

Condensed Consolidated  
Interim Financial Statements of

# Timbercreek Mortgage Investment Corporation

Three months ended March 31, 2016 and 2015



# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	March 31, 2016		December 31, 2015	
<b>ASSETS</b>				
Cash and cash equivalents	\$	232,028	\$	139,871
Other assets (note 13(b))		2,390,058		3,054,095
Mortgage investments, including mortgage syndications (note 5)		823,244,998		750,703,077
Foreclosed properties held for sale (note 6)		12,365,023		12,836,466
<b>Total assets</b>	<b>\$</b>	<b>838,232,107</b>	<b>\$</b>	<b>766,733,509</b>
<b>LIABILITIES AND EQUITY</b>				
Accounts payable and accrued expenses	\$	679,844	\$	1,103,565
Dividends payable (note 9(b))		2,431,424		2,431,424
Due to Manager (note 13(a))		594,831		2,425,700
Mortgage funding holdbacks		769,876		821,876
Prepaid mortgage interest		682,906		1,169,805
Credit facility (note 7)		52,848,258		53,624,816
Convertible debentures (note 8)		32,895,192		32,778,187
Mortgage syndication liabilities (note 5)		385,118,272		310,048,650
<b>Total liabilities</b>		<b>476,020,603</b>		<b>404,404,023</b>
<b>Shareholders' equity</b>		<b>362,211,504</b>		<b>362,329,486</b>
<b>Total liabilities and equity</b>	<b>\$</b>	<b>838,232,107</b>	<b>\$</b>	<b>766,733,509</b>
Commitments and contingencies (notes 5 and 15)				
Subsequent event (notes 2 and 9(b))				

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

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

(Unaudited)

	Three months ended March 31,	
	2016	2015
Interest income:		
Interest, including mortgage syndications	\$ 13,217,720	\$ 11,852,098
Fees and other income, including mortgage syndications	1,223,506	1,221,038
Gross interest income	14,441,226	13,073,136
Interest and fees expense on mortgage syndications (note 5(b))	(3,643,286)	(2,577,111)
Net interest income	10,797,940	10,496,025
Expenses:		
Management fees (note 11)	1,560,364	1,457,881
Performance fees (note 11)	597,453	542,163
General and administrative	277,451	239,278
Total expenses	2,435,268	2,239,322
Income from operations	8,362,672	8,256,703
Net operating income (loss) from foreclosed properties held for sale	5,619	(82,428)
Financing costs:		
Interest on credit facility (note 7)	527,308	280,665
Interest on convertible debentures (note 8)	664,692	659,849
Total financing costs	1,192,000	940,514
<b>Net income and comprehensive income</b>	<b>\$ 7,176,291</b>	<b>\$ 7,233,761</b>
<b>Earnings per share (note 12)</b>		
Basic and diluted	\$ 0.18	\$ 0.18

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

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

(Unaudited)

<b>Three months ended March 31, 2016</b>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
Shareholders' equity, beginning of period	\$ 369,162,054	\$ (7,377,125)	\$ 544,557	\$ 362,329,486
Dividends		(7,294,273)	-	(7,294,273)
Issuance of common shares under dividend reinvestment plan	756,355	-	-	756,355
Repurchase of common shares under dividend reinvestment plan	(756,355)	-	-	(756,355)
Net income and comprehensive income		7,176,291	-	7,176,291
<b>Shareholders' equity, end of period</b>	<b>\$ 369,162,054</b>	<b>\$ (7,495,107)</b>	<b>\$ 544,557</b>	<b>\$ 362,211,504</b>

<b>Three months ended March 31, 2015</b>	<b>Common Shares</b>	<b>Retained Earnings</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
Shareholders' equity, beginning of period	\$ 370,547,438	\$ (6,145,974)	\$ 544,557	\$ 364,946,021
Dividends	-	(7,324,031)	-	(7,324,031)
Issuance of common shares under dividend reinvestment plan	750,791	-	-	750,791
Repurchase of common shares under dividend reinvestment plan	(750,791)	-	-	(750,791)
Repurchase of common shares under normal course issuer bid	(284,082)	-	-	(284,082)
Net income and comprehensive income	-	7,233,761	-	7,233,761
<b>Shareholders' equity, end of period</b>	<b>\$ 370,263,356</b>	<b>\$ (6,236,244)</b>	<b>\$ 544,557</b>	<b>\$ 364,571,669</b>

