

Condensed Consolidated Interim
Financial Statements of

Timbercreek Senior Mortgage Investment Corporation

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



TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Mortgage investments, including mortgage syndications (note 5)	\$ 500,132,133	\$ 373,928,564
Restricted cash (note 6)	3,736	1,404,562
Other assets	3,870,298	734,308
Total assets	504,006,167	376,067,434
EQUITY		
Share capital (note 8)	99	99
Total equity	99	99
LIABILITIES		
Credit facility (note 7)	46,198,422	33,601,500
Non-recourse mortgage syndication liabilities (note 5)	107,952,361	41,618,959
Mortgage funding holdbacks	141,857	357,800
Dividends payable (note 9(b))	1,858,966	1,586,505
Due to Manager (note 11(a))	12,126	12,280
Prepaid mortgage interest	2,442,152	1,400,501
Accounts payable and accrued expenses	4,615,241	1,433,021
Total liabilities (excluding net assets attributable to holders of redeemable shares)	163,221,125	80,010,566
Net assets attributable to holders of redeemable shares (note 9)	\$ 340,784,943	\$ 296,056,769
Commitments and contingencies (notes 1 and 13)		
Subsequent events (notes 1, 7 and 9(b))		

See accompanying notes to the condensed consolidated interim financial statements.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest income:				
Interest, including non-recourse mortgage syndications	\$ 7,907,440	\$ 3,944,621	\$ 21,826,455	\$ 6,880,532
Fees	767,504	342,119	1,792,780	657,973
	8,674,944	4,286,740	23,619,235	7,538,505
Interest expense on non-recourse mortgage syndications	(1,297,532)	(32,137)	(2,710,653)	(101,193)
Net interest income	7,377,412	4,254,603	20,908,582	7,437,312
Expenses:				
Management fees (note 10(a))	1,001,192	844,796	2,985,500	1,584,491
Servicing fees (note 10(b))	–	339,425	805,292	488,487
Transition related costs (note 1)	3,731,943	–	3,731,943	–
General and administrative	219,872	155,204	697,646	370,215
	4,953,007	1,339,425	8,220,381	2,443,193
Income from operations	2,424,405	2,915,178	12,688,201	4,994,119
Financing costs:				
Interest on credit facility (note 7)	661,897	246,298	1,807,482	544,784
Issuance costs of redeemable shares (note 9)	59,928	6,425,898	3,297,819	13,402,375
Dividends to holders of redeemable shares (note 9(b))	5,643,633	4,754,496	17,022,848	8,633,478
	6,365,458	11,426,692	22,128,149	22,580,637
Net loss and comprehensive loss	\$ (3,941,053)	\$ (8,511,514)	\$ (9,439,948)	\$ (17,586,518)

See accompanying notes to the condensed consolidated interim financial statements.

TIMBERCREEK SENIOR 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	Class I Shares	Class J Shares	Total
Net assets attributable to holders of redeemable shares, beginning of period	\$ 289,697,929	\$ –	\$ 3,261,849	\$ 3,096,991	\$ 296,056,769
Gross proceeds from issuance of redeemable shares	58,276,993	2,205,590	1,840,000	300,000	62,622,583
Decrease in net assets attributable to holders of redeemable shares	(9,293,984)	(65,270)	(60,099)	(20,595)	(9,439,948)
Issuance of redeemable shares under dividend reinvestment plan	1,085,831	–	–	–	1,085,831
Redemption of redeemable shares	(161,882)	–	–	–	(161,882)
Repurchase of redeemable shares	(9,378,410)	–	–	–	(9,378,410)
Exchange of redeemable shares	2,792,360	(9,330)	(148,950)	(2,634,080)	–
Net assets attributable to holders of redeemable shares, end of period	\$ 333,018,837	\$ 2,130,990	\$ 4,892,800	\$ 742,316	\$ 340,784,943
2012	Class A Shares	Class B Shares	Class I Shares	Class J Shares	Total
Net assets attributable to holders of redeemable shares, beginning of period	\$ –	\$ –	\$ –	\$ –	\$ –
Gross proceeds from issuance of redeemable shares	306,000,530	–	3,447,000	4,781,000	314,228,530
Decrease in net assets attributable to holders of redeemable shares	(17,385,074)	–	(20,695)	(180,749)	(17,586,518)
Issuance of redeemable shares under dividend reinvestment plan	173,248	–	–	–	173,248
Net assets attributable to holders of redeemable shares, end of period	\$ 288,788,704	\$ –	\$ 3,426,305	\$ 4,600,251	\$ 296,815,260

