

Consolidated Financial Statements of

Timbercreek Senior Mortgage Investment Corporation

Years ended December 31, 2015 and 2014



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, 2015 and December 31, 2014, the consolidated statements of net income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of 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, 2015 and December 31, 2014, 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

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

February 23, 2016

Toronto, Canada

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at December 31,	
	2015	2014
ASSETS		
Other assets (note 10(b))	\$ 662,405	\$ 1,078,711
Mortgage investments, including mortgage syndications (note 4)	481,261,784	483,209,196
Total assets	\$ 481,924,189	\$ 484,287,907
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	\$ 496,292	\$ 287,264
Dividends payable (note 6(b))	1,572,558	1,577,831
Due to Manager (note 10(a))	40,848	29,969
Mortgage funding holdbacks	250,000	92,838
Prepaid mortgage interest	232,673	765,165
Credit facility (note 5)	164,096,651	141,233,024
Mortgage syndication liabilities (note 4)	27,107,802	51,757,277
Total liabilities	193,796,824	195,743,368
Shareholders' equity	288,127,365	288,544,539
Total liabilities and equity	\$ 481,924,189	\$ 484,287,907
Commitments and contingencies (notes 4 and 16)		

See accompanying notes to the consolidated financial statements.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

	Years ended December 31,	
	2015	2014
Interest income:		
Interest, including mortgage syndications	\$ 29,939,142	\$ 28,850,308
Fees and other income, including mortgage syndications	2,666,158	3,252,022
Gross interest income	32,605,300	32,102,330
Interest and fees expense on mortgage syndications (note 4(b))	(2,286,411)	(3,943,215)
Net interest income	30,318,889	28,159,115
Expenses:		
Management fees (note 8)	4,428,225	3,888,665
Provision for mortgage investments loss (note 4(c))	–	175,000
General and administrative	939,058	884,933
Total expenses	5,367,283	4,948,598
Income from operations	24,951,606	23,210,517
Financing costs:		
Interest on credit facility (note 5)	5,655,355	4,493,561
Total financing costs	5,655,355	4,493,561
Net income and comprehensive income	\$ 19,296,251	\$ 18,716,956
Earnings per share (note 9)		
Basic and diluted	\$ 0.61	\$ 0.59

See accompanying notes to the consolidated financial statements.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2015	Common Shares	Retained Earnings	Total
Shareholders' equity, beginning of year	\$ 288,731,412	\$ (186,873)	\$ 288,544,539
Dividends	–	(18,913,328)	(18,913,328)
Issuance of common shares under dividend reinvestment plan	1,284,526	–	1,284,526
Repurchase of common shares under dividend reinvestment plan	(1,284,526)	–	(1,284,526)
Repurchase of common shares under normal course issuer bid	(800,097)	–	(800,097)
Net income and comprehensive income	–	19,296,251	19,296,251
Shareholders' equity, end of year	\$ 287,931,315	\$ 196,050	\$ 288,127,365

Year ended December 31, 2014	Common Shares	Retained Earnings	Total
Shareholders' equity, beginning of year	\$ 288,731,412	\$ 30,136	\$ 288,761,548
Dividends	–	(18,933,965)	(18,933,965)
Issuance of common shares under dividend reinvestment plan	1,050,077	–	1,050,077
Repurchase of common shares under dividend reinvestment plan	(1,050,077)	–	(1,050,077)
Net income and comprehensive income	–	18,716,956	18,716,956
Shareholders' equity, end of year	\$ 288,731,412	\$ (186,873)	\$ 288,544,539

