

Condensed Consolidated Interim  
Financial Statements of

# Timbercreek Mortgage Investment Corporation

Three months and nine months  
ended September 30, 2013 and 2012  
(Unaudited)

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Mortgage and loan investments, including mortgage syndications (note 5)	\$ 472,740,978	\$ 407,140,364
Foreclosed properties held for sale (note 6)	3,866,595	—
Restricted cash (note 7)	16,062	395,088
Other assets (note 13(e))	1,405,783	366,634
Cash and cash equivalents	623,119	992,671
<b>Total assets</b>	<b>478,652,537</b>	<b>408,894,757</b>
<b>EQUITY</b>		
Share capital (note 10)	100	100
<b>Total equity</b>	<b>100</b>	<b>100</b>
<b>LIABILITIES</b>		
Credit facility (note 8)	2,308,972	8,706,383
Non-recourse mortgage syndication liabilities (note 5)	116,656,192	38,407,891
Mortgage funding holdbacks	177,568	129,262
Dividends payable (note 11(b))	2,424,231	2,428,105
Due to Manager (note 13(a))	1,612,411	2,469,511
Prepaid mortgage and loan interest	873,744	357,235
Accounts payable and accrued expenses	3,901,068	868,300
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>	<b>127,954,186</b>	<b>53,366,687</b>
<b>Net assets attributable to holders of redeemable shares (note 11)</b>	<b>\$ 350,698,251</b>	<b>\$ 355,527,970</b>
Commitments and contingencies (notes 1 and 15)		
Subsequent event (notes 1 and 11(b))		

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest, including non-recourse mortgage syndications	\$ 10,196,273	\$ 8,820,322	\$29,059,425	\$26,489,306
Fees	1,193,737	1,822,120	3,538,382	4,167,395
	11,390,010	10,642,442	32,597,807	30,656,701
Interest expense on non-recourse mortgage syndications	(1,501,510)	(442,054)	(2,792,459)	(1,832,764)
Net interest income	9,888,500	10,200,388	29,805,348	28,823,937
Expenses:				
Management fees (note 12(a))	1,249,939	1,236,350	3,721,184	3,573,210
Performance fees (note 12(a))	446,944	434,996	1,600,341	857,815
Servicing fees (note 12(b))	–	363,054	737,199	1,065,878
Transition related costs (note 1)	3,373,505	–	3,373,505	–
Provision for mortgage and loan investments loss (note 5(d))	400,000	–	1,200,000	–
Net unrealized foreign exchange (gain) loss	(3,466)	–	16,372	–
General and administrative	155,014	138,403	513,615	499,496
	5,621,936	2,172,803	11,162,216	5,996,399
Income from operating activities	4,266,564	8,027,585	18,643,132	22,827,538
Financing costs:				
Interest on credit facility (note 8)	98,316	86,548	279,627	260,881
Issuance costs of redeemable shares	–	(59,352)	–	16,843
Dividends to holders of redeemable shares (note 11)	7,299,108	7,262,887	21,907,508	21,923,351
	7,397,424	7,290,083	22,187,135	22,201,075
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ (3,130,860)</b>	<b>\$ 737,502</b>	<b>\$ (3,544,003)</b>	<b>\$ 626,463</b>

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

Nine months ended September 30, 2013 and 2012

(Unaudited)

2013	Class A Shares	Class B Shares	Total
Net assets attributable to holders of redeemable shares, beginning of period	\$ 319,585,511	\$ 35,942,459	\$ 355,527,970
Increase (decrease) in net assets attributable to holders of redeemable shares	(3,245,015)	(298,988)	(3,544,003)
Issuance of redeemable shares under dividend reinvestment plan	2,966,916	–	2,966,916
Redemption of redeemable shares	(38,761)	–	(38,761)
Repurchase of redeemable shares	(4,213,871)	–	(4,213,871)
Exchange of redeemable shares	1,037,375	(1,037,375)	–
<b>Net assets attributable to holders of redeemable shares, end of period</b>	<b>\$ 316,092,155</b>	<b>\$ 34,606,096</b>	<b>\$ 350,698,251</b>
2012	Class A Shares	Class B Shares	Total
Net assets attributable to holders of redeemable shares, beginning of period	\$ 282,536,697	\$ 35,674,222	\$ 318,210,919
Increase in net assets attributable to holders of redeemable shares	433,471	192,992	626,463
Gross proceeds from issuance of redeemable shares	–	34,005,730	34,005,730
Issuance of redeemable shares under dividend reinvestment plan	2,877,931	–	2,877,931
Exchange of redeemable shares	33,648,230	(33,648,230)	–
<b>Net assets attributable to holders of redeemable shares, end of period</b>	<b>\$ 319,496,329</b>	<b>\$ 36,224,714</b>	<b>\$ 355,721,043</b>

