

Consolidated Financial Statements of

**TIMBERCREEK MORTGAGE
INVESTMENT CORPORATION**

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated statements of net assets and investment portfolio of Timbercreek Mortgage Investment Corporation as at December 31, 2009 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and the results of its operations and its cash flows for year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2008 were reported on by another firm of chartered accountants.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 26, 2010

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Net Assets

December 31, 2009 and 2008

	2009	2008
Assets		
Mortgage investments (note 3)	\$ 66,014,044	\$ 39,300,323
Cash and cash equivalents	4,587,141	11,506,658
Accrued interest receivable	1,596,352	339,484
Other assets	303,148	491,317
	72,500,685	51,637,782
Liabilities		
Accounts payable and accrued expenses	548,908	355,553
Investment loan (note 4)	1,980,000	-
Prepaid mortgage interest	143,408	17,252
Dividends payable to shareholders (note 5)	518,264	344,458
Due to Fund Manager (note 7)	60,275	42,780
Due to Mortgage Manager (note 7)	-	34,894
Unearned income	436,227	333,172
	3,687,082	1,128,109
Commitments and contingencies (note 12)		
Subsequent events (note 13)		
Net assets, representing shareholders' equity	\$ 68,813,603	\$ 50,509,673
Net assets:		
Class A shares	\$ 51,151,202	\$ 35,832,049
Class B shares	17,662,301	14,677,524
Voting shares	100	100
Shares outstanding (note 5):		
Class A shares	5,533,616	3,889,562
Class B shares	1,820,239	1,502,279
Voting shares	100	100
Net assets per share (note 9):		
Class A shares	\$ 9.24	\$ 9.21
Class B shares	9.70	9.77
Voting shares	1.00	1.00

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors

"Blair Tamblyn" _____ Director

"Craig Geier" _____ Director

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Operations

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

	2009	2008
Income:		
Interest	\$ 5,428,510	\$ 1,888,180
Fees	334,080	125,881
	<u>5,762,590</u>	<u>2,014,061</u>
Expenses:		
Management fees (note 6)	662,395	236,147
Performance fees (note 6)	258,391	123,485
Interest expense	17,753	-
Transfer agent fees	25,091	9,672
Directors' fees	40,000	17,500
Custodian fees	3,843	5,250
Servicing fees (note 6)	299,987	91,484
Audit fees	98,186	61,950
Legal fees	17,859	6,319
Other operating	144,838	56,036
Capital tax	343,666	-
	<u>1,912,009</u>	<u>607,843</u>
Expenses waived (note 6)	<u>(258,391)</u>	<u>(88,591)</u>
	<u>1,653,618</u>	<u>519,252</u>
Net investment income	4,108,972	1,494,809
Realized fair value adjustment	133,088	-
Increase in net assets from operations	\$ 4,242,060	\$ 1,494,809
Increase in net assets from operations:		
Class A shares	\$ 2,868,486	\$ 930,521
Class B shares	1,373,574	564,288
Increase in net assets from operations per share:		
Class A shares	\$ 0.7111	\$ 0.3474
Class B shares	0.8370	0.3931

See accompanying notes to consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Changes in Net Assets

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

2009	Class A shares	Class B shares	Voting shares	Total
Net assets, beginning of period	\$ 35,832,049	\$ 14,677,524	\$ 100	\$ 50,509,673
Increase in net assets from operations	2,868,486	1,373,574	—	4,242,060
Dividends to shareholders	(3,336,364)	(1,545,654)	—	(4,882,018)
Net proceeds from issuance of shares	15,505,818	3,644,981	—	19,150,799
Redemption of shares	(13,777)	(193,134)	—	(206,911)
Exchange of shares	294,990	(294,990)	—	—
Net assets, end of period	\$ 51,151,202	\$ 17,662,301	\$ 100	\$ 68,813,603

2008	Class A shares	Class B shares	Voting shares	Total
Net assets, beginning of period	\$ —	\$ —	\$ —	\$ —
Increase in net assets from operations	930,521	564,288	—	1,494,809
Dividends to shareholders	(1,145,706)	(689,897)	—	(1,835,603)
Net proceeds from issuance of shares	35,617,234	15,233,133	100	50,850,467
Exchange of shares	430,000	(430,000)	—	—
Net assets, end of period	\$ 35,832,049	\$ 14,677,524	\$ 100	\$ 50,509,673

