

**2010 INTERIM REPORT**

**TIMBERCREEK MORTGAGE INVESTMENT  
CORPORATION**



## 2010 Interim Report

# TIMBERCREEK MORTGAGE INVESTMENT CORPORATION

## TABLE OF CONTENTS

INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE AS AT JUNE 30, 2010 .....	1
Forward-Looking Statements.....	1
MANAGEMENT DISCUSSION OF FUND PERFORMANCE .....	2
Investment Objectives and Strategies .....	2
Risk .....	2
Results of Operations.....	2
Recent Developments.....	4
Related Party Transactions .....	5
FINANCIAL HIGHLIGHTS .....	6
MANAGEMENT FEES .....	8
PAST PERFORMANCE .....	9
SUMMARY OF INVESTMENT PORTFOLIO.....	10
ASSET ALLOCATION .....	11
MANAGEMENTS RESPONSIBILITY FOR FINANCIAL STATEMENTS .....	13
Interim Consolidated Statements of Net Assets.....	14
Interim Consolidated Statements of Operations.....	15
Interim Consolidated Statements of Changes in Net Assets .....	16
Interim Consolidated Statements of Cash Flows.....	17
Interim Consolidated Statement of Investment Portfolio.....	18
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	19

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

This Interim Management Report of Fund Performance presents management's view of the significant factors and developments during the past period that have affected the performance and outlook of Timbercreek Mortgage Investment Corporation (the "Fund") and should be read in conjunction with the unaudited Financial Statements of the Fund for the period ended June 30, 2010 and audited Financial Statements of the Fund for the year ended December 31, 2009, together with the notes related thereto.

Shareholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Forward-Looking Statements

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified expressions like "believe", "expects", "anticipates", "would", "will", "intends", "projected", "in our opinion" and similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Fund will have sufficient capital under management to effect its investment strategies and pay its targeted distributions, (ii) the investment strategies will produce the results intended by the Fund Manager, (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Fund is able to acquire mortgages of a quality that will generate returns that meet and or exceed the Fund's targeted mortgage investment returns. Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Fund may invest in and the risks detailed from time to time in the Fund's prospectus.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund and the Fund Manager do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

This management discussion of the Fund's performance is based on the views of the Fund's management as of June 30, 2010 and is not intended to provide legal, accounting, tax or investment advice.

### Investment Objectives and Strategies

The Fund commenced operations on July 7, 2008 when it completed an initial public offering (the "IPO") of Class A shares and issued Class B shares through a private placement in connection with the acquisition of the initial mortgage portfolio. It is the intention of the Fund to qualify as a "mortgage investment corporation" as defined under Section 130.1(6) of the Income Tax Act (Canada).

The fundamental investment objectives of the Fund are to:

- Preserve net asset value of the Fund; and
- Provide shareholders with a stable stream of monthly distributions targeting a minimum annual yield equal to the 2 year Government of Canada Bond yield plus 550 basis points.

The Fund intends on meeting its investment objectives by investing in a diversified portfolio of mortgage loans secured directly by residential (including multi-residential and retirement homes), office, retail and industrial real property across Canada, primarily located in large urban markets and surrounding areas.

### Risk

The risks associated with investing in the Fund remain as disclosed in its prospectus dated December 29, 2009 and the prospectus supplement dated February 1, 2010. Any changes to the Fund over the period have not affected the overall risk of the Fund.

### Results of Operations

The Bank of Canada notes that the Canadian economic recovery is proceeding as expected, supported mainly by fiscal and monetary stimulus, higher terms of trade, improved labour markets, household confidence and the recovery of the global economy. While this is certainly a debatable topic, what is statistically evident is that broad-based renewed confidence in more modest investment grade real estate valuations has not translated into a return to an era of abundance of credit. The primary explanation for this is the disappearance of the commercial mortgage-backed securities ("CMBS") market in 2008. In addition, although the traditional conventional lenders have increased their appetite for commercial mortgage lending over the past 12 months, they have not returned to their previous levels of activity. The combination of these two factors has left a gap in the mortgage lending market for investment real estate that continues to create a very favorable environment for customized lenders like the Fund. The Fund Manager continues to see deal flow that is sufficient to continue to grow the fund, and to continue to be conservative and selective in making investments for the Fund. This is at a time where the improved economic conditions have led to increased stability in the valuation of investment real estate.

