Consolidated Financial Statements of

Timbercreek Mortgage Investment Corporation

Years ended December 31, 2014 and 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Mortgage Investment Corporation

We have audited the accompanying consolidated financial statements of Timbercreek Mortgage Investment Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of net income and comprehensive income, changes in shareholders' equity and net assets attributable to holders of redeemable shares and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2014 and December 31, 2013, 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 25, 2015

Toronto, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at December 31,		
		2014		2013
ASSETS				
Cash and cash equivalents	$	463,092	$	12,348,449
Other assets (note 14(e))		3,582,038		1,540,102
Mortgage investments, including mortgage syndications (note 4)		616,173,629		442,165,777
Foreclosed properties held for sale (note 5)		13,850,521		11,351,435
Total assets		**634,069,280**		**467,405,763**
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses		855,527		592,421
Dividends payable (note 11(b))		2,442,092		2,476,592
Due to Manager (note 14(a))		1,975,958		2,349,736
Mortgage funding holdbacks		483,762		28,809
Prepaid mortgage interest		2,560,472		1,011,565
Credit facility (note 6)		8,836,959		–
Convertible debentures (note 7)		32,387,457		–
Mortgage syndication liabilities (note 4)		219,581,032		124,378,929
Total liabilities		**269,123,259**		**130,838,052**
Shareholders' equity		**364,946,021**		**336,567,711**
Total liabilities and equity	**$**	**634,069,280**	**$**	**467,405,763**
Commitments and contingencies (notes 4 and 19)				
Subsequent events (notes 6, 11(b) and 22)				

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

	Years ended December 31,	
	2014	2013
Interest income:		
Interest, including mortgage syndications	$ 37,043,393	$ 39,024,302
Fees and other income, including mortgage syndications	5,144,675	5,083,354
Gross interest income	42,188,068	44,107,656
Interest and fees expense on mortgage syndications (note 4(b))	(5,477,861)	(4,376,377)
Net interest income	36,710,207	39,731,279
Expenses:		
Management fees (note 12(a))	5,421,686	4,974,029
Performance fees (note 12(a))	1,954,557	1,940,688
Trailer fees (note 12(b))	–	737,199
Transition related costs (note 1)	–	3,530,417
Provision for mortgage investments loss (note 4(c))	250,000	2,150,000
Net foreign exchange (gain) loss (note 8)	(7,977)	5,436
General and administrative	819,650	906,208
Total expenses	8,437,916	14,243,977
Income from operations	28,272,291	25,487,302
Net operating loss from foreclosed properties held for sale	170,748	181,845
Fair value adjustment on foreclosed properties held for sale (note 5)	650,421	–
Financing costs:		
Interest on credit facility (note 6)	274,550	474,778
Interest on convertible debentures (note 7)	2,259,432	–
Issuance costs of redeemable shares (note 10)	–	2,680
Dividends to holders of redeemable shares (note 10(a))	–	24,321,067
Total financing costs	2,533,982	24,798,525
Net income and comprehensive income	**$ 24,917,140**	**$ 506,932**
Earnings per share (note 13)		
Basic and diluted	$ 0.63	$ 0.65

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES

Year ended December 31, 2014	Common Shares	Retained Earnings	Equity Component of Convertible Debentures	Total
Shareholders' equity, beginning of year	$ 337,367,498	$ (799,787)	$ –	$ 336,567,711
Issuance of common shares, net of issue costs	33,179,940	–	–	33,179,940
Equity component of convertible debentures, net	–	–	544,557	544,557
Dividends to the holders of common shares	–	(30,263,327)	–	(30,263,327)
Issuance of common shares under dividend reinvestment plan	3,047,862	–	–	3,047,862
Repurchase of common shares	(3,047,862)	–	–	(3,047,862)
Net income and comprehensive income	–	24,917,140	–	24,917,140
Shareholders' equity, end of year	**$ 370,547,438**	**$ (6,145,974)**	**$ 544,557**	**$ 364,946,021**