See accompanying notes to the condensed consolidated interim financial statements.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>OPERATING ACTIVITIES</b>				
Net income (loss) and comprehensive income (loss)	\$ (3,130,860)	\$ 737,502	\$ (3,544,003)	\$ 626,463
Amortization of lender fees	(1,040,308)	(1,084,935)	(3,305,735)	(3,286,836)
Financing costs	7,397,424	7,290,083	22,187,135	22,201,075
Net unrealized foreign exchange (gain)/loss	(3,466)	–	16,372	–
Impairment provision on mortgage and loan investments	400,000	–	1,200,000	–
Change in non-cash operating items:				
Restricted cash	(23)	377,331	379,026	–
Interest receivable	(641,095)	1,340,073	(1,753,723)	1,338,991
Other assets	(857,091)	1,333	(1,039,149)	(27,509)
Accounts payable and accrued expenses	3,220,856	96,715	3,019,971	172,951
Due to Manager	465,424	466,045	(857,100)	(251,607)
Prepaid mortgage interest	477,444	(599,090)	516,509	(5,702,823)
Mortgage funding holdbacks	177,568	(673,583)	48,306	(165,156)
Lender fees	645,889	1,046,066	2,919,467	3,662,932
	<b>7,111,762</b>	<b>8,997,540</b>	<b>19,787,076</b>	<b>18,568,481</b>
<b>FINANCING ACTIVITIES</b>				
Redemption of Class A redeemable shares	–	–	(38,761)	–
Proceeds from issuance of Class B redeemable shares	–	–	–	34,005,730
Net proceeds from (repayment of) credit facility	2,322,030	–	(6,514,395)	–
Interest paid	(59,320)	(49,543)	(162,642)	(149,867)
Repurchase of redeemable shares for cancellation	(3,057,960)	–	(3,150,009)	–
Issuance costs of redeemable shares	–	59,352	–	(16,843)
Dividends to holders of redeemable shares	(6,957,936)	(6,467,318)	(20,008,329)	(18,972,845)
	<b>(7,753,186)</b>	<b>(6,457,509)</b>	<b>(29,874,136)</b>	<b>14,866,175</b>
<b>INVESTING ACTIVITIES</b>				
Net funding of mortgages and loan investments	(48,599,125)	(83,983,337)	(187,598,877)	(240,219,227)
Net discharge of mortgages and loan investments	44,335,578	96,724,734	197,316,385	215,348,576
	(4,263,547)	12,741,397	9,717,508	(24,870,651)
Increase (decrease) in cash and cash equivalents	(4,904,971)	15,281,428	(369,552)	8,564,005
Cash and cash equivalents, beginning of period	5,528,090	15,333,512	992,671	22,050,935
<b>Cash and cash equivalents, end of period</b>	<b>\$ 623,119</b>	<b>\$30,614,940</b>	<b>\$ 623,119</b>	<b>\$30,614,940</b>

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

*See accompanying notes to condensed consolidated interim financial statements.*

Timbercreek 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 was incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008 and is authorized to issue an unlimited number of Class A, Class B and voting shares. 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 Company related to the rights attached to the existing classes of shares (including the provision of a one-time special redemption right of up to 15% of the issued and outstanding shares of each class (the "Special Redemption")), and provide for the creation of a new class of common shares for which all existing classes of redeemable shares will be exchanged on or about November 30, 2013.

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

## 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 IFRS, along with a Management's Discussion and Analysis.

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 and administrative services of the Company's mortgage assets.

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

The Company will redeem requests from holders of 1,674,568 Class A shares and 259,771 Class B shares for the Special Redemption. The total redemption payable of approximately \$18.0 million will be paid on or before November 30, 2013.

In connection with the Transition, the Company has incurred estimated total costs of \$3,623,505, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. Timbercreek Asset Management Inc. in its capacity as the Manager elected to assume responsibility for \$250,000 of costs relating to the Transition.