See accompanying notes to consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Consolidated Statements of Cash Flows

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

	2009	2008
Cash provided by (used in):		
Operating activities:		
Increase in net assets from operations	\$ 4,242,060	\$ 1,494,809
Change in non-cash operating items:		
Accrued interest receivable	(1,199,613)	(123,521)
Other assets	188,169	(447,704)
Accounts payable and accrued expenses	319,511	323,484
Due to Mortgage Manager	(34,894)	(18,550)
Due to Fund Manager	17,495	42,780
Unearned income	103,055	294,527
	<u>3,635,783</u>	<u>1,565,825</u>
Financing activities:		
Proceeds from issuance of voting shares	-	100
Proceeds from issuance of Class A shares, net of costs incurred	6,176,413	31,812,234
Redemption of Class A shares	(13,777)	-
Proceeds from issuance of Class B shares, net of costs incurred	3,644,981	4,926,591
Redemption of Class B shares	(193,134)	-
Proceeds from investment loan	2,000,000	-
Financing costs	(20,000)	-
Dividends paid	(4,708,212)	(1,491,145)
	<u>6,886,271</u>	<u>35,247,780</u>
Investing activities:		
Funding of mortgages	(29,929,462)	(28,938,750)
Discharge of mortgages	12,487,891	3,631,803
	<u>(17,441,571)</u>	<u>(25,306,947)</u>
Increase (decrease) in cash and cash equivalents	(6,919,517)	11,506,658
Cash and cash equivalents, beginning of period	11,506,658	-
Cash and cash equivalents, end of period	<u>\$ 4,587,141</u>	<u>\$ 11,506,658</u>
Supplemental cash flow on non-cash investing and financing activities:		
Class B shares issued in exchange for trust units (note 2(b))	\$ -	\$ 3,838,796
Class B shares issued in exchange for mortgage (note 2(b))	-	11,169,345
Class A shares issue in exchange for mortgages and other assets (note 2(a))	9,329,405	-

See accompanying notes to consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Consolidated Statement of Investment Portfolio

December 31, 2009

	%	Amortized cost	Fair value	Carrying value
Mortgage investments	95.93	\$ 66,014,044	\$ 66,014,044	\$ 66,014,044
Cash and other net assets	6.97			4,779,559
Investment loan	(2.90)			(1,980,000)
Net assets	100.00			\$ 68,813,603

Mortgage portfolio summary:

Interest rate	Number of mortgages	Amortized cost and fair value
Less than or equal to 10%	7	\$ 6,442,116
10.00% to 10.24%	—	—
10.25% to 10.49%	1	547,931
10.50% to 10.74%	1	6,169,333
10.75% to 10.99%	2	3,383,678
11.00% to 11.24%	10	10,215,563
11.25% to 11.49%	3	3,890,937
11.50% to 11.74%	2	1,393,646
11.75% to 11.99%	9	9,523,704
12.00% to 12.24%	6	8,154,297
12.25% to 12.49%	1	1,606,777
12.50% to 12.74%	—	—
12.75% to 12.99%	2	3,776,745
13.00% to 13.24%	2	3,620,500
13.25% to 13.49%	—	—
13.50% to 13.74%	1	250,000
13.75% to 13.99%	—	—
Greater than or equal to 14%	4	7,038,817
	51	\$ 66,014,044

Note:

All mortgages are conventional uninsured mortgages, of which 44 mortgages totalling \$59,693,481 are repayable at any time by the borrower without penalty or yield maintenance.

See accompanying notes to consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

Timbercreek Mortgage Investment Corporation (the "Fund") was incorporated under the laws of the Province of Ontario by articles of incorporation dated April 30, 2008 and is authorized to issue an unlimited number of Class A, Class B and voting shares. The investment objective of the Fund is, with a primary focus on capital preservation, to acquire and maintain a diversified portfolio of mortgage loan investments that generate income allowing the Fund to pay monthly distributions to shareholders. Timbercreek Asset Management Inc. (the "Fund Manager"), as manager of the Fund, is responsible for the day-to-day operations, providing all general management and administrative services and management and administration of the Fund's mortgage loan portfolio.

