

Interim Consolidated Financial Statements of

**TIMBERCREEK MORTGAGE
INVESTMENT CORPORATION**

Six months ended June 30, 2010 and 2009
(Unaudited)

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Interim Consolidated Statements of Net Assets

	June 30, 2010	December 31, 2009
	(Unaudited)	
Assets		
Mortgage investments (note 3)	\$ 99,557,930	\$ 66,014,044
Cash and cash equivalents	9,549,659	4,587,141
Accrued interest receivable	2,560,660	1,596,352
Other assets	246,102	303,148
	111,914,351	72,500,685
Liabilities		
Accounts payable and accrued expenses	395,980	548,908
Investment loan (note 4)	–	1,980,000
Prepaid mortgage interest	1,158,585	143,408
Dividends payable to shareholders (note 5)	812,325	518,264
Due to Fund Manager (note 7)	362,959	60,275
Unearned income	1,124,435	436,227
	3,854,284	3,687,082
Commitments and contingencies (note 11)		
Subsequent event (note 12)		
Net assets, representing shareholders' equity	\$ 108,060,067	\$ 68,813,603
Net assets:		
Class A shares	\$ 77,013,222	\$ 51,151,202
Class B shares	31,046,745	17,662,301
Voting shares	100	100
Shares outstanding (note 5):		
Class A shares	8,428,909	5,533,616
Class B shares	3,188,791	1,820,239
Voting shares	100	100
Net assets per share (note 8):		
Class A shares	\$ 9.14	\$ 9.24
Class B shares	9.74	9.70
Voting shares	1.00	1.00

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Board of Directors:

"Blair Tamblyn" _____ Director

"Craig Geier" _____ Director

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Interim Consolidated Statements of Operations
(Unaudited)

	Six months ended June 30,	
	2010	2009
Income:		
Interest	\$ 4,104,528	\$ 2,469,724
Fees	524,374	199,389
	<u>4,628,902</u>	<u>2,669,113</u>
Expenses:		
Management fees (note 6)	608,169	326,265
Performance fees (note 6)	247,971	-
Interest	63,398	-
Transfer agent fees	12,272	11,593
Directors' fees	20,000	20,000
Custodian fees	5,250	6,155
Servicing fees (note 6)	217,144	134,788
Audit fees	51,892	56,641
Legal fees	16,121	5,100
Other operating	111,182	72,817
Capital tax	102,358	159,358
	<u>1,455,757</u>	<u>792,717</u>
Expenses waived (note 6)	-	-
	<u>1,455,757</u>	<u>792,717</u>
Net investment income	3,173,145	1,876,396
Realized fair value adjustment	-	-
Increase in net assets from operations	\$ 3,173,145	\$ 1,876,396
Increase in net assets from operations:		
Class A shares	\$ 2,298,054	\$ 1,263,304
Class B shares	875,091	613,092
Increase in net assets from operations per share:		
Class A shares	\$ 0.2897	\$ 0.3248
Class B shares	0.3363	0.3828

See accompanying notes to interim consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Interim Consolidated Statements of Changes in Net Assets

Six months ended June 30, 2010 (Unaudited)	Class A shares	Class B shares	Voting shares	Total
Net assets, beginning of period	\$ 51,151,202	\$ 17,662,301	\$ 100	\$ 68,813,603
Increase in net assets from operations	2,298,054	875,091	–	3,173,145
Dividends to shareholders	(3,241,672)	(1,169,340)	–	(4,411,012)
Net proceeds from issuance of shares	26,626,158	13,858,173	–	40,484,331
Exchange of shares	179,480	(179,480)	–	–
Net assets, end of period	\$ 77,013,222	\$ 31,046,745	\$ 100	\$ 108,060,067

Six months ended June 30, 2009 (Unaudited)	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	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
Net assets, end of period	\$ 35,438,272	\$ 15,703,598	\$ 100	\$ 51,141,970

See accompanying notes to interim consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Interim Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2010	2009
Cash provided by (used in):		
Operating activities:		
Increase in net assets from operations	\$ 3,173,145	\$ 1,876,396
Change in non-cash operating items:		
Accrued interest receivable	(964,308)	(420,077)
Other assets	57,046	246,518
Accounts payable and accrued expenses	(152,928)	(167,835)
Prepaid mortgage interest	1,015,177	(17,252)
Due to Mortgage Manager	—	(34,894)
Due to Fund Manager	302,684	(42,780)
Unearned income	688,208	(117,015)
Amortization of financing costs	20,000	—
	4,139,024	1,323,061
Financing activities:		
Proceeds from issuance of Class A shares, net of costs incurred	26,626,158	(23,465)
Proceeds from issuance of Class B shares, net of costs incurred	13,858,173	1,172,342
Repayment of investment loan	(2,000,000)	—
Dividends paid	(4,116,951)	(2,346,415)
	34,367,380	(1,197,538)
Investing activities:		
Funding of mortgages	(53,187,203)	(13,062,145)
Discharge of mortgages	19,643,317	4,547,117
	(33,543,886)	(8,515,028)
Increase (decrease) in cash and cash equivalents	4,962,518	(8,389,505)
Cash and cash equivalents, beginning of period	4,587,141	11,506,658
Cash and cash equivalents, end of period	\$ 9,549,659	\$ 3,117,153