Year ended December 31, 2013	Class A Shares	Class B Shares	Common Shares	Retained Earnings	Total
Net assets attributable to holders of redeemable shares, beginning of year	$ 319,585,511	$ 35,942,459	$ –	$ –	$ 355,527,970
Gross proceeds from issuance of redeemable shares	–	5,000,000	–	–	5,000,000
Issuance of redeemable shares under dividend reinvestment plan	3,706,252	–	–	–	3,706,252
Redemption of redeemable shares	(15,511,769)	(2,553,549)	–	–	(18,065,318)
Repurchase of redeemable shares under normal course issuer bid	(3,351,744)	–	–	–	(3,351,744)
Repurchase of redeemable shares under dividend reinvestment plan	(1,803,199)	–	–	–	(1,803,199)
Exchange of redeemable shares	1,037,375	(1,037,375)	–	–	–
Exchange of redeemable shares to common shares	(299,929,559)	(37,437,939)	337,367,498	–	–
Dividends to the holders of common shares	–	–	–	(4,953,182)	(4,953,182)
Issuance of common shares under dividend reinvestment plan	–	–	319,073	–	319,073
Repurchase of common shares	–	–	(319,073)	–	(319,073)
Net income (loss) and comprehensive income (loss)	(3,732,867)	86,404	–	4,153,395	506,932
Shareholders' equity, end of year	**$ –**	**$ –**	**$ 337,367,498**	**$ (799,787)**	**$ 336,567,711**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years ended December 31,	
	2014	**2013**
OPERATING ACTIVITIES		
Net income and comprehensive income	$ 24,917,140	$ 506,932
Amortization of lender fees	(4,437,326)	(4,266,467)
Lender fees received	5,819,505	3,633,287
Provision for mortgage investments loss	250,000	2,150,000
Financing costs	2,533,982	24,798,525
Interest income, net of syndications	(32,045,133)	(34,976,627)
Interest income received, net of syndications	30,498,572	32,583,906
Fair value adjustment on foreclosed properties held for sale	650,421	–
Net foreign exchange (gain) loss	33,456	(33,456)
Change in non-cash operating items:		
Restricted cash	–	395,088
Interest receivable	(1,048,966)	–
Other assets	(2,277,526)	(1,065,865)
Accounts payable and accrued expenses	(339,195)	(347,575)
Due to Manager	(373,778)	(119,775)
Prepaid mortgage interest	1,548,907	654,330
Mortgage funding holdbacks	454,953	(100,453)
	26,185,012	**23,811,850**
FINANCING ACTIVITIES		
Proceeds from issuance of convertible debentures, net of issue costs	32,533,220	–
Proceeds from issuance of common shares, net of issue costs	33,179,940	–
Redemption of Class A and B redeemable shares	–	(18,065,318)
Proceeds from issuance of Class B redeemable shares	–	5,000,000
Advances from (repayment of) credit facility	9,075,926	(8,836,425)
Interest paid	(1,694,372)	(452,440)
Repurchase of redeemable shares for cancellation	–	(5,154,943)
Issuance costs of redeemable shares	–	(2,680)
Dividends to holders of redeemable shares	–	(23,042,920)
Dividends to holders of common shares	(30,297,827)	(2,476,590)
	42,796,887	**(53,031,316)**
INVESTING ACTIVITIES		
Capital improvements to foreclosed properties	(331,838)	(1,251,462)
Proceeds from disposition of foreclosed properties	35,776,846	–
Funding of mortgage investments, net of mortgage syndications	(498,944,602)	(241,306,257)
Discharge of mortgage investments, net of mortgage syndications	382,632,338	283,132,963
	(80,867,256)	**40,575,244**
Increase (decrease) in cash and cash equivalents	(11,885,357)	11,355,778
Cash and cash equivalents, beginning of year	12,348,449	992,671
Cash and cash equivalents, end of year	**$ 463,092**	**$ 12,348,449**

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2014 and 2013

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

The Company is incorporated under the laws of the Province of Ontario by Articles of Incorporation dated April 30, 2008. Effective September 13, 2013 (the "Effective Date"), the Company filed articles of amendment with the Ministry of Government Services of Ontario in connection with the Transition, as defined in note 1 below, to amend, among other things, certain provisions of the articles of the Company related to the rights attached to the redeemable Class A, Class B and voting classes of shares, and provide for the creation of a new class of common shares for which all existing classes of redeemable shares were exchanged on November 29, 2013.

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

1. TRANSITION TO PUBLIC COMPANY REGIME

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

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

As part of the Transition, the Company provided a one-time special redemption right of up to 15% of the issued and outstanding shares of each class of redeemable shares (the "Special Redemption"). The Company redeemed requests from holders of 1,674,568 Class A shares and 259,771 Class B shares for the Special Redemption. The total redemption payable of $18,026,557 was paid on November 27, 2013. On November 29, 2013 (the "Exchange Date"), the Company exchanged all of the 32,829,013 outstanding Class A shares and 3,887,053 outstanding Class B Shares into a newly created class of common shares. The common shares commenced trading on the Toronto Stock Exchange ("TSX") on November 29, 2013, continuing under the symbol 'TMC' and the Class A shares ceased to trade after the close of market on November 28, 2013.

