

Consolidated Financial Statements of

**TIMBERCREEK MORTGAGE
INVESTMENT CORPORATION**

Six months ended June 30, 2009

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the shareholders of Timbercreek Mortgage Investment Corporation. The accompanying consolidated financial statements of Timbercreek Mortgage Investment Corporation (the "Fund") were prepared by management, which is responsible for the integrity and fairness of the information presented, including the amounts that are based on estimates and judgments. Management is also responsible for ensuring that these consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in Canada. Financial information appearing throughout this annual report is consistent with these consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safe-guarded and proper records are maintained.

The Board of Director's is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls and engaging the independent auditors. The Board of Director's carries out this responsibility through its Audit Committee, which is composed entirely of independent Director's. The consolidated financial statements have been reviewed and approved by the Board of Director's and it's Audit Committee. The independent auditors have direct and full access to the Audit Committee and Board of Director's.

R. Blair Tamblyn
President and Chief Executive Officer
Toronto, Ontario, Canada
August 25, 2009

Ugo Bizzarri
Chief Financial Officer
Toronto, Ontario, Canada
August 25, 2009

NOTICE TO SHAREHOLDERS

Timbercreek Asset Management Inc., the Fund Manager of the Fund, appoints independent auditors to audit the Fund's annual financial statements. Under Canadian securities laws (National Instrument 81-106), if an auditor has not reviewed the interim financial statements, this must be disclosed in an accompanying notice.

The Fund's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants.

CONSOLIDATED STATEMENTS OF NET ASSETS

June 30, 2009 and December 31, 2008

	2009	2008
	(unaudited)	
Assets		
Cash and cash equivalents	\$ 3,117,153	\$ 11,506,658
Mortgages (note 3)	47,815,350	39,300,323
Accrued interest receivable	759,561	339,484
Other amounts receivable and prepaids	209,909	456,427
Future income tax asset	34,890	34,890
	51,936,863	51,637,782
Liabilities		
Accounts payable and accrued expenses	187,718	355,553
Prepaid mortgage interest	—	17,252
Dividends payable to shareholders (note 4(b))	391,018	344,458
Due to Fund Manager (note 5)	—	42,780
Due to Mortgage Manager (note 5)	—	34,894
Unearned income	216,157	333,172
	794,893	1,128,109
Net assets, representing shareholders' equity	\$ 51,141,970	\$ 50,509,673
Net assets:		
Class A	\$ 35,438,272	\$ 35,832,049
Class B	15,703,598	14,677,524
Voting shares	100	100
Shares outstanding (note 4):		
Class A	3,889,562	3,889,562
Class B	1,622,279	1,502,279
Voting shares	100	100
Net assets per share (note 7):		
Class A	\$ 9.11	\$ 9.21
Class B	9.68	9.77
Voting shares	1.00	1.00
Commitments and contingencies (note 3 and 10)		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"R. Blair Tamblyn"

R. Blair Tamblyn

"Craig A. Geier"

Craig A. Geier

CONSOLIDATED STATEMENTS OF OPERATIONS

Six months ended June 30, 2009 and for the period
from April 30, 2008 (date of incorporation) to June 30, 2008

	2009 (unaudited)	2008
Revenue:		
Interest	\$ 2,469,724	\$ —
Fees	199,389	—
	<u>2,669,113</u>	<u>—</u>
Expenses:		
Management fees (note 6(a))	326,265	—
Performance fees (note 6(a))	—	—
Transfer agent fees	11,593	—
Directors' fees	20,000	—
Custodian fees	6,155	—
Servicing fees (note 6(b))	134,788	—
Audit fees	56,641	—
Legal fees	5,100	—
Other operating	72,817	—
Future taxes	—	—
Capital tax	159,358	—
	<u>792,717</u>	<u>—</u>
Expenses waived (note 6(a))	—	—
Net expenses	<u>792,717</u>	<u>—</u>
Net investment income	1,876,396	—
Fair value adjustment	—	—
Increase in net assets from operations	<u>\$ 1,876,396</u>	<u>\$ —</u>
Increase in net assets from operations:		
Class A	\$ 1,263,304	\$ —
Class B	613,092	—
Increase in net assets from operations per share (basic and diluted):		
Class A	\$ 0.3248	\$ —
Class B	0.3828	—

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Six months ended June 30, 2009 and for the period
from April 30, 2008 (date of incorporation) to June 30, 2008