See accompanying notes to interim consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Interim Consolidated Statement of Investment Portfolio

June 30, 2010
(Unaudited)

	%	Amortized cost	Fair value	Carrying value
Mortgage investments	92.13	\$ <u>99,557,930</u>	\$ <u>99,557,930</u>	\$ 99,557,930
Cash and other net liabilities	7.87			8,502,137
Net assets	100.00			\$ 108,060,067

Mortgage portfolio summary:

Interest rate	Number of mortgages	Amortized cost and fair value
Less than or equal to 10%	13	\$ 32,553,952
10.00% to 10.24%	—	—
10.25% to 10.49%	—	—
10.50% to 10.74%	4	12,469,861
10.75% to 10.99%	1	3,200,000
11.00% to 11.24%	16	27,609,437
11.25% to 11.49%	—	—
11.50% to 11.74%	3	3,489,539
11.75% to 11.99%	4	2,286,209
12.00% to 12.24%	8	9,571,134
12.25% to 12.49%	—	—
12.50% to 12.74%	—	—
12.75% to 12.99%	2	3,870,135
13.00% to 13.24%	1	1,840,500
13.25% to 13.49%	—	—
13.50% to 13.74%	1	250,346
13.75% to 13.99%	—	—
Greater than or equal to 14%	3	2,416,817
	56	\$ 99,557,930

Note

All mortgages are conventional uninsured mortgages, of which 52 mortgages totalling \$88,157,930 are repayable at any time by the borrower without penalty or yield maintenance.

See accompanying notes to interim consolidated financial statements.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements

Six months ended June 30, 2010 and 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 Manager"), as manager of the Fund, is responsible for the day-to-day operations, providing all general management and administrative services of the Fund's mortgage loan 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 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 statements 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 Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

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 statements 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 Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

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 mortgage investments 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 and due to Fund 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.

(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.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

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) Recent Canadian accounting pronouncements issued and not yet adopted:

International Financial Reporting Standards:

The AcSB of the CICA confirmed that Canadian GAAP for most 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.

In May 2010, the AcSB announced it will propose amendments which will provide most investment funds with the option to defer adoption of IFRS until fiscal years beginning on or after January 1, 2012. The Fund Manager is currently assessing the impact of this announcement on the Fund and on its plans for adopting IFRS. As a result of the proposed amendments, the Fund will adopt IFRS for either its fiscal period beginning January 1, 2011 or 2012, and will issue its first interim financial statements in accordance with IFRS, including comparative IFRS information for the previous fiscal period, for either the interim period ending June 30, 2011 or 2012.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

2. Acquisitions:

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
Total assets acquired in exchange for Class A shares		\$	16,145,560

3. Mortgage investments:

		June 30, 2010		December 31, 2009	
Interest in first mortgages	47%	\$ 47,079,235	38%	\$ 25,192,502	
Interest in non-first mortgages	53%	52,478,695	62%	40,821,542	
	100%	\$ 99,557,930	100%	\$ 66,014,044	

The mortgages are secured by the real property to which they relate, bear interest at a weighted average interest rate of 10.38% (June 30, 2009 - 11.46%) and mature between 2010 and 2013.

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.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

3. Mortgage investments (continued):

As at June 30, 2010, management does not believe an impairment exists on any mortgages. As such, no adjustment to the fair value of the mortgages has been recorded.

As at June 30, 2010, the unadvanced mortgage commitments under the existing mortgage portfolio amounted to \$7,459,629 (June 30, 2009 - \$462,392). Principal repayments based on contractual maturity dates are as follows:

2010	\$ 30,458,638
2011	23,239,618
2012	37,344,861
2013	8,514,813

4. Investment loan:

	2010	2009
Investment loan	\$ –	\$ 2,000,000
Financing costs	–	(20,000)
	\$ –	\$ 1,980,000

The Fund had an investment loan of \$4,000,000 bearing interest at 9% which was repaid in March 2010. During the period ended June 30, 2010, \$43,398 (June 30, 2009 - nil) was paid in interest.

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 of the debt.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

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.

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

2010	Class A shares	Class B shares	Voting shares
Shares outstanding, January 1, 2010	5,533,616	1,820,239	100
Issued	2,875,000	1,386,500	–
Distribution Reinvestment Plan	1,628	–	–
Exchanged	18,665	(17,948)	–
Redeemed	–	–	–
Shares outstanding, June 30, 2010	8,428,909	3,188,791	100

2009	Class A shares	Class B shares	Voting shares
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

The Fund has established a Distribution Reinvestment Plan (the "Plan") which provides holders of Class A shares of the Fund the option to reinvest dividends on Class A shares declared and payable to them in additional Class A shares.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

5. Shareholders' equity (continued):

(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; or (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.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

5. 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, 2010, the Fund declared dividends of \$0.4080 (June 30, 2009 - \$0.4200) per Class A share for a total of \$3,241,672 (June 30, 2009 - \$1,633,616) and \$0.4500 (June 30, 2009 - \$0.4800) per Class B share for a total of \$1,169,340 (June 30, 2009 - \$759,360). As at June 30, 2010, \$812,325 (June 30, 2009 - \$391,018) was payable to the shareholders.