See accompanying notes to the condensed consolidated interim financial statements.

TIMBERCREEK SENIOR MORTGAGE INVESTMENT CORPORATION

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES				
Net loss and comprehensive loss	\$ (3,941,053)	\$ (8,511,514)	\$ (9,439,948)	\$ (17,586,518)
Amortization of lender fees	(725,913)	(296,268)	(1,667,650)	(474,609)
Restricted cash	(10)	(330,438)	1,400,826	(498,237)
Financing costs	6,365,458	11,426,692	22,128,149	22,580,637
Change in non-cash operating items:				
Interest receivable	50,797	(414,092)	(542,899)	(1,290,885)
Other assets	(1,624,414)	(278,323)	(3,135,990)	(288,340)
Accounts payable and accrued expenses	3,768,807	231,232	3,182,220	850,564
Due to Manager	4,262	34,913	(154)	34,913
Prepaid mortgage interest	1,494,350	498,050	1,041,651	665,510
Mortgage funding holdbacks	(982,197)	1,137,536	(215,943)	1,207,536
Lender fees	560,216	988,076	2,162,300	2,331,113
	4,970,303	4,485,864	14,912,562	7,531,684
FINANCING ACTIVITIES				
Proceeds from issuance of Class A redeemable shares	–	153,800,530	58,276,993	306,000,530
Redemption of Class A redeemable shares	(56,097)	–	(161,882)	–
Proceeds from issuance of Class B redeemable shares	–	–	2,205,590	–
Proceeds from issuance of Class I redeemable shares	–	3,447,000	1,840,000	3,447,000
Proceeds from issuance of Class J redeemable shares	300,000	–	300,000	4,781,000
Proceeds from (repayment of) credit facility	9,641,836	(38,184,961)	12,201,898	(214,733)
Interest paid	(530,045)	(138,933)	(1,412,458)	(330,051)
Repurchase of redeemable shares for cancellation	(8,487,593)	–	(8,892,717)	–
Issuance costs of redeemable shares	(59,928)	(6,425,898)	(3,297,819)	(13,402,375)
Dividends to holders of redeemable shares	(5,689,254)	(3,834,565)	(16,150,249)	(6,875,216)
	(4,881,081)	108,663,173	44,909,356	293,406,155
INVESTING ACTIVITIES				
Funding of mortgage investments	(52,843,443)	(136,728,455)	(273,532,484)	(332,544,536)
Discharge of mortgage investments	52,754,221	49,699,082	213,710,566	57,726,262
	(89,222)	(87,029,373)	(59,821,918)	(274,818,274)
Increase in cash and cash equivalents	–	26,119,665	–	26,119,565
Cash and cash equivalents, beginning of period	–	–	–	99
Cash and cash equivalents, end of period	\$ –	\$ 26,119,664	\$ –	\$ 26,119,664

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

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

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

The Company was incorporated under the Canada Business Corporations Act by articles of incorporation dated December 1, 2011 authorized to issue an unlimited number of Class A, Class B, Class I, Class J 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 investments that generate income allowing the Company to pay monthly dividends to shareholders.

The Company commenced operations on January 19, 2012 when it completed an initial public offering of Class A shares and issued subscription receipts, which were subsequently converted into Class A shares. There were no operations in 2011.

