



Annual Report 2013

Timbercreek Senior Mortgage Investment Corporation



Timbercreek
Asset Management



2013 Financial Highlights

\$401.5 million of net mortgage investments

\$378.3 million in new mortgage investments funded

55 new mortgage investments funded

25 mortgage investments fully repaid

\$330.1 million in full repayments and partial paydowns

\$28.2 million in net interest income

\$3.3 million in non-refundable lender fees (cash)

\$0.42 EPS / \$0.53 adjusted EPS

2013 Portfolio Highlights

100% first mortgages

62 mortgage investments

Average mortgage investment of \$6.5 million

6.5% weighted average interest rate

0.9% weighted average lender fee

Timbercreek Senior MIC's objective is to preserve capital while generating attractive, stable cash flows that permit monthly dividends to shareholders.

Timbercreek Senior Mortgage Investment Corporation (Timbercreek Senior MIC) was established to provide investors with the opportunity to invest indirectly in a diversified portfolio of first mortgage investments secured primarily by income-producing investment real estate, principally located in and around urban markets. Timbercreek Senior MIC's portfolio currently consists of over 60 mortgage investments with a net aggregate value of approximate \$401.5 million.

Company Highlights



Well-Diversified Portfolio of First Mortgages

Over
60
mortgage investments
across seven provinces
and ten asset types

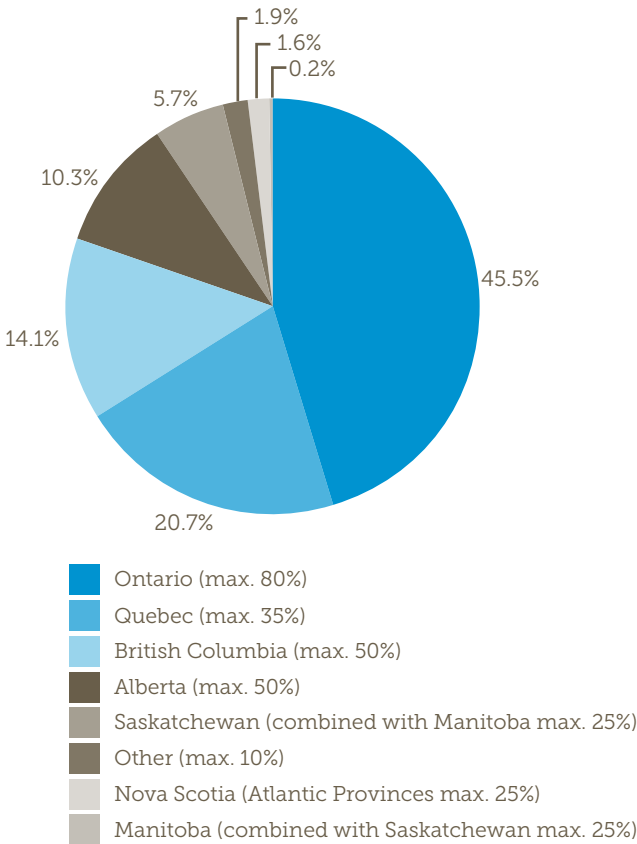
Timbercreek Senior MIC focuses on preserving capital and managing risk for shareholders by maintaining a diversified portfolio of only first mortgages that have very low average loan-to-value ratios. In fact, the current weighted average loan-to-value ratio at December 31, 2013 was 45%, well below the maximum threshold of 70% and the company’s target of 60%.

Additionally, mortgage investments are primarily secured by income-producing investment real estate, such as multi-residential, retirement, office, retail and industrial properties rather than land, construction or single-family residential properties. Focusing on lending against income-producing real estate ensures that there is income from the property to service the mortgage investment, which reduces the likelihood of defaults. In addition, due to the increased liquidity of income-producing properties in and around urban markets, the properties provide less volatile values for the underlying security for the mortgage investment, relative to land or construction where a slowed or stalled development cycle can substantially change the value.

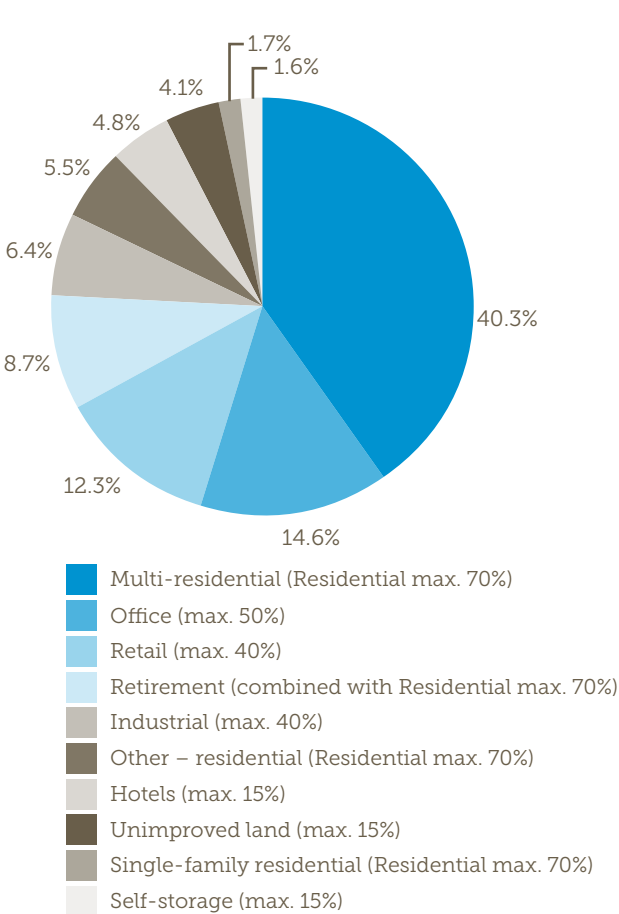
Asset Allocation

To mitigate against concentration risk, the asset allocation model provides diversification by geography, economic sector, term, borrower and loan-to value ratio.

Regional Mix



Asset Type



Disciplined Approach

Employing thorough underwriting, active management and strong governance are only three of the ways Timbercreek Senior MIC manages risk from origination, through to mortgage repayment. This disciplined approach to mortgage investing ensures that shareholders' capital is preserved and protected.

Timbercreek Senior MIC leverages a strong real estate and mortgage investment management infrastructure, including a comprehensive team of mortgage specialists that are dedicated to origination, underwriting, funding and servicing of all mortgage investments.

Zero

principal impairments since inception

over
195 years
of combined
investment experience

Mortgage Specialist Team

Origination



Andrew Jones
Managing Director
Debt Investments,
Timbercreek Asset
Management



Julie Neault
Director,
Debt Origination



Karen Leeson
Director,
Debt Origination



Charles Lingren
Director,
Debt Origination -
Western Canada
Region



Patrick Smith
Senior Associate,
Debt Origination

Underwriting & Risk



Ugo Bizzarri

Director, Founding
Managing Director
of Portfolio
Management and
Investments



Paul Jones

Executive Director,
Debt Portfolio
Management



Alexandra
Mulkewytch

Analyst



Rob Kansun

Analyst



Talia Zon

Analyst



Luca Pasquali

Research Valuations
Associate



David Smith

Senior Associate

Funding



Laura Wheller

Mortgage
Administrator



Kim Casey

Mortgage
Administrator



Denel Black

Assistant Mortgage
Administrator

Strong, Steady, Inflation-Protected Income

7.0%
annualized yield*

Weighted average loan term
to maturity of 2.2 years

Short-duration mortgage investments and early prepayment privileges drive high portfolio turnover. As such, Timbercreek Senior MIC is able to charge higher interest rates in a rising rate environment as new mortgage investments are placed, resulting in higher yields for investors.

Inflationary periods, which can be tied to rising interest rates, also typically encourage increased real estate activity, therefore driving increased demand for short-duration, customized loans.

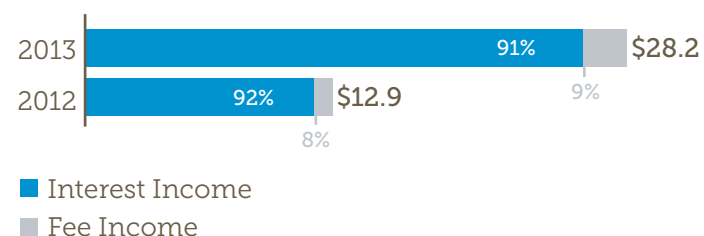
\$3.3 million of lender fees
received and paid to investors
(up 5% from 2012)

Additional income is generated from lender fees, which are collected each time a new mortgage investment is issued – 100% of which is paid to Timbercreek Senior MIC, for the benefit of shareholders. Short-term mortgage investments and high portfolio turnover allow shareholders to enjoy enhanced income from lender fees.

