Consolidated Financial Statements of

Timbercreek Financial

Years ended December 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Financial Corp.

We have audited the accompanying consolidated financial statements of Timbercreek Financial Corp. (the "Company") formerly Timbercreek Mortgage Investment Corporation, which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of net income and comprehensive income, changes in shareholders' equity 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, 2016 and December 31, 2015, 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

February 27, 2017

Toronto, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Canadian dollars

	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents		$ 61	$ 140
Other assets	14(b)	3,191	3,054
Mortgage investments, including mortgage syndicat	5	1,559,677	750,704
Foreclosed properties held for sale	6	11,041	12,836
Total assets		**$ 1,573,970**	**$ 766,734**
LIABILITIES AND EQUITY			
Accounts payable and accrued expenses		$ 2,188	$ 1,104
Dividends payable	9(b)	4,210	2,431
Due to Manager	14(a)	819	2,426
Mortgage funding holdbacks		137	822
Prepaid mortgage interest		682	1,170
Credit facility	7	299,000	53,625
Convertible debentures	8	76,757	32,778
Mortgage syndication liabilities	5	543,505	310,049
Total liabilities		**927,298**	**404,405**
Shareholders' equity		646,672	362,329
Total liabilities and equity		**$ 1,573,970**	**$ 766,734**
Commitments and contingencies	5, 9(b) and 20		
Subsequent events	9(b), 10 and 21		

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per share amounts

	Note	Years Ended December 31, 2016	2015
Interest income:			
Interest, including mortgage syndications		$ 76,120	$ 49,292
Fees and other income, including mortgage syndications		6,882	5,901
Gross interest income		83,002	55,193
Interest and fees expense on mortgage syndications		(21,580)	(12,190)
Net interest income		61,422	43,003
Expenses:			
Management fees	11	7,926	5,956
Servicing fees	11	300	–
Performance fees	11	1,207	2,430
Provision for mortgage investment loss	5(c)	–	900
General and administrative		758	967
Total expenses		10,191	10,253
Income from operations		**51,231**	**32,750**
Net operating gain (loss) from foreclosed properties held for sale		23	(114)
Fair value adjustment on foreclosed properties held for sale	6	(1,075)	(524)
Termination of management contracts	4	(7,438)	–
Transaction costs relating to the Amalgamation	4	(1,657)	–
Bargain purchase gain	4	15,154	–
Financing costs:			
Interest on credit facility	7	6,281	1,520
Interest on convertible debentures	8	3,958	2,571
Total financing costs		10,238	4,091
Total net income and comprehensive income		**$ 45,999**	**$ 28,021**
Earnings per share			
Basic and diluted	12	$ 0.80	$ 0.69

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

Year Ended December 31, 2016	Note	Common Shares	Retained Earnings	Equity Component of Convertible Debentures	Total
Balance, December 31, 2015		$ 369,162	$ (7,378)	$ 545	$ 362,329
Issuance of convertible debentures		–	–	226	226
Common shares issued as part of the acquisition of TSMIC	4	271,483	–	–	271,483
Common shares issued to the Manager	4	6,528	–	–	6,528
Dividends		–	(39,893)	–	(39,893)
Issuance of common shares under dividend reinvestment plan		3,156	–	–	3,156
Repurchase of common shares under dividend reinvestment plan		(3,156)	–	–	(3,156)
Total net income and comprehensive income		–	45,999	–	45,999
Balance, December 31, 2016		**$ 647,173**	**$ (1,272)**	**$ 771**	**$ 646,672**

Year Ended December 31, 2015	Common Shares	Retained Earnings	Equity Component of Convertible Debentures	Total
Balance, December 31,2014	$ 370,547	$ (6,146)	$ 545	$ 364,946
Dividends	–	(29,253)	–	(29,253)
Issuance of common shares under dividend reinvestment plan	3,161	–	–	3,161
Repurchase of common shares under dividend reinvestment plan	(3,161)	–	–	(3,161)
Repurchase of common shares under dividend reinvestment plan	(1,385)	–	–	(1,385)
Total net income and comprehensive income	–	28,021	–	28,021
Balance, December 31, 2015	**$ 369,162**	**$ (7,378)**	**$ 545**	**$ 362,329**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