The Fund commenced operations on July 7, 2008 when it completed the initial public offering ("IPO") of subscription receipts that were subsequently converted into Class A shares and issued Class B shares in connection with the acquisition of the initial mortgage portfolio (note 2(b)).

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the accounts of the Fund and Timbercreek Mortgage Investment Fund (the "Trust"), in which the Fund is the holder of all Trust units and the sole beneficiary.

The Fund is an investment company as defined in Canadian GAAP Accounting Guideline 18, Investment Companies. As a result, mortgage investments are recorded at fair value, with any changes in the fair value recorded in the consolidated statement of operations.

(b) Cash and cash equivalents:

The Fund considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

1. Significant accounting policies (continued):

(c) Mortgage investments:

Mortgage investments are recorded at fair value. Any unrealized changes in the fair value of a mortgage investment are recorded in the consolidated statement of operations as an unrealized fair value adjustment. A realized change in the fair value of a mortgage as a result of a disposition or repayment is recorded as a realized fair value adjustment.

(d) Interest and fee income:

Interest income is accounted for using the effective interest method. Lender fees received are amortized to income over the contractual terms of the mortgages. Forfeited lender fees are recognized at the time a borrower has not fulfilled the terms and conditions of a mortgage commitment and payment has been received.

(e) Unearned income:

Unearned income includes lender fees received from borrowers, which are amortized over the contractual terms of the mortgage to fee income.

(f) Income taxes:

The Fund is a mortgage investment corporation ("MIC") for income tax purposes. As such, the Fund 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 Fund 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 Fund's distribution results in the Fund being effectively exempt from taxation and no provision for current or future income taxes is required for the Fund and its subsidiary Trust.

Shareholders who received dividends from the Fund, other than capital gains dividends, will be deemed for income tax purposes to have received interest payable on a bond issued by the Fund and will be subject to Canadian income or withholding taxes accordingly.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

1. Significant accounting policies (continued):

(g) Financial instruments - recognition and measurement:

In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, Financial Instruments - Recognition and Measurement, the Fund is required to classify its financial assets as one of the following: held-to-maturity, loans and receivables, held-for-trading or available-for-sale. Financial liabilities must be classified as: held-for-trading or other liabilities. The Fund has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents and mortgages are classified as held-for-trading and recorded at fair value.

Accrued interest receivable and other assets are classified as loans and receivables and recorded at amortized cost.

(ii) Financial liabilities:

Accounts payable and accrued expenses, dividends payable to shareholders, prepaid mortgage interest, investment loan, due to Fund Manager and due to Mortgage Manager are classified as other liabilities and recorded at amortized cost.

(h) Increase in net assets from operations per share:

Increase in net assets from operations per share is based on the increase in net assets from operations attributable to each class of shares divided by the weighted average number of shares for that class during the year.

(i) Net assets per share:

The net assets per share is calculated by dividing the net assets of a class of shares by the total number of outstanding shares of the class at the end of the year.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

1. Significant accounting policies (continued):

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. The key area of estimation where management has made a difficult or subjective judgement, often as a result of matters that are inherently uncertain, is valuation of the mortgage investments. Significant changes in assumptions could materially change the recorded carrying value.

(k) New accounting disclosures adopted in current period:

In March 2009, the Accounting Standards Board ("AcSB") of the CICA amended Handbook Section 3862, Financial Instruments - Disclosures. The amendments enhanced disclosure requirements regarding fair value measurements and liquidity risk. The Company has adopted these amendments for its year ended December 31, 2009. The enhanced disclosures are presented in note 11.

(l) Recent Canadian accounting pronouncements issued and not yet adopted:

International Financial Reporting Standards:

The AcSB of the CICA confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective in the calendar year 2011. IFRS will replace current Canadian GAAP for these enterprises. The conversion to IFRS will be required for the Fund for interim and annual financial statements beginning on January 1, 2011. Enterprises will also be required to provide comparative IFRS information for the previous fiscal year. The Fund will implement these standards in its semi-annual consolidated financial statements for the year ending December 31, 2011.

(m) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

2. Acquisitions:

(a) 2009:

The Fund acquired a portfolio of six mortgage investments in exchange for 1,614,556 Class A shares issued at \$10 per share, for total consideration of \$16,145,560. The transaction closed on December 18, 2009.