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

The Company will redeem requests from holders of 5,454,283 Class A shares, 32,933 Class B shares, 74,000 Class I shares and no Class J shares for the Special Redemption. The total redemption payable of approximately \$51.5 million will be paid on or before November 30, 2013.

In connection with the Transition, the Company has incurred estimated total costs of \$3,981,943 relating to the Transition, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other costs.

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

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

Timbercreek Asset Management Inc. in its capacity as the Manager elected to assume responsibility for \$250,000 of costs relating to the Transition.

2. BASIS OF PREPARATION

(a) 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 presentation of these condensed consolidated interim financial statements are based on accounting policies and practices in accordance with International Financial reporting Standards ("IFRS"). The accompanying unaudited condensed interim financial statements should be read in conjunction with the notes to the Company's audited financial statements for the year ended December 31, 2012, since they do not contain all disclosures required by IFRS for annual financial statements. These unaudited 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.

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

(b) Principles of consolidation

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

3. ACCOUNTING POLICIES ADOPTED IN THE PERIOD

Except as described below, the accounting policies applied by the Company in these unaudited 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 prepared in accordance with IFRS.

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.

(a) 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. The adoption of this standard had no impact on these condensed consolidated interim financial statements. Refer to note 12 for further details on the fair value methodologies and assumptions.

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

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

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of condensed 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 financial statements for the year ended December 31, 2012.

5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

September 30, 2013	Gross mortgage investments	Non-recourse mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications	\$ 500,655,301	\$ (107,834,086)	\$ 392,821,215
Interest receivable	2,562,749	(397,142)	2,165,607
	503,218,050	(108,231,228)	394,986,822
Unamortized lender fees	(3,085,917)	278,867	(2,807,050)
	\$ 500,132,133	\$ (107,952,361)	\$ 392,179,772

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

The mortgage investments are secured by a first priority charge, bearing interest at a weighted average interest rate of 6.71% (December 31, 2012 – 6.66%) and mature between 2013 and 2016 (December 31, 2012 – 2013 and 2016).

A majority of the mortgages contain a prepayment option, whereby the borrower may repay the principal at any time after the first 12 months without penalty or yield maintenance.

For the three months and nine months ended September 30, 2013, the Company received total lender fees of \$560,216 and \$2,162,300 (2012 – \$988,076 and \$2,331,113), respectively, which are amortized to interest income over the term of the mortgage investment using the effective interest rate method.

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

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

The mortgage investments are assessed at each reporting date to determine whether there is objective evidence of impairment. A mortgage investment is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of an investment, and that the loss event had a negative effect on the estimated future cash flows of that investment, that can be estimated reliably. As at September 30, 2013, no impairment losses have been recorded.

The unadvanced mortgage commitments under the existing mortgage portfolio amounted to \$36,454,343 as at September 30, 2013 (December 31, 2012 – \$65,752,840). Principal repayments, net of mortgage syndications, based on contractual maturity dates are as follows:

2013	\$ 4,691,805
2014	87,812,373
2015	218,531,260
2016	81,785,777

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 statements of financial position. As at September 30, 2013, the carrying value of the transferred assets and corresponding non-recourse liabilities is \$107,952,361 (December 31, 2012 – \$41,618,959). The fair value of the transferred assets and non-recourse syndicated liabilities approximate their carrying values (see note 12(a)).

6. RESTRICTED CASH

Restricted cash consists of cash received from borrowers in connection with the interest reserve on mortgage investments.

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

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

7. CREDIT FACILITY

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

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

At September 30, 2013 \$55,200,000 (December 31, 2012 – \$37,500,000) was outstanding on the Credit Facility and is offset against cash and cash equivalents of \$8,795,192 (December 31, 2012 – \$3,199,594).

Interest on the Credit Facility includes interest, standby fees and amortization of financing costs. For the three months and nine months ended September 30, 2013, interest expense on the Credit Facility of \$661,897 and \$1,807,482 (2012 – \$246,298 and \$544,784), respectively was recorded as financing costs.