In thousands of Canadian dollars

	Note	Years Ended December 31, 2016	2015
OPERATING ACTIVITIES			
Total net income and comprehensive income		$ 45,999	$ 28,021
Amortization of lender fees		(5,720)	(4,966)
Lender fees received		5,905	4,280
Interest income, net of syndications		(55,488)	(37,917)
Interest income received, net of syndications		52,656	35,774
Financing costs		10,245	4,091
Provision for mortgage investments loss		–	900
Fair value adjustment on foreclosed properties held for sale		1,075	524
Termination of management contracts		6,528	–
Bargain purchase gain		(15,154)	–
Net change in non-cash operating items	13	(4,596)	204
		41,450	**30,911**
FINANCING ACTIVITIES			
Common shares purchased for cancellation		–	(1,385)
Net credit facility advances		65,118	44,737
Net proceeds from issuance of convertible debentures		43,498	–
Interest paid		(10,167)	(3,680)
Dividends paid		(39,688)	(29,263)
		58,761	**10,409**
INVESTING ACTIVITIES			
Capital improvements to foreclosed properties held for sale		–	(60)
Proceeds from disposition of foreclosed properties held for sale		720	550
Funding of mortgage investments, net of mortgage syndications		(440,650)	(333,478)
Discharges of mortgage investments, net of mortgage syndications		339,640	291,345
		(100,290)	**(41,643)**
Decrease in cash and cash equivalents		(79)	(323)
Cash and cash equivalents, beginning of year		140	463
Cash and cash equivalents, end of year		**$ 61**	**$ 140**

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
Years ended December 31, 2016 and 2015
In thousands of Canadian dollars, except share, per share amounts and where otherwise noted

1. CORPORATE INFORMATION

Timbercreek Financial Corp. (the "Company", "TF" or "Timbercreek Financial"), formerly known as Timbercreek Mortgage Investment Corporation ("TMIC"), is a mortgage investment corporation domiciled in Canada. The Company is incorporated under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "TF".

On June 30, 2016, TMIC and Timbercreek Senior Mortgage Investment Corporation ("TSMIC") amalgamated to form the Company under the laws of the Province of Ontario by Articles of Arrangement (the "Amalgamation"). Details of the Amalgamation are outlined in note 4. For purposes of financial reporting, TMIC was considered the acquirer and, as a result, these financial statements reflect the assets, liabilities and results from operations of TMIC prior to June 30, 2016, the effective date of the Amalgamation (the "Effective Date"). References to the Company relating to periods prior to June 30, 2016 refer to TMIC. Results related to TSMIC's operations are included in the Company's financial results beginning June 30, 2016.

The investment objective of the Company is to secure and grow a diversified portfolio of high quality mortgage investments, generating an attractive risk adjusted return and monthly dividend payments to shareholders balanced by a strong focus on capital preservation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on February 27, 2017.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund and Timbercreek Senior Mortgage Trust. The financial statements of the subsidiaries included in these consolidated financial statements are from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated upon consolidation.

(c) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for foreclosed properties held for sale, which are measured at fair value on each reporting date.

(d) Critical accounting estimates, assumptions and judgments

In the preparation of these consolidated financial statements, Timbercreek Asset Management Inc. (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.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner

consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The significant estimates and judgments used in determining the recorded amount for assets and liabilities in the consolidated financial statements are as follows:

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 appraisals are used to measure fair values, the Manager will assess 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 the following notes:

Note 5 – Mortgage investments, including mortgage syndications;

Note 6 – Foreclosed properties held for sale; and

Note 18 – Fair value measurements.

Mortgage investments

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events ("loss events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: (i) payment default by a borrower which is not cured during a reasonable period; (ii) whether security of the mortgage is significantly negatively impacted by some event; and (iii) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited

by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

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

Convertible debentures

The Manager exercises judgement in determining the allocation of the debt and liability components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component.