See accompanying notes to the consolidated financial statements.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years ended December 31,	
	2015	2014
OPERATING ACTIVITIES		
Net income and comprehensive income	\$ 19,296,251	\$ 18,716,956
Amortization of lender fees	(2,418,524)	(2,858,560)
Lender fees received	2,260,792	1,726,651
Provision for mortgage investments loss	–	175,000
Financing costs	5,655,355	4,493,561
Change in non-cash operating items:		
Interest receivable	(1,236,765)	(270,249)
Other assets	372,101	2,233,091
Accounts payable and accrued expenses	383,829	(759,850)
Due to Manager	10,879	(292,536)
Prepaid mortgage interest	(532,492)	(871,190)
Mortgage funding holdbacks	157,162	(1,366,217)
	23,948,588	20,926,657
FINANCING ACTIVITIES		
Advances from (repayments of) credit facility, net	22,290,497	33,105,353
Repurchase of common shares for cancellation	(800,097)	–
Interest paid	(5,212,821)	(5,258,129)
Dividends paid	(18,918,601)	(18,933,965)
	(2,641,022)	8,913,259
INVESTING ACTIVITIES		
Funding of mortgage investments, net of mortgage syndications	(299,026,933)	(271,422,751)
Discharges of mortgage investments, net of mortgage syndications	277,719,367	241,582,835
	(21,307,566)	(29,839,916)
Increase (decrease) in cash and cash equivalents	–	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	\$ –	\$ –

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

1. CORPORATE INFORMATION

Timbercreek Senior 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 Canada Business Corporations Act by articles of incorporation dated December 1, 2011. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "MTG".

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 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. BASIS OF PREPARATION

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on February 23, 2016.

(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.

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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

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 materially.

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

Measurement of fair values

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

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

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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 14.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

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

(b) Mortgage investments

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

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

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.

Notes to the Consolidated Financial Statements

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(c) Income taxes

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

(d) Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not classified as FVTPL, any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classifications of the Company's financial instruments are outlined in note 14.

(e) Derecognition of financial assets and liabilities**Financial assets**

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

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

Notes to the Consolidated Financial Statements

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

Financial liabilities

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

(f) Interest and fee income

Interest income includes interest earned on the Company's mortgage investments and interest earned on cash and cash equivalents. Interest income earned on the mortgage investments is accounted for using the effective interest method. Lender fees received are an integral part of the yield on the mortgage investments and are amortized to profit and loss over the expected life of the specific mortgage investment using the effective interest rate method. Forfeited lender fees are taken to profit at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

(g) Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company's non-executive directors began participating in a deferred share unit plan (the "Plan") which allows the directors to elect to receive a portion of their compensation in the form of deferred share units ("DSUs"). The benefit resulting from the grant of DSUs under the Plan is recorded in profit and loss when awarded. DSUs granted are included within accrued expenses based on the fair market value of the DSUs on the date of grant and are subsequently measured at each reporting date at their fair market value with changes in the carrying amount recognized in profit and loss.

(h) 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, 2016 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) Annual Improvements to IFRS (2012-2014) cycle

On September 25, 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. One of the amendments was made to clarify the disclosure of information "elsewhere in the interim financial report" under IAS 34 Interim Financial Reporting. The amendment will apply for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

(ii) Disclosure Initiative: Amendments to IAS 1

On December 18, 2014 the IASB issued amendments to IAS 1 Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2016. The Company does not expect the amendments to have a material impact on its financial statements.

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

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

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

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

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

4. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

December 31, 2015	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (notes 4(a) and (b))	\$ 479,781,320	\$ (27,177,373)	\$ 452,603,947
Interest receivable	3,784,574	(100,186)	3,684,388
	483,565,894	(27,277,559)	456,288,335
Unamortized lender fees	(2,129,110)	169,757	(1,959,353)
Allowance for mortgage investments loss (note 4(c))	(175,000)	–	(175,000)
	\$ 481,261,784	\$ (27,107,802)	\$ 454,153,982

December 31, 2014	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (notes 4(a) and (b))	\$ 482,999,547	\$ (51,703,166)	\$ 431,296,381
Interest receivable	2,653,304	(205,681)	2,447,623
	485,652,851	(51,908,847)	433,744,004
Unamortized lender fees	(2,268,655)	151,570	(2,117,085)
Allowance for mortgage investments loss (note 4(c))	(175,000)	–	(175,000)
	\$ 483,209,196	\$ (51,757,277)	\$ 431,451,919

As at December 31, 2015, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$102,181,625 (December 31, 2014 – \$129,494,810).

(a) Net mortgage investments

As at December 31, 2015, the net mortgage investments are secured by a first priority charge, bearing interest at a weighted average interest rate of 6.1% (December 31, 2014 – 6.2%) and mature between 2016 and 2021 (December 31, 2014 – 2015 and 2019).