Also effective September 13, 2013, the Company entered into a new management agreement with Timbercreek Asset Management Inc. (the "Manager") and terminated its management agreement with Timbercreek Asset Management Ltd., a wholly owned subsidiary of the Manager. The Manager is responsible for the day-to-day operations and providing all general management, mortgage servicing and administrative services for the Company's mortgage investments.

In connection with the Transition, the Company incurred total costs of $3,780,417, which includes soliciting dealer fees, soliciting broker fees, audit fees, legal fees and other related costs. Timbercreek Asset Management Inc., in its capacity as the Manager, elected to assume responsibility for $250,000 of costs relating to the Transition.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors on February 25, 2015.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

(d) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund. All intercompany transactions and balances are eliminated upon consolidation.

(e) Use of estimates and judgments

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

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

Mortgage investments:

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

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

Measurement of fair values:

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

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

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

The Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or 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 – Foreclosed properties held for sale; and

Note 18 – Fair value measurements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

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

(b) Mortgage investments

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

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

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

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

(c) 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 of 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.

(d) Foreign exchange forward contract

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

(e) Dividends

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

(f) 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.

(g) 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.

(h) Financial instruments

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

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

(i) 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.

(j) 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.

(k) Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out to all periods presented in these consolidated financial statements. The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

(i) IAS 32, Financial Instruments: Presentation ("IAS 32"):

In December 2011, the IASB published *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32) and issued new disclosure requirements in IFRS 7, *Financial Instruments: Disclosures*, with the amendments applied retrospectively. The implementation of this standard had no impact on these consolidated financial statements.

(ii) IFRIC 21, *Levies* ("IFRIC 21"):

In 2013, the IASB issued IFRIC 21. This standard addresses accounting for a liability to pay a levy within the scope of IAS 37, *Provisions, contingent liabilities and contingent assets* ("IAS 37"). A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes. The standard is applied retrospectively. The implementation of this standard had no impact on these consolidated financial statements.

(l) 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) 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 standard will be effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively with some exemptions. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

(ii) IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"):

In May 2014, the IASB issued IFRS 15. The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

4. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

As at December 31, 2014	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (b)	$ 617,038,177	$ (219,697,422)	$ 397,340,755
Interest receivable	5,125,457	(733,560)	4,391,897
	622,163,634	(220,430,982)	401,732,652
Unamortized lender fees	(5,740,005)	849,950	(4,890,055)
Allowance for mortgage investments loss (c)	(250,000)	–	(250,000)
	$ 616,173,629	**$ (219,581,032)**	**$ 396,592,597**

As at December 31, 2013	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (b)	$ 441,136,647	$ (123,982,494)	$ 317,154,153
Interest receivable	5,384,798	(694,227)	4,690,571
	446,521,445	(124,676,721)	321,844,724
Unamortized lender fees	(3,805,668)	297,792	(3,507,876)
Allowance for mortgage investments loss (c)	(550,000)	–	(550,000)
	$ 442,165,777	**$ (124,378,929)**	**$ 317,786,848**

As at December 31, 2014, un-advanced mortgage commitments under the existing gross mortgage investments amounted to $107,366,854 (December 31, 2013 – $61,563,733). Subsequent to the year ended December 31, 2014, $4,867,098 of the commitments have been funded.

(a) Net mortgage investments

	%	December 31, 2014	%	December 31, 2013
Interest in first mortgages	69	$ 276,022,401	61	$ 193,574,221
Interest in non-first mortgages	31	121,318,354	39	123,579,932
	100	**$ 397,340,755**	**100**	**$ 317,154,153**

The mortgage investments are secured by real property, bear interest at a weighted average interest rate of 9.4% (December 31, 2013 – 9.8%) and mature between 2015 and 2018 (December 31, 2013 – 2014 and 2017).

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, 2014, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of $5,819,505 (2013 – $3,633,287), 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:

2015	$ 152,977,148
2016	135,955,083
2017	98,816,265
2018	9,592,259
Total	**$ 397,340,755**

(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 and therefore has not met the de-recognition criteria. As a result, the lender's portion of the mortgage is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss. In addition, the Company may sell pari-pasu interests in certain mortgage investments which meet the criteria for de-recognition under IFRS.