Business Combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 4 which was accounted for in accordance with IFRS 3 – Business Combinations ("IFRS 3"). The Manager considered the guidance in IFRS 3 in determining which entity is considered the "acquirer" based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

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

(b) Mortgage investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates that one or more loss events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary materially. The Company considers evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but is not yet identifiable at an individual mortgage level. Mortgage investments that are not individually

significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

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.

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

(c) Business Combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum, as at the acquisition date, of the fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement, if applicable. Transaction and restructuring costs are expensed as incurred. The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their fair values as at the acquisition date. Goodwill, if any, is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) fair value of any existing equity interest in the acquiree, over the fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. a bargain purchase gain) is recognized in profit or loss immediately.

(d) Foreclosed properties held for sale

When the Company obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises principal, costs incurred, accrued interest and the related provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). 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.

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage investments to FPHFS. Net income or loss generated from FPHFS, if any, is recorded as net operating (gain) loss from FPHFS, while fair value adjustments on FPHFS are recorded separately.

(e) Convertible debentures

The convertible debentures are a compound financial instrument as they contain both a liability and an equity component.

At the date of issuance, the liability component of the convertible debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible debenture is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised at maturity. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(f) Income taxes

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

(g) Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not classified as FVTPL, any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classifications of the Company's financial instruments are outlined in note 18.

(h) Derecognition of financial assets and liabilities

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the

asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

Financial liabilities

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

(i) Interest and fee income

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

(j) Future changes in accounting policies

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

(i) Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

(ii) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight.
The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the amendments has not yet been determined.

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

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

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

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

(iv) Disclosure Initiative (Amendments to IAS 7)

On January 7, 2016 the IASB issued *Disclosure Initiative* (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Company will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

4. ACQUISITION OF TSMIC

On June 30, 2016, TMIC and TSMIC amalgamated to form the Company. The synergies and scale created from the combined entity is expected to result in a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

For financial reporting purposes, the Amalgamation was considered a business combination in accordance with IFRS 3 with TMIC considered as the "acquirer" and TSMIC as the "acquiree". Accordingly, on the Effective Date, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC. The Amalgamation resulted in each TMIC shareholder receiving one TF share for each TMIC share held and each TSMIC shareholder receiving 1.035 TF shares for each TSMIC share held. The total purchase price paid by TMIC consisted of 32,551,941 common shares of TMIC (representing 31,451,154 TSMIC shares at an exchange ratio of 1:1.035) and were valued at $8.34 per share, representing TMIC's closing share price as at June 29, 2016. Under IFRS 3, the share consideration is required to be measured based on the trading price of TMIC's common shares on the closing date of the business combination; whereas, the actual consideration pursuant to the Amalgamation was based on the adjusted book value per share of TMIC and TSMIC as at March 31, 2016.

The Company recorded the identifiable assets and liabilities of TSMIC at fair value resulting in the recognition of a bargain purchase gain of $15,154, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC.

The fair value of the acquired identifiable net assets and bargain purchase gain are as follows:

	Total
Fair value of net assets acquired	
Mortgage investments, including mortgage syndications	$ 545,112
Other assets	606
Accounts payable and accrued expenses	(1,303)
Dividends payable	(1,573)
Due to Manager	(441)
Mortgage funding holdbacks	(15)
Prepaid mortgage interest	(504)
Credit facility	(181,650)
Mortgage syndication liabilities	(73,595)
Total net assets acquired	$ 286,637
Consideration transferred	
32,551,941 common shares issued	$ 271,483
Excess of net assets acquired over consideration transferred (bargain purchase gain)	$ 15,154

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility (note 7)

- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of $7,438 (note 11) which was settled in cash of $910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at $8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of $1,207 accrued for the period prior to the Amalgamation was payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016. The new management agreement has a lower management fee, a servicing fee and does not have any annual performance fee

- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of, expenses such as, filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. As a result, TMIC's share of transaction costs relating to the Amalgamation was $1,657

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's net interest income for 2016 would have been approximately $75,966 and the net income the year would have been $53,704, inclusive of $4,803 of net non-recurring gains related to the Amalgamation.

