

Interim Condensed Consolidated Financial
Statements of

Timbercreek Financial

Three months and nine months ended September 30, 2019 and 2018



**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF FINANCIAL POSITION** (Unaudited)

(In thousands of Canadian dollars)

As at	Note	September 30, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents		\$ 103	\$ 541
Other assets	15(b)	13,523	10,217
Mortgage investments, including mortgage syndications	4(a)(b)(c)(d)	1,573,944	1,796,822
Other investments	4(e)	102,797	90,957
Investment properties	5	47,189	46,494
Total assets		1,737,556	1,945,031
LIABILITIES AND EQUITY			
Accounts payable and accrued expenses		\$ 3,096	\$ 4,221
Dividends payable	9(c)	4,780	4,694
Margin facility for marketable securities	4(e)	13,987	—
Due to Manager	15(a)	1,058	1,493
Mortgage and other loans funding holdbacks		2,803	657
Prepaid mortgage and other loans interest		6,535	2,425
Credit facility (mortgage investments)	6	418,084	476,166
Credit facility (investment properties)	6	32,975	32,773
Convertible debentures	8	132,671	131,597
Mortgage syndication liabilities	4(a)(c)	394,075	575,040
Total liabilities		1,010,064	1,229,066
Shareholders' equity	9	727,492	715,965
Total liabilities and equity		\$ 1,737,556	\$ 1,945,031
Commitments and contingencies	4, 6 and 20		
Subsequent events	9(c), 21		

See accompanying notes to the unaudited interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF NET INCOME AND COMPREHENSIVE INCOME** (Unaudited)

(In thousands of Canadian dollars, except per share amounts)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Investment income					
Gross interest and other income, including mortgage syndications		\$ 30,567	\$ 32,051	\$ 93,530	\$ 91,558
Interest and other expenses on mortgage syndications		(5,825)	(7,586)	(19,300)	(21,768)
Net investment income	4(b)(e)	24,742	24,465	74,230	69,790
Net rental income					
Revenue from investment properties	7	712	483	2,085	1,344
Property operating costs		(353)	(348)	(1,059)	(881)
Net rental income		359	135	1,026	463
Expenses					
Management fees	11	3,037	2,974	9,303	8,781
Servicing fees	11	115	158	383	459
Allowance for expected credit loss	4(d)	249	170	980	424
General and administrative		367	472	1,203	1,247
Total expenses		3,768	3,774	11,869	10,911
Income from operations		21,333	20,826	63,387	59,342
Other income, net		—	—	413	—
Net operating loss from foreclosed properties held for sale		—	(18)	—	(25)
Fair value loss on foreclosed properties held for sale		—	(40)	—	(80)
Financing costs					
Interest on credit facility	6	5,216	4,836	16,563	13,008
Interest on convertible debentures	8	2,203	2,224	6,598	8,426
Total financing costs		7,419	7,060	23,161	21,434
Net income and comprehensive income		\$ 13,914	\$ 13,708	\$ 40,639	\$ 37,803
Earnings per share					
Basic	12	\$ 0.17	\$ 0.17	\$ 0.49	\$ 0.48
Diluted	12	\$ 0.17	\$ 0.17	\$ 0.49	\$ 0.48

See accompanying notes to the unaudited interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS' EQUITY** (Unaudited)

(In thousands of Canadian dollars)

		Common shares	Retained earnings	Equity component of convertible debentures	Total
Nine months ended September 30, 2019					
Balance, December 31, 2018	\$	715,653	\$ (1,626)	\$ 1,938	\$ 715,965
Issuance of common shares, net of issue costs		10,540	—	—	10,540
Dividends		—	(42,723)	—	(42,723)
Issuance of common shares under dividend reinvestment plan		3,409	—	—	3,409
Repurchase of common shares for dividend reinvestment plan		(338)	—	—	(338)
Total net income and comprehensive income		—	40,639	—	40,639
Balance, September 30, 2019	\$	729,264	\$ (3,710)	\$ 1,938	\$ 727,492

		Common shares	Retained earnings	Equity component of convertible debentures	Total
Nine months ended September 30, 2018					
Balance, December 31, 2017	\$	650,988	\$ 196	\$ 1,938	\$ 653,122
Issuance of common shares, net of issue costs		45,871	—	—	45,871
Dividends		—	(40,814)	—	(40,814)
Issuance of common shares under dividend reinvestment plan		3,439	—	—	3,439
Repurchase of common shares for dividend reinvestment plan		—	—	—	—
Total net income and comprehensive income		—	37,803	—	37,803
Balance, September 30, 2018	\$	700,298	\$ (2,815)	\$ 1,938	\$ 699,421

See accompanying notes to the unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

(Unaudited)