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, 2015, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$2,260,792 (2014 - \$1,726,651), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

Notes to the Consolidated Financial Statements

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

2016	\$	182,948,659
2017		202,506,489
2018		21,200,000
2019		3,072,896
2020 and thereafter		42,875,903
Total	\$	452,603,947

(b) Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements, mainly 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, all of which is secured by first mortgage positions. 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 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 derecognition 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 interests sold and the proceeds on sale are recognized as a gain or loss in profit and loss.

As at December 31, 2015, 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 \$27,107,802 (December 31, 2014 – \$51,757,277). The Company has also recognized interest income of \$2,179,824 (2014 - \$3,702,454) and fee income of \$106,587 (2014 - \$240,761) and a corresponding interest and fee expense of \$2,286,411 (2014 - \$3,943,215) in the statements of net income and comprehensive income. The fair value of the transferred assets and non-recourse mortgage syndicated liabilities approximate their carrying values (see note 14(a)).

(c) Allowance for mortgage investments loss

As at December 31, 2015, 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 are 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,

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Years ended December 31, 2015 and 2014

the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated.

As at December 31, 2015, the Company has a collective impairment allowance of \$175,000 (December 31, 2014 – \$175,000).

5. CREDIT FACILITY

	December 31, 2015	December 31, 2014
Credit facility balance	\$ 164,366,496	\$ 142,075,999
Unamortized financing costs	(269,845)	(842,975)
Total credit facility	\$ 164,096,651	\$ 141,233,024

The Company has a credit facility with a syndicate of lenders with an available limit of \$190,000,000 (December 31, 2014 - \$190,000,000) 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's maximum credit facility limit is subject to its borrowing base as set out in the credit agreement. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The credit facility is secured by a general security agreement over the Company's assets. The credit facility matures on June 23, 2016.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2015 included in financing costs is interest on the credit facility of \$5,075,792 (2014 - \$3,891,303) and amortization of financing costs of \$579,563 (2014 - \$602,258).

6. COMMON SHARES

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

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

Notes to the Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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

	Years ended December 31,	
	2015	2014
Common shares outstanding, beginning of year	31,556,608	31,556,608
Common shares repurchased under normal course issuer bid	(105,454)	-
Common shares repurchased under dividend reinvestment plan	(156,913)	(118,479)
Common shares issued under dividend reinvestment plan	156,913	118,479
Common shares outstanding, end of year	31,451,154	31,556,608

(a) Dividend reinvestment plan

The dividend reinvestment plan ("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 the year ended December 31, 2015, 156,913 (2014 – 118,479) common shares were purchased on the open market under the DRIP.

(b) Dividends

The Company intends to pay dividends on a monthly basis within 15 days following the end of each month. During the year ended December 31, 2015, the Board of Directors declared dividends of \$18,913,328 or \$0.60 per share (2014 – \$18,933,965, \$0.60 per share). As at December 31, 2015, \$1,572,558 (December 31, 2014 – \$1,577,831) was payable to the holders of common shares. Subsequent to December 31, 2015, the Board of Directors declared dividends of \$0.05 per common share, to be paid on February 12, 2016 to common shareholders of record on January 29, 2016.

(c) Normal course issuer bid

On November 13, 2014, the Company received the approval of the TSX to commence a normal course issuer bid to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common shares float, at that time, on November 11, 2014 and expired on November 16, 2015. Subject to certain exemptions for block purchases, the maximum number of common shares that the Company could acquire on any one trading day was 8,454 common shares, such amount representing 25% of the average daily trading volume of the common shares for the six calendar months prior to the start of the normal course issuer bid. During year ended December 31, 2015, the Company acquired 105,454 shares for cancellation at a cost of \$800,097 (2014 – nil).

On January 4, 2016, the Company received TSX approval to reinstate a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 3,116,479 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced

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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. From January 6, 2016 to February 23, 2016, the Company did not acquire any common shares for cancellation.

7. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan, whereby up to 100% of the compensation for a director may be paid in the form of DSUs, credited quarterly in arrears. Directors may elect annually, in accordance with the Plan, as to how much (if any) of the compensation will be paid in DSUs, having regard at all times to the ownership guidelines of the Plan. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). DSUs granted entitle the directors to also accumulate DSUs equal to the monthly cash dividends, assuming reinvestment of the dividends into units based upon the Fair Market Value of the common shares on the dividend payment date.