As part of the Amalgamation, all mortgage investments held by TSMIC were acquired by TMIC. As the TMIC and TSMIC portfolios are not maintained separately and had various co-invested mortgage investments, it is impracticable for TF to disclose the income and expenses of TSMIC since the acquisition date included in the consolidated statement of net income and comprehensive income.

5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

As at December 31, 2016	Note		Gross mortgage investments		Mortgage syndication liabilities		Net
Mortgage investments, including mortgage syndications	5(a) and (b)	$	1,552,071	$	(542,052)	$	1,010,019
Interest receivable			16,611		(2,452)		14,159
			1,568,682		(544,504)		1,024,178
Unamortized lender fees			(7,855)		999		(6,856)
Allowance for mortgage investments loss	5(c)		(1,150)		–		(1,150)
		$	**1,559,677**	**$**	**(543,505)**	**$**	**1,016,172**

As at December 31, 2015		Gross mortgage investments		Mortgage syndication liabilities		Net
Mortgage investments, including mortgage syndications	$	749,225	$	(309,751)	$	439,474
Interest receivable		7,649		(1,114)		6,535
		756,874		(310,865)		446,009
Unamortized lender fees		(5,020)		816		(4,204)
Allowance for mortgage investments loss		(1,150)		–		(1,150)
	$	**750,704**	**$**	**(310,049)**	**$**	**440,655**

As at December 31, 2016, unadvanced mortgage commitments under the existing gross mortgage investments amounted to $164,607 (December 31, 2015 ("2015")– $119,888) of which $82,325 (2015 – $75,274) belongs to the Company's syndicated partners.

(a) Net mortgage investments

	%		December 31, 2016	%		December 31, 2015
Interest in first mortgages	83	$	841,097	78	$	342,573
Interest in non-first mortgages	17		168,922	22		96,901
	100	**$**	**1,010,019**	**100**	**$**	**439,474**

The mortgage investments are secured by real property and will mature between 2017 and 2022 (2015 – 2016 and 2018). The weighted average interest rate earned on net mortgage investments for the year ended December 31, 2016 was 7.9% (2015 –9.1%).

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance.

For the year ended December 31, 2016, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of $5,905 (2015 – $4,280), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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

2017	$	475,496
2018		321,786
2019		152,979
2020		28,958
2021 and thereafter		30,800
Total	**$**	**1,010,019**

(b) Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third party lenders take the senior position and the Company retains the subordinated position. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages 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 and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 18).

(c) Allowance for mortgage investments loss

As at December 31, 2016, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using statistical data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. No additional collective impairment was recognized during 2016 (2015 – nil).

As at December 31, 2016, the Company has a specific impairment allowance of $900 (2015 – $900) and a collective impairment allowance of $250 (2015 – $250). During the year ended December 31, 2015, the Company recognized a specific impairment allowance of $900 relating to one impaired mortgage investment, which represented the outstanding principal and accrued interest as at December 31, 2015.

During the year ended December 31, 2016, the borrower of a first mortgage investment of $27,644 (2015 – $47,893) located in Saskatchewan filed for protection under the Companies' Creditor Arrangement Act in order to stay all creditors and prepare a plan of arrangement. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

Subsequent to December 31, 2016, the Company filed for receivership against a borrower of a first mortgage investment of $3,363 (2015 - $549) located in Ontario. The Manager has evaluated the current status of borrower, mortgage and as well as the value of the underlying assets and concluded that there is no objective evidence of impairment.

6. FORECLOSED PROPERTIES HELD FOR SALE

As at December 31, 2016, there are three foreclosed properties held for sale ("FPHFS") (2015 – three) which are recorded at their fair value of $11,041 (2015 – $12,836). The fair value has been categorized as a level 3 fair value, based on inputs to the valuation techniques used based on internal fair value assessments.

During the year ended December 31, 2016, the Company sold five residential units (2015 – three) in one of the foreclosed properties for net proceeds of $720 (2015 – $550).

During the year ended December 31, 2016, the Company has recorded a fair market value adjustment of $1,075 on two (2015 – two) of its FPHFS in Saskatchewan and British Columbia (2015 – $524 in Quebec and Saskatchewan).

