

Management's Discussion and Analysis

# Timbercreek Financial

For the three months and six months ended June 30, 2020



## FORWARD-LOOKING STATEMENTS

### Forward-looking statement advisory

The terms, the “Company”, “we”, “us” and “our” in the following Management Discussion & Analysis (“MD&A”) refer to Timbercreek Financial Corp. (the “Company” or “Timbercreek Financial”). This MD&A may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like “believe”, “expects”, “anticipates”, “would”, “will”, “intends”, “projected”, “in our opinion” and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Company will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results intended by Timbercreek Capital Inc. (“Manager”), a subsidiary and as successor in interest to Timbercreek Asset Management Inc. (“TAMI”), (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages and other investments of a quality that will generate returns that meet and/or exceed the Company’s targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in and the risks detailed from time to time in the Company’s public disclosures. For more information on risks, please refer to the “Risks and Uncertainties” section in this MD&A, and the “Risk Factors” section of our Annual Information Form (“AIF”), which can be found on the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at [www.sedar.com](http://www.sedar.com).

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

This MD&A is dated August 6, 2020. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company’s website at [www.timbercreekfinancial.com](http://www.timbercreekfinancial.com). Additional information about the Company, including its AIF, can be found at [www.sedar.com](http://www.sedar.com).

## BUSINESS OVERVIEW

Timbercreek Financial Corp. is a leading non-bank lender providing financing solutions to qualified real estate investors who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term mortgages to bridge a period (generally one to five years) during which they conduct property repairs, redevelop the property or purchase another investment. These short-term “bridge” mortgages are typically repaid with traditional bank mortgages (lower cost and longer-term debt) once the transitional period is over, a restructuring is complete or from proceeds generated on the sale of assets. Timbercreek Financial focuses primarily on lending against income-producing real estate such

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as multi-residential, retail and office properties. This emphasis on cash-flowing properties is an important risk management strategy.

Timbercreek Financial, through its Manager, has established preferred lender status with many active real estate investors by providing quick execution on investment opportunities and by providing flexible terms to borrowers. Timbercreek Financial works with borrowers throughout the terms of their mortgages to ensure that their capital requirements are met and, if requested, considers modifications of or extensions to the terms of their mortgages to accommodate additional opportunities that may arise or changes that may occur.

The Company is, and intends to continue to be, qualified as a mortgage investment corporation ("MIC") as defined under Section 130.1(6) of the Income Tax Act (Canada) ("ITA").

## BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three months and six months ended June 30, 2020. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months and six months ended June 30, 2020 and 2019, and the audited consolidated financial statements for the years ended December 31, 2019 and 2018, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The functional and reporting currency of the Company is Canadian dollars and unless otherwise specified, all amounts in this MD&A are in thousands of Canadian dollars, except per share and other non-financial data.

Copies of these documents have been filed electronically with securities regulators in Canada through SEDAR and may be accessed through the SEDAR website at [www.sedar.com](http://www.sedar.com).

## NON-IFRS MEASURES

The Company prepares and releases unaudited interim condensed consolidated financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the "non-IFRS measures").

The Company has presented such non-IFRS measures because the Manager believes they are relevant measures of the Company's ability to earn and distribute recurring cash flows and earnings for dividends and provide a clearer understanding of the Company's financial performance.

The Company's financial performance is predominately generated from net investment income from net mortgage investments. The Company may enter into certain mortgage participation agreements with other institutional lenders, where such agreements may provide for the Company's participation either on a pari passu basis or in a subordinated position with one or more institutional syndication partners. For IFRS presentation purposes, where the derecognition criteria are not met, mortgage investments are reported on a gross basis, with the portion related to the syndicated mortgages being included in the mortgage investments, including mortgage syndications and a corresponding liability as mortgage syndication liabilities. Mortgage syndication liabilities are non-recourse mortgages with period to period variances not impacting the Company's performance. Refer to note 4 of the unaudited interim condensed consolidated financial statements. The relevant factors causing period to period variances include net mortgage principal amounts, portfolio allocation, weighted average interest rate and turnover rate.

These non-IFRS measures should not be construed as alternatives to total net income and comprehensive income or cash flows from operating activities as determined in accordance with IFRS.

**Non-IFRS financial measures for net mortgage investments:**

- i. Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date.
- ii. Weighted average loan-to-value ("WALTV") – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an "as completed" basis. For unimproved land property, fair value is based on an "as is" basis. Net mortgage investments measured at fair value through profit or loss ("FVTPL") are excluded from weighted average loan-to-value computation. This is a key measure to explain period to period performance variances of net mortgage investments.
- iii. Turnover ratio – represents total net mortgage investments repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period. The Company makes mortgages or loans to only commercial borrowers that are short-term (generally one to five years), as such the portfolio turnover rate is higher than typical mortgage portfolios which include individual or non-commercial borrower loans. This is a key measure to explain period to period performance variances of net mortgage investments as turnover from both scheduled and early repayments impacts revenue.
- iv. Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments.
- v. Weighted average lender fees for the period – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as lender fees is one of the main contributors to net investment income and distributable income.
- vi. Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as average net mortgage investment portfolio is a basis for interest income earned during the period.
- vii. Enhanced return portfolio – represents other investments and net equity in investment properties not included in net mortgage investments.

**Non-IFRS financial measures for Company's assessment of its distribution paying capacity:**

It is the Company's view that IFRS net income does not necessarily provide a complete measure of the Company's recurring operating performance as IFRS net income includes non-cash items such as amortization of lender fees, amortization of financing costs, fair value changes, net operating gain/loss on foreclosed properties held for sale ("FPHFS") and allowance for mortgage investments loss, which are not representative of recurring operating performance. Distributable income is a non-IFRS financial measure of recurring cash flows based on the definition set forth by the Company.

Distributable income is computed as IFRS consolidated net income adjusted for the earlier mentioned items, calculated on an IFRS basis. The Company uses Distributable Income in assessing its dividend paying capacity. A

reconciliation of the distributable income is provided in "Analysis of Financial Information for the Period" section of the MD&A.

Payout ratio on distributable income is a non-IFRS financial measure of the Company's ability to generate recurring cash flows for dividends. Payout ratio on earnings per share, where earnings is calculated on an IFRS basis, is a common measure of the sustainability of a company's dividend payments and is useful when comparing it to other companies of similar industries.

- i. Distributable income – represents the Company's ability to generate recurring cash flows for dividends by removing the effect of amortization, accretion, unrealized fair value adjustments, allowance for mortgage investments loss, and unrealized gain or loss from total net income and comprehensive income.
- ii. Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period.
- iii. Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.
- iv. Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.
- v. Adjusted net income and comprehensive income – represents adjusted net income and comprehensive income for the stated period to exclude the impact from fair value gain/(loss) on derivative contract (interest rate swap) used for hedging purposes but hedge accounting was not adopted. The fair value gain/(loss) represents the change in unrealized appreciation or depreciation of fair value of the interest rate swap, determined based on the fair value that the Company would pay or receive if the interest rate swap had been terminated as at the reporting date.
- vi. Adjusted earnings per share – adjusted earnings per share is calculated in the same manner as earnings per share using adjusted net income and comprehensive income for the stated period.
- vii. Payout ratio on adjusted earnings per share – represents total common share dividends paid and declared for payment, divided by adjusted net income and comprehensive income for the stated period.

## RECENT DEVELOPMENTS AND OUTLOOK

Timbercreek Financial, like most other businesses, faced an unprecedented operating environment in the second quarter of 2020 caused by the COVID-19 crisis. To date, our portfolio continues to demonstrate resilience and reinforce the value of our conservative approach focused on durable, income-producing assets.

From a portfolio perspective, we have de-risked the investments over the past several years and this strategy has served us well in 2020. Although the extent and duration of the COVID-19 crisis - and resulting economic downturn - remain unknown, we are monitoring its effects on the mortgage portfolio and borrower clients very closely. The portfolio continued to perform very well in the second quarter. The impact on the interest and principal payments for the second quarter was negligible and in line with historical collection rates. At quarter end, we had only two loans (of 135) in arrears and neither of these situations is related to issues from COVID-19. As expected, the operating environment affected overall transaction levels in the quarter industry-wide and resulted in more loans being renewed. However, loans that we extend/renew generate fee income for our shareholders and the Company's capital will continue to be deployed at attractive rates. This activity also drives lender fee income to support our distributable income target.

As at June 30, 2020, for the purpose of assessing allowance for credit losses, a certain assumption on mortgage investments secured by retail assets was updated to reflect the potential for increased risk to property cash flows as a result of the ongoing COVID-19 pandemic. Additionally, a retail mortgage investment that is measured at FVTPL recorded a negative adjustment in fair value. Refer to note 4(a) and 4(d) of the interim condensed consolidated financial statements for the three months and six months ended June 30, 2020 and 2019 for additional details.

Although there are a considerable number of unknowns with regards to the pandemic, we believe Timbercreek Financial's capital base and investment portfolio are positioned well to navigate the environment. Moreover, times of volatility can create attractive opportunities in the private lending space as borrowers seek transaction certainty in an uncertain market. With a stable capital base and strong market presence, we are anticipating increased transaction flow in the second half of 2020, but will continue to be highly selective, applying our rigorous risk management processes with full consideration of the changing market dynamics.

## PORTFOLIO ACTIVITY

Q2 2020 transaction activity was lower than historical levels but reflective of the current environment, which caused transaction activity to be moderate. In this environment, many sale transactions by the borrowers have been temporarily delayed or deferred because of the challenges in completing due diligence and general economic uncertainty. Despite these challenges, the Company funded 9 new net mortgage investments totaling \$72.8 million and made additional advances of \$27.5 million. Portfolio turnover decreased to 6.4%, compared with 14.8% in Q1 2020, reflecting the lower transaction levels. The net value of the mortgage portfolio, excluding syndications, was \$1,210.3 million at the end of Q2 2020, an increase of \$19.2 million from Q1 2020. The amount drawn on the credit facility funding mortgage investments was \$445.0 million at the end of Q2 2020, compared to \$403.0 million at the end of Q1 2020. With approximately \$55.0 million undrawn on the credit facility, Timbercreek Financial was in a strong position of liquidity entering July.

At the end of Q2 2020, the enhanced return portfolio was \$82.6 million, which included \$65.6 million of other investments, and \$17.0 million of net equity in investment properties, representing 6.2% of total assets, net of syndications.