				2009	2008
	Class A	Class B	Voting shares	Total	Total
				(unaudited)	
Net assets, beginning of period	\$ 35,832,049	\$ 14,677,524	\$ 100	\$ 50,509,673	\$ -
Increase in net assets from operations	1,263,304	613,092	-	1,876,396	-
Dividends to shareholders	(1,633,616)	(759,360)	-	(2,392,976)	-
Net proceeds from issuance of shares	(23,465)	1,172,342	-	1,148,877	100
Net assets, end of period	\$ 35,438,272	\$ 15,703,598	\$ 100	\$ 51,141,970	\$ 100

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended June 30, 2009 and for the period
from April 30, 2008 (date of incorporation) to June 30, 2008

	2009 (unaudited)	2008
Cash provided by (used in):		
Operating activities:		
Net investment income	\$ 1,876,396	\$ —
Change in non-cash operating items:		
Accrued interest receivable	(420,077)	—
Other amounts receivable and prepaids	246,518	—
Future tax asset	—	—
Accounts payable and accrued expenses	(185,087)	—
Due to Mortgage Manager	(34,894)	—
Due to Fund Manager	(42,780)	—
Unearned income	(117,015)	—
	<u>1,323,061</u>	<u>—</u>
Financing activities:		
Proceeds from issuance of voting shares	—	100
Proceeds from issuance of Class A shares, net of costs incurred	(23,465)	—
Proceeds from issuance of Class B shares, net of costs incurred	1,172,342	—
Dividends paid	(2,346,415)	—
	<u>(1,197,538)</u>	<u>100</u>
Investing activities:		
Funding of mortgages	(13,062,145)	—
Discharge of mortgages	4,547,117	—
	<u>(8,515,028)</u>	<u>—</u>
Increase in cash and cash equivalents	(8,389,505)	100
Cash and cash equivalents, beginning of period	11,506,658	—
Cash and cash equivalents, end of period	<u>\$ 3,117,153</u>	<u>\$ 100</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

(unaudited)
June 30, 2009

	Amortized cost	Fair value
Mortgages (93.50%)	\$ 47,815,350	\$ 47,815,350
Cash and other net assets (6.50%)		3,326,620
Net assets (100%)		\$ 51,141,970

Mortgage portfolio summary:

Interest rate	Number of mortgages	Amortized cost	Fair value
Less than or equal to 10%	6	\$ 5,446,421	\$ 5,446,421
10.00% to 10.24%	-	-	-
10.25% to 10.49%	1	547,931	547,931
10.50% to 10.74%	-	-	-
10.75% to 10.99%	2	4,386,080	4,386,080
11.00% to 11.24%	2	7,378,000	7,378,000
11.25% to 11.49%	3	3,850,000	3,850,000
11.50% to 11.74%	2	1,400,000	1,400,000
11.75% to 11.99%	11	11,246,250	11,246,250
12.00% to 12.24%	2	3,605,784	3,605,784
12.25% to 12.49%	1	1,600,000	1,600,000
12.50% to 12.74%	-	-	-
12.75% to 12.99%	2	3,723,278	3,723,278
13.00% to 13.24%	2	3,173,370	3,173,370
13.25% to 13.49%	-	-	-
13.50% to 13.74%	1	250,000	250,000
13.75% to 13.99%	-	-	-
Greater than or equal to 14%	1	1,208,236	1,208,236
	36	\$ 47,815,350	\$ 47,815,350

Note:

All mortgages are conventional uninsured mortgages, of which 29 mortgages totalling \$40,551,100 are repayable at any time by the borrower without penalty or yield maintenance.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

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 Manger"), as manager of the Fund, is responsible for the day-to-day operations and providing all general management and administrative services. Timbercreek Mortgage Strategies Inc. (the "Mortgage Manager"), a 50% owned subsidiary of the Fund Manager, is responsible for the management and administration of the Fund's mortgage loan portfolio.

Class A shares are available to all investors and were issued upon the conversion of subscription receipts issued under the initial public offering ("IPO") and may be issued under other future offerings. The initial issuance of Class B shares were issued to the Timbercreek Mortgage Investment Fund (the "Trust") unitholders in connection with the acquisition of the initial mortgage portfolio by the Fund (note 2) and may also be offered in the future to accredited investors under available prospectus exemptions.

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, have the power to vote on all matters to be considered by the holders of voting shares.

The Fund commenced operations on July 7, 2008 when it completed the 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.

