# Timbercreek
# Senior Mortgage Investment Corporation

2015 Annual Report

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Timbercreek Senior Mortgage Investment Corporation is a leading non-bank provider of shorter-duration, customized first mortgage financing solutions to professional real estate investors. Our success rests on our sophisticated, service-oriented approach, which allows us to meet the multifaceted needs of commercial real estate borrowers. By bringing together three core elements of thorough underwriting, active management and strong governance, we are able to fulfill the requirements of this borrower market while **preserving capital** and providing our shareholders with **strong risk-adjusted returns**.

## Drivers of Our Success

### Our Strategy

Throughout 2015, we have continued to focus on making **high-quality investments secured by high-quality commercial real estate assets**.

We deliver on this goal through mortgage loans secured by **income-producing properties**, combined with disciplined **portfolio diversification**.

Together, these strategies allow us to generate superior risk-adjusted returns for shareholders.

### Our People

Our investors benefit from Timbercreek's **robust orgination and asset management platform**.

Our origination team leverages their **strong relationships** with commercial real estate borrowers and mortgage broker and investment banker contacts from across the country.

The origination team, coupled with the underwriting, funding and servicing team at Timbercreek, are **seasoned specialists** with experience spanning varying economic cycles, and as such are a critical component of our success.

### Superior Customer Service

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

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

**No Principal Impairments**
since inception

**$4.6 billion**
in mortgage and loan originations by Timbercreek since inception

Repeat borrowers represent
**62%**
of new business since inception

# 2015 Company Highlights

**5%**
portfolio growth

**3%**
growth in earnings

**100%**
first mortgage positions

**96%**
payout ratio

**$214.3 million**
in new mortgage investments funded (29 loans)

**61%**
portfolio turnover

# Income-Producing Properties

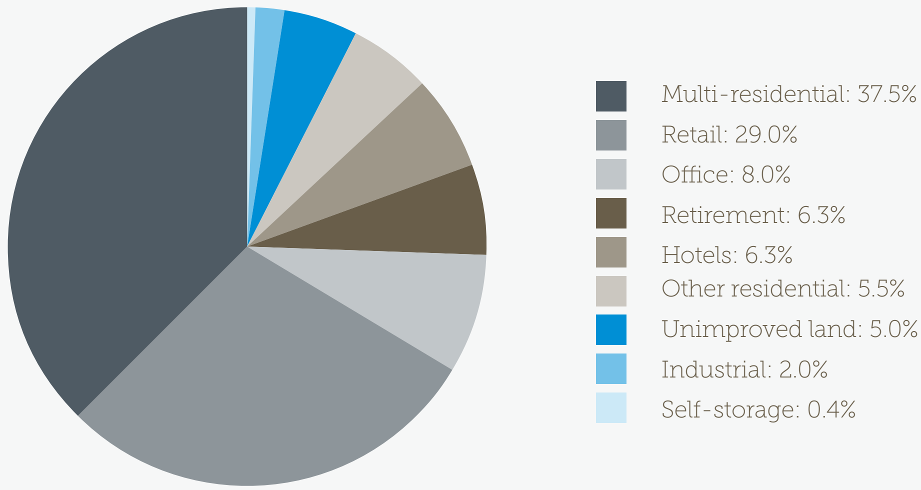
**85%** of the loans in our portfolio are secured by income-producing investment real estate

The majority of our mortgage investments are secured by income-producing investment real estate (including multi-residential, retirement, office, retail and industrial properties), rather than land, construction or single-family residential properties.

This focus brings several benefits to bear on Timbercreek's overall strategy:

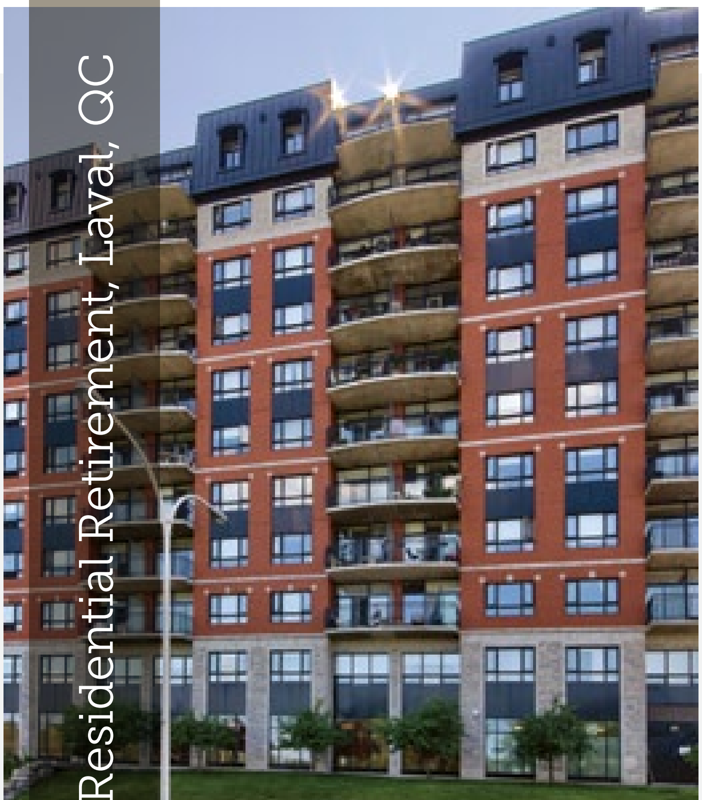
- First, lending against income-producing real estate ensures that income is available to service the investment, thereby reducing the likelihood of defaults.
- Additionally, the increased liquidity of income-producing properties in and around urban markets means that the underlying security for the mortgage investment is less volatile than for land or construction – for which a slowed or stalled cycle can substantially impact value and liquidity.