As at December 31, 2014, the carrying value of the transferred assets in gross mortgage investments, including related interest receivable and unearned lender fees, and corresponding mortgage syndication liabilities is $219,581,032 (December 31, 2013 – $124,378,929). For the year ended December 31, 2014, the Company has also recognized interest income of $4,998,260 (2013 – $4,047,676) and fee income of $479,601 (2013 – $328,701) and a corresponding interest and fee expense of $5,477,861 (2013 – $4,376,377) in the statements of net income and comprehensive income. 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, 2014, 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.

For the year ended December 31, 2014, the Company recognized a collective impairment allowance of $250,000 (December 31, 2013 – nil) and specific impairment allowance of nil (December 31, 2013 – $2,150,000).

During the year ended December 31, 2014, the Company foreclosed on the underlying security relating to an impaired mortgage investment and reclassified $550,000 from allowance for mortgage investments loss to FPHFS.

For the year ended December 31, 2013 the Company recognized an impairment provision of $2,150,000 relating to impaired mortgage investments, which represented the total amount of the Manager's estimate of the shortfall between the principal balances, costs incurred and accrued interest and the estimated recoverable amount of the underlying security of the mortgage investment.

During the year ended December 31, 2013, the Company foreclosed on the underlying securities relating to two impaired mortgage investments and reclassified $1,600,000 from allowance for mortgage investments loss to FPHFS.

The changes in the allowance for mortgage investments loss during the years ended December 31, 2014 and 2013 were as follows:

	Years ended December 31,	
	2014	2013
Balance, beginning of year	$ 550,000	$ –
Provision for mortgage investments loss	250,000	2,150,000
Allowance for mortgage investments loss reclassified to FPHFS	(550,000)	(1,600,000)
Balance, end of year	**$ 250,000**	**$ 550,000**

5. FORECLOSED PROPERTIES HELD FOR SALE

As at December 31, 2014, there are three FPHFS (December 31, 2013 – two) which are recorded at their fair value of $13,850,521 (December 31, 2013 – $11,351,435). The changes in the FPHFS during the year ended December 31, 2014 were as follows:

	Years ended December 31,	
	2014	2013
Balance, beginning of year	$ 11,351,435	$ –
Foreclosed properties reclassified from mortgage investments	75,681,402	10,099,973
Capital improvements	331,838	1,251,462
Fair market value adjustment	(650,421)	–
Disposition of foreclosed properties	(72,863,733)	–
Balance, end of year	**$ 13,850,521**	**$ 11,351,435**

During the year ended December 31, 2014, the Company closed on the sale of eight residential units in one of the foreclosed properties for net proceeds of $1,363,733.

During the year ended December 31, 2014, the Company also foreclosed on the underlying security of a mortgage investment with outstanding principal and costs of $69,581,592 and accrued interest of $1,768,829. This underlying security was subsequently sold, with the proceeds of sale repaying all of the outstanding principal and costs and accrued interest from the mortgage investment and resulted in a gain of $149,579. The purchaser also obtained mortgage financing from the Company in respect of the property.

During the year ended December 31, 2014, the Company recorded an unrealized fair value loss of $800,000 on the FPHFS.

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 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 taking 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.

6. CREDIT FACILITY

As at December 31, 2014, the Company has a credit facility with an available limit of $35,000,000 (December 31, 2013 – $25,000,000). The Company amended and restated the credit facility on October 31, 2014, extending the term for an additional two years and increasing the available limit to $35,000,000, with an option to increase the limit to $60,000,000, subject to certain terms and conditions. Subsequent to year end, the Company completed a $15,000,000 increase of the credit facility, taking its total available borrowing limit to $50,000,000. The credit facility is subject to an interest rate equal to the bank's prime rate of interest plus 1.50% (December 31, 2013 – bank's prime rate of interest plus 1.50%). The credit facility is secured by a general security agreement over the Company's assets. As at December 31, 2014, $9,075,926 was outstanding on the credit facility (December 31, 2013 – nil).

Interest costs related to the credit facility are recorded in financing costs using the effective interest rate method. For the year ended December 31, 2014, interest on the credit facility of $274,550 (2013 – $474,778) is included in financing costs.