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 the Trust, in which the Fund is the holder of all trust units and the sole beneficiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

1. Significant accounting policies (continued):

(b) Cash and cash equivalents:

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

(c) Mortgages:

The Fund measures its investment in mortgages at fair value in accordance with Canadian GAAP Accounting Guideline 18, Investment Companies, with any changes in the fair value of a mortgage recorded in the consolidated statement of operations. Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of the mortgages approximate their carrying values given the mortgage loan portfolio consists of short-term loans (typically maturing within 24 months or less) that are repayable at the option of the borrower without penalty or yield maintenance, and may be renewed at the same or similar terms based on the Fund Manager's assessment of the current mortgage market. When collection of the principal on 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.

(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 original contractual term of the mortgage to fee income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

1. Significant accounting policies (continued):

(f) Income taxes:

The Fund qualifies as a mortgage investment corporation ("MIC") for Canadian income tax purposes. A MIC is a special-purpose corporation defined under section 130.1 of the Income Tax Act (Canada) and is generally able to deduct, in computing its income for a taxation year, the amount of income for that year and within 90 days of year end that is distributed to its shareholders. Shareholders who receive any amounts as, or on account of, a taxable dividend, other than a capital gains dividend, will be subject to Canadian income or withholding tax accordingly.

The Fund intends to make distributions to the extent necessary to reduce its taxable income each year to nil so that it has no income taxes payable under Part I of the Income Tax Act (Canada) and to elect to have dividends be capital gains dividends to the maximum extent allowable.

MIC eligibility criteria:

To qualify as a MIC for Canadian income tax purposes, the Fund must comply with the following:

- (i) At least 50% of the Fund's assets must consist of residentially orientated mortgages and/or cash;
- (ii) The Fund's only business activity is investing funds of the corporation and not managing or developing any real property;
- (iii) The Fund must not hold any investments secured by real property situated outside Canada or have debts owing to it by non-resident individuals, other than debts secured by real property situated in Canada; and
- (iv) No shareholder may own more than 25% of the issued shares of any class.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

1. Significant accounting policies (continued):

The Fund has recognized the benefit of tax-effected future deductible temporary differences of \$34,890. These differences arise primarily because of differences between the tax basis of certain financing costs and their carrying value on the consolidated balance sheet.

As of June 30, 2009, the Fund has non-capital losses carried forward for income tax purposes of \$367,000, which will expire in 2028 if not used. The Fund also has future deductible share issuance and financing costs for income tax purposes of \$2,388,000, which are deductible over 5 years. The potential benefit of these tax pools has not been recognized in these financial statements.

(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 are classified as held-for-trading and recorded at fair value.

Accrued interest receivable and other amounts receivable 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, 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 period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

1. Significant accounting policies (continued):

(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 period.

(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 period. 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 portfolio. Significant changes in assumptions could materially change the recorded carrying value.

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

International Financial Reporting Standards ("IFRS"):

The Accounting Standards Board of the CICA confirmed that Canadian GAAP for publicly accountable enterprises will be converged with 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 first quarter of the fiscal year ending December 31, 2011 and is currently evaluating the impact of adoption on its consolidated financial statements.

2. Acquisitions:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

2. Acquisitions (continued):

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.

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:	
Mortgages	\$13,993,376
Cash and cash equivalents	896,599
Future income tax asset	43,613
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
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Net assets acquired	\$15,008,141
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Net assets acquired in exchange for:	
Class B shares	\$15,008,141
	<hr/>

3. Mortgages:

		June 30, 2009		December 31, 2008
Interest in first mortgages	55%	\$26,400,038	65%	\$25,585,092
Interest in non-first mortgages	45%	21,415,312	35%	13,715,231
	<hr/>			
	100%	47,815,350	100%	\$39,300,323

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

3. Mortgages (continued):

As part of the assessment of fair value, management of the Fund routinely reviews each mortgage for impairment. As at June 30, 2009, management does not believe an impairment exists on any mortgages, and as such, no adjustment to the fair value of the mortgages has been recorded.

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 11.46% and mature between 2009 and 2012.

The unadvanced mortgage commitments under the existing mortgage portfolio amounted to \$462,392 as at June 30, 2009.

Principal repayments based on contractual maturity dates are as follows:

2009	\$22,365,350
2010	10,700,000
2011	7,750,000
2012	7,000,000

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.

4. 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. During the period, Class A, Class B and voting shares issued and outstanding changed as follows:

	Class A	Class B	Voting shares
Shares outstanding, April 30, 2008	—	—	—
Issued	3,436,666	1,932,279	100
Exchanged	452,896	(430,000)	—
Redeemed	—	—	—
Shares outstanding, December 31, 2008	3,889,562	1,502,279	100
Issued	—	120,000	—
Exchanged	—	—	—
Redeemed	—	—	—
Shares outstanding, June 30, 2009	3,889,562	1,622,279	100

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

4. Shareholders' equity (continued):

On completion of the IPO on July 7, 2008, the Fund issued 2,433,186 Class A shares for net proceeds of \$22,688,015 and 1,509,279 Class B shares in exchange for net assets acquired less issuance costs of \$14,858,133.