The fair value measurements have been categorized as a level 3 fair value based on inputs to the valuation techniques used. The key valuation techniques used in measuring the fair values of the FPHFS are set out in the following table:

Valuation Technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Direct Capitalization Method. The valuation method is based on stabilized net operating income ('NOI') divided by an overall capitalization rate.	• Stabilized NOI is based on the location, type and quality of the property and supported by current market rents for similar properties, adjusted for estimated vacancy rates and expected operating costs. • Capitalization rate is based on location, size and quality of the property and takes into account market data at the valuation date.	The estimated fair value would increase (decrease) if: • Stabilized NOI was higher (lower) • Overall capitalization rates were lower (higher)
Direct Sales Comparison	The fair value is based on comparison to recent sales of properties of similar types, locations and quality.	The significant unobservable input is adjustments due to characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared.

The changes in the FPHFS during the years ended December 31, 2016 and 2015 were as follows:

	Years ended December 31,	
	2016	2015
Balance, beginning of year	$ 12,836	$ 13,850
Capital improvements	–	60
Fair market value adjustment	(1,075)	(524)
Disposition of FPHFS	(720)	(550)
Balance, end of year	**$ 11,041**	**$ 12,836**

7. CREDIT FACILITY

	December 31, 2016	December 31, 2015
Credit facility balance	$ 300,580	$ 53,812
Unamortized financing costs	(1,580)	(188)
Total credit facility	**$ 299,000**	**$ 53,625**

Concurrent with the Amalgamation, the Company entered into a new credit facility agreement, effective June 30, 2016, which will mature in May 2018. The Credit Facility is secured by a general security agreement over the Company's assets and its subsidiaries. The new credit facility has an available credit limit of $350,000 (2015 – $60,000) with interest at either the prime rate of interest plus 1.25% per annum (2015– prime rate of interest plus 1.50% per annum) or bankers' acceptances with a stamping fee of 2.25% (2015 – 2.50%). The new credit facility has a standby fee of 0.5625% per annum (2015 – 0.55%) on the unutilized credit facility balance. The credit facility also includes an accordion feature that allows the available limit to be increased by up to a further $50,000, subject to certain conditions. As at December 31, 2016, the Company's qualified credit facility limit is $321,525 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

The Company incurred financing costs of $2,137 relating to the new credit facility, which includes upfront fees, legal costs and other costs. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation have been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2016, included in financing costs is interest on the credit facility of $5,506 (2015 – $1,299) and financing costs amortization of $775 (2015 – $221).

8. CONVERTIBLE DEBENTURES

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

trust indenture governing the terms of the debentures. The 2014 debentures are redeemable on and after March 31, 2017 and prior to the maturity date by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 2014 debentures in the aggregate principal amount of $34,500.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is $545, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of $34,500. The issue costs of $1,967 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

(b) On July 29, 2016, the Company completed a public offering of $40,000, plus an overallotment option of $5,800 on August 5, 2016, of 5.40%, convertible unsecured subordinated debentures for net proceeds of $43,498 (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pays interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The 2016 debentures are redeemable on and after July 31, 2019 and prior to July 31, 2020, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option, at a price equal to the principal amount thereof plus accrued and unpaid interest up to but excluding the date of redemption.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is $226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of $45,800. The issue costs of $2,302 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

The debentures are comprised of as follows:

	December 31, 2016	December 31, 2015
Issued	$ 80,300	$ 34,500
Issue costs, net of amortization	(3,117)	(1,388)
Equity component	(814)	(577)
Issue costs attributed to equity component	43	33
Cumulative accretion	345	210
Debentures, end of year	**$ 76,757**	**$ 32,778**

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

	Years ended December 31,	
	2016	2015
Interest on the convertible debentures	$ 3,257	$ 2,181
Amortization of issue costs	566	277
Accretion of the convertible debentures	135	113
Total	**$ 3,958**	**$ 2,571**

9. COMMON SHARES

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

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

As a result of the Amalgamation, 40,523,728 TF common shares were issued to shareholders of TMIC at a ratio of one-to-one; whereas 32,551,941 TF common shares were issued to shareholders of TSMIC at an exchange ratio of 1:1.035. For financial reporting purposes, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC (note 4).