(In thousands of Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
OPERATING ACTIVITIES					
Total net income		\$ 13,914	\$ 13,708	\$ 40,639	\$ 37,803
Amortization of lender fees		(2,953)	(2,478)	(7,369)	(6,010)
Lender fees received		1,955	2,711	5,260	8,983
Interest and income, net of syndications		(22,459)	(21,956)	(67,539)	(63,650)
Interest and other income received, net of syndications		21,772	19,800	72,442	57,901
Financing costs		7,419	7,061	23,161	21,434
Realized loss on disposal of marketable securities		—	—	—	70
Net unrealized loss (gain) on investments measured at fair value through profit or loss		669	(31)	677	(186)
Net realized and unrealized foreign exchange (gain) loss		(20)	13	(10)	3
Fair value (loss) gain on foreclosed properties held for sale		—	40	—	80
Allowance for mortgage investment loss		249	170	980	424
Net change in non-cash operating items	13	(399)	(294)	3,060	1,615
		20,147	18,744	71,301	58,467
FINANCING ACTIVITIES					
Net credit facility (repayments) advances – mortgage investments		(36,344)	46,698	(59,233)	47,522
Net credit facility (repayments) advances – investment properties		—	855	178	2,308
Net margin facility advances – marketable securities		13,987	—	13,987	—
Net proceeds from redemption of convertible debentures		—	—	—	(34,500)
Net proceeds from issuance of common shares		2,029	3,665	10,543	46,048
Interest paid		(7,290)	(8,636)	(20,659)	(22,266)
Dividends paid to shareholders		(13,193)	(12,557)	(39,228)	(37,091)
Repurchase of common shares for dividend reinvestment plan		—	—	(338)	—
		(40,811)	30,025	(94,750)	2,021
INVESTING ACTIVITIES					
Purchases of of marketable securities		(36,533)	—	(36,533)	—
Proceeds from sale of marketable securities		531	—	531	—
Addition to investment properties		(305)	(846)	(695)	(2,930)
Net payments on maturity of forward contracts		176	—	319	—
Funding of other investments		(363)	(3,925)	(4,736)	(47,110)
Proceeds from other investments		14,933	425	27,582	17,612
Funding of mortgage investments, net of mortgage syndications		(140,108)	(182,647)	(446,299)	(552,936)
Discharges of mortgage investments, net of mortgage syndications		181,885	138,101	482,758	524,798
		20,216	(48,892)	22,927	(60,566)
Net foreign exchange gain (loss) on cash accounts		97	69	84	(135)
Decrease in cash and cash equivalents		(351)	(54)	(438)	(213)
Cash and cash equivalents, beginning of period		454	541	541	700
Cash and cash equivalents, end of period		\$ 103	\$ 487	\$ 103	\$ 487

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

1. CORPORATE INFORMATION

Timbercreek Financial Corp. (the “Company”, “TF” or “Timbercreek Financial”) is a mortgage investment corporation domiciled in Canada. The Company is incorporated under the laws of the Province of Ontario. The registered office of the Company is 25 Price Street, Toronto, Ontario M4W 1Z1. The common shares of the Company are listed on the Toronto Stock Exchange (“TSX”) under the symbol “TF”.

The investment objective of the Company is to secure and grow a diversified portfolio of high quality mortgage and other investments, generating an attractive risk adjusted return and monthly dividend payments to shareholders balanced by a strong focus on capital preservation.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The presentation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”). These unaudited condensed consolidated interim financial statements should be read in conjunction with the notes to the audited consolidated financial statements for the year ended December 31, 2018 since these financial statements do not contain all disclosures required by IFRS for annual financial statements.

The unaudited interim condensed consolidated financial statements were approved by the Board of Directors on November 12, 2019.

(b) Principles of consolidation

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Timbercreek Mortgage Investment Fund. The financial statements of the subsidiaries included in these unaudited interim condensed consolidated financial statements are from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated upon consolidation.

(c) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on both a going concern and the historical cost bases except for certain items which have been measured at fair value through profit or loss (“FVTPL”) at each reporting date and include: investment properties, foreclosed properties held for sale, marketable securities, debt investments not meeting the solely payments of principal and interest criterion, participating debentures, cross-currency swaps and foreign currency forward contracts.

(d) Critical accounting estimates, assumptions and judgements

In the preparation of these unaudited interim condensed consolidated financial statements, Timbercreek Asset Management Inc. (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 that the Manager

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these unaudited interim condensed consolidated financial statements. 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:

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

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 loans are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Company exercise 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.

Measurement of expected credit loss

The determination of 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 risk. Refer to note 4(d).

(e) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian dollar, which is the Company's functional currency. All amount have been rounded to the nearest thousand, unless otherwise indicated.

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same, except as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2018, which were prepared in accordance with IFRS.

Changes in accounting policies

The Company has adopted IFRS 16 *Leases* ("IFRS 16") effective January 1, 2019 and applied the requirements of the standard retrospectively without restatement of comparative periods. IFRS 16 replaced IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The implementation of IFRS 16 did not have a significant impact on the Company's leases of its investment properties.

4. MORTGAGE AND OTHER INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS
(a) Mortgage investments

As at September 30, 2019	Note	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications - at amortized cost	4(b)(c)	\$ 1,528,625	\$ (392,779)	\$ 1,135,846
Interest receivable		17,951	(1,675)	16,276
		1,546,576	(394,454)	1,152,122
Unamortized lender fees		(8,263)	379	(7,884)
Allowance for expected credit loss	4(d)	(2,586)	—	(2,586)
Mortgage investments at amortized cost		1,535,727	(394,075)	1,141,652
Mortgage investments, including mortgage syndications - at FVTPL		38,217	—	38,217
Mortgage investments, including mortgage syndications		\$ 1,573,944	\$ (394,075)	\$ 1,179,869
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As at December 31, 2018		Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications - at amortized cost		\$ 1,674,812	\$ (518,560)	\$ 1,156,252
Interest receivable		15,355	(2,180)	13,175
		1,690,167	(520,740)	1,169,427
Unamortized lender fees		(9,270)	898	(8,372)
Allowance for expected credit loss		(1,417)	—	(1,417)
Mortgage investments at amortized cost		1,679,480	(519,842)	1,159,638
Mortgage investments, including mortgage syndications - at FVTPL ¹		109,741	(55,000)	54,741
Interest receivable		7,601	(198)	7,403
Mortgage investments at FVTPL		117,342	(55,198)	62,144
Mortgage investments, including mortgage syndications		\$ 1,796,822	\$ (575,040)	\$ 1,221,782

¹Syndication balance is measured at amortized cost

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

As at September 30, 2019, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$186,059 (December 31, 2018 – \$184,265) of which \$99,100 (December 31, 2018 – \$57,951) belongs to the Company's syndicated partners.

