Class J shares are as follows:

<b>Year ended December 31, 2013</b>	<b>Class A</b>	<b>Class B</b>	<b>Class I</b>	<b>Class J</b>
Redeemable shares outstanding, beginning of year	31,029,785	–	329,700	331,000
Issued	5,916,446	220,559	184,000	31,250
Issuance of redeemable shares under dividend reinvestment plan	149,790	–	–	–
Exchanged	298,470	(1,000)	(15,000)	(276,000)
Redeemed	(5,472,086)	(32,933)	(74,000)	–
Repurchased	(1,097,297)	–	–	–
Exchanged to common shares	(30,825,108)	(186,626)	(424,700)	(86,250)
<b>Redeemable shares outstanding, end of year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Year ended December 31, 2012</b>	<b>Class A</b>	<b>Class B</b>	<b>Class I</b>	<b>Class J</b>
Redeemable shares outstanding, beginning of year	–	–	–	–
Issued	30,812,583	–	344,700	478,100
Issuance of redeemable shares under dividend reinvestment plan	51,410	–	–	–
Exchanged	165,792	–	(15,000)	(147,100)
<b>Redeemable shares outstanding, end of year</b>	<b>31,029,785</b>	<b>–</b>	<b>329,700</b>	<b>331,000</b>

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

### 2013:

On January 8, 2013, the Company completed a public offering of 5,916,446 Class A shares, for gross proceeds of \$58,276,993. The Company also completed an offering of 220,559 Class B shares, for gross proceeds of \$2,205,590.

On May 13, 2013, the Company completed a private placement and issued 184,000 Class I shares for gross proceeds of \$1,840,000.

On August 30, 2013, the Company completed a private placement and issued 31,250 Class J shares for gross proceeds of \$300,000.

In connection with the above-noted share offerings, the Company incurred \$3,301,363 in issuance costs for the year ended December 31, 2013 (2012 – \$13,434,922).

### 2012:

On January 19, 2012, the Company completed its initial public offering of 11,500,000 Class A shares, which included the exercise of the overallotment option of 15% of the aggregate number of Class A shares issued at closing, for gross proceeds of \$115,000,000. The Company also issued 3,720,000 subscription receipts for net proceeds of \$37,200,000. The holders of these subscription receipts exchanged their subscription receipts for Class A shares on the close of business on January 19, 2012 for 3,915,298 Class A shares.

On June 1, 2012, the Company completed a private placement and issued 478,100 Class J shares for gross proceeds of \$4,781,000.

On July 3, 2012, the Company completed a public offering of 14,950,000 Class A shares, which included the exercise of the overallotment option of 15% of the aggregate number of Class A shares issued at closing, for gross proceeds of \$149,500,000. The Company also issued 430,000 subscription receipts for gross proceeds of \$4,300,530. The holders of these subscription receipts exchanged their subscription receipts for Class A shares on the close of business on July 3, 2012 for 447,285 Class A shares.

On July 17, 2012, the Company completed a private placement and issued 344,700 Class I shares for gross proceeds of \$3,447,000.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**(a) Dividends to holders of redeemable shares**

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

Year ended December 31, 2013	Dividends per share	Total
Class A shares	\$ 0.50	\$ 18,415,979
Class B shares	0.54	118,778
Class I shares	0.54	235,224
Class J shares	0.52	103,779
<b>Total</b>		<b>\$ 18,873,760</b>

Year ended December 31, 2012	Dividends per share	Total
Class A shares	\$ 0.55	\$ 13,118,513
Class B shares	-	-
Class I shares	0.32	110,873
Class J shares	0.36	161,205
<b>Total</b>		<b>\$ 13,390,591</b>

As at December 31, 2013, no amount (December 31, 2012 – \$1,586,505) was payable to the holders of redeemable shares.

