Condensed Consolidated Interim Financial Statements of

Timbercreek Mortgage Investment Corporation

Three months and nine months ended September 30, 2014 and 2013

Timbercreek
Mortgage Investment Corporation

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited)

		September 30, 2014		December 31, 2013
ASSETS				
Cash and cash equivalents	$	40,969,331	$	12,348,449
Other assets (note 15(e))		2,580,136		1,540,102
Mortgage investments, including mortgage syndications (note 5)		445,040,600		442,165,777
Foreclosed properties held for sale (note 6)		14,886,165		11,351,435
Total assets		**503,476,232**		**467,405,763**
LIABILITIES AND EQUITY				
Accounts payable and accrued expenses		731,161		592,421
Dividends payable (note 12(b))		2,442,092		2,476,592
Due to Manager (note 15(a))		1,281,985		2,349,736
Convertible debentures (note 8)		32,265,113		–
Mortgage funding holdbacks		18,605		28,809
Prepaid mortgage interest		1,754,102		1,011,565
Mortgage syndication liabilities (note 5)		98,524,651		124,378,929
Total liabilities		**137,017,709**		**130,838,052**
Shareholders' equity		**366,458,523**		**336,567,711**
Total liabilities and equity	**$**	**503,476,232**	**$**	**467,405,763**
Commitments and contingencies (notes 5 and 17)				
Subsequent events (notes 7 and 12(b))				

See accompanying notes to the condensed consolidated interim financial statements.

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

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Interest income:				
Interest, including mortgage syndications	$ 8,413,237	$ 10,196,273	$ 26,493,484	$ 29,059,425
Fees and other income, including mortgage syndications	1,373,854	1,193,737	3,785,682	3,538,382
	9,787,091	11,390,010	30,279,166	32,597,807
Interest and fees expense on mortgage syndications	(1,126,616)	(1,501,510)	(3,342,746)	(2,792,459)
Net interest income	8,660,475	9,888,500	26,936,420	29,805,348
Expenses:				
Management fees (note 13(a))	1,391,250	1,249,939	4,020,949	3,721,184
Performance fees (note 13(a))	430,325	446,944	1,215,834	1,600,341
Trailer fees (note 13(b))	–	–	–	737,199
Transition related costs	–	3,373,505	–	3,373,505
Provision for mortgage investments loss (note 5(c))	–	400,000	250,000	1,200,000
Net foreign exchange (gain) loss (note 9)	–	(3,466)	(7,977)	16,372
General and administrative	220,618	155,014	623,100	513,615
	2,042,193	5,621,936	6,101,906	11,162,216
Income from operations	6,618,282	4,266,564	20,834,514	18,643,132
Net operating (gain) loss from foreclosed properties held for sale	(80,872)	–	113,322	–
Fair value adjustment on foreclosed properties held for sale (note 6)	(149,579)	–	(149,579)	–
Financing costs:				
Interest on credit facility (note 7)	67,190	98,316	188,508	279,627
Interest on convertible debentures (note 8)	671,331	–	1,578,897	–
Dividends to holders of redeemable shares (note 11(a))	–	7,299,108	–	21,907,508
	738,521	7,397,424	1,767,405	22,187,135
Net income (loss) and comprehensive income (loss)	**$ 6,110,212**	**$ (3,130,860)**	**$ 19,103,366**	**$ (3,544,003)**
Net income per share (note 14)				
Basic and diluted	$ 0.15	–	$ 0.49	–

See accompanying notes to the condensed consolidated interim financial statements.

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

(Unaudited)

For the nine months ended September 30, 2014	Common Shares	Equity Component of Convertible Debentures	Total
Shareholders' equity, beginning of period	$ 336,567,711	$ –	$ 336,567,711
Net proceeds from issuance of common shares	33,179,940	–	33,179,940
Equity component of convertible debentures, net	–	544,557	544,557
Dividends to shareholders	(22,937,051)	–	(22,937,051)
Issuance of common shares under dividend reinvestment plan	2,295,727	–	2,295,727
Repurchase of common shares	(2,295,727)	–	(2,295,727)
Net income and comprehensive income	19,103,366	–	19,103,366
Shareholders' equity, end of period	**$ 335,913,966**	**$ 544,557**	**$ 336,458,523**