Capital preservation is a primary investment objective for Timbercreek, and this serves us well in periods of economic weakness. Our risk management strategy includes a focus on lending to income-producing assets, an emphasis on first mortgages and a focus on urban centres. Although higher interest and fees can be earned by investing in higher-risk loans, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings. These types of commercial assets benefit from having a diversified pool of rent-paying tenants.

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Overall, the portfolio should be better positioned to protect capital and maintain its income characteristics than if it had a higher component of land and construction (i.e. non-income-producing real estate), or a lower percentage of first mortgages. We currently have zero exposure to hotels and limited exposure to tertiary markets (including resort towns), favouring large urban markets instead.

At the end of Q2 2020, 85.8% of the mortgage investments were secured by income-producing properties, compared to 85.2% in Q1 2020. Multi-residential real estate assets (apartment buildings) comprise the largest portion of the portfolio at 51.6% at quarter end, compared to 54.2% in Q1 2020.

Our exposure to first mortgages was 92.1% of the net mortgage portfolio at quarter end, compared to 93.1% in Q1 2020. Our current weighted average loan-to-value ratio was 68.7%, consistent with Q1 2020 and in line with our expectations for the portfolio. Our weighted average interest rate for the period was 7.1% in Q2 2020 with an exit rate of 7.2% as at June 30, 2020, compared with 7.2% in Q1 2020 and an exit rate of 7.1% as at March 31, 2020.

The weighted average interest rate in the existing portfolio is well protected at the end of Q2 2020, due to floating rate loans with rate floors representing 75.1% (Q1 2020 – 75.7% and Q2 2019 – 56.6%) of the portfolio. The high percentage of floating rate loans with rate floors has muted the impact of recent interest rate cuts and pricing on recent transactions has remained relatively unchanged, driving higher net margins for the Company.

The net mortgage portfolio remains heavily weighted toward Canada's largest provinces, with approximately 97.5% of the mortgage portfolio invested in Ontario, British Columbia, Alberta and Quebec, the majority of which are in urban markets that generally experience better real estate liquidity and thus offer a better risk profile.



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## FINANCIAL HIGHLIGHTS

### FINANCIAL POSITION

As at	June 30, 2020	June 30, 2019	December 31, 2019
<b>KEY FINANCIAL POSITION INFORMATION</b>			
Mortgage investments <sup>1</sup>	\$ 1,702,064	\$ 1,656,729	\$ 1,667,686
Other investments	\$ 65,574	\$ 82,467	\$ 61,520
Investment properties	\$ 47,621	\$ 46,883	\$ 47,349
Total assets	\$ 1,833,980	\$ 1,802,695	\$ 1,797,506
Credit facility (mortgage investments)	\$ 444,156	\$ 454,022	\$ 459,767
Credit facility (investment properties)	\$ 30,636	\$ 32,991	\$ 30,622
Convertible debentures	\$ 133,749	\$ 132,310	\$ 133,033
Total liabilities <sup>1</sup>	\$ 1,130,245	\$ 1,076,151	\$ 1,069,114
<b>CAPITAL STRUCTURE</b>			
Shareholders' equity	\$ 703,735	\$ 726,544	\$ 728,392
Convertible debentures, par	\$ 136,800	\$ 136,800	\$ 136,800
Credit facility limit	\$ 530,690	\$ 533,277	\$ 530,690
<b>COMMON SHARE INFORMATION</b>			
Number of common shares outstanding	81,312,312	82,986,354	83,254,130
Closing trading price	\$ 8.59	\$ 9.49	\$ 9.93
Market capitalization	\$ 698,473	\$ 787,540	\$ 826,714

1. Includes mortgage syndications (note 4(a)) and mortgage syndication liabilities of \$494.4 million as at June 30, 2020 (June 30, 2019 - \$437.1 million, December 31, 2019 - \$426.9 million).

### OPERATING RESULTS<sup>1</sup>

	Three months ended		Six months ended		Year ended
	2020	June 30, 2019	2020	June 30, 2019	December 31, 2019
Net investment income	\$ 21,970	\$ 24,977	\$ 46,058	\$ 49,488	\$ 99,437
Net rental income	\$ 376	\$ 351	\$ 736	\$ 667	\$ 1,440
Income from operations	\$ 18,227	\$ 21,323	\$ 38,511	\$ 42,055	\$ 85,014
Other income, net	\$ —	\$ —	\$ —	\$ 413	\$ 413
Net income and comprehensive income	\$ 11,743	\$ 13,593	\$ 19,168	\$ 26,726	\$ 54,740
<i>Adjusted for:</i>					
Fair value (gain) loss on derivative contract (interest rate swap)	\$ (197)	\$ —	\$ 5,607	\$ —	\$ —
Adjusted net income and comprehensive income <sup>1</sup>	\$ 11,546	\$ 13,593	\$ 24,775	\$ 26,726	\$ 54,740
Earnings per share (basic and diluted)	\$ 0.14	\$ 0.16	\$ 0.23	\$ 0.33	\$ 0.66
Adjusted earnings per share (basic and diluted) <sup>1</sup>	\$ 0.14	\$ 0.16	\$ 0.30	\$ 0.33	\$ 0.66
Dividends to shareholders	\$ 14,155	\$ 14,270	\$ 28,530	\$ 28,390	\$ 57,078
Dividends per common share	\$ 0.173	\$ 0.173	\$ 0.345	\$ 0.345	\$ 0.690
Payout ratio on earnings per share <sup>1,2</sup>	120.5%	105.0%	148.8%	106.2%	104.3%
Payout ratio on adjusted earnings per share <sup>1</sup>	122.6%	105.0%	115.2%	106.2%	104.3%
Distributable income	\$ 14,798	\$ 13,690	\$ 29,192	\$ 27,898	\$ 59,341
Distributable income per share	\$ 0.18	\$ 0.17	\$ 0.35	\$ 0.34	\$ 0.72
Payout ratio on distributable income <sup>2</sup>	95.7%	104.2%	97.7%	101.8%	96.2%

1. Refer to non-IFRS measures section.

2. Excluding YTD 2019 other income of \$413, the payout ratio on earnings per share would have been 107.9% for YTD 2019 and 105.1% for year ended 2019. Payout ratio on distributable income would have been 103.3% for YTD 2019 and 96.9% for year end 2019.



**For the three months ended June 30, 2020 ("Q2 2020") and June 30, 2019 ("Q2 2019")**

- The Company funded 9 new net mortgage investments (Q2 2019 – 12) totaling \$72.8 million (Q2 2019 – \$138.3 million), and made additional advances on existing mortgage investments totaling \$27.5 million (Q2 2019 – \$15.5 million). The weighted average interest rate on new net mortgage investments was 7.8% and new funding mainly comprised of \$21.8 million in multi-residential and \$30.7 million in retail investments. The Company fully discharged 5 mortgage investments (Q2 2019 – 10) and partially discharged mortgage investments totaling \$78.4 million (Q2 2019 – \$167.8 million). Weighted average interest rate on fully discharged net mortgage investment was 6.8%. The quarterly weighted average interest rate on net mortgage investment was 7.1% in Q2 2020 compared to 7.2% in Q1 2020 (Q2 2019 – 7.2%). The decrease in the weighted average interest compared to Q1 2020 is primarily due to lower interest rates on certain renewals during the quarter.
- Funding of new and existing net mortgage investment of \$100.3 million combined with the lower turnover ratio of 6.4% compared to 14.8% in Q1 2020 and repayments of \$78.4 million resulted in a higher net mortgage investment portfolio of \$1,210.3 million, compared to \$1,191.1 million at the end of Q1 2020.
- Turnover ratio was 6.4% as at June 30, 2020 (June 30, 2019 – 13.9%). The decrease in the turnover ratio can be directly tied to the market environment as a result of COVID-19 where takeout financing or sale transactions were significantly delayed during the quarter.
- Other investments within the enhanced return portfolio were \$65.6 million (March 31, 2020 – \$61.1 million), a net increase of \$4.5 million in the quarter, primarily due to funding of 1 new collateralized loan investment.
- Net investment income decreased by \$3.0 million quarter over quarter (\$22.0 million in Q2 2020 compared to \$25.0 million in Q2 2019), primarily attributable to a negative adjustment of \$2.7 million in fair value on a retail mortgage investment measured at FVTPL. The effect of COVID-19 on the existing tenancy, ability to re-lease the asset, as well as risks associated with the stabilization plan warranted a negative adjustment in the fair value.
- Income from operations saw a \$3.1 million decrease quarter over quarter (\$18.2 million in Q2 2020 compared to \$21.3 million in Q2 2019) as a result of the \$3.0 million reduction in net investment income.
- Non-refundable cash lender fees were \$2.2 million (Q2 2019 – \$1.5 million). The quarterly weighted average lender fees on new and renewed mortgages during the quarter was 0.7% (Q2 2019 – 1.0%), while the quarterly weighted average lender fee on new mortgages only for the quarter was 1.1% (Q2 2019 – 1.0%). The quarterly weighted average lender fees on renewed mortgage accounts for 74% of weighted cash lender fee, compared to 9% in Q2 2019, which is the main contributing factor for lower quarterly weighted average lender fees on new and renewed mortgages for the quarter.
- The Company recorded \$197 in fair value gain from a 2-year interest rate swap contract (the "Contract") entered in December 2019. The fair value gain or loss relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. Refer to note 6(a) of the interim condensed consolidated financial statements for the three months and six months ended June 30, 2020 and 2019.
- Excluding the \$197 fair value gain arising from the Contract, the Company generated adjusted net income and comprehensive income of \$11.5 million (Q2 2019 – \$13.6 million) or adjusted earnings per share of \$0.14 basic and diluted (Q2 2019 – \$0.16 basic and diluted). The Company declared \$14.2 million in dividends (Q2 2019 – \$14.3 million) to common shareholders, representing a payout ratio of 122.6% (Q2 2019 – 105.0%) on an adjusted earnings per share basis.
- General and administrative expense was \$505 (Q2 2019 – \$418).
- Weighted average interest rate in the existing portfolio is well protected at the end of Q2 2020 with 19.8% fixed rate exposure (June 30, 2019 – 31.3%) and floating rate loans with rate floors representing 75.1% (June 30, 2019 – 56.6%), consistent with overall asset allocation strategy shift toward floating rate assets.