Mortgages classified at FVTPL

The Company establishes fair value for investments that are measured at fair value using an appropriate valuation technique. These valuation techniques include internal valuation models and/or independent appraisals that employ significant inputs such as direct comparison, cash flow projection, stabilized net operating income generated from the property to estimate fair value, and capitalization rate that reflects the investment characteristics of the asset.

(b) Net mortgage investments

As at	%	September 30, 2019	%	December 31, 2018
Interest in first mortgages	92.8%	\$ 1,089,784	93.2%	\$ 1,128,366
Interest in non-first mortgages	7.2%	84,279	6.8%	82,627
	100.0%	\$ 1,174,063	100.0%	\$ 1,210,993

The mortgage investments are secured by real property and will mature between 2019 and 2023 (December 31, 2018 – 2019 and 2022). During Q3 2019 and YTD 2019, the Company generated net interest income and other income excluding lender fee income of \$20,379 and \$61,760 (Q3 2018 - \$19,915 and YTD 2018 \$59,024).

A majority of the mortgage investments contain a prepayment option, whereby the borrower may repay the principal at any time prior to maturity without penalty or yield maintenance. The unamortized lender fees are recognized over the term of the mortgage investment.

During Q3 2019 and YTD 2019, the Company earned lender fee income on net mortgage investments, net of fees relating to mortgage syndication liabilities of \$2,755 and \$7,024 (Q3 2018 - \$2,364; YTD 2018 - \$5,677). During Q3 2019 and YTD 2019, the Company received cash lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$1,955 and \$5,260 (Q3 2018 - \$2,614; YTD 2018 - \$8,301), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

Principal repayments, net of mortgage syndications, by contractual maturity dates are as follows:

2019	\$	270,528
2020		389,401
2021		389,714
2022		114,421
2023 and thereafter		10,000
Total	\$	1,174,064

(c) Mortgage syndication liabilities

The Company has entered 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. The Company generally retains an option 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. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 18).

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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

The allowance for credit losses is maintained at a level that management consider adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$2,611 as at September 30, 2019 (December 31, 2018 - \$1,632), of which \$2,586 (December 31, 2018 - \$1,417) was recorded in mortgage investments and \$25 (December 31, 2018 - \$215) was recorded in other investments.

Allowance for credit losses as at September 30, 2019¹:

Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	\$ 791,102	\$ 5,050	\$ 2,864	\$ 799,016
Mortgage syndication liabilities, including interest receivable	217,531	—	—	217,531
Net	573,571	5,050	2,864	581,485
Allowance for credit losses	732	5	214	951
Mortgage investments, net of allowance and mortgage syndications	572,839	5,045	2,650	580,534
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	708,736	—	38,824	747,560
Mortgage syndication liabilities, including interest receivable	176,923	—	—	176,923
Net	531,813	—	38,824	570,637
Allowance for credit losses	338	—	1,297	1,635
Mortgage investments, net of allowance and mortgage syndications	531,475	—	37,527	569,002
Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	48,339	—	—	48,339
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	48,339	—	—	48,339
Allowance for credit losses	25	—	—	25
Other loan Investments, net of allowance and mortgage syndications	48,314	—	—	48,314

¹As at September 30, 2019, finance lease receivable (note 4(e)) and unadvanced commitments (note 4(a)) are all considered to be in Stage 1 with minimal ACL.

Allowance for credit losses as at December 31, 2018²:

Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	851,402	—	2,790	854,192
Mortgage syndication liabilities, including interest receivable	322,244	—	—	322,244
Net	529,158	—	2,790	531,948
Allowance for credit losses	627	—	3	630
Mortgage investments, net of allowance and mortgage syndications	528,531	—	2,787	531,318
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	853,383	—	37,790	891,173
Mortgage syndication liabilities, including interest receivable	253,694	—	—	253,694
Net	599,689	—	37,790	637,479
Allowance for credit losses	200	—	587	787
Mortgage investments, net of allowance and mortgage syndications	599,489	—	37,203	636,692
Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	66,483	—	7,014	73,497
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	66,483	—	7,014	73,497
Allowance for credit losses	212	—	3	215
Other loan Investments, net of allowance and mortgage syndications	66,271	—	7,011	73,282

²As at December 31, 2018, finance lease receivable (note 4(e)) and unadvanced commitments (note 4(a)) are all considered to be in Stage 1 with minimal ACL.

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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