## Diversification by Asset Type




# Sample Investments

## Residential Retirement, Laval, QC

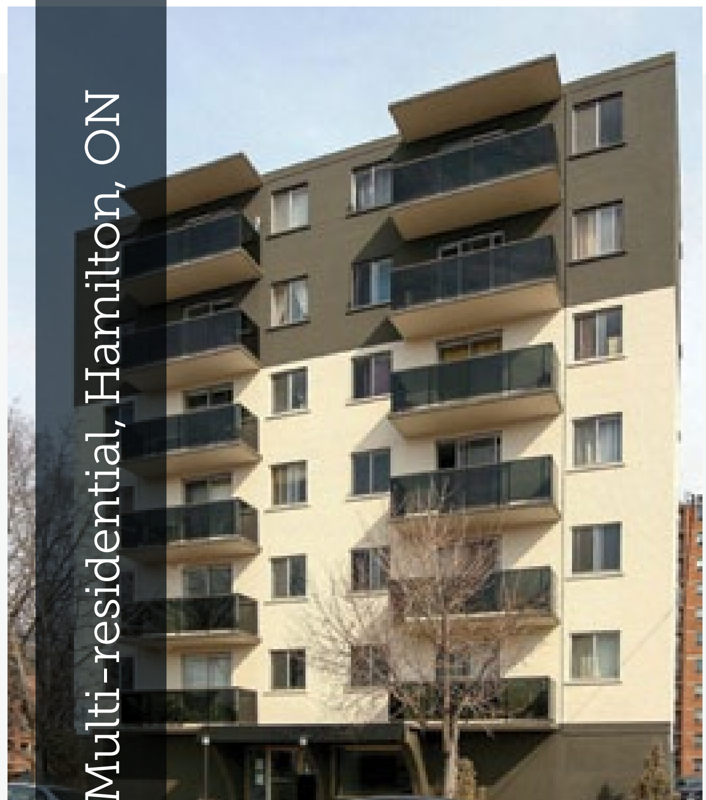


Situated north of Montreal, the City of Laval is currently Montreal's largest sub-market and is known for its maturely-developed residential neighbourhoods and predominantly middle- to upper-class demographic.

The loan is secured by a two-building retirement property of 158 income-generating, retirement rental units and 50 condominium units and will be used to bridge financing during the final lease-up period of rental units and the simultaneous sell-off period of the individual condominium units.

| CRITERIA | INVESTMENT |
| --- | --- |
| Asset type | Residential Retirement Housing |
| Loan size | $30,000,000 |
| Position | First Mortgage |
| Term | 24 months |
| Loan-to-value | 54.8% |

## Multi-residential, Hamilton, ON



This 42-suite, income-generating, multi-residential building is located in southwest Hamilton, in very close proximity to public transit, schools, shops, restaurants, and other amenities.

The first mortgage loan – provided to a repeat borrower with an excellent track record – was used for the refinancing of the property securing the loan. A renovation and repositioning program is underway, which will include system upgrades, new balconies, energy initiatives and in-suite enhancements. The loan will be repaid with conventional refinancing upon stabilization and repositioning of the property.

| CRITERIA | INVESTMENT |
| --- | --- |
| Asset type | Multi-residential |
| Loan size | $3,000,577 |
| Position | First Mortgage |
| Term | 18 months |
| Loan-to-value | 70.0% |

# Letter to Shareholders

I am pleased to share with you another strong year of performance for Timbercreek Senior Mortgage Investment Company. **Through 2015, deal flow remained strong, allowing us to grow the portfolio by 5% and generate distributable income in excess of the dividend paid to shareholders**. Despite operating in an environment of continuing low interest rates, we were also able to deploy over $299 million over the year with effectively no change to the weighted average interest rate and without compromising the quality of the portfolio.

As we reflect on the accomplishments of 2015 and consider what's ahead in 2016, let me emphasize that **risk management continues to be a top priority**. To that end, we continue to manage risk through a number of strategies that include focusing our lending in larger urban cities and targeting loans secured by cash-flowing properties. We also continue to thoroughly underwrite the asset, the stability of the cash flow and the financial strength of the borrower. At year end, **85% of the loans in our portfolio were secured by income-producing properties** (up from 83% at the end of 2014), a strategy that we continue to deploy given the security provided by income-producing properties. Throughout 2015 the strength of both our origination team and our underwriting discipline was demonstrated by the successful turnover within the portfolio (61%) and by the volume of capital deployed during the year ($214 million).

We currently have 57 mortgage loans in the portfolio with an average size of $7.9 million. In our portfolio, we continue to focus on maintaining diversification both by investment type and geography. We have maintained a high concentration of exposure to multi-residential properties, which now make up 37.5% of our portfolio – a marginal increase from our exposure at the end of last year. This focus stands in contrast to the office sector, where we were less active in 2015, primarily because there were a limited number of deals for which we were comfortable with the fundamentals. Office exposure in the portfolio was reduced to 8% at year end, down from just over 20% at the end of last year. Although we still believe select opportunities remain in the office sector, we have nevertheless been approaching deals with caution. Finally, our retail exposure increased from 16% at the end of 2014 to 29% at the end of 2015. These retail loans were primarily secured by grocery-anchored neighbourhood shopping centres, as well as by certain infill, mixed-use properties located in Canada's largest cities.

Looking at our offering from the shareholder's point of view, we continue to believe we present the highest-quality portfolio in the market today; a portfolio that is comprised exclusively of first mortgage investments. At the end of 2015, our weighted average loan-to-value was 56%, in line with the previous year-end standings. The weighted average interest rate through 2015 came down slightly to 6.1% (compared to an average rate of 6.4% for 2014). It is important to note that this downward pressure on rates was primarily experienced in late 2014 (Q4 2014 – 6.2%) and has remained reasonably flat through 2015.

Currently, our weighted average remaining term to maturity also remains low at 1.4 years. This short duration allows us to maintain a certain level of control as a lender, as it allows us to re-set interest rates as market conditions change.

Finally, when I reflect upon the results we accomplished in 2015, I would like to thank the **many people that have contributed to our success**. My thanks are due first and foremost to our investors for their continuing confidence in the Timbercreek team and our business strategy; and then to our investment team who are responsible for executing on that strategy in order to protect investor capital and provide stable income. This business is ultimately guided and overseen by our Board of Directors and Mortgage Advisory Committee who continue to provide valuable oversight and guidance through the year.

In closing, on behalf of the entire team I am delighted to report on our strong performance for 2015 and look forward to maintaining this momentum through 2016.

Andrew Jones
Chief Executive Officer
Timbercreek Senior Mortgage Investment Corporation
April 2016

# Management's Discussion and Analysis

For the year ended December 31, 2015

## FORWARD-LOOKING STATEMENTS

**Forward-looking statement advisory**

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

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons including, but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company's public disclosures. For more information on risks, please refer to the "Risks and Uncertainties" section in this MD&A, and the "Risk Factors" section of our Annual Information Form ("AIF"), which can be found on the SEDAR website at www.sedar.com.

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

This MD&A is dated February 23, 2016. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekseniormic.com. Additional information about the Company, including its AIF, can be found on the SEDAR website at www.sedar.com.