**(b) Normal course issuer bid**

On June 6, 2013, the Company received the approval of the TSX to commence a normal course issuer bid (the "NCIB") to purchase for cancellation up to 3,709,327 Class A shares; representing approximately 10% of the Class A shares float on June 4, 2013. The purchases were limited during any 30-day period during the term of the NCIB to 742,045 Class A shares in the aggregate. The NCIB commenced on June 10, 2013, and provided the Company with the flexibility to repurchase Class A shares for cancellation, with an expiry date of June 9, 2014, or such earlier date as the NCIB is complete. From June 10, 2013 to November 29, 2013, the date of the exchange of the Company's Class A shares to common shares, the Company acquired for cancellation 1,014,400 Class A shares at a cost of \$9,197,864. Following the exchange of the Class A shares, further purchases pursuant to a NCIB will require the re-filing of certain documentation with the TSX in respect of the common shares.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**9. COMMON SHARES**

As outlined in note 1, on the Effective Date the shareholders of the Company approved the automatic exchange of all outstanding Class A, Class B, Class I and Class J shares, on a specified date, into a new class of common shares. The exchange ratio approved was 1 to 1 for each Class A share and an exchange ratio for each of the Class B, Class I and Class J shares equal to the quotient obtained by dividing the net redemption value per Class B, Class I and Class J share by the net redemption value per Class A share on the last business day of the month immediately preceding such exchange date. On the Exchange Date, 30,825,108 Class A shares, 186,626 Class B shares, 424,700 Class I shares and 86,250 Class J shares were exchanged into 31,556,612 common shares.

On November 29, 2013, upon the completion of the exchange in accordance with the Company's articles, the common shares commenced trading on the TSX.

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

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

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

<b>Year ended December 31, 2013</b>	<b>December 31, 2013</b>
Common shares issued as a result of exchange	31,556,608
Repurchased	(7,426)
Issuance of redeemable shares under dividend reinvestment plan	7,426
<b>Common shares outstanding, end of year</b>	<b>31,556,608</b>

**(a) Dividend reinvestment plan:**

The Company has amended and restated its dividend reinvestment plan effective as of November 20, 2013. The amended and restated dividend reinvestment plan (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on April 18, 2012.

The Amended DRIP provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares. For the purpose of the Amended DRIP, "common shares" includes any Class A shares of the Company prior to their exchange into common shares on the Exchange Date, pursuant to the amendment to the articles of the Company that came into effect on September 13, 2013.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

Under the Amended DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 95% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share. For the year ended December 31, 2013, 149,790 (2012 – 51,410) Class A shares were issued under the Original DRIP and 7,426 (2012 – nil) common shares were issued under the Amended DRIP.

### **(b) Dividends to holders of common shares:**

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month.

Subsequent to the Exchange Date, the Company has paid \$3,155,661 (\$0.10 per share) to the holders of common shares. As at December 31, 2013, \$1,577,831 (December 31, 2012 – nil) was payable to the holders of common shares. Subsequent to the Year end, the Company declared dividends of \$0.10 per common share.

## **10. EXPENSES**

### **(a) Management fees:**

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. As a part of the Transition detailed in note 1, the Company has entered into a new management agreement with the Manager effective from September 13, 2013. Under the new management agreement, the Company shall pay to the Manager, a management fee equal to 0.85% per annum of the gross assets of the Company (previously 1% per annum of the net assets of the Company), calculated and paid monthly in arrears, plus applicable taxes. Gross assets are defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties. The initial term of the new management agreement is 10 years from the Effective Date and is automatically renewed for successive five year terms at the expiration of the initial term.

For the year ended December 31, 2013, the Company incurred management fees of \$3,989,872 (2012 – \$2,429,003).

### **(b) Trailer fees:**

Prior to September 13, 2013, the Company paid each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share for each Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. The Company paid \$802,497 in Class A trailer fees for the year ended December 31, 2013 (2012 – \$822,111). In conjunction with the Transition, effective September 13, 2013 the Company no longer pays trailer fees on Class A shares to registered dealers.

Prior to September 13, 2013, the Company paid each registered dealer a trailer fee equal to 0.25% annually of the net redemption value per Class J share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. The Company paid \$2,795 in class J trailer fees for the year ended December 31, 2013 (2012– \$4,909). Effective September 13, 2013 the Company no longer pays trailer fees on Class J shares to registered dealers.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**11. NET INCOME PER SHARE**

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

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

**(a) Basic and diluted earnings per share:**

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

	<b>2013</b>
Numerator for net income per share:	
Net loss of the Company	\$ (6,452,957)
Issuance costs of redeemable shares	3,301,363
Dividends to holders of redeemable shares	18,873,760
Net income of the Company attributable to common shares	15,722,166
Denominator for net income per share:	
Weighted average of common shares (basic and diluted)	37,031,011
Net income per share – basic and diluted	\$ 0.42

**(b) Adjusted basic and diluted earnings per share:**

The adjusted basic and diluted net income per share attributable to common shares for the year ended December 31, 2013 is presented to provide an indication of the performance of the Company, excluding non-recurring expenditures. In addition to the adjustments made to the net income of the Company in the calculation of basic and diluted net income per share in note 13(a) above, the Company has added back one-time Transition related costs. The weighted average number of common shares is the same as in the calculation of basic and diluted net income per share in note 11(a) above.