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- The Company generated distributable income of \$14.8 million (Q2 2019 – \$13.7 million) or distributable income per share of \$0.18 (Q2 2019 – \$0.17), representing a payout ratio of 95.7% (Q2 2019 – 104.2%) on a distributable income basis.
- On March 26, 2020, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,309,785 common shares over a 12-month period. The NCIB commenced on March 30, 2020. During Q2 2020, the Company repurchased 1,953,072 common shares (Q2 2019 – nil) for \$15.6 million (Q2 2019 – nil). The average price per common share repurchased was \$8.01. The Company repurchased 106,564 common shares for total amount of \$909 which were settled and cancelled subsequent to June 30, 2020.

**For the six months ended June 30, 2020 ("YTD 2020") and June 30, 2019 ("YTD 2019")**

- The Company funded 21 new net mortgage investments (YTD 2019 – 26) totaling \$169.3 million (YTD 2019 – \$283.5 million), made additional advances on existing mortgage investments totaling \$57.6 million (YTD 2019 – \$22.7 million) and fully discharged 15 mortgage investments (YTD 2019 – 20) and partially discharged mortgage investments totaling \$257.3 million (YTD 2019 – \$302.2 million). As a result, the net mortgage investment portfolio as at June 30, 2020 has decreased by \$33.8 million, net of fair value loss \$3.4 million, to \$1,210.3 million (December 31, 2019 – \$1,244.1 million), or 2.7% from December 31, 2019.
- Other investments within the enhanced return portfolio were \$65.6 million, including an allowance for credit loss of \$61 (December 31, 2019 – \$61.5 million and \$25, respectively). Net increase of \$4.1 million was mainly due to new funding of collateralized loan investments, net of foreign exchange translation, which is hedged through current contracts.
- 2020 began with \$1,244.1 million of net mortgage investments bearing a 7.1% weighted average interest rate. By the end of Q2 2020, net mortgage investments had declined to \$1,210.3 million at a relatively consistent 7.2% weighted average interest rate.
- Net investment income earned was \$46.1 million (YTD 2019 – \$49.5 million), a decrease of \$3.4 million, or 6.9% from YTD 2019. Decrease in net investment income YTD 2020 compared to YTD 2019 was primarily due to:
  - \$3.4 million negative fair value adjustment on a mortgage investment measured at FVTPL;
  - \$1.4 million decrease in interest income from collateralized loan investments, primarily due to \$20.8 million in repayments with weighted average interest rate of 11.1% during the second half of 2019;
  - offset by a \$530 increase in interest income on net mortgage investments attributable to the change in average net mortgage investment portfolio to \$1,225.2 million during YTD 2020 from \$1,143.6 million in YTD 2019 and weighted average interest rate consistent at 7.1% year over year; and
  - \$570 increase in lender fee income, as a result of acceleration of lender fee income recognition due to an increased number of earlier than scheduled repayments of net mortgage investments as well as recognition of lender fee income from cash lender fee recorded in Q4 2019.
- The Company generated income from operations of \$38.5 million (YTD 2019 – \$42.1 million), a decrease of \$3.6 million or 8.6% from YTD 2019, primarily driven by the decrease in net investment income.
- Weighted average loan-to-value decreased from 70.5% as at December 31, 2019 to 68.7% as at June 30, 2020. Primary drivers of this change were due to funding of \$169.3 million at an average loan-to-value of 70.2% and repayments of \$143.2 million at an average loan-to-value of 73.4% in new net mortgage investments.
- General and administrative expense was at \$987 (YTD 2019 – \$835).
- Weighted average interest rate in the existing portfolio is well protected at the end of Q2 2020 with 19.8% fixed rate exposure (December 31, 2019 – 22.7%) and floating rate loans with rate floors representing 75.1% (December 31, 2019 – 71.0%), consistent with overall asset allocation strategy shift toward floating rate assets.
- Non-refundable cash lender fees recorded were \$4.4 million (YTD 2019 – \$3.3 million). The weighted average lender fees on new and renewed mortgages during the year was 0.7% (YTD 2019 – 0.9%), while the weighted average lender fee on new mortgages YTD 2020 was 1.1% (YTD 2019 – 1.1%).
- Excluding the \$5.6 million unrealized fair value loss arising from the Contract, the Company generated adjusted net income and comprehensive income of \$24.8 million (YTD 2019 – \$26.7 million) or adjusted earnings per share of \$0.30 basic and diluted (YTD 2019 – \$0.33 basic and diluted). The Company declared \$28.5 million in dividends (YTD 2019 – \$28.4 million) to common shareholders, representing a payout ratio of 115.2% (YTD 2019 – 106.2%) on an adjusted earnings per share basis.

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- The Company generated distributable income of \$29.2 million (YTD 2019 – \$27.9 million) or distributable income per share of \$0.35 (YTD 2019 – \$0.34) resulting in a payout ratio of 97.7% (YTD 2019 – 101.8%) on a distributable income basis.
- On March 26, 2020, the Company announced that the TSX approved its normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,309,785 common shares over a 12-month period. The NCIB commenced on March 30, 2020. During YTD 2020, the Company repurchased 2,059,636 common shares (YTD 2019 – nil) for of \$16,398 (YTD 2019 – nil). The average price per common share repurchased was \$7.96. The Company repurchased 106,564 common shares for total amount of \$909 which were settled and cancelled subsequent to June 30, 2020.

# TIMBERCREEK FINANCIAL

## Management's Discussion and Analysis

For the three months and six months ended June 30, 2020

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

### ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD DISTRIBUTABLE INCOME

	Three months ended		Six months ended		Year ended
	2020	June 30, 2019	2020	June 30, 2019	December 31, 2019
Net income and comprehensive income	\$ 11,743	\$ 13,593	\$ 19,168	\$ 26,726	\$ 54,740
Less: amortization of lender fees	(2,430)	(2,509)	(4,930)	(4,416)	(10,029)
Add: lender fees received and receivable	2,161	1,518	4,395	3,305	10,039
Add: amortization of financing costs, credit facility	322	418	537	831	1,655
Add: amortization of financing costs, debentures	297	297	594	591	1,191
Add: accretion expense, debentures	61	61	122	122	244
Add: unrealized fair value (gain) loss on derivative contract (interest rate swap)	(197)	—	5,607	—	—
Add: net unrealized loss (gain) on investments measured at FVTPL	2,586	(25)	3,077	8	188
Add: allowance for mortgage investments loss	255	337	622	731	1,313
Distributable income <sup>1</sup>	\$ 14,798	\$ 13,690	\$ 29,192	\$ 27,898	59,341
Less: dividends on common shares	(14,155)	(14,270)	(28,530)	(28,390)	(57,078)
Under (over) distribution	\$ 643	\$ (580)	\$ 662	\$ (492)	\$ 2,263
Weighted average common shares	82,293,201	82,589,851	82,804,719	82,183,906	82,663,775
Distributable income per share	\$ 0.18	\$ 0.17	\$ 0.35	\$ 0.34	\$ 0.72
Payout ratio on distributable income <sup>2</sup>	95.7%	104.2%	97.7%	101.8%	96.2%

1. Refer to non-IFRS measures section.

2. Excluding other income of \$413 in YTD 2019, the payout ratio on distributable income would have been 103.3% for YTD 2019 and 96.9% for year ended 2019.

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements and its ability to generate recurring cash flows for dividends.

### STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

	Three months ended		Six months ended		Year ended
	2020	June 30, 2019	2020	June 30, 2019	December 31, 2019
Net investment income	\$ 21,970	\$ 24,977	\$ 46,058	\$ 49,488	\$ 99,437
Net rental income	376	351	736	667	1,440
Expenses	(4,119)	(4,005)	(8,283)	(8,100)	(15,863)
Income from operations	18,227	21,323	38,511	42,055	85,014
Other income, net	—	—	—	413	413
Financing costs:					
Financing cost on credit facilities	(4,482)	(5,531)	(9,337)	(11,347)	(21,886)
Financing cost on convertible debentures	(2,199)	(2,199)	(4,399)	(4,395)	(8,801)
Fair value gain (loss) on derivative contract	197	—	(5,607)	—	—
<b>Net income and comprehensive income</b>	<b>\$ 11,743</b>	<b>\$ 13,593</b>	<b>\$ 19,168</b>	<b>\$ 26,726</b>	<b>\$ 54,740</b>
<i>Adjusted for:</i>					
Fair value (gain) loss on derivative contract	(197)	—	5,607	—	—
<b>Adjusted net income and comprehensive income<sup>1</sup></b>	<b>\$ 11,546</b>	<b>\$ 13,593</b>	<b>\$ 24,775</b>	<b>\$ 26,726</b>	<b>\$ 54,740</b>
<b>Earnings per share</b>					
Basic and Diluted	\$ 0.14	\$ 0.16	\$ 0.23	\$ 0.33	\$ 0.66
<b>Adjusted earnings per share<sup>1</sup></b>					
Basic and Diluted	\$ 0.14	\$ 0.16	\$ 0.30	\$ 0.33	\$ 0.66

1. Refer to non-IFRS measures section.

## Net investment income

For analysis purposes, net investment income and its component parts are discussed net of payments made on account of mortgage syndications to provide the reader with a more representative reflection of the Company's performance.

For Q2 2020 and YTD 2020, the Company earned net investment income of \$22.0 million and \$46.1 million (Q2 2019 – \$25.0 million; YTD 2019 – \$49.5 million). Net investment income includes the following:

### a. Interest income

During Q2 2020 and YTD 2020, the Company earned interest income on net mortgage investments of \$20.9 million and \$41.8 million (Q2 2019 – \$20.7 million; YTD 2019 – \$41.3 million). The weighted average interest rate on net mortgage investments during Q2 2020 and YTD 2020 was 7.1% and 7.1% (Q2 2019 – 7.2%; YTD 2019 – 7.2%).

The overall increase in interest income on net mortgage investment with relatively constant weighted average interest rates is attributable to higher average net mortgage investment portfolio of \$1,232.6 million and \$1,225.2 million during Q2 2020 and YTD 2020, respectively, compared to \$1,139.4 million and \$1,143.6 million during Q2 2019 and YTD 2019, respectively.

During Q2 2020 and YTD 2020, the Company earned \$1.2 million and \$2.2 million (Q2 2019 – \$1.7 million; YTD 2019 – \$3.7 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. Decrease in quarter over quarter interest income, is primarily due to lower loan balance held during Q2 2020.

### b. Lender fee income

For Q2 2020 and YTD 2020, the Company recorded non-refundable upfront cash lender fees of \$2.2 million and \$4.4 million (Q2 2019 – \$1.5 million; YTD 2019 – \$3.3 million), or a weighted average lender fee on new and renewed mortgages of 0.7% and 0.7%, respectively (Q2 2019 – 1.0%; YTD 2019 – 0.9%). Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method. For Q2 2020 and YTD 2020, lender fees of \$2.3 million and \$4.8 million were amortized to lender fee income (Q2 2019 – \$2.5 million; YTD 2019 – \$4.4 million).