## BUSINESS OVERVIEW

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 publicly traded on the Toronto Stock Exchange ("TSX") under the symbol "MTG".

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

The fundamental investment objectives of the Company are to (i) preserve shareholder capital of the Company and (ii) provide shareholders with a stable stream of monthly dividends. The Company intends to meet its investment objectives by investing in a diversified portfolio of mortgage investments, consisting primarily of conventional mortgage investments secured directly by multi-residential, retirement, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

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

## BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the year ended December 31, 2015. This MD&A should be read in conjunction with the consolidated financial statements for the year ended December 31, 2015 and 2014, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

## NON-IFRS MEASURES

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

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

- Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date;
- Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period;
- Weighted average loan-to-value – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an '"as completed" basis;
- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investments for the stated period;
- Leverage – represents the total credit facility balance divided by total assets less mortgage syndication liabilities for the stated period;
- Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the stated period;
- Weighted average lender fees – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those net mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment;
- Targeted dividend yield – represents the average 2-Year Government of Canada Bond Yield for the stated period plus 350 basis points;
- Actual dividend yield – represents the annualized total per-share dividend for common shares divided by the trading close price as at the reporting date;
- Adjusted net income and comprehensive income – represents net income and comprehensive income for the stated period excluding transition related costs, issuance costs of redeemable shares and dividends to holders of redeemable shares;
- Adjusted earnings per share – represents adjusted net income (loss) and comprehensive income (loss) divided by the weighted average outstanding shares for the stated period;
- Expense ratio – represents total expenses (excluding financing costs and provision for mortgage investments loss) for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities; and
- Payout ratio – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

## RECENT DEVELOPMENTS AND OUTLOOK

The Company demonstrated another strong year of performance in 2015. We deployed over $299 million throughout the year growing the portfolio by 5%, which overall resulted in an increase in net income of 3%.

Managing risk across the portfolio remains our top priority. We continue to target exclusively first mortgages primarily secured by institutional-quality, cash-flowing properties where there is rental income to service the interest payments. We also continue to focus our lending activity in larger cities where we believe there is better liquidity. As at December 31, 2015, 90% of the portfolio was secured by real estate with existing rental income while loans secured by unimproved land were limited to 5%, down from 7% at the end of 2014. While the company does have 11.9% exposure to the Alberta market, we are in the process of syndicating one loan, as part of the normal process, which will result in a reduced exposure to that market by the end of the first quarter.

Aside from the Alberta market and certain areas of the office sector, we believe fundamentals in the commercial real estate market across Canada continue to remain very healthy, creating a good environment for mortgage lending. This is primarily a result of continued demand for investment properties from both domestic investors benefiting from the lower cost of mortgage debt and foreign investors capitalizing on the attractively priced Canadian dollar.

Turnover in the portfolio remained stable through 2015 at 61%. We believe this strong repayment activity further demonstrates the quality of our loans and the strength of our underwriting. Despite the sustained low-interest-rate environment, the Company was able to redeploy all of the capital repaid in the year with effectively no change to the weighted average interest rate in the portfolio.

Overall, performance in 2015 was strong and we will continue to focus closely on managing risk across the portfolio through careful selection and underwriting of the new investments and thorough oversight of the existing loans to ensure that this momentum continues through 2016.

## FINANCIAL HIGHLIGHTS
## FINANCIAL POSITION

| As at | December 31, 2015 | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **KEY FINANCIAL POSITION INFORMATION** | | | |
| Mortgage investments, including mortgage syndications | $ 481,262 | $ 483,209 | $ 515,797 |
| Total assets | $ 481,924 | $ 484,288 | $ 519,007 |
| Credit facility | $ 164,366 | $ 142,076 | $ 108,971 |
| Total liabilities | $ 193,797 | $ 195,743 | $ 230,245 |
| **CAPITAL STRUCTURE** | | | |
| Shareholders' equity | $ 288,127 | $ 288,545 | $ 288,762 |
| Credit facility limit | $ 190,000 | $ 190,000 | $ 130,000 |
| Credit facility balance | $ 164,366 | $ 142,076 | $ 108,971 |
| Leverage[1] | 36.1% | 32.9% | 27.0% |
| **COMMON SHARE INFORMATION** | | | |
| Number of common shares outstanding | 31,451,154 | 31,556,608 | 31,556,608 |
| Closing trading price | $ 7.78 | $ 8.71 | $ 8.54 |
| Market capitalization | $ 244,690 | $ 274,858 | $ 269,493 |

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

## OPERATING RESULTS

| | For the three months ended December 31, | | For the year ended December 31, | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2013 |
| Net interest income | $ 7,689 | $ 7,174 | $ 30,318 | $ 28,159 | $ 28,234 |
| Income from operations | $ 6,313 | $ 5,900 | $ 24,952 | $ 23,211 | $ 18,578 |
| Net income (loss) and comprehensive income (loss) | $ 4,899 | $ 4,625 | $ 19,296 | $ 18,717 | $ (6,453) |
| Earnings per share (basic and diluted) | $ 0.15 | $ 0.15 | $ 0.61 | $ 0.59 | $ 0.42 |
| Adjusted net income and comprehensive income[1] | $ 4,899 | $ 4,625 | $ 19,296 | $ 18,717 | $ 19,593 |
| Adjusted earnings per share (basic and diluted)[1] | $ 0.15 | $ 0.15 | $ 0.61 | $ 0.59 | $ 0.53 |
| | | | | | |
| Dividends to common shareholders | $ 4,719 | $ 4,733 | $ 18,913 | $ 18,934 | $ 22,030 |
| Distributable income | $ 5,137 | $ 4,573 | $ 19,718 | $ 18,362 | $ 21,082 |
| Distributable income per share (basic and diluted)[2] | $ 0.17 | $ 0.14 | $ 0.63 | $ 0.58 | $ 0.57 |
| Targeted dividend yield[1] | 4.07% | 4.52% | 4.05% | 4.55% | 4.61% |
| Actual dividend yield[1] | 7.65% | 6.83% | 7.71% | 6.89% | 7.03% |
| Payout ratio | 91.9% | 103.5% | 95.9% | 103.1% | 104.5% |
| Dividends per share: | | | | | |
| Class A | $ – | $ – | $ – | $ – | $ 0.50 |
| Class B | $ – | $ – | $ – | $ – | $ 0.54 |
| Class I | $ – | $ – | $ – | $ – | $ 0.54 |
| Class J | $ – | $ – | $ – | $ – | $ 0.52 |
| Common | $ 0.15 | $ 0.15 | $ 0.60 | $ 0.60 | $ 0.10 |

1. Refer to non-IFRS Measures section, where applicable.
2. In 2015, the Company repurchased its common shares as part of normal course issuer bid resulting in lower shareholders' equity at December 31, 2015.