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three months ended	
	March 31,	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net income and comprehensive income	\$ 7,176,291	\$ 7,233,761
Amortization of lender fees	(1,036,515)	(1,062,081)
Lender fees received	933,162	777,987
Financing costs	1,192,000	940,514
Change in non-cash operating items:		
Interest receivable	(869,045)	(868,745)
Other assets	658,859	400,692
Accounts payable and accrued expenses	162,008	413,090
Due to Manager	(1,830,869)	(1,425,634)
Prepaid mortgage interest	(486,899)	(724,401)
Mortgage funding holdbacks	(52,000)	297,379
	<b>5,846,992</b>	<b>5,982,562</b>
<b>FINANCING ACTIVITIES</b>		
Repurchase of common shares for cancellation	-	(284,082)
Advances from (repayments of) credit facility, net	(812,475)	45,170,369
Interest paid	(1,619,572)	(1,637,994)
Dividends paid	(7,294,273)	(7,326,275)
	<b>(9,726,320)</b>	<b>35,922,018</b>
<b>INVESTING ACTIVITIES</b>		
Proceeds from disposition of foreclosed properties held for sale	471,443	193,040
Fundings of mortgage investments, net of mortgage syndications	(59,344,901)	(74,084,075)
Discharges of mortgage investments, net of mortgage syndications	62,844,943	32,219,160
	<b>3,971,485</b>	<b>(41,671,875)</b>
Increase in cash and cash equivalents	92,157	232,705
Cash and cash equivalents, beginning of period	139,871	463,092
<b>Cash and cash equivalents, end of period</b>	<b>\$ 232,028</b>	<b>\$ 695,797</b>

See accompanying notes to the condensed consolidated interim financial statements.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

### 1. CORPORATE INFORMATION

Timbercreek Mortgage Investment Corporation (the "Company") is a mortgage investment corporation domiciled in Canada. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The Company is incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "TMC".

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

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

### 2. PROPOSED PLAN OF ARRANGEMENT (THE "ARRANGEMENT")

On May 5, 2016, the Company, Timbercreek Senior Mortgage Investment Corporation ("TSMIC") and the Manager entered into the Arrangement, pursuant to which the parties agreed that, subject to the terms and conditions set forth in the Arrangement, the Company and TSMIC will amalgamate to form a single entity, to be named Timbercreek Financial Corp. ("TFC") with each of the Company's Shareholders receiving one TFC share for each of the Company's share held and each TSMIC shareholder receiving 1.035 TFC shares for each TSMIC share held.

Under the Arrangement, the Company has agreed to, among other things, call a special meeting of shareholders (the "Meeting"). At the Meeting, shareholders will be asked to consider, and if thought fit, to pass the following resolutions:

- (i) a resolution to approve the combination of the Company and TSMIC by way of an Arrangement; and
- (ii) a resolution to approve the contribution and termination of the Company's Management Agreement and the entering into of a new management agreement between TFC and the Manager. The new management agreement would result in a reduction of the management fee payable by the Company, the elimination of the performance fee, and would also provide for a one-time termination fee reflective of the elimination of the performance fee.

TSMIC has also agreed to, among other things, call a special meeting of shareholders to seek the approval of the TSMIC shareholders of the transaction. Specifically, shareholders will be asked to consider, and if thought fit, to pass the following:

- (i) a resolution to approve the continuance of TSMIC as an Ontario corporation, bringing the entity into the same corporate jurisdiction as the Company.
- (ii) a resolution to approve the combination of the Company and TSMIC by way of a Plan of Arrangement; and

**Notes to the Condensed Consolidated Interim Financial Statements**  
**Three months ended March 31, 2016 and 2015**

- (iii) a resolution to approve the termination of the TSMIC Management Agreement and the entering into of a new management agreement between TFC and the Manager.

In connection with the Arrangement, TFC will enter into a new credit facility effective immediately following the effective date. Under the terms of the new credit facility, TFC will be permitted to borrow up to \$350 million on a revolving basis, subject to its borrowing base as set out in the new agreement. The term of the new credit facility will mature on May 6, 2018 and will be secured by a general security agreement over TFC's assets.

Both special meetings will be held in conjunction with the annual general meeting of each company. If such resolutions are approved by both the Company's shareholders and the TSMIC shareholders, the companies will jointly apply to the Ontario Superior Court of Justice for the final order approving the Arrangement. If successful, it is anticipated that the Arrangement will be approved by June 2016.

### **3. BASIS OF PREPARATION**

#### **(a) Statement of compliance**

These condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The presentation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). The accompanying condensed consolidated interim financial statements should be read in conjunction with the notes to the Company's consolidated financial statements for the year ended December 31, 2015, since these financial statements do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

The condensed consolidated interim financial statements were approved by the Board of Directors on May 13, 2016.