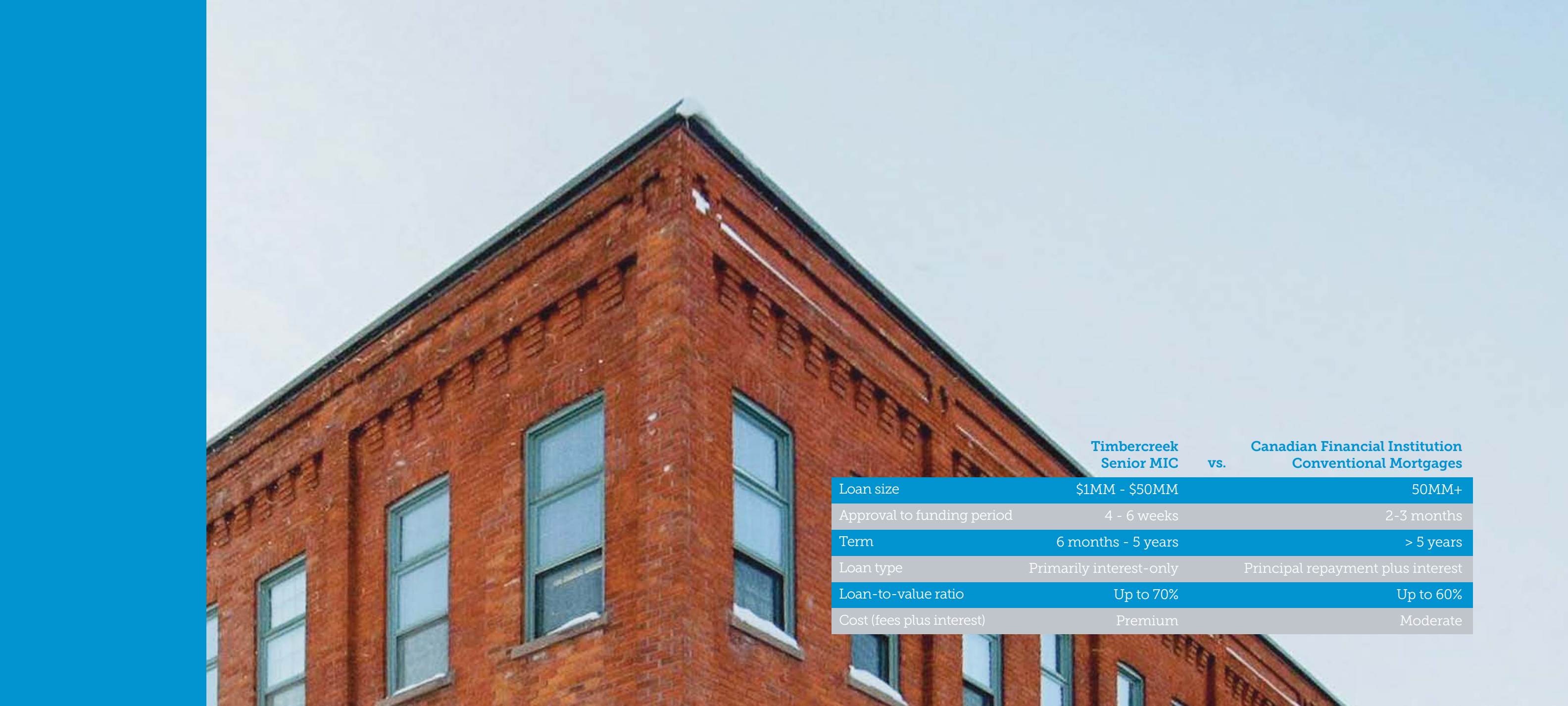
Healthy Portfolio Turnover



Stable Growth in Income
(in millions)



*Actual dividend yield equals the total per share dividend for the year ended December 31, 2013 for Class A shares and common shares, divided by the trading close price on December 31, 2013.



	Timbercreek Senior MIC	vs.	Canadian Financial Institution Conventional Mortgages
Loan size	\$1MM - \$50MM		50MM+
Approval to funding period	4 - 6 weeks		2-3 months
Term	6 months - 5 years		> 5 years
Loan type	Primarily interest-only		Principal repayment plus interest
Loan-to-value ratio	Up to 70%		Up to 60%
Cost (fees plus interest)	Premium		Moderate

Customized Loan Solutions for the Non-Bank Mortgage Sector

Real estate investors typically require short-term loans to bridge a period of one to five years where they require temporary capital for property repairs, redevelopment or purchase of another investment. This segment of the Canadian borrower market is typically under-served by Canadian financial institutions, which are reluctant to dedicate resources for these smaller, shorter-term mortgage investments and cannot typically provide the customization required to meet the borrower's needs.

Timbercreek Senior MIC is a market leader in the non-bank mortgage sector in Canada, providing shorter-duration, customized financing solutions for professional real estate investors. With a sophisticated and service-oriented approach, focusing on meeting the needs of borrowers, Timbercreek Senior MIC is able to provide quick execution of mortgage investments and more flexible terms than typically offered by Canadian financial institutions. Servicing this niche market allows Timbercreek Senior MIC to generate strong risk-adjusted returns for investors.





Retail

Toronto, Ontario

Businesses in this area of Toronto have organized to undertake streetscape improvement projects, organize community events and promote the neighbourhood's unique commercial establishments. The goal is to retain the unique character of the community in the midst of renewal and growth, while attracting visitors and tourists.

The property is strategically situated in this gentrified urban neighbourhood surrounded by new condo developments and trendy retail shops. The building contains 13 new retail units on the ground floor of a new condo building with excellent street exposure to an area known to boast high concentrations of art and culture.

Meeting Rigorous Investment Criteria to Balance Risk & Return for Investors

Criteria	Investment
Asset Type	Retail
Loan size (\$1MM - \$25MM)	\$5,200,000
Term (3 months - 3 years)	36 months
Interest	5.90%
Fees	0.85%

Office

Regina, Saskatchewan

Regina is a cultural and commercial centre for southern Saskatchewan. According to the Conference Board of Canada, Regina has enjoyed strong economic performance over the past three years with growth in both GDP and population. Indicators suggest this growth will continue over the next several years.

The property is located on the western periphery of downtown Regina on the main north-south route through Regina, primarily surrounded by small to medium-sized office and retail buildings. The structure is a brand new 75,644 sq. ft. office building with modern finishes.

Meeting Rigorous Investment Criteria to Balance Risk & Return for Investors

Criteria	Investment
Asset Type	Office
Loan size (\$1MM - \$50MM)	\$13,050,000
Term (6 months - 5 years)	24 months
Interest	6.75%
Fees	0.85%





Letter to Shareholders

Andrew Jones

What a great second year it has been for us at Timbercreek Senior Mortgage Investment Corporation (Timbercreek Senior MIC). By sharing the same manager as Timbercreek Mortgage Investment Corporation (Timbercreek MIC), Timbercreek Senior MIC enjoys strong dealflow and a blended cost of capital, which in turn helped to deliver on its goals of **preserving capital and providing strong risk-adjusted returns**. Having the same management platform means our shareholders also benefit from the same excellence in management and expertise, as well as reduced overhead costs. Though modeled on Timbercreek MIC, Timbercreek Senior MIC differs in that it invests only in first mortgages with a lower loan-to-value ratio ceiling, thereby lowering risk.

As part of our commitment to good governance, our Board made the proactive decision to enact a major reorganization following a proposed regulatory change released by the Canadian Securities Administrators. On September 12, 2013, our shareholders approved a resolution **to transition Timbercreek Senior MIC from an investment fund to a corporate reporting issuer** (a full description is available in the Management's Discussion & Analysis). The transition benefits our shareholders by:

- i. increasing stability with the elimination of the redemption feature,
- ii. improving governance and transparency with more frequent financial reporting,
- iii. providing shareholders with full voting rights,
- iv. eliminating trailer fees, and
- v. opening up new opportunities for future growth.

We believe it is important to be a leader in our sector, which is why we acted on the proposed regulatory reforms before they were enacted into law. If we had waited, our ability to manage the transition would have been more limited. We were pleased that our investors overwhelmingly voted in favour of the resolution. Importantly, the successful underlying business model of Timbercreek Senior MIC was unchanged.

Timbercreek Senior MIC **provides shorter-duration, customized first mortgage financing solutions for professional real estate investors**. At the beginning of 2013, our portfolio was primarily secured by real estate located in Ontario, Quebec and Alberta with a strong focus on multi-residential, retail, retirement and office properties in and around urban markets. This is consistent with our focus on investing in mortgages secured by cash-flowing properties. In 2013, the portfolio experienced growth in all regions and asset types, especially multi-residential assets.

In 2013, Canadian investment-grade real estate fundamentals remained stable and sustainable, leading to an **attractive lending environment**. On the investment front, pension funds and private investors continued to seek out properties with strong cash-flow, in most cases requiring some form of mortgage financing. The continued lack of activity in the commercial mortgage-backed securities markets and tightening

of bank regulations continues to constrain mortgage capital. When taken together, these facts demonstrate the fact that deal-flow remains healthy and those with capital are able to invest in high-quality loans with less competitive pressure.