In the first half of 2010 the Fund completed a successful offering of Class A and Class B shares raising net proceeds of over \$40 million, growing the equity of the Fund by approximately 57% since December 31, 2009. The Fund continued to benefit from access to a wide selection of quality lending opportunities, and with the success of a large offering was able to target larger average individual mortgage investments typically secured by institutional quality properties. The Fund Manager has seen varying degrees of competition over the period from other customized lenders as some of its traditional competitors are less active in the market while others are re-entering the lending market. Those that have re-entered the market and/or have set large growth targets for 2010, however, have now slowed their growth due to the fact that they have increased their total investments to their targeted amounts for the year. The Fund Manager believes that this will

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

lead to less competition for the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2010 for customized loans. The availability of investments continues to allow the Fund to be selective and focus almost exclusively on placing mortgage loans secured by cash-flowing assets while still exceeding its targeted distributions to shareholders.

The Fund continued to focus on diversifying its exposure across Canada. During the period ended June 30, 2010, the Fund advanced mortgage loans throughout Ontario, B.C., Saskatchewan and Quebec, including new cities such as Saskatoon and Quebec City. At June 30, 2010, 90% of the mortgage portfolio was allocated across Canada's four largest provinces (Ontario – 31%; Alberta – 14%; B.C. – 20%; Quebec – 25%), with an additional 8% in Saskatchewan, a province performing very well in comparison to the rest of the provinces during this economic recovery. This is in comparison to December 31, 2009 where the Fund also had 89% of the mortgage portfolio allocated between four provinces in varying degrees (Ontario – 32%; Alberta – 19%; B.C. – 22%; Quebec – 16%). The Fund has maintained its concentration in cash-flowing, multi-residential and retirement residences at approximately 64% (December 31, 2009 – 66%) at June 30, 2010.

Total revenue earned by the Fund for the six months ended June 30, 2010 increased 73% to \$4,628,902, from \$2,669,113 for the period ending June 30, 2009. The increase in revenue was due to the increase in net assets available for investment.

During the period ended June 30, 2010, the Fund advanced 17 new mortgage investments and funded existing mortgage commitments totaling \$53,187,203 (June 30, 2009 - \$13,062,145) and received repayment and partial pay downs on 17 mortgage investments totaling \$19,643,317 (June 30, 2009 - \$4,547,117), resulting in total mortgage investments of \$99,557,930 at period end (December 31, 2009 - \$66,014,044). The weighted average interest rate on the portfolio at June 30, 2010 was 10.38% (December 31, 2009 – 11.46%). Although the weighted average interest rate has decreased over the period, it is mainly a result of the Fund advancing a larger number of first mortgage positions, secured by institutional quality properties, which provides the Fund with the flexibility to syndicate these loans in the future in order to increase the mortgage yield to the Fund. For the new loans advanced during the period, the average loan was approximately \$2.8 million, in comparison to 2009 where the average loan was approximately \$1.5 million. At June 30, 2010 the Fund had cash and cash equivalents of \$9,549,659 available to fund new mortgage investments and fulfill outstanding commitments. Subsequent to period end, the Fund raised an additional \$2,675,000 in Class B shares and advanced approximately \$9 million in new mortgage investments and pre-existing commitments while receiving repayment on approximately \$2.6 million in mortgage investments.

The Fund Manager places a high degree of emphasis on closely monitoring the portfolio and, where appropriate, will adjust the fair value of a mortgage investment if it determines that it is unlikely that it will recover the full value of the loan and accrued interest. At June 30, 2010, four mortgage investments totaling approximately \$7.2 million have accrued interest past due and for which the Fund has undertaken enforcement remedies totaling \$826,800. For two of these mortgage investments totaling approximately \$4.7 million and accrued interest of \$468,130, the Fund has entered into agreements to sell these investments and recover the full amount of principal and interest accrued to date. 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 as part of the transaction. Based on the Fund Manager's analysis, it expects to fully recover on its mortgage investments and therefore no adjustment to the fair value of the mortgage portfolio was required for the period ended June 30, 2010. Overall at June 30, 2010 these mortgages amount to 6.4% of the gross assets of the Fund, which the Fund expects to reduce to 2.2% following the sale in September of the two mortgage investments noted above.