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### 2. BASIS OF PREPARATION

#### Statement of compliance

These condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. The presentations of these condensed consolidated interim financial statements are based on accounting policies and practices in accordance with IFRS. The accompanying condensed consolidated interim financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2012, since they do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 12, 2013.

### 3. ACCOUNTING POLICIES ADOPTED IN THE PERIOD

Except as described below, the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its audited financial statements for the year ended December 31, 2012, which were prepared in accordance with IFRS.

#### (a) Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. The pronouncements which are not applicable to the Company or had no impact on the adoption are not listed below. These changes were made in accordance with the applicable transitional provisions.

##### (i) IFRS 13, *Fair Value Measurements* ("IFRS 13")

IFRS 13 was issued by the IASB in May 2011, which is effective for annual periods beginning on or after January 1, 2013. IFRS 13 sets out in a single IFRS framework for the application of fair value to those assets and liabilities qualifying or permitted to be carried at fair value and provides enhanced disclosure requirements when fair value is applied. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. Refer to note 14 for further details on the fair value methodologies and assumptions.

#### (b) Foreign exchange forward contract

The Company holds a derivative financial instrument to hedge its foreign currency risk exposure. Derivatives are recognized initially at fair value, with transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period. Any resulting gain or loss is recognized in profit or loss unless the derivative is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for its derivative instrument as a hedge.

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### **(c) Foreclosed properties held for sale**

Foreclosed properties held for sale ("FPHFS") include properties for which the Company has taken legal title. When a mortgage or loan investment is foreclosed, the value of the foreclosed property is initially measured at the lower of the carrying value of the mortgage or loan investment or fair value of the property. At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise.

Contractual interest on the mortgage or loan investment is discontinued from the date of transfer from mortgage and loan investments to FPHFS. Income generated from FPHFS, if any, is recorded as net rental income.

### **(d) Comparative figures**

Certain 2012 figures have been reclassified to conform with the condensed consolidated financial statement presentation adopted in these financial statements.

## **4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. There have been no changes in the critical accounting estimates and judgments which were set out in detail in note 2 of the Company's audited consolidated financial statements for the year ended December 31, 2012.



# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### 5. MORTGAGE AND LOAN INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

September 30, 2013	Gross mortgage and loan investments	Non-recourse mortgage and loan syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (c)	\$ 456,648,901	\$ (116,473,265)	\$ 340,175,636
Loan investments (b)	14,786,388	–	14,786,388
Interest receivable	6,593,454	(515,906)	6,077,548
	478,028,743	(116,989,171)	361,039,572
Unamortized lender fees	(4,087,765)	332,979	(3,754,786)
Provision for mortgage and loan investments loss (d)	(1,200,000)	–	(1,200,000)
	<b>\$ 472,740,978</b>	<b>\$ (116,656,192)</b>	<b>\$ 356,084,786</b>

December 31, 2012	Gross mortgage and loan investments	Non-recourse mortgage and loan syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (c)	\$ 390,216,024	\$ (38,483,813)	\$ 351,732,211
Loan investments (b)	16,520,826	–	16,520,826
Interest receivable	4,721,310	(100,819)	4,620,491
	411,458,160	(38,584,632)	372,873,528
Unamortized lender fees	(4,317,796)	176,741	(4,141,055)
	<b>\$ 407,140,364</b>	<b>\$ (38,407,891)</b>	<b>\$ 368,732,473</b>

#### (a) Mortgage investments

	%	September 30, 2013	%	December 31, 2012
Interest in first mortgages	51	\$ 173,824,584	45	\$ 159,136,575
Interest in non-first mortgages	49	166,351,052	55	192,595,636
	<b>100</b>	<b>\$ 340,175,636</b>	<b>100</b>	<b>\$ 351,732,211</b>

The mortgage investments are secured by the real property, bear interest at a weighted average interest rate of 9.58% (December 31, 2012 – 10.14%) and mature between 2013 and 2016 (December 31, 2012 – 2013 and 2016).

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

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 three months and nine months ended September 30, 2013, the Company received total lender fees of \$645,889 and \$2,919,467 (2012 – \$1,046,066 and \$3,662,932), respectively, which are amortized to interest income over the term of the mortgage investment using the effective interest rate method.

The unadvanced mortgage commitments under the existing mortgage investments amounted to \$23,968,084 as at September 30, 2013 (December 31, 2012 – \$39,177,491). Subsequent to period end, none of the commitments have expired.