Furthermore, medium-term Canadian bond yields continued to rise, narrowing the gap between institutional lenders' and non-bank lenders' costs of capital, making the latter more competitive.

With a focused strategy and strong market fundamentals, our financial performance in 2013 was solid despite continued low interest rates. Our total assets grew by 38.0% to \$519.0 million in 2013. Over the year, we advanced 55 new mortgage investments totaling \$378.3 million and had additional advances on existing mortgage investments of \$20.2 million. We received full repayments and partial pay-downs on mortgage investments totaling \$330.1 million, with 25 mortgage investments fully repaid in 2013. The redeployment of this principal continued to generate significant fee income which is used to enhance yield for our investors. Maintaining our perfect record since inception, 2013 saw no loan impairments and no mortgage investments past due as at year-end. These results continue to validate our disciplined investment approach and focus on investing in income-yielding properties.

We will continue to apply our disciplined investment model in 2014 to grow our portfolio and capitalize on the high quality mortgage investments available. **Our strategy is to continue to focus on investing in mortgages that are secured by income-producing real estate, and to continue to diversify the portfolio both regionally and by property type in order to achieve our long-term goal of growing the portfolio to \$1 billion in assets while preserving capital for our investors.**

I would like to thank all our stakeholders for contributing to our achievements in this, the second year of the Senior Mortgage Investment Corporation. We have a fantastic team that has worked tirelessly to ensure the success of this company. Our Board of Directors and Mortgage Advisory Committee continue to provide crucial guidance and expertise to shape our strategy. Of course, to all of you, our shareholders, we are so thankful for your continued confidence and support. **We look forward to being able to provide further updates on our growth and progress over the coming year.**



Andrew Jones
CEO, Timbercreek Senior Mortgage Investment Corporation
March 2014



2013 Management's Discussion and Analysis and Financial Statements

Management's Discussion and Analysis

For the year ended December 31, 2013

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", "expects", "anticipates", "would", "will", "intends", "projected", "in our opinion" and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Company will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results intended by the Manager, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages of a quality that will generate returns that meet and/or exceed the Company's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company's public disclosures.

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 March 5, 2014. 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 Manager's website at www.timbercreek.com. Additional information about the Company, including its Annual Information Form ("AIF"), can be found on the SEDAR website at www.sedar.com.

BUSINESS OVERVIEW

Timbercreek Senior Mortgage Investment Corporation (the "Company") is incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011. On September 13, 2013, in connection with the Transition, as explained below, the Company filed articles of amendment effective as of September 13, 2013 (the "Effective Date"), to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the existing Class A, Class B, Class I, Class J and voting shares, and provide for the creation of a new class of common shares for which all existing classes of redeemable shares will be exchanged. On November 29, 2013 (the "Exchange Date"), all issued and outstanding Class A, Class B, Class I and Class J shares were exchanged into common shares.

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

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

The fundamental investment objectives of the Company are to:

- Preserve shareholder capital of the Company; and
- Provide shareholders with a stable stream of monthly dividends.

The Company intends on meeting its investment objectives by investing in a diversified portfolio of first mortgage investments, consisting primarily of conventional mortgages secured directly by multi-residential, retirement homes, office, retail and industrial real property across Canada, primarily located in urban markets and surrounding areas.

TRANSITION TO PUBLIC COMPANY REGIME

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

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

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption"). The Company redeemed requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemptions payable of \$51,550 were paid on November 27, 2013. On the Exchange Date, the Company exchanged all of the outstanding 30,825,108 Class A shares, 186,626 Class B shares, 424,700 Class I shares and 86,250 Class J shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on the Exchange Date, continuing under the symbol 'MTG', and the Class A shares ceased to trade after the close of market on November 28, 2013. Effective September 13, 2013, the Company entered into a new management agreement with the Manager and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management and administrative services of the Company's mortgage assets.

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

In connection with the Transition, the Company has incurred total costs of \$4,121 which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. The Manager elected to assume responsibility for \$250 of costs relating to the Transition.

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, 2013 (the "Year"). This MD&A should be read in conjunction with the consolidated financial statements for the years ended December 31, 2013 and 2012 which are prepared in accordance with 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 the ability of the Company to earn and distribute cash dividends to shareholders and to evaluate the Company's performance. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities as determined in accordance with IFRS as indicators of the Company's performance.

- Expense ratio – represents total expenses (excluding financing costs and Transition related costs) for the stated period expressed as an annualized percentage of the average net mortgage investment portfolio;

- Net mortgage investments – represents total mortgage investments net of mortgage syndication liabilities and before adjustments for interest receivable and unamortized lender fees as at the reporting date;

- Average net mortgage investment – represents the total net mortgage investments divided by the total number of mortgage investments at the reporting date;

- Average net mortgage investment portfolio – represents the monthly average of the net mortgage investment portfolio over the stated period;

- Weighted average interest rate – represents the weighted average interest rate on the net mortgage investments;

- Average lender fees – represents the cash lender fees received as a percentage of new net mortgage investments funded during the stated period;

- Turnover ratio – represents total mortgage repayments during the stated period expressed as a percentage of the monthly weighted average net mortgage investments for the stated period; and

- Payout ratio – represents total dividends paid to the holders of redeemable shares and common shares divided by distributable income.

RECENT DEVELOPMENTS AND OUTLOOK

During the Year, the Manager continued to view Canadian investment-grade real estate fundamentals as being stable and sustainable, contributing to an attractive lending environment. Even though most Canadian public REITs saw a lot of volatility in their trading prices throughout the Year, which reduced their ability to raise new equity capital, the demand for investment-grade commercial real estate from other institutional and private investors has quickly become more competitive as the demand for stable cash yielding investments continued to be strong. Further, underlying market fundamentals remained stable as additions to supply were limited and there was very little change in rental rates. The result has been continued strength in asset valuations.

In the commercial mortgage industry we continue to see strong deal flow and interaction with quality borrowers that own investment-grade real assets. Though many of these borrowers continued to be presented with multiple low-cost financing options, these options often did not meet the borrowers' requirements due to the more rigid policies of institutional lenders, and continued uncertainty in the banking sector as a result of new Basel III risk-weighted capital requirements. As well, the Canadian securitization market has remained very quiet, with effectively no issuance of Commercial Mortgage Backed Securities in 2013. The net result of these factors is a continuing large gap in the supply-side of the credit market for high quality mortgage investments. This gap is being increasingly filled by non-bank lenders.

With the recent rise in the medium-term Canada bond yields, the gap in cost-of-funds between institutional lenders and non-bank lenders has narrowed slightly making the non-bank lenders

more competitive in general. In addition, there is limited competition for the Company’s targeted mortgage investments from other non-bank lenders as most non-bank lenders have a higher cost of capital. Over the past six months, limited new capital has been raised by the public participants in the Canadian non-bank lending universe in general. Most of the issuers that have raised new capital do not have a low enough targeted yield to compete with the Company on its targeted mortgage investments; regardless, the amount of capital raised by these issuers has not been substantial enough to materially impact the supply side of the lending market. As a result, deal flow and lending opportunities have been abundant, and were particularly strong in the last quarter of 2013. The Manager is very comfortable that the Company can continue to meet its investment objectives in this environment, particularly as the Company is able to take advantage of its strategic relationship with Timbercreek Mortgage Investment Corporation (“TMIC”) to offer flexible lending solutions to qualified borrowers.

Given the current availability of high quality mortgage investments and general market trends observed by the Manager, there has been no need to modify the Company’s Asset Allocation Model (“AAM”) during the Year. The Manager and the Mortgage Advisory Committee (“MAC”) continue to place emphasis on mortgage investments secured by cash-flowing real estate assets, a geographically diversified portfolio and larger, individual mortgage investments secured by institutional quality real estate assets. This strategy is expected to continue throughout 2014 and beyond.

In summary, the Company has been competitive and successful in establishing itself as a market leader in the non-bank senior mortgage sector in Canada. The Manager believes this success is a result of being conservative and selective in making mortgage investments that meet the Company’s investment objectives, while at the same time focusing on providing responsive, flexible and unique lending solutions to qualified borrowers.