Total expenses of the Fund for the period ended June 30, 2010 increased to \$1,455,757 from \$792,717 for the period ended June 30, 2009. This increase is directly a result of the Fund having additional net assets available for investment. The majority of the Fund's expenses consist of management fees of \$608,169 (June 30, 2009 - \$326,265), capital tax of \$102,358 (June 30, 2009 - \$159,358), accrued performance fees of \$247,971 (June 30, 2009 - \$nil) and servicing fees allocated to Class A shareholders of \$217,144 (June 30, 2009 - \$134,788). The remainder of the Fund's operating expenses of \$280,115 (June 30, 2009 - \$172,306) related mainly to audit fees, director fees and other operating costs associated with operating the Fund and administration of the mortgage portfolio. Of note, in January 2010 the Board of Directors approved the reduction of the servicing fees from 0.75% annually to 0.50% annually of the net redemption value per Class A share.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

In 2009, the provincial government of Ontario passed legislation confirming that capital taxes in Ontario will be eliminated effective June 30, 2010. As a result, and barring any change in government policy, the Fund will not be subject to capital taxes beyond 2010. In addition, for the period from January 1, 2010 to June 30, 2010, the capital tax rate applicable to the Fund was reduced from 0.45% to 0.30%.

In November 2009 the Fund secured a \$4,000,000 investment loan to be used to bridge the timing gap between mortgage advances and repayments. It is not the intention of the Fund to use consistent leverage as a means to enhance distributions. The maximum amount borrowed by the Fund during the period was \$4,000,000 and subsequent to the Class A and Class B share offering in early 2010, the Fund repaid the entire investment loan. The loan was due on demand and carried interest at an annual rate of 9%. During the period ended June 30, 2010, the Fund incurred interest expense and financing costs of \$63,398 (June 30, 2009 - \$nil). The Fund is currently in negotiations with a large Canadian bank to provide the Fund with a \$15 million operating facility to replace the investment loan repaid earlier this year.

For the period ended June 30, 2010, the Fund experienced an increase in net assets from operations of \$3,173,145 (June 30, 2009 - \$1,876,396); or an increase per Class A and Class B share of \$0.29 and \$0.34, respectively. As the Fund is in the growth stage and continues towards its optimal portfolio size of approximately \$300 million, along the way it will experience higher than budgeted allocations to cash, which will negatively impact net investment income. Specifically, in the first quarter of 2010 the Fund committed to two mortgage investments totaling \$11.5 million, which subsequently did not close. Although the Fund received a substantial non-refundable lender fee, a new home was required for this cash resulting in an interest drag during the period. By June 30, 2010, not only did the Fund invest all of the proceeds from the offering of approximately \$40 million, including the over-allotment exercised by the syndicate members, but an additional \$13 million of the \$19.6 million in loans repaid to the Fund were re-invested in new mortgage loans.

During the period ended June 30, 2010, the Fund issued 2,875,000 Class A shares for net proceeds of \$26,626,158 and 1,386,500 Class B shares for net proceeds of \$13,858,173. There were no redemptions during the period.

## Recent Developments

There were no modifications to the Fund's Asset Allocation Model ("AAM") in 2010. The Fund Manager and the Mortgage Advisory Committee continued to place emphasis on mortgage investments secured by cash-flowing assets, a geographically diversified portfolio and a larger average mortgage investment secured by high quality, institutionally funded assets. This strategy is expected to continue through 2010 and beyond as the Fund looks to grow to its optimal portfolio size of \$300 million.

### *Future Accounting Change*

The Accounting Standards Board of the CICA ("AcSB") confirmed that Canadian GAAP for most publically accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011, which includes investment funds.

In May 2010, the AcSB announced that it will propose amendments which will provide most investment funds, including the Fund, 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.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

## Related Party Transactions

### *Fund Manager*

The Fund is managed by the Fund Manager, a related party by virtue of common management. Pursuant to the Fund Management Agreement, the Fund Manager is entitled to a fee of 1.2% per annum of the gross assets of the Fund (the "Management Fee"), plus applicable taxes, calculated daily and paid monthly in arrears. During the period ended June 30, 2010, the Fund Manager earned compensation of \$608,169 (June 30, 2009 - \$326,265) for general management and administration services of the Fund and its mortgage investment portfolio.

The Fund Manager is responsible for the management and administration of the Fund's mortgage investment portfolio. In any calendar year where the Fund has net earnings available for distribution to shareholders in excess of the Hurdle Rate (Hurdle Rate is defined as the average two-year Government of Canada Bond Yield for the 12 month period then ended plus 450 basis points), the Fund Manager is 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"). During the period ended June 30, 2010, the Fund has accrued a performance fee payable to the Fund Manager of \$247,971 (June 30, 2009 - \$nil).