As at December 31, 2014, there were $238,967 (December 31, 2013 – $107,603) in unamortized financing costs related to the placement of the credit facility netted against the outstanding balance. For the year ended December 31, 2014, the Company has amortized financing costs of $129,328 (2013 – $143,859) to interest expense using the effective interest rate method.

7. CONVERTIBLE DEBENTURES

On February 25, 2014, the Company completed a public offering of $30,000,000, with an overallotment option of $4,500,000 that was completed on March 3, 2014, of 6.35%, convertible unsecured subordinated debentures for net proceeds of $32,533,220 (the "debentures"). The debentures mature on March 31, 2019 with interest payable semi-annually on March 31 and September 30 of each year. The first interest payment occurred on September 30, 2014 and was for $1,302,447. 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 debentures will not be redeemable prior to March 31, 2017. On and after March 31, 2017 and prior to March 31, 2018, the debentures will be redeemable by the Company, 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 on not more than 60 days' and not less than 30 days' prior written notice, provided that the current market price as of the date on which notice of redemption is given is not less than 125% of the conversion price. On and after March 31, 2018 and prior to the maturity date, the debentures will be redeemable, 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 to, but excluding, the date of redemption on not more than 60 days' and not less than 30 days' prior written notice.

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 of $577,478 has been recorded as equity, with the remaining $31,955,742 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 $34,500,000. The issue costs of $1,966,780 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 allocated as follows at year-end:

		December 31, 2014
Issued	$	34,500,000
Issue costs, net of amortization		(1,664,236)
Equity component		(577,478)
Issue costs attributed to equity component		32,921
Accretion for the year		96,250
Debentures, end of year	**$**	**32,387,457**

Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For the year ended December 31, 2014, interest on the debentures is included in financing costs and is made up of the following:

	Year ended December 31, 2014
Interest on the convertible debentures	$ 1,860,638
Amortization of issue costs	302,544
Accretion of equity component of the convertible debentures	96,250
	$ 2,259,432

8. FOREIGN EXCHANGE FORWARD CONTRACT

In May 2013, the Company entered into a foreign exchange forward contract with its bank to lock in the Company's rate to exchange U.S. dollars into Canadian dollars for a mortgage investment. In May 2014, the contract was terminated, resulting in a gain of $7,977 (2013 – $5,436 unrealized net foreign exchange loss) upon the repayment of the Company's U.S. dollar denominated mortgage investment.

9. VOTING SHARES

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

10. REDEEMABLE SHARES

As part of the Transition outlined in note 1, on the Exchange Date all classes of redeemable shares, including Class A and Class B shares, were exchanged into common shares at the ratios specified in note 11.

Prior to the Transition, Class A shares were publicly listed on the TSX under the symbol 'TMC'. Class B shares were privately held and there was no market through which these shares could be sold. The Company was authorized to issue these classes of shares, which were redeemable at the holder's option and were subject to different fee structures. The Company classifies financial instruments issued as either financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The redeemable shares were classified as financial liabilities and presented as 'net assets attributable to holders of redeemable shares' in the statements of financial position.

The changes in the number of Class A and Class B shares were as follows:

Year ended December 31, 2013	Class A	Class B
Redeemable shares outstanding, beginning of year	34,561,122	3,742,597
Issued	–	508,647
Issuance of redeemable shares under dividend reinvestment plan	393,522	–
Exchanged	110,685	(104,420)
Redeemed	(1,678,568)	(259,771)
Repurchased	(557,748)	–
Exchanged to common shares	(32,829,013)	(3,887,053)
Redeemable shares outstanding, end of year	**–**	**–**

During the year ended December 31, 2013, the Company completed a non-brokered private placement of 508,647 Class B shares for gross proceeds of $5,000,000. In connection with the above-noted share offering, the Company incurred $2,680 in issuance costs. Under IFRS, Class A and Class B shares were considered debt instruments prior to the Transition, and accordingly, the Company recorded these issuance costs through profit and loss.

(a) Dividends to holders of redeemable shares

Prior to the Transition, the Company paid the following dividends to holders of redeemable shares:

Year ended December 31, 2013	Dividends per share	Total
Class A	$ 0.630	$ 21,876,011
Class B	0.670	2,445,056
Total		**$ 24,321,067**

(b) Normal course issuer bid

On June 6, 2013, the Company received the approval of the TSX to commence a normal course issuer bid (the "Bid") to purchase for cancellation up to 3,476,193 Class A shares, representing approximately 10% of the Class A shares float on June 4, 2013. The purchases were limited, during any 30-day period during the term of the Bid, to 695,458 Class A shares in the aggregate. The Bid commenced on June 10, 2013, and provided the Company with the flexibility to repurchase Class A shares for cancellation until its expiration on June 9, 2014, or such earlier date as the Bid is complete. From June 18, 2013 to November 29, 2013, the date of the exchange of the Company Class A shares to common shares, the Company acquired for cancellation 362,800 Class A shares at a cost of $3,351,744.