#### **(b) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund. All intercompany transactions and balances are eliminated upon consolidation.

#### **(c) Critical accounting estimates, assumptions and judgments**

In the preparation of these condensed consolidated interim financial statements, the Manager has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. There have been no changes in the critical accounting estimates and judgments which were set out in detail in note 2 of the Company's consolidated financial statements for the year ended December 31, 2015.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

### 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS.

### 5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

<b>As at March 31, 2016</b>	<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications (note 5(a) and (b))	\$ 820,872,602	\$ (384,898,466)	\$ 435,974,136
Interest receivable	8,567,839	(1,164,712)	7,403,127
	829,440,441	(386,063,178)	443,377,263
Unamortized lender fees	(5,045,443)	944,906	(4,100,537)
Allowance for mortgage investments loss (note 5(c))	(1,150,000)	–	(1,150,000)
	<b>\$ 823,244,998</b>	<b>\$ (385,118,272)</b>	<b>\$ 438,126,726</b>

<b>As at December 31, 2015</b>	<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications (note 5(a) and (b))	\$ 749,225,216	\$ (309,751,038)	\$ 439,474,178
Interest receivable	7,648,090	(1,113,951)	6,534,139
	756,873,306	(310,864,989)	446,008,317
Unamortized lender fees	(5,020,229)	816,339	(4,203,890)
Allowance for mortgage investments loss (note 5(c))	(1,150,000)	–	(1,150,000)
	<b>\$ 750,703,077</b>	<b>\$ (310,048,650)</b>	<b>\$ 440,654,427</b>

As at March 31, 2016, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$99,423,545 (December 31, 2015 – \$119,887,655).

#### (a) Net mortgage investments

	%	<b>March 31, 2016</b>	%	<b>December 31, 2015</b>
Interest in first mortgages	73	\$ 316,883,844	78	\$ 342,572,965
Interest in non-first mortgages	27	119,090,292	22	96,901,213
	<b>100</b>	<b>\$ 435,974,136</b>	<b>100</b>	<b>\$ 439,474,178</b>

The mortgage investments are secured by real property and mature between 2016 and 2019 (December 31, 2015 – 2016 and 2018). The weighted average interest rate earned on net mortgage investments for the three months ended March 31, 2016 was 9.1% (December 31, 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.



## Notes to the Condensed Consolidated Interim Financial Statements

### Three months ended March 31, 2016 and 2015

For the three months ended March 31, 2016 ("Q1 2016"), the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$933,162 (three months ended March 31, 2015 ("Q1 2015") – \$777,987), 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:

2016, balance of year	\$ 194,517,702
2017	165,331,782
2018	66,624,641
2019	9,500,011
<b>Total</b>	<b>\$ 435,974,136</b>

#### (b) Mortgage syndication liabilities

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

As at March 31, 2016, the carrying value of the transferred assets in gross mortgage investments, including related interest receivable and unearned lender fees, and corresponding mortgage syndication liabilities is \$385,118,272 (December 31, 2015 – \$310,048,650). For Q1 2016, the Company has also recognized interest income of \$3,483,763 (Q1 2015 – \$2,426,089) and fee income of \$159,523 (Q1 2015 – \$151,022) and a corresponding interest and fee expense of \$3,643,286 (Q1 2015 – \$2,577,111) in the statements of net income and comprehensive income. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 14).

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

As at March 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. For Q1 2016, no additional collective impairment was recognized (Q1 2015 – nil).

## Notes to the Condensed Consolidated Interim Financial Statements

### Three months ended March 31, 2016 and 2015

As at March 31, 2016, there was an allowance for mortgage investments 1,150,000 (December 31, 2015 – \$1,150,000)

#### 6. FORECLOSED PROPERTIES HELD FOR SALE

As at March 31, 2016, there are three foreclosed properties held for sale ("FPHFS") (December 31, 2015 – three) which are recorded at their fair value of \$12,365,023 (December 31, 2015 – \$12,836,466). The fair value has been categorized as a level 3 fair value, based on inputs to the valuation techniques used. The changes in the FPHFS during Q1 2016 were as follows:

	Three months ended March 31,	
	2016	2015
Balance, beginning of period	\$ 12,836,466	\$ 13,850,521
Disposition of foreclosed properties	(471,443)	(193,040)
<b>Balance, end of period</b>	<b>\$ 12,365,023</b>	<b>\$ 13,657,481</b>

During Q1 2016, the Company closed on the sale of three residential units (Q1 2015 – one) in one of the foreclosed properties for net proceeds of \$471,443 (Q1 2015 – \$193,040).