As at September 30, 2013, there were \$206,386 (December 31, 2012 – \$698,906) in unamortized financing costs related to the Credit Facility, which are offset against the Credit Facility. For the three months and nine months ended September 30, 2013, the Company has amortized financing costs of \$131,852 and \$395,024 (2012 – \$107,366 and \$214,732) and respectively, to interest expense using the effective interest rate method.

8. EQUITY

The Company is authorized to issue unlimited voting shares. As at September 30, 2013, the Company has \$99 (December 31, 2012 – \$99) 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, B, I and J shares. The voting shares are redeemable and are held by certain employees and shareholders of Timbercreek Asset Management Inc.

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

9. REDEEMABLE SHARES

The Company has four classes of redeemable shares: Class A, Class B, Class I and Class J. All shares in a class rank equally with respect to dividends and are 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 "MTG". Class B shares are issued to fee-based and institutional investor accounts and are not listed on any stock exchange. Class I

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

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

shares and Class J shares are issued by private placement from time to time to accredited investors, institutions, trusts, endowment funds and other discretionary pools of capital and are not listed on any stock exchange.

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.

During the nine months ended September 30, 2013 and 2012, Class A, Class B, Class I and Class J shares issued and outstanding changed as follows:

2013	Class A	Class B	Class I	Class J
Redeemable shares outstanding, beginning of period	31,029,784	–	329,700	331,000
Issued	5,916,446	220,559	184,000	31,250
Issuance of redeemable shares under dividend reinvestment plan	120,233	–	–	–
Exchanged	298,470	(1,000)	(15,000)	(276,000)
Redeemed	(17,802)	–	–	–
Repurchased	(1,033,240)	–	–	–
Redeemable shares outstanding, end of period	36,313,891	219,559	498,700	86,250
2012	Class A	Class B	Class I	Class J
Redeemable shares outstanding, beginning of period	–	–	–	–
Issued	30,812,583	–	344,700	478,100
Issuance of redeemable shares under dividend reinvestment plan	18,191	–	–	–
Redeemable shares outstanding, end of period	30,830,774	–	344,700	478,100

2012:

On January 19, 2012, the Company completed its initial public offering of 11,500,000 Class A shares, which included the exercise of the overallotment option of 15% of the aggregate number of Class A shares issued at closing, for gross proceeds of \$115,000,000. The Company also issued 3,720,000 subscription receipts for net proceeds of \$37,200,000. The holders of these subscription receipts exchanged their subscription receipts for Class A shares on the close of business on January 19, 2012 for 3,915,297 Class A shares.

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

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

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

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

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

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

2013:

On January 8, 2013, the Company completed a public offering of 5,916,446 Class A shares, for gross proceeds of \$58,276,997. The Company also completed an offering of 220,559 Class B shares, for gross proceeds of \$2,205,590.

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

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

In connection with the above-noted share offerings, the Company incurred \$59,928 and \$3,297,819 in issuance costs for the three months and nine months ended September 30, 2013 (2012 – \$6,425,898 and \$13,402,375), respectively. Under IFRS, Class A, B, I and J shares are considered debt instruments, and accordingly, the Company has recorded these issuance costs through profit and loss.

(a) Dividend reinvestment plan

In April 2012, the Company 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 three months and nine months ended September 30, 2013, 41,162 and 120,233 (2012 – 13,777 and 18,191) respectively, Class A shares were issued under the DRIP.

(b) Dividends to holders of redeemable shares

The Company intends to pay dividends to the 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	\$ 0.15	\$ 5,506,003	\$ 0.45	\$ 16,608,338
Class B	0.16	35,569	0.49	106,922
Class I	0.16	81,599	0.49	208,294
Class J	0.16	20,462	0.47	99,294

TIMBERCREEK SENIOR 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)

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Dividends per share	Total	Dividends per share	Total
Class A	\$ 0.15	\$ 4,623,804	\$ 0.40	\$ 8,477,925
Class I	0.16	55,152	0.16	55,152
Class J	0.16	75,540	0.21	100,401

As at September 30, 2013, \$1,858,966 (December 31, 2012 – \$1,586,505) was payable to the shareholders.