The acquisition of the mortgage portfolio has been recorded using the purchase method. The following table summarizes the fair values of the assets acquired by the Fund:

Assets:	
Mortgage investments	\$ 9,272,150
Cash and cash equivalents	6,816,155
Accrued interest receivable	57,255
<hr/>	
Total assets acquired in exchange for Class A shares	<u>\$ 16,145,560</u>

(b) 2008:

Following the closing of the IPO on July 7, 2008, the Fund completed the acquisition of a portfolio of mortgage investments from the Trust and acquired all of the outstanding units of the Trust. As a result of acquiring all of the outstanding units of the Trust, the Fund became its sole beneficiary.

Pursuant to the approval by the unitholders of the Trust, the Fund acquired a portfolio of 12 mortgage investments in exchange for 1,116,934 Class B shares issued at \$10 per share, for total consideration of \$11,169,345. Subsequent to the transaction, the trustees declared an in-specie distribution to the Trust unitholders of record of all Class B shares received, pursuant to this exchange. As a result of the in-specie distribution, the Trust unitholders became Class B shareholders of the Fund.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

2. Acquisitions (continued):

Immediately following the acquisition of the mortgage portfolio, the Fund issued 392,345 Class B shares at \$10 per share in exchange for all of the outstanding units of the Trust, for total net proceeds of \$3,838,796. As a result of this transaction, the Fund holds all outstanding units of the Trust and is the sole beneficiary.

The acquisition of the mortgage portfolio and outstanding units of the Trust has been recorded using the purchase method. The following table summarizes the fair values of the net assets acquired by the Fund:

Assets:	
Mortgage investments	\$ 13,993,376
Cash and cash equivalents	896,599
Future income tax asset	43,613
Accrued interest receivable	215,963
	<hr/>
	15,149,551
Liabilities:	
Accounts payable and accrued expenses	49,321
Unearned income	38,645
Due to Mortgage Manager	53,444
	<hr/>
	141,410
<hr/>	
Net assets acquired	\$ 15,008,141
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Net assets acquired in exchange for Class B shares	\$ 15,008,141

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

3. Mortgage investments:

	%	2009	%	2008
Interest in first mortgages	38	\$ 25,192,502	65	\$ 25,585,092
Interest in non-first mortgages	62	40,821,542	35	13,715,231
	100	\$ 66,014,044	100	\$ 39,300,323

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 11.47% (2008 - 11.61%) and mature between 2010 and 2012.

As part of the assessment of fair value, management of the Fund routinely reviews each mortgage for impairment to determine whether or not a mortgage should be recorded at its estimated realizable value.

As at December 31, 2009, management does not believe an impairment exists on any mortgages. As such, no adjustment to the fair value of the mortgages has been recorded.

The unadvanced mortgage commitments under the existing mortgage portfolio amounted to \$460,297 (2008 - \$120,624) as at December 31, 2009. Principal repayments based on contractual maturity dates are as follows:

2010	\$ 37,892,893
2011	10,126,817
2012	17,994,334

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

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

4. Investment loan:

The Fund has an available investment loan of \$4,000,000 bearing interest at 9% and due on demand.

	2009	2008
Investment loan	\$ 2,000,000	\$ —
Financing costs	(20,000)	—
	<u>\$ 1,980,000</u>	<u>\$ —</u>

During the year ended December 31, 2009, the maximum amount advanced under the loan was \$2,000,000.

Financing costs related to the investment loan are recorded as a reduction of the debt instrument and amortized to interest expense using the effective interest rate over the anticipated life over debt.