Multi-residential Mortgage Investments	Nine Months Ended September 30, 2019				Nine Months Ended September 30, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of fiscal period	\$ 627	\$ —	\$ 3	\$ 630	\$ 603	\$ 26	\$ —	\$ 629
Allowance for credit losses								
Remeasurement	10	2	211	223	(12)	—	(23)	(35)
Transfer to/(from)								
Stage 1	(3)	—	—	(3)	—	—	—	—
Stage 2	—	3	—	3	—	(26)	—	(26)
Stage 3	—	—	—	—	—	—	26	26
Total allowance for credit losses	634	5	214	853	591	—	3	594
Fundings	380	—	—	380	233	—	—	233
Repayments	(282)	—	—	(282)	(258)	—	—	(258)
Balance at end of fiscal period	732	5	214	951	566	—	3	569
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of fiscal period	\$ 200	\$ —	\$ 587	\$ 787	\$ 1	\$ 209	\$ —	\$ 210
Allowance for credit losses								
Remeasurement	127	—	710	837	252	—	254	506
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	(209)	—	(209)
Stage 3	—	—	—	—	—	—	209	209
Total allowance for credit losses	327	—	1,297	1,624	253	—	463	716
Fundings	103	—	—	103	42	—	—	42
Repayments	(92)	—	—	(92)	(19)	—	—	(19)
Balance at end of fiscal period	338	—	1,297	1,635	276	—	463	739
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of fiscal period	\$ 212	\$ —	\$ 3	\$ 215	\$ 232	\$ —	\$ —	\$ 232
Allowance for credit losses								
Remeasurement	8	—	—	8	(34)	—	—	(34)
Transfer to/(from)								
Stage 1	3	—	—	3	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	(3)	(3)	—	—	—	—
Total allowance for credit losses	223	—	—	223	198	—	—	198
Fundings	3	—	—	3	65	—	—	65
Repayments	(201)	—	—	(201)	(66)	—	—	(66)
Balance at end of fiscal period	25	—	—	25	197	—	—	197

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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.

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.

	As at September 30, 2019				As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Low risk	174,875	—	—	174,875	221,309	—	—	221,309
Medium-Low risk	370,455	—	—	370,455	289,144	—	—	289,144
Medium-High risk	28,241	5,050	—	33,291	18,705	—	—	18,705
High risk	—	—	—	—	—	—	—	—
Default	—	—	2,864	2,864	—	—	2,790	2,790
Net	573,571	5,050	2,864	581,485	529,158	—	2,790	531,948
Allowance for credit losses	732	5	214	951	627	—	3	630
Mortgage investments¹	572,839	5,045	2,650	580,534	528,531	—	2,787	531,318
Other Mortgage Investments								
Low risk	193,789	—	—	193,789	177,567	—	—	177,567
Medium-Low risk	261,348	—	—	261,348	341,418	—	—	341,418
Medium-High risk	65,593	—	—	65,593	66,644	—	—	66,644
High risk	11,083	—	—	11,083	14,060	—	—	14,060
Default	—	—	38,824	38,824	—	—	37,790	37,790
Net	531,813	—	38,824	570,637	599,689	—	37,790	637,479
Allowance for credit losses	338	—	1,297	1,635	200	—	587	787
Mortgage investments¹	531,475	—	37,527	569,002	599,489	—	37,203	636,692
Other loan Investments								
Low risk	—	—	—	—	—	—	—	—
Medium-Low risk	—	—	—	—	—	—	—	—
Medium-High risk	—	—	—	—	—	—	—	—
High risk	48,339	—	—	48,339	66,483	—	—	66,483
Default	—	—	—	—	—	—	7,014	7,014
Net	48,339	—	—	48,339	66,483	—	7,014	73,497
Allowance for credit losses	25	—	—	25	212	—	3	215
Other loan Investments¹	48,314	—	—	48,314	66,271	—	7,011	73,282

¹ net of allowance and mortgage syndications

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

(e) Other investments

As at	September 30, 2019	December 31, 2018
Collateralized loans, net of allowance for credit loss	\$ 48,218	\$ 72,840
Finance lease receivable, measured at amortized cost	6,020	6,020
Investment, classified at FVTPL	5,114	4,605
Marketable Securities, classified at FVTPL	35,314	—
Dividends receivable on Marketable Securities, measured at amortized cost	639	—
Indirect real estate development, measured using equity method:		
Investment in Joint Venture	2,225	2,225
Investment in Associate	5,267	5,267
Total Other Investments	102,797	90,957

During Q3 2019 and YTD 2019, the Company acquired \$36,624 and disposed \$530 worth of marketable securities, respectively. A Canadian financial institution granted a margin facility to the Company for acquisition of marketable securities. The Company is permitted to purchase and dispose marketable securities through trading account on margin with the Canadian financial institution. The Company is required to provide collateral for such margin facility and as at September 30, 2019, \$35,314 in marketable securities were pledged as a collateral for the margin facility (December 31, 2018 - nil).

During Q3 2019 and YTD 2019, collateralized loans generated net interest income of \$1,381 and \$5,031 (Q3 2018 - \$2,052; YTD 2018 - \$4,699), net lender fee income of \$197 and \$345 (Q3 2018 - \$114; YTD 2018 - \$333). During Q3 2019 and YTD 2019, the Company received nil net lender fees, respectively, from loan investments (Q3 2018 - \$97; YTD 2018 - \$682), which are amortized over the term of the related other loan investments using the effective interest rate method. During Q3 2019 and YTD 2019, marketable securities generated net dividend income of \$639, respectively.

In October, 2017, the Company entered into an 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5,400 at the time of the transaction. According to the terms of the lease, the lessee has the obligation to purchase the property at \$9,934 at the end of the lease term on September 2038 and the option to purchase the property earlier at a prescribed purchase price schedule. The Company has classified the lease as a finance lease and the lease receivable balance of \$6,020 (December 31, 2018 - \$6,020) is included in other investments. Concurrently, the Company entered into a \$3,300 construction loan on the leased property with the lessee which is included in other loan investments. The lease payment began in the third quarter of 2018.

The lease receivable payments are due as follows:	Future minimum lease payments	Present value of minimum lease payments
Less than one year	\$ 12	\$ 11
Between one and five years	267	221
More than five years	13,299	5,788
	\$ 13,578	\$ 6,020

5. INVESTMENT PROPERTIES

The Saskatchewan Portfolio, which comprises 14 investment properties totaling 1,079 units that are located in Saskatoon and Regina, Saskatchewan, is subject to joint control based on the Company's decision-making authority with regards to the operating, financing and investing activities of the investment properties. This co-ownership has been classified as a joint operation and, accordingly, the Company recognizes its share of the assets, liabilities, revenue and expenses generated from the assets in proportion to its rights (see note 15(g)).

