Great Ajax Corp.
Form 10-Q
May 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

001-36844
(Commission file number)

GREAT AJAX CORP.
(Exact name of registrant as specified in its charter)

Maryland	47-1271842
State or other jurisdiction of incorporation or organization	**(I.R.S. Employer Identification No.)**

9400 SW Beaverton-Hillsdale Hwy, Suite 131 Beaverton, OR 97005	97005
(Address of principal executive offices)	**(Zip Code)**

503-505-5670
Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 13, 2016, 15,942,638 shares of the Registrant's common stock, par value $0.01 per share, were outstanding which includes 624,106 of operating partnership units that are exchangable on a one-for-one basis into shares of the registrant's common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Interim Financial Statements

GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands except shares and per share data)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 23,893	$ 30,795
Cash held in trust	1,067	39
Mortgage loans[(1)]	584,298	554,877
Property held-for-sale	13,380	10,333
Rental property	1,155	58
Receivable from servicer	8,108	5,444
Investment in affiliates	3,810	2,625
Prepaid expenses and other assets	6,973	5,634
Total Assets	$ 642,684	$ 609,805
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings[(1)]	$ 260,032	$ 265,006
Borrowings under repurchase agreement	136,496	104,533
Management fee payable	679	667
Accrued expenses and other liabilities	3,273	1,786
Total liabilities	400,480	371,992
Commitments and contingencies – see Note 7		
Equity:		
Preferred stock $.01 par value; 25,000,000 shares authorized, none issued or outstanding	-	-
Common stock $.01 par value; 125,000,000 shares authorized, 15,318,532 shares at March 31, 2016 and 15,301,946 shares at December 31, 2015 issued and outstanding	152	152
Additional paid-in capital	211,983	211,729
Retained earnings	19,896	15,921
Equity attributable to common stockholders	232,031	227,802
Noncontrolling interests	10,173	10,011
Total equity	242,204	237,813

Total Liabilities and Equity	$ 642,684	$ 609,805

(1) Mortgage loans include $391,799 and $398,696 of loans at March 31, 2016 and December 31, 2015, respectively, transferred to securitization trusts that are variable interest entities (“VIEs”); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8—Debt.

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except shares and per share data)

	Three months ended March 31, 2016	Three months ended March 31, 2015
INCOME		
Loan interest income	$ 15,814	$ 6,884
Interest expense	(4,987)	(1,075)
Net interest income	10,827	5,809
Income from investment in Manager	44	40
Other income	540	184
Total income	11,411	6,033
EXPENSE		
Related party expense – loan servicing fees	1,403	656
Related party expense – management fee	906	747
Loan transaction expense	213	260
Professional fees	414	385
Real estate operating expenses	162	10
Other expense	353	160
Total expense	3,451	2,218
Income before provision for income taxes	7,960	3,815
Provision (benefit) for income taxes	(3)	-
Consolidated net income	7,963	3,815
Less: consolidated net income attributable to the non-controlling interest	312	175
Consolidated net income attributable to common stockholders	$ 7,651	$ 3,640
Basic earnings per common share	$ 0.50	$ 0.28
Diluted earnings per common share	$ 0.50	$ 0.28
Weighted average shares – basic	15,306,519	13,008,268
Weighted average shares – diluted	15,959,202	13,680,687

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three months ended March 31, 2016	Three months ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 7,963	$ 3,815
Adjustments to reconcile net income to net cash from operating activities		
Stock-based management fee and compensation expense	254	423
Non-cash interest income accretion	(9,004)	(4,228)
(Gain) loss on sale of property	(545)	2
Depreciation of property	5	1
Impairment of real estate owned	45	-
Amortization of prepaid financing costs	1,159	66
Net change in operating assets and liabilities		
Cash held in trust	(1,028)	(20)
Prepaid expenses and other assets	(1,695)	(410)
Receivable from servicer	(2,664)	(397)
Undistributed income from investment in affiliate	(122)	(123)
Accrued expenses and other liabilities	1,499	1,624
Net cash from operating activities	(4,133)	753
CASH FLOWS FROM INVESTING ACTIVITES		
Purchase of mortgage loans and related balances	(37,205)	(74,108)
Principal paydowns on mortgage loans	11,020	2,269
Purchase of property held-for-sale and related balances	-	(2,662)
Proceeds from sale of property held-for-sale	2,359	36
Investment in equity method investee	(1,111)	-
Distribution from affiliate	48	20
Renovations of rental property and property held for sale	(240)	(42)
Net cash from investing activities	(25,129)	(74,487)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from repurchase transactions	33,459	-
Repayments on repurchase transactions	(1,496)	(197)
Repayments on secured notes	(5,777)	(1,717)
Sale of common stock, net of offering costs	-	51,529
Distribution to non-controlling interest	(150)	(101)
Dividends paid on common stock	(3,676)	(1,795)
Net cash from financing activities	22,360	47,719
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,902)	(26,015)
CASH AND CASH EQUIVALENTS, beginning of period	30,795	53,099
CASH AND CASH EQUIVALENTS, end of period	$ 23,893	$ 27,084
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		

Cash paid for interest	$ 3,241	$ 897
Cash paid for income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans to rental property or property held-for-sale	$ 5,911	$ 1,392
Issuance of common stock for management and director fees	$ 254	$ 373
Transfer of property held-for-sale to loans	$ 143	$ -

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

For the period from December 31, 2015 through March 31, 2016

(Dollars in thousands except share data)

	Common Stock						
	Shares	**Amount**	**Additional Paid-in Capital**	**Retained Earnings**	**Total Stockholders' Equity**	**Noncontrolling Interest**	**Total Equity**
Balance at December 31, 2014	11,223,984	$ 112	$ 158,951	$ 2,744	$ 161,807	$ 9,473	$ 171,280
Issuance of shares	3,981,714	40	51,368	-	51,408	-	51,408
Net income	-	-	-	24,754	24,754	1,038	25,792
Stock-based management fee expense	87,801	-	1,239	-	1,239	-	1,239
Stock-based compensation expense	8,447	-	171	-	171	-	171
Dividends and distributions	-	-	-	(11,577)	(11,577)	(500)	(12,077)
Balance at December 31, 2015	15,301,946	$ 152	$ 211,729	$ 15,921	$ 227,802	$ 10,011	$ 237,813
Net income	-	-	-	7,651	7,651	312	7,963
Stock-based management fee expense	14,910	-	227	-	227	-	227
Stock-based compensation expense	1,676	-	27	-	27	-	27
Dividends and distributions	-	-	-	(3,676)	(3,676)	(150)	(3,826)
Balance at March 31, 2016	15,318,532	$ 152	$ 211,983	$ 19,896	$ 232,031	$ 10,173	$ 242,204

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016

(Unaudited)

Note 1 — Organization and basis of presentation

Great Ajax Corp., a Maryland corporation (the “Company”), is an externally managed real estate company formed on January 30, 2014 and capitalized on March 28, 2014 by its then sole stockholder, Aspen Yo LLC (“Aspen Yo”), a company affiliated with the Aspen Capital companies (“Aspen Capital”). The Company was formed to facilitate capital raising activities and to operate as a mortgage real estate investment trust. The Company focuses primarily on acquiring, investing in and managing a portfolio of re-performing (“RPL”) and non-performing (“NPL”) mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. Re-performing loans are loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount to cover at least five payments has been paid in the last seven months. Non-performing loans are those loans on which the most recent three payments have not been made. The Company also invests in loans secured by smaller multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The Company’s manager is Thetis Asset Management LLC (the “Manager” or “Thetis”), an affiliated company. The Company owns 19.8% of the Manager. The Company’s mortgage loans and real properties are serviced by Gregory Funding LLC (“Gregory” or “Servicer”), also an affiliated company. The Company has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the “Code”).

The Company conducts substantially all of its business through its operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership (the “Operating Partnership”), and its subsidiaries. The Company, through a wholly owned subsidiary, is the sole general partner of the Operating Partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager. The Company elected to treat Thetis TRS as a “taxable REIT subsidiary” (“TRS”) under the Code. Great Ajax Funding LLC is a wholly owned subsidiary of the operating partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts the Company may form for additional securitizations. The Company generally securitizes its mortgage loans and retains subordinated securities from the securitizations. AJX Mortgage Trust I is a wholly owned subsidiary of the operating partnership formed to hold mortgage loans used as collateral for financings under the Company’s repurchase agreement. In addition, the Company, through its operating partnership, holds real estate owned properties (“REO”) acquired upon the foreclosure or other settlement of its owned non-performing loans, as well as through outright purchases. GAJX Real Estate LLC is a wholly owned subsidiary of the operating partnership formed to own, maintain, improve and sell REO properties purchased by the Company. The Company has elected to treat GAJX Real Estate LLC as a TRS under the Code.

The Company commenced its operations in July 2014, and completed its initial public offering, or IPO, on February 19, 2015.

Basis of presentation and use of estimates

These interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the period ended December 31, 2015 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 29, 2016.

Interim financial statements are prepared in accordance with accounting principles generally accepted in the United States (" U.S. GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2016.

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The consolidated financial statements have been prepared in accordance with U.S. GAAP, as contained within the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB") and the rules and regulations of the SEC, as applied to interim financial statements.

All controlled subsidiaries are included in the consolidated financial statements and all intercompany accounts and transactions have been eliminated in consolidation. The Operating Partnership is a majority owned partnership that has a non-controlling ownership interest that is included in non-controlling interests on the consolidated balance sheet. As of March 31, 2016, the Company owned 96.1% of the outstanding operating partnership units ("OP Units") and the remaining 3.9% of the OP Units were owned by an unaffiliated holder.

The Company's 19.8% investment in the Manager is accounted for using the equity method because the Company exercises significant influence on the operations of the Manager through common officers and directors. There is no traded or quoted price for the interests in the Manager since it is privately held.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company considers significant estimates to include expected cash flows from mortgage loans and fair value measurements.

Note 2 — Summary of significant accounting policies

Mortgage loans

Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to real estate owned. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans acquired with deterioration in credit quality

The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, (Accounting for Loans with Deterioration in Credit Quality). The Company's recognition of interest income for loans within the scope of ASC

310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Re-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, non-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the closing date but prior to boarding. Any gain or loss incurred on these loans is recognized in other income in the period the loan pays in full.

The Company’s accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable difference. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is recognized as accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as interest income on a prospective level yield basis over the life of the pool. The excess of a loan’s contractually required payments receivable over the amount of cash flows expected at the acquisition is the non-accretable yield. The Company’s expectation of the amount of cash flows expected to be

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collected is evaluated at the end of each calendar quarter. In the event the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. In the event the Company expects to collect lower cash flows over the life of the pool, the Company records an impairment through the allowance for loan losses.

Loans acquired that have not experienced a deterioration in credit quality

While the Company generally acquires loans that have experienced deterioration in credit quality, it may, from time to time, acquire loans that have not missed a scheduled payment and have not experienced a deterioration in credit quality.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower’s financial condition is such that collection of interest is doubtful. The Company’s policy is to stop accruing interest when a loan’s delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management’s judgment, the borrower’s ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower’s financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

While the Company generally intends to hold its assets as long-term investments, it may sell certain of its loans in order to manage its interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. The timing and impact of future sales of loans, if any, cannot be predicted with any certainty. Since the Company expects that its assets will generally be financed, it expects that a significant portion of the proceeds from sales of its assets (if any), prepayments and scheduled amortization will be used to repay balances under its financing sources.

Real estate

Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that is currently unoccupied and actively marketed for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis, net realized value (fair market value less expected selling costs), appraisals or BPOs. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Property is held for investment as rental property if the modeled present value of the future expected cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held-for-investment asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. The Company generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

The Company performs property renovations to maximize the value of the property for its rental strategy. Such expenditures are part of its initial investment in a property and, therefore, are capitalized as part of the basis of the property. Subsequently, the residential property, including any renovations that improve or extend the life of the asset, are accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Secured debt

The Company issues callable debt secured by its mortgage loans in the ordinary course of business. Coupon interest on the debt is recognized using the accrual method of accounting. Original issue discount and debt issuance costs are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of discount and issuance cost amortization.

