Management’s Discussion and Analysis

Timbercreek Financial

For the three months and six months ended June 30, 201J

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 the Manager, (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.

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 Timbercreek Asset Management Inc. (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, 2019. 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. Additional information about the Company, including its AIF, can be found at 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

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, 2019. 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, 2019 and 2018, and the audited consolidated financial statements for the years ended December 31, 2018 and 2017, 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.

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”). These non-IFRS measures are further described below. 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 cash dividends to shareholders and to evaluate its performance.

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 as indicators of the Company’s performance.

- 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;
- Other investments – represents total other investment, before adjustments for interest receivable and unamortized lender fees as at the reporting date;
- Convertible debentures, par – represents total convertible debentures, before adjustments for the reclassification of the convertible components of the debentures to equity;
- Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period;

- Weighted average loan-to-value – 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;

- Turnover ratio – represents total mortgage repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period;

- Leverage – represents total of par value of convertible debentures and the total credit facilities balance divided by total assets less mortgage syndication liabilities;

- 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;

- Weighted average interest rate of other investments – represents the weighted average of daily interest rates (not including lender fees) on the other interest bearing loan investments within the enhanced return portfolio for the daily period;

- Weighted average interest rate of all loans for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments and other interest bearing loan investments within the enhanced return portfolio for the daily period;

- Weighted average lender fees – represents the cash lender fees received on individual investments during the stated period, expressed as a percentage of the Company’s advances on those investments. If the entire lender fee is received but the investment is not fully funded, the denominator is adjusted to include the Company’s unadvanced commitment;

- Weighted average lender fees on mortgage investments – 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;

- 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;

- Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period;

- Expense ratio – represents total expenses excluding financing costs, net operating (gain) loss from foreclose properties held for sale ("FPHFS"), fair value adjustment on FPHFS, allowance for mortgage investments loss, termination of management contracts, transaction costs relating to the Amalgamation and bargain purchase gain for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;

- Fixed expense ratio – represents expenses as calculated under expense ratio, less performance fees, for the stated period, expressed as an annualized percentage of total assets less mortgage syndication liabilities;

- 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; and

- Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

Timbercreek continues to find attractive opportunities for growth that meet its risk and return objectives. The number of new net mortgage investments has increased considerably over the prior year, yet the financial metrics by which the Company measures risk have been maintained or improved, and returns to the Company remain stable. In particular, the portfolio is diversified across a larger number of investments; investments secured by multi-unit residential properties have increased; exposure to cash-flowing properties has increased; and loan-to-value levels are stable and remain below target levels.

In Q2 2019, Timbercreek Financial continued to increase its capital base to support the expansion of the investment portfolio, issuing 736,500 of common shares for gross proceeds of approximately $6.9 million pursuant to the Company's ATM Program.

PORTFOLIO ACTIVITY

In Q2 2019, Timbercreek Financial funded 12 new mortgage investments totaling $138.3 million and made additional advances of $15.5 million. Portfolio turnover was 13.9%, compared with 11.2% in Q1 2019. The net value of the mortgage portfolio, excluding syndications, was approximately $1.2 billion at the end of Q2 2019, a decrease of $14.1 million million from Q1 2019. The amount drawn on the credit facility funding mortgage investments was $455.2 million at the end of Q2 2019, compared to $487.7 million at the end of Q1 2019.

At the end of Q2 2019, the enhanced return portfolio was $96.4 million, which included $82.5 million of other investments and $13.9 million of net equity in investment properties, representing 7.1% of total assets, net of syndications.

We believe Timbercreek Financial offers investors an attractive yield with a superior risk profile. Our risk management strategy includes a focus on lending to income-producing assets, an emphasis on first mortgages and focus on urban centres. Although higher rates can be obtained 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.

At quarter end, 86.1% of the mortgage investments were secured by income-producing properties, compared to 86.2% in Q1 2019. Approximately 46.3% of the portfolio at quarter end was secured by multi-residential real estate (apartment buildings), compared to 46.8% in Q1 2019. Regulatory changes, including the B20 guidelines, have resulted in single-family residential focused lenders increasing exposure to commercial assets, including multi-unit residential.

Our exposure to first mortgages was 93.8% of the net mortgage portfolio at quarter end, compared to 92.8% in Q1 2019. Our weighted average loan-to-value ratio was 67.4%, consistent with Q1 2019 and below our internal target of 70%. Our weighted average interest rate on all loans was 7.4% in Q2 2019, compared with 7.4% in Q1 2019. The weighted average interest rate on all loans as at June 30, 2019 was 7.4% up from 7.2% on March 31, 2019. As at June 30, 2019, 68.7% of the total loan portfolio was invested in floating rate loans with rate floors compared to 67.0% in Q1 2019 and 57.7% as at December 31, 2018

The net mortgage portfolio remains heavily weighted towards Canada’s largest provinces, with approximately 94.8% 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.

FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	June 30, 2019	June 30, 2018	December 31, 2018
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments, including mortgage syndications	**$ 1,656,729**	$ 1,656,183	$ 1,796,822
Other investments[1]	**$ 82,467**	$ 83,461	$ 90,957
Investment properties	**$ 46,883**	$ 44,832	$ 46,494
Total assets	**$ 1,802,695**	$ 1,827,533	$ 1,945,031
Credit facilities	**$ 487,013**	$ 396,653	$ 508,939
Convertible debentures	**$ 132,310**	$ 165,369	$ 131,597
Total liabilities	**$ 1,076,151**	$ 1,132,974	$ 1,229,066
CAPITAL STRUCTURE			
Shareholders' equity	**$ 726,544**	$ 694,559	$ 715,965
Convertible debentures, par[1]	**$ 136,800**	$ 171,300	$ 136,800
Credit facility limit	**$ 533,277**	$ 473,277	$ 533,277
Leverage[1]	**45.8%**	44.8%	47.3%
COMMON SHARE INFORMATION			
Number of common shares outstanding	**82,986,354**	79,380,675	81,632,844
Closing trading price	**$ 9.49**	$ 9.14	$ 8.75
Market capitalization	**$ 787,540**	$ 725,539	$ 714,287

1 Refer to non-IFRS measures section.

OPERATING RESULTS

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2019	2018	**2019**	2018	2018
Net investment income	**$ 24,977**	$ 23,477	**$ 49,488**	$ 45,324	$ 94,958
Net rental income	**$ 351**	$ 179	**$ 667**	$ 328	$ 821
Income from operations	**$ 21,323**	$ 19,904	**$ 42,055**	$ 38,514	$ 81,003
Other income, net	**$ —**	$ —	**$ 413**	$ —	$ 1,217
Total net income and comprehensive income	**$ 13,593**	$ 12,427	**$ 26,726**	$ 24,094	$ 53,068
Earnings per share (basic)[2]	**$ 0.16**	$ 0.16	**$ 0.33**	$ 0.31	$ 0.67
Earnings per share (diluted)[2]	**$ 0.16**	$ 0.16	**$ 0.33**	$ 0.31	$ 0.67
Dividends to shareholders	**$ 14,270**	$ 13,685	**$ 28,390**	$ 27,068	$ 54,890
Dividends per common share	**$ 0.173**	$ 0.173	**$ 0.345**	$ 0.345	$ 0.692
Payout ratio on earnings per share[1]	**105.0%**	110.1%	**106.2%**	112.3%	103.4%
Distributable income[1]	**$ 13,690**	$ 15,477	**$ 27,898**	$ 28,984	$ 60,105
Distributable income per share[1,3]	**$ 0.17**	$ 0.20	**$ 0.34**	$ 0.37	$ 0.76
Payout ratio on distributable income[1,3]	**104.2%**	88.4%	**101.8%**	93.4%	91.3%

1. Refer to non-IFRS measures section.
2. Excluding 2019 YTD other income $413 (2018 - $1,217) the basic and diluted EPS for six month ended June 30 2019 would have been $0.32 (2018 - $0.65) and EPS payout ratio 107.9% (2018 - 105.9%)
3. Excluding 2019 YTD other income $413 (2018 - $1,217) the distributable income for six month ended June 30 2019 would have been $0.33 (2018 - $0.74) and DI payout ratio 103.3% (2018 - 93.2%)

For the three months ended June 30, 2019 (“Q2 2019”) and June 30, 2018 (“Q2 2018”)

- The Company funded 12 new net mortgage investments (Q2 2018 – 14) totaling $138.3 million (Q2 2018 – $132.5 million), made additional advances on existing mortgage investments totaling $15.5 million (Q2 2018 – $27.5 million) and received full repayments on 10 mortgage investments (Q2 2018 – 19) and partial repayments totaling $167.8 million (Q2 2018 – $205.7 million). As a result, the net mortgage portfolio, as at June 30, 2019 has decreased by $14.1 million to $1,214.5 million (March 31, 2019 – $1,228.6 million), or 1.1% from March 31, 2019.

- Other investments within the enhanced return portfolio was $82.5 million, including an allowance for credit loss of $17 (March 31, 2019 - $80.0 million and $18, respectively). Net increase of $2.5 million in the quarter was mainly due to additional loan investment funding and funding of $0.9 million in a participating loan.