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

Jointly Controlled Assets	Location	Property Type	Ownership Interest	
			September 30, 2019	December 31, 2018
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties & Development Property	20.46%	20.46%
Balance, beginning of period			\$ 46,494	\$ 42,748
Additions – development expenditures			603	2,046
Additions – capital expenditures			92	1,700
Balance, end of period			\$ 47,189	\$ 46,494

As at September 30, 2019, the investment properties are pledged as security for the credit facility (note 6(b)).

Investment property has been categorized as a Level 3 fair value based on the inputs to the valuation technique used. Subsequent to initial recognition, the investment properties are measured at fair value based on available market evidence.

6. CREDIT FACILITIES

As at	September 30, 2019	December 31, 2018
Credit facility (mortgage investments)	\$ 418,868	\$ 478,104
Unamortized financing costs (mortgage investments)	(784)	(1,938)
	418,084	476,166
Credit facility (investment properties)	32,998	32,820
Unamortized financing costs (investment properties)	(23)	(47)
	\$ 32,975	\$ 32,773
Total credit facilities	\$ 451,059	\$ 508,939

(a) Credit facility (mortgage investments)

Currently, the Company has \$500,000 in credit facility with 10 Canadian banks and the facility is secured by a general security agreement over the Company's assets and its subsidiaries. Originally, the Company entered into a credit facility agreement with a credit limit of \$350,000 and a maturity date of May 2018. On June 20, 2017, the Company increased the credit limit by \$50,000 to \$400,000, through the utilization of the accordion feature. On December 21, 2017, the Company further amended the credit facility agreement (the "Amended Credit Agreement") for a credit limit of \$400,000, and extended the maturity date to December 20, 2019, which may be increased by \$100,000 through an accordion feature, subject to certain conditions. On February 13, 2018, the Company completed the exercise of a portion of the accordion feature, which increased the credit limit by \$40,000 to \$440,000. On November 16, 2018, the Company exercised remainder portion of the accordion feature which increased the credit limit by \$60,000 to \$500,000, the Company further amended the credit facility agreement (the "Second Amending Agreement to Credit Agreement") and extended the maturity date to December 20, 2020.

The rates of interest and fees of the Second Amending Agreement to Credit Agreement and previous credit agreements remain unchanged which are either at the prime rate of interest plus 1.25% per annum (December 31, 2018 – prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2018 – 2.25%) and standby fee of 0.5625% per annum (December 31, 2018 – 0.5625%) on the unutilized credit facility balance. As at September 30, 2019, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the new amended and restated credit agreement is \$498,169.

As at September 30, 2019, the Company has incurred inception to date financing costs of \$4,993 relating to the credit facility, which includes upfront fees, legal and other costs. During Q3 2019 and YTD 2019, the Company

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

incurred financing costs of nil and \$56 (Q3 2018 – \$82; YTD 2018 – \$332). 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.

Interest on the credit facility is recorded in financing costs and calculated using the effective interest rate method. For Q3 2019 and YTD 2019, included in financing costs is interest on the credit facility of \$4,442 and \$14,235 (Q3 2018 – \$4,184; YTD 2018 – \$11,159) and financing costs amortization of \$408 and \$1,209 (Q3 2018 – \$298; YTD 2018 – \$848).

(b) Credit facility (investment properties)

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners 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 \$162,644. The gross initial advance on the credit facility was \$144,644. The Company's share of the initial advance was \$29,594 plus \$109 of unamortized financing costs.

On August 9, 2019, the Company amended the credit facility agreement and extended the maturity date to February 14, 2020. The credit facility provides 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%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$230,639. The Company's share of the carrying value is \$47,189. 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 September 30, 2019, the co-owners borrowed LIBOR loan from the credit facility. At the time of borrowing LIBOR loans, which are denominated in U.S. dollars, the Company concurrently entered into cross-currency swaps to effectively convert the LIBOR loans into Canadian Dollar Loans. Refer to note 17 for risk management details. As at September 30, 2019, \$161,281 Canadian dollar equivalent of LIBOR loans were outstanding on the credit facility. The Company's share of the outstanding amount in Canadian dollar is \$32,998.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q3 2019 and YTD 2019, included in financing costs is interest on the credit facility of \$358 and \$1,080 (Q3 2018 – \$338; YTD 2018 – \$955) and financing costs amortization of \$9 and \$39 (Q3 2018 – \$16; YTD 2018 – \$46).

7. REVENUE FROM PROPERTY OPERATIONS

As part of the joint arrangement of the Saskatchewan Portfolio, the Company leases residential properties under operating leases generally with a term of not more than one year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between the year 2019 and 2020, except for one lease maturing in 2033. Rental revenue from operating leases was \$712 and \$2,085 during Q3 2019 and YTD 2019 (Q3 2018 - \$483; YTD 2018 - \$1,344)

8. CONVERTIBLE DEBENTURES

The convertible debentures are comprised of as follows:

	September 30, 2019	December 31, 2018
Issued	\$ 136,800	\$ 136,800
Unamortized financing cost and amount classified as equity component	\$ (4,129)	\$ (5,203)
Debentures, end of period	\$ 132,671	\$ 131,597

Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Interest on the convertible debentures	\$ 1,842	\$ 1,858	\$ 5,524	\$ 6,636
Amortization of issue costs and accretion of the convertible debentures	361	366	1,074	1,790
Total	\$ 2,203	\$ 2,224	\$ 6,598	\$ 8,426

9. 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. The changes in the number of common shares were as follows:

	Nine months ended September 30,	
	2019	2018
Balance, beginning of period	81,632,844	74,277,356
Issuance of common shares	1,167,000	5,247,900
Converted under Convertible Debentures	—	5,422
Common shares issued under dividend reinvestment plan	370,295	378,160
Common shares repurchased for dividend reinvestment plan	(36,866)	—
Balance, end of period	83,133,273	79,908,838

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

Sales of the common shares under the equity distribution agreement will be 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 common shares will be distributed under the ATM Program at the market prices prevailing at the time of sale, and therefore prices may vary as between purchasers and over time. The ATM Program will be activated at the Company's discretion and will end on the earlier of the date of distribution of the Maximum Amount and January 11, 2020.