Management fee and expense reimbursement

Under the Management Agreement with the Manager, the Company pays a quarterly base management fee based on its stockholders' equity and a quarterly incentive management fee based on its cash distributions to its stockholders. Manager fees are expensed in the quarter incurred and the portion payable in common stock is included in stockholders' equity at quarter end. See Note 9 — Related party transactions.

Servicing fees

Under the Servicing Agreement, Gregory receives servicing fees of 0.65% annually of UPB for loans that are re-performing at acquisition, and 1.25% annually of UPB for loans that are non-performing at acquisition. Servicing fees are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the servicing agreement. The fees do not change if a performing loan becomes non-performing or vice versa. Servicing fees for the Company's real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company. Gregory is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations undertaken on the Company's behalf. The total fees incurred by the Company for these services will be dependent upon the UPB and type of mortgage loans that Gregory services, property values, previous

UPB of the relevant loan, and the number of REO properties. The agreement will automatically renew for successive one-year terms, subject to prior written notice of non-renewal. In certain cases, the Company may be obligated to pay a termination fee. The Management Agreement will automatically terminate at the same time as the servicing agreement if the servicing agreement is terminated for any reason. See Note 9 — Related party transactions.

Stock-based payments

The Management Agreement (as defined above) provides for the payment to the Manager of a management fee. The Company pays a portion of the management fee in cash, and a portion of the management fee in shares of the Company's common stock, which are issued to the Manager in a private placement and are restricted securities under the Securities Act. On October 27, 2015, the Company entered into an amended and restated management agreement with the Manager (the "Amended and Restated Agreement"), which amended the portion of the Base Management Fee and Manager's Incentive Fee to be payable in cash and shares of the Company's common stock retroactive to July 1, 2015. Shares issued to the Manager are determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. Management fees paid in common stock are expensed in the quarter incurred and recorded in equity at quarter end.

Pursuant to the Company's 2014 Director Equity Plan (the "Director Plan"), the Company may make stock-based awards. The Company has issued to each of the independent directors restricted stock awards of 2,000 shares of its common stock, which are subject to a one-year vesting period. In addition, each of the Company's independent directors receives an annual retainer of $50,000, payable quarterly, half of which is paid in shares of the Company's common stock on the same basis as the stock portion of the management fee payable to the Manager, and half in cash. Stock-based expense for the directors' annual retainer is expensed as earned, in equal quarterly amounts during the year, and recorded in equity at quarter end.

Directors' fees

The expense related to directors' fees is accrued and, the portion payable in common stock is reflected in stockholders' equity in the period in which it is incurred.

Cash and cash equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. The Company maintains cash and cash equivalents at insured banking institutions. Certain account balances exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Cash held in trust

Cash held in trust consists of cash balances legally due to lenders, and segregated from the Company's other cash deposits. Cash held in trust is not available to the Company for any purposes other than the settlement of existing obligations to the lender.

Earnings per share

Basic earnings per share is computed by dividing consolidated net income attributable to common stockholders by the weighted average common stock outstanding during the period. The Company treats unvested restricted stock issued under its stock-based compensation plan, which are entitled to non-forfeitable dividends, as participating securities and applies the two-class method in calculating basic earnings per share. Diluted earnings per share is computed by dividing consolidated net income attributable to common stockholders and dilutive securities by the weighted average common stock outstanding for the period plus other potentially dilutive securities, such as stock grants, shares that would be issued in the event that OP Units are redeemed for shares of common stock of the Company and shares issued in respect of the stock-based portion of the base fee payable to the Manager and directors' fees.

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Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- **Level 1** — Quoted prices in active markets for identical assets or liabilities.
- **Level 2** — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3** — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

Property held-for-sale is carried at the lower of its acquisition basis, net realizeable value (fair market value less expected selling costs), appraisals or an independent broker price opinion (“BPO”). Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. The fair value of property held-for-sale is generally based on estimated market prices from an independently prepared appraisal, BPO, or an internal valuation based upon recent comparable selling prices.

The fair value of mortgage loans is estimated using the Manager’s proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to real estate owned is based upon the present value of future expected cash flows of the loans being transferred.

Income taxes

The Company elected REIT status upon the filing of its 2014 income tax return, and has conducted its operations in order to satisfy and maintain eligibility for REIT status. Accordingly, the Company does not believe it will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of the Company’s REIT taxable income that is distributed to the Company’s stockholders as long as certain asset, income and stock ownership tests are met. If the Company fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. The Company may also be subject to state or local income or franchise taxes.

Thetis TRS, GAJX Real Estate LLC and any other TRS that the Company forms, will be subject to U.S. federal and state income taxes. On February 22, 2016, the Company received a private letter ruling from the Internal Revenue Service regarding the consequences of owning the interest in our Manager through its operating partnership. The Company is currently exploring options for transferring its interest in the Manager to the operating partnership. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to the Company’s judgment, it reduces a deferred tax asset by a valuation allowance if it is “more–likely-than-not” that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and the

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Company recognizes tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

The Company evaluates tax positions taken in its consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is “more-likely-than-not” that the tax position will be sustained on examination by taxing authorities.

The Company’s tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by the Company may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company will furnish annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Organizational expenses

Organizational expenses are expensed as incurred or when they become reimbursable. Organizational expenses consisted mainly of legal fees.

Offering costs

Costs associated with the Company’s completed offering of shares of common stock have been netted against, and are reflected as a reduction in additional paid-in capital.

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Segment information

The Company’s primary business is acquiring, investing in and managing a portfolio of mortgage loans. The Company operates in a single segment focused on non-performing mortgages and re-performing mortgages.

Emerging growth company

Section 107 of the Jumpstart Our Business Startups Act (the “JOBS Act”) provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company has elected to take advantage of the benefits of this extended transition period. Its consolidated financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Reclassifications

Certain amounts in the Company’s 2015 Consolidated Financial Statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or equity. Additionally, the December 31, 2015 amounts included in the delinquency table in Note 3 – Mortgage loans have been reclassified from delinquent to current to reflect a correction of an error in the presentation of the disclosure that is immaterial to the consolidated financial statements taken as a whole. Such reclassifications did not affect cash flows, net income, total assets, total liabilities or total equity.

Recently adopted accounting standards

In February 2015, the FASB issued ASU 2015-02 Amendments to the Consolidation Analysis. These amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company implemented this amendment for the three-months ended March 31, 2016. As a result of this implementation, there was no effect on the Company’s consolidation policy.

In April 2015, the FASB issued ASU 2015-03 Interest – Imputation of Interest. The amendments in this update require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of a debt liability, consistent with debt discounts. This guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. This guidance may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. In June 2015, the FASB issued ASU 2015-15 which acknowledges that the scope of ASU 2015-03 does not include line-of-credit arrangements but indicates that the SEC staff would not object to an entity deferring and presenting debt issuance costs for a line-of-credit borrowing arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The Company implemented this amendment for the three-months ended March 31, 2016. The result of this implementation was a reduction of approximately $4.9 million on the balance sheet in Prepaid expenses and other assets, and an offsetting reduction of approximately $4.9 million in Secured borrowings. There was no effect on net income, or equity.

Recently issued accounting standards

In May 2014, Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, the FASB issued ASU 2015-14 deferring the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is evaluating the impact of this amendment on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01Financial Instruments – Overall. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (1) requires equity investments to be measured at fair value with changes in fair value recognized in earnings, (2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (4) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (6) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (7) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07 Investments – Equity Method and Joint Ventures which is intended to simplify the transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 Compensation – Stock Compensation. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

Note 3 — Mortgage loans

The following table presents information regarding the accretable and non-accretable yield for loans acquired during the following periods ($ in thousands):

	Three months ended March 31, 2016		Twelve months ended December 31, 2015	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Contractually required principal and interest	$ 82,179	$ -	$ 752,457	$ 67,393
Non-accretable yield	(29,148)	-	(306,722)	(39,352)
Expected cash flows to be collected	53,031	-	445,735	28,041
Accretable yield	(15,853)	-	(118,673)	(8,281)
Fair value at acquisition	$ 37,178	$ -	$ 327,062	$ 19,760

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The following table presents the change in the accretable yield for the total loan portfolio for the following periods ($ in thousands):

Accretable yield	Three months ended March 31, 2016		Twelve months ended December 31, 2015	
	Re-performing loans	Non-performing loans	Re-performing loans	Non-performing loans
Balance at beginning of period	$136,455	$ 18,425	$54,940	$ 20,686
Accretable yield additions	15,853	-	118,673	8,281
Accretion	(13,540)	(2,274)	(37,158)	(10,542)
Balance at end of period	$138,768	$ 16,151	$136,455	$ 18,425

For the three-month periods ended March 31, 2016, and March 31, 2015, the Company recognized no provision for loan loss. For the three-month periods ended March 31, 2016, and March 31, 2015, the Company accreted $15.8 million and $6.9 million, respectively, into interest income with respect to its loan portfolio.

During the three-month periods ended March 31, 2016, and March 31, 2015, the Company recognized $0.2 million and $0.3 million, respectively, for due diligence costs for the acquisitions of mortgage loans.

The following table sets forth the carrying value of its mortgage loans, and related UPB by delinquency status as of March 31, 2016 and December 31, 2015 ($ in thousands):

	March 31, 2016			December 31, 2015		
	Number of loans	Carrying value	Unpaid principal balance	Number of loans	Carrying value	Unpaid principal balance
Current	1,418	$250,080	$321,072	1,161	$212,469	$272,577
30	471	84,367	106,121	479	83,936	107,873
60	280	49,147	61,772	338	55,573	70,781
90	782	120,370	155,524	867	127,435	167,177
Foreclosure	430	80,334	111,672	404	75,464	107,301
Mortgage loans	3,381	$584,298	$756,161	3,249	$554,877	$725,709

These balances do not include one loan in which we hold a 40.5% beneficial interest through an equity method investee.

As of March 31, 2016, the Company held 83 residential properties with a carrying value of $11.5 million that had been foreclosed. As of December 31, 2015, the Company held 55 residential properties with a carrying value of $6.8 million that had been foreclosed.

The Company's mortgage loans are secured by real estate. As such, the Company believes that the credit quality indicators for each of its mortgage loans are the timeliness of payments and the value of the underlying real estate. The Company categorizes mortgage loans as "re-performing" and as "non-performing." The Company monitors the credit quality of the mortgage loans in its portfolio on an ongoing basis, principally by considering loan payment activity or delinquency status. In addition, the Company assesses the expected cash flows from the mortgage loans, the fair value of the underlying collateral and other factors, and evaluates whether and when it becomes probable that all amounts contractually due will not be collected.

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Note 4 — Real estate assets, net

Rental property, net

As of March 31, 2016, the Company owned seven REO properties with an aggregate carrying value of $1.2 million held for investment as rentals, at which time one of these properties was rented. Five of these properties were acquired during the three-months ended March 31, 2016, through foreclosures, and two were transferred in from Property held-for sale. As of December 31, 2015, the Company had one REO property having an aggregate carrying value of $0.1 million held for use as a rental, which was rented at that time.

Property held-for-sale

As of March 31, 2016, the Company classified 87 REO properties having an aggregate carrying value of $13.4 million as real estate held for sale as they do not meet its residential rental property investment criteria. As of December 31, 2015, the Company classified 73 REO properties having an aggregate carrying value of $10.3 million as real estate held for sale as they do not meet its residential rental property investment criteria.

Dispositions

During the three-months ended March 31, 2016, the Company disposed of 18 held-for-sale residential properties and recognized a gain of $0.5 million. During the three-months ended March 31, 2015, the Company disposed of one residential property and recognized a loss of $2,000.

Note 5 — Fair value

The following tables set forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of March 31, 2016 and December 31, 2015 ($ in thousands):

March 31, 2016	Carrying Value	Level 1 Quoted prices in active	Level 2 Observable inputs other than	Level 3 Unobservable inputs

		markets	Level 1 prices	
Not recognized on consolidated balance sheet at fair value (assets)				
Mortgage loans, net	$584,298	-	-	$ 775,820
Property held for sale	$13,380			$ 18,217
Not recognized on consolidated balance sheet at fair value (liabilities)				
Secured borrowings	$260,032	-	$ 264,269	-
Borrowings under repurchase agreement	$136,496	-	$ 136,496	-

December 31, 2015	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Not recognized on consolidated balance sheet at fair value (assets)				
Mortgage loans, net	$554,877	-	-	$ 627,112
Property held for sale	$10,333		-	$ 12,581
Not recognized on consolidated balance sheet at fair value (liabilities)				
Secured borrowings	$265,006	-	$ 259,649	-
Borrowings under repurchase agreement	$104,533	-	$ 104,533	-

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The Company has not transferred any assets from one level to another level during either the three-months ended March 31, 2016 or the three-months ended March 31, 2015.