**For the three months ended December 31, 2015 ("Q4 2015") and December 31, 2014 ("Q4 2014")**

- The Company advanced six new net mortgage investments (Q4 2014 – five) totalling $58.6 million (Q4 2014 – $50.8 million), had additional advances on existing net mortgage investments totalling $14.8 million (Q4 2014 – $17.6 million) and received full repayments on 12 net mortgage investments (Q4 2014 – eight) and partial paydowns totalling $94.6 million (Q4 2014 – $54.8 million), resulting in net mortgage investments of $452.6 million as at December 31, 2015 (September 30, 2015 – $473.8 million).
- Non-refundable lender fees received by the Company were $0.7 million (Q4 2014 – $0.4 million) or weighted average lender fees of 0.8% (Q4 2014 – 0.5%). The Company generates lender fees predominantly from fundings of new mortgage investments and the increase is mainly attributable to higher new net mortgage investments and the percentage of the lender fees received.
- Net interest income generated by the Company was $7.7 million (Q4 2014 – $7.2 million), an increase of $0.5 million or 7.2% over Q4 2014. The increase in net interest income is mainly due to an increase of approximately $37.6 million in the average net mortgage investments portfolio during Q4 2015 relative to Q4 2014. This was due to average credit facility utilization of $172.1 million (Q4 2014 – $132.6 million). This increase was reduced in part by a lower weighted average interest rate for the period of 6.1% (Q4 2014 – 6.2%) and lower amortization of lender fees.
- Income from operations generated by the Company was $6.3 million (Q4 2014 – $5.9 million), an increase of $0.4 million or 7.0% over Q4 2014 due to an increase in net interest income.
- The Company generated net income and comprehensive income of $4.9 million (Q4 2014 – $4.6 million), an increase of $0.3 million or 5.9%, from Q4 2014, resulting in earnings per share of $0.15 (Q4 2014 – $0.15).
- The Company generated distributable income of $5.1 million (Q4 2014 – $4.6 million) in the quarter resulting in a payout ratio of 91.9% (Q4 2014 – 103.5%).
- The Board of Directors declared dividends to common shareholders of $4.7 million (Q4 2014 – $4.7 million), $0.15 (Q4 2014 - $0.15) per share.
- The Company acquired 7,100 common shares (Q4 2014 – nil) for cancellation under its normal course issuer bid at a cost of $53 (Q4 2014 – nil) at an average price of $7.47 per common share.

**For the years ended December 31, 2015 (the "Year") and December 31, 2014 ("2014")**

- The Company advanced 29 new net mortgage investments (2014 – 32) totalling $214.3 million (2014 – $220.3 million), had additional advances on existing net mortgage investments totalling $84.7 million (2014 – $51.1 million) and received full repayments on 35 net mortgage investments (2014 – 32) and partial paydowns totalling $277.7 million (2014 – $241.6 million), resulting in net mortgage investments of $452.6 million as at December 31, 2015 (December 31, 2014 – $431.3 million). Overall, the net mortgage investments portfolio grew by 4.9% in 2015.
- Non-refundable cash lender fees received by the Company were $2.3 million (2014 – $1.7 million) or weighted average lender fees of 0.8% (2014 – 0.6%). The increase in lender fees is mainly due to higher average lender fees received on new mortgage investments.
- Net interest income generated by the Company was $30.3 million (2014 – $28.2 million), an increase of $2.1 million or 7.7% over 2014. The increase in net interest income is mainly due to a larger average net mortgage investments portfolio of $452.9 million in 2015 relative to $394.1 million in 2014. This was a result of the average credit facility utilization of $164.4 million (2014 – $106.8 million). This increase was reduced by a lower weighted average interest rate for the Year of 6.1% (2014 – 6.4%).
- Income from operations generated by the Company was $25.0 million (2014 – $23.2 million), an increase of $1.8 million or 7.5% over 2014, mainly due to higher net interest income. The increase was offset by higher management fees due to a larger average mortgage investment portfolio.
- The Company generated net income and comprehensive income of $19.3 million (2014 – $18.7 million), an increase of $0.6 million or 3.1% from 2014, resulting in earnings per share of $0.61 (2014 – $0.59).
- The Board of Directors declared dividends to common shareholders of $18.9 million (2014 – 18.9 million), $0.60 (2014 - $0.60) per share.

- The Company generated distributable income of $19.7 million (2014 – $18.4 million) or an increase of $1.3 million from 2014 resulting in a payout ratio of 95.9% (2014 – 103.1%).
- The Company acquired 105,454 common shares (2014 – nil) for cancellation under its normal course issuer bid at a cost of $0.8 million (2014 – nil) at an average price of $7.60 per common share. Subsequent to year-end, the Company re-instituted the normal course issuer bid following TSX approval.

## ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

### Distributable income

| | For the three months ended December 31, 2015 | For the three months ended December 31, 2014 | For the years ended December 31, 2015 | For the years ended December 31, 2014 |
|---|---|---|---|---|
| Net income and comprehensive income | $ 4,899 | $ 4,625 | $ 19,296 | $ 18,717 |
| Less: amortization of lender fees | (564) | (572) | (2,419) | (2,859) |
| Add: lender fees received | 658 | 367 | 2,261 | 1,727 |
| Add: amortization of financing costs | 144 | 153 | 580 | 602 |
| Add: provision for mortgage investments loss | – | – | – | 175 |
| **Distributable income** | $ 5,137 | $ 4,573 | $ 19,718 | $ 18,362 |
| Less: dividends on common shares | (4,719) | (4,733) | (18,913) | (18,934) |
| **(Over) under distribution** | **$ 418** | **$ (160)** | **$ 805** | **$ (572)** |
| | | | | |
| Distributable income per share (basic and diluted) | $ 0.17 | $ 0.14 | $ 0.63 | $ 0.58 |
| Payout ratio | 91.9% | 103.5% | 95.9% | 103.1% |
| Turnover ratio | 20.5% | 13.0% | 60.5% | 61.5% |

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements and its ability to generate recurring cash flows for dividends. The Company expects minor fluctuations in payout ratios as dividends are straight-lined while we experience fluctuations in generating distributable income during the year.