For the nine months ended September 30, 2013	Class A Shares	Class B Shares	Total
Net assets attributable to holders of redeemable shares, beginning of period	$ 319,585,511	$ 35,942,459	$ 355,527,970
Issuance of redeemable shares under dividend reinvestment plan	2,966,916	–	2,966,916
Redemption of redeemable shares	(38,761)	–	(38,761)
Repurchase of redeemable shares under normal course issuer bid	(3,150,009)	–	(3,150,009)
Repurchase of redeemable shares under dividend reinvestment plan	(1,063,862)	–	(1,063,862)
Exchange of redeemable shares	1,037,375	(1,037,375)	–
Net loss and comprehensive loss	(3,245,015)	(298,988)	(3,544,003)
Net assets attributable to holders of redeemable shares, end of period	**$ 316,092,155**	**$ 34,606,096**	**$ 350,698,251**

See accompanying notes to the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

(Unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
OPERATING ACTIVITIES				
Net income (loss) and comprehensive income (loss)	$ 6,110,212	$ (3,130,860)	$ 19,103,366	$ (3,544,003)
Amortization of lender fees	(1,189,398)	(1,040,308)	(3,139,850)	(3,305,735)
Lender fees received	1,562,797	645,889	3,337,891	2,919,467
Financing costs	738,521	7,397,424	1,767,405	22,187,135
Fair value adjustment on foreclosed properties held for sale	(149,579)	–	(149,579)	–
Net unrealized foreign exchange (gain) loss	–	(3,466)	33,456	16,372
Provision for mortgage investments loss	–	400,000	250,000	1,200,000
Change in non-cash operating items:				
Restricted cash	–	(23)	–	379,026
Interest receivable	(586,024)	(641,095)	(1,518,632)	(1,753,723)
Other assets	753,594	(857,091)	(1,251,112)	(1,039,149)
Accounts payable and accrued expenses	274,971	3,220,856	103,073	3,019,971
Due to Manager	23,454	465,424	(1,067,751)	(857,100)
Prepaid mortgage interest	(394,550)	477,444	742,537	516,509
Mortgage funding holdbacks	85	177,568	(10,204)	48,306
	7,144,083	**7,111,762**	**18,200,600**	**19,787,076**
FINANCING ACTIVITIES				
Issuance of convertible debentures, net of issue costs	(48,364)	–	32,533,220	–
Issuance of common shares, net of issue costs	–	–	33,179,940	–
Redemption of Class A redeemable shares	–	–	–	(38,761)
Advances from (repayment of) credit facility	–	2,322,030	–	(6,514,395)
Interest paid	(1,345,107)	(59,320)	(1,402,318)	(162,642)
Repurchase of redeemable shares for cancellation	–	(3,057,960)	–	(3,150,009)
Dividends to holders of redeemable shares	–	(6,957,936)	–	(20,008,329)
Dividends to holders of common shares	(7,611,185)	–	(22,971,551)	–
	(9,004,656)	**(7,753,186)**	**41,339,291**	**(29,874,136)**
INVESTING ACTIVITIES				
Capital improvements to foreclosed properties	(116,691)	–	(187,147)	–
Proceeds from disposition of foreclosed properties	35,057,506	–	35,396,511	–
Funding of mortgage investments, net of mortgage syndications	(127,102,587)	(48,599,125)	(314,396,641)	(187,598,877)
Discharge of mortgage investments, net of mortgage syndications	75,573,075	44,335,578	248,268,268	197,316,385
	(16,588,697)	**(4,263,547)**	**(30,919,009)**	**9,717,508**
Increase (decrease) in cash and cash equivalents	(18,449,270)	(4,904,971)	28,620,882	(369,552)
Cash and cash equivalents, beginning of period	59,418,601	5,528,090	12,348,449	992,671
Cash and cash equivalents, end of period	**$ 40,969,331**	**$ 623,119**	**$ 40,969,331**	**$ 623,119**

See accompanying notes to condensed consolidated interim financial statements.

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

The Company 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 existing 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 (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 condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The presentation of these condensed consolidated interim financial statements is based on accounting policies and practices in accordance with IFRS. The accompanying condensed consolidated interim financial statements should be read in conjunction with the notes to the Company's consolidated financial statements for the year ended December 31, 2013, since they do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

The condensed consolidated interim financial statements were approved by the Board of Directors on November 5, 2014.