The carrying values of its cash and cash equivalents, cash held in trust, receivable from servicer, investment in affiliates, prepaid expenses and other assets, management fee payable and accrued expenses and other liabilities are equal to or approximate fair value. Property held-for-sale is measured at cost at acquisition and subsequently measured at the lower of cost or fair value less cost to sell on a nonrecurring basis. The fair value of property held-for-sale is generally based on estimated market prices from an independently prepared appraisal, an independent BPO, or an internal valuation based upon recent comparable selling prices.

The Company’s borrowings under repurchase transactions are short-term in nature, and the Company’s management believes it can renew the current borrowing arrangements on similar terms in the future. Accordingly, the fair value of these borrowings approximates carrying value.

The fair value of mortgage loans is estimated using the Manager’s proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to real estate owned is based upon the present value of future expected cash flows of the loans being transferred.

Significant changes to any of the unobservable inputs used in the fair value measurement of the Company’s mortgage loans including discount rates and loan resolution timelines among others, in isolation, could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. An increase in the loan resolution timeline in isolation would decrease the fair value. The following table sets forth quantitative information about the significant unobservable inputs used to measure the fair value of the Company’s mortgage loans as of March 31, 2016 and December 31, 2015:

	Range of Values	
Input	**March 31, 2016**	**December 31, 2015**
Equity discount rate – Re-performing loans	7% - 14%	7% - 14%
Equity discount rate – Non-performing loans	10% - 18%	10% - 18%
Cost of debt	4.25%	4.25%
Loan resolution timelines – Re-performing loans (in years)	4 - 7	4 - 7
Loan resolution timelines – Non-performing loans (in years)	1.4 - 4	1.4 - 4

Note 6 — Unconsolidated affiliates

The Company holds a 40.5% interest in a Delaware trust, GA-E 2014-12, which holds an economic interest in a single small-balance commercial loan secured by a commercial property in Portland, Oregon. At March 31, 2016, GA-E 2014-12 had a basis in the loan of $5.9 million and net income of $0.2 million for the three-months ended March 31, 2016, of which 40.5% is the Company's share. At December 31, 2015, GA-E 2014-12 had a basis in the loan of $5.8 million. The trust's net income was $0.2 million for the three-months ended March 31, 2015, of which 40.5% is the Company's share. The Company accounts for this investment using the equity method.

Upon the closing of the Company's original private placement in July, 2014, the Company received a 19.8% equity interest in Thetis, a privately held company for which there is no public market for its securities. At March 31, 2016, Thetis had total assets of $3.7 million, liabilities of $1.2 million, and net income of $0.2 million for the three-months ended March 31, 2016, of which 19.8% is the Company's share. At December 31, 2015, Thetis had total assets of $3.0 million and liabilities of $0.5 million. Thetis had net income of $0.2 million for the three-months ended March 31, 2015, of which 19.8% is the Company's share. The Company accounts for its investment in Thetis using the equity method.

On March 14, 2016, the Company formed AS Ajax E LLC, to hold an equity interest in a Delaware trust formed to own residential mortgage loans and residential real estate assets. DoubleLine Capital LP has ownership of 95% of the Trust. Through AS Ajax E LLC, the Company has ownership of 1.2% of the Trust, and other investors have ownership of 3.8% of the Trust. At March 31, 2016, the Trust had assets of $91.9 million and liabilities of $91.9 million, of which 1.2% is the Company's share. The Trust had no net income for the three-months ended March 31, 2016. The Company accounts for its investment in AS Ajax E LLC using the equity method.

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Note 7 — Commitments and contingencies

The Company regularly enters into agreements to acquire additional mortgage loans and mortgage-related assets, subject to continuing diligence on such assets and other customary closing conditions. There can be no assurance that the Company will acquire any or all of the mortgage loans identified in any acquisition agreement as of the date of these consolidated financial statements, and it is possible that the terms of such acquisitions may change.

At March 31, 2016, the Company had commitments to purchase 157 RPLs secured by single and one-to-four family residences with aggregate UPB of $38.5 million. The loans were acquired, subsequent to quarter end, at 72.6% of UPB and the estimated market value of the underlying collateral is $45.5 million. The purchase price equaled 61.5% of the estimated market value of the underlying collateral.

Litigation, claims and assessments

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of March 31, 2016, the Company was not a party to, and its properties were not subject to, any pending or threatened legal proceedings that individually or in the aggregate, are expected to have a material impact on its financial condition, results of operations or cash flows.

Note 8 — Debt

Repurchase agreement

On November 25, 2014, the Company entered into a repurchase facility pursuant to which a newly formed Delaware statutory trust, AJX Mortgage Trust I, (the “Seller”), that is wholly owned by the Operating Partnership will acquire, from time to time, pools of mortgage loans that are primarily secured by first liens on one-to-four family residential properties from its affiliates and/or third party sellers. These mortgage loans will generally be sold from time to time by the operating partnership as the “Guarantor” to the Seller pursuant to the terms of a mortgage loan purchase agreement by and between the Guarantor, as seller, and the Seller, as purchaser, in accordance with the terms thereof. Pursuant to a master repurchase agreement (the “2014 MRA”), these mortgage loans, together with the Seller’s 100% ownership interests in its wholly owned subsidiary, a newly formed Delaware limited liability company (“REO I”), and any future REO subsidiaries wholly owned by the Seller and certain other property of the Seller, will be sold by the Seller to Nomura Corporate Funding Americas, LLC, as buyer, from time to time, pursuant to one or more transactions, not exceeding $200 million at any point in time, with a simultaneous agreement by the Seller to repurchase such mortgage loans and other property, as provided in the 2014 MRA. The obligations of the Seller are guaranteed by the operating partnership. Repurchases under this facility carry interest calculated based on a spread to one-month LIBOR and are fixed for the term of the borrowing. The purchase price for each mortgage loan or REO is generally equal to 65% of the acquisition price for such asset or the then current BPO for the asset. The difference between the market value of the asset and the amount of the repurchase agreement is the amount of equity the Company has in the position and is intended to provide the lender some protection against fluctuations of value in the collateral and/or the failure by the Company to repay the borrowing at maturity. The Company has effective control over the assets associated with this agreement and therefore it is accounted for as a financing arrangement. The facility was amended on May 13, 2015 to increase the transaction limit, and on November 24, 2015 to extend the termination date. The facility termination date is November 22, 2016.

On December 23, 2015, the Company entered into a separate repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which it sold subordinated debt securities withheld from its 2014-B securitization (See Secured borrowings, below), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on June 23, 2016 including accrued interest of 2.91%.

On March 9, 2016, the Company entered into a separate repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which it sold subordinated debt securities withheld from its 2014-A and 2015-A and 2015-C securitizations (See Secured borrowings, below), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on September 9, 2016 including accrued interest of 3.00%.

On March 30, 2016, the Company renewed and extended an existing repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which it sold subordinated debt securities withheld from its 2015-B securitization (See Secured borrowings, below), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on September 30, 2016 including accrued interest of 3.01%.

Gregory services these mortgage loans and the REO properties pursuant to the terms of a servicing agreement by and among the Servicer, the Seller, REO I, and any other REO Subsidiary, which servicing agreement has the same fees and expenses terms as the Company's servicing agreement described under Note 9 — Related party transactions. The operating partnership as Guarantor will provide to the Buyer a limited guaranty of certain losses incurred by the Buyer in connection with certain events and/or the Seller's obligations under the MLPA, following the breach of certain covenants by the Seller or an REO Subsidiary related to their status as a special purpose entity, the occurrence of certain bad acts by the Seller Parties, the occurrence of certain insolvency events of the Seller or an REO Subsidiary or other events specified in the Guaranty. As security for its obligations under the Guaranty, the Guarantor will pledge the Trust Certificate representing the Guarantor's 100% beneficial interest in the Seller. The following table sets forth the details of the repurchase agreements ($ in thousands):

	March 31, 2016			
Maturity Date	Maximum borrowing capacity	Amount outstanding	Amount of collateral	Interest rate
June 23, 2016	$ 9,374	$ 9,374	$ 13,391	2.91 %
September 9, 2016	15,730	15,730	22,470	3.00 %
September 30, 2016	10,658	10,658	15,226	3.01 %
November 22, 2016	200,000	100,734	163,144	4.19 %
Totals	$ 235,762	$ 136,496	$ 214,231	3.87 %

	December 31, 2015			
Maturity Date	Maximum borrowing capacity	Amount outstanding	Amount of collateral	Interest rate
March 30, 2016	$ 10,838	$ 10,838	$ 15,483	2.53 %
June 23, 2016	9,374	9,374	13,391	2.91 %
November 22, 2016	200,000	84,321	135,736	4.17 %
Totals	$ 220,212	$ 104,533	$ 164,610	3.91 %

While the Guaranty establishes a master netting arrangement, the arrangement does not meet the criteria for offsetting. The amount outstanding on the Company's repurchase facility and the carrying value of the Company's loans pledged as collateral are presented as gross amounts in the Company's balance sheets at March 31, 2016 and December 31, 2015.

	Gross amounts not offset in balance sheet		
Balance sheet date	Gross amount of recognized liabilities	Gross amount pledged as collateral	Net amount
March 31, 2016	$ 136,496	$ 214,231	$ 77,735
December 31, 2015	$ 104,533	$ 164,610	$ 60,077

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Secured borrowings

From the commencement of operations to March 31, 2016, the Company has completed five securitizations pursuant to Rule 144A under the Securities Act. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on the Company's balance sheet as the Company is the primary beneficiary of the securitization trusts, which are VIEs. The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of the Company's other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. The Company does not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

The Company's securitizations are structured with Class A notes, Class B notes, and trusts which have rights to the residual interests in the mortgages once the notes are repaid. For each of the Company's five securitizations through March 31, 2016, the Company has retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B notes while the Class A notes were outstanding. As the holder of the trust certificates, the Company is entitled to receive any remaining amounts in the trust after the Class A notes and Class B notes have been paid in full.

The following table sets forth the original terms of all securitization notes at their respective cutoff dates:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2014-A/ October 2014	Class A notes due 2057(1)	$45 million	4.00	%
	Class B-1 notes due 2057(2)(4)	$8 million	5.19	%
	Class B-2 notes due 2057(2)(4)	$8 million	5.19	%
	Trust certificates(3)	$20.4 million	–	

Ajax Mortgage Loan Trust 2014-B / November 2014	Class A notes due 2054(1)	$41.2 million	3.85	%
	Class B-1 notes due 2054(2)(4)	$13.7 million	5.25	%
	Class B-2 notes due 2054(2)(4)	$13.7 million	5.25	%
	Trust certificates(3)	$22.9 million	–	
Ajax Mortgage Loan Trust 2015-A / May 2015	Class A notes due 2054(1)	$35.6 million	3.88	%
	Class B-1 notes due 2054(2)(4)	$8.7 million	5.25	%
	Class B-2 notes due 2054(2)(4)	$8.7 million	5.25	%
	Trust certificates(3)	$22.8 million	–	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060(1)	$87.2 million	3.88	%
	Class B-1 notes due 2060(2) (4)	$15.9 million	5.25	%
	Class B-2 notes due 2060(2) (4)	$7.9 million	5.25	%
	Trust certificates(3)	$47.5 million	–	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057(1)	$82.0 million	3.88	%
	Class B-1 notes due 2057(2) (4)	$6.5 million	5.25	%
	Class B-2 notes due 2057(2) (4)	$6.5 million	5.25	%
	Trust certificates(3)	$35.1 million	–	

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(1) The Class A notes are senior, sequential pay, fixed rate notes.

(2) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. The Company has retained the Class B notes.

(3) The trust certificate issued by the trust and the beneficial ownership of the trust are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificate, the Company is entitled to receive any remaining amounts in the trust after the Class A notes and Class B notes have been paid in full.

(4) These securities are encumbered under the Company's repurchase agreement.