Lender fees continue to be a significant component of income as a result of mortgage investment origination and turnover.

### c. Other income/loss

During Q2 2020 and YTD 2020, the Company incurred other losses of \$2.5 million and \$2.9 million (Q2 2019 – other income \$36; YTD 2019 – other income \$111), primarily attributable to the decrease in fair value of mortgages classified as measured at FVTPL of \$2.7 million and \$3.4 million, respectively.

## Net rental income from investment properties

The net rental income from investment properties for Q2 2020 and YTD 2020 was \$376 and \$736 (Q2 2019 \$351; YTD 2019 – \$667), respectively. The higher rental revenue is the result of increased occupancy offset by a moderate operating cost increase.



## Expenses

### Management, Servicing and Arrangement Fees

On April 3, 2020, the Board approved an amended and restated management agreement dated effective April 1, 2020 (the "Management Agreement") between the Company and the Manager, which amended and restated the management agreement (the "Original Management Agreement") dated June 30, 2016.

The Original Management Agreement had a term of 10 years and could be automatically renewed for successive five year terms at the expiration of the initial term and paid the Company (i) management fee equals to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes, and (ii) servicing fee equals to 0.10% of the amount of any senior tranche of a mortgage that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retained the corresponding subordinated portion. Gross assets are defined as the total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

The term of the Management Agreement is for a period of 10 years commencing on April 1, 2020, and will be automatically renewed for successive five year terms. The management fee and servicing fee remains consistent with the Original Management Agreement. As compensation for the Manager's work on syndicating any mortgage investments, the Management Agreement permits the Manager to collect a portion of the lender fee paid by borrowers of mortgage investments. The Management Agreement provides that, in respect of each mortgage investment made on or after April 1, 2020 involving syndication to another party of a senior tranche with the Company retaining a subordinated component, the Manager shall be entitled to retain, from any lender fee generated in respect of such loan, an amount equal to 0.20% of the whole loan amount ("Arrangement Fee") if such syndication occurs within 90 days of closing of the mortgage. The Arrangement Fee will not apply to any renewal of existing mortgage investments which already include syndicated senior and subordinated components. The Manager may make an annual election, subject to approval of the independent Directors of the Board, to receive the Arrangement Fee in common shares of the Company instead of cash.

For Q2 2020 and YTD 2020, the Company incurred management fees of \$3.2 million and \$6.3 million (Q2 2019 – \$3.1 million; YTD 2019 – \$6.3 million). The average gross assets were \$1,345.4 million and \$1,337.6 million compared to Q2 2019 \$1,333.3 million and YTD 2019 \$1,337.9 million. For Q2 2020 and YTD 2020, the Company incurred \$206 and \$404, respectively (Q2 2019 – \$128 and YTD 2019 – \$269) in servicing fees. The increase is related to the increase in the average syndications balance during the period. For Q2 2020 and YTD 2020, the Arrangement Fee of \$42 and \$42 was retained by the Manager (Q2 2019 – nil and YTD 2019 – nil).

### General and administrative

For Q2 2020 and YTD 2020, the Company incurred general and administrative expenses of \$505 and \$987, respectively (Q2 2019 – \$418; YTD 2019 – \$835). General and administrative expenses consist mainly of audit fees, professional fees, director fees, legal fees, other operating costs and administration of the mortgage and other investments portfolio. Increase quarter over quarter is primarily due to moderate increase in legal fees, professional fees, director fees, and transaction fees on net mortgage investments.

**Interest on credit facility – mortgage investments**

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2020 and YTD 2020, included in financing costs is interest on the credit facility of \$3.9 million and \$8.3 million (Q2 2019 – \$4.8 million; YTD 2019 – \$9.8 million) and financing costs amortization of \$311 and \$516 (Q2 2019 – \$403; YTD 2019 – \$801). The average credit utilization YTD 2020 was \$468.5 million compared to \$442.6 million YTD 2019. The decrease of interest expense over the comparable 2019 period is related to the overall reduction in borrowing cost.

**Interest on credit facility – investment properties**

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2020 and YTD 2020, included in financing costs is interest on the credit facility of \$230 and \$481 (Q2 2019 – \$355; YTD 2019 – \$722) and financing costs amortization of \$11 and \$21 (Q2 2019 – \$15; YTD 2019 – \$30). The decrease of interest expense over the comparable 2019 period is related to the overall reduction in borrowing cost.

**Financing cost on convertible debentures**

The Company has \$45.8 million of 5.40% convertible unsecured subordinated debentures, \$46.0 million of 5.45% convertible unsecured subordinated debentures and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at June 30, 2020. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. Interest on the debentures is included in financing costs and is made up of the following:

		<b>Six months ended June 30,</b>	
		<b>2020</b>	<b>2019</b>
Interest on the convertible debentures	\$	1,841	\$ 1,841
Amortization of issue costs and accretion of the convertible debentures		358	358
<b>Total financing cost on convertible debentures</b>	<b>\$</b>	<b>2,199</b>	<b>\$ 2,199</b>

**Earnings per share**

For Q2 2020 and YTD 2020, basic and diluted earnings per share were \$0.14 and \$0.23, basic and diluted adjusted earnings per share were \$0.14 and \$0.30. (Q2 2019 – basic and diluted \$0.16, basic and diluted adjusted \$0.16; YTD 2019 – basic and diluted \$0.33, basic and diluted adjusted \$0.33)

In accordance with IFRS, convertible debentures are considered for potential dilution in the calculation of the diluted earnings per share. Each series of convertible debentures is considered individually and only those with dilutive effect on earnings are included in the diluted earnings per share calculation. Convertible debentures that are considered dilutive are required by IFRS to be included in the diluted earnings per share calculation notwithstanding that the conversion price of such convertible debentures may exceed the market price and book value of the Company's common shares.

Diluted earnings per share are calculated by adding back the interest expense relating to the dilutive convertible debentures to total net income and comprehensive income and increasing the weighted average number of common shares by treating the dilutive convertible debentures as if they had been converted on the later of the beginning of the reporting period or issuance date.

# TIMBERCREEK FINANCIAL

## Management's Discussion and Analysis

For the three months and six months ended June 30, 2020

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

### STATEMENTS OF FINANCIAL POSITION

#### Net Mortgage Investments

The Company's exposure to the financial returns is related to the net mortgage investments as mortgage syndication liabilities are non-recourse mortgages with periodic variance having no impact on Company's financial performance.

Reconciliation of gross and net mortgage investments balance is as follows:

<b>Net Mortgage Investments</b>		<b>June 30, 2020</b>	<b>December 31, 2019</b>
Mortgage investments, excluding mortgage syndications	\$	<b>1,207,692</b>	\$ 1,240,747
Mortgage syndications		<b>494,372</b>	\$ 426,939
Mortgage investments, including mortgage syndications		<b>1,702,064</b>	\$ 1,667,686
Mortgage syndication liabilities		<b>(494,372)</b>	(426,939)
		<b>1,207,692</b>	1,240,747
Interest receivable		<b>(9,347)</b>	(8,428)
Unamortized lender fees		<b>9,024</b>	9,460
Allowance for mortgage investments loss		<b>2,889</b>	2,303
<b>Net mortgage investments</b>	<b>\$</b>	<b>1,210,258</b>	<b>\$ 1,244,082</b>

<b>Net mortgage investments statistics and ratios<sup>1</sup></b>	<b>Three months ended</b>		<b>Six months ended</b>		<b>Year ended</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>December 31,</b>
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2019</b>
Total number of mortgage investments	<b>135</b>	130	<b>135</b>	130	129
Average net mortgage investment	<b>\$ 8,828</b>	\$ 9,450	<b>\$ 8,828</b>	\$ 9,450	\$ 9,524
Average net mortgage investment portfolio	<b>\$1,232,554</b>	\$1,139,377	<b>\$1,225,199</b>	\$1,143,582	\$ 1,197,377
Weighted average interest rate for the period	<b>7.1%</b>	7.2%	<b>7.1%</b>	7.2%	7.2%
Weighted average lender fees for the period	<b>0.7%</b>	1.0%	<b>0.7%</b>	0.9%	1.0%
Turnover ratio	<b>6.4%</b>	13.9%	<b>21.1%</b>	25.1%	67.0%
Remaining term to maturity (years)	<b>1.3</b>	1.1	<b>1.3</b>	1.1	1.4
Net mortgage investments secured by cash-flowing properties	<b>85.8%</b>	86.1%	<b>85.8%</b>	86.1%	86.8%
Weighted average loan-to-value	<b>68.7%</b>	67.4%	<b>68.7%</b>	67.4%	70.5%

<sup>1</sup> Refer to non-IFRS measures section.

# TIMBERCREEK FINANCIAL

## Management's Discussion and Analysis

For the three months and six months ended June 30, 2020

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### Portfolio allocation

The Company's net mortgage investments were allocated across the following categories:

#### a. Security position

	June 30, 2020		December 31, 2019	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Interest in first mortgages	119	\$ 1,114,722	114	\$ 1,125,797
Interest in second and third mortgages <sup>1</sup>	16	95,536	15	118,285
	135	\$ 1,210,258	129	\$ 1,244,082

<sup>1</sup>Included in the Company's interest in second and third mortgages as at June 30, 2020 was \$17.8 million of the net mortgage investments in which the Company holds a subordinated position (December 31, 2019 - \$42.6 million). The Company's syndicated partners who hold a senior position as at June 30, 2020 was \$45.5 million (December 31, 2019 - \$32.7 million).