FINANCIAL HIGHLIGHTS

The financial highlights of the Company are as follows:

	Three months ended		Year ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS (as at)				
Mortgage investments, including mortgage syndications	\$ 515,797	\$ 373,929	\$ 515,797	\$ 373,929
Total assets	\$ 519,007	\$ 376,067	\$ 519,007	\$ 376,067
Credit facility	\$ 108,746	\$ 33,602	\$ 108,746	\$ 33,602
Net assets attributable to Class A, B, I and J shareholders	\$ –	\$ 296,057	\$ –	\$ 296,057
Shareholders’ equity	\$ 288,762	\$ –	\$ 288,762	\$ –
FINANCIAL INFORMATION (for the period ended)				
Distributable income	\$ 5,579	\$ 7,252	\$ 21,082	\$ 10,828
Targeted dividend yield ¹	4.61%	4.59%	4.61%	4.61%
Actual dividend yield ²	6.97%	6.09%	7.03%	5.61%
Closing trading price	\$ 8.54	\$ 9.80	\$ 8.54	\$ 9.80
Payout ratio	89.73%	119.08%	104.50%	123.67%
Net income per share (basic and diluted)	\$ 0.14	–	\$ 0.42	–
Adjusted net income per share (basic and diluted)	\$ 0.14	–	\$ 0.53	–
Dividends per share:				
Class A	\$ 0.050	\$ 0.150	\$ 0.500	\$ 0.550
Class B	\$ 0.054	\$ –	\$ 0.540	\$ –
Class I	\$ 0.054	\$ 0.162	\$ 0.540	\$ 0.324
Class J	\$ 0.052	\$ 0.156	\$ 0.520	\$ 0.364
Common	\$ 0.100	\$ –	\$ 0.100	\$ –
MORTGAGE INVESTMENTS INFORMATION ³				
Net mortgage investments	\$ 401,456	\$ 332,999	\$ 401,456	\$ 332,999
Average net mortgage investment	\$ 6,475	\$ 10,406	\$ 6,475	\$ 10,406
Weighted average interest rate	6.52%	6.66%	6.52%	6.66%
Average lender fee	0.89%	0.77%	0.86%	0.72%
Turnover ratio	28.33%	14.02%	84.35%	52.61%

¹ Targeted dividend yield equals the average 2-Year Government of Canada Bond Yield plus 350 basis points.

² Actual dividend yield equals the total per share dividend for the stated period for Class A shares and common shares divided by the trading close price for the stated period (annualized).

³ Refer to Non-IFRS Measures section, where applicable.

- For the three months ended December 31, 2013 (“Q4 2013”) and December 31, 2012 (“Q4 2012”)**
- The Company advanced 13 new mortgage investments (Q4 2012 – 8) totaling \$124.3 million (Q4 2012 – \$103.2 million), had additional advances on existing net mortgage investments totaling \$0.7 million (Q4 2012 – nil) and received full repayments on 8 net mortgage investments (Q4 2012 – 2) and partial pay downs totaling \$116.3 million (Q4 2012 – \$45.1 million), resulting in a change in net mortgage investments of \$8.7 million (Q4 2012 – \$58.1 million).
 - Net interest income earned by the Company in Q4 2013 was \$7.3 million (Q4 2012 – \$5.5 million), an increase of \$1.8 million, or 33.1%, from the same period last year. The increase over the same period last year is a result of fully deploying the equity raised from multiple equity offerings throughout 2012 and 2013, along with the use of leverage, into net mortgage investments.
 - The Company received non-refundable lender fees of \$1.1 million (Q4 2012 – \$0.8 million) or 0.89% (Q4 2012 – 0.77%) of new net mortgage investments funded in Q4 2013.
 - The Company generated income from operations of \$5.9 million (Q4 2012 – \$4.2 million), an increase of \$1.7 million, or 41.2%, from the same period last year. The increase from the same period last year is a result of fully deploying the equity raised from multiple equity offerings throughout 2012 and 2013, along with the use of leverage, into net mortgage investments.

- Prior to the Transition, the Company paid dividends of \$0.05 per Class A share for a total of \$1.8 million (Q4 2012 – \$0.15; \$4.6 million), \$0.05 per Class B share for a total of \$0.01 million (Q4 2012 – nil; nil), \$0.05 per Class I share for a total of \$0.03 million (Q4 2012 – \$0.16; \$0.06 million) and \$0.05 per Class J share for a total of \$0.01 million (Q4 2012 – \$0.15; \$0.06 million).
- Subsequent to the Transition, the Company declared dividends of \$0.10 per common share for a total \$3.2 million (Q4 2012 – Nil).
- The Company redeemed requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemptions payable of \$51.5 million was paid on November 27, 2013.
- The Company exchanged all of the 30,825,108 outstanding Class A shares, 186,626 outstanding Class B shares, 424,700 outstanding Class I shares and 86,250 outstanding Class J shares into a newly created class of common shares.
- On October 2, 2013, the Credit Facility was amended to incorporate changes to the borrowing base criteria providing the Company with enhanced borrowing flexibility.

For the years ended December 31, 2013 (the “Year”) and December 31, 2012 (“2012”)

- The Company completed a public offering of 5,916,446 Class A shares for gross proceeds of \$58.3 million (2012 – 30,812,583; \$306.0 million). The Company also completed non-brokered private placements of 220,559 Class B shares (2012 – nil; nil), for gross proceeds of \$2.2 million, 184,000 Class I shares, for gross proceeds of \$1.8 million (2012 – 344,700; \$3.4 million) and 31,250 Class J shares for gross proceeds of \$0.3 million (2012 – 478,100; \$4.8 million).
- The Company redeemed requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemptions of \$51.5 million were paid on November 27, 2013.
- On the Exchange Date, the Company exchanged all of the 30,825,108 outstanding Class A shares, 186,626 outstanding Class B shares, 424,700 Class I shares and 86,250 Class J shares into 31,556,608 common shares.
- The Company advanced 55 new mortgage investments (2012 – 39) totaling \$378.3 million (2012 – \$435.8 million), had additional advances on existing mortgage investments of \$20.2 million (2012 – nil) and received full repayments on 25 mortgage investments (2012 – 7) and partial pay downs totaling \$330.1 million (2012 – \$102.8 million), resulting in a change in net mortgage investments of \$68.4 million (2012 – \$333.0 million).
- Net interest income earned by the Company was \$28.2 million (2012 – \$12.9 million), an increase of \$15.3 million, or 118.2%, over 2012. The increase over the prior year is a result of fully deploying the equity raised from multiple equity offerings through 2012 and 2013, along with the use of leverage, into mortgage investments, and by fees generated from strong investment turnover experienced by the Company.
- The Company received non-refundable lender fees of \$3.3 million (2012 – \$3.1 million) or 0.86% (2012 – 0.72%) of new mortgage investments funded in the Year.
- The Company generated income from operations of \$18.6 million (2012 – \$9.2 million), an increase of \$9.4 million, or 102.7%, from the last year. The increase from the last year is a result of fully deploying the equity raised from multiple equity offerings throughout 2012 and 2013 into mortgage investments.
- Prior to the Transition, the Company paid dividends of \$0.50 per Class A share for a total of \$18.4 million (2012 – \$0.55; \$13.1 million), \$0.54 per Class B share for a total of \$0.1 million (2012 – Nil), \$0.54 per Class I share for a total of \$0.2 million (2012 – \$0.32; \$0.1 million) and \$0.52 per Class J share for a total of \$0.1 million (2012 – \$0.36; \$0.2 million). The dividends exceeded the Company's targeted dividend yield of the 2-Year Government of Canada Bond Yield (“2-Yr GOC Yield”) plus 350 basis points.
- Subsequent to the Transition, the Company paid and declared dividends of \$0.10 per common share for a total \$3.2 million (Q4 2012 – Nil).
- On October 2, 2013, the Credit Facility was amended to incorporate changes to the borrowing base criteria providing the Company with enhanced borrowing flexibility.
- On January 20, 2014 the Board of Directors appointed Andrew Jones as Chief Executive Officer of the Company, effective immediately, to replace Blair Tamblyn. Blair Tamblyn will remain as Chairman of the Board of Directors.

ANALYSIS OF FINANCIAL INFORMATION FOR THE YEAR

Distributable income	Year ended December 31, 2013	Year ended December 31, 2012
Net loss and comprehensive loss	\$ (6,453)	\$ (18,656)
Less: amortization of lender fees	(2,330)	(814)
Add: one-time Transition related costs	3,871	–
Add: lender fees received during the year	3,267	3,126
Add: amortization of financing costs	552	346
Add: issuance cost of redeemable shares	3,301	13,435
Add: dividends to holders of redeemable shares	18,874	13,391
Distributable income	21,082	10,828
Less: dividends to holders of redeemable shares	(18,874)	(13,391)
Less: dividends to common shareholders	(3,156)	–
(Over) / under distribution	(948)	(2,563)
Payout ratio	104.50%	123.67%
Turnover ratio	84.35%	52.61%
Revolver balance at period end	108,746	33,602
Revolver limit	130,000	130,000
Revolver utilization of net mortgage investments at year end	27%	10%

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

The Board of Directors have set a dividend policy that is predicated on what they believe to be a long-term sustainable objective. A number of factors are assessed and evaluated each time the Board reviews and approves dividends. As noted above in the 'Recent Developments and Outlook' sections, both the Manager and the Board remain very comfortable with the broader market fundamentals.