Servicing for the mortgage loans in the Company's securitizations is provided by the Servicer at a servicing fee rate of 0.65% annually of UPB for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition, and is paid monthly. The following table sets forth the status of the notes held by others at March 31, 2016, December 31, 2015, and the securitization cutoff date ($ in thousands):

	Balances at March 31, 2016		Balances at December 31, 2015		Original balances at securitization cutoff date	
Class of Notes	Carrying value of mortgages	Bond principal balance	Carrying value of mortgages	Bond principal balance	Mortgage UPB	Bond principal balance
2014-A	$ 54,269	$ 35,906	$ 55,098	$ 36,463	$ 81,405	$ 45,000
2014-B	65,775	34,422	66,292	35,646	91,535	41,191
2015-A	53,118	32,903	53,673	33,674	75,835	35,643
2015-B	112,392	83,711	115,395	84,973	158,498	87,174
2015-C	106,245	78,011	108,238	79,824	130,130	81,982
Deferred expenses	-	(4,921)	-	(5,574)	-	(6,968)
	$ 391,799	$ 260,032	$ 398,696	$ 265,006	$ 537,403	$ 284,022

The Company's obligations under its secured borrowings are not fixed, and the payments on these borrowings are predicated upon cash flows received on the underlying mortgage loans. Accordingly, a projection of contractual maturities over the next five years is inapplicable.

Note 9 — Related party transactions

The Company's consolidated statement of income included the following significant related party transactions ($ in thousands):

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Amount	Counterparty	Amount	Counterparty

			Consolidated Statement of Income location			Consolidated Statement of Income location
Loan servicing fees	$1,403	Gregory	Related party expense – loan servicing fees	$656	Gregory	Related party expense – loan servicing fees
Management fee	$906	Thetis	Related party expense – management fee	$747	Thetis	Related party expense – management fee
Due diligence and related loan acquisition costs	$26	Gregory	Loan transaction expense	$18	Gregory	Loan transaction expense

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The Company’s consolidated balance sheets included the following significant related party balances ($ in thousands):

	March 31, 2016			December 31, 2015		
	Amount		Consolidated Balance Sheet location	Amount	Counterparty	Consolidated Balance Sheet location
Receivables from Servicer	$8,108	Gregory	Receivable from Servicer	$5,444	Gregory	Receivable from Servicer
Management fee payable	$679	Thetis	Management fee payable	$667	Thetis	Management fee payable
Servicing fees payable	$200	Gregory	Accrued expenses and other liabilities	$152	Gregory	Accrued expenses and other liabilities
Expense reimbursement receivable	-	-	Prepaid expenses and other assets	$37	Thetis	Prepaid expenses and other assets

Management Agreement

On July 8, 2014, the Company entered into a 15-year management agreement (the “Management Agreement”) with the Manager. Under the Management Agreement, the Manager implements the Company’s business strategy and manages the Company’s business and investment activities and day-to-day operations, subject to oversight by the Company’s board of directors. Among other services, the Manager, directly or through Aspen affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees (other than its Chief Financial Officer) and does not expect to have any other employees in the foreseeable future. Each of the Company’s executive officers is an employee or officer, or both, of the Manager or the Company’s Servicer.

Under the Management Agreement, the Company pays both a base management fee and an incentive fee to the Manager.

The Base Management Fee equals 1.5% of our stockholders’ equity per annum and calculated and payable quarterly in arrears. For purposes of calculating the management fee, the Company’s stockholders’ equity means: (a) the sum of (i) the net proceeds from any issuances of common stock or other equity securities issued by the Company or the operating partnership (without double counting) since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), and (ii) the Company’s and the operating partnership’s (without double counting) retained earnings calculated in accordance with U.S. GAAP at the end of the most recently completed fiscal quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (A) any amount that the Company or the operating partnership pays to repurchase shares of common stock or OP Units since inception, (B) any unrealized gains and losses and other non-cash items that have affected consolidated stockholders' equity as reported in the Company's financial statements prepared in accordance with U.S. GAAP, and (C) one-time events pursuant to changes in U.S. GAAP, and certain non-cash items not otherwise described above, in each case after discussions between the Manager and the Company's independent directors and approval by a majority of the Company's independent directors. As a result, the Company's stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on the Company's consolidated financial statements.

The initial $1 million of the quarterly Base Management Fee will be payable 75% in cash and 25% in shares of the Company's common stock. Any amount of the Base Management Fee in excess of $1 million will be payable in shares of the Company's common stock until payment is 50% in cash and 50% in shares (the "50/50 split"). Any remaining amount of the quarterly Base Management Fee after the 50/50 split threshold is reached will be payable in equal amounts of cash and shares. As for the Manager's Incentive Fee, in the event that the payment of the quarterly Base Management Fee has not reached the 50/50 split, all of the Incentive Fee will be payable in shares of the Company's common stock until the 50/50 split occurs. In the event that the total payment of the quarterly Base Management Fee and the Incentive Fee has reached the 50/50 split, 20% of the remaining Incentive Fee is payable in shares of the Company's common stock and 80% of the remaining Incentive Fee is payable in cash. The common stock will be determined using the higher of the most recently reported book value or the average of the closing prices of our common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. The Manager has agreed to hold any shares of common stock received by it as payment of the base management fee for at least three years from the date such shares of common stock are received by it.

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The Manager is also entitled to an incentive management fee that is payable quarterly in arrears in cash in an amount equal to one-fourth of 20% of the dollar amount by which (i) the sum of (A) the aggregate cash dividends, if any, declared out of the REIT taxable income of the Company by the Company's Board of Directors payable to the holders of the Company's common stock and (B) the aggregate cash distributions, if any, declared out of the REIT taxable income of the operating partnership (without duplication) by the operating partnership payable to holders of OP Units (other than any OP Units held by the Company as a limited partner) annualized, or the Annualized Dividends and Distributions, in respect of such calendar quarter exceeds (ii) the product of (1) the book value per share of the Company's common stock as of the end of each such quarter multiplied by the number of shares of the Company's common stock and OP Units (other than any OP Units held by the Company as a limited partner) outstanding as of the end of such calendar quarter and (2) 8%. Notwithstanding the foregoing, no incentive fee will be payable to the Manager with respect to any calendar quarter unless its cumulative core earnings, as defined in the agreement, is greater than zero for the most recently completed eight calendar quarters, or the number of completed calendar quarters since the closing date of the Original Private Placement, whichever is less.

The Company also reimburses the Manager for all third-party, out-of-pocket costs incurred by the Manager for managing its business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. The Company will not reimburse the Manager for lease costs or salaries and expenses of employees of the Manager. The reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

The Company will be required to pay the Manager a termination fee in the event that the Management Agreement is terminated as a result of (i) a termination by the Company without cause, (ii) its decision not to renew the Management Agreement upon the determination of at least two thirds of the Company's independent directors for reasons including the failure to agree on revised compensation, (iii) a termination by the Manager as a result of the Company becoming regulated as an "investment company" under the Investment Company Act of 1940 (other than as a result of the acts or omissions of the Manager in violation of investment guidelines approved by the Company's board of directors), or (iv) a termination by the Manager if the Company defaults in the performance of any material term of the Management Agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to the Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

Servicing Agreement

On July 8, 2014, the Company entered into a 15-year servicing agreement (the "Servicing Agreement") with the Servicer. The Company's overall servicing costs under the servicing agreement will vary based on the types of assets serviced.

Servicing fees are 0.65% annually of UPB for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition, and are paid monthly. The total fees incurred by us for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the servicing agreement. The fees do not change if a performing loan becomes non-performing or vice versa. Servicing fees for our real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by our Manager or 1.00% annually of the purchase price of any REO otherwise purchased by us.

The Company will also reimburse Gregory for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations to REO properties. The total fees incurred by the Company for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

If the Management Agreement has been terminated other than for cause and/or the Servicer terminates the servicing agreement, the Company will be required to pay a termination fee equal to the aggregate servicing fees payable under the servicing agreement for the immediate preceding 12-month period.

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Trademark Licenses

Aspen Yo has granted the Company a non-exclusive, non-transferable, non-sublicensable, royalty-free license to use the name “Great Ajax” and the related logo. The Company also has a similar license to use the name “Thetis.” The agreement has no specified term. If the Management Agreement expires or is terminated, the trademark license agreement will terminate within 30 days. In the event that this agreement is terminated, all rights and licenses granted thereunder, including, but not limited to, the right to use “Great Ajax” in its name will terminate. Aspen Yo also granted to the Manager a substantially identical non-exclusive, non-transferable, non-sublicensable, royalty-free license to use of the name “Thetis.”

Note 10 — Stock-based payments and director fees

Pursuant to the terms of the Management Agreement, the Company pays a portion of the base fee to the Manager in shares of its common stock with the number of shares determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. The Company paid the Manager a base fee for the quarter ended March 31, 2016 of $0.9 million of which the Company paid $0.2 million, in 14,916 shares of its common stock. The shares issued to the Manager are restricted securities subject to transfer restrictions, and were issued in a private placement transaction on April 27, 2016.

In addition, each of the Company’s independent directors receives an annual retainer of $50,000, payable quarterly, half of which is paid in shares of the Company’s common stock on the same basis as the stock portion of the management fee payable to the Manager and half in cash. The following table sets forth the Company’s stock-based management fees and independent director fees ($ in thousands except share amounts).

Management fees and director fees

	For the three months ended March 31, 2016		For the three months ended March 31, 2015	
	Number of shares	**Amount of expense recognized[(1)]**	Number of shares	**Amount of expense recognized[(1)]**
Management fees	14,916	$ 227	26,087	$ 373
Independent director fees	1,648	25	1,748	25
	16,564	$ 252	27,835	$ 398

(1) All management fees and independent director fees are fully expensed in the period in which they are incurred.

The Director Plan is designed to promote the Company's interests by attracting and retaining qualified and experienced individuals for service as non-employee directors. The Director Plan is administered by the Company's board of directors. The total number of shares of common stock or other stock-based award, including grants of long term incentive plan ("LTIP") units from the operating partnership, available for issuance under the Director Plan is 100,000 shares. At the closing of the Original Private Placement, the Company issued to each of its three independent directors restricted stock awards of 2,000 shares of its common stock, which are subject to a one-year vesting period. At the time of the IPO in February 2015, the Company added an additional independent director who was also granted a restricted stock award of 2,000 shares of its common stock, subject to a one-year vesting period.

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The following table sets forth the activity in its restricted stock plan ($ in thousands, except share and per share amounts):

Restricted stock

	Number of shares	Per share value	Total cost of grant	Grant expense recognized for the three months ended March 31, 2016	Grant expense recognized for the three months ended March 31, 2015
July 8, 2014, Directors' Grants[1]	6,000	$ 15.00	$ 90	$ -	$ 22
February 19, 2015 Director Grant[1]	2,000	14.25	29	2	5
	8,000		$ 119	$ 2	$ 27

(1) Vesting period is one year from grant date.

Note 11 — Income taxes

As a REIT, the Company must meet certain organizational and operational requirements including the requirement to distribute at least 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be subject to U.S. federal income tax to the extent the Company distributes its REIT taxable income to its stockholders and provided the Company satisfies the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it lost its REIT qualification.

The Company's consolidated financial statements include the operations of Thetis TRS and GAJX Real Estate LLC, which are subject to U.S. federal, state and local income taxes on the Company's taxable income.

Provisions (benefit) for income taxes of $(3,000) and $0 were recorded for the three-month periods ended March 31, 2016 and March 31, 2015, respectively. The Company recognized no deferred income tax assets or liabilities on its consolidated balance sheet at March 31, 2016 or December 31, 2015. The Company also recorded no interest or penalties for either of the three-month periods ended March 31, 2016 or March 31, 2015.

Note 12 — Earnings per share

The following table sets forth the components of basic and diluted earnings per share ($ in thousands, except share and per share amounts):

	Three months ended March 31, 2016			Three months ended March 31, 2015		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS						
Consolidated income attributable to common stockholders	$ 7,651	15,306,519		3,640	13,008,268	
Allocation of earnings to participating restricted shares	(14)	-		(13)	-	
Consolidated income attributable to unrestricted common stockholders	$ 7,637	15,306,519	$ 0.50	$ 3,627	13,008,268	$ 0.28
Effect of dilutive securities						
Operating partnership units	312	624,106		175	624,106	
Restricted stock grants and Manager and director fee shares	14	28,577		13	48,313	
Diluted EPS						
Consolidated income attributable to common stockholders and dilutive securities	$ 7,963	15,959,202	$ 0.50	$ 3,815	13,680,687	$ 0.28

Note 13 — Subsequent events

Dividend Declaration

On April 26, 2016, the Company’s board of directors declared a dividend of $0.25 per share, to be paid on May 20, 2016, to stockholders of record as of May 13, 2016.