(b) Principles of consolidation

These condensed consolidated interim 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

(a) 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.

(b) Changes in accounting policies

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) IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"):

In December 2011, the International Accounting Standards Board ("IASB") published Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) and issued new disclosure requirements in IFRS 7, with the amendments applied retrospectively. The implementation of this standard had no impact on these condensed consolidated interim 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 condensed consolidated interim financial statements.

(c) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective in a future annual period and have not been applied in preparing these condensed consolidated interim 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. This new standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the four categories of financial assets as required by IAS 39 with two measurement categories as follows: (i) those measured at fair value; and (ii) those measured at amortized cost. Changes in fair value will be recorded in net earnings under IFRS 9 instead of through Other Comprehensive Income ("OCI") under IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in OCI instead of through net earnings unless this would create an accounting mismatch. 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.

(iii) IAS 27, *Separate Financial Statements* ("Amendments to IAS 27"):

In August 2014, the IASB issued Amendments to IAS 27. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Amendments to IAS 27 become effective for annual periods beginning on or after January 1, 2016 and are to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

In the preparation of these condensed consolidated interim 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. There have been no changes in the critical accounting estimates and judgments which were set out in detail in note 3 of the Company's consolidated financial statements for the year ended December 31, 2013.

5. MORTGAGE INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

As at September 30, 2014	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications (a) and (b)	$ 444,916,900	$ (98,862,901)	$ 346,053,999
Interest receivable	4,744,054	(326,187)	4,417,867
	449,660,954	(99,189,088)	350,471,866
Unamortized lender fees	(4,370,354)	664,437	(3,705,917)
Allowance for mortgage investments loss (c)	(250,000)	–	(250,000)
	$ 445,040,600	**$ (98,524,651)**	**$ 346,515,949**

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**

(a) Mortgage investments:

	%		September 30, 2014	%		December 31, 2013
Interest in first mortgages	70	$	240,961,207	61	$	193,574,221
Interest in non-first mortgages	30		105,092,792	39		123,579,932
	100	**$**	**346,053,999**	**100**	**$**	**317,154,153**

The mortgage investments are secured by real property, bear interest at a weighted average interest rate of 9.17% (December 31, 2013 – 9.81%) and mature between 2014 and 2017 (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 three and nine months ended September 30, 2014, the Company received total lender fees, net of fees relating to mortgage syndication liabilities, of $1,562,797 and $3,337,891 (three and nine months ended September 30, 2013 – $645,889 and $2,919,467), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

The unadvanced mortgage commitments under the existing mortgage investments amounted to $79,999,298 as at September 30, 2014 (December 31, 2013 – $61,563,733). Subsequent to the quarter end, $3,132,085 (December 31, 2013 – $1,863,751) of the commitments have expired.

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

2014, balance of year	$	45,761,727
2015		107,046,774
2016		113,809,717
2017		79,435,781
Total	**$**	**346,053,999**

(b) Non-recourse 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. 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.

As at September 30, 2014, the carrying value of the transferred assets and corresponding non-recourse liabilities is $98,524,651 (December 31, 2013 – $124,378,929). For the three and nine months ended September 30, 2014, the Company has also recognized interest and fee income and a corresponding interest and fee expense of $1,126,616 and $3,342,746 (three and nine months ended September 30, 2013 – $1,501,510 and $2,792,459) in the statements of net income (loss) and comprehensive income (loss). The fair value of the transferred assets and non-recourse mortgage syndicated liabilities approximate their carrying values (see note 16).

(c) Allowance for mortgage investments loss:

As at September 30, 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 will use judgement to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated.

As at September 30, 2014, the Company has recognized a collective impairment allowance of $250,000 (December 31, 2013 – $550,000).

During the nine months ended September 30, 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 foreclosed properties held for sale ("FPHFS").