In determining the Performance Fee, on a monthly basis the Fund Manager will calculate the earnings available to distribute in that month that are required to achieve the Hurdle Rate, based on the outstanding share capital of the Fund, net of issue costs, calculated daily. An amount equal to 20% of any net earnings available to distribute in excess of the Hurdle Rate in that month will be deducted from the Fund's monthly distribution and retained by the Fund. The Fund Manager will calculate the final Performance Fee in respect of a completed calendar year based on the audited financial statements for that year. The Performance Fee in respect of a calendar year will be payable to the Fund Manager within 15 days of the issuance of the Fund's audited financial statements for that year.

In the event of redemption of shares by the Fund, any dividends declared by the Fund during the calendar year in which the redemptions have taken place will be annualized and evaluated with respect to the Hurdle Rate. Fees payable to the Fund Manager shall be, in any calendar year where the Fund has net earnings available for distribution to shareholders in excess of the Hurdle Rate, 20% of such excess.

### *Other Related Party Transactions*

During 2009 a second-ranking mortgage in the amount of \$3,700,000 was placed with Timbercreek Real Estate Investment Trust, a related party by virtue of common management. The mortgage, which was secured by three high quality 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 related to this transaction. The Fund Manager recommended this loan in order to take advantage of what was believed to be a very secure short term mortgage investment at a time when the Fund had a substantial amount of cash on its balance sheet. After being unanimously approved by the Mortgage Advisory Committee, the loan was also approved by the Board's Independent Review committee prior to funding, as noted below.

Under the provisions of National Instrument 81-107 – Independent Review Committee for Investment Funds ("NI-107"), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee ("IRC") to whom the Fund Manager is to refer all conflict of interest matters in order to obtain a recommendation or approval, as applicable. NI 81-107 further mandates that the IRC be composed of at least three independent members and required that they conduct assessments and regularly report to the Board of Directors and shareholders in respect of its duties.

The above related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period end of the years shown. This information is derived from the Fund's audited annual and unaudited semi-annual financial statements.

	Six months ended June 30, 2010	2009	2008
<b>The Fund's Net Asset per Class A Share <sup>(1)</sup></b>			
Net Assets, beginning of period	\$9.24	\$9.21	\$9.33
<b>Increase (decrease) from operations:</b>			
total revenue	0.43	1.00	0.49
total expenses	(0.14)	(0.31)	(0.14)
realized gains (losses) for the period	--	0.02	--
unrealized gains (losses) for the period	--	--	--
<b>Total increase (decrease) from operations <sup>(2)</sup></b>	<b>0.29</b>	<b>0.71</b>	<b>0.35</b>
<b>Distributions:</b>			
From Income (excluding dividends)	(0.41)	(0.81)	(0.44)
From Dividends	--	--	--
From Capital Gain	--	(0.02)	--
Return of Capital	--	--	--
<b>Total Distributions for the period <sup>(3)</sup></b>	<b>(0.41)</b>	<b>(0.83)</b>	<b>(0.44)</b>
<b>Net Assets, at end of period</b>	<b>\$9.14</b>	<b>\$9.24</b>	<b>\$9.21</b>
<b>Ratios And Supplemental Data</b>			
Total net asset value (000's) <sup>(4)</sup>	\$78,910	\$52,183	\$36,502
Number of shares outstanding <sup>(4)</sup>	8,428,909	5,533,616	3,889,562
Management expense ratio* <sup>(5)</sup>	3.18%	3.37%	3.13%
Management expense ratio before waivers or absorptions*	3.18%	3.85%	3.67%
Trading expense ratio* <sup>(6)</sup>	0.03%	0.05%	0.07%
Portfolio turnover rate <sup>(7)</sup>	24.98%	24.55%	10.19%
<b>Net asset value per share</b>	<b>\$9.36</b>	<b>\$9.43</b>	<b>\$9.38</b>
Closing market price	\$10.30	\$9.95	\$9.00

(1) This information is derived from the Fund's annual audited and semi-annual unaudited financial statements. The net assets per share presented in the financial statements differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements. This difference is due to including costs associated with establishment, structuring and periodic offering of securities of the Fund attributable to a particular class of shares being amortized monthly over a period of five years.