#### 7. CREDIT FACILITY

	March 31, 2016	December 31, 2015
Credit facility balance	\$ 53,000,000	\$ 53,812,475
Unamortized financing costs	(151,742)	(187,659)
<b>Total credit facility</b>	<b>\$ 52,848,258</b>	<b>\$ 53,624,816</b>

The Company has a credit facility with a syndicate of lenders with an available limit of \$60,000,000 (December 31, 2015 – \$60,000,000) bearing interest at either the prime rate of interest plus 1.5%, or bankers' acceptances ("BA") with a stamping fee of 2.5% of the face amount of such BA. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on October 31, 2016.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q1 2016, included in financing costs is interest on the credit facility of \$465,193 (Q1 2015 – \$233,135) and financing costs amortization of \$62,115 (Q1 2015 – \$47,530).

#### 8. CONVERTIBLE DEBENTURES

On February 25, 2014, the Company completed a public offering of \$30,000,000, with an overallotment option of \$4,500,000 that was completed on March 3, 2014, of 6.35%, convertible unsecured subordinated debentures for net proceeds of \$32,533,220 (the "debentures"). The debentures mature on March 31, 2019 with interest payable semi-annually on March 31 and September 30 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.25 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The debentures will not be redeemable prior to March 31, 2017. On and after March 31, 2017 and prior to March 31, 2018, the debentures will be redeemable by the Company, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

interest up to but excluding the date of redemption on not more than 60 days' and not less than 30 days' prior written notice, provided that the current market price as of the date on which notice of redemption is given is not less than 125% of the conversion price. On and after March 31, 2018 and prior to the maturity date, the debentures will be redeemable, in whole or in part, from time-to-time at the Company's sole option at a price equal to the principal amount thereof plus accrued and unpaid interest to, but excluding, the date of redemption on not more than 60 days' and not less than 30 days' prior written notice.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts of \$577,478 has been recorded as equity, with the remaining \$31,955,742 allocated to long-term debt.

The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$34,500,000. The issue costs of \$1,966,780 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

The debentures are allocated as follows:

	<b>March 31, 2016</b>
Issued	\$ 34,500,000
Issue costs, net of amortization	(1,298,076)
Equity component	(577,478)
Issue costs attributed to equity component	32,921
Cumulative accretion	237,825
<b>Debentures, end of period</b>	<b>\$ 32,895,192</b>

Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For Q1 2016, interest on the debentures is included in financing costs and is made up of the following:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2016</b>	<b>2015</b>
Interest on the convertible debentures	\$ 547,687	\$ 537,185
Amortization of issue costs	88,752	94,722
Accretion of the convertible debentures	28,253	27,942
<b>Total</b>	<b>\$ 664,692</b>	<b>\$ 659,849</b>

## 9. COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. Common shares are publicly listed on the Toronto Stock Exchange (the "TSX") under the symbol 'TMC'. Holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

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

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

	Three months ended	
	March 31,	
	2016	2015
Balance, beginning of period	40,523,728	40,701,528
Repurchased under normal course issuer bid	–	(37,400)
Repurchased under dividend reinvestment plan	(96,089)	(93,331)
Issued under dividend reinvestment plan	96,089	93,331
<b>Balance, end of period</b>	<b>40,523,728</b>	<b>40,664,128</b>

**(a) Dividend reinvestment plan**

The Company's dividend reinvestment plan (the "DRIP") provides eligible beneficial and registered holders of common shares of the Company with a means to reinvest dividends declared and payable on such common shares in additional common shares. Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. For Q1 2016, 96,089 common shares were purchased on the open market (Q1 2015 – 93,331 common shares purchased on the open market).

**(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. During Q1 2016, the Company declared dividends of \$7,294,273, or \$0.18 per share, to the holders of common shares (Q1 2015 – \$7,324,031, \$0.18 per share). As at March 31, 2016, \$2,431,424 (December 31, 2015 – \$2,431,424) was payable to the holders of common shares. Subsequent to March 31, 2016, the Board of Directors declared dividends of \$0.06 per common share, paid on May 13, 2016 to the common shareholders of record on April 29, 2016.

**(c) Normal course issuer bid**

On January 4, 2016, the Company 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 Q1 2016, the Company did not acquire any common shares for cancellation (Q1 2015 – \$37,400 common shares at a cost of \$284,082).