The Company currently intends to use the net proceeds of the ATM Program to repay amounts owing under its secured revolving credit facility, and will subsequently draw on the credit facility for purposes of funding the purchase of new investments in accordance with the strategies, investment objectives and investment guidelines of the Company.

During Q3 2019 and YTD 2019, the Company issued 25,500 and 1,167,000 (Q3 2018 – 400,600 and YTD 2018 – 458,100) of common shares for gross proceeds of \$241 and \$10,911 (Q3 2018 – \$3,741 and YTD 2018 – \$3,741) at an average price of \$9.44 and \$9.35 per common share and paid \$5 and \$218 in commission to the agent, pursuant to the ATM Program's equity distribution agreement.

(b) 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

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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 Q3 2019 and YTD 2019, nil and 36,866 common shares were purchased on the open market (Q3 2018 and YTD 2018 – nil) and 121,419 and 333,429 common shares were issued from treasury (Q3 2018 – 127,563 and YTD 2018 – 378,160).

(c) 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 Q3 2019 and YTD 2019, the Company declared dividends of \$14,333 or \$0.1725 per common share and \$42,723 or \$0.5175 per common share (Q3 2018 – \$13,746, \$0.1725 per share and YTD 2018 – \$40,814, \$0.5175 per share).

As at September 30, 2019, \$4,780 in aggregate dividends (December 31, 2018 – \$4,694) was payable to the holders of common shares by the Company. Subsequent to September 30, 2019, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on November 15, 2019 to the common shareholders of record on October 31, 2019.

10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN ("DSU")

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 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 24th business day after publication of the Company's financial statements following a director's departure from the Board of Directors.

During Q3 2019 and YTD 2019, 8,146 and 24,143 units were issued (Q3 2018 and YTD 2018 - 5,650 and 16,097) and as at September 30, 2019, 76,034 units were outstanding (December 31, 2018 - 51,891 units). No DSUs were exercised or canceled, resulting in a DSU expense of \$86 and \$252 (Q3 2018 and YTD 2018 - \$76 and YTD 2018 - \$169). As at September 30, 2019, \$86 in quarterly compensation was granted in DSUs, which will be issued subsequent to September 30, 2019.

11. MANAGEMENT AND SERVICING FEES

The management agreement has a term of 10 years and is automatically renewed for successive five year terms at the expiration of the initial term and pays (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 retains the corresponding subordinated portion. Gross assets are defined as the

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(In thousands of Canadian dollars)

total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

During Q3 2019 and YTD 2019, the Company incurred management fees plus applicable taxes of \$3,037 and \$9,303 (Q3 2018 – \$2,974; YTD 2018 – \$8,781) and servicing fees including applicable taxes of \$115 and \$383 (Q3 2018 – \$158 ; YTD 2018 – \$459).

12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing total net income and comprehensive income by the weighted average number of common shares during the period.

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.

The following table shows the computation of per share amounts:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Total net income and comprehensive income	\$ 13,914	\$ 13,708	\$ 40,639	\$ 37,803
Adjustment for dilutive effect of convertible debentures	1,509	2,203	2,230	—
Total net income and comprehensive income (diluted)	\$ 15,423	\$ 15,911	\$ 42,869	\$ 37,803
Weighted average number of common shares (basic)	83,074,741	79,596,616	82,484,114	78,689,894
Convertible debentures	9,134,328	13,188,382	4,557,214	—
Weighted average number of common shares (diluted)	92,209,069	92,784,998	87,041,328	78,689,894
Earnings per share – basic	\$ 0.17	\$ 0.17	\$ 0.49	\$ 0.48
Earnings per share – diluted	\$ 0.17	\$ 0.17	\$ 0.49	\$ 0.48

13. CHANGE IN NON-CASH OPERATING ITEMS

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Change in non-cash operating items:				
Other assets	\$ 416	\$ (182)	\$ (2,686)	\$ 366
Accounts payable and accrued expenses	(934)	212	(76)	941
Due to Manager	(32)	32	(435)	(41)
Prepaid mortgage interest	50	(308)	4,110	(107)
Mortgage funding holdbacks	101	(48)	2,147	456
	\$ (399)	\$ (294)	\$ 3,060	\$ 1,615

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(In thousands of Canadian dollars)

14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

Debentures	Nine months ended September 30,	
	2019	2018
Balance, beginning of period	\$ 131,597	\$ 163,946
Debenture repayments	—	(34,500)
Total financing cash flow activities	—	(34,500)
Capitalized financing cost, net of amortization	891	1,468
Accretion expense	183	322
Amortization of issue costs and accretion expense	1,074	1,790
Balance, end of period	\$ 132,671	\$ 131,236