In December 2008, the Fund issued 1,003,480 Class A shares for net proceeds of \$9,124,219 and 423,000 Class B shares for net proceeds of \$4,180,000.

In February 2009, the Fund issued 120,000 Class B shares for net proceeds of \$1,172,342.

(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").

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

4. Shareholders' equity (continued):

(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 six months ended June 30, 2009, the Fund declared dividends of \$0.4200 (June 30, 2008 - \$nil) per Class A share for a total of \$1,633,616 (June 30, 2008 - \$nil) and \$0.4800 (June 30, 2008 - \$nil) per Class B share for a total of \$759,360. As at June 30, 2009, \$391,018 (June 30, 2008 - \$nil) was payable to the shareholders.

5. Related party transactions and balances:

As at June 30, 2009, \$nil (June 30, 2008 - \$nil) remains payable by the Fund to the Fund Manager for management fees. In addition, \$nil (December 31, 2008 - \$34,894) remains payable to the Mortgage Manager relating to performance fees earned for the six months ended June 30, 2009.

Included in other amounts receivable and prepaids is \$92,476 due from the Fund Manager for reimbursement of expenses related to the December 2008 Class A offering in excess of the maximum expenses to be paid by the Fund.

The Fund had a second-ranking mortgage receivable of \$3,700,000 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 period ended June 30, 2009, \$99,304 was collected in interest and \$18,500 in lender fees. Pursuant to the parameters of the Fund's Asset Allocation Model, the above-noted transaction was reviewed and approved by the Fund's Independent Review Committee prior to the mortgage being funded.

6. Expenses:

(a) Management and performance fees:

The Fund Manager is responsible for the day-to-day operations and providing all general management and administration services to the Fund. 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 six months ended June 30, 2009, the Fund incurred management fees of \$326,265 (June 30, 2008 - \$nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

6. Expenses (continued):

The Mortgage Manager is responsible for the management and administration of the Fund's mortgage portfolio. 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 period then ended plus 450 basis points, the Mortgage 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 Mortgage Manager within 15 days of the issuance of the Fund's audited financial statements for that calendar year. For the six months ended June 30, 2009, the Fund has accrued \$ nil (June 30, 2008 - \$nil) in performance fees.

(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 six months ended June 30, 2009, the Fund incurred servicing fees of \$134,788 (June 30, 2008 - \$nil).

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

7. 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:

	Redemption NAV	Adjustment	GAAP NAV
Net asset value as at June 30, 2009:			
Class A	\$36,290,072	\$ (851,800)	\$ 35,438,272
Class B	15,903,766	(200,168)	15,703,598
Net asset value per share as at June 30, 2009:			
Class A	\$ 9.33	\$ (0.22)	\$ 9.11
Class B	9.80	(0.12)	
9.68			

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 periodic 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.

8. 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.

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.

As at June 30, 2009, the Fund has no externally imposed capital requirements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

9. Financial instruments:

(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. For the six months ended June 30, 2009, if interest rates had been 50 basis points lower, with all other variables held constant, net assets from operations for the period then ended would have been \$20,250 lower, arising mainly as a result of lower interest income generated on variable rate mortgage investments. If interest rates had been 50 basis points higher, with all other variables held constant, net assets from operations for the period then ended would have been \$20,250 higher, arising mainly as a result of higher interest income generated on variable rate mortgage investments.

The Fund's accrued interest receivable, other amounts receivable and 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.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2009
(unaudited)

9. Financial instruments (continued):

The maximum exposure to credit risk at June 30, 2009 is the fair values of its amounts receivable and mortgages, which total \$48,784,820 (December 31, 2008 - \$40,096,234).

(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 value:

The fair value of cash and cash equivalents, accrued interest receivable, other amounts receivable and prepaids, accounts payable and accrued expenses, prepaid mortgage interest, dividends payable to shareholders, due to Fund Manager and due to Mortgage Manager approximate their carrying value due to their short-term nature.

Although the Fund's management believes that the estimated fair values of its mortgages are appropriate as at June 30, 2009 based on its assessment of current market conditions for mortgages with similar terms and risks, those fair values may differ if other reasonably possible alternative assumptions are used (note 1(c)).

10. Commitments and contingencies:

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.