#### b. Region

	June 30, 2020		December 31, 2019	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Ontario	66	\$ 541,494	65	\$ 535,622
British Columbia	28	276,034	29	297,580
Alberta	16	206,628	14	252,437
Quebec	15	156,191	11	109,092
Other (Saskatchewan, Nova Scotia and Manitoba)	10	29,911	10	49,351
	135	\$ 1,210,258	129	\$ 1,244,082

#### c. Maturity

	June 30, 2020		December 31, 2019	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
2020	30	\$ 237,964	47	\$ 416,478
2021	62	572,250	59	543,274
2022	38	339,241	20	232,257
2023	4	56,303	3	52,073
2024 and thereafter	1	4,500	—	—
	135	\$ 1,210,258	129	\$ 1,244,082

#### d. Asset Type / WALTV at origination<sup>3</sup>

	June 30, 2020			December 31, 2019		
	Number	Net Mortgage Investments	WALTV at origination	Number	Net Mortgage Investments	WALTV at origination <sup>3</sup>
Multi-Residential <sup>1</sup>	85	\$ 624,056	73.4%	79	\$ 673,585	74.0%
Retail	18	195,643	63.5%	19	192,749	69.1%
Unimproved Land <sup>2</sup>	11	117,454	47.9%	9	106,874	49.4%
Office	10	108,590	62.5%	10	105,936	62.6%
Retirement	3	77,767	74.1%	3	58,175	75.6%
Industrial	4	12,482	64.7%	5	30,187	66.6%
Single-Residential	1	1,574	69.5%	1	1,574	69.5%
	132	1,137,566	67.9%	126	1,169,080	69.8%
Net mortgage investments measured at FVTPL	3	72,692	n/a	3	75,002	n/a
	135	\$ 1,210,258		129	\$ 1,244,082	

<sup>1</sup> Includes 10 construction loans (December 31, 2019 - 7) totaling \$25.4 million (December 31, 2019 - \$26.7 million). Construction loans are provided for the purposes of building a new asset.

<sup>2</sup> Unimproved land loans are provided to non-income producing properties that does not contemplate construction during the loan period.

<sup>3</sup> Weighted average loan-to-value measured at time of origination.

# TIMBERCREEK FINANCIAL

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### Enhanced return portfolio

As at	June 30, 2020	December 31, 2019
Collateralized loans, net of allowance for credit loss	\$ 51,858	\$ 48,326
Finance lease receivable, measured at amortized cost	6,020	6,020
Investment, measured at FVTPL	5,471	4,949
Indirect real estate development, measured using equity method:		
Investment in Joint Venture	2,225	2,225
<b>Total Other Investments</b>	<b>65,574</b>	<b>61,520</b>
Investment properties	47,621	47,349
Credit facility (investment properties)	(30,637)	(30,622)
Net equity in investment properties	16,984	16,727
<b>Total Enhanced Return Portfolio</b>	<b>\$ 82,558</b>	<b>\$ 78,247</b>

During Q2 2020 and YTD 2020, the Company earned \$1.2 million and \$2.2 million (Q2 2019 – \$1.7 million and YTD 2019 – \$3.7 million) of interest income on collateralized loans in other investments in the enhanced return portfolio.

During Q2 2020 and YTD 2020, the Company amortized lender fee income of \$47 and \$92 on collateralized loans in other investments, net of fees relating to mortgage syndication liabilities (Q2 2019 – \$71 and YTD 2019 – \$147). During Q2 2020 and YTD 2020, the Company recorded non-refundable upfront cash lender fees of \$107 and \$189 (Q2 2019 – nil; YTD 2019 – nil), which are amortized over the term of the collateralized loans in other investments using the effective interest rate method.

During Q4 2017, the Company entered into a 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5.4 million at the time of the transaction. Refer to note 4(e) of the Interim Condensed Consolidated Financial Statements for the three months and six months ended June 30, 2020 and 2019.

On August 16, 2017, the Company acquired a 20.46% undivided beneficial interest in the Saskatchewan Portfolio which is comprised of 14 investment properties totaling 1,079 units located in Saskatoon and Regina, Saskatchewan for a total purchase price of \$201.7 million (the Company's share is \$41.3 million). As at June 30, 2020, the Company's share of the investment properties has an aggregate fair value of \$47.6 million (December 31, 2019 – \$47.3 million) and are pledged as security for the credit facility of the co-ownership. The Company is entitled to receive incremental profits from the excess returns generated over certain thresholds.

### Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of \$494.4 million (December 31, 2019 – \$426.9 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time and are not necessarily indicative of a future trend.

# TIMBERCREEK FINANCIAL

## Management's Discussion and Analysis

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### Allowance for Credit Losses (“ACL”)

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$3.0 million as at June 30, 2020 (December 31, 2019 – \$2.3 million), of which \$2.9 million (December 31, 2019 – \$2.3 million) was recorded against mortgage investments and \$61 (December 31, 2019 – \$25) was recorded against other investments.

	As at June 30, 2020				As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Multi-residential Mortgage Investments</b>								
Mortgages, including mortgage syndications <sup>1</sup>	\$ 938,310	\$ 7,639	\$ 2,979	\$ 948,928	\$ 925,025	\$ —	\$ 2,903	\$ 927,928
Mortgage syndication liabilities <sup>1</sup>	298,179	—	—	298,179	240,724	—	—	240,724
Net mortgage investments	640,131	7,639	2,979	650,749	684,301	—	2,903	687,204
Allowance for credit losses <sup>2</sup>	1,139	54	329	1,522	1,003	—	253	1,256
	<b>638,992</b>	<b>7,585</b>	<b>2,650</b>	<b>649,227</b>	<b>683,298</b>	<b>—</b>	<b>2,650</b>	<b>685,948</b>
<b>Other Mortgage Investments</b>								
Mortgages, including mortgage syndications <sup>1</sup>	689,949	—	3,165	693,114	674,306	—	3,102	677,408
Mortgage syndication liabilities <sup>1</sup>	197,651	—	—	197,651	187,274	—	—	187,274
Net mortgage investments	492,298	—	3,165	495,463	487,032	—	3,102	490,134
Allowance for credit losses <sup>2</sup>	591	—	776	1,367	334	—	713	1,047
	<b>491,707</b>	<b>—</b>	<b>2,389</b>	<b>494,096</b>	<b>486,698</b>	<b>—</b>	<b>2,389</b>	<b>489,087</b>
<b>Other loan Investments</b>								
Mortgages, including mortgage syndications <sup>1</sup>	51,991	—	—	51,991	48,407	—	—	48,407
Mortgage syndication liabilities <sup>1</sup>	—	—	—	—	—	—	—	—
Net mortgage investments	51,991	—	—	51,991	48,407	—	—	48,407
Allowance for credit losses <sup>2</sup>	61	—	—	61	25	—	—	25
	<b>\$ 51,930</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 51,930</b>	<b>\$ 48,382</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 48,382</b>

<sup>1</sup>Including interest receivable

<sup>2</sup>Allowance for credit losses in finance lease receivable (note 4(e)) and unadvanced commitments (note 4(a)) are all considered to be in Stage 1 with minimal ACL.



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The changes in the allowance for credit losses year to date are shown in the following tables:

Multi-residential Mortgage Investments	Six Months Ended June 30, 2020				Six Months Ended June 30, 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 1,003	\$ —	\$ 253	\$ 1,256	\$ 627	\$ —	\$ 3	\$ 630
Allowance for credit losses								
Remeasurement	156	101	76	333	6	—	173	179
Transfer to/(from)								
Stage 1	(5)	—	—	(5)	—	—	—	—
Stage 2	—	5	—	5	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	1,154	106	329	1,589	633	—	176	809
Fundings	202	—	—	202	306	—	—	306
Discharges	(217)	(52)	—	(269)	(225)	—	—	(225)
<b>Balance at end of fiscal period</b>	<b>\$ 1,139</b>	<b>\$ 54</b>	<b>\$ 329</b>	<b>\$ 1,522</b>	<b>\$ 714</b>	<b>\$ —</b>	<b>\$ 176</b>	<b>\$ 890</b>
<b>Other Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 334	\$ —	\$ 713	\$ 1,047	\$ 200	\$ —	\$ 587	\$ 787
Allowance for credit losses								
Remeasurement	197	—	63	260	59	—	557	616
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	531	—	776	1,307	259	—	1,144	1,403
Fundings	80	—	—	80	76	—	—	76
Discharges	(20)	—	—	(20)	(24)	—	—	(24)
<b>Balance at end of fiscal period</b>	<b>\$ 591</b>	<b>\$ —</b>	<b>\$ 776</b>	<b>\$ 1,367</b>	<b>\$ 311</b>	<b>\$ —</b>	<b>\$ 1,144</b>	<b>\$ 1,455</b>
<b>Other loan Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 25	\$ —	\$ —	\$ 25	\$ 212	\$ —	\$ 3	\$ 215
Allowance for credit losses								
Remeasurement	33	—	—	33	—	—	—	—
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	58	—	—	58	212	—	3	215
Fundings	10	—	—	10	—	—	—	—
Discharges	(7)	—	—	(7)	(198)	—	—	(198)
<b>Balance at end of fiscal period</b>	<b>\$ 61</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 61</b>	<b>\$ 14</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 17</b>

The following table presents the gross carrying amounts of mortgage and other loan investments, net of syndication liabilities, subject to IFRS 9 impairment requirements by internal risk ratings used by the Company for credit risk management purposes.

In assessing credit risk, the Company utilizes a risk rating framework that considers the following factors: collateral type, property rank that is applicable to the Company's security and/or priority positions, loan-to-value and population of location of the collateral. In Q1 2020, the Company enhanced this process to include an assessment of possible loan deterioration factors. These factors include consideration of the sponsor's ability to make interest payments, the condition of the asset and cash flows, economic and market factors as well as any changes to business strategy that could affect the execution risk of the loan.

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The internal risk ratings presented in the table below are defined as follows:

**Low Risk:** Mortgage and loan investments that exceed the credit risk profile standard of the Company with a below average probability of default. Yields on these investments are expected to trend lower than the Company's average portfolio.

**Medium-Low:** Mortgage and loan investments that are typical for the Company's risk appetite, credit standards and retain a below average probability of default. These mortgage and loan investments are expected to have average yields and would represent a significant percentage of the overall portfolio.

**Medium-High:** Mortgage and loan investments within the Company's risk appetite and credit standards with an average probability of default. These investments typically carry attractive risk-return yield premiums.

**High Risk:** Mortgage and loan investments within the Company's risk appetite and credit standards that have an additional element of credit risk that could result in an above average probability of default. These mortgage and loan investments carry a yield premium in return for their incremental credit risk. These mortgage and loan investments are expected to represent a small percentage of the overall portfolio.

**Default:** Mortgage and loan investments that are 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when the Company has commenced enforcement remedies available to it under its contractual agreements.