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

2013	\$ 56,795,818
2014	87,358,610
2015	153,982,973
2016	42,038,235

### (b) Loan investment

The loan investment is secured by a note portfolio secured against individually manufactured housing communities, an inventory of manufactured homes in the United States and first charges on two manufactured housing communities. The loan bears interest at 9.5% (December 31, 2012 – 10.0%) and matures in 2014 (December 31, 2012 – 2014).

The unadvanced loan commitment under the loan investment amounted to \$11,837,553 as at September 30, 2013 (December 31, 2012 – \$11,837,553).

### (c) Non-recourse mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with various investors, using senior and subordinated participation, whereby the investors take the senior position and the Company retains the subordinated position. The Company retains an option to repurchase the senior position, not the obligation, at a purchase price equal to the outstanding principal amount of the investor'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 investor's portion of the loan is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest earned on the transferred participation interests and the related interest expense is recognized in profit and loss. In addition, the Company may sell pari-pasu interests in certain mortgage investments which meet the criteria for de-recognition under IFRS. The difference between the carrying value of such interest sold and the proceeds on sale are recognized as gain or loss in profit and loss.

For those investments which have not met the de-recognition criteria, the participation transactions have resulted in the Company recognizing the participating mortgages and corresponding non-recourse mortgage syndication liabilities on its statement of financial position. As at September 30, 2013 the carrying value of the

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

transferred assets and corresponding non-recourse liabilities is \$116,656,192 (December 31, 2012 – \$38,407,891). The fair value of the transferred assets and non-recourse syndicated liabilities approximate their carrying values (see note 14(a)).

### (d) Provision for mortgage and loan investments loss

The mortgage and loan investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage or loan 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.

For the three months and nine months ended September 30, 2013 the Company has recognized an impairment provision of \$400,000 and \$1,200,000 (no impairment provision for the three months and nine months ended September 30, 2012) relating to impaired mortgage investments, which represents the total amount of the Manager's estimate of the shortfall between the principal balances and accrued interest and the estimated recoverable amount of the underlying security of the loan.

## 6. FORECLOSED PROPERTIES HELD FOR SALE

When the Company obtains the legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises of principal, accrued interest and a loan loss provision, if any, is reclassified from mortgage and loan investments to foreclosed properties held for sale. At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Company uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or, retaining professional appraisers to provide independent valuations.

As at September 30, 2013, there are two properties which are foreclosed properties held for sale and are recorded at their carrying value of \$3,866,595, which approximates their fair value.

## 7. RESTRICTED CASH

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

## 8. CREDIT FACILITY

In September 2012, the Company amended the terms of its revolving credit facility (the "Credit Facility") with its bank. Under the amended terms, the Company can now borrow up to \$25,000,000 (December 31, 2012 – \$25,000,000). The Credit Facility is primarily used to bridge timing differences between new loan advances and loan repayments or follow-on equity offerings. The Credit Facility expires in October 2014 and is subject to an interest rate equal to the bank's prime rate of interest plus 1.50% (December 31, 2012 – bank's prime rate of interest plus 1.50%). The Credit Facility is secured by a general security agreement over the Company's assets. As at September 30, 2013, \$2,322,030 was outstanding on the Credit Facility (December 31, 2012 – \$8,836,425).

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

Interest paid related to the Credit Facility is amortized to financing costs using the effective interest rate method. For the three months and nine months ended September 30, 2013, interest on the Credit Facility of \$98,316 and \$279,627 (September 30, 2012 – \$86,548 and \$260,881) respectively, was amortized to financing costs.

As at September 30, 2013, there were \$13,058 (December 31, 2012 – \$130,042) in unamortized financing costs related to the Credit Facility. For the three months and nine months ended September 30, 2013, the Company has amortized financing costs of \$38,995 and \$116,985 (2012- \$37,005 and \$111,015) respectively, to interest expense using the effective interest rate method.

### 9. FORWARD CONTRACT

The Company entered into a foreign exchange forward contract with its bank to lock in the Company's rate to exchange U.S. dollars into Canadian dollars. At September 30, 2013, the fair value of the foreign currency contract was a liability of \$12,797 (December 31, 2012 – nil).

### 10. EQUITY

The Company is authorized to issue unlimited voting shares. As at September 30, 2013, the Company had \$100 (December 31, 2012 – \$100) of issued and fully paid voting shares.