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

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

For the year ended December 31, 2015, 17,557 DSUs were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$130,975 based on a Fair Market Value of \$7.46 per common share. As at December 31, 2015, \$55,993 in DSUs relating to Q4 2015 will be issued subsequent to year-end which are included in accrued expenses.

8. MANAGEMENT FEES

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. In accordance with the 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, 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 management agreement is 10 years from September 13, 2013 and is renewed for successive five-year terms at the expiration of the initial term.

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For the year ended December 31, 2015, the Company incurred management fees of \$4,428,225 (2014 - \$3,888,665).

9. EARNINGS PER SHARE

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

	Years ended December 31,	
	2015	2014
Numerator for earnings per share: Net income and comprehensive income	\$ 19,296,251	\$ 18,716,956
Denominator for earnings per share: Weighted average number of common shares (basic and diluted)	31,524,767	31,556,608
Earnings per share – basic and diluted	\$ 0.61	\$ 0.59

10. RELATED PARTY TRANSACTIONS

- (a) As at December 31, 2015, due to Manager includes \$31,958 (December 31, 2014 – \$23,050) relating to management fees payable and \$8,890 (December 31, 2014 – \$6,919) relating to costs incurred by the Manager on behalf of the Company.
- (b) The Manager is responsible for the general management and day-to-day operations of the Company and, through Timbercreek Mortgage Servicing Inc. ("TMSI"), a company controlled by the Manager, is the Company's mortgage servicer and administrator. As at December 31, 2015, included in other assets is \$482,673 (December 31, 2014 – \$858,003), of cash held in trust for the Company by TMSI, the balance of which is related to mortgage funding holdbacks and prepaid mortgage interest from various borrowers.
- (c) As at December 31, 2015, the Company remains co-invested in a mortgage investment with a total gross commitment of \$76,097,424 (December 31, 2014 – \$76,097,424) where the president of one of the co-investors in the financing is also an independent director of the Company. The Company's share of the commitment is \$48,594,072 (December 31, 2014 – \$48,594,072), of which \$28,325,811 (December 31, 2014 – \$8,255,778) has been funded at December 31, 2015.
- (d) As at December 31, 2015, the Company has a mortgage investment with a total gross commitment of \$84,108,000 (December 31, 2014 – \$84,108,000) where one independent director of the Company is an officer of an indirect investor in the borrower. Another independent director is an officer and a part-owner of another co-investor in the borrower. The Company's share of the commitment is \$14,190,000 (December 31, 2014 – \$14,190,000), of which \$1,611,196 (December 31, 2014 – \$1,611,196) has been funded as at December 31, 2015.

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- (e) During year ended December 31, 2015, the Company co-invested in a mortgage investment with a total gross commitment of \$55,000,000, where one independent director of the Company holds a minority interest in the borrower. The Company's share of the commitment is \$27,000,000 and has been fully advanced as at December 31, 2015.
- (f) In addition to the above related party transactions, the Company has transacted with other entities managed by the Manager, or one of its subsidiaries. As at December 31, 2015, the Company, Timbercreek Mortgage Investment Corporation ("TMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several gross mortgage investments, totalling \$570,341,211 (December 31, 2014 – \$566,814,488). During the year ended December 31, 2015, the Company, along with its related parties, funded \$319,943,998 in co-invested gross mortgage investments and received repayments of \$337,665,331. As at December 31, 2015, the Company's share in these gross mortgage investments is \$401,757,519 (December 31, 2014 – \$423,270,549). Included in these amounts is a gross mortgage investment of \$9,788,542 (December 31, 2014 – \$8,872,821) 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.

11. INCOME TAXES

As of December 31, 2015, the Company has non-capital losses carried forward for income tax purposes of \$19,322,000 (December 31, 2014 – \$15,003,529), which will expire between 2032 and 2035 (December 31, 2014 – 2032 and 2034), 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 \$8,900,000 (December 31, 2014 – \$14,000,707).

12. 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.

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. At December 31, 2015, the Company was in compliance with its investment restrictions.

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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, 2015, the Company was in compliance with all financial covenants.