In 2015, the Company generated distributable income in excess of dividends, resulting in a 95.9% payout ratio (2014 – 103.1%). The Board of Directors decided that it was prudent to retain this income in order to enhance shareholder value.

## Statements of income and comprehensive income

| | For the three months ended December 31, | | | For the years ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | % Change | 2015 | 2014 | % Change |
| Net interest income | $ 7,689 | $ 7,174 | 7.2% | $ 30,318 | $ 28,159 | 7.7% |
| Expenses | (1,376) | (1,274) | (8.0%) | (5,367) | (4,948) | (8.5%) |
| Income from operations | 6,313 | 5,900 | 7.0% | 24,951 | 23,211 | 7.5% |
| Financing costs: | | | | | | |
| Interest on credit facility | (1,414) | (1,275) | (10.9%) | (5,655) | (4,494) | (25.9%) |
| **Net income and comprehensive income** | **$ 4,899** | **$ 4,625** | **5.9%** | **$ 19,296** | **$ 18,717** | **3.1%** |
| **Earnings per share (basic and diluted)** | **$ 0.15** | **$ 0.15** | | **$ 0.61** | **$ 0.59** | |

### Net interest income[1]

For Q4 2015 and the Year, the Company earned $7.7 million and $30.3 million (Q4 2014 – $7.2 million; 2014 – $28.2 million) respectively. Net interest income includes the following:

**(a) Interest income**

For Q4 2015 and the Year, the Company earned $7.0 million and $27.7 million (Q4 2014 – $6.6 million; 2014 – $25.1 million) in interest income on the net mortgage investments. The increase in interest income is attributable to an increase in the average net mortgage investments portfolio by $37.6 million and $58.8 million in Q4 2015 and the Year in relation to Q4 2014 and 2014, respectively. This increase in interest income was partially reduced by a lower weighted average interest rate for the period of 6.1% during Q4 2015 and the Year (Q4 2014 – 6.2%; 2014 – 6.4%), although it was still within our target range.

**(b) Lender fee income**

During Q4 2015 and the Year, the Company received non-refundable lender fees of $0.7 million and $2.3 million (Q4 2014 – $0.4 million; 2014 – $1.7 million), or weighted average lender fees of 0.8% and 0.8% (Q4 2014 – 0.5%; 2014 – 0.6%). The increase in lender fees in the Year was due to generally higher average lender fees received on new mortgage investments. These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income but are paid out in the year they are received. (See Distributable Income table.) For Q4 2015 and the Year, $0.6 million and $2.4 million (Q4 2014 – $0.6 million; 2014 – $2.9 million) of non-refundable lender fees were amortized to lender fee income. The lender fees generated by the Company continue to be a significant component of income resulting from mortgage investment turnover. The Manager does not retain any portion of the lender fees in order to ensure management's interests are aligned with the shareholders.

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

### Expenses

For Q4 2015 and the Year, the Company's expense ratio was 1.2% (Q4 2014 – 1.2%; 2014 – 1.1%). The increase is mainly related to higher professional fees and directors fees as compared to 2014.

#### (a) Management fees

In accordance with the management agreement, the Company pays the Manager an annual management fee of 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets are calculated as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties.

For Q4 2015 and the Year, the Company incurred management fees of $1.1 million and $4.4 million (Q4 2014 – $1.0 million; 2014 – $3.9 million). The higher management fees are due to a larger average mortgage investments balance in the Year.

#### (b) General and administrative

For Q4 2015 and the Year, the Company incurred general and administrative expenses of $237 and $939 (Q4 2014 – $256; 2014 – $885). General and administrative expenses consist mainly of audit fees, professional fees, director fees and other operating costs associated with operating the Company and administration of the mortgage investment portfolio. The increase in general and administrative expenses for the Year relative to 2014 is attributed to increased professional fees and director fees related to the new deferred stock unit (DSU) plan.

### Interest on credit facility

The Company actively monitors advances and repayments while efficiently using bankers' acceptances ("BAs") for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q4 2015 and the Year were $1.4 million and $5.7 million (Q4 2014 – $1.3 million; 2014 – $4.5 million). The increase is due to greater utilization of the credit facility in Q4 2015 and the Year as compared to Q4 2014 and 2014. The average utilization of the credit facility during the Year was $164.4 million compared to $106.8 million in 2014.

### Earnings per share

Earnings per share for Q4 2015 and the Year was $0.15 per share and $0.61 per share (Q4 2014 – $0.15 per share; 2014 – $0.59 per share) and is slightly greater than the Company's dividend per share of $0.60.

## STATEMENTS OF FINANCIAL POSITION
### Net mortgage investments

The balance of net mortgage investments is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Gross mortgage investments, including mortgage syndications | $ 481,262 | $ 483,209 |
| Mortgage syndication liabilities | (27,108) | (51,757) |
| | 454,154 | 431,452 |
| Interest receivable | (3,684) | (2,448) |
| Unamortized lender fees | 1,959 | 2,117 |
| Provision for mortgage investment loss | 175 | 175 |
| **Net mortgage investments** | **$ 452,604** | **$ 431,296** |

| | For the three months ended December 31, | | For the years ended December 31, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **NET MORTGAGE INVESTMENTS STATISTICS AND RATIOS** | | | | |
| Total number of net mortgage investments | 57 | 62 | 57 | 62 |
| Average net mortgage investment | $ 7,940 | $ 6,956 | $ 7,940 | $ 6,956 |
| Average net mortgage investment portfolio[1] | $ 458,392 | $ 420,780 | $ 452,894 | $ 394,061 |
| Weighted average interest rate for the period[1] | 6.1% | 6.2% | 6.1% | 6.4% |
| Weighted average lender fees[1] | 0.8% | 0.5% | 0.8% | 0.6% |
| Turnover ratio[1] | 20.5% | 13.0% | 60.5% | 61.5% |
| Weighted average term (years) | 2.6 | 2.4 | 2.6 | 2.4 |
| Weighted average remaining term to maturity (years) | 1.4 | 1.3 | 1.4 | 1.3 |
| Net mortgage investments secured by cash-flowing properties (as at) | 84.5% | 82.8% | 84.5% | 82.8% |
| Weighted average loan-to-value[1] | 55.5% | 55.6% | 55.5% | 55.6% |

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

The Company has developed a lending strategy predominantly targeting short-term mortgage investments, secured by cash-flowing properties, while specializing in multi-residential real estate assets. The Company focuses its efforts on diversifying the mortgage investments portfolio, with its greatest concentration in Canada's largest provinces. As at December 31, 2015, 92.0% (December 31, 2014 – 89.1%) of the net mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. Although Alberta has experienced weakness, the Company has seen some excellent opportunities resulting in increased allocation in relation to 2014. 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, which would, in effect, reduce the weighted average remaining term to maturity.