The changes in the allowance for mortgage investments loss during the three and nine months ended September 30, 2014 and 2013 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	$ 250,000	$ 800,000	$ 550,000	$ –
Provision for mortgage investments loss	–	400,000	250,000	1,200,000
Allowance for mortgage investments loss reclassified to FPHFS	–	–	(550,000)	–
Balance, end of period	**$ 250,000**	**$ 1,200,000**	**$ 250,000**	**$ 1,200,000**

6. FORECLOSED PROPERTIES HELD FOR SALE

As at September 30, 2014, there are three FPHFS (December 31, 2013 – two) which are recorded at their fair value of $14,886,165 (December 31, 2013 – $11,351,435). The following table shows a reconciliation from the opening balance to the closing balance for Level 3 fair values.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	$ 15,413,869	$ –	$ 11,351,435	$ –
Foreclosed properties reclassified from mortgage investments	71,350,421	3,866,595	75,681,402	3,866,595
Capital improvements	116,691	–	187,147	–
Disposition of foreclosed properties	(71,994,816)	–	(72,333,819)	–
Balance, end of period	**$ 14,886,165**	**$ 3,866,595**	**$ 14,886,165**	**$ 3,866,595**

During the three and nine months ended September 30, 2014, the Company closed on the sale of four and six residential units, respectively, on one of the foreclosed properties for net proceeds of $644,395 and $983,399.

During the three months ended September 30, 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 in the quarter, with the proceeds of sale repaying all of the outstanding principal and 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.

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.

7. CREDIT FACILITY

The Company has available a credit facility with a limit of $25,000,000 (December 31, 2013 – $25,000,000). The credit facility was renewed in October 2014 and extended for an additional two years, with an option to increase the credit facility limit up to $60,000,000. 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 September 30, 2014, no amount 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.

As at September 30, 2014, there were $24,512 (December 31, 2013 – $107,603) in unamortized financing costs related to the placement of the credit facility. For the three and nine months ended September 30, 2014, the Company has amortized financing costs of $31,261 and $93,782 (three and nine months ended September 30, 2013 – $38,995 and $116,985) to interest expense using the effective interest rate method.

8. 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 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 period end:

		September 30, 2014
Issued	$	34,500,000
Issue costs, net of amortization		(1,757,705)
Equity component		(577,478)
Issue costs attributed to equity component		32,921
Accretion for the period		67,375
Debentures, end of period	**$**	**32,265,113**

Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. For the three and nine months ended September 30, 2014, interest on the debentures is included in financing costs and is made up of the following:

		Three months ended September 30, 2014		Nine months ended September 30, 2014
Accrued interest on the convertible debentures	$	546,187	$	1,302,447
Amortization of issue costs		96,269		209,075
Accretion of debt component of the convertible debentures		28,875		67,375
	$	**671,331**	**$**	**1,578,897**

9. 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 (December 31, 2013 – $71,696 unrealized fair value adjustment) upon the repayment of the Company's U.S. dollar denominated mortgage investment.

10. 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.

11. 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 12.

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:

Nine months ended September 30, 2013	Class A	Class B
Balance, beginning of period	34,561,122	3,742,597
Issued under dividend reinvestment plan	312,503	–
Exchanged	110,685	(104,420)
Redeemed	(4,000)	–
Repurchased	(454,729)	–
Balance, end of period	**34,525,581**	**3,638,177**

(a) Dividends to holders of redeemable shares

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

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Dividends per share	Total	Dividends per share	Total
Class A	$ 0.19	$ 6,567,834	$ 0.57	$ 19,706,210
Class B	0.20	731,274	0.60	2,201,298
Total		**$ 7,299,108**		**$ 21,907,508**

(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. Further, the purchases will not, during any 30-day period during the term of the Bid, exceed, in the aggregate, 695,458 Class A shares. The Bid commenced on June 18, 2013, and provided the Company with the flexibility to repurchase Class A shares for cancellation until its expiration on June 9, 2014. From June 18, 2013 to September 30, 2013, the Company acquired for cancellation 340,800 Class A shares at a cost of $3,150,009.