Multi-residential Mortgage Investments	As at June 30, 2020				As at December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	\$ 187,221	\$ —	\$ —	\$ 187,221	\$ 205,588	\$ —	\$ —	\$ 205,588
Medium-Low risk	428,071	—	—	428,071	444,496	—	—	444,496
Medium-High risk	24,839	7,639	—	32,478	34,217	—	—	34,217
High risk	—	—	—	—	—	—	—	—
Default	—	—	2,979	2,979	—	—	2,903	2,903
Net	640,131	7,639	2,979	650,749	684,301	—	2,903	687,204
Allowance for credit losses	1,139	54	329	1,522	1,003	—	253	1,256
<b>Mortgage investments<sup>1</sup></b>	<b>638,992</b>	<b>7,585</b>	<b>2,650</b>	<b>649,227</b>	<b>683,298</b>	<b>—</b>	<b>2,650</b>	<b>685,948</b>
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	106,489	—	—	106,489	118,546	—	—	118,546
Medium-Low risk	299,748	—	—	299,748	275,349	—	—	275,349
Medium-High risk	69,092	—	—	69,092	82,054	—	—	82,054
High risk	16,969	—	—	16,969	11,083	—	—	11,083
Default	—	—	3,165	3,165	—	—	3,102	3,102
Net	492,298	—	3,165	495,463	487,032	—	3,102	490,134
Allowance for credit losses	591	—	776	1,367	334	—	713	1,047
<b>Mortgage investments<sup>1</sup></b>	<b>491,707</b>	<b>—</b>	<b>2,389</b>	<b>494,096</b>	<b>486,698</b>	<b>—</b>	<b>2,389</b>	<b>489,087</b>
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	—	—	—	—	—	—	—	—
Medium-Low risk	—	—	—	—	—	—	—	—
Medium-High risk	—	—	—	—	—	—	—	—
High risk	51,991	—	—	51,991	48,407	—	—	48,407
Default	—	—	—	—	—	—	—	—
Net	51,991	—	—	51,991	48,407	—	—	48,407
Allowance for credit losses	61	—	—	61	25	—	—	25
<b>Other loan Investments<sup>1</sup></b>	<b>\$ 51,930</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 51,930</b>	<b>\$ 48,432</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 48,382</b>

<sup>1</sup>net of allowance and mortgage syndications

## Net working capital

Net working capital decreased by \$4.3 million to \$6.9 million at June 30, 2020 from \$11.1 million at December 31, 2019.

## Credit facility (mortgage investments)

The Company originally had a \$400 million credit facility with 10 Canadian banks and by the exercising accordion feature on February 13, 2018 and November 16, 2018, the Company increased the credit limit to \$500 million. The facility is secured by a general security agreement over the Company's assets and its subsidiaries and has a maturity date of December 20, 2021. On December 20, 2019, the Company amended the credit facility agreement (the "Fourth Amending Credit Agreement") to amend certain terms and conditions, including rates of interest.

The rates of interest and fees of the Fourth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2019 – prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2019 – 2.00%) and standby fee of 0.40% per annum (December 31, 2019 – 0.40%) on the unutilized credit facility balance. As at December 31, 2019, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Fourth Amending Credit Agreement is \$500.0 million.

In December 2019, the Company entered into a 2-year interest rate swap contract (the "Contract") with two Canadian banks with notional value of \$250 million, and subsequently during Q1 2020, a portion of the Contract was assigned to a third counter-party, a Canadian bank. Under the terms of the Contract, the Company is required to pay fixed rate of 2.02% and receive floating rate based on 1-month banker's acceptance. Net realized and unrealized fair value gain or loss from the Contract is recognized in the statement of net income and comprehensive income. As at June 30, 2020, the Company recorded the fair value of the Contract as a liability of \$5.6 million (December 31, 2019 – nil). The fair value of the Contract is calculated as the present value of the estimated future cash flows. Estimates of the future cash flows are the sum of contractually fixed future amounts and expected variable future amounts, which are based on quoted swap rates, futures prices and estimated borrowing rates.

During Q2 2020 and YTD 2020, the Company incurred financing costs of \$91 and \$126 (Q2 2019 – nil; YTD 2019 – \$56). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement.

## Credit facility (investment properties)

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners originally entered into a credit facility agreement with a Schedule 1 Bank with a maturity date of August 10, 2019. Under the terms of the agreement, the co-ownership has a maximum available credit of \$162.6 million. The gross initial advance on the credit facility was \$144.6 million. The Company's share of the initial advance was \$29.6 million plus \$109 of unamortized financing costs.

On October 9, 2019, the credit facility agreement was further amended (the "Amended and Restated Credit Agreement") to establish Tranche A, Tranche B and Tranche C credit facilities (the "Credit Facilities"). Under the amended terms, the maximum available credit is \$150 million. As at June 30, 2020, the co-owners borrowed \$150.0 million from the Credit Facilities. The Company's share of the outstanding amount is \$30.7 million. The original credit facility provided the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at the bankers' acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following:

- 1) Tranche A credit facility provides the co-owners an option to borrow at either the prime rate of interest plus 1.00% or at the bankers' acceptances with a stamping fee of 2.00% ("Canadian Dollar Loans"), or at LIBOR

plus 2.00%, with maturity date of October 9, 2021. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$31.7 million. The Company's share of the carrying value is \$6.5 million.

- 2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche B properties (the "Tranche B Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2020 and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of \$39.7 million. The Company's share of the carrying value is \$8.1 million.
- 3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche C properties (the "Tranche C Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of \$78.6 million. The Company's share of the carrying value is \$16.1 million.

The co-owners of the Saskatchewan Portfolio (note 5) are each individually subject to financial covenants outlined in the investment properties credit facility agreement. Notwithstanding, the lender's recourse is limited to each co-owner's proportionate interest in the investment properties credit facility.

As at June 30, 2020, the co-owners borrowed \$150.0 million from the Credit Facilities. The Company's share of the outstanding amount in is \$30.7 million.

### **Convertible debentures**

- (a) On July 29, 2016, the Company completed a public offering of \$40 million, plus an overallotment option of \$5.8 million on August 5, 2016, of 5.40% convertible unsecured subordinated debentures for net proceeds of \$43.5 million (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The 2016 debentures are redeemable on and after July 31, 2019 and prior to July 31, 2020, by the Company, subject to certain conditions, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after July 31, 2020 and prior to the maturity date, the 2016 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45.8 million. The issue costs of \$2.3 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (b) On February 7, 2017, the Company completed a public offering of \$40 million, plus an overallotment option of \$6 million, of 5.45% convertible unsecured subordinated debentures for net proceeds of \$43.7 million (the "February 2017 debentures"). The February 2017 debentures mature on March 31, 2022 and pay interest semi-

annually on September 30 and March 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The February 2017 debentures are redeemable on and after March 31, 2020, but prior to March 31, 2021, the February 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after March 31, 2021 and prior to the maturity date, the February 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$607, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$46 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (c) On June 13, 2017, the Company completed a public offering of \$40 million, plus an overallotment option of \$5 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42.8 million (the "June 2017 debentures"). The June 2017 debentures mature on June 30, 2024 and pay interest semi-annually on June 30 and December 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.10 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

The June 2017 debentures are redeemable on and after June 30, 2020, but prior to June 30, 2022, the June 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after June 30, 2022 and prior to the maturity date, the June 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice.

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$560, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.



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The convertible debentures are comprised of as follows:

		June 30, 2020		December 31, 2019
Issued	\$	136,800	\$	136,800
Unamortized financing cost and amount classified as equity component		(3,051)		(3,767)
Debentures, end of period	\$	133,749	\$	133,033

Interest costs related to the convertible debentures are recorded in financing costs using the effective interest rate method. Interest on the debentures is included in financing costs and is made up of the following:

		Six months ended June 30,	
		2020	2019
Interest on the convertible debentures	\$	3,683	\$ 3,682
Amortization of issue costs and accretion of the convertible debentures		716	713
Total	\$	4,399	\$ 4,395

## SHAREHOLDERS' EQUITY

### Common shares

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings as well as to receive dividends as declared by the Board of Directors.

The common shares are classified within shareholders' equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity.

#### (a) At-the-market equity program (the "ATM Program")

The Company announced on June 21, 2018 that it has established an ATM Program which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to \$70 million to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange (the "TSX"). The common shares distributed under the ATM Program were at the market prices prevailing at the time of sale, and therefore prices varied between purchasers and over time. Net proceeds of the ATM Program were used to repay amounts owing under its secured revolving credit facility and the Company will subsequently draw on the credit facility for purposes of funding the purchase of new investments in accordance with its strategies, investment objectives and investment. The ATM Program was active between July 2018 to July 2019 and expired on January 11, 2020.

#### (b) Normal course issuer bid ("NCIB")

On March 26, 2020, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,309,785 common shares over a 12-month period. Repurchases under the NCIB commenced on March 30, 2020 and will continue until March 29, 2021, when bid expires, or such earlier date as the Company has repurchased the maximum number of common shares permitted under the bid.

The Company may repurchase under the NCIB by means of open market transactions or otherwise as permitted by the TSX. All repurchases under the NCIB will be repurchased on the open market through the facilities of the TSX and alternative Canadian trading platforms at the prevailing market price at the time of such transaction.



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During Q2 2020 and YTD 2020, the Company repurchased 1,953,072 and 2,059,636 common shares (Q2 2019 – nil; YTD 2019 – nil) for total amount of \$15.6 million and \$16.4 million (Q2 2019 – nil; YTD 2019 – nil). The average price per common share repurchased was \$8.01 for Q2 2020 and \$7.96 for YTD 2020. 106,564 common shares for total amount of \$909 were settled and cancelled subsequent to June 30, 2020.

### (c) Dividend reinvestment plan ("DRIP")

The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be purchased from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share.

During Q2 2020 and YTD 2020, the Company purchased from open market 151,530 and 151,530 common shares (Q2 2019 – nil and YTD 2019 – 36,866) for total amount of \$1.2 million and \$1.2 million (Q2 2019 – nil; YTD 2019 – \$338) at an average price of \$7.91 per common share.

During Q2 2020 and YTD 2020, the Company issued from treasury nil and 117,818 common shares (Q2 2019 – 127,095 and YTD 2019 – 212,010) and retained nil and \$1.1 million in dividends (Q2 2019 – \$1.2 million; YTD 2019 – \$1.9 million) at an average price of \$9.62 per common share.

### (d) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q2 2020 and YTD 2020, the Company declared dividends of \$14.2 million or \$0.1725 per common share and \$28.5 million or \$0.3450 per common share (Q2 2019 – \$14.3 million, \$0.1725 per share and YTD 2019 – \$28.4 million, \$0.3450 per share).