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Management Fees

On April 27, 2016, the Company issued 14,916 shares of its common stock to the Manager in payment of the stock-based portion of the management fee due for the first quarter of 2016 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the first quarter of 2016.

Directors’ Retainer

On April 27, 2016, the Company issued each of its independent directors 412 shares of its common stock in payment of half of their quarterly director fees for the first quarter of 2016.

Securitization

On April 11, 2016, the Company completed its sixth securitization. An aggregate of $101.4 million of senior securities and $15.8 million of subordinated securities were issued in a private offering with respect to $158.5 million UPB of mortgage loans. Approximately 83.1% of these mortgage loans were re-performing loans and approximately 16.9% were non-performing loans based on UPB.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "woul negatives of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

· the factors referenced in this report, including those set forth under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations";

· our ability to implement our business strategy;

· difficulties in identifying re-performing and non-performing loans and properties to acquire;

· the impact of changes to the supply of, value of and the returns on re-performing and non-performing loans;

· our ability to convert non-performing loans into performing loans, or to modify or otherwise resolve such loans;

· our ability to convert non-performing loans to properties that can generate attractive returns either through sale or rental;

· our ability to compete with our competitors;

· our ability to control our costs;

- the impact of changes in interest rates and the market value of the collateral underlying our re-performing and non-performing loan portfolios or of our other real estate assets;

- our ability to obtain financing arrangements on favorable terms, or at all;

- our ability to retain our engagement of our Manager;

- the failure of the Servicer to perform its obligations under the servicing agreement;

- general volatility of the capital markets;

- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;

- changes in our business strategy;

- our failure to qualify or maintain qualification as a real estate investment trust ("REIT");

- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act;

- our failure to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and

- the impact of adverse legislative or regulatory tax changes.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this quarterly report on Form 10-Q ("report"), unless the context indicates otherwise, references to "Great Ajax," "we," "the company," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp.; "operating partnership" refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership; "our Manager" refers to Thetis Asset Management LLC, a Delaware limited liability company; "Aspen Capital" refers to the Aspen Capital group of companies; "Aspen" and "Aspen Yo" refers to Aspen Yo LLC, an Oregon limited liability company that is part of Aspen Capital; "the Servicer" and "Gregory" refer to Gregory Funding LLC, an Oregon limited liability company and our affiliate, and an indirect subsidiary of Aspen Yo.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim Consolidated Financial Statements and related notes included in Item 1. Consolidated Interim Financial Statements of this report and in Item 8. Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Item 1A. of our most recent Annual Report on Form 10-K and Part II, Item 1A. of this report, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K.

Overview

Great Ajax Corp. is a Maryland corporation that focuses primarily on acquiring, investing in and managing a portfolio of re-performing and non-performing mortgage loans secured by single-family residences and, to a lesser extent, single-family properties. We also invest in loans secured by multi-family residential and commercial mixed use retail/residential properties, as well as in the properties directly. The multi-family and commercial mixed-use properties generally will have loan values of up to approximately $5 million. We refer to these as "smaller commercial properties." On July 8, 2014, we closed a private offering of shares of our common stock and limited partnership units of our operating partnership, or OP Units. We commenced operations on July 8, 2014, and we completed our IPO on February 19, 2015.

We are externally managed by Thetis Asset Management LLC, an affiliated entity. We own a 19.8% interest in the Manager. Our mortgage loans and other real estate assets are serviced by Gregory Funding LLC, an affiliated entity. We conduct substantially all of our business through our operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership, and its subsidiaries. We, through a wholly owned subsidiary, are the general partner of our operating partnership. GA-TRS LLC, or Thetis TRS, is a wholly owned subsidiary of the operating partnership that owns the equity interest in the Manager. We elected to treat Thetis TRS as a TRS under the Code. On February 22, 2016, we received a Private Letter Ruling from the Internal Revenue Service in connection with our income earned through the Manager. Currently, our interest in the Manager is held through a taxable REIT subsidiary and is subject to federal and state income taxes. The ruling affirmed that we can generally own the Manager indirectly through our operating partnership without the associated income impacting our applicable REIT testing requirements. Consistent with the ruling, we are currently exploring options for transferring our interest in the Manager to our operating partnership. Great Ajax Funding LLC is a wholly owned subsidiary of the operating partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional securitizations. AJX Mortgage Trust I, a wholly owned subsidiary of the operating partnership, was formed in connection with a repurchase agreement. GAJX Real Estate LLC, a wholly owned subsidiary of the operating partnership, was formed to own, maintain, improve and sell REO purchased by us. We have elected to treat GAJX Real Estate LLC as a TRS under the Code.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation enables us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

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Market Trends and Outlook

We believe that cyclical trends are prompting a significant realignment within the mortgage sector. These trends and their effects include:

- continuing sales of residential mortgage assets by banks and other mortgage lenders due to elevated operating costs resulting from new regulatory requirements, delinquencies and impairments;
- the continuing decline in home ownership that, conversely, has increased the demand for single-family and multi-family residential rental properties and associated rents;
- the dislocations in the residential mortgage loan origination market and the limited availability of financing for non-GSE mortgages since 2008, which have made qualifying for a mortgage loan more difficult. These factors, combined with shifting demographic trends and the need for families pushed out of their homes through foreclosure or the inability to continue to pay their mortgage loans, are driving increased demand for loan modifications, non-GSE mortgage financing and single-family rental properties;
- the changing regulatory landscape, leading to the reduction of the government's role in, and the return of private capital, including non-bank participants, to the housing finance market; some of the changes have begun to be implemented, as evidenced by the tightening of conforming loan limits and increases in guarantee fees; and
- under-employment continuing to be a concern and real wages continuing to be stagnant, which means that the ability of borrowers to continue to pay their existing mortgage loans will likely remain under pressure.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans has dramatically declined since 2008 and the new qualified mortgage and ability-to-repay rule requirements will also put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe new U.S. federal regulations addressing "qualified mortgages" based, among other factors on employment status, debt-to-income level, impaired credit history or lack of savings, will continue to limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels in the foreseeable future.

We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many non-performing loan buyers are now interested in reducing their investment duration and have begun selling re-performing loans.

We also believe there are significant attractive investment opportunities in the smaller commercial mortgage loan and property markets. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial mortgage loans as property values have begun to increase.

Factors That May Affect Our Operating Results

Acquisitions. Our operating results depend heavily on sourcing re-performing and non-performing loans. We believe that there is currently a large supply of re-performing and non-performing loans available to us for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan on targeting just a small percentage of the population. We further believe that we will be able to purchase residential mortgage loans at lower prices than "real estate owned" properties, or REO, for the following reasons.

- We believe that buying re-performing loans is more efficient and lower risk than acquiring REO rentals directly because the net cash flow from the re-performing loans is typically greater than rent cash flow. Re-performing loans are typically purchased at significant discounts from UPB and underlying property values, but the borrower pays interest on the full UPB, leading to a higher current yield. The borrower is also responsible for property taxes, insurance and maintenance, which are all costs that the owner of the REO would otherwise have to pay. In addition, to the extent that the UPB exceeds the home's value, the lender will receive all appreciation until such time as the home price appreciation ("HPA") exceeds the UPB. While the return to the mortgage loan owner is thus capped, conversely, there is also risk mitigation if the REO value decreases, until the value is less than the price the lender paid for the loan.

- If a re-performing loan becomes a non-performing loan, or we purchase a non-performing loan, which is purchased at a deeper discount than re-performing loans, we, through the Servicer, have a number of ways to mitigate our loss. These loss mitigation techniques include working with the borrower to achieve performance, including through modification of the mortgage loan terms as well as short sale, assisted deed-in-lieu of foreclosure, assisted deed-for-lease, foreclosure and other loss mitigation activities. With each REO acquired, we assess the best potential return—either through rental, sale with carryback financing, which we believe will increase the potential pool of purchasers, or sale without our financing the purchase.

- We believe that we will be able to purchase residential mortgage loans at lower prices than REO properties because sellers of such loans will be able to avoid paying the costs typically associated with sales of real estate, whether single-family residences or smaller commercial properties, such as broker commissions and closing costs of up to 10% of gross proceeds of the sale. We believe this will motivate the sellers to accept a lower price for the re-performing and non-performing loans than they would if selling REO.

- We believe there are fewer participants in the re-performing and non-performing loan marketplace than in the foreclosure auction and other REO acquisition channels due to the large size of portfolios offered for sale on an "all or none” basis and the required operational infrastructure and expertise involved in servicing loans and managing single-family rental properties across various states. Additionally, as the acquirer of loans, we take the risk of delays in the foreclosure process for non-performing loans. We will focus on smaller pools of mortgage loan assets that we can analyze on a loan-by-loan basis, and we believe that we will be able to aggregate these smaller pools often at a greater discount than would be available for larger pools. We believe the relatively lower level of competition for re-performing and non-performing loans, combined with growing supply, provides buyers with the opportunity for a higher discount rate relative to the foreclosure auction and other REO acquisition channels and therefore a relatively lower cost to acquire REO.

We expect that our residential mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of our success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of unacquired loans typically constitutes a small portion of a particular portfolio. In any case where we do not acquire the full portfolio, we make appropriate adjustments to the applicable purchase price.

Financing. Our ability to grow our business by acquiring re-performing and non-performing loans depends on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. We securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on our balance sheet. In October 2014, November 2014, May 2015, July 2015 and October 2015, we completed securitization transactions pursuant to Rule 144A under the Securities Act of 1933, as amended, or the Securities Act, in which we issued notes primarily secured by seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties. Subsequent to quarter end, we completed our sixth securitization, which closed on April 4, 2016. On April 11, 2016, we completed our sixth securitization. An aggregate of $101.4 million of senior securities and $15.8 million of subordinated securities were issued in a private offering with respect to $158.5 million UPB of mortgage loans. Approximately 83.1% of these mortgage loans were re-performing loans and approximately 16.9% were non-performing loans based on UPB. Net proceeds from the sale of the senior securities provided leverage of approximately 5.4 times the related equity.

To qualify as a REIT under the Code, we generally will need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Resolution Methodologies. We, through the Servicer, or our affiliates, employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. The manner in which a non-performing loan is resolved will affect the amount and timing of revenue we will receive. Our preferred resolution methodology is to modify non-performing loans. Once successfully modified and there is a period of continued performance, we expect that borrowers will typically refinance these loans either with other lenders or by the Servicer at or near the estimated value of the underlying property. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these modified loans. Though we do not actively seek to acquire REO or rental properties, through historical experience, we expect that many of our non-performing residential mortgage loans will enter into foreclosure or similar proceedings, ultimately becoming REO that we can convert into single-family rental properties that we believe will generate long-term returns for our stockholders. REO property can be converted into single-family rental properties or they may be sold through REO liquidation and short sale processes. We expect the timelines for each of the different processes to vary significantly, and final resolution could take up to 48 months or longer from the loan acquisition date. The exact nature of resolution will depend on a number of factors that are beyond our control, including borrower willingness, property value, availability of refinancing, interest rates, conditions in the financial markets, regulatory environment and other factors. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we intend to dispose of any asset that may be treated as held “primarily for sale to customers in the ordinary course of a trade or business” by contributing or selling the asset to a

TRS prior to marketing the asset for sale.

The state of the real estate market and home prices will determine proceeds from any sale of real estate. We will opportunistically and on an asset-by-asset basis determine whether to rent any REO we acquire, whether upon foreclosure or otherwise, we may determine to sell such assets if they do not meet our investment criteria. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of our portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control. Generally, rising home prices are expected to positively affect our results. Conversely, declining real estate prices are expected to negatively affect our results.