	<b>2013</b>
Numerator for net income per share:	
Net loss of the Company	\$ (6,452,957)
Transition related costs	3,870,883
Issuance costs of redeemable shares	3,301,363
Dividends to holders of redeemable shares	18,873,760
Adjusted net income of the Company attributable to common shares	19,593,049
Denominator for net income per share:	
Weighted average of common shares (basic and diluted)	37,031,011
Adjusted net income per share – basic and diluted	\$ 0.53

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

### 12. RELATED PARTY TRANSACTIONS

- (a) As at December 31, 2013, due to Manager includes management fees payable of \$318,266 (December 31, 2012 – nil) and \$4,239 (December 31, 2012 – \$12,280) related to costs incurred by the Manager on behalf of the Company.
- (b) As at December 31, 2013, the Company and Timbercreek Mortgage Investment Corporation (“TMIC”), a related party by virtue of common management, have co-invested in several mortgage investments, totaling \$681,960,996 (December 31, 2012 – \$392,869,519), which are secured primarily by multi-family residential, office, retirement and other commercial properties. The Company’s net share in these investments is \$465,961,118 (December 31, 2012 – \$306,667,477), and included in this amount is a mortgage investment of \$7,669,738 (December 31, 2012 – \$6,779,296) to a limited partnership, which is co-owned by Timbercreek Four Quadrant Global Real Estate Partners (“T4Q”), a related party by virtue of common management. In addition, \$281,126 (December 31, 2012 – receivable of \$4,462) is payable by the Company to TMIC relating to amounts paid on behalf of the Company.
- (c) As at December 31, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in a mortgage investment secured by a retail property. The Company’s share in this mortgage investment is \$5,000,000 (December 31, 2012 – \$24,000,000).
- (d) As at December 31, 2013, included in other assets is \$3,047,719 (December 31, 2012 – nil), of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management. The balance relates to mortgage funding deposits and prepaid interest received from the borrowers.
- (e) The Manager has borne total costs of \$250,000 relating to the Transition, which are not included in the Transition related costs in the statements of net loss and comprehensive loss.

### 13. INCOME TAXES

As of December 31, 2013, the Company has non-capital losses carried forward for income tax purposes of \$8,971,000, which will expire between 2032 and 2033 if not used. The Company also has future deductible temporary differences resulting from share issuances, prepaid mortgage and loan interest, unearned income and financing costs for income tax purposes of \$19,373,000.

### 14. CAPITAL RISK MANAGEMENT

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company defines its capital structure to include common shares and the Credit Facility.

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

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

The Company's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. The investment restrictions also permit the Company to maintain constant leverage. The aggregate amount of borrowing by the Company may not exceed 40% of the total assets of the Company. In addition, the asset allocation model dictates the allocation of the mortgage investments based upon geographical, economic sector, term, borrower and loan-to-appraised value criteria. At December 31, 2013, the Company was in compliance with its investment restrictions and the asset allocation model parameters.

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

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

#### (a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2013, \$90,123,242 of mortgage investments (December 31, 2012 – nil) bear interest at variable rates; however out of these, \$89,023,242 of mortgage investments include a "floor-rate" to protect its negative exposure and one mortgage investment of \$1,100,000 bears interest at a variable rate without a floor rate. If there were a 0.50% decrease in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of \$5,500; whereas a 0.50% increase in interest rates would result in an increase of \$450,616 in net income of the Company. 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.