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

		Years ended December 31,	
	Note	2016	2015
Balance, beginning of year		40,523,728	40,701,528
Common shares issued as part of acquisition of TSMIC	4	32,551,941	–
Common shares issued to the Manager	4 and 11	782,830	–
Repurchased under normal course issuer bid		–	(177,800)
Repurchased under dividend reinvestment plan		(382,306)	(397,612)
Issued under dividend reinvestment plan		382,306	397,612
Balance, end of year		**73,858,499**	**40,523,728**

(a) Dividend reinvestment plan

In connection with the Amalgamation, the DRIP under TMIC was terminated effective June 22, 2016 and a new DRIP was subsequently adopted by the Company on July 13, 2016.

The new DRIP has terms and conditions substantially similar to those of the terminated plan. The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares are issued from treasury at a price of 98% 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 ended December 31, 2016, 382,306 common shares were purchased on the open market (2015 – 397,612).

(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. For the year ended December 31, 2016, TF declared dividends of $39,895, or $0.702 per share, to the holders of TF common shares (2015 – $29,253, $0.720 per share). As at December 31, 2016, $4,210 in aggregate dividends (2015 – $2,431) was payable to the holders of common shares of TF by the Company. Subsequent to December 31, 2016, the Board of Directors of the Company declared dividends of $0.057 per common share to be paid on February 15, 2017 to the common shareholders of record on January 31, 2017.

(c) Normal course issuer bid

On January 4, 2016, TMIC received TSX approval to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to a maximum of 4,105,569 common shares, representing approximately 10% of the public float of common shares as of December 22, 2015. The Bid commenced on January 6, 2016 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on January 5, 2017, or such earlier date as the Bid is complete. During 2016, the Company did not acquire any common shares for cancellation (2015 – 177,800 common shares at a cost of $1,385). Pursuant to the Amalgamation, the Bid was terminated on the Effective Date.

10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

Pursuant to the Amalgamation, on the Effective Date, the DSU plan for TMIC was terminated and the outstanding DSUs were settled by TMIC in accordance with the terms of the respective plans. As a result, TMIC's outstanding DSUs of 30,497 were cancelled and $300 was paid to the directors in July 2016.

Commencing June 30, 2016, the Company instituted a non-executive director deferred share unit plan, whereby a director can elect up to 100% of the compensation be paid in the form of DSUs, credited quarterly in arrears. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value of the DSU is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). The directors are entitled to also accumulate additional DSUs equal to the monthly cash dividends, on the DSUs already held by that director determined based on the Fair Market Value of the common shares on the dividend payment date.

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

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

For the year ended December 31, 2016, 6,114 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of $54 based on a Fair Market Value of $8.84 per common share. As at December 31, 2016, $35 quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2016 at the Fair Market Value.

11. MANAGEMENT AND PERFORMANCE FEES

Concurrently with the Amalgamation, TMIC's management agreement with the Manager was terminated and a new management agreement was entered on the Effective Date. TMIC agreed to pay the Manager a termination fee of $7,438 as compensation for the removal of the performance fees previously incurred by TMIC annually and the reduced management fee under the new agreement. The termination fee was settled in cash of $910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at $8.34 per share, representing TMIC's closing share price as of June 29, 2016. Under IFRS 2 – Share-based Payment, the share consideration is required to be measured based on the trading price of TMIC common shares on the settlement date, whereas, the actual consideration was based on the book value of TMIC at March 31, 2016.

The new management agreement has a term of 10 years and is automatically renewed for successive five year terms at the expiration of the initial term and pays (i) management fee equals to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes, and (ii) servicing fee equals to 0.10% of the amount of any senior tranche of a mortgage that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion. Gross assets are defined as the total assets of the Company

less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

Upon the termination of the management agreement, $1,207 of performance fees accrued up to June 29, 2016 prior to the Amalgamation were paid to the Manager in August 2016.

For the year ended December 31, 2016, the Company incurred management fees of $7,926 (2015 – $5,956) and servicing fees of $300 (2015 – nil).