Conversion to rental property. The key variables that will affect our residential rental revenues over the long-term will be the extent to which we acquire REO, which, in turn, will depend on the amount of our capital invested, average occupancy and rental rates in our owned rental properties. We expect the timeline to convert acquired loans into rental properties will vary significantly by loan, which could result in variations in our revenue

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and our operating performance from period to period. There are a variety of factors that may inhibit our ability, through the Servicer, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and the associated deferrals (including from litigation); unauthorized occupants of the property; U.S. federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures that may delay the foreclosure process; U.S. federal government programs that require specific procedures to be followed to explore the non-foreclosure outcome of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and declines in real estate values and high levels of unemployment and underemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

Expenses. Our expenses primarily consist of the fees and expenses payable by us under the Management Agreement and the Servicing Agreement. Our Manager incurs direct, out-of-pocket costs related to managing our business, which are contractually reimbursable by us. Depreciation and amortization is a non-cash expense associated with the ownership of real estate properties and generally remains relatively consistent each year at an asset level since we depreciate our properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money.

Changes in home prices. As discussed above, generally, rising home prices are expected to positively affect our results, particularly as it should result in greater levels of re-performance of mortgage loans, faster refinancing of those mortgage loans, more re-capture of principal on greater than 100% LTV (loan-to-value) mortgage loans and increased recovery of the principal of the mortgage loans upon sale of any REO. Conversely, declining real estate prices are expected to negatively affect our results, particularly if the price should decline below our purchase price for the loans and especially if borrowers determine that it is better to strategically default as their equity in their homes decline. While home prices have risen to nearly pre-Great Recession levels in many parts of the United States, there are still significant regions where values have not materially increased. When we analyze loan and property acquisitions we do not take HPA into account except for rural properties for which we model negative HPA related to our expectation of worse than expected property condition. We typically concentrate our investments in specific urban geographic locations in which we expect stable or better property markets, although we do not use any appreciation expectation in the performance modeling.

Changes in market interest rates. With respect to our business operations, increases in interest rates, in general, may over time cause: (1) the value of our mortgage loan and MBS (retained from our securitizations) portfolio to decline; (2) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our mortgage loans and MBS portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; (4) the interest expense associated with our borrowings to increase; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase. Conversely, decreases in interest rates, in general, may over time cause: (a) prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the accretion of our purchase discounts; (b) the value of our mortgage loan and MBS portfolio to increase; (c) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to lower interest rates; (d) the interest expense associated with our borrowings to decrease; and (e) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Market conditions. Due to the dramatic repricing of real estate assets during the most recent financial crisis and the continuing uncertainty in the direction and continuing strength of the real estate markets, we believe a void in the debt and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. We believe the dislocations in the residential real estate market have resulted or will result in an “over-correction” in the repricing of real estate assets, creating a potential opportunity for us to capitalize on these market dislocations and capital void.

We believe that in spite of the continuing uncertain market environment for mortgage-related assets, current market conditions offer potentially attractive investment opportunities for us, even in the face of a riskier and more volatile market environment, as the depressed trading prices of our target assets have caused a corresponding increase in available yields. We expect that market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

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Critical Accounting Policies and Estimates

Mortgage loans. Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to real estate owned. Observable inputs to the model include current interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans acquired with deterioration in credit quality. The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, (Accounting for Loans with Deterioration in Credit Quality). The Company's recognition of interest income for loans within the scope of ASC 310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Re-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, non-performing mortgage loans have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the closing date but prior to boarding. Any gain or loss on incurred on these loans is recognized in other income in the period the loan pays in full.

The Company's accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable difference. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is recognized as accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as interest income on a prospective level yield basis over the life of the pool. The excess of a loan's contractually required payments receivable over the amount of cash flows expected at the acquisition is the non-accretable yield. The Company's expectation of the amount of cash flows expected to be collected is evaluated at the end of each calendar quarter. In the event the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. In the event the Company expects to collect lower cash flows over the life of the pool, the Company records an impairment through the allowance for loan losses.

Loans acquired that have not experienced a deterioration in credit quality. While the Company generally acquires loans that have experienced deterioration in credit quality, it may, from time to time, acquire loans that have not missed a scheduled payment and have not experienced a deterioration in credit quality.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Company's policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably assured, in which case the loan is returned to accrual status.

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An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

While the Company generally intends to hold its assets as long-term investments, it may sell certain of its loans in order to manage its interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. The timing and impact of future sales of loans, if any, cannot be predicted with any certainty. Since the Company expects that its assets will generally be financed, it expects that a significant portion of the proceeds from sales of its assets (if any), prepayments and scheduled amortization will be used to repay balances under its financing sources.

Real estate. Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that is currently unoccupied and actively marketed for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis, net realizeable value (fair market value less expected selling costs), appraisals or BPOs. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

If the carrying amount of a held-for-investment asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. The Company generally estimates the fair value of assets held for use by using BPOs. In some instances, appraisal information may be available and is used in addition to BPOs.

The Company performs property renovations to maximize the value of the property for its rental strategy. Such expenditures are part of its initial investment in a property and, therefore, are capitalized as part of the basis of the property. Subsequently, the residential property, including any renovations that improve or extend the life of the asset, are accounted for at cost. The cost basis is depreciated using the straight-line method over an estimated useful life of three to 27.5 years. Interest and other carrying costs incurred during the renovation period are capitalized until the property is ready for its intended use. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

Secured debt. The Company issues callable debt secured by its mortgage loans in the ordinary course of business. Coupon interest on the debt is recognized using the accrual method of accounting. Original issue discount and debt issuance costs are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of discount and issuance cost amortization.

Fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level l—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

Property held-for-sale is carried at the lower of its acquisition basis, net realizeable value (fair market value less expected selling costs), appraisals or an independent broker price opinion (“BPO”). Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. The fair value of property held-for-sale is generally based on estimated market prices from an independently prepared appraisal, BPO, or an internal valuation based upon recent comparable selling prices.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to real estate owned is based upon the present value of future expected cash flows of the loans being transferred.

Income Taxes. We elected REIT status upon the filing of our 2014 income tax return, and have conducted our operations in order to satisfy and maintain eligibility for REIT status. Accordingly, we do not believe we will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of our REIT taxable income that is distributed to our stockholders as long as certain asset, income and stock ownership tests are met. If we fail to qualify as a REIT in any taxable year, we generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. We may also be subject to state or local income or franchise taxes.

Thetis TRS, GAJX Real Estate LLC and any other TRS that we form, will be subject to U.S. federal and state income taxes. On February 22, 2016, we received a Private Letter Ruling from the Internal Revenue Service in connection with our income earned through the Manager. Currently, our interest in the Manager is held through a taxable REIT subsidiary and is subject to federal and state income taxes. The ruling affirmed that we can generally own the Manager indirectly through our operating partnership without the associated income impacting our applicable REIT testing requirements. Consistent with the ruling, we are currently exploring options for transferring our interest in the Manager to our operating partnership. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to our judgment, we reduce a deferred tax asset by a valuation allowance if it is "more-likely-than-not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and we recognize tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

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We evaluate tax positions taken in our consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, we may recognize a tax benefit from an uncertain tax position only if it is “more-likely-than-not” that the tax position will be sustained on examination by taxing authorities.

Our tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by us may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company will furnish annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

Emerging growth company. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our consolidated financial statements may, therefore, not be comparable to those of companies that comply with such new or revised accounting standards.

Recent Accounting Pronouncements

Refer to the notes to our interim consolidated financial statements for a description of relevant recent accounting pronouncements.

Results of Operations

For the three-months ended March 31, 2016, our net interest income was $10.8 million, our consolidated net income was $8.0 million, and diluted earnings per share was $0.50, compared to net interest income of $5.8 million, consolidated net income of $3.8 million and diluted earnings per share of $0.28 for the three months ended March 31, 2015.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except shares and per share data)

	Three months ended March 31, 2016	Three months ended March 31, 2015
INCOME		
Loan interest income	$ 15,814	$ 6,884
Interest expense	(4,987)	(1,075)
Net interest income	10,827	5,809
Income from investment in Manager	44	40
Other income	540	184
Total income	11,411	6,033
EXPENSE		
Related party expense – loan servicing fees	1,403	656
Related party expense – management fee	906	747
Loan transaction expense	213	260
Professional fees	414	385
Real estate operating expenses	162	10
Other expense	353	160
Total expense	3,451	2,218
Income before provision for income taxes	7,960	3,815
Provision for income taxes	(3)	-
Consolidated net income	7,963	3,815

Our primary source of income is interest and discount accretion earned on our loan portfolio offset by the interest expense incurred to fund portfolio acquisitions.

The increase in our interest income, consolidated income, and diluted earnings per share between the three-months ended March 31, 2016 and the three-months ended March 31, 2015 is due to the increase in our loan portfolio from 1,827 loans with a UPB of $399.0 million at March 31, 2015 to 3,381 loans with a UPB of $756.2 million, not including one loan in which we hold a 40.5% interest through an equity method investee. Additionally, re-default rates on our RPL portfolio were lower than expected, extending the duration of the portfolio and reducing the current period income. Our operating income for the three-months ended March 31, 2016 included $9.0 million of non-cash interest income accretion, compared to $4.2 million of non-cash interest income accretion for the three-months ended March 31, 2015.

Interest income increased $8.9 million for the three months ended March 31, 2016 versus the comparable three-month period as a result of a net $339.2 million increase in the average carrying value of the mortgage loans offset by a 0.55% decrease in the average effective yield. The reduction in the effective yield is a result of lower delinquency rates on certain of our RPL pools that extends the duration of the pools. The extended duration results in higher expected cash flows but results in a reduction of current period income. For the quarter ended March 31, 2016, we recorded $6.8 million in interest income and $9.0 million in discount accretion versus $2.7 million and $4.2 million, respectively, for the quarter ended March 31, 2015**.**

	Three months ended March 31, 2016		Three months ended March 31, 2015	
Average portfolio balance	$ 568,908		$ 229,751	
Average earnings rate	11.7	%*	12.2	%*

* Monthly compounded annual yield

Interest expense increased $3.9 million for the quarter ended March 31, 2016 versus the comparable period primarily due to increases in our average balance secured borrowings and borrowings under repurchase agreement. Our ending balance of secured borrowings at March 31, 2016 was $260.0 million versus $81.3 million at March 31, 2015. Our ending balance of borrowing under repurchase agreement at March 31, 2016 was $136.5 million versus $15.1 million at March 31, 2015. The increase in the average interest expense rate primarily results from the original issue discount and debt issuance costs of the senior bonds in our secured borrowing.

	Three months ended March 31, 2016		Three months ended March 31, 2015	
Average borrowing balance	$ 384,486		$ 99,167	
Average interest expense rate	5.2	%*	4.3	%*

* Annualized

Other income increased $0.3 million for the three months ended March 31, 2016 versus the comparable quarter primarily due to increased late fees, higher gain on the sale of REO and a gain recorded on a loan that was acquired during the calendar quarter but that paid off prior to boarding . Income from our investment in manager was flat quarter over quarter.

Total expenses for the quarter ended March 31, 2016 increased $1.2 million versus the comparable quarter primarily due to increases in loan servicing fees, management fees, real estate operating expenses and other expense. Loan servicing fees increased $0.7 million versus the comparable quarter as a result of the increase in the balance of the mortgage loans subject to servicing fees. Management fee expense increased commensurate with the increase in stockholder's equity at March 31, 2016 versus the comparable quarter. Real estate operating expenses increased $0.2 million quarter over quarter due to higher property taxes, insurance and HOA fees on the increased REO portfolios.

Other expenses increased $0.2 million quarter over quarter on higher Corporate expenses associated with the overall growth of the Company.

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Our net book value per share was $15.18, and $14.92 at March 31, 2016 and December 31, 2015, respectively, an increase of $0.26 due to the increase in equity from our earnings. The net book value per share is calculated by dividing equity by total adjusted shares outstanding, including OP Units (which are redeemable on a 1-for-1 basis into shares of our common stock after one year of ownership) and Manager and director shares not issued as of the date indicated.