- Net investment income earned was $25.0 million (Q2 2018 - $23.5 million), an increase of $1.5 million, or 6.4% from Q2 2018, mainly due to an increase in average net mortgage balance of $1,139.4 million compared to $1,113.5 million during Q2 2018, increase in weighted average interest rate, and increase of income generated from other investments within the enhanced return portfolio.

- The weighted average interest rate of all loans during the second quarter was 7.4% (Q2 2018 - 7.3%) compared to 7.4% in Q1 2019.

- 68.7% of the total loan portfolio was invested in loans with floating rates (Q2 2018 - 38.1%) compared to 67.0% in Q1 2019.

- Non-refundable cash lender fees received were $1.6 million (Q2 2018 – $3.5 million). Weighted average lender fees on new and existing loans was 1.0% (Q2 2018 – 1.1%), and the weighted average lender fee on new loans only was 1.0% (Q2 2018 – 1.5%)

- The Company generated income from operations of $21.3 million (Q2 2018 – $19.9 million), an increase of $1.4 million or 7.1% from Q2 2018.

- The Company generated net income and comprehensive income of $13.6 million (Q2 2018 – $12.4 million) or earnings per share $0.16, basic and diluted (Q2 2018 – $0.16, basic and diluted). The Company declared $14.3 million in dividends (Q2 2018 – $13.7 million) to common shareholders, a payout ratio of 105.0% (Q2 2018 – 110.1%) on an earnings per share basis.

- The Company generated distributable income of $13.7 million (Q2 2018 – $15.5 million) or distributable income per share of $0.17 (Q2 2018 – $0.20), a payout ratio of 104.2% (Q2 2018 – 88.4%) on a distributable income basis.

- During Q2 2019, the Company issued 736,500 of common shares for gross proceeds of $6.9 million at an average price of $9.37 per common share and paid $138 in commission to the agent, pursuant to the equity distribution agreement for the Company's ATM Program dated June 21, 2018.

For the six months ended June 30, 2019 (“YTD 2019”) and June 30, 2018 (“YTD 2018”)

- The Company funded 26 new net mortgage investments (YTD 2018 – 24) totaling $283.5 million (YTD 2018 – $306.6 million), made additional advances on existing mortgage investments totaling $22.7 million (YTD 2018 – $68.7 million) and received full repayments on 20 mortgage investments (YTD 2018 – 25) and partial repayments totaling $302.2 million (YTD 2018 – $387.8 million). As a result, the net mortgage investment portfolio as at June 30, 2019 has increased by $3.5 million, net of foreign exchange translation loss of $0.5 million, which is hedged through currency contracts, to $1,214.5 million (December 31, 2018 – $1,211.0 million), or 0.3% from December 31, 2018.
- Other investments within the enhanced return portfolio was $82.5 million (December 31, 2018 - $91.0 million), a net decrease of $8.5 million in YTD 2019 (YTD 2018 – net increase of $25.5 million). Net decrease was primarily due to $4.4 million in advances and $12.6 million in loan repayments.
- Net investment income earned was $49.5 million (YTD 2018 – $45.3 million), an increase of $4.2 million, or 9.3% from YTD 2018 mainly due to an increase in weighted average interest rate on all loans to 7.4% (YTD 2018 - 7.2%).
- The Company generated income from operations of $42.1 million (YTD 2018 – $38.5 million), an increase of $4.0 million or 10.3% from YTD 2018.
- The Company generated net income and comprehensive income of $26.7 million (YTD 2018 – $24.1 million) or earnings per share $0.33, basic and diluted (YTD 2018 – $0.31, basic and diluted). The Company declared $28.4 million in dividends (YTD 2018 – $27.1 million) to common shareholders resulting in a payout ratio of 106.2% (YTD 2018 – 112.3%) on an earnings per share basis.
- The Company generated distributable income of $27.9 million (YTD 2018 – $29.0 million) or distributable income per share of $0.34 (YTD 2018 – $0.37) resulting in a payout ratio of 101.8% (YTD 2018 – 93.4%) on a distributable income basis.
- The Company issued 1,141,500 of common shares for gross proceeds of $10.7 million at an average price of $9.35 per common share and paid $213 in commission to the agent, pursuant to the equity distribution agreement for the Company's ATM Program dated June 21, 2018.
- In Q1 2019, The Company recognized net other income of $413, primarily from the recovery of HST credits from 2015 and prior.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
Net income and comprehensive income	**$ 13,593**	$ 12,427	**$ 26,726**	$ 24,094	$ 53,068
Less: amortization of lender fees	**(2,509)**	(1,910)	**(4,416)**	(3,532)	(8,328)
Add: lender fees received	**1,518**	3,516	**3,305**	6,272	11,342
Add: amortization of financing costs, credit facility	**418**	298	**831**	580	1,248
Add: amortization of financing costs, debentures	**297**	758	**591**	1,163	1,767
Add: accretion expense, debentures	**61**	173	**122**	261	384
Add: unrealized fair value (gain) loss on FPHFS	**—**	40	**—**	40	109
Add: net operating (gain) loss on FPHFS	**—**	7	**—**	7	39
Add: unrealized (gain) loss on equity investments	**(25)**	(86)	**8**	(155)	(74)
Add: allowance for mortgage investments loss	**337**	254	**731**	254	550
Distributable income[1]	**13,690**	15,477	**27,898**	28,984	60,105
Less: dividends on common shares	**(14,270)**	(13,685)	**(28,390)**	(27,068)	(54,890)
Under (over) distribution	**$ (580)**	$ 1,792	**$ (492)**	$ 1,916	$ 5,215
Distributable income per share[2, 3]	**$ 0.17**	$ 0.20	**$ 0.34**	$ 0.37	$ 0.76