The holders of the voting 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 voting shares are not entitled to receive any dividends. The holders of these shares are only entitled to a repayment of an amount up to par value upon the winding up of the Company and such payment is in priority to the holders of the Class A and B shares. The voting shares are held by certain shareholders of Timbercreek Asset Management Inc.

As described in note 1, on September 12, 2013, the Company received shareholder approval for the Transition. As a result, the voting shares will be redeemed for a nominal amount on or about November 30, 2013.

### 11. REDEEMABLE SHARES

The Company has two classes of redeemable shares: Class A and Class B. All shares in a class rank equally with respect to dividends which are payable at the sole discretion of the Board of Directors. Each Class A and Class B shareholder is entitled to one vote for each share owned at all meetings of holders of redeemable shares at which the particular class of shares is entitled to attend and vote.

Class A shares are publicly listed on the Toronto Stock Exchange ("TSX") under the symbol "TMC"; whereas Class B shares are privately held and there is no market through which these shares may be sold.

As discussed in note 1, on September 12, 2013, the Company received shareholder approval for the Transition. As a result, all existing classes of redeemable shares will be converted into a new class of common shares on or about November 30, 2013.

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

Class A and Class B shares issued and outstanding changed as follows:

<b>For the nine months ended September 30, 2013</b>	<b>Class A</b>	<b>Class B</b>
Redeemable shares outstanding, beginning of period	34,561,122	3,742,597
Issuance of redeemable shares under dividend reinvestment plan	312,503	–
Exchanged	110,685	(104,420)
Redeemed	(4,000)	–
Repurchased	(454,729)	–
<b>Redeemable shares outstanding, end of period</b>	<b>34,525,581</b>	<b>3,638,177</b>

<b>For the nine months ended September 30, 2012</b>	<b>Class A</b>	<b>Class B</b>
Redeemable shares outstanding, beginning of period	30,618,903	3,724,347
Issued	–	3,400,573
Issuance of redeemable shares under dividend reinvestment plan	288,707	–
Exchanged	3,550,903	(3,364,823)
<b>Redeemable shares outstanding, end of period</b>	<b>34,458,513</b>	<b>3,760,097</b>

### (a) Dividend reinvestment plan

The Company has instituted a dividend reinvestment plan ("DRIP") available to Class A shareholders. Under the DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional Class A shares. The Class A shares are issued from treasury at a price of 95% of the daily volume weighted average closing price on the TSX for the 10 trading days preceding payment, which price will not be less than the net redemption value per Class A share. For the nine months ended September 30, 2013, 312,503 (2012 – 288,707) Class A shares were issued under the DRIP.

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### (b) Dividends to holders of redeemable shares

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

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.19	\$ 6,567,834	\$ 0.57	\$ 19,706,210
Class B	0.20	731,274	0.60	2,201,298

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.19	\$ 6,441,771	\$ 0.60	\$ 19,269,992
Class B	0.20	821,116	0.63	2,653,359

As at September 30, 2013, \$2,424,231 (December 31, 2012 – \$2,428,105) was payable to the shareholders.

On October 18, 2013, the Company declared dividends of \$0.063 per Class A share and \$0.067 per Class B share.

### (c) Normal course issuer bid

On June 6, 2013, the Company received the approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 3,476,193 Class A shares; representing approximately 10% of the Class A shares float on June 4, 2013. Further, the purchases will not, during any 30-day period during the term of the Bid, exceed, in the aggregate, 695,458 Class A shares. The Bid commenced on June 18, 2013, and provides the Company with the flexibility to repurchase Class A shares for cancellation until June 9, 2014, or on such earlier date as the Bid is complete. From June 18, 2013 to September 30, 2013, the Company acquired for cancellation 340,800 Class A shares at a cost of \$3,150,009.

## 12. EXPENSES

### (a) Management and performance fees

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage and loan 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 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. The gross assets means the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndication mortgage loans that are held by third parties. The initial term (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 three months

## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

and nine months ended September 30, 2013, the Company incurred management fees of \$1,249,939 and \$3,721,184 (2012 – \$1,236,350 and \$3,573,210), respectively.