(2) Net assets and distributions are based on the actual number of shares outstanding for the relevant class at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding for the relevant class over the financial period. This table is not intended to be a reconciliation of beginning to ending net assets per share.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

	Six months ended June 30, 2010	2009	2008
<b>The Fund's Net Asset per Class B Share <sup>(1)</sup></b>			
Net Assets, beginning of period	\$9.70	\$9.77	\$9.84
<b>Increase (decrease) from operations:</b>			
total revenue	0.46	1.06	0.50
total expenses	(0.12)	(0.24)	(0.11)
realized gains (losses) for the period	--	0.02	--
unrealized gains (losses) for the period	--	--	--
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.34</b>	<b>0.84</b>	<b>0.39</b>
<b>Distributions:</b>			
From Income (excluding dividends)	(0.45)	(0.92)	(0.48)
From Dividends	--	--	--
From Capital Gain	--	(0.02)	--
Return of Capital	--	--	--
<b>Total Distributions for the period<sup>(3)</sup></b>	<b>(0.45)</b>	<b>(0.94)</b>	<b>(0.48)</b>
<b>Net Assets, at end of period</b>	<b>\$9.74</b>	<b>\$9.70</b>	<b>\$9.77</b>
<b>Ratios And Supplemental Data</b>			
Total net asset value (000's) <sup>(4)</sup>	\$31,474	\$17,889	\$14,796
Number of shares outstanding <sup>(4)</sup>	3,188,791	1,820,239	1,502,279
Management expense ratio* <sup>(5)</sup>	2.47%	2.51%	2.05%
Management expense ratio before waivers or absorptions*	2.47%	3.00%	2.41%
Trading expense ratio* <sup>(6)</sup>	0.03%	0.05%	0.07%
Portfolio turnover rate <sup>(7)</sup>	24.98%	24.55%	10.19%
<b>Net asset value per share</b>	<b>\$9.87</b>	<b>\$9.83</b>	<b>\$9.85</b>
Closing market price	N/A	N/A	N/A

(3) Distributions were paid in cash.

(4) This information is provided at period end of the year shown.

(5) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of the semi-monthly average net asset value during the period.

(6) The trading expense ratio represents the mortgage transaction costs incurred on a particular mortgage investment as an annualized percentage of semi-monthly average net assets during the period. Typically, the borrower of a particular mortgage will reimburse the Fund for transaction costs, although situations may arise where the Fund may incur these costs.

(7) The Fund's portfolio turnover rate indicates how actively the Fund Manager managed the portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund advancing and receiving repayment of all mortgage loan investments once in the course of the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

(8) The Fund commenced operations on July 7, 2008 when it completed the initial public offering 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. As a result, where appropriate the amounts shown have been annualized.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

---

## MANAGEMENT FEES

A summary of management fees paid to the Fund Manager for the period ended June 30, 2010, including a breakdown of services received by the Fund is included in "Related Party Transactions".

Class A shares of the Fund pay each registered dealer a servicing fee equal to 0.50% per annum of the net redemption value per Class A share of the Fund (the "Servicing Fee"). 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. The fee is calculated and paid at the end of each calendar quarter.

In addition to the management fees disclosed above, the Fund will pay for all expenses incurred by it in connection with the operation and management, including but not limited to any additional fees payable to the Fund Manager for performance of extraordinary services on behalf of the Fund for services outside the scope of the Fund Management Agreement. During the period ended June 30, 2010 no additional fees were paid to the Fund Manager (June 30, 2009 - \$nil).

A summary of the management fees incurred during the period ended June 30, 2010 and 2009 includes:

	2010		2009	
	\$	%	\$	%
Management Fees	608,169	71	326,265	100
<b>Performance Fees*</b>	<b>247,971</b>	<b>29</b>	--	--
	856,140	100	326,265	100

\* The Fund has accrued a performance fee for the period ended June 30, 2010 of \$247,971. The final calculation of the performance fee is based on the audited annual December 31, 2010 financial statements. The performance fee is payable to the Fund Manager within 15 days of issuance of the Fund's audited annual financial statements.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