When evaluating the specific performance metrics of the Company's ability to sustain, and ultimately grow dividends, a number of criteria were noted by the Board. Three of those criteria are addressed below:

Leverage
The Company's business model contemplates utilizing its Credit Facility to employ a conservative amount of leverage in order to achieve its targeted dividends. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The Company intends to utilize leverage representing approximately 30% of the aggregate value of the assets of the Company at any time, with the remaining portion of the Credit Facility reserved for general working capital purposes. At Year end, the Company's leverage was 27% of net mortgage investments (December 31, 2012 – 10%), which is within the Company's targeted leverage ratio.

Portfolio Turnover
Portfolio turnover (i.e. the repayment of mortgages) – while inherently a validation of a lenders exit strategy, also impacts dividends by virtue of causing “cash drag” on short-notice repayments. Ensuring the Company maintains a leverage ratio of approximately 30% helps mitigate short-notice unexpected repayments. As noted above, the portfolio turnover for the Year is 84.35% (2012 – 52.61%). The Company's long-term expectation is 30% per annum.

Trailer Fees
As a result of the Company's Transition, the requirement to pay Trailer Fees has ended. The Company paid Trailer Fees equal to \$805 during the Year (2012 – \$827).

The Board and the Manager believe that, in light of the factors noted above, an over-distribution of \$948 through December 31, 2013, representing only 0.33% of net assets of the Company, is appropriate and preferable to introducing short-term volatility in the dividends of the Company.

Statements of income (loss) and comprehensive income (loss)

	Three months ended December 31,			Year ended December 31,		
	2013	2012	% Change	2013	2012	% Change
Net interest income	\$ 7,325	\$ 5,504	33.1%	\$ 28,234	\$ 12,941	118.2%
Expenses	(1,436)	(1,333)	7.7%	(9,656)	(3,776)	155.7%
Income from operations	5,889	4,171	41.2%	18,578	9,165	102.7%
Financing costs:						
Interest on credit facility	(1,048)	(451)	132.2%	(2,856)	(996)	186.7%
Issuance costs of redeemable shares	(4)	(33)	(89.1%)	(3,301)	(13,435)	(75.4%)
Dividends to holders of redeemable shares	(1,851)	(4,757)	(61.1%)	(18,874)	(13,391)	40.9%
Net loss and comprehensive loss	\$ 2,986	\$ (1,070)	379.2%	\$ (6,453)	\$ (18,657)	(65.4%)

Net interest income¹

The Company earned net interest income for the three months and year ended December 31, 2013 of \$7.3 million and \$28.2 million, respectively. The significant increase in income over the same period last year was due to the Company increasing its net mortgage investments by approximately \$68.5 million, or 20.6%, from December 31, 2012 to December 31, 2013. Net interest income is made up of the following:

(a) Interest income

For the three months and year ended December 31, 2013, the Company earned \$6.5 million and \$25.6 million (Q4 2012 – \$5.0 million; 2012 – \$11.9 million) in interest income on the net mortgage investmnts, respectively. The weighted average interest rate on the mortgage portfolio decreased slightly over the Year, to 6.52% at December 31, 2013 from 6.66% at December 31, 2012. While the average net mortgage investment decreased over the Year, it is still within the Company’s targeted range.

(b) Lender fee income

During the three months and year ended December 31, 2013, the Company received non-refundable lender fees of \$1.1 and \$3.3 million (Q4 2012 – \$0.8 million; 2012 – \$3.1 million), or 0.89% and 0.86% (Q4 2012 – 0.77%; 2012 – 0.72%) of new mortgage investments funded in the respective periods. These lender fees are amortized using the effective interest rate method over the expected life of the mortgage investments to lender fee income. For the three months and year ended December 31, 2013, \$0.7 million and \$2.3 million (Q4 2012 – \$0.3 million; 2012 – \$0.8 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 turnover. The Manager does not retain any portion of the lender fees, unlike other competing mortgage investment corporations, ensuring management interests are aligned with the Company.

(c) Other income

For the three months and year ended December 31, 2013, the Company earned \$0.08 million and \$0.3 million (Q4 2012 – \$0.03 million; 2012 – \$0.2 million) in other income. Other income includes fees earned on mortgage fundings, prepayment penalties and exit fees earned on mortgage repayments and other miscellaneous fees. The Manager does not retain any portion of fees, thus maximizing the income of the Company.

Expenses

For the three months and year ended December 31, 2013, the Company’s expense ratio² was 1.3% and 1.5% (Q4 2012 – 1.7%; 2012 – 2.0%). As the Company continues to grow its mortgage investment portfolio, its expense ratio will decrease as several of the operating costs of the Company do not increase in proportion to the size of the Company.

Management fees

As part of the Transition, the Company has entered into a new management agreement with Timbercreek Asset Management Inc. (the “Manager”) and terminated its management agreement

with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. Under the new 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 the three months and year ended December 31, 2013, the Company incurred management fees of \$1.0 million and \$4.0 million (Q4 2012 – \$0.8 million; 2012 – \$2.4 million). The management fee has increased due to the increase in total assets of the Company during the Year.

Trailer fees

In conjunction with the shareholder approval for the Transition, the Company is no longer required to pay trailer fees to the brokers effective for the quarter ended September 30, 2013. Prior to Q3 2013, the Company was paying each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. For the Year, the Company incurred trailer fees of \$0.8 million (2012 – \$0.8 million) for Class A shares.

As noted above, prior to Q4 2013, the Company was paying each registered dealer a trailer fee equal to 0.25% annually of the net redemption value per Class J share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter, commencing on December 31, 2012. For the Year, the Company incurred trailer fees of \$0.01 million (2012 – \$0.01 million) for Class J shares.

Transition related costs

In connection with the Transition, the Company has incurred a one-time expense of \$4.1 million, which includes soliciting dealer fees of \$0.7 million, soliciting broker fees of \$2.9 million and audit, legal and other related fees of \$0.5 million. The Manager elected to assume responsibility for \$0.25 million of costs relating to the Transition.

General and administrative

For the three months and year ended December 31, 2013, the Company incurred general and administrative expenses of \$0.3 million and \$1.0 million (Q4 2012 – \$0.2 million; 2012 – \$0.5 million). 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. As the Company increases its net assets, operating expenses continue to decrease, equating to 0.2% of average mortgage investments for the Year (2012 – 0.2%).

Interest on credit facility

Financing costs include interest paid on amounts drawn on the credit facility, stand-by fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for the three months and year ended December 31, 2013 relating to the credit facility were \$1.0 million (Q4 2012 – \$0.5 million) and \$2.9 million (2012 – \$1.0 million) respectively.

Issuance costs of redeemable shares

As the Class A, B, I and J shares were classified as liabilities under IFRS, the issuance costs associated with periodic equity offerings were recorded as financing costs and are recognized in profit and loss. For the Year, the Company incurred issuance costs of \$3.3 million (2012 – \$13.4 million) relating to the issuance of Class A, B, I and J shares on total gross proceeds of \$62.6 million (2012 – \$314.2 million). The issuance costs include agent’s commissions, legal, professional and other costs relating to the offering.

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.

² Defined in Non-IFRS Measures section.

Dividends to holders of redeemable shares and common shares

The Company intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month. Below is a summary of the dividends to holders of redeemable shares and to common shareholders for the three months and year ended December 31, 2013 and 2012.

	Three months ended December 31, 2013		Year ended December 31, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A	\$0.050	\$ 1,808	\$0.500	\$ 18,416
Class B	0.054	12	0.540	119
Class I	0.054	27	0.540	235
Class J	0.052	4	0.520	104
Common	0.100	3,156	0.100	3,156

	Three months ended December 31, 2012		Year ended December 31, 2012	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.150	\$ 4,641	\$0.550	\$ 13,119
Class B	–	–	–	–
Class I	0.162	56	0.324	111
Class J	0.156	61	0.364	161

The current dividend yield of 7.03% on Class A and common shares (based on the closing market price of common shares at year-end) is in excess of the Company's targeted dividend yield of 4.61% (2-Yr GOC Yield plus 350 basis points).

STATEMENT OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	December 31, 2013	December 31, 2012	Change
Mortgage investments, including mortgage syndications	\$ 401,456	\$ 332,999	\$ 68,457
Interest receivable	2,177	1,623	554
	403,633	334,622	69,011
Unamortized lender fees	(3,249)	(2,312)	(937)
	\$ 400,384	\$ 332,310	\$ 68,074

During the Year, the Company advanced 55 new mortgage investments (2012 – 39) totaling \$378.3 million (2012 – \$435.8 million), had additional advances on existing mortgage investments of \$20.2 million (2012 – nil) and received full repayments on 25 mortgage investments (2012 – 7) and partial pay downs totaling \$330.1 million (2012 – \$102.8 million) , resulting in a change in net mortgage investments of \$68.4 million (2012 – \$333.0 million), or a portfolio turnover rate of 84.35% (2012 – 52.61%). As at December 31, 2013, the average net mortgage investment was approximately \$6.5 million (December 31, 2012 – \$10.4 million). Further, the new mortgage investments for the Year equate to approximately 94.2% of the Company's mortgage investments at Year end (December 31, 2012 – 130.9%). The average net mortgage investment decreased over the Year and is mainly attributable to the Company continually balancing the mortgage investment portfolio within its AAM.