12. 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:

	Nine months ended September 30, 2014
Balance, beginning of period	36,964,028
Issued	3,737,500
Repurchased	(244,805)
Issued under dividend reinvestment plan	244,805
Balance, end of period	**40,701,528**

(a) Dividend reinvestment plan

The Company has amended and restated its dividend reinvestment plan effective as of November 20, 2013. The amended and restated dividend reinvestment plan (the "Amended DRIP") replaces in its entirety the original DRIP (the "Original DRIP") established by the Company on 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 three and nine months ended September 30, 2014, 83,080 and 244,805 (three and nine months ended September 30, 2013 – 114,590 Class A shares under the original DRIP; 312,503 Class A shares under the original DRIP) common shares were issued 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 three and nine months ended September 30, 2014, the Company declared dividends of $7,326,276 and $22,937,051 ($0.180 and $0.582 per share) to the holders of common shares. As at September 30, 2014, $2,442,092 (December 31, 2013 – $2,476,592) was payable to the holders of common shares. Subsequent to September 30, 2014, the Company declared dividends of $2,442,092 ($0.060 per share) to holders of common shares.

13. 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 syndicated 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 three and nine months ended September 30, 2014, the Company incurred management fees of $1,391,250 and $4,020,949 (three and nine months ended September 30, 2013 – $1,249,939 and $3,721,184).

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 three and nine months ended September 30, 2014 was $430,325 and $1,215,834 (three and nine months ended September 30, 2013 – $446,944 and $1,600,341).

(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 three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 – nil and $737,199).

14. NET INCOME PER SHARE

The Company has not disclosed net income per share for the three and nine months ended September 30, 2013 as the Company did not have equity instruments, as defined in IAS 33, *Earnings per Share*, as the redeemable shares were classified as a financial liability in the statement of financial position.

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 period.

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Numerator for net income per share:		
Net income and comprehensive income	$ 6,110,212	$ 19,103,366
Denominator for net income per share:		
Weighted average of common shares (basic and diluted)	40,701,528	39,154,504
Net income per share – basic and diluted	$ 0.15	$ 0.49

15. RELATED PARTY TRANSACTIONS

(a) As at September 30, 2014, due to Manager includes management and performance fees payable of $1,217,398 (December 31, 2013 – $2,346,745) and $64,587 (December 31, 2013 – $2,991) related to costs incurred by the Manager on behalf of the Company.

(b) As at September 30, 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 totaling $636,021,842 (December 31, 2013 – $703,448,560), which are secured primarily by multi-residential, office, retail, retirement and other commercial properties. The Company’s share in these net mortgage investments is $161,186,710 (December 31, 2013 – $151,103,561).

(c) A mortgage investment of $1,108,773 (December 31, 2013 - $1,044,252) was provided to a limited partnership which is partially owned by T4Q.

(d) As at September 30, 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.

(e) As at September 30, 2014, included in other assets is $1,923,405 (December 31, 2013 – $1,040,374) of cash held in trust for the Company by Timbercreek Mortgage Servicing Inc., the Company’s mortgage servicing and administration provider and controlled by the Manager. The balance relates to mortgage repayments, mortgage funding holdbacks and prepaid mortgage interest received from various borrowers.

16. FAIR VALUE MEASUREMENTS

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

	Carrying Value			
As at September 30, 2014	**Loans and receivable**	**FVTPL**	**Other financial liabilities**	**Fair Value**
Assets measured at fair value				
Foreclosed properties held for sale	$ –	$ 14,886,165	$ –	$ 14,886,165
Assets not measured at fair value				
Mortgage investments, including mortgage syndications	445,040,600	–	–	445,040,600
Other assets	2,580,136	–	–	2,580,136
Cash and cash equivalents	40,969,331	–	–	40,969,331
Financial liabilities not measured at fair value				
Mortgage syndication liabilities	–	–	98,524,651	98,524,651
Mortgage funding holdbacks	–	–	18,605	18,605
Dividends payable	–	–	2,442,092	2,442,092
Due to Manager	–	–	1,281,985	1,281,985
Prepaid mortgage interest	–	–	1,754,102	1,754,102
Convertible debentures	–	–	32,265,113	35,190,000
Accounts payable and accrued expenses	–	–	731,161	731,161

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, mortgage funding holdbacks, dividends payable, due to Manager, prepaid mortgage interest and accounts payable and accrued expenses approximate their carrying amounts due to their short-term maturities.

(c) Convertible debentures:

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

There were no transfers between level 1, level 2 and level 3 during the three and nine months ended September 30, 2014.

17. COMMITMENTS AND CONTINGENCIES

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