11. COMMON SHARES

As outlined in note 1, on the Effective Date, the shareholders of the Company approved the automatic exchange of all outstanding Class A shares and Class B shares into a new class of common shares. The exchange ratio approved was 1 to 1 for each Class A share and an exchange ratio for each of the Class B Shares equal to the quotient obtained by dividing the net redemption value per Class B share by the net redemption value per Class A share on the last business day of the month immediately preceding such exchange date. On the Exchange Date, 32,829,013 Class A shares and 3,887,053 Class B Shares were exchanged into 36,964,028 common shares.

On November 29, 2013, upon the completion of the exchange in accordance with the Company's articles, the common shares commenced trading on the TSX, continuing under the symbol 'TMC'.

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

The common shares are classified 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.

On April 24, 2014, the Company closed on a public offering for 3,737,500 common shares, including exercising the overallotment option, at a price of $9.35 per common share. The Company received gross proceeds of $34,945,625 and incurred $1,765,685 in issuance costs.

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

Years ended December 31,	2014	2013
Balance, beginning of year	36,964,028	–
Issued	3,737,500	–
Issued as a result of exchange	–	36,964,028
Repurchased	(332,009)	(35,250)
Issued under dividend reinvestment plan	332,009	35,250
Balance, end of year	**40,701,528**	**36,964,028**

(a) Dividend reinvestment plan

The Company amended and restated its dividend reinvestment plan effective as of November 20, 2013. The amended and restated dividend reinvestment plan (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on May 19, 2010.

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

Under the Amended DRIP, shareholders may enroll to have their cash dividends reinvested to purchase additional common shares. The Manager can elect to purchase common shares on the open market or issue common shares from treasury. For the year ended December 31, 2014, 332,009 common shares were purchased on the open market under the Amended DRIP (2013 – 198,574 Class A shares issued and 194,948 Class A shares purchased on the open market under the Original DRIP; 35,250 common shares purchased on the open market under the Amended DRIP).

(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.

During the year ended December 31, 2014, the Company declared dividends of $30,263,327, or $0.762 per share, to the holders of common shares (2013 – $4,953,183, $0.134 per share). As at December 31, 2014, $2,442,092 (December 31, 2013 – $2,476,592) was payable to the holders of common shares. Subsequent to December 31, 2014, the Company declared dividends of $2,442,092 ($0.060 per share) to the holders of common shares.

(c) Normal course issuer bid

On November 13, 2014, the Company received the approval of the TSX to commence a second normal course issuer bid (the "Second Bid") to purchase for cancellation up to a maximum of 4,052,822 common shares, representing approximately 10% of the public float of common shares as of November 11, 2014. The Second Bid commenced on November 17, 2014 and provides the Company with the flexibility to repurchase common shares for cancellation until its expiration on November 16, 2015, or such earlier date as the Second Bid is complete. From November 17, 2014 to December 31, 2014, the Company did not acquire any common shares for cancellation.

12. EXPENSES

(a) Management and performance fees

The Manager is responsible for the day-to-day operations of the Company, including administration of the Company's mortgage investments. As a part of the Transition detailed in note 1, the Company entered into a new management agreement with the Manager effective from September 13, 2013. Under the new management agreement, the Company shall pay to the Manager, a management fee equal to 1.20% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross Assets is defined as the total assets of the Company before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities related to syndicated mortgage investments that are held by third parties. The initial term of the new management agreement is 10 years from the Effective Date and is automatically renewed for successive five year terms at the expiration of the initial term. For the year ended December 31, 2014, the Company incurred management fees of $5,421,686 (2013 – $4,974,029).