The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. As at December 31, 2013, no impairment losses have been recorded.

The Company enters into certain mortgage participation agreements with mainly third party lenders, using senior and subordinated participation, all of which is secured by first mortgage positions, whereby the lenders take the senior position and the Company retains the subordinated first position. These agreements provide an option to the Company to repurchase the senior

position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lender's proportionate share together with all accrued interest. During the Year, the non-recourse mortgage syndications have increased to \$115.4 million (December 31, 2012 – \$41.6 million), as the Company is expanding its relationships with various lenders. These syndications provide the Company with flexibility through the ability to buy-back the existing investments at a future date if desired.

As at December 31, 2013, the Company's mortgage investments comprised of 62 mortgage investments (December 31, 2012 – 32) which were allocated across the following categories:

(a) Region

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage Investments	# of Loans	% of Net Mortgage Investments
ON	31	45.5%	19	63.7%
QC	9	20.7%	5	21.8%
AB	9	10.3%	3	10.3%
BC	6	14.1%	2	1.7%
SK	4	5.7%	3	2.5%
OT	1	1.9%	0	0.0%
NS	1	1.6%	0	0.0%
MB	1	0.2%	0	0.0%
	62	100.0%	32	100.0%

The Company continued to focus its efforts on diversifying the mortgage investment portfolio, with its greatest concentration in Canada's largest provinces. As at December 31, 2013 90.6% (December 31, 2012 – 97.5%) of the mortgage investments were allocated across Ontario, Quebec, British Columbia and Alberta. During the Year, the average loan size decreased, providing the Company with less exposure to any one particular mortgage. The Company has continued to maintain significant exposure to Ontario as it has benefited from sourcing mortgages secured by high-quality, cash flowing multi-residential and office assets in good markets, with multiple repeat borrowers with proven track records.

(b) Maturity

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage Investments	# of Loans	% of Net Mortgage Investments
Maturing 2013	–	–	7	12.0%
Maturing 2014	17	17.1%	14	29.5%
Maturing 2015	33	59.4%	10	46.5%
Maturing 2016	12	23.5%	1	12.0%
	62	100.0%	32	100.0%

The Company's portfolio turnover rate for the Year was strong at 84.35% (December 31, 2012 – 52.61%). The Company's strong portfolio turnover helps generate fee income, all of which goes to the Company while ensuring the Company is able to respond quickly to a changing interest rate environment. The weighted average term to maturity as at December 31, 2013 is 2.2 years (December 31, 2012 – 3.1 years), in-line with the portfolio's target maturity of 2 – 3 years.

(c) Asset Type

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage Investments	# of Loans	% of Net Mortgage Investments
Multi-residential	23	40.3%	12	40.0%
Office	9	14.6%	5	19.1%
Retail	9	12.3%	4	8.7%
Retirement	3	8.7%	2	10.4%
Industrial	6	6.4%	2	3.0%
Other-residential	2	5.5%	3	13.2%
Hotels	2	4.8%	1	0.9%
Unimproved land	4	4.1%	1	4.0%
Single-residential	2	1.7%	2	0.7%
Self-storage	2	1.6%	0	0.0%
	62	100.0%	32	100.0%

The Company has developed a lending niche predominantly in cash-flowing assets, while specifically targeting multi-residential assets. Historically, the Company has had very little exposure to land development, single-family residential mortgages and construction loans, where demand is largely impacted by the strength or weakness of the Canadian housing market and typically do not generate cash flow to service the mortgage investment.

(d) Interest Rate

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage Investments	# of Loans	% of Net Mortgage Investments
5.00% or lower	4	13.2%	0	0.0%
5.01%–5.49%	4	8.4%	0	0.0%
5.50%–5.99%	9	13.8%	5	27.9%
6.00%–6.49%	6	10.5%	4	8.8%
6.50%–6.99%	6	11.3%	6	23.2%
7.00% or greater	33	42.8%	17	40.1%
	62	100.0%	32	100.0%

The weighted average interest rate, excluding lender fee income, on the mortgage investments at December 31, 2013 was 6.52% (December 31, 2012 – 6.66%). The weighted average interest rate was greater than the Company's target return for the Year of 4.61% (December 31, 2012 – 4.61%), equal to the 2-Yr GOC Yield plus 350 basis points.

(e) Loan-to-value

	December 31, 2013		December 31, 2012	
	# of Loans	% of Net Mortgage Investments	# of Loans	% of Net Mortgage Investments
55% or less	29	44.2%	9	36.6%
56%–60%	7	7.3%	4	10.3%
61%–65%	16	30.5%	17	38.9%
66%–70%	10	18.0%	2	14.2%
	62	100.0%	32	100.0%

The loan-to-value on the mortgage portfolio at December 31, 2013 was 45.1% (December 31, 2012 – 53.6%), well below the AAM's ceiling of 70%.

Net working capital

Net working capital increased by \$0.3 million to (\$0.7) million at December 31, 2013 from (\$1.0) million at December 31, 2012, mainly due to an increase in interest receivable from the mortgage investments. The Company has available its credit facility to manage its working capital while ensuring idle cash is minimized.

Credit facility

The Company has a credit facility agreement with a syndicate of lenders (the "Syndicate") in an amount of up to \$130 million (the "Credit Facility"), bearing interest at either the prime rate of interest plus 1% or bankers' acceptances ("BA") with a stamping fee of 2% of the face amount of such BA. The Company also has an option to increase the limit by another \$60 million, subject to certain terms and conditions. The leverage of the Company in aggregate cannot exceed 40% of the aggregate value of the assets of the Company at any time. The Company intends to utilize leverage representing approximately 30% of the aggregate value of assets of the Company at any time, with the remaining portion of the Credit Facility reserved for general working capital purposes. The Credit Facility is secured by a general security agreement over the Company's assets, and expires in March 2014. At December 31, 2013, \$109.0 million (December 31, 2012 – \$37.5 million) was outstanding on the Credit Facility.

In July, 2013, the Company received approval from the Syndicate to amend certain terms of the Credit Facility agreement to provide the Company with additional borrowing flexibility along with providing a \$25.0 million bulge. The bulge expired on December 31, 2013.

As at December 31, 2013, there were \$0.2 million (December 31, 2012 – \$0.7 million) in unamortized financing costs related to the structuring of the Credit Facility, which are netted against the Credit Facility. For the year ended December 31, 2013, the Company has amortized financing costs of \$0.6 million (2012 – \$0.4 million), to interest expense using the effective interest rate method.

In February 2014 the Company received approval to extend the Credit Facility until June 28, 2014. Management and the Board of Directors are currently reviewing the growth opportunities of the Company and expect to extend the Credit Facility for a long-term period in the coming months.

Net assets attributable to holders of redeemable shares

Under IFRS, IAS 32 requires that shares of an entity which include a contractual obligation for the issuer to repurchase or redeem the shares for cash or another financial asset, to be classified as a financial liability. Prior to the Transition, the Company's Class A, Class B, Class I and Class J shares did not meet the criteria in IAS 32 for classification as equity and therefore, were classified as financial liabilities. In addition, the dividends and issuance costs related to these shares were also presented as financing costs in the statement of net loss and comprehensive loss. Subsequent to the Transition, as described in the section for "Transition to Public Company Regime, Class A, Class B, Class I and Class J shares were exchanged into common shares and are classified as equity.

During the Year, the Company completed a public offering of 5,916,446 Class A shares for gross proceeds of \$58.3 million. The Company also completed non-brokered private placements of 220,559 Class B shares, for gross proceeds of \$2.2 million, an offering of 184,000 Class I shares, for gross proceeds of \$1.8 million and an offering of 31,250 Class J shares, for gross proceeds of \$0.3 million.

Dividends reinvestment plan

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

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

Under the Amended DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 95% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share.

For the Year, 149,790 (2012 – 51,410) Class A shares were issued under the Original DRIP, using reinvested dividends of \$1.3 million (2012 – \$0.5 million) and 7,426 (2012 – nil) common shares were issued under the Amended DRIP. Of these, 82,897 Class A shares and 7,426 common shares were acquired from the market under the DRIP.