As at June 30, 2020, \$4.7 million in aggregate dividends (December 31, 2019 – \$4.8 million) was payable to the holders of common shares by the Company. Subsequent to June 30, 2020, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on July 15, 2020 to the common shareholders of record on June 30, 2020.

### Non-executive director deferred share unit plan ("DSU Plan")

Commencing June 30, 2016, the Company instituted a non-executive director deferred share unit plan, whereby a director can elect up to 100% of the compensation be paid in the form of DSUs, credited quarterly in arrears. The portion of a director's compensation which is not payable in the form of DSUs shall be paid by the Company in cash, quarterly in arrears. The fair market value of the DSU is the volume weighted average price of a common share as reported on the TSX for the 20 trading days immediately preceding that day (the "Fair Market Value"). The directors are entitled to also accumulate additional DSUs equal to the monthly cash dividends, on the DSUs already held by that director determined based on the Fair Market Value of the common shares on the dividend payment date.

Following each calendar quarter, the director DSU accounts will be credited with the number of DSUs calculated by multiplying the total compensation payable in DSUs divided by the Fair Market Value. Until June 30, 2018, each director was also entitled to an additional 25% of DSUs that are issued in the quarter up to a maximum value of \$5 per annum.

The DSU plan will pay a lump sum payment in cash equal to the number of DSUs held by each director multiplied by the Fair Market Value as of the 24<sup>th</sup> business day after publication of the Company's financial statements following a director's departure from the Board of Directors.

During Q2 2020 and YTD 2020, 11,163 and 20,550 units were issued (Q2 2019 and YTD 2019 – 8,359 and 15,997) and as at June 30, 2020, 104,858 units were outstanding (December 31, 2019 – 84,308 units). No DSUs were exercised or canceled, resulting in a DSU expense of \$87 and \$186 (Q2 2019 and YTD 2019 – \$84 and YTD 2019 – \$166). As at June 30, 2020, \$87 (December 31, 2019 – \$86) in compensation was granted in DSUs, which will be issued subsequent to June 30, 2020.

## STATEMENT OF CASH FLOWS

### Cash from operating activities

Cash from operating activities for Q2 2020 and YTD 2020 was \$19.6 million and \$40.3 million (Q2 2019 – \$29.8 million; YTD 2019 – \$51.2 million).

### Cash from (used in) financing activities

Cash used in financing activities for Q2 2020 and YTD 2020 consisted of the Company's net advances on the operating credit facility of \$42.0 million and net repayments of \$16.0 million (Q2 2019 – \$32.5 million net repayments, YTD 2019 – \$22.9 million net repayments).

The Company paid interest on the debentures and credit facilities of \$5.2 million and \$12.2 million (Q2 2019 – \$7.5 million; YTD 2019 – \$13.4 million), and paid common share dividends of \$13.1 million and \$26.3 million (Q2 2019 – \$13.1 million; YTD 2019 – \$26.0 million).

During Q2 2020 and YTD 2020, the Company purchased shares on the open market under NCIB and DRIP program for a combined \$16.7 million and \$16.7 million (Q2 2019 – nil; YTD 2019 – \$338).

The net cash received from financing activities for Q2 2020 was \$7.0 million and YTD 2020 cash used in financing activities was \$71.2 million (Net cash used Q2 2019 – \$47.9 million and YTD 2019 – \$53.9 million).

### Cash (used in) from investing activities

Cash used in investing activities consisted of the Company's funding of net mortgage investments \$101.4 million and \$226.6 million (Q2 2019 – \$153.8 million; YTD 2019 – \$306.2 million). The Company received cash from discharge of net mortgage investments \$78.4 million and \$257.3 million (Q2 2019 – \$166.5 million; YTD 2019 – \$300.9 million),

The Company used cash in funding of other investments \$4.5 million and \$11.2 million (Q2 2019 – \$2.0 million; YTD 2019 – \$4.4 million). The Company received cash from repayments of other investments \$25 and \$8.0 million (Q2 2019 – \$8.0 million; YTD 2019 – \$12.6 million).

The company used cash in funding additions to investment properties \$118 and \$271 (Q2 2019 – \$286 and YTD 2019 – \$390). The company paid cash on maturity of currency forward hedging contracts \$242 and \$432 (Q2 2019 – paid \$219 and YTD 2019 received \$143).

The net cash used in investing activities for Q2 2020 was \$27.8 million and YTD 2020 cash received from investing activities was \$26.8 million (Q2 2019 – received \$18.2 million; YTD 2019 – received \$2.7 million).

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### QUARTERLY FINANCIAL INFORMATION

The following is a quarterly summary of the Company's results for the eight most recently completed quarters:

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Net investment income	\$ 21,970	\$ 24,088	\$ 25,207	\$ 24,742	\$ 24,977	\$ 24,512	\$ 25,169	\$ 24,465
Net rental income	376	360	414	359	351	316	358	135
Expenses	(4,119)	(4,164)	(3,994)	(3,769)	(4,005)	(4,095)	(3,866)	(3,774)
Income from operations	18,227	20,284	21,627	21,332	21,323	20,733	21,661	20,826
Other income, net	—	—	—	—	—	413	1,217	—
Net operating loss from FPHFS	—	—	—	—	—	—	(15)	(18)
Fair value loss of FPHFS	—	—	—	—	—	—	(29)	(40)
Financing costs:								
Financing cost on credit facilities	(4,482)	(4,855)	(5,323)	(5,216)	(5,531)	(5,816)	(5,368)	(4,836)
Financing cost on convertible debentures	(2,199)	(2,200)	(2,203)	(2,203)	(2,199)	(2,196)	(2,203)	(2,224)
Fair value gain (loss) on derivative contract (interest rate swap)	197	(5,804)	—	—	—	—	—	—
Total financing costs	(6,484)	(12,859)	(7,526)	(7,419)	(7,730)	(8,012)	(7,571)	(7,060)
Total net income and comprehensive income (basic)	\$ 11,743	\$ 7,425	\$ 14,101	\$ 13,913	\$ 13,593	\$ 13,134	\$ 15,263	\$ 13,708
Total net income and comprehensive income (diluted)	\$ 11,743	\$ 7,425	\$ 16,304	\$ 15,422	\$ 14,336	\$ 13,134	\$ 17,466	\$ 15,911
Adjusted for:								
Fair value (gain) loss on derivative contract (interest rate swap)	\$ (197)	5,804	—	—	—	—	—	—
Total adjusted net income and comprehensive income (basic) <sup>1</sup>	\$ 11,546	\$ 13,229	\$ 14,101	\$ 13,913	\$ 13,593	\$ 13,134	\$ 15,263	\$ 13,708
Total adjusted net income and comprehensive income (diluted) <sup>1</sup>	\$ 11,546	\$ 13,229	\$ 16,304	\$ 15,422	\$ 14,336	\$ 13,134	\$ 17,466	\$ 15,911
Earnings per share (basic)	\$ 0.14	\$ 0.09	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.19	\$ 0.17
Earnings per share (diluted)	\$ 0.14	\$ 0.09	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.18	\$ 0.17
Adjusted earnings per share (basic) <sup>1</sup>	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.19	\$ 0.17
Adjusted earnings per share (diluted) <sup>1</sup>	\$ 0.14	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.18	\$ 0.17
Distributable income <sup>1</sup>	\$ 14,798	\$ 14,394	\$ 15,555	\$ 15,888	\$ 13,690	\$ 14,208	\$ 16,302	\$ 14,818
Distributable income per share <sup>1</sup>	\$ 0.18	\$ 0.17	\$ 0.19	\$ 0.19	\$ 0.17	\$ 0.17	\$ 0.20	\$ 0.19

<sup>1</sup> Refer to non-IFRS measures section.

The variations in total net income and comprehensive income by quarter are mainly attributed to the following:

- In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;
- In any given quarter, the Company is subject to volatility from fair value adjustments to FPHFS and allowance for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;
- The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs.

## RELATED PARTY TRANSACTIONS

As at June 30, 2020, due to Manager mainly includes management and servicing fees payable of \$1.2 million (December 31, 2019 – \$1.1 million).

During Q2 2020 and YTD 2020, the Arrangement Fee of \$42 and \$42 was retained by the Manager (Q2 2019 – nil and YTD 2019 – nil).

As at June 30, 2020, included in other assets is \$10.8 million (December 31, 2019 – \$9.0 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.

As at June 30, 2020, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Real Estate Financing U.S. Holding LP ("TREF") are related parties as they are managed by the Manager or its related parties, and they have co-invested in 30 mortgages (December 31, 2019 – 29) and other investments totaling \$283.7 million (December 31, 2019 – \$349.0 million), on gross basis including mortgage syndications. The Company's share in these mortgage investments is \$154.2 million (December 31, 2019 – \$202.9 million). Additionally, one mortgage investment (December 31, 2019 – one) totaling \$18.6 million (December 31, 2019 – \$18.4 million), net of mortgage syndication, is loaned to a limited partnership in which T4Q has a minimal interest in the partnership.

As at June 30, 2020, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$5.5 million or €3.6 million (December 31, 2019 – \$4.9 million or €3.4 million), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by an entity wholly-owned, directly by the Manager.

As at June 30, 2020, the Company and T4Q invested in one indirect real estate development through one investee, totaling \$4.5 million (December 31, 2019 – \$4.5 million), the Company's share in this investment is \$2.2 million (December 31, 2019 – \$2.2 million).

As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner are party to property management agreements with Timbercreek Equities Corp. ("TEC"), as successor in interest to TAMI as of March 9, 2020, in respect of such property management agreements. TEC provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. During Q2 2020 \$31 of Property Management Fees were charged by TEC and for YTD 2020, \$40 of such fees were charged by TAMI and subsequent to March 9, 2020, \$31 of such fees were charged by TEC. (Q2 2019 \$39 and YTD 2019 – \$76). As at June 30, 2020, \$12 was payable to the TEC (December 31, 2019 – \$12 was payable to TAMI).

## COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgage investments and other investments. Where required, management records adequate provisions in the accounts.

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

## CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Company's unaudited interim condensed consolidated financial statements, the Manager has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties, other than potential effects of the COVID-19 pandemic, that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these unaudited interim condensed consolidated financial statements.

Beginning March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. The COVID-19 outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses; "shelter in place" and other governmental regulations; and reduced consumer spending due to both job losses and other effects attributable to COVID-19 which has resulted in an uncertain and challenging economic environment that could negatively impact the Company's operations and financial results in future periods. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Company's future operating assumptions and expectations as compared to prior periods. As such, it is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's estimate of allowance for credit losses and investments measured at FVTPL, both in the short term and in the long term.