13. 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, 2015, \$44,672,360 of mortgage investments bear interest at variable rates, however of this amount, \$43,061,164 of mortgage investments include a "floor rate" to protect from negative exposure and one mortgage investment totalling \$1,611,196 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 \$8,056; whereas a 0.50% increase in interest rates would result in an increase of \$223,362 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 it from negative exposure.

The Company is exposed to interest-rate risk on the credit facility, which has a balance of \$164,366,496 as at December 31, 2015. Based on the outstanding credit facility balance as at December 31, 2015, a 0.50% decrease in interest rates, with all other variables constant, would increase net income by \$821,832 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 other assets, accounts payable and accrued expenses, dividends payable, amount due to Manager, mortgage funding holdbacks, and prepaid mortgage interest have no exposure to interest rate risk due to their short-term nature.

(b) Credit risk

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

- (i) adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);

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- (ii) ensuring 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, 2015 is the carrying values of its net mortgage investments and interest receivable, which total \$456,288,335 (December 31, 2014 – 433,744,004). The Company has recourse under these mortgage investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

(c) Liquidity risk

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

The following are the contractual maturities of financial liabilities as at December 31, 2015, including expected interest payments until the maturity date:

December 31, 2015	Carrying value	Contractual cash flow	Within a year
Accounts payable and accrued expenses	\$ 496,292	\$ 496,292	\$ 496,292
Dividends payable	1,572,558	1,572,558	1,572,558
Due to Manager	40,848	40,848	40,848
Mortgage funding holdbacks	250,000	250,000	250,000
Prepaid mortgage interest	232,673	232,673	232,673
Credit facility ¹	164,366,496	167,282,312	167,282,312
	166,958,867	169,874,683	169,874,683
Unadvanced mortgage commitments ²	–	102,181,625	102,181,625
	\$ 166,958,867	\$ 272,056,308	\$ 272,056,308

1 Includes interest based upon current prime rate of interest plus 1.0% on the credit facility assuming the outstanding balance is not repaid until its maturity in June 2016.

2 Unadvanced mortgage commitments include syndication commitments.

As at December 31, 2015, the Company has an unutilized credit facility balance of \$10,463,398 (December 31, 2014 – \$27,039,664), based on the available borrowing base as at December 31, 2015. The available borrowing base can be increased by \$5,170,106, being the credit facility limit, subject to terms of the credit agreement. The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is \$28,921,962 relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

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14. FAIR VALUE MEASUREMENTS

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

December 31, 2015	Carrying Value		Fair value
	Loans and receivables	Other financial liabilities	
Financial assets not measured at fair value			
Other assets	\$ 662,405	\$ -	\$ 662,405
Mortgage investments, including mortgage syndications	481,261,784	-	481,261,784
Financial liabilities not measured at fair value			
Accounts payable and accrued expenses	-	496,292	496,292
Dividends payable	-	1,572,558	1,572,558
Due to Manager	-	40,848	40,848
Mortgage funding holdbacks	-	250,000	250,000
Prepaid mortgage interest	-	232,673	232,673
Credit facility	-	164,096,651	164,096,651
Mortgage syndication liabilities	-	27,107,802	27,107,802

December 31, 2014	Carrying Value		Fair value
	Loans and receivable	Other financial liabilities	
Financial assets not measured at fair value			
Other assets	\$ 1,078,711	\$ -	\$ 1,078,711
Mortgage investments, including mortgage syndications	483,209,196	-	483,209,196
Financial liabilities not measured at fair value			
Accounts payable and accrued expenses	-	287,264	287,264
Dividends payable	-	1,577,831	1,577,831
Due to Manager	-	29,969	29,969
Mortgage funding holdbacks	-	92,838	92,838
Prepaid mortgage interest	-	765,165	765,165
Credit facility	-	141,233,024	141,233,024
Mortgage syndication liabilities	-	51,757,277	51,757,277

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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 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 other assets, accounts payable and accrued expenses, dividends payable, mortgage funding holdbacks, prepaid mortgage interest and credit facility approximate their carrying amounts due to their short-term maturities.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy in December 31, 2015 and 2014.

15. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The compensation expense of the members of the Board of Directors amounts to \$198,858 (2014 – \$94,759), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 8).

16. 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 investments. 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.