Normal course issuer bid

On June 6, 2013, the Company received approval from the TSX to commence a normal course issuer bid (the “NCIB”) to purchase for cancellation up to 3,709,327 Class A shares; representing approximately 10% of the Class A shares float on June 4, 2013. The purchases were limited, during any 30-day period during the term of the NCIB to 742,045 Class A shares in the aggregate. The NCIB commenced on June 10, 2013, and provided the Company with the flexibility to repurchase Class A shares for cancellation, with an expiry date of June 9, 2014, or such earlier date as the NCIB is complete. From June 10, 2013 to November 29, 2013, the date of the conversion of the Company’s Class A shares to common shares, the Company acquired for cancellation 1,014,400 Class A shares at a cost of \$9,198. Following the conversion of the Class A Shares, further purchases pursuant to a normal course issuer bid will require the re-filing of certain documentation with the TSX in respect of the common shares.

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 meetings of the shareholders of the Company. The holders of the common shares shall be entitled to receive dividends as and when declared by the board of directors.

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

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

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

QUARTERLY FINANCIAL INFORMATION

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

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Net interest income	\$ 7,325	\$ 7,377	\$ 6,964	\$ 6,567	\$ 5,504	\$ 4,255	\$ 2,468	\$ 715
Expenses	(1,436)	(4,953)	(1,613)	(1,655)	(1,333)	(1,339)	(693)	(410)
Income from operations	5,889	2,424	5,351	4,912	4,171	2,916	1,775	305
Financing costs:								
Interest on credit facility	(1,048)	(662)	(679)	(466)	(451)	(246)	(285)	(13)
Issuance costs of redeemable shares	(4)	(60)	3	(3,241)	(33)	(6,426)	(200)	(6,777)
Dividends to holders of redeemable shares	(1,851)	(5,644)	(5,708)	(5,671)	(4,757)	(4,754)	(2,337)	(1,542)
	(2,903)	(6,366)	(6,384)	(9,378)	(5,241)	(11,426)	(2,822)	(8,332)
Net income (loss) and comprehensive income (loss)	\$ 2,986	\$ (3,942)	\$ (1,033)	\$ (4,466)	\$ (1,070)	\$ (8,510)	\$ (1,047)	\$ (8,026)

The variations in net income (loss) and comprehensive income (loss) by quarter are attributed to the following:

- The Company has raised gross proceeds of approximately \$376.9 million since Q1 2012. The proceeds from these offerings have been used to fund mortgage investments, the timing of which typically occur around periodic offerings and existing mortgage investment maturities, which vary throughout the year. Following past periodic equity offerings, the Company has been subject to holding idle cash while it originates new mortgage investments or waits for the closing of existing mortgage investment commitments. The Company seeks to deploy idle cash within 60 to 90 days of closing an equity offering.

- The dividends to holders of redeemable shares and issuance costs relating to redeemable shares were presented in the statement of income (loss) and comprehensive income (loss) until October 2013 and the dividends to common shareholders are now presented in the statement of changes in equity from the Exchange Date to December 31, 2013.

RELATED PARTY TRANSACTIONS

As at December 31, 2013, due to Manager includes management fees payable of \$318 (December 31, 2012 – nil) and \$4 (December 31, 2012 – \$12) related to costs incurred by the Manager on behalf of the Company.

As at December 31, 2013, the Company and TMIC, a related party by virtue of common management, have co-invested in several mortgage investments, totaling \$682.0 million (December 31, 2012 – \$392.9 million), which are secured primarily by multi- residential, office, retirement, retail and other commercial properties. The Company’s net share in these investments is \$466.0 million (December 31, 2012 – \$306.7 million), and included in this amount is a mortgage investment of \$7.7 million (December 31, 2012 – \$6.8 million) to a limited partnership, which is co-owned by Timbercreek Four Quadrant Global Real Estate Partners (“T4Q”), a related party by virtue of common management.

As at December 31, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in a mortgage investment secured by a retail property. The Company’s share in this mortgage investment is \$5.0 million (December 31, 2012 – \$24.0 million).

As at December 31, 2013, included in other assets is \$3,095 (December 31, 2012 – nil), of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., the Company’s mortgage servicing and administration provider, a related party by virtue of common management. The balance relates to mortgage funding deposits and prepaid interest received from the borrowers.

The Manager has borne total costs of \$250 relating to the Transition, which are not included in the Transition related costs in the statements of net loss and comprehensive loss.

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The critical accounting estimates and judgments have been set out in detail in note 2 of the Company’s consolidated financial statements for the year ended December 31, 2013.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2014 and have not been applied in preparing 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) IFRS 9, Financial Instruments, (“IFRS 9”):

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

(ii) IAS 32, Financial Instruments: Presentation (“IAS 32”):

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities

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

OUTSTANDING SHARE DATA

As at March 5, 2013, the Company’s authorized capital consists of an unlimited number of common shares, of which 31,556,608 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, equity offerings and the Credit Facility. The Company routinely forecasts cash flow sources and requirements to ensure cash is efficiently utilized. In addition, the Company has the borrowing ability of \$130.0 million through its Credit Facility and seeks to maintain a targeted leverage ratio of approximately 30% and manage the fluctuations in cash flows as a result of the timing of mortgage investment fundings and repayments and other working capital needs. Of note, the Credit Facility was utilized by the Company to assist with funding the Special Redemption.

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

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

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

As at December 31, 2013, the Company’s cash position was nil and there was an undrawn Credit Facility balance of \$21.0 million (December 31, 2012 – \$92.5 million). The Company is confident that it will be able to finance its operations using the cash flow generated from operations, the Credit Facility and the proceeds raised in subsequent offerings.

FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

	Classification	Measurement
Financial assets		
Mortgage investments, including mortgage syndications	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Financial liabilities		
Credit facility	Other financial liabilities	Amortized cost
Mortgage syndication liabilities	Other financial liabilities	Amortized cost
Prepaid mortgage interest	Other financial liabilities	Amortized cost
Mortgage funding holdbacks	Other financial liabilities	Amortized cost
Due to Manager	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Accounts payable and accrued expenses	Other financial liabilities	Amortized cost

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

The fair value of mortgage investments approximate to their carrying values given the mortgage investmtns consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties.

The Company’s use of financial instruments exposes the Company to various related risks which are outlined in note 15 of the consolidated financial statements of the Company.

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.

For a full discussion of the risks and uncertainties, please also refer to the “Risk Factors” section of our Annual Information Form for the year ended December 31, 2013.

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO on a timely basis so appropriate decisions can be made regarding public disclosures.

The preparation of this information is supported by a set of disclosure controls and procedures (“DC&P”) implemented by management. In fiscal 2013, these 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, 2013. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) control framework adopted by the Company and the requirements of National Instrument 52-109 of the Canadian Securities Administrators titled, Certification of Disclosure in Issuers’ Annual and Interim Filings.

The Company continues to review the design of disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is properly communicated to certifying officers responsible for establishing and maintaining disclosure controls and procedures, as those terms are defined in National Instrument 52-109 certification of disclosure in issuers’ annual and interim filings as at December 31, 2013. The Company confirmed the effectiveness of the design of Internal Controls over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial statements and information the Company may, from time to time, make changes aimed at enhancing their effectiveness and ensuring that our systems evolve with our business.

There were no changes made in our internal controls over financial reporting during the year ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ADDITIONAL INFORMATION

Phone

Calling the Company at 1-866-898-8868, Carrie Morris, Managing Director Capital Markets & Corporate Communications.

Shareholders who wish to enroll in the DRIP or who would like further information about the plan should contact Corporate Communications at (416) 306-9967 ext. 7266 (collect if long distance).

Internet

Visiting SEDAR at www.sedar.com; or

Mail

Writing to the Company at:

Timbercreek Senior Mortgage Investment Corporation
Attention: Corporate Communications
1000 Yonge Street, Suite 500
Toronto, Ontario M4W 2K2

Independent Auditors’ Report

To the Shareholders of Timbercreek Senior Mortgage Investment Corporation

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

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

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

Chartered Professional Accountants, Licensed Public Accountants

KPMG LLP

March 5, 2014
Toronto, Canada

Consolidated Statements of Financial Position

December 31, 2013 and 2012

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Net Loss and Comprehensive Loss

Years ended December 31, 2013 and 2012

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders’ Equity and Net Assets Attributable to Holders of Redeemable Shares

Years ended December 31, 2013 and 2012

2013	Class A Shares	Class B Shares	Class I Shares	Class J Shares	Common Shares	Total
Net assets attributable to holders of redeemable shares, beginning of year	\$289,697,929	\$ –	\$ 3,261,849	\$ 3,096,991	\$ –	\$ 296,056,769
Gross proceeds from issuance of redeemable shares	58,276,993	2,205,590	1,840,000	300,000	–	62,622,583
Issuance of redeemable shares under dividend reinvestment plan	1,339,079	–	–	–	–	1,339,079
Redemption of redeemable shares	(50,668,542)	(318,462)	(724,460)	–	–	(51,711,464)
Repurchase of redeemable shares	(9,936,801)	–	–	–	–	(9,936,801)
Exchange of redeemable shares	2,792,360	(9,330)	(148,950)	(2,634,080)	–	–
Exchange of redeemable shares to common shares	(291,501,018)	(1,877,798)	(4,228,439)	(762,911)	298,370,166	–
Dividends to shareholders	–	–	–	–	(3,155,661)	(3,155,661)
Issuance of common shares under dividend reinvestment plan	–	–	–	–	63,791	63,791
Repurchase of common shares	–	–	–	–	(63,791)	(63,791)
Net loss and comprehensive loss	–	–	–	–	(6,452,957)	(6,452,957)
Shareholders’ equity, end of year	\$ –	\$ –	\$ –	\$ –	\$288,761,548	\$288,761,548