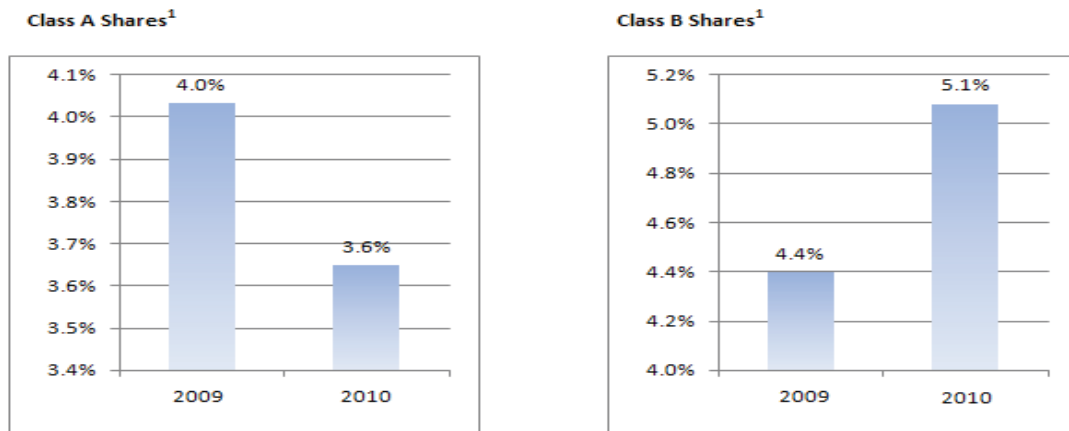
---

## PAST PERFORMANCE

The performance information shown assumes that all distributions made by the Fund in the period shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, distribution or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the Fund's performance for the period shown. In percentage terms, the bar chart shows how much an investment made on the first day the financial period would have grown or decreased by the last day of the financial period.



<sup>1</sup>For the period from January 1 to June 30, 2010 and 2009

In accordance with NI 81-106, no performance data has been shown for the period from July 8, 2008 to December 31, 2008 as the Fund was not a reporting issuer at all times during the year.

The above year-by-year returns are calculated based on the net asset value per share for Class A and Class B shares.

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

## SUMMARY OF INVESTMENT PORTFOLIO

	Net Assets (\$)	% of Net Assets
Mortgages	99,557,930	91.18
Cash and Cash Equivalents	9,549,659	8.75
Net Other Liabilities	76,912	0.07
<b>Total</b>	<b>109,184,501</b>	<b>100.0</b>

Summary of Top 25 Holdings	Prov.	Outstanding Principal	Loan-to- value	Term	Interest Rate	Positions	Allocation Product Type	% of NAV
Cash & Cash Equivalents	N/A	\$9,549,659	N/A	N/A	N/A	N/A	N/A	8.7%
Brugnon Residential	QC	\$6,000,000	76%	25	11.00%	Second	Multi-Residential	5.5%
Whitgift Gardens	BC	\$5,500,000	70%	25	11.00%	Second	Multi-Residential	5.0%
Eastwood Apartments	SK	\$5,500,000	63%	13	10.50%	First	Multi-Residential	5.0%
Charest Building	QC	\$5,400,000	77%	31	9.00%	First	Office Buildings	4.9%
Gateway Mobile Home Park	AB	\$4,880,000	39%	13	9.25%	First	Other-Residential	4.5%
TG Portfolio	ON	\$4,819,861	73%	25	10.50%	Second	Multi-Residential	4.4%
Queen West, Retail	ON	\$3,800,000	82%	18	9.00%	First	Retail	3.5%
Summit Glen Portfolio	ON	\$3,534,240	80%	18	12.90%	Second	Multi-Residential	3.2%
Granville Street Retail I	BC	\$3,300,000	69%	26	9.50%	Second	Retail	3.0%
Reneaude-Lapointe Recreation Centre	QC	\$3,200,000	68%	36	10.90%	First	Retail	2.9%
Notre-Dame Residence	QC	\$3,000,000	79%	24	12.00%	First	Unimproved Land	2.7%
Westview Manor	AB	\$2,460,877	67%	12	8.90%	First	Multi-Residential	2.3%
Woodland Industrial	BC	\$2,300,000	72%	13	11.00%	Second	Industrial	2.1%
Honey Harbour	ON	\$2,200,007	73%	24	9.27%	First	Other-Residential	2.0%
Capitale Residential	QC	\$2,200,000	69%	25	11.00%	Second	Multi-Residential	2.0%
CRG Office Portfolio	ON	\$2,100,000	78%	36	11.50%	Second	Office Buildings	1.9%
Ascot Rental Townhomes	AB	\$1,980,000	55%	36	11.24%	First	Multi-Residential	1.8%
Leuty Retail	ON	\$1,950,000	74%	13	5.00%	First	Retail	1.8%
Rock Grove Townhomes	AB	\$1,930,577	60%	12	8.90%	First	Multi-Residential	1.8%
Gateway Village	BC	\$1,840,500	81%	6	13.12%	First	Multi-Residential	1.7%
Lovinac Manor	AB	\$1,585,000	55%	19	8.00%	First	Multi-Residential	1.5%
King and Duke	ON	\$1,550,561	75%	18	3.55%	First	Multi-Residential	1.4%
College Park	SK	\$1,503,344	67%	36	11.00%	Second	Retirement	1.4%
The Mark on Jasper	AB	\$1,500,000	44%	7	10.50%	First	Multi-Residential	1.4%