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

During Q1 2016, 6,443 (Q1 2015 – nil) deferred share units ("DSU") were issued and no DSUs were exercised or cancelled. As at March 31, 2016, total DSUs issued and outstanding were 23,465 resulting in total DSU liability of \$193,116 based on a fair market value of \$8.23 per common share. As at March 31, 2016, \$48,795 (March 31, 2015 – \$35,000) was in accrued expenses for DSUs relating to Q1 2016, which will be in issued subsequent to quarter-end.

## Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2016 and 2015

**11. MANAGEMENT AND PERFORMANCE FEES**

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. Under the management agreement, the Company shall pay to the Manager, a management fee equal to 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross Assets is defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties. The initial term of the management agreement is 10 years from September 13, 2013 and is automatically renewed for successive five year terms at the expiration of the initial term. For Q1 2016, the Company incurred management fees of \$1,560,364 (Q1 2015 – \$1,457,881).

Under the management agreement, the Manager is entitled to a performance fee. In any calendar year where the Company has net earnings available for distribution to shareholders in excess of the hurdle rate (the "Hurdle Rate"), which is defined as the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points, the Manager is entitled to receive from the Company a performance fee equal to 20% of the net earnings of the Company available to distribute over the Hurdle Rate, plus applicable taxes. The net earnings of the Company shall mean the net income before performance fees of the Company in accordance with applicable accounting principles and adjusted for certain other non-cash adjustments as defined in the management agreement. The performance fee is payable to the Manager within 15 days of the issuance of the Company's audited annual consolidated financial statements for that calendar year. The performance fee accrued for Q1 2016 is \$597,453 (Q1 2015 – \$542,163).

**12. EARNINGS PER SHARE**

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

	<b>Three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Numerator for earnings per share:		
Net income and comprehensive income	\$ 7,176,291	\$ 7,233,761
Denominator for earnings per share:		
Weighted average number of common shares (basic and diluted)	40,523,728	40,700,069
<b>Earnings per share – basic and diluted</b>	<b>\$ 0.18</b>	<b>\$ 0.18</b>

**13. RELATED PARTY TRANSACTIONS**

- (a) As at March 31, 2016, due to Manager includes management and performance fees payable of \$599,216 (December 31, 2015 – \$2,425,700) and receivable of \$4,385 (December 31, 2015 – nil) related to costs paid by the Manager on behalf of the Company.
- (b) As at March 31, 2016, included in other assets is \$1,452,782 (December 31, 2015 – \$2,188,556) of cash held in trust by Timbercreek Mortgage Servicing Inc., the Company's mortgage servicing and administration

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements Three months ended March 31, 2016 and 2015

provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

- (c) In addition to the above related party transactions, the Company has transacted with other funds managed by the Manager, or one of its subsidiaries. As at March 31, 2016, the Company, TSMIC, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments totalling \$693,409,960 (December 31, 2015 – \$702,623,518). During the year ended March 31, 2016, the Company, along with its related parties, funded \$57,909,482 in co-invested gross mortgage investments and received repayments of \$64,544,513. As at March 31, 2016, the Company's share in these gross mortgage investments is \$279,292,613 (December 31, 2015 – \$286,310,931). Included in these amounts are two (December 31, 2015 – one) net mortgage investments of \$2,354,126 (December 31, 2015 – \$1,265,625) 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.

### 14. FAIR VALUE MEASUREMENTS

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

As at March 31, 2016	Carrying Value			Fair value
	Loans and receivable	Fair value through profit and loss	Other financial liabilities	
<b>Assets measured at fair value</b>				
Foreclosed properties held for sale	\$ –	\$ 12,365,023	\$ –	\$ 12,365,023
<b>Assets not measured at fair value</b>				
Cash and cash equivalents	232,028	–	–	232,028
Other assets	2,390,058	–	–	2,390,058
Mortgage investments, including mortgage syndications	823,244,998	–	–	823,244,998
<b>Financial liabilities not measured at fair value</b>				
Accounts payable and accrued expenses	–	–	679,844	679,844
Dividends payable	–	–	2,431,424	2,431,424
Due to Manager	–	–	594,831	594,831
Mortgage funding holdbacks	–	–	769,876	769,876
Prepaid mortgage interest	–	–	682,906	682,906
Credit facility	–	–	52,848,258	52,848,258
Convertible debentures	–	–	32,895,192	35,110,650
Mortgage syndication liabilities	–	–	385,118,272	385,118,272

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

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**(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 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 Q1 2016.

**15. COMMITMENTS AND CONTINGENCIES**

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

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