Credit Facilities	Nine months ended September 30,	
	2019	2018
Balance, beginning of period	\$ 508,939	\$ 394,046
Capitalized financing cost ¹	(73)	(332)
Net credit facility (repayments) advances – mortgage investments	(59,233)	47,522
Net credit facility advances – investment properties	178	2,308
Total financing cash flow activities	(59,128)	49,498
Amortization of financing costs	1,248	894
Balance, end of period	\$ 451,059	\$ 444,438

¹Capitalized financing cost is included in interest paid section in the interim condensed consolidated statement of cash flow

15. RELATED PARTY TRANSACTIONS

- (a) As at September 30, 2019, due to Manager includes mainly management and servicing fees payable of \$1,058 (December 31, 2018 – \$1,493).
- (b) As at September 30, 2019, included in other assets is \$10,488 (December 31, 2018 – \$3,083) 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.
- (c) As at September 30, 2019, the Company has the following mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:
- A mortgage investment with a total gross commitment of \$9,500 (December 31, 2018 – \$9,500). The Company’s share of the commitment is \$3,636 (December 31, 2018 – \$3,636), of which \$3,636 (December 31, 2018 – \$3,636) has been funded as at September 30, 2019. During Q3 2019 and YTD 2019, the Company has recognized net interest income of \$86 and \$258 (Q3 2018 – \$86; YTD 2018 – \$258) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$1,920 (December 31, 2018 – \$1,920). The Company’s share of the commitment was \$1,920 (December 31, 2018 – \$1,920), of which \$1,920 has been funded as at September 30, 2019 (December 31, 2018 – \$1,920). During Q3 2019 and YTD 2019, the Company has recognized net interest income of \$30 and \$90 (Q3 2018 \$25 and YTD 2018 – \$86) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$16,500 (December 31, 2018 – \$16,500). The Company’s share of the commitment is \$3,036 (December 31, 2018 – \$2,500), of which \$3,036 (December 31, 2018 – \$2,481) has been funded as at September 30, 2019. During Q3 2019 the mortgage investment was restructured and the independent director is no longer related to the mortgage investment.

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During Q3 2019 and YTD 2019, the Company has recognized net interest income of \$63 and \$176 (Q3 2018 \$59 and YTD 2018 – \$181) from this mortgage investment during the period.

- (d) As at September 30, 2019, the Company and 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 wholly owned subsidiary of the Manager, and they have co-invested in 24 (December 31, 2018 – 18) gross mortgage and other investments totaling \$298,527 (December 31, 2018 – \$258,818). The Company’s share in these gross mortgage investments is \$186,255 (December 31, 2018 – \$178,412). Additionally, two net mortgage investments (December 31, 2018 – two) totaling \$23,916 (December 31, 2018 – \$22,972) are loaned to limited partnerships in which T4Q is invested.
- (e) As at September 30, 2019, the Company and T4Q invested in two indirect real estate developments through two investees, totaling \$7,492 (December 31, 2018 – \$7,492).
- (f) As at September 30, 2019, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$5,114 or €3,544 (December 31, 2018 – \$4,605 or €2,923), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.
- (g) As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager 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 Q3 2019 and YTD 2019, Property Management Fees of \$39 and \$115 were charged by the Manager to the Company (Q3 2018 \$37 and YTD 2018 – \$98). As at September 30, 2019, \$14 was payable to the Manager (December 31, 2018 – \$18).

16. CAPITAL RISK MANAGEMENT

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 defines its capital structure to include common shares, debentures and the credit facility.

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.

The Company's investment restrictions and asset allocation model incorporate various restrictions and investment parameters to manage the risk profile of the mortgage investments. There have been no changes in the process over the previous year.

At September 30, 2019, the Company was in compliance with its investment restrictions.

Pursuant to the terms of the credit facilities, the Company is required to meet certain financial covenants, including a minimum interest coverage ratio, minimum adjusted shareholders’ equity, maximum non-debenture indebtedness to adjusted shareholders’ equity and maximum consolidated debt to total assets.

17. RISK MANAGEMENT

The Company is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition and operating results. Many of these risk factors are beyond the Company's direct control. The Manager and Board of Directors play an active role in monitoring the Company's key risks and in determining the policies that are best suited to manage these risks. There has been no change in the process since the previous year.

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The Company's business activities, including its use of financial instruments, exposes the Company to various risks, the most significant of which are market rate risk (interest rate risk and currency risk), credit risk, and liquidity risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of September 30, 2019, \$772,090 of net mortgage investments and \$6,686 of other investments bear interest at variable rates (December 31, 2018 - \$717,509 and \$21,806, respectively). \$708,326 of net mortgage investments have a "floor rate" (December 31, 2018 - \$626,021). 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 would be a decrease in net income of \$1,064 or an increase in net income of \$3,894, respectively (Q3 2018 - \$1,637 and \$2,645, respectively). 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 \$451,866 as at September 30, 2019 (December 31, 2018 - \$510,924). Based on the outstanding credit facility balance as at September 30, 2019, and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will decrease or increase net income by \$2,259 (YTD 2018 - \$2,222).

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.

(b) 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 September 30, 2019, the Company has US\$32,205 and €3,544 in other investments denominated in foreign currencies (December 31, 2018 – US\$5,000 in net mortgages, US\$5,050 and €2,945 in other investments). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at September 30, 2019, the Company has two U.S. dollars currency forward contracts with an aggregate notional value of US\$21,704, at a weighted average forward contract rate of 1.3176, maturing in October 2019 and one Euro currency contracts with an aggregate notional value of €3,500 at contract rate of 1.5228, maturing in December 2019. Remaining exposure due to investment in marketable securities is substantially hedged through margin facility. The Company has entered into a cross-currency swap to economically hedge the investment properties credit facility with notional value of US\$24,847, 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 contract as at September 30, 2019 is an asset of \$124 which is included in other assets. The valuation of the foreign currency forward and swap contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

(c) 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);

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- 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 September 30, 2019 relating to net mortgages and other investments amount to \$1,295,585 (December 31, 2018 – \$1,320,011).