*\*Based on appraisals performed by arms length, third party at time of funding*

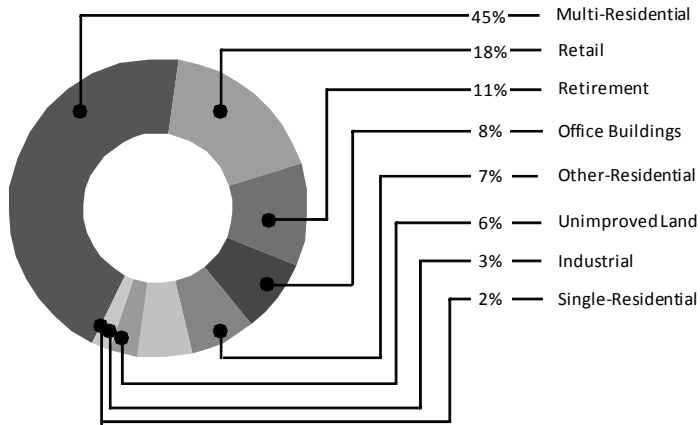
# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

AS AT JUNE 30, 2010

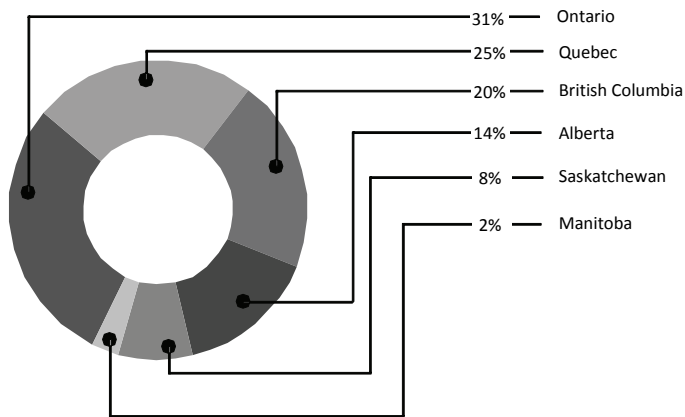
---

## ASSET ALLOCATION

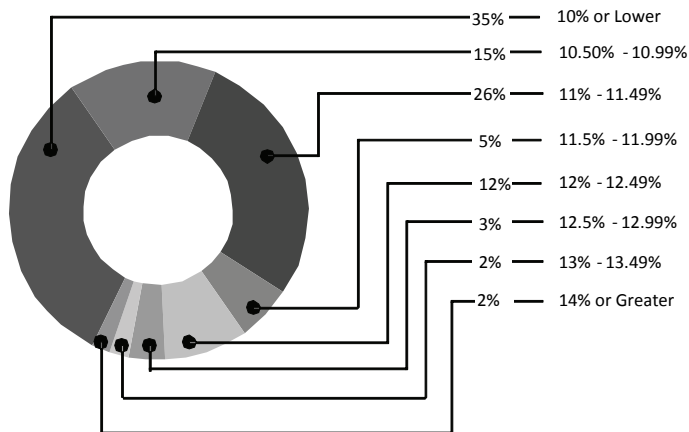
By Type



By Region



By Interest Rate (excluding fees earned by the Fund)