12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing total net income and comprehensive income by the weighted average number of common shares during the year. Diluted earnings per share are calculated by adding back the interest expense relating to the convertible debentures to total net income and comprehensive income and increasing the weighted average number of common shares by treating the debentures as if they had been converted on the later of the beginning of the reporting period or issuance date.

The following table shows the computation of per share amounts:

	Year ended December 31,	
	2016	2015
Total net income and comprehensive income	$ 45,999	$ 28,021
Adjustment for dilutive effect of convertible debentures	1,284	2,571
Total net income and comprehensive income (diluted)	47,283	30,592
Weighted average number of common shares (basic)	57,373,271	40,631,219
Convertible debentures	1,942,419	3,066,667
Weighted average number of common shares (diluted)	59,315,690	43,697,886
Earnings per share – basic and diluted	**$ 0.80**	**$ 0.69**

13. CHANGE IN NON-CASH OPERATING ITEMS

	Year ended December 31,	
	2016	2015
Change in non-cash operating items:		
Other assets	$ 473	$ 573
Accounts payable and accrued expenses	(1,329)	234
Due to Manager	(2,047)	450
Prepaid mortgage interest	(992)	(1,391)
Mortgage funding holdbacks	(701)	338
	$ (4,596)	**$ 204**

14. RELATED PARTY TRANSACTIONS

(a) As at December 31, 2016, Due to Manager includes mainly management and servicing fees payable of $819. As at December 31, 2015, Due to Manager included $2,426 management and performance fees payable.

(b) As at December 31, 2016, included in other assets is $819 (2015 – $2,189) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

(c) As at December 31, 2016, the Company has four mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

- A mortgage investment with a total gross commitment of $84,108 (2015 – nil). The Company's share of the commitment is $29,108 (2015 – nil), of which $7,270 (2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of $15,600 (2015 – nil). The Company's share of the commitment is $5,970 (2015 – nil), of which $3,634 (2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of $6,000 (2015 – nil). The Company's share of the commitment is $5,100 (2015 – nil), of which $2,029 (2015 – nil) has been funded as at December 31, 2016.
- A mortgage investment with a total gross commitment of $1,920 (2015 – nil). The Company's share of the commitment is $1,920 (2015 – nil), of which $1,920 (2015 – nil) has been funded as at December 31, 2016.

(d) As at December 31, 2016, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in ten gross mortgage investments totaling $254,935 (2015 – $702,624). The Company's share in these gross mortgage investments is $109,493 (2015 – $286,311). Included in these amounts are two net mortgage investments (2015 – one) of $17,681 (2015 – $1,266) loaned to a limited partnership in which T4Q is invested.

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

15. INCOME TAXES

As of December 31, 2016, the Company has non-capital losses carried forward for income tax purposes of $29,750 (2015 – $24,511), which will expire between 2027 and 2036 if not used. The Company also has future deductible temporary differences resulting from share issuances, provision for impairment, prepaid mortgage interest and unearned income tax purposes of $10,639 (2015 – $4,001).

16. 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, debentures 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. There have been no changes in the process over the previous year.

At December 31, 2016, the Company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facility, the Company is required to meet certain financial covenants, including a minimum interest coverage ratio, minimum adjusted shareholders' equity and maximum non-debenture indebtedness to adjusted shareholders' equity. As at December 31, 2016, the Company was in compliance with all financial covenants.

17. 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, 2016, $132,735 of net mortgage investments bear interest at variable rates. Of these, $122,172 of net mortgage investments include a "floor rate" to protect their negative exposure or a "ceiling rate", while two mortgage investments totalling $10,563 bear interest at a variable rate without a "floor rate". If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments would be a decrease in net income of $53. However, if there were a 0.50% increase in interest rates, with all other variables constant, it would result in an increase in net income of $664. 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.

In addition, the Company is exposed to interest rate risk on the credit facility, which has a balance of $300,580 as at December 31, 2016. Based on the outstanding credit facility balance as at December 31, 2016, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by $1,503 annually.