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.

(d) 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.

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at September 30, 2019, including expected interest payments:

September 30, 2019	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 3,096	\$ 3,096	\$ 3,096	\$ —	\$ —
Dividends payable	4,780	4,780	4,780	—	—
Due to Manager	1,058	1,058	1,058	—	—
Mortgage funding holdbacks	2,803	2,803	2,803	—	—
Prepaid mortgage interest	6,535	6,535	6,535	—	—
Credit facility (mortgage investments) ¹	418,084	441,087	18,136	422,951	—
Credit facility (investment properties) ²	32,975	33,535	33,535	—	—
Convertible debentures ³	132,671	139,842	139,842	—	—
	\$ 602,002	\$ 632,736	\$ 209,785	\$ 422,951	\$ —
Unadvanced mortgage commitments ⁴	—	186,059	186,059	—	—
Total contractual liabilities, excluding mortgage syndication liabilities⁵	\$ 602,002	\$ 818,795	\$ 395,844	\$ 422,951	\$ —

¹ Credit facility (mortgage investments) includes interest based upon September 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2020.

² Credit facility (investment properties) includes interest based upon September 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on February 14, 2020.

³ The 2016 debentures are currently redeemable if certain condition is satisfied, the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.

⁴ Unadvanced mortgage commitments include syndication commitments of which \$99,100 belongs to the Company's syndicated partners.

⁵ The principal repayments of \$392,779 mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at September 30, 2019, the Company had a cash position of \$103 (December 31, 2018 – \$541), an unutilized credit facility (mortgage investments) balance of \$81,132 (December 31, 2018 – \$21,896) and an unutilized credit facility (investment properties) balance of \$279 (December 31, 2018 – \$457). The management believes that it will

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be able to finance its operations using the cash flow generated from operations, investing activities and the credit facility. Included within the unadvanced mortgage commitments is \$99,100 (December 31, 2018 – \$57,951) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

18. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

As at September 30, 2019	Note	Carrying value		Fair value
		Amortized cost	Fair value through profit or loss	
Assets measured at fair value				
Investment properties	5	—	47,189	47,189
Financial assets				
Cash and cash equivalents		103	—	103
Other assets		12,773	124	12,897
Mortgage investments, including mortgage syndications		1,535,727	38,217	1,573,944
Other investments	4(e)	54,877	40,428	95,305
Financial liabilities				
Accounts payable and accrued expenses		2,329	767	3,096
Dividends payable		4,780	—	4,780
Margin facility for marketable securities		13,987	—	13,987
Due to Manager		1,058	—	1,058
Mortgage funding holdbacks		2,803	—	2,803
Prepaid mortgage interest		6,535	—	6,535
Credit facility (mortgage investments)		418,084	—	418,868
Credit facility (investment properties)		32,975	—	32,998
Convertible debentures		132,671	—	138,669
Mortgage syndication liabilities		394,075	—	394,075

As at December 31, 2018	Note	Carrying value		Fair value
		Amortized cost	Fair value through profit or loss	
Assets measured at fair value				
Investment properties	5	—	46,494	46,494
Financial assets				
Cash and cash equivalents		541	—	541
Other assets		10,217	—	10,217
Mortgage investments, including mortgage syndications		1,679,480	117,342	1,796,822
Other investments	4(e)	78,860	4,605	83,465
Financial liabilities				
Accounts payable and accrued expenses		3,893	328	4,221
Dividends payable		4,694	—	4,694
Due to Manager		1,493	—	1,493
Mortgage funding holdbacks		657	—	657
Prepaid mortgage interest		2,425	—	2,425
Credit facility		508,939	—	510,924
Convertible debentures		131,597	—	131,554
Mortgage syndication liabilities		575,040	—	575,040

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The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage investments, other investments, and mortgage syndication liabilities

There is no quoted price in an active market for the mortgage investments, other investments, excluding marketable securities or mortgage syndication liabilities. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage and other investments excluding marketable securities of same or similar terms. Typically, the fair value of these mortgage investments, other investments, debentures excluding marketable securities and mortgage syndication liabilities approximate their carrying values given the amounts consist of short-term loans that are repayable at the option of the borrower without yield maintenance or penalties. As a result, the fair value of mortgage investments and other investments excluding marketable securities is based on level 3 inputs.

The fair value of the marketable securities is based on a level 1 input, which is the market closing price of the marketable securities at the reporting date.

(b) Other financial assets and liabilities

The fair values of cash and cash equivalents, other assets, accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest and credit facilities approximate their carrying amounts due to their short-term maturities or bear interest at variable rates.

(c) Convertible debentures

The fair value of the convertible debentures is based on a level 1 input, which is the market closing price of convertible debentures at the reporting date.

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during the three months ended September 30, 2019.

19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During Q3 2019 and YTD 2019, the compensation expense of the members of the Board of Directors amounts to \$86 and \$252 (Q3 2018 – \$76 and YTD 2018 – \$169), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

20. 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.

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21. SUBSEQUENT EVENTS

On October 9, 2019, the credit facility agreement for the investment properties was further amended. Under the amended terms, the maximum available credit is \$150,000 with maturity dates of October 9, 2020 and October 9, 2021, based on the tranche of the facility utilized, and a reduction of 0.5% in interest rates. The Company's share of the credit facility is \$30,690.