Under the new management agreement, the Manager continues to be entitled to a performance fee. In any calendar year where the Company has net earnings available for distribution to shareholders in excess of the hurdle rate (the "Hurdle Rate"), which is defined as the average two-year Government of Canada Bond Yield for the 12-month period then ended plus 450 basis points, the Manager is entitled to receive from the Company a performance fee equal to 20% of the net earnings of the Company available to distribute over the Hurdle Rate, plus applicable taxes. The net earnings of the Company shall mean the net income before performance fees of the Company in accordance with applicable accounting principles and adjusted for certain other non-cash adjustments as defined in the management agreement. The performance fee is payable to the Manager within 15 days of the issuance of the Company's audited annual consolidated financial statements for that calendar year. The performance fee accrued for the year ended December 31, 2014 is $1,954,557 (2013 – $1,940,688).

(b) Trailer fees

Prior to September 13, 2013, the Company paid each registered dealer a trailer fee equal to 0.50% annually of the net redemption value per Class A share for each Class A share held by clients of the registered dealer, calculated and paid at the end of each calendar quarter. In conjunction with the Transition, effective September 13, 2013 the Company no longer pays trailer fees on Class A shares to registered dealers. As such, the Company paid no Class A trailer fees for the year ended December 31, 2014 (2013 – $737,199).

13. EARNINGS PER SHARE

Earnings per share has been calculated as if the Transition occurred on January 1, 2013 and as a result, dividends to holders of redeemable shares and issuance costs of redeemable shares for the year ended December 31, 2013 have been added back to the net loss of the Company in the calculation of earnings per share.

(a) Basic and diluted earnings per share

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

Years ended December 31,	2014	2013
Numerator for earnings per share:		
Net income and comprehensive income	$ 24,917,140	$ 506,932
Issuance costs of redeemable shares	–	2,680
Dividends to holders of redeemable shares	–	24,321,067
Net income attributable to common shares	24,917,140	24,830,679
Denominator for earnings per share:		
Weighted average of common shares (basic and diluted)	39,544,439	38,444,103
Earnings per share – basic and diluted	$ 0.63	$ 0.65

14. RELATED PARTY TRANSACTIONS

(a) As at December 31, 2014, due to Manager includes management and performance fees payable of $1,970,131 (December 31, 2013 – $2,346,745) and $5,827 (December 31, 2013 – $2,991) related to costs incurred by the Manager on behalf of the Company.

(b) As at December 31, 2014, no amount (December 31, 2013 – $281,126) is receivable by the Company from TSMIC relating to amounts paid by the Company on behalf of TSMIC.

(c) As at December 31, 2014, included in other assets is $3,044,234 (December 31, 2013 – $1,040,374) of cash held in trust by Timbercreek Mortgage Servicing Inc., 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.

(d) As at December 31, 2014, the Company, Timbercreek Senior Mortgage Investment Corporation ("TSMIC"), Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Canadian Direct LP, related parties by virtue of common management, have co-invested in several mortgage investments totalling $701,930,591 (December 31, 2013 – $703,448,560). The Company's share in these mortgage investments is $268,906,244 (December 31, 2013 – $151,103,561).

(e) A mortgage investment of $1,147,226 (December 31, 2013 – $1,044,252) was provided to a limited partnership which is partially owned by T4Q.

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

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, 2014, the Company has non-capital losses carried forward for income tax purposes of $19,938,146 (December 31, 2013 – $14,672,000), which will expire between 2029 and 2034 if not used. The Company also has future deductible temporary differences resulting from share issuances, prepaid mortgage interest, unearned income and financing costs for income tax purposes of $14,608,322 (December 31, 2013 – $12,040,000).

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, 2014, 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. For the year ended December 31, 2014, 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, 2014, $89,906,305 of net mortgage investments bear interest at variable rates. Of these, $84,887,448 of net mortgage investments include a “floor rate” to protect their negative exposure, while two mortgage investments totalling $5,018,857 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 $25,094. 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 $449,532. 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 $9,075,926 as at December 31, 2014. Based on the outstanding balance of the credit facility as at December 31, 2014, a 0.50% decrease in interest rates, with all other variables constant, will increase net income by $45,380 annually, arising mainly as a result of lower interest expense payable on the credit facility. A 0.50% increase in interest rates would have an equal but opposite effect on the net income of the Company.