2012	Class A Shares	Class B Shares	Class I Shares	Class J Shares	Total
Net assets attributable to holders of redeemable shares, beginning of year	\$ –	\$ –	\$ –	\$ –	\$ –
Gross proceeds from issuance of redeemable shares	306,000,531	–	3,447,000	4,781,000	314,228,531
Issuance of redeemable shares under dividend reinvestment plan	484,692	–	–	–	484,692
Exchange of redeemable shares	1,621,000	–	(150,000)	(1,471,000)	–
Net loss and comprehensive loss	(18,408,294)	–	(35,151)	(213,009)	(18,656,454)
Net assets attributable to holders of redeemable shares, end of year	\$289,697,929	\$ –	\$3,261,849	\$3,096,991	\$296,056,769

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flow

Years ended December 31, 2013 and 2012

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

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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

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

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

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

1. TRANSITION TO PUBLIC COMPANY REGIME

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

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

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

Also effective September 13, 2013, the Company entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services of the Company's mortgage investments. Additionally, Messrs. Ugo Bizzarri, Andrew Jones and Ed Boomer have been elected as additional directors of the Company.

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

2. BASIS OF PREPARATION

(a) Statement of compliance:

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

(b) Functional and presentation currency:

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

(c) Basis of measurement:

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

(d) Principles of consolidation:

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

(e) Use of estimates and judgments:

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

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

Mortgage investments:

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

Measurement of fair values:

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

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

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

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Manager assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in note 16.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents:

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

(b) Mortgage investments:

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

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

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

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(c) Dividends:

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

(d) Income taxes:

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

(e) Financial instruments:

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

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

(f) Derecognition of financial assets and liabilities:

Financial assets:

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

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

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

Financial liabilities:

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

(g) Interest and fee income:

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

(h) Changes in accounting policies:

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

a) IFRS 10 Consolidated Financial Statements (2011)

b) IFRS 11 Joint Arrangements

c) IFRS 12 Disclosure of Interests in Other Entities

d) IFRS 13 Fair Value Measurement

e) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

f) IAS 19 Employee Benefits (2011)

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

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

(i) Future changes in accounting policies:

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

(i) IFRS 9, Financial instruments, (“IFRS 9”):

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

(ii) IAS 32, Financial Instruments: Presentation (“IAS 32”):

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

4. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

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

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

(a) Mortgage investments:

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

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance. For the year ended December 31, 2013, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of \$3,266,812 (2012 – \$3,126,328), respectively, which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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

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

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

(b) Non-recourse mortgage syndication liabilities:

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

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

5. RESTRICTED CASH

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

6. CREDIT FACILITY

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

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

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

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

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

7. VOTING SHARES

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

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

8. REDEEMABLE SHARES

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

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

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

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

Year ended December 31, 2012	Class A	Class B	Class I	Class J
Redeemable shares outstanding, beginning of year	–	–	–	–
Issued	30,812,583	–	344,700	478,100
Issuance of redeemable shares under dividend reinvestment plan	51,410	–	–	–
Exchanged	165,792	–	(15,000)	(147,100)
Redeemable shares outstanding, end of year	31,029,785	–	329,700	331,000

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

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

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

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

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

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

On July 3, 2012, the Company completed a public offering of 14,950,000 Class A shares, which included the exercise of the overallotment option of 15% of the aggregate number of Class A shares issued at closing, for gross proceeds of \$149,500,000. The Company also issued 430,000

subscription receipts for gross proceeds of \$4,300,530. The holders of these subscription receipts exchanged their subscription receipts for Class A shares on the close of business on July 3, 2012 for 447,285 Class A shares.

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

(a) Dividends to holders of redeemable shares
Prior the Transition, the Company paid the following dividends to holders of redeemable shares:

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

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

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

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

9. COMMON SHARES

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

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

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

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

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

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

(a) Dividend reinvestment plan:

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

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

(b) Dividends to holders of common shares:

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

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

10. EXPENSES

(a) Management fees:

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

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

(b) Servicing fees:

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

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

11. NET INCOME PER SHARE

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

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

(a) Basic and diluted earnings per share:

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

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

(b) Adjusted basic and diluted earnings per share:

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

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

12. RELATED PARTY TRANSACTIONS

(a) As at December 31, 2013, due to Manager includes management fees payable of \$318,266 (December 31, 2012 – nil) and \$4,239 (December 31, 2012 – \$12,280) related to costs incurred by the Manager on behalf of the Company.

(b) As at December 31, 2013, the Company and Timbercreek Mortgage Investment Corporation (“TMIC”), a related party by virtue of common management, have co-invested in several mortgage investments, totaling \$681,960,996 (December 31, 2012 – \$392,869,519), which are secured primarily by multi-family residential, office, retirement and other commercial properties. The Company’s net share in these investments is \$465,961,118 (December 31, 2012 – \$306,667,477), and included in this amount is a mortgage investment of \$7,669,738 (December 31, 2012 – \$6,779,296) to a limited partnership, which is co-owned by Timbercreek Four Quadrant Global Real Estate Partners (“T4Q”), a related party by virtue of common management. In addition, \$281,126 (December 31, 2012 – receivable of \$4,462) is payable by the Company to TMIC relating to amounts paid on behalf of the Company.

(c) As at December 31, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in a mortgage investment secured by a retail property. The Company’s share in this mortgage investment is \$5,000,000 (December 31, 2012 – \$24,000,000).

(d) As at December 31, 2013, included in other assets is \$3,047,719 (December 31, 2012 – nil), of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management. The balance relates to mortgage funding deposits and prepaid interest received from the borrowers.

(e) The Manager has borne total costs of \$250,000 relating to the Transition, which are not included in the Transition related costs in the statements of net loss and comprehensive loss.

13. INCOME TAXES

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

14. CAPITAL RISK MANAGEMENT

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

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

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

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

(a) Interest rate risk:

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

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

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

(b) Credit risk:

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

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

The maximum exposure to credit risk at December 31, 2013 is the carrying values of its mortgage investments, which total \$403,633,839 (December 31, 2012 – \$334,622,005). The Company has recourse under these investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

(c) Liquidity risk:

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

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

December 31, 2013						
	Carrying Values	Contractual cash flows	Within a year	Following year	3 – 5 years	Over 5 years
Credit facility ¹	\$ 108,745,727	\$ 110,060,353	\$ 110,060,353	\$ –	\$ –	\$ –
Mortgage funding holdbacks	1,459,055	1,459,055	1,459,055	–	–	–
Dividends payable	1,577,831	1,577,831	1,577,831	–	–	–
Due to Manager	322,505	322,505	322,505	–	–	–
Prepaid mortgage interest	1,636,355	1,636,355	1,636,355	–	–	–
Accounts payable and accrued expenses	1,091,467	1,091,467	1,091,467	–	–	–
Unadvanced mortgage commitments	–	34,909,805	34,909,805	–	–	–
	\$ 114,832,940	\$ 151,057,371	\$ 151,057,371	\$ –	\$ –	\$ –

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

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

The fair value hierarchy, valuation techniques and the inputs used for the Company’s assets and liabilities are as follows:

(a) Mortgage investments and mortgage syndication liabilities:

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

(b) Other financial assets and liabilities:

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

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

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

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

17. COMMITMENTS AND CONTINGENCIES

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

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

18. KEY MANAGEMENT PERSONNEL COMPENSATION

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

Board of Directors

The directors of Timbercreek Senior Mortgage Investment Corp. 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 and CFO, Timbercreek Senior MIC
Director, Founding Managing Director of Portfolio Management and Investments, Timbercreek Asset Management



Edward W. Boomer

Independent Director, Timbercreek Senior MIC
Founder and President of Reference Realty Inc.



Robert Douglas

Independent Director, Timbercreek Senior MIC
Managing Director of Real Estate Investments, OPTrust, President, OPTrust Realty Inc.



Andrew Jones

Director and CEO, Timbercreek Senior MIC
Managing Director of 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
Director, CEO and Founding Managing Director, Timbercreek Asset Management

Independent Mortgage Advisory Committee



Chris Humeniuk

President & CEO, Community Trust Company



Ken Lipson

CFO, TMDL Asset Management Inc.



Pamela Spackman

Committee Chair
Consultant

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Auditors

KPMG LLP

Legal Counsel

McCarthy Tétrault LLP