5. Shareholders' equity:

The Fund is available in two classes of shares: Class A and Class B. All shares in a class rank equally with respect to dividends. Each Class A and Class B shareholder is entitled to one vote for each share owned at all meetings of shareholders at which the particular class of shares is entitled to attend and vote. The voting shares have a nominal value and are owned by certain shareholders of the Fund Manager. Accordingly, these shareholders, as holders of all of the issued and outstanding voting shares, will have the power to vote on all matters to be considered by the holders of voting shares.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

5. Shareholders' equity (continued):

During the year, Class A, Class B and voting shares issued and outstanding changed as follows:

	Class A shares	Class B shares	Voting shares
2009			
Shares outstanding, January 1, 2009	3,889,562	1,502,279	100
Issued	1,614,556	367,002	–
Exchanged	30,973	(29,499)	–
Redeemed	(1,475)	(19,543)	–
Shares outstanding, December 31, 2009	5,533,616	1,820,239	100

	Class A shares	Class B shares	Voting shares
2008			
Shares issued on incorporation	–	–	100
Issued	3,436,666	1,932,279	–
Exchanged	452,896	(430,000)	–
Shares outstanding, December 31, 2008	3,889,562	1,502,279	100

(a) Redemptions:

(i) Monthly redemptions:

Subject to certain restrictions, a Class A share may be surrendered for redemption and transacted on the last business day of any month. Shareholders whose Class A shares are surrendered for redemption in any month (other than October) will be entitled to receive a price per Class A share equal to the lesser of: (i) 95% of the trading price, defined as the weighted average trading price on the Toronto Stock Exchange ("TSX") for a period of 10 trading days immediately preceding the relevant redemption date (the "Trading Price") or (ii) the market price, being the closing price of the Class A shares on the TSX on the redemption date (the "Market Price").

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

5. Shareholders' equity (continued):

Class B shares are redeemable monthly on the same terms and conditions as the Class A shares equal to the lesser of: (i) 95% of the Trading Price of the Class A shares multiplied by the Class B exchange ratio; and (ii) the Market Price multiplied by the Class B exchange ratio. The exchange ratio is defined as the net redemption value per Class B share divided by the net redemption value per Class A share on the relevant exchange date.

There is no market through which Class B shares may be sold. Subject to certain restrictions, holders of Class B shares may exchange their shares for Class A shares on the last business day of each month.

(ii) Annual redemptions:

Class A and Class B shares may be redeemed on the last business day of October of each year at a price per share equal to the net redemption value per Class A share and Class B share, respectively.

(b) Dividends:

The Fund intends to pay dividends to shareholders on a monthly basis within 15 days following the end of each month.

For the year ended December 31, 2009, the Fund declared dividends of \$0.8280 (2008 - \$0.4425) per Class A share for a total of \$3,336,364 (2008 - \$1,145,706) and \$0.9420 (2008 - \$0.4811) per Class B share for a total of \$1,545,654 (2008 - \$689,897). As at December 31, 2009, \$518,264 (2008 - \$344,458) was payable to the shareholders.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

6. Expenses:

(a) Management and performance fees:

The Fund Manager, as manager of the Fund, is responsible for the day-to-day operations, providing all general management and administration services and management and administration of the Fund's mortgage loan portfolio. The Fund pays the Fund Manager a monthly management fee of 1.2% for its services, based on the gross assets of the Fund, calculated daily and payable monthly. For the year ended December 31, 2009, the Fund incurred management fees of \$662,395 (2008 - \$236,147).

The Fund Manager is also entitled to a performance fee. In any calendar year where the Fund 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 year then ended plus 450 basis points, the Fund Manager will be entitled to receive from the Fund a performance fee equal to 20% of the net earnings of the Fund available to distribute over the Hurdle Rate. The performance fee is payable to the Fund Manager within 15 days of the issuance of the Fund's audited financial statements for that calendar year. For the year ended December 31, 2009, the Fund has accrued nil (2008 - \$34,894) in performance fees. The performance fees, net of fees waived for Class A and Class B shares, were as follows:

	2009	2008
Class A	\$ -	\$ 24,736
Class B	-	10,158
	<u>\$ -</u>	<u>\$ 34,894</u>

In 2008, management and administration of the Fund's mortgage portfolio was performed by Timbercreek Mortgage Strategies Inc., a subsidiary of the Fund Manager. On November 30, 2009, the agreement was terminated by the Fund and replaced by an agreement with the Fund Manager to provide these services.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

6. Expenses (continued):

(b) Servicing fees:

The Fund will pay each registered dealer a servicing fee equal to 0.75% 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. For the year ended December 31, 2009, the Fund incurred servicing fees of \$299,987 (2008 - \$91,484).