The Company's other assets, which includes interest receivable, 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 possibility that a borrower may be unable to honour its debt commitments as a result of a negative change in market conditions that could result in a loss to the Company. The Company mitigates this risk by the following:

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

(ii) all mortgage investments are approved by the independent mortgage advisory committee before funding; and

(iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at December 31, 2014 is the carrying values of its net mortgage investments, including interest receivable, amounting to $401,732,652 (December 31, 2013 – $321,844,724). 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, 2014, including expected interest payments:

December 31, 2014	Carrying values	Contractual cash flows	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	$ 855,527	$ 855,527	$ 855,527	$ –	$ –
Dividends payable	2,442,092	2,442,092	2,442,092	–	–
Due to Manager	1,975,958	1,975,958	1,975,958	–	–
Mortgage funding holdbacks	483,762	483,762	483,762	–	–
Prepaid mortgage interest	2,560,472	2,560,472	2,560,472	–	–
Credit facility	9,075,926	9,824,690	408,417	9,416,273	–
Convertible debentures	32,387,457	43,803,185	2,190,750	2,196,752	39,415,683
Total liabilities	$ 49,781,194	$ 61,945,686	$ 10,916,978	$ 11,613,025	$ 39,415,683
Unadvanced mortgage commitments	–	107,366,854	107,366,854	–	–
Total contractual liabilities	**$ 49,781,194**	**$ 169,312,540**	**$ 118,283,832**	**$ 11,613,025**	**$ 39,415,683**

As at December 31, 2014, the Company had a cash position of $463,092 (December 31, 2013 – $12,348,449) and an unutilized credit facility of $25,924,074 (December 31, 2013 – $25,000,000). 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 $42,774,960 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, 2014	Carrying Value			
	Loans and receivable	FVTPL	Other financial liabilities	Fair value
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 13,850,521	$ –	$ 13,850,521
Assets not measured at fair value				
Cash and cash equivalents	463,092	–	–	463,092
Other assets	3,582,038	–	–	3,582,038
Mortgage investments, including mortgage syndications	616,173,629	–	–	616,173,629
Financial liabilities not measured at fair value				
Accounts payable and accrued expenses	–	–	855,527	855,527
Dividends payable	–	–	2,442,092	2,442,092
Due to Manager	–	–	1,975,958	1,975,958
Mortgage funding holdbacks	–	–	483,762	483,762
Prepaid mortgage interest	–	–	2,560,472	2,560,472
Credit facility	–	–	8,836,959	8,836,959
Convertible debentures	–	–	32,387,457	35,017,500
Mortgage syndication liabilities	–	–	219,581,032	219,581,032

	Carrying Value			
As at December 31, 2013	Loans and receivable	FVTPL	Other financial liabilities	Fair value
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 11,351,435	$ –	$ 11,351,435
Assets not measured at fair value				
Cash and cash equivalents	12,348,449	–	–	12,348,449
Other assets	1,540,102	–	–	1,540,102
Mortgage investments, including mortgage syndications	442,165,777	–	–	442,165,777
Financial liabilities measured at FVTPL				
Foreign exchange forward contract		71,696		71,696
Financial liabilities not measured at fair value				
Accounts payable and accrued expenses	–	–	520,725	520,725
Dividends payable	–	–	2,476,592	2,476,592
Due to Manager	–	–	2,349,736	2,349,736
Mortgage funding holdbacks	–	–	28,809	28,809
Prepaid mortgage interest	–	–	1,011,565	1,011,565
Mortgage syndication liabilities	–	–	124,378,929	124,378,929

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) Foreign exchange forward contracts

Foreign exchange forward contracts are measured at fair value using the market comparison technique. The fair values are based on broker quotes from Bloomberg. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments. As a result, the fair value of foreign exchange forward contract is based on level 2 inputs.

(d) Convertible debentures

The fair value of the convertible debentures is based on the market closing price of convertible debentures at the reporting date.

There were no transfers between level 1, level 2 and level 3 during the year ended December 31, 2014 and 2013.

19. 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.

20. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid $90,231 (2013 – $105,642) to the members of the Board of Directors and nil (2013 – $31,108) to the Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 12(a)).

21. COMPARATIVES

Comparative figures have been re-classified, where necessary, to conform with changes in presentation in the current year.

22. SUBSEQUENT EVENTS

(a) Non-executive director deferred share unit plan

Commencing January 1, 2015, the Company instituted a non-executive director deferred share unit plan (the "Plan") whereby, up to 100% of the compensation for a director may be paid to the director in the form of deferred share units ("DSUs"), payable quarterly in arrears. Directors may elect once every year, in accordance with the Plan, as to how much (if any) of his/her compensation will be paid in DSUs, having regard at all times for the ownership guidelines of the Plan. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears.

(b) Credit facility amendment

Subsequent to year end, the Company completed a $15,000,000 increase on the credit facility, increasing its total available borrowing limit to $50,000,000.