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 management fee of 1.2% per annum for its services, based on the gross assets of the Fund, calculated daily and payable monthly. For the six months ended June 30, 2010, the Fund incurred management fees of \$608,169 (June 30, 2009 - \$326,265).

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 six months ended June 30, 2010, the Fund has accrued \$247,971 (June 30, 2009 - nil) in performance fees.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

6. Expenses (continued):

(b) Servicing fees:

The Fund will pay each registered dealer a servicing 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 January 2010, the independent directors approved the reduction of the servicing fee from 0.75% annually to 0.50% annually of the net redemption value per Class A Share. For the six months ended June 30, 2010, the Fund incurred servicing fees of \$217,144 (June 30, 2009 - \$134,788).

(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 June 30, 2010, \$362,959 (June 30, 2009 - nil) remains payable by the Fund to the Fund Manager for management fees and accrued performance fees. The balance includes \$247,971 (June 30, 2009 - nil payable to the Mortgage Manager) payable to the Fund Manager relating to performance fees earned for the six months ended June 30, 2010.

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 Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

8. 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:

	June 30, 2010			December 31, 2009		
	Redemption NAV	Adjustment	GAAP NAV	Redemption NAV	Adjustment	GAAP NAV
Net asset value:						
Class A	\$ 78,910,491	\$ (1,897,269)	\$ 77,013,222	\$ 52,183,440	\$ (1,032,238)	\$ 51,151,202
Class B	31,474,407	(427,662)	31,046,745	17,889,380	(227,079)	17,662,301
Net asset per share:						
Class A	\$ 9.36	\$ (0.22)	\$ 9.14	\$ 9.43	\$ (0.19)	\$ 9.24
Class B	9.87	(0.13)	9.74	9.83	(0.13)	9.70

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.

9. 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.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

9. Capital risk management (continued):

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, security, term, borrower and loan-to-appraised value criteria. As at June 30, 2010, the Fund was in compliance with the investment restrictions and asset allocation model parameters.

The Fund is not subject to externally imposed capital requirements and the Fund's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2009.

10. 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 June 30, 2010, mortgage investments of \$10,267,124 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 and due to Fund 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.

A 50 basis point decrease in interest rates, with all other variables held constant, will reduce net assets from operations by \$25,668 semi-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 \$25,668 semi-annually, arising mainly as a result of higher interest income generated on variable rate mortgage investments.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

10. Financial instruments (continued):

(b) Credit risk:

Credit risk is the possibility that a borrower may be unable to honour its mortgage commitments 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.

The maximum exposure to credit risk at June 30, 2010 is the fair values of its amounts receivable and mortgages, which total \$102,118,590 (December 31, 2009 - \$67,610,396). 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.

As at June 30, 2010, four mortgage investments representing approximately \$7,200,000 have accrued interest that are past due and for which the Fund has undertaken enforcement remedies totalling \$826,800. For two mortgage investments totalling approximately \$4,700,000 and accrued interest of \$468,130, the Fund has entered into agreements to sell these investments and recover the principal and interest accrued to date. These sales are expected to close in September 2010. One of these mortgage investments is to be sold by way of a power of sale to an arm's length third party. The Fund is providing financing to the purchaser in the amount of \$3,800,000 for a term of three years which will bear interest at 14% per annum. Management believes the Fund will fully recover the principal and interest accrued to date on the mortgage loans although there is no assurance that it will be able to do so.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

10. Financial instruments (continued):

In addition, in April 2009, a mortgage investment amounting to approximately \$3,500,000 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 obtained a judgement against the guarantors and one of the borrowers and successfully registered a writ of seizure and sale against the guarantors which constitutes a lien on all of their real property and includes additional properties that were not part of the original security. In addition, the Fund Manager has listed for sale, under power of sale, two properties that comprise the security and has filed an application to obtain a court order to correct the Law Firm's deficiency on the Fund's security. The Fund believes it will recover the full principal and accrued interest on the loan upon sale of the properties and as such, no provision has been recorded in these consolidated financial statements.

(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.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

10. Financial instruments (continued):

(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:

- 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 at June 30, 2010:

	Level 1	Level 2	Level 3	Total
Financial assets:				
Mortgage investments	\$ -	\$ -	\$ 99,557,930	\$ 99,557,930

During the period ended June 30, 2010, no financial instruments were transferred between any levels.

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

10. Financial instruments (continued):

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.

(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 are recorded at fair value.

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

	As at January 1, 2010	Realized fair value gain	Unrealized fair value gain	Net advances and repayments	As at June 30, 2010
Financial assets:					
Mortgage investments	\$ 66,014,044	\$ -	\$ -	\$ 33,543,886	\$ 99,557,930

TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2010 and 2009
(Unaudited)

11. 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.

12. Subsequent event:

On July 5, 2010, the Fund completed a private placement of 267,500 Class B shares for gross proceeds of \$2,675,000.