The Company is exposed to interest rate risk on the Credit Facility, which has a balance of \$108,970,646 as at December 31, 2013 (December 31, 2012 - \$37,500,000). Based on the outstanding balance of the Credit Facility as at December 31, 2013, a 0.50% decrease in interest rates, with all other variables constant, will increase net income by \$544,853 (December 31, 2012 – \$187,500) annually, arising mainly as a result of lower interest expense payable on the Credit Facility. A 0.50% increase in interest rates would have an equal but opposite effect on the net income of the Company.

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



## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

**(b) Credit risk:**

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

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- (ii) all mortgage investments are approved by the independent mortgage advisory 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, 2013 is the carrying values of its mortgage investments, which total \$403,633,839 (December 31, 2012 – \$334,622,005). The Company has recourse under these investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

**(c) Liquidity risk:**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

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

**December 31, 2013**

	Carrying Values	Contractual cash flows	Within a year	Following year	3 – 5 years	Over 5 years
Credit facility <sup>1</sup>	\$ 108,745,727	\$ 110,060,353	\$ 110,060,353	\$ –	\$ –	\$ –
Mortgage funding holdbacks	1,459,055	1,459,055	1,459,055	–	–	–
Dividends payable	1,577,831	1,577,831	1,577,831	–	–	–
Due to Manager	322,505	322,505	322,505	–	–	–
Prepaid mortgage interest	1,636,355	1,636,355	1,636,355	–	–	–
Accounts payable and accrued expenses	1,091,467	1,091,467	1,091,467	–	–	–
Unadvanced mortgage commitments	–	34,909,805	34,909,805	–	–	–
	\$ 114,832,940	\$ 151,057,371	\$ 151,057,371	\$ –	\$ –	\$ –

<sup>1</sup> Includes interest on the Credit Facility assuming the outstanding balance is not repaid until its maturity in March 2014.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

## 16. FAIR VALUES MEASUREMENTS

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

December 31, 2013	Carrying Value		Fair value
	Loans and receivable	Other financial liabilities	
<b>Financial assets not measured at fair value</b>			
Mortgage investments, including mortgage syndications	\$ 515,797,118	\$ -	\$ 515,797,118
Other assets	3,209,643	-	3,209,643
<b>Financial liabilities not measured at fair value</b>			
Mortgage syndication liabilities	-	115,412,273	115,412,273
Credit facility	-	108,745,727	108,745,727
Mortgage funding holdbacks	-	1,459,055	1,459,055
Dividends payable	-	1,577,831	1,577,831
Due to Manager	-	322,505	322,505
Prepaid mortgage interest	-	1,636,355	1,636,355
Accounts payable and accrued expenses	-	1,091,467	1,091,467

December 31, 2012	Carrying Value		Fair value
	Loans and receivable	Other financial liabilities	
<b>Financial assets not measured at fair value</b>			
Mortgage investments, including mortgage syndications	\$ 373,928,564	\$ -	\$ 373,928,564
Restricted cash	1,404,562	-	1,404,562
Other assets	734,308	-	734,308
<b>Financial liabilities not measured at fair value</b>			
Mortgage syndication liabilities	-	41,618,959	41,618,959
Credit facility	-	33,601,500	33,601,500
Mortgage funding holdbacks	-	357,800	357,800
Dividends payable	-	1,586,505	1,586,505
Due to Manager	-	12,280	12,280
Prepaid mortgage interest	-	1,400,501	1,400,501
Accounts payable and accrued expenses	-	1,433,021	1,433,021

## Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

The fair value hierarchy, valuation techniques and the inputs used for the Company's assets and liabilities 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 restricted cash, other assets, credit facility, mortgage funding holdbacks, prepaid mortgage interest, dividends payable, due to Manager and accounts payable and accrued expenses approximate their carrying amounts due to their short-term maturities.

**(c) Net assets attributable to holders of redeemable shares:**

As at December 31, 2012, the fair value of the net assets attributable to holders of redeemable shares was \$297,670,263 which represents net redemption value. The carrying value was adjusted for unearned lender fees, deferred financing charges and costs associated with establishment, structuring and offering of shares to arrive at net redemption value. As outlined in note 1, redeemable shares were exchanged into common shares on the Effective Date.

There were no transfers between level 1 and level 2 in December 31, 2013 and 2012.

### 17. COMMITMENTS AND CONTINGENCIES

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

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

### 18. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid \$68,394 (December 31, 2012 - \$79,237) to the members of the Board and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 10(a)).