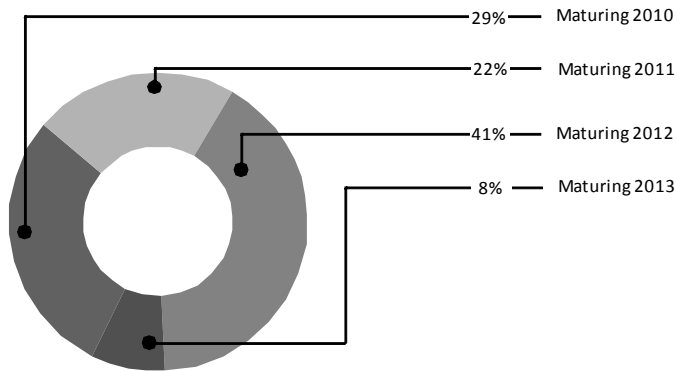


# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

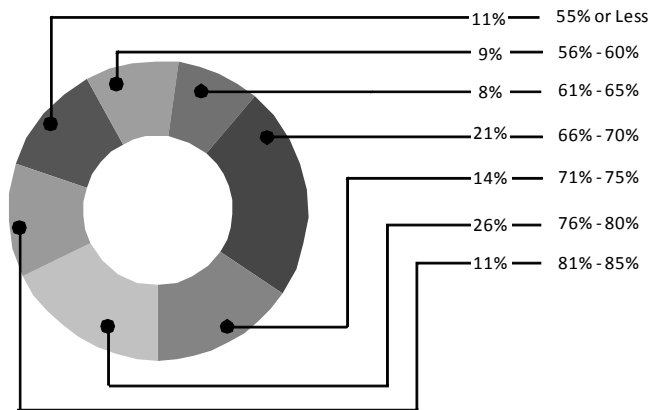
AS AT JUNE 30, 2010

---

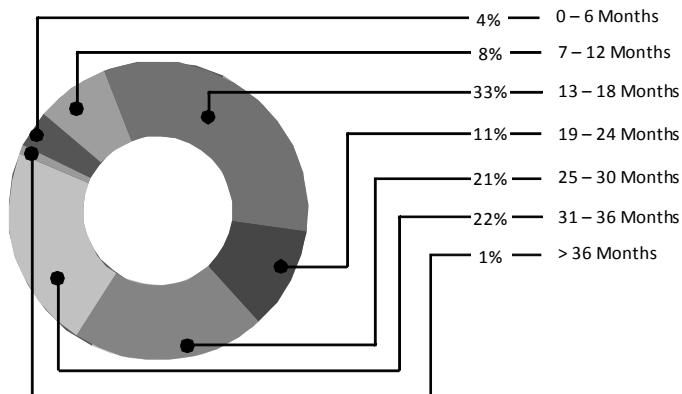
## By Maturity



## By Loan-to-value



## By Term



# MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

---

*To the shareholders of Timbercreek Mortgage Investment Corporation*

The accompanying interim 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 interim consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in Canada.

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 interim consolidated financial statements have been reviewed and approved by the Board of Director’s and it’s Audit Committee.

**R. Blair Tamblyn**  
President and Chief Executive Officer  
Toronto, Ontario, Canada  
August 23, 2010

**Ugo Bizzarri**  
Chief Financial Officer  
Toronto, Ontario, Canada  
August 23, 2010

# INTERIM CONSOLIDATED STATEMENTS OF NET ASSETS

	June 30, 2010	December 31, 2009
	(Unaudited)	
<b>Assets</b>		
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
<b>Liabilities</b>		
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)		
<b>Net assets, representing shareholders' equity</b>	<b>\$ 108,060,067</b>	<b>\$ 68,813,603</b>
<b>Net assets:</b>		
Class A shares	\$ 77,013,222	\$ 51,151,202
Class B shares	31,046,745	17,662,301
Voting shares	100	100
<b>Shares outstanding (note 5):</b>		
Class A shares	8,428,909	5,533,616
Class B shares	3,188,791	1,820,239
Voting shares	100	100
<b>Net assets per share (note 8):</b>		
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

# 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	<u>\$ 3,173,145</u>	<u>\$ 1,876,396</u>
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.

## INTERIM CONSOLIDATED STATEMENTS OF CHANGE 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)	–	–
<b>Net assets, end of period</b>	<b>\$ 77,013,222</b>	<b>\$ 31,046,745</b>	<b>\$ 100</b>	<b>\$ 108,060,067</b>

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
<b>Net assets, end of period</b>	<b>\$ 35,438,272</b>	<b>\$ 15,703,598</b>	<b>\$ 100</b>	<b>\$ 51,141,970</b>

See accompanying notes to interim consolidated financial statements.

# 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	–
	<u>4,139,024</u>	<u>1,323,061</u>
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)
	<u>34,367,380</u>	<u>(1,197,538)</u>
Investing activities:		
Funding of mortgages	(53,187,203)	(13,062,145)
Discharge of mortgages	19,643,317	4,547,117
	<u>(33,543,886)</u>	<u>(8,515,028)</u>
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	<u>\$ 9,549,659</u>	<u>\$ 3,117,153</u>

See accompanying notes to interim consolidated financial statements.

# INTERIM CONSOLIDATED STATEMENTS OF INVESTMENT PORTFOLIO

June 30, 2010

(Unaudited)

---

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

---

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
	<b>56</b>	<b>\$ 99,557,930</b>

---

## 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 consolidate

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

---

## 1. Significant accounting policies (continued):

### (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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

---

## 1. Significant accounting policies (continued):

### (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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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
<hr/>	
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	
<hr/>		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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

---

## 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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

## 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.

## 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

---

## 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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.

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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(unaudited)

---

## 10. Financial instruments (continued):

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.

### (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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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

---

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2010  
(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.