1 Refer to non-IFRS measures section.
2 Excluding 2019 YTD other income $413 (2018 - $1,217) the distributable income for six month ended June 30 2019 would have been $0.33 (2018 - $0.74) and DI payout ratio 103.3% (2018 - 93.2%)

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 June 30,			Six months ended June 30,		
	2019	**2018**	**%**	**2019**	**2018**	**%**
Net investment income	**$ 24,977**	$ 23,477	6.4 %	**$ 49,488**	$ 45,324	9.2 %
Net rental income	**351**	179	96.1 %	**667**	328	103.4 %
Expenses[1]	**(4,005)**	(3,752)	(6.7)%	**(8,100)**	(7,138)	(13.5)%
Income from operations	**21,323**	19,904	7.1 %	**42,055**	38,514	9.2 %
Other income, net	**—**	—	0.0 %	**413**	—	100.0 %
Net operating loss from foreclosed properties held for sale	**—**	(5)	100.0 %	**—**	(7)	100.0 %
Financing costs:						
Interest on credit facility	**(5,531)**	(4,111)	(34.5)%	**(11,347)**	(8,172)	(38.9)%
Interest on convertible debentures	**(2,199)**	(3,321)	33.8 %	**(4,395)**	(6,201)	29.1 %
Net income and comprehensive income (basic and diluted)	**$ 13,593**	$ 12,427	9.4 %	**$ 26,726**	$ 24,094	10.9 %
Earnings per share (basic and diluted)[2]	**$ 0.16**	$ 0.16		**$ 0.33**	$ 0.31	

1. Amounts include allowance for mortgage investments loss.
2. Excluding 2019 YTD other income $413 (2018 - $1,217) the basic and diluted EPS for six month ended June 30 2019 would have been $0.32 (2018 - $0.65) and EPS payout ratio 107.9% (2018 - 105.9%)

Net investment income[2]

For Q2 2019 and YTD 2019, the Company earned net investment income of $25.0 million and $49.5 million (Q2 2018 – $23.5 million; YTD 2018 – $45.3 million). Net investment income includes the following:

a. Interest income

During Q2 2019 and YTD 2019, the Company earned $20.7 million and $41.3 million (Q2 2018 – $19.9 million; YTD 2018 – $38.9 million) of interest income on net mortgage investments. The weighted average interest rate on net mortgage investments during Q2 2019 increased to 7.2% compared to 7.1% in Q2 2018 and increased to 7.2% YTD 2019 compared to 7.0% YTD 2018.

During Q2 2019 and YTD 2019, the Company earned $1.7 million and $3.7 million (Q2 2018 - $1.4 million and YTD 2018 – $2.5 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. The weighted average interest rate on collateralized loans during Q2 2019 and YTD 2019 was 11.1% and 11.1%, respectively (Q2 2018 - 11.2% and YTD 2018 – 11.6%).

Our weighted average interest rate on all loans including net mortgage investments and collateralized loans in the enhanced return portfolio as at June 30, 2019 was 7.4% (June 30, 2018 - 7.4%).

b. Lender fee income

During Q2 2019 and YTD 2019, the Company received non-refundable cash lender fees of $1.6 million and $3.3 million (Q2 2018 – $3.5 million; YTD 2018 – $6.3 million), or a weighted average lender fee of 1.0% and 0.9%, respectively (Q2 2018 – 1.1%; YTD 2018 – 1.1%). 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 2019 and YTD 2019, lender fees of $2.5 million and $4.4 million (Q2 2018 – $1.9 million; YTD 2018 – $3.5 million) were amortized to lender fee income. Lender fees continue to be a significant component of income as a result of mortgage investment turnover. The Manager does not retain any portion of the