Subsequent to period end, on October 17, 2013 the Company declared dividends of \$0.050 per Class A share; \$0.054 per Class B share; \$0.054 per Class I share and \$0.052 per Class J 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 3,709,327 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, 742,045 Class A shares. The Bid commenced on June 10, 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 10, 2013 to September 30, 2013, the Company acquired for cancellation 979,900 Class A shares at a cost of \$8,892,717.

10. EXPENSES

(a) Management fees

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. As a part of the Transition detailed in note 1, the Company has entered into a new management agreement with the Manager effective from September 13, 2013. Under the new management agreement, the Company shall pay to the Manager, a management fee equal to 0.85% per annum of the gross assets of the Company (previously 1% per annum of the net assets of the Company), calculated and paid monthly in arrears, plus applicable taxes. The gross assets means the total assets of the Company before deducting any liabilities, less any amounts 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 and nine months ended September 30, 2013, the Company incurred management fees of \$1,001,192 and \$2,985,500 (2012 – \$844,796 and \$1,584,491), respectively.

(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 held by clients of the registered dealer, calculated and paid at the end of each calendar quarter, commencing on June 30, 2012. In conjunction with the articles of amendment

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

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

detailed in note 1, no service fee was paid for the three months ended September 30, 2013 and \$802,497 was paid for the nine months ended September 30, 2013 (2012– \$336,526 and \$485,588) for Class A shares. Effective July 1, 2013 the Company no longer pays servicing fees on Class A shares to registered dealers.

Prior to September 13, 2013, the Company paid each registered dealer a servicing fee equal to 0.25% annually of the net redemption value per Class J share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter, commencing on September 30, 2012. In conjunction with the articles of amendment detailed in note 1, no service fee was paid for the three months ended September 30, 2013 and \$2,795 was paid for the nine months ended September 30, 2013 (2012– \$2,899 and \$2,899) for Class J shares. Effective July 1, 2013 the Company no longer pays servicing fees on Class J 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 director's 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.

11. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) As at September 30, 2013, \$12,126 is payable by the Company to the Manager for costs incurred on the Company's behalf (December 31, 2012 – \$12,280).
- (b) As at September 30, 2013, the Company and Timbercreek Mortgage Investment Corporation ("TMIC"), a related party by virtue of common management, have co-invested in several mortgage investments totaling \$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's net share in these investments is \$347,776,895 (December 31, 2012 – \$306,667,477), which included in this amount is a mortgage investment of \$7,374,231 (December 31, 2012 – \$6,779,296) to a limited partnership, which is co-owned by Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), a related party by virtue of common management.
- (c) As at September 30, 2013, the Company, T4Q and Timbercreek Canadian Direct LP, a related party 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 \$16,000,000 (December 31, 2012 – \$24,000,000).
- (d) As at September 30, 2013, included in other assets is \$3,741,410 which is held by Timbercreek Mortgage Servicing Inc., a related party by virtue of common management, in trust on behalf of the Company.
- (e) 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)

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

There is no quoted price in an active market for the mortgage 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 investments of same or similar terms. Typically, the fair value of these mortgage 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 investments is based on Level 3 inputs.

(b) Other financial assets and liabilities

The fair values of interest receivable, restricted cash, cash and cash equivalents, credit facility, accounts payable and accrued expenses, mortgage funding holdbacks, dividends payable and due to Manager approximate their carrying amounts due to their short-term 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 \$343,385,706, which represents net redemption value. The carrying value is adjusted for unearned lender fees and deferred financing charges to arrive at net redemption value.

13. COMMITMENTS AND CONTINGENCIES

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

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