## PORTFOLIO ALLOCATION

The Company's net mortgage investments were allocated across the following categories:

### (a) Region

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **# of Net Mortgage Investments** | **% of Net Mortgage Investments** | **# of Net Mortgage Investments** | **% of Net Mortgage Investments** |
| ON | 22 | 39.2% | 31 | 53.2% |
| QC | 16 | 35.7% | 11 | 20.5% |
| AB | 5 | 11.9% | 7 | 4.3% |
| BC | 5 | 5.2% | 6 | 11.1% |
| SK | 4 | 4.1% | 4 | 9.2% |
| MB | 4 | 2.1% | 2 | 0.5% |
| NS | 1 | 1.8% | 1 | 1.2% |
| | **57** | **100.0%** | **62** | **100.0%** |

### (b) Maturity

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **# of Net Mortgage Investments** | **% of Net Mortgage Investments** | **# of Net Mortgage Investments** | **% of Net Mortgage Investments** |
| Maturing 2015 | – | – | 25 | 43.4% |
| Maturing 2016 | 21 | 40.4% | 21 | 34.3% |
| Maturing 2017 | 30 | 44.7% | 15 | 21.6% |
| Maturing 2018 | 3 | 4.7% | – | – |
| Maturing 2019 | 1 | 0.7% | 1 | 0.7% |
| Maturing 2020 | 1 | 3.5% | – | – |
| Maturing thereafter | 1 | 6.0% | – | – |
| | **57** | **100.0%** | **62** | **100.0%** |

### (c) Asset Type

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | # of Net Mortgage Investments | % of Net Mortgage Investments | # of Net Mortgage Investments | % of Net Mortgage Investments |
| Multi-residential | 32 | 37.5% | 27 | 36.6% |
| Retail | 6 | 29.0% | 7 | 15.6% |
| Office | 5 | 8.0% | 12 | 20.1% |
| Retirement | 2 | 6.3% | 1 | 4.9% |
| Hotels | 1 | 6.3% | 2 | 5.3% |
| Other residential | 3 | 5.5% | 2 | 4.3% |
| Unimproved land | 4 | 5.0% | 6 | 7.0% |
| Industrial | 3 | 2.0% | 4 | 6.0% |
| Self-storage | 1 | 0.4% | 1 | 0.2% |
| | **57** | **100.0%** | **62** | **100.0%** |

### (d) Interest Rate

| | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | # of Net Mortgage Investments | % of Net Mortgage Investments | # of Net Mortgage Investments | % of Net Mortgage Investments |
| 5.00% or lower | 7 | 14.6% | 9 | 19.8% |
| 5.01% - 5.99% | 24 | 45.2% | 17 | 29.5% |
| 6.00% - 6.99% | 12 | 25.2% | 12 | 19.7% |
| 7.00% or greater | 14 | 15.0% | 24 | 31.0% |
| | **57** | **100.0%** | **62** | **100.0%** |

### (e) Loan-to-value

| | December 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | # of Net Mortgage Investments | % of Net Mortgage Investments | # of Net Mortgage Investments | % of Net Mortgage Investments |
| 55% or less | 25 | 45.5% | 31 | 38.9% |
| 55% - 60% | 8 | 6.9% | 4 | 6.8% |
| 61% - 65% | 10 | 15.6% | 7 | 17.7% |
| 66% - 70% | 14 | 32.0% | 20 | 36.6% |
| | **57** | **100.0%** | **62** | **100.0%** |

**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. The Company generally retains an option for the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. During the Year, the mortgage syndication liabilities have decreased to $27.1 million (December 31, 2014 – $51.8 million). Mortgage syndication liabilities will vary from quarter to quarter and are dependent on the type of investment seen at any particular time, and are not necessarily indicative of a future trend.

**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 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.

As at December 31, 2015, the Company has a collective impairment allowance of $0.2 million (December 31, 2014 – $0.2 million).

**Net working capital**
Net working capital increased by $1.0 million to $1.8 million at December 31, 2015 from $0.8 million at December 31, 2014. The change in net working capital is primarily attributed to higher interest receivable at December 31, 2015 in relation to December 31, 2014, mainly due to a larger net mortgages portfolio at December 31, 2015. The Company uses the credit facility to manage fluctuations in the working capital.

**Credit facility**
As at December 31, 2015, the Company has a credit facility with an available limit of up to $190.0 million (December 31, 2014 – $190.0 million), subject to its borrowing base as set out in the credit agreement. The credit facility bears interest at either the prime rate of interest plus 1% or BA with a stamping fee of 2% of the face amount of such BA. 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 and the Company expects to renew the facility at similar terms prior to the maturity date.

As at December 31, 2015, $164.4 million (December 31, 2014 – $142.1) was outstanding on the credit facility, with an average utilization of $164.4 million (2014 – $106.8 million). For the Year, interest costs of $5.7 million (2014 – $4.5 million) related to the credit facility are recorded in financing costs using the effective interest rate method.

As at December 31, 2015, there were $0.3 million (December 31, 2014 – $0.8 million) in unamortized financing costs related to the structuring of the credit facility netted against the outstanding balance. For the Year, the Company has amortized financing costs of $0.6 million (2014 – $0.6 million) to interest expense using the effective interest rate method.

## Shareholders' Equity

### (a) 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 shareholders' meetings. The holders of the common shares are entitled to receive dividends as and when declared by the Board of Directors.

### (b) Dividends

During the Year, the Board of Directors declared dividends of $18.9 million or $0.60 per common share (2014 – $18.9 million or $0.60 per common share).

### (c) Dividend reinvestment plan

Under the dividend reinvestment plan (DRIP), eligible 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. During the Year, 156,913 (2014 – 118,479) common shares were purchased on the open market under the DRIP.

### (d) Normal course issuer bid

On November 13, 2014, the Company received approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 3,133,590 common shares, representing approximately 10% of the common share float, as at November 11, 2014, with the approval expiring 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 Bid. During the Year, the Company acquired 105,454 shares for cancellation at a cost of $0.8 million (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 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.