(c) Fund operating expenses:

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

7. Due to related parties:

As at December 31, 2009, \$60,275 (2008 - \$42,780) remains payable by the Fund to the Fund Manager for management fees. In addition, nil (2008 - \$34,894 payable to the Mortgage Manager) remains payable to the Fund Manager relating to performance fees earned for the year ended December 31, 2009.

The Fund had a second-ranking mortgage investment of \$3,700,000 receivable from Timbercreek Real Estate Investment Trust, a related party by virtue of common management. The mortgage, which was secured by three apartment buildings, was issued in February 2009 and repaid in June 2009, and bore interest at 8.5%. During the year ended December 31, 2009, \$99,304 was collected in interest and \$18,500 in lender fees. Pursuant to the parameters of the Fund's investment restrictions, the above-noted transaction was reviewed and approved by the Fund's Independent Review Committee prior to the mortgage being funded.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

8. Income taxes:

As of December 31, 2009, the Fund has non-capital losses carried forward for income tax purposes of \$1,299,000 (2008 - \$367,000), which will expire in 2028 and 2029 if not used. The Fund also has future deductible temporary differences resulting from share issuances, prepaid mortgage interest, unearned income and financing costs for income tax purposes of \$3,062,000 (2008 - \$2,388,000).

9. Reconciliation of net asset value:

A reconciliation between the redemption net asset value ("Redemption NAV") and net assets calculated using Canadian GAAP ("GAAP NAV") is as follows:

			2009			2008	
	Redemption NAV	Adjustment	GAAP NAV	Redemption NAV	Adjustment	GAAP NAV	
Net asset value as at December 31, 2009:							
Class A	\$ 52,183,440	\$ (1,032,238)	\$ 51,151,202	\$ 36,501,706	\$ (669,657)	\$ 35,832,049	
Class B	17,889,380	(227,079)	17,662,301	14,796,318	(118,794)	14,677,524	
Net asset value per share as at December 31, 2009:							
Class A	\$ 9.43	\$ (0.19)	\$ 9.24	\$ 9.38	\$ (0.17)	\$ 9.21	
Class B	9.83	(0.13)	9.70	9.85	(0.08)	9.77	

The GAAP NAV differs from the Redemption NAV calculated for fund pricing purposes. This adjustment is due to including costs associated with the establishment, structuring and year offering of shares of the Fund attributable to a specific class, being amortized monthly over a period of five years in determining the Redemption NAV.

10. Capital risk management:

The Fund 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 Fund defines its capital structure to include Class A and Class B shares and its investment loan.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

10. Capital risk management (continued):

The Fund 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 Fund's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. The investment restrictions permit the Fund to use leverage to maintain liquidity, for general working capital purposes, and to bridge the timing differences between loan advances and maturities. The aggregate amount of borrowing by the Fund may not exceed 25% of the net asset value of the Fund. In addition, the asset allocation model dictates the allocation of the mortgage investments based upon geographical, economic sector, term, borrower and loan-to-appraised value criteria. At December 31, 2009, the Fund was in compliance with the investment restrictions and asset allocation model parameters.

The Company is not subject to externally imposed capital requirements and the Fund's overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2008.

11. Financial instrument risks:

(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, 2009, mortgage investments of \$6,605,984 bear interest at variable rates.

The Fund's accrued interest receivable, other assets, accounts payable and accrued expenses, dividends payable to shareholders, prepaid mortgage interest, due to Fund Manager and due to Mortgage Manager have no exposure to interest rate risk. Cash and cash equivalents carry a variable rate of interest and are subject to interest rate risk.

The Fund's debt comprises of an investment loan, which pays interest at a fixed rate.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

11. Financial instruments (continued):

A 50 basis point decrease in interest rates, with all other variables held constant, will reduce net assets from operations by \$33,030 annually, arising mainly as a result of lower interest income generated on variable rate mortgage investments. A 50 basis point increase in interest rates, with all other variables held constant, will increase net assets from operations by \$33,030 annually, arising mainly as a result of higher interest income generated on variable rate mortgage investments.

(b) Credit risk:

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

- (i) Adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- (ii) Ensuring a comprehensive due diligence process is conducted on each mortgage investment prior to funding. This generally includes, but is not limited to (a) engaging professional independent consultants, lawyers and appraisers and (b) performing credit checks on prospective borrowers;
- (iii) All mortgage investments are approved by the mortgage advisory committee before funding; and
- (iv) Actively monitoring the mortgage portfolio and initiating recovery procedures where required.