	March 31, 2016	December 31, 2015
Outstanding shares	15,318,532	15,301,946
Adjustments for:		
Operating partnership units	624,106	624,106
Manager and director shares earned but not issued as of the date indicated	16,564	16,586
Total adjusted shares outstanding	15,959,202	15,942,638

Portfolio acquisitions
(dollars in thousands)

	Three months ended March 31, 2016	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended June 30, 2015
RPLs				
Count	218	333	393	758
UPB	$ 49,685	$ 60,956	$ 91,764	$ 188,935
Purchase price	$ 37,148	$ 45,861	$ 66,852	$ 150,388
Purchase price % of UPB	74.8 %	75.7 %	72.9 %	79.6 %
NPLs				
Count	-	4	-	69
UPB	$ -	$ 910	$ -	$ 15,710
Purchase price	$ -	$ 585	$ -	$ 9,044
Purchase price % of UPB	-	64.8 %	-	57.6 %

Mortgage loans purchased during the quarter and held as of March 31, 2016 were on our balance sheet for a weighted average of 45 days of the quarter. Our average assets during the quarter were $626.0 million and our average equity was $240.3 million. At March 31, 2016, our total assets were $642.7 million and total equity was $242.2 million, compared to total assets of $609.8 million and total equity of $237.8 million at December 31, 2015.

During the quarter, we established a joint-venture with DoubleLine Capital LP, which purchased 568 RPLs for $90.2 million. The purchase price equaled 86.4% of UPB and 59.0% of the underlying property value. DoubleLine Capital LP has ownership of 95% of the joint venture, we have ownership of 1.2%, and other investors have ownership of 3.8%. Our Manager will act as administrator for the joint venture, and our servicer will perform all servicing for this pool of loans. We have the option to increase our ownership percentage in the future through increased participation in the joint venture's future asset purchases, if any.

As of March 31, 2016, our portfolio of mortgage-related assets consisted of the following *(dollars in thousands):*

No. of Loans	3,382	Weighted Average Remaining Term	313.4
Total UPB	$758,734	No. of first liens	3,361
Interest-Bearing Balance	$705,441	No. of second liens	21
Deferred Balance(2)	$53,294	No. of Rental Properties	7
Market Value of Collateral(3)	$861,366	Market Value of Rental Properties	$1,570
Price/Total UPB(3)	73.6 %	Capital Invested in Rental Properties	$1,155
Price/Market Value of Collateral	65.4 %	Price/Market Value of Rental Properties(6)	73.6 %
Weighted Average Coupon(4)	4.45 %	No. of Other REO	87
Weighted Average LTV(5)	102.4 %	Market Value of Other REO	$18,217

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(1) Information reflects one loan in which we hold a 40.5% beneficial interest through an equity method investee and two loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states.

(2) Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(3) As of date of acquisition.

(4) Our loan portfolio consists of fixed rate (51.0% of UPB), ARM (17.0% of UPB) and Hybrid ARM (32.0% of UPB) mortgage loans with original terms to maturity of not more than 40 years.

(5) UPB as of March 31, 2016 divided by market value of collateral as of date of acquisition and weighted by the UPB of the loan.

Our average assets during the quarter were $626.0 million and our average equity was $240.3 million. At March 31, 2016, our total assets were $642.7 million and total equity was $242.2 million, compared to total assets of $609.8 million and total equity of $237.8 million at December 31, 2015. During each of the three-month periods ended March 31, 2016, and March 31, 2015, 37 and 18 mortgage loans, respectively, representing 0.94% and 0.74%, respectively, of our ending UPB, had been repaid.

We closely monitor the status of our mortgage loans through our Servicer, as it works with our borrowers to improve their payment records. As of the March 31, 2016, of the 3,382 loans in our portfolio, 86.9% were re-performing loans and 13.1% were non-performing loans based on UPB. The following chart shows the percentages of our portfolio, based on UPB, represented by non-performing loans and re-performing loans at March 31, 2016.

Portfolio composition by re-performing and non-performing loans

	March 31, 2016	December 31, 2015
Re-performing loans	86.9 %	85.0 %
Non-performing loans	13.1 %	15.0 %
Total loans	100.0 %	100.0 %

The following table sets forth the years in which our mortgage loans were originated based upon UPB:

Mortgage loan portfolio by year of origination at March 31, 2016

Years of Origination	Percentage of UPB	
Prior to 1990	0.1	%
1990 – 2000	1.8	%
2001 – 2005	19.0	%
2006 – 2008	72.9	%
After 2008	6.2	%

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The following table identifies the mortgage loans by state, number of loans, loan value and collateral value and percentages thereof at March 31, 2016 identified above:

Loans by state as of March 31, 2016

($ in thousands)

State	Loan Count	UPB ($)	% of UPB	**Collateral Value ($)** (1)	% of Collateral Value	State	Loan Count	UPB ($)	% of UPB	**Collateral Value ($)** (1)	% of Collateral Value
CA	514	192,270	25.3%	231,182	26.8%	IN	56	5,086	0.7%	5,913	0.7%
FL	513	109,153	14.4%	110,644	12.8%	MO	30	4,046	0.5%	4,076	0.5%
NY	221	74,408	9.8%	98,159	11.4%	LA	29	3,629	0.5%	4,277	0.5%
NJ	187	54,376	7.2%	52,328	6.1%	DE	18	3,313	0.4%	4,205	0.5%
MD	126	33,203	4.4%	35,604	4.1%	RI	13	2,935	0.4%	2,854	0.3%
IL *	151	30,574	4.0%	28,529	3.3%	WI	20	2,922	0.4%	3,140	0.4%
MA	100	27,330	3.6%	32,680	3.8%	DC	8	2,514	0.3%	4,085	0.5%
TX	202	23,200	3.1%	32,145	3.7%	NM	9	2,011	0.3%	2,472	0.3%
GA *	134	18,517	2.4%	19,166	2.2%	NH	9	1,999	0.3%	2,453	0.3%
VA	72	15,793	2.1%	16,956	2.0%	HI	8	1,958	0.3%	3,020	0.4%
AZ	77	15,715	2.1%	14,767	1.7%	KY	18	1,779	0.2%	2,004	0.2%
NC	107	13,585	1.8%	14,769	1.7%	MS	16	1,572	0.2%	1,746	0.2%
WA	52	12,626	1.7%	14,351	1.7%	PR	10	1,278	0.2%	1,626	0.2%
PA	118	11,776	1.6%	14,793	1.7%	IA	12	1,052	0.1%	1,120	0.1%
OH	87	11,658	1.5%	11,739	1.4%	ID	7	826	0.1%	1,285	0.1%
OR**	40	11,495	1.5%	14,467	1.7%	ME	6	923	0.1%	863	0.1%
CO	40	8,604	1.1%	11,467	1.3%	KS	8	681	0.1%	704	0.1%
MI	56	7,803	1.0%	8,838	1.0%	OK	10	675	0.1%	811	0.1%
SC	55	7,603	1.0%	8,226	1.0%	AR	9	664	0.1%	762	0.1%
NV	34	7,428	1.0%	7,547	0.9%	SD	3	626	0.1%	787	0.1%
TN	58	6,852	0.9%	8,048	0.9%	WV	6	547	0.1%	608	0.1%
CT	33	6,689	0.9%	6,519	0.8%	NE	4	308	0.0%	325	0.0%
UT	31	5,686	0.7%	6,514	0.8%	MT	1	133	0.0%	215	0.0%
AL	31	5,402	0.7%	5,340	0.6%	WY	1	92	0.0%	173	0.0%
MN	31	5,347	0.7%	6,905	0.8%	ND	1	73	0.0%	159	0.0%
						Total	**3,382**	758,734	100.0%	861,367	100.0%

* Information reflects two loans in which we have a 95% participation interest and are owned by the Servicer because neither we nor our subsidiaries have the necessary licenses in certain states.

** Information reflects one loan in which we hold a 40.5% beneficial interest through an equity method investee.

(1) As of date of acquisition.

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The following table presents certain characteristics about our mortgage loans at March 31, 2016:

	Year of Origination				
Portfolio Characteristics:	After 2008	2006-2008	2001-2005	1990-2000	Prior to 1990
Number of loans	236	2,149	785	196	16
Current unpaid principal balance	$46,779	$553,006	$144,325	$14,066	$558
Loan Attributes:					
Weighted average loan age (months)	61.4	110.7	139.4	217.9	348.4
Weighted average loan-to-value (as of 3/31/16)	89.5%	109.0%	90.3%	67.6%	22.4%
Delinquency Performance: (as of 3/31/16)					
30 days delinquent	14.4%	13.7%	14.9%	11.8%	14.2%
60 days delinquent	6.7%	8.1%	8.5%	9.6%	11.4%
90+ days delinquent	12.8%	20.7%	20.6%	30.9%	31.4%
Foreclosure	11.0%	14.0%	17.7%	18.9%	14.9%

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Liquidity and Capital Resources

Our primary sources of cash have consisted of proceeds from the Private Placements and our IPO, our securitizations of residential mortgages, repurchase agreements, and the collection of principal and interest on our loan portfolio. We anticipate that our primary sources of cash in the future will generally consist of payments of principal and interest we receive on our loan portfolio, profits we may earn from the sale of REO, and unused borrowing capacity under our financing sources. Depending on market conditions, we expect that our primary financing sources will include securitizations, repurchase agreements and private and public equity and debt issuances in addition to transaction or asset specific funding arrangements and credit facilities (including term loans and revolving facilities). We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs.

We use cash to purchase mortgage-related assets, repay principal and interest on any borrowings, make distributions to our stockholders and fund operations.

As of March 31, 2016, substantially all of our invested capital was in re-performing and non-performing loans. We also held approximately $23.9 million of cash and cash equivalents, a decrease of $6.9 million from $30.8 million at December 31, 2015, due to our investments in mortgage loans. Our average daily cash balance during the quarter was $27.8 million, a decrease of $0.3 million from our average daily balance of $28.1 million during quarter ended December 31, 2015 due to acquisitions of mortgage loans, and the timing of our borrowings from our repurchase agreement.

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Cash flows from operating activities for the quarter ended March 31, 2016 were negative $4.1 million resulting primarily from consolidated net income of $8.0 million offset by increases in prepaid expenses, cash receivable from our Servicer, restricted cash, and other operating activity of $3.1 million, and non-cash interest income accretion of $9.0 million. Cash flows from operating activities for the quarter ended March 31, 2015 were positive $0.8 million resulting primarily from consolidated net income of $3.8 million, and a net decrease in prepaid expenses, receivable from our Servicer, and other operating activity of $1.2 million, offset by non-cash interest income accretion of $4.2 million. Cash flows from investing activities were negative $25.1 million due to acquisitions of mortgage loans of $37.2 million, offset by principal paydowns of $11.0 million and other net investing activity inflows of $1.1 million. For the quarter ended March 31, 2015, cash flows from investing activities were negative $74.5 million due to acquisitions of mortgage loans of $74.1, and net other financing activity of $0.3 million. Cash flows from financing activities for the quarter-ended March 31, 2016, were positive $22.4 million due to proceeds from repurchase transactions of $33.5 million, offset by repayments on our repurchase transactions and secured notes of $7.3 million and dividends and distributions of $3.8 million. Cash flows from financing activities for the quarter ended March 31, 2015, were positive $47.7 million due to proceeds from our IPO of $51.5 million, offset by repayments on our repurchase transactions and secured notes of $1.9 million and dividends and distributions of $1.9 million.

We completed our IPO in February, 2015, in which we and selling stockholders sold an aggregate of 5,276,797 shares of common stock, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. We sold 3,976,464 shares of common stock and selling stockholders sold 1,300,333 shares of common stock, in each case, including shares sold pursuant to exercise of the option to purchase additional shares granted to the underwriters. We used the approximately $53.9 million of proceeds (after deducting the underwriting discount but before deducting estimated offering expenses) to acquire additional mortgage loans and mortgage-related assets.

From inception (January 30, 2014) to March 31, 2016, we have completed five securitizations pursuant to Rule 144A under the Securities Act. The securitizations are structured as debt financings and not REMIC sales, and the loans included in the securitizations remain on the Company's balance sheet as the Company is the primary beneficiary of the securitization trusts, which are variable interest entities ("VIEs"). The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. Our exposure to the obligations of the VIEs is generally limited to our investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of our other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. We do not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

Our securitizations are structured with Class A notes, Class B notes, and a trust certificate representing the residual interests in the mortgages. For each of our five securitizations through March 31, 2016, we have retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class

B notes while the Class A notes were outstanding. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trust after the Class A notes and Class B notes have been paid in full.