### (e) Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan (the "Plan") for the purpose of: (i) enhancing the Company's ability to provide to directors long-term incentive compensation that is linked to performance of the Company and not dilutive to shareholders, (ii) assisting the Company in attracting, retaining and motivating its directors; and (iii) promoting a closer alignment of interests between directors and the shareholders of the Company. Under the Plan, up to 100% of the compensation for a director may be paid to the director 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 for 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 the reinvestment of the dividends into units is based upon the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director's DSU account 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 director's DSU issuance up to a maximum value of $5 thousand 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 financial statements following a director's departure from the Board of Directors.

In conjunction with the Plan, the Company has also adopted a share ownership guideline for the non-executive directors. The ownership guidelines require that each non-executive director acquire and maintain a level of ownership that has a value equal to at least three times their annual retainer and meeting fees, within a five-year period.

For the Year, the directors, on average, have elected to receive 87% of their compensation in DSUs. For the Year, 17,557 DSUs were issued and outstanding and no DSUs were exercised or cancelled. For the Year, the DSU expense was $131 based on a Fair Market Value of $7.46 per common share. As at December 31, 2015, $56 in DSUs relating to Q4 2015 will be issued subsequent to year-end which is included in accrued expenses.

## STATEMENT OF CASH FLOWS

### Cash from operating activities

During the Year, cash generated from operating activities was $23.9 million (2014 – $20.9 million), an increase of $3.0 million, or 14.4% over 2014. The increase in 2015 is primarily due to higher income from operations and reduction of other assets. The increase in 2015 is also affected by an increase in cash lender fees received as well as a decrease in accounts payable and accrued expenses.

### Cash from (used in) financing activities

During the Year, financing activities consisted of the Company's net advances on the credit facility of $22.3 million (2014 – $33.1 million). The Company paid interest and financing costs on the credit facility of $5.2 million (2014 – $5.3 million), as well as dividends of $18.9 million (2014 – $18.9 million). The company purchased common shares for cancellation under the normal course issuer bid of $0.8 million (2014 – nil). The net cash outflow used in financing activities was $2.6 million (2014 – $8.9 million cash generated from financing activities), which was mainly from drawings on the credit facility which were used to fund net mortgage investments.

### Cash used in investing activities

Net cash used in investing activities for the Year was $21.3 million (2014 – $29.8 million) and consisted of fundings of net mortgage investments of $299.0 million (2014 – $271.4 million) which were reduced by repayments of net mortgage investments of $277.7 million (2014 – $241.6 million).

## QUARTERLY FINANCIAL INFORMATION

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

| | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 |
|---|---|---|---|---|---|---|---|---|
| Net interest income | $ 7,689 | $ 7,564 | $ 7,766 | $ 7,300 | $ 7,174 | $ 6,639 | $ 7,084 | $ 7,262 |
| Expenses | (1,376) | (1,352) | (1,350) | (1,289) | (1,274) | (1,158) | (1,167) | (1,350) |
| Income from operations | 6,313 | 6,212 | 6,416 | 6,011 | 5,900 | 5,481 | 5,917 | 5,912 |
| Financing costs: | | | | | | | | |
| Interest on credit facility | (1,414) | (1,412) | (1,465) | (1,366) | (1,275) | (884) | (1,107) | (1,227) |
| | (1,414) | (1,412) | (1,465) | (1,366) | (1,275) | (884) | (1,107) | (1,227) |
| **Net income and comprehensive income** | **$ 4,899** | **$ 4,800** | **$ 4,951** | **$ 4,645** | **$ 4,625** | **$ 4,597** | **$ 4,810** | **$ 4,685** |
| **Earnings per share (basic and diluted)** | **$ 0.15** | **$ 0.15** | **$ 0.16** | **$ 0.15** | **$ 0.15** | **$ 0.15** | **$ 0.15** | **$ 0.15** |

The Company has been able to generate stable earnings quarter over quarter and which results in earnings per share that is in line with dividends per share. In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments, which also results in fluctuations in the use of the credit facility. As a result, net interest income and interest expense are susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances to determine its distributable income on a calendar year basis.

## RELATED PARTY TRANSACTIONS

As at December 31, 2015, due to Manager include $32 relating to management fees payable (December 31, 2014 – $23) and $9 relating to costs incurred by the Manager on behalf of the Company (December 31, 2014 – $7).

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 also controlled by the Manager, acts as the Company's mortgage servicer and administrator. As at December 31, 2015, included in other assets is $483 (December 31, 2014 – $858) of cash held in trust for the Company by TMSI, the balance of which relates to mortgage funding holdbacks, prepaid mortgage interest and other receivables from various borrowers.

As at December 31, 2015, the Company remains co-invested in a mortgage investment with a total gross commitment of $76.1 million (December 31, 2014 – $76.1 million) 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 $48.6 million (December 31, 2014 – $48.6 million), of which $28.3 million (December 31, 2014 – $8.3 million) has been funded as at December 31, 2015. This investment was previously reviewed and approved by the governance committee and the independent director's continued independence was confirmed.

As at December 31, 2015, the Company has a mortgage investment with a total gross commitment of $84.1 million (December 31, 2014 – $84.1 million) 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 $14.2 million (December 31, 2014 – $14.2 million), of which $1.6 million (December 31, 2014 – $1.6 million) has been funded as at December 31, 2015. This investment was previously reviewed and approved by the governance committee and the independent directors' continued independence was confirmed.

During the Year, the Company co-invested in a mortgage investment with a total gross commitment of $55.0 million, where one independent director of the Company holds a minority interest in the borrower. The Company's share of the commitment is $27.0 million and has been fully advanced as at December 31, 2015. The investment was reviewed and approved by the Board of Directors, with the conflicted director abstaining, in conformity with the Company's conflict review policy.

In addition to the above-related party transactions, the Company has transacted with other entities managed by the Manager. 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 $570.3 million (December 31, 2014 – $566.8 million). During the Year, the Company, along with its related parties, funded $319.9 million in co-invested gross mortgage investments and received repayments of $337.7 million. As at December 31, 2015, the Company's share in these gross mortgage investments is $401.8 million (December 31, 2014 – $423.3 million). Included in these amounts is a gross mortgage investment of $9.8 million (December 31, 2014 – $8.9 million) loaned to a limited partnership in which T4Q is invested.

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

## COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in 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 material adverse effect on the Company's financial position.

## CRITICAL ACCOUNTING ESTIMATES

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

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

### Mortgage investments

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

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

### Measurement of fair values

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

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

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

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

## CHANGES IN ACCOUNTING POLICIES

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, 2015.

### Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company's non-executive directors are participating in the Plan, which allows the directors to elect to receive their compensation in the form of 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.

## FUTURE CHANGES IN ACCOUNTING POLICIES

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

**(i) 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.

**(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.

## OUTSTANDING SHARE DATA

As at February 23, 2016, the Company's authorized capital consists of an unlimited number of common shares, of which 31,451,154 are issued and outstanding.

## CAPITAL STRUCTURE AND LIQUIDITY

### Capital structure

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

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

### Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company intends to qualify as a MIC as defined under Section 130.1(6) of the Income Tax Act (Canada) and as a result is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and the credit facility. The Company routinely forecasts 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:

| December 31, 2015 | Carrying value | Contractual cash flow | Within a year |
|---|---|---|---|
| Accounts payable and accrued expenses | $ 496 | $ 496 | $ 496 |
| Dividends payable | 1,573 | 1,573 | 1,573 |
| Due to Manager | 41 | 41 | 41 |
| Mortgage funding holdbacks | 250 | 250 | 250 |
| Prepaid mortgage interest | 233 | 233 | 233 |
| Credit facility[1] | 164,366 | 167,282 | 167,282 |
| | 166,959 | 169,875 | 169,875 |
| Unadvanced gross mortgage commitments[2] | – | 102,182 | 102,182 |
| | $ 166,959 | $ 272,057 | $ 272,057 |

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

2 Unadvanced gross mortgage commitments include syndication commitments from third party investors totaling $28.9 million.

As at December 31, 2015, the Company has an unutilized credit facility balance of $10.5 million (December 31, 2014 – $27.0 million), based on the available borrowing base as at December 31, 2015. The available borrowing base can be increased by $5.2 million, 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 $102.2 million of the unadvanced mortgage commitments is $28.9 million (December 31, 2014 – $29.3 million) relating to the Company's syndication partners. The Company expects the syndication partners to fund their obligation.

## FINANCIAL INSTRUMENTS

### Financial assets

The Company's other assets and mortgage investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of other assets approximate their carrying amounts due to their short-term nature. The fair value of mortgage investments, including mortgage syndications, approximate their carrying value given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments is based on Level 3 inputs.

### Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, mortgage funding holdbacks, prepaid mortgage interest, credit facility and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the underlying mortgage investments 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 syndication liabilities is based on Level 3 inputs.

## RISKS AND UNCERTAINTIES

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

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, $44.7 million of mortgage investments bear interest at variable rates, however of this amount, $43.1 million of mortgage investments include a "floor rate" to protect from negative exposure and one mortgage investment totalling $1.6 million 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; whereas a 0.50% increase in interest rates would result in an increase of $223 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 $164.4 million as at December 31, 2015. Based on the outstanding balance of the credit facility as at December 31, 2015, a 0.50% decrease in interest rates, with all other variables constant, would increase net income by $822 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, 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 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:

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

(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 $456.3 million (December 31, 2014 – $433.7 million). The Company has recourse under these mortgage investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

**(c) Liquidity risk**

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

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

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company, under their direct supervision, have designed disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, "NI 52-109") to provide reasonable assurance that material information relating to the Company is gathered and reported to the CEO and CFO and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS during the during the year ended December 31, 2015.

As at December 31, 2015, the Company's disclosure controls and procedures were reviewed and the effectiveness of their design and operation was evaluated. This evaluation confirmed the effectiveness of the design and operation of disclosure controls and procedures as at December 31, 2015.

During 2015, the Manager implemented a new mortgage administration and portfolio management software. This new software allows the Manager to monitor the portfolio in real-time. The Manager has assessed that the new software did not cause significant or material changes to the design of internal controls over financial reporting.

The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2015. Based on that assessment they determined that the Company's internal controls over financial reporting were appropriately designed and were operating effectively in accordance with the Internal Control-Integrated Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. There were no changes made in our internal controls over financial reporting during the year ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## ADDITIONAL INFORMATION

**Phone**

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

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

**Internet**

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

**Mail**

Write to the Company at:

Timbercreek Senior Mortgage Investment Corporation
Attention: Corporate Communications
25 Price Street
Toronto, Ontario M4W 1Z1

# 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

KPMG LLP

February 23, 2016
Toronto, Canada

# 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.*

# 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.*

# 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.*

# 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.*

## 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.

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 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.

**(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.

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.

**(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.

## 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.

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, 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.

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 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.

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.

**(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.

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);

(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.

## 14. FAIR VALUE MEASUREMENTS

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

| December 31, 2015 | Carrying Value: Loans and receivables | Carrying Value: Other financial liabilities | Fair value |
|---|---|---|---|
| **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: Loans and receivable | Carrying Value: Other financial liabilities | Fair value |
|---|---|---|---|
| **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 |

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. KEY MANAGEMENT PERSONNEL COMPENSATION

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.

## Board of Directors

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

**Ugo Bizzarri**
Director,
Timbercreek Senior MIC

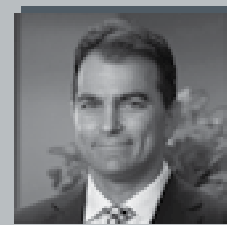
Co-Founder and Managing Director, Portfolio Management & Investments, Timbercreek Asset Management

**Edward W. Boomer**
Independent Director,
Timbercreek Senior MIC

Founder and President, Reference Realty Inc.

**Robert Douglas**
Lead Independent Director,
Timbercreek Senior MIC

Managing Director, Real Estate Investments, OPTrust



**Andrew Jones**
Director and CEO,
Timbercreek Senior MIC

Managing Director, Debt Investments, Timbercreek Asset Management

**Steven Scott**
Independent Director and Audit Committee Chair,
Timbercreek Senior MIC

President and CEO, The Access Group of Companies

**W. Glenn Shyba***
Independent Director,
Timbercreek Senior MIC

Principal,
Origin Merchant Partners

**Blair Tamblyn**
Chairman,
Timbercreek Senior MIC

Co-Founder, Managing Director and CEO, Timbercreek Asset Management

## Independent Mortgage Advisory Committee

**Chris Humeniuk**
President and CEO,
Community Trust

**Ken Lipson**
President and CIO,
TMDL Asset Management Inc.

**Pamela Spackman**
Committee Chair
Consultant

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### Auditors
KPMG LLP

### Legal Counsel
McCarthy Tétrault LLP

* Mr. Shyba has resigned effective March 11, 2016

Timbercreek

Senior Mortgage Investment Corporation

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