As at December 31, 2009, two mortgage investments representing approximately \$2,600,000 have accrued interest that are past due totalling \$378,117. The Fund has undertaken enforcement remedies as a result of this default and is in the process of realizing on the security. Management believes the Fund will fully recover the principal and interest accrued to date on both mortgage loans although there is no assurance that it will be able to do so.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

11. Financial instruments (continued):

In addition, in April 2009 a mortgage investment amounting to \$3.4 million of the Fund became subject to a receivership. Upon the Fund Manager seeking to enforce its mortgage security against the property complex, it became evident that the law firm (the "Law Firm") which had represented the Fund in connection with the mortgage investment had not properly registered the Fund's mortgage security over the property complex. As a result of this error, the Fund Manager was unable to enforce on its security over the assets of the property complex.

The Fund Manager, on behalf of the Fund, has commenced certain litigation proceedings in order to have its security registered correctly on the property complex. The Fund has also commenced litigation against the borrowers and guarantors, and is attempting to realize on the two additional projects pledged as security for the mortgage investment. In addition, the Law Firm has been put on notice of an action against the Law Firm. The Fund believes it will recover the full principal and accrued interest on the loan and as such, no provision has been recorded in these consolidated financial statements.

The maximum exposure to credit risk at December 31, 2009 is the fair values of its amounts receivable and mortgages, which total \$67,610,396 (2008 - \$40,096,234). The Fund has recourse under these mortgages in the event of default by the borrower, in which case the Fund would have a claim against the underlying property.

(c) Liquidity risk:

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment fundings and repayments and redemptions of shares. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

(d) Fair values:

In accordance with Canadian GAAP, the Fund must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

11. Financial instruments (continued):

Level 1: quoted prices in active markets for the same instrument (i.e., without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Mortgage investments	\$ -	\$ -	\$ 66,014,044	\$ 66,014,044

The Fund's maximum exposure in respect of all its financial assets is their carrying value as reflected on the consolidated statement of net assets.

(i) Mortgage investments:

Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties under no compulsion to act. As there is no quoted prices in an active market for these mortgage investments, the Fund Manager makes its determination of fair value based on its assessment of the current mortgage market for mortgage investments of same or similar terms. Typically, these mortgage investments approximate their carrying values given the mortgage investments consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. When collection of the principal amount of a mortgage is no longer reasonably assured, the fair value of the mortgage is reduced to the estimated net realizable value of the underlying security.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from April 30, 2008 (date of incorporation) to December 31, 2008

11. Financial instruments (continued):

(ii) Other financial assets:

The fair values of cash and cash equivalents approximate their carrying amounts due to their short-term maturities.

Changes in Level 3 financial instruments recorded at fair value:

The following table shows a reconciliation of the opening and closing balance of mortgage investments:

	As at January 1, 2009	Realized fair value gain	Unrealized fair value gain	Net advances and repayments	As at December 31, 2009
Financial assets:					
Mortgage investments	\$ 39,300,323	\$ 133,088	\$ -	\$ 26,580,633	\$ 66,014,044

12. Commitments and contingencies:

(a) In January 2010, the Fund committed to two mortgages totalling \$5,945,000. The loans are expected to close in February 2010.

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

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

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended December 31, 2009 and period from
April 30, 2008 (date of incorporation) to December 31, 2008

13. Subsequent events:

- (a) On January 15, 2010, the Fund completed a private placement of 200,000 Class B shares for net proceeds of \$1,992,875.
- (b) On February 1, 2010, the Fund filed a prospectus supplement to the short form base shelf prospectus dated December 30, 2009 offering a maximum of \$25,000,000 Class A shares of the Fund, with an over-allotment option which could increase the offering to \$28,750,000. On February 25, 2010, the offering closed and the Fund exercised its over-allotment option, which resulted in gross proceeds of \$28,750,000 less agent commissions and professional fees.
- (c) Subsequent to year end, the Fund received proceeds of \$8,050,000 through the repayment and sale of mortgage investments at their carrying amounts and advanced \$7,000,000 in new mortgage investments.