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

The performance fees accrued for Class A shares and Class B shares were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Class A shares	\$ 402,306	\$ 390,110	\$ 1,440,509	\$ 769,300
Class B shares	44,638	44,886	159,832	88,515
	<b>\$ 446,944</b>	<b>\$ 434,996</b>	<b>\$ 1,600,341</b>	<b>\$ 857,815</b>

### (b) Servicing fees

Prior to September 13, 2013, the Company paid each registered dealer a servicing 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. As a part of the restructuring detailed in note 1, no service fee was paid for the three months ended September 30, 2013 and \$737,199 was paid for the nine months ended September 30, 2013 (2012 – \$363,054 and \$1,065,878) for Class A shares. In conjunction with the Transition, effective September 30, 2013 the Company no longer pays servicing fees on Class A shares to registered dealers.

### (c) Operating expenses

Each class of shares is responsible for the payment of its proportionate share of common operating expenses, such as directors' fees, independent review committee fees, custodian fees, transfer agent fees, audit fees, filing fees, legal fees and other administrative expenses, in addition to the expenses that are attributable to a particular class of shares. The common operating expenses are allocated on a proportionate basis to each class of shares based on the net redemption value of each class to the total net redemption value of the Company.

Following the exchange of the voting shares and redeemable shares into a single class of new common shares, there will no longer be a proportionate allocation of operating expenses by share class.



## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### 13. RELATED PARTY TRANSACTIONS

- (a) As at September 30, 2013, due to Manager includes management fees payable of \$1,600,341 (December 31, 2012 – \$2,469,511).
- (b) As at September 30, 2013, the Company, Timbercreek Global Real Estate Fund ("TGREF") and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), related parties by virtue of common management, have co-invested in a loan investment secured primarily by a portfolio of mobile home communities. The Company's share in the loan investment is \$14,786,387 (December 31, 2012 – \$16,520,826) (note 5(b)). The Company has also co-invested in four (December 31, 2012 – two) mortgage investments with these related parties amounting to \$30,770,647 (December 31, 2012 – \$29,850,000). As at September 30, 2013, no amount (December 31, 2012 – \$213,254) is receivable from T4Q and no amount (December 31, 2012 – \$43,640) is payable to TGREF in relation to these investments. The Manager has been retained by TGREF and T4Q to provide fund management and portfolio advisory services.
- (c) As at September 30, 2013, the Company and Timbercreek Senior Mortgage Investment Corporation ("TSMIC"), a related party by virtue of common management, have co-invested in several mortgage investments, totaling \$608,837,747 (December 31, 2012 – \$392,869,519), which are secured primarily by multi-family residential, office, retirement and other commercial properties. The Company holds subordinated first mortgage positions in these co-investments in relation to TSMIC. The Company's net share in these investments is \$131,190,727 (December 31, 2012 – \$86,202,042), and included in this amount is a mortgage investment of \$994,558 to a limited partnership, which is co-owned by T4Q. In addition, \$43,870 (December 31, 2012 – \$4,462) is payable by the Company to TSMIC relating to costs paid on behalf of the Company in relation to the mortgage investments as at September 30, 2013.
- (d) As at September 30, 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 \$2,666,667 (December 31, 2012 – \$4,000,000).
- (e) As at September 30, 2013, included in other assets is \$1,283,938 (December 31, 2012 – nil), which is held by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management, in trust on behalf of the Company.
- (f) The Manager has borne total costs of \$250,000 relating to the Transition and are not included in the Transition related costs.



## Notes to the Condensed Consolidated Interim Financial Statements (cont'd)

Three months and nine months ended September 30, 2013 and 2012 (Unaudited)

### 14. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the Company's financial instruments were determined as follows.

#### (a) Mortgage and loan investments and non-recourse mortgage syndication liabilities

There is no quoted price in an active market for the mortgage and loan investments or non-recourse mortgage syndication liabilities; the Manager makes its determination of fair value based on its assessment of the current lending market for mortgage and loan investments of same or similar terms. Typically, the fair value of these mortgage and loan investments and non-recourse 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 and loan investments is based on level 3 inputs.

#### (b) Other financial assets and liabilities

The fair values of restricted cash, cash and cash equivalents, credit facility, mortgage funding holdbacks, 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 September 30, 2013, the fair value of the net assets attributable to holders of redeemable shares was \$354,878,747, which represents net redemption value. The carrying value is adjusted for unearned lender fees, deferred financing charges and costs associated with establishment, structuring and offering of shares to arrive at net redemption value.

### 15. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages 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.