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The following table sets forth the original terms of all securitization notes at their respective cutoff dates as of March 31, 2016:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2014-A/ October 2014	Class A notes due 2057[1]	$45 million	4.00	%
	Class B-1 notes due 2057[2] [4]	$8 million	5.19	%
	Class B-2 notes due 2057[2] [4]	$8 million	5.19	%
	Trust certificates[3]	$20.4 million	–	
Ajax Mortgage Loan Trust 2014-B / November 2014	Class A notes due 2054[1]	$41.2 million	3.85	%
	Class B-1 notes due 2054[2] [4]	$13.7 million	5.25	%
	Class B-2 notes due 2054[2] [4]	$13.7 million	5.25	%
	Trust certificates[3]	$22.9 million	–	
Ajax Mortgage Loan Trust 2015-A / May 2015	Class A notes due 2054[1]	$35.6 million	3.88	%
	Class B-1 notes due 2054[2] [4]	$8.7 million	5.25	%
	Class B-2 notes due 2054[2] [4]	$8.7 million	5.25	%
	Trust certificates[3]	$22.8 million	–	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060[1]	$87.2 million	3.88	%
	Class B-1 notes due 2060[2] [4]	$15.9 million	5.25	%
	Class B-2 notes due 2060[2] [4]	$7.9 million	5.25	%
	Trust certificates[3]	$47.5 million	–	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057[1]	$82.0 million	3.88	%
	Class B-1 notes due 2057[2] [4]	$6.5 million	5.25	%
	Class B-2 notes due 2057[2] [4]	$6.5 million	5.25	%
	Trust certificates[3]	$35.1 million	–	

(1) The Class A notes are senior, sequential pay, fixed rate notes.

(2) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. We have retained the Class B notes.

(3) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

(4) These securities are encumbered under our repurchase agreement.

Servicing for the mortgage loans in our securitizations is provided by the Servicer at a servicing fee rate of 0.65% annually of UPB for re-performing loans and 1.25% annually of UPB for non-performing loans, and is paid monthly.

On November 25, 2014, we entered into a repurchase facility pursuant to which a newly formed Delaware statutory trust wholly owned by the operating partnership, AJX Mortgage Trust I, the “Seller,” will acquire, from time to time, pools of mortgage loans that are primarily secured by first liens on one-to-four family residential properties from its affiliates and/or third party sellers. These mortgage loans will generally be sold from time to time by the operating partnership as the “Guarantor” to the Seller pursuant to the terms of a mortgage loan purchase agreement by and between the Guarantor, as seller, and the Seller, as purchaser, in accordance with the terms thereof. Pursuant to a master repurchase agreement (the “2014 MRA”), these mortgage loans, together with the Seller’s 100% ownership interests in its wholly owned subsidiary, a newly formed Delaware limited liability company (“REO I”), and any future REO subsidiaries wholly owned by the Seller and certain other property of the Seller, will be sold by the Seller to Nomura Corporate Funding Americas, LLC, as buyer, from time to time, pursuant to one or more transactions, not exceeding $200 million at any point in time, with a simultaneous agreement by the Seller to repurchase such mortgage loans and other property, as provided in the 2014 MRA. The obligations of the Seller are guaranteed by the operating partnership. Repurchases under this facility carry interest calculated based on a spread to one-month LIBOR and are fixed for the term of the borrowing. The purchase price for each mortgage loan or REO is generally equal to 65% of the acquisition price for such asset or the then current

BPO for the asset. The difference between the market value of the asset and the amount of the repurchase agreement is the amount of equity the Company has in the position and is intended to provide the lender some protection against fluctuations of value in the collateral and/or the failure by the Company to repay the borrowing at maturity. We have effective control over the assets associated with this agreement and therefore it is accounted for as a financing arrangement. The facility was amended on May 13, 2015 to increase the transaction limit, and on November 24, 2015 to extend the termination date. The facility termination date is November 22, 2016.

On December 23, 2015, we entered into a separate repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which we sold subordinated debt securities withheld from our 2014-B securitization (See Note 8—Secured borrowings), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on June 23, 2016 including accrued interest of 2.91%.

On March 9, 2016, we entered into a separate repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which we sold subordinated debt securities withheld from our 2014-A and 2015-A and 2015-C securitizations (See Note 8—Secured borrowings), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on September 9, 2016 including accrued interest of 3.00%.

On March 30, 2016, we renewed and extended an existing repurchase transaction, as seller, with Nomura Securities International, LLC, as buyer, in which we sold subordinated debt securities withheld from our 2015-B securitization (See Note 8—Secured borrowings), with a simultaneous agreement by the seller to repurchase such subordinated debt securities on September 30, 2016 including accrued interest of 3.01%.

As of March 31, 2016, we had $136.5 million outstanding under our repurchase transactions. The maximum month-end balance outstanding during the three-month period ended March 31, 2016 was $136.5 million, compared to a maximum month-end balance for the three-month period ended December 31, 2015 of $104.5 million. The following table sets forth data with respect to our repurchase transactions for the three-month periods ended March 31, 2016, and December 31, 2015 ($ in thousands):

	Three months ended March 31, 2016	Three months ended December 31, 2015
Balance at end of period	$ 136,496	$ 104,533
Maximum month-end balance outstanding during the period	$ 136,496	$ 104,533
Average balance	$ 115,570	$ 91,558

The increase in our average balance of $24.0 million from $115.6 million for the three-months ended March 31, 2016 relative to our ending balance of $91.6 million for the three months ended December 31, 2015, was due to a net increase in borrowing under the repurchase agreement during the three-months ended March 31, 2016. These proceeds were used for the acquisition of additional mortgage loans. We increased our borrowing balance by placing the subordinate bonds from our 2014-A, 2015-A and 2015-C securitizations on our repurchase facility.

Gregory services the mortgage loans and the REO properties financed through our repurchase facility pursuant to the terms of a servicing agreement by and among the Servicer, the Seller, REO I and any other REO Subsidiary, which servicing agreement has the same fees and expenses terms as our servicing agreement with Gregory. The operating partnership as Guarantor will provide to the Buyer a limited guaranty of certain losses incurred by the Buyer in connection with certain events and/or the Seller's obligations under the mortgage loan purchase agreement, following the breach of certain covenants by the Seller or an REO subsidiary related to their status as a special purpose entity, the occurrence of certain bad acts by the Seller Parties, the occurrence of certain insolvency events of the Seller or an REO subsidiary or other events specified in the Guaranty. As security for its obligations under the Guaranty, the Guarantor will pledge the Trust Certificate representing the Guarantor's 100% beneficial interest in the Seller.

As of March 31, 2016 and December 31, 2015, we did not have any credit facilities or other outstanding debt obligations other than the repurchase facility and secured borrowings.

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We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, new opportunities, and distribution requirements imposed on REITs. We may pay dividends from our operating, investing or financing cash flows as circumstances require. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our board of directors. On April 26, 2016, our board of directors declared a dividend of $0.25 per share, which will be payable on May 20, 2016 to stockholders of record as of May 13, 2016.

We believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

Off-Balance Sheet Arrangements

Other than the securitization trusts and equity method investments discussed elsewhere in this report, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Contractual Obligations

A summary of our contractual obligations as of March 31, 2016 and December 31, 2015 is as follows:

March 31, 2016	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(in thousands)				
Borrowings under repurchase agreement	$136,496	$ 136,496	$ -	$ -	$ -

Interest on repurchase agreement	3,716	3,716	-	-	-
Total	$140,212	$ 140,212	$ -	$ -	$ -

December 31, 2015	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
	(in thousands)				
Borrowings under repurchase agreement	$104,533	$ 104,533	$ -	$ -	$ -
Interest on repurchase agreement	3,833	3,833	-	-	-
Total	$108,366	$ 108,366	$ -	$ -	$ -

At March 31, 2016, we had securitized borrowings with a balance of $260.0 million consisting of five tranches of $35.9 million, $34.4 million, $32.9 million, $83.7 million and $78.0 million with contractual interest rates of 4.00%, 3.85%, 3.88%, 3.88% and 3.88% respectively.

At December 31, 2015, we had securitized borrowings with a balance of $270.6 million consisting of five tranches of $36.5 million, $35.6 million, $33.7 million, $85.0 million, and $79.8 million with contractual interest rates of 4.00%, 3.85%, 3.88%, 3.88%, and 3.88% respectively. Our securitized borrowings are not included in the table above, as such borrowings are non-recourse to us and are only paid to the extent that cash flows from mortgage loans (in the securitization trust) collateralizing the debt are received.

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Inflation

Virtually all of our assets and liabilities are interest-rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Subsequent events

On April 26, 2016, our board of directors declared a dividend of $0.25 per share, which will be payable on May 20, 2016 to stockholders of record as of May 13, 2016.

On April 27, 2016, we issued 14,916 shares of our common stock to the Manager in payment of stock-based component of the management fee due for the first quarter of 2016 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the first quarter of 2016.

On April 27, 2016, we issued each of our independent Directors 412 shares of our common stock in payment of half of their quarterly director fees for the first quarter of 2016.

Subsequent to quarter end we completed our sixth securitization, which closed on April 11, 2016. An aggregate of $101.4 million of senior securities and $15.8 million of subordinated securities were issued in a private offering with respect to $158.5 million UPB of mortgage loans. Approximately 83.1% of these mortgage loans were RPLs and approximately 16.9% were NPLs based on UPB.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary components of our market risk are related to real estate risk, interest rate risk, prepayment risk and credit risk. We seek to actively manage these and other risks and to acquire and hold assets at prices that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses.

Interest Rate Risk

We expect to continue to securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in interest rates may affect the fair value of the mortgage loans and real estate underlying our portfolios as well as our financing interest rate expense.

We believe that a rising interest rate environment could have a positive net effect on our operations to the extent we will own rental real property or seek to sell real property. Rising interest rates could be accompanied by inflation and higher household incomes which generally correlate closely to higher rent levels and property values. Even if our interest and operating expenses rise at the same rate as rents, our operating profit could still increase. Despite our beliefs, it is possible that the value of our real estate assets and our net income could decline in a rising interest rate environment to the extent that our real estate assets are financed with floating rate debt and there is no accompanying increase in rental yield or property values.

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Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of the mortgage loans we will own as well as the mortgage loans underlying our retained MBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Changes in prepayment rates will have varying effects on the different types of assets in our portfolio. We attempt to take these effects into account. We will generally purchase re-performing and non-performing loans at significant discounts from UPB and underlying property values. An increase in prepayments would accelerate the repayment of the discount and lead to increased yield on our assets while also causing re-investment risk that we can find additional assets with the same interest and return levels. A decrease in prepayments would likely have the opposite effects.

Credit Risk

We are subject to credit risk in connection with our assets. While we will engage in diligence on assets we will acquire, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead us to misprice acquisitions. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes.

There are many reasons borrowers will fail to pay including but not limited to, in the case of residential mortgage loans, reductions in personal income, job loss and personal events such as divorce or health problems, and in the case of commercial mortgage loans, reduction in market rents and occupancies and poor property management services by borrowers. We will rely on the Servicer to mitigate our risk. Such mitigation efforts may include loan modifications and prompt foreclosure and property liquidation following a default. If a sufficient number of re-performing borrowers default, our results of operations will suffer and we may not be able to pay our own financing costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as this Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to our company and our consolidated subsidiaries is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. other information

Item 1. Legal Proceedings

Neither we nor any of our affiliates are the subject of any material legal or regulatory proceedings. We and our affiliates may be involved, from time to time, in legal proceedings that arise in the ordinary course of business.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes from these previously disclosed risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On April 27, 2016, the Company issued 14,916 shares of its common stock to the Manager in payment of the sock-based portion of the management fee due for the first quarter of 2016 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the first quarter of 2016. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act. The management fee expense associated with these shares was recorded as an expense in the first quarter of 2016.

On April 27, 2016, the Company issued each of its independent directors 412 shares of its common stock in payment of half of their quarterly director fees for the first quarter of 2016. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		GREAT AJAX CORP.
Date: May 16, 2016	By:	/s/ Lawrence Mendelsohn
		Lawrence Mendelsohn
		Chairman and Chief Executive Officer
		(Principal Executive Officer)
Date: May 16, 2016	By:	/s/ Mary Doyle
		Mary Doyle
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	**Exhibit Description**
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.