The Company's other assets, interest receivable, accounts receivable other, 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 carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

(b) Credit risk

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

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

(ii) ensuring all new mortgage investments are approved by the investment 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, 2016 is the carrying values of its net mortgage investments, in addition to interest receivable recorded within other assets of $951 (2015 – $343), amounting to $1,025,129 (2015 – $446,008). The Company has recourse under these mortgage investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in the 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, 2016, including expected interest payments:

December 31, 2016	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	$ 2,188	$ 2,188	$ 2,188	$ –	$ –
Dividends payable	4,210	4,210	4,210	–	–
Due to Manager	819	819	819	–	–
Mortgage funding holdbacks	137	137	137	–	–
Prepaid mortgage interest	682	682	682	–	–
Credit facility[1]	299,000	317,365	11,873	305,492	–
Convertible debentures[2]	76,757	87,237	37,521	2,473	47,243
Total liabilities	$ 383,793	$ 412,638	$ 57,430	$ 307,965	$ 47,243
Unadvanced mortgage commitments[3]	–	164,607	164,607	–	–
Total contractual liabilities	**$ 383,793**	**$ 577,245**	**$ 222,037**	**$ 307,965**	**$ 47,243**

1 Includes interest based upon the current prime rate of interest plus 1.25% on the credit facility assuming the outstanding balance is not repaid until its maturity on May 6, 2018.

2 The 2014 debentures are assumed to be redeemed on March 31, 2017 as they are redeemable on and after March 31, 2017 and the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019

3 Unadvanced mortgage commitments include syndication commitments of which $82,325 belongs to the Company's syndicated partners.

As at December 31, 2016, the Company had a cash position of $61 (2015 – $140) and an unutilized credit facility balance of $49,420 (2015 – $6,188). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is $82,325 relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

18. FAIR VALUE MEASUREMENTS

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

As at December 31, 2016	Carrying Value: Loans and receivable	Carrying Value: Fair value through profit and loss	Carrying Value: Other financial liabilities	Fair value
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 11,041	$ –	$ 11,041
Assets not measured at fair value				
Cash and cash equivalents	61	–	–	61
Other assets	3,191	–	–	3,191
Mortgage investments, including mortgage syndications	1,559,677	–	–	1,559,677
Financial liabilities not measured at fair value				
Accounts payable and accrued expenses	–	–	2,188	2,188
Dividends payable	–	–	4,210	4,210
Due to Manager	–	–	819	819
Mortgage funding holdbacks	–	–	137	137
Prepaid mortgage interest	–	–	682	682
Credit facility	–	–	299,000	300,581
Convertible debentures	–	–	76,757	80,416
Mortgage syndication liabilities	–	–	543,505	543,505

	Carrying Value			
As at December 31, 2015	Loans and receivable	Fair value through profit and loss	Other financial liabilities	Fair value
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 12,836	$ –	$ 12,836
Assets not measured at fair value				
Cash and cash equivalents	140	–	–	140
Other assets	3,054	–	–	3,054
Mortgage investments, including mortgage syndications	750,704	–	–	750,704
Financial liabilities not measured at fair value				
Accounts payable and accrued expenses	–	–	1,104	1,104
Dividends payable	–	–	2,431	2,431
Due to Manager	–	–	2,426	2,426
Mortgage funding holdbacks	–	–	822	822
Prepaid mortgage interest	–	–	1,170	1,170
Credit facility	–	–	53,625	53,812
Convertible debentures	–	–	32,778	34,759
Mortgage syndication liabilities	–	–	310,049	310,049

The valuation techniques and the inputs used for the Company's financial instruments 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 cash and cash equivalents, other assets, accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest and credit facility approximate their carrying amounts due to their short-term maturities.

(c) Convertible debentures

The fair value of the convertible debentures is based on a level 1 input, which is the market closing price of convertible debentures at the reporting date.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during December 31, 2016 and 2015.

19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The compensation expense of the members of the Board of Directors amounts to $223 (2015 - $183), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

20. COMMITMENTS AND CONTINGENCIES

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

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

21. SUBSEQUENT EVENTS

On February 7, 2017, the Company closed on an unsecured convertible debenture offering for gross proceeds of $40,000 as well as the over-allotment option for additional gross proceeds of $6,000. The unsecured convertible debentures mature on March 31, 2022 and pay interest semi-annually on March 31 and September 30 of each year at rate of 5.45%.