The near-term impacts of COVID-19 are primarily with respect to interest collections and mortgage investment discharges. Subsequent to June 30, 2020, the Company collected approximately 96.7% of July 2020 interest payments which is materially in line with historical collection rates. The Company is actively working with borrowers on a case-by-case basis on deferral arrangements. Up to the date of the unaudited interim condensed consolidated financial statements, less than 3.1% of borrowers have requested deferred payment plans.

The allowance for credit losses and carrying value for the Company's investments measured at FVTPL reflect its best estimate. As at June 30, 2020, for the purpose of assessing allowance for credit losses, certain assumptions on mortgage investments secured by retail assets were updated to reflect the potential for increased risk to property cash flows as a result of the ongoing COVID-19 pandemic. Additionally, a mortgage investment secured by retail assets measured at FVTPL recorded a negative adjustment in fair value (note 4(a) and 4(d) of the interim condensed consolidated financial statements for the three months and six months ended June 30, 2020 and 2019 ). Actual results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruptions is longer than initially anticipated.

The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the consolidated financial statements are as follows:

### Measurement of fair values

The Company's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses market observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Company will assess the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The information about the assumptions made in measuring fair value is included in the following notes of the Company's interim condensed consolidated financial statements:

- Note 4 – Mortgage and other investments, including mortgage syndications;
- Note 5 – Investment properties; and
- Note 18 – Fair value measurements.

#### Measurement of expected credit loss

The determination of the allowance for credit losses takes into account different factors and varies by nature of investment. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance of credit loss. Refer to note 4(d) of the Company's interim condensed consolidated financial statements.

#### Syndication liabilities

The Company applies judgement in assessing the relationship between parties with which it enters into participation agreements in order to assess the derecognition of transfers relating to mortgage and other investments.

#### Classification of mortgage and other investments

Mortgage investments and other loan investments are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Company exercises judgment in determining both the business model for managing the assets and whether cash flows of the financial asset comprise solely payments of principal and interest.

#### Convertible debentures

The Company exercises judgement in determining the allocation of the debt and equity components of convertible debentures. The liability allocation is based upon the fair value of a similar liability that does not have an equity conversion option and the residual value is allocated to the equity component.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in the unaudited condensed consolidated interim financial statements are the same, except for as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2019, which were prepared in accordance with IFRS.



**Changes in accounting policies****Amendments to References to the Conceptual Framework in IFRS Standards**

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

The Company has adopted the amendments in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's financial statements.

**Definition of Material (Amendments to IAS 1 and IAS 8)**

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Company has adopted the amendments to IAS 1 and IAS 8 in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's financial statements.

**OUTSTANDING SHARE DATA**

As at August 6, 2020, the Company's authorized capital consists of an unlimited number of common shares, of which 81,069,520 are issued and outstanding.

**CAPITAL STRUCTURE AND LIQUIDITY****Capital structure**

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company believes that the conservative amount of structural leverage gained from the debentures and credit facility is accretive to net earnings, appropriate for the risk profile of the business. The Company anticipates meeting all of its contractual liabilities (described below) using its mix of capital structure and cash flow from operating activities.

The Company reviews its capital structure on an ongoing basis and adjusts its capital structure in response to mortgage investment opportunities, the availability of capital and anticipated changes in general economic conditions.

**Liquidity**

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its

# TIMBERCREEK FINANCIAL

## Management's Discussion and Analysis

For the three months and six months ended June 30, 2020

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has a borrowing ability of \$500.0 million through its credit facility – mortgage investments and \$30.7 million through its credit facility – investment properties and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at June 30, 2020, the Company is in compliance with its credit facilities covenants and expects to remain in compliance going forward.

The Company routinely forecasts cash flow sources and requirements, including unadvanced commitments, to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at June 30, 2020, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 5,326	\$ 5,326	\$ 5,326	\$ —	\$ —
Dividends payable	4,682	4,682	4,682	—	—
Due to Manager	1,159	1,159	1,159	—	—
Mortgage and other loans funding holdbacks	2,239	2,239	2,239	—	—
Prepaid mortgage and other loans interest	8,319	8,319	8,319	—	—
Derivative liability (interest rate swap contract)	5,607	5,607	3,761	1,846	—
Credit facility (mortgage investments) <sup>1</sup>	444,155	461,801	11,169	450,632	—
Credit facility (investment properties) <sup>2</sup>	30,637	31,733	8,955	22,778	—
Convertible debentures <sup>3</sup>	133,749	136,800	136,800	—	—
	\$ 635,873	\$ 657,666	\$ 182,410	\$ 475,256	\$ —
Unadvanced mortgage commitments <sup>4</sup>	—	253,342	253,342	—	—
Total contractual liabilities, excluding mortgage syndication liabilities <sup>5</sup>	\$ 635,873	\$ 911,008	\$ 435,752	\$ 475,256	\$ —

<sup>1</sup> Credit facility (mortgage investments) includes interest based upon June 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 18, 2021.

<sup>2</sup> Credit facility (investment properties) includes interest based upon June 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on October 9, 2020.

<sup>3</sup> The convertible debentures are assumed to be redeemed within a year as they are redeemable as at the reporting date.

<sup>4</sup> Unadvanced mortgage commitments include syndication commitments of which \$136.9 million belong to the Company's syndicated partners.

<sup>5</sup> The principal repayments of \$493.8 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at June 30, 2020, the Company had a cash position of \$4.9 million (December 31, 2019 – \$9.0 million), an unutilized credit facility (mortgage investments) balance of \$55.0 million (December 31, 2019 – \$39.0 million) and an unutilized credit facility (investment properties) balance of nil (December 31, 2019 – nil). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at June 30, 2020, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to \$253.3 million (December 31, 2019 – \$211.8 million) of which \$136.9 million (December 31, 2019 – \$81.3 million) belong to the Company's syndicated partners. The Company expects the syndication partners to fund their respective commitments.

## FINANCIAL INSTRUMENTS

### Financial assets

The Company's cash and cash equivalents, other assets, mortgage investments and other investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values

of cash and cash equivalents and other assets approximate their carrying amounts due to their short-term nature. The fair value of mortgage investments, including mortgage syndications, approximate their carrying value given the mortgage and other investments consist of short-term mortgages that are repayable at the option of the borrower without yield maintenance or penalties.

## Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures, derivative liability (interest rate swap contract) and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of convertible debentures and mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the mortgage investments consist of short-term mortgages that are repayable at the option of the borrower without yield maintenance or penalties. The fair value of the convertible debentures is based on the market trading price of convertible debentures at the reporting date.

## RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties that may affect the Company's future performance and its ability to execute on its investment objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while other risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage investments at rates consistent with rates historically achieved, not having adequate mortgage investment opportunities presented to us, change in currency rates and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of June 30, 2020, \$1,003.8 million of net mortgage investments and \$11.4 million of other investments bear interest at variable rates (December 31, 2019 – \$992.3 million and \$6.6 million, respectively). \$945.7 million of net mortgage investments have a "floor rate" (December 31, 2019 – \$917.2 million). If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income is minimal as of June 30, 2020 (December 31, 2019 – decrease \$1.3 million or increase \$5.0 million). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of \$475.7 million as at June 30, 2020 (December 31, 2019 – \$491.7 million). During Q4 2019, the Company entered into the Contract (refer to note 6(a) of unaudited interim condensed consolidated financial statements for the six months ended June 30, 2020 and 2019) which reduced the exposure in interest rate risk. As at June 30, 2020, net exposure to interest rate risk was \$201.5 million (December 31, 2019 – \$217.5 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1.0 million (December 31, 2019 – \$1.2 million).

The Company's other assets, interest receivable, accounts payable and accrued expenses, prepaid mortgage interest, mortgage funding holdbacks, dividends payable and due to Manager have no significant exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

## Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk primarily from other investments and credit facility investment properties that are denominated in a currency other than the Canadian dollar. The Company uses foreign currency forwards and swaps to approximately economically hedge the principal balance of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward and swap contracts, the Company buys or sells a currency against another currency at a set price on a future date. As at June 30, 2020, the Company has US\$5.1 million and €3.6 million in other investments denominated in foreign currencies (December 31, 2019 – US\$5.1 million and €3.4 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at June 30, 2020, the Company has one U.S. dollars currency contracts with an aggregate notional value of US\$5.1 million, at a weighted average forward contract rate of 1.3962, maturing in October 2020 and one Euro currency contract with an aggregate notional value of €3.5 million at a weighted average contract rate of 1.5401, maturing in October 2020. The Company has entered into a cross-currency swap to economically hedge with notional value of US\$4.8 million, which resets on a monthly basis. As a result, the Company is not exposed to any significant foreign currency risk.

The fair value of the foreign currency forward contracts as at June 30, 2020 is an asset of \$237 which is included in other assets. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

## Credit risk

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

- i. adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- ii. ensuring all new mortgage and other investments are approved by the investment committee before funding; and
- iii. actively monitoring the mortgage and other investments and initiating recovery procedures, in a timely manner, where required.

The exposure to credit risk at June 30, 2020 relating to net mortgages and other investments amount to \$1,295.1 million (December 31, 2019 – \$1,319.6 million).

The Company has recourse under these mortgages and the majority of other investments in the event of default by the borrowers; in which case, the Company would have a claim against the underlying collateral. Management believes that the potential loss from credit risk with respect to cash that is held in trust at a Schedule I bank by the Company's transfer agent and operating cash held also at a Schedule 1 bank, to be minimal.

The Company is exposed to credit risk from the collection of accounts receivable from tenants. The Manager routinely obtains credit history reports on prospective tenants before entering into a tenancy agreement.

## Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized. For a discussion of the Company's liquidity, cash flow from operations and mitigation of liquidity risk, see the "Capital Structure and Liquidity" section in this MD&A.

## **ADDITIONAL INFORMATION**

### **Dividend Reinvestment Plan**

Timbercreek Financial offers a dividend reinvestment plan (DRIP) so that shareholders may automatically reinvest their dividends in new shares of Timbercreek Financial at a 2% discount from market price and with no commissions. This provides an easy way to realize the benefits of compound growth of their investment in Timbercreek Financial. Shareholders can enroll in the DRIP program by contacting their investment advisor or investment dealer.

### **Phone**

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### **Internet**

Visit SEDAR at [www.sedar.com](http://www.sedar.com); or the Company's website at [www.timbercreekfinancial.com](http://www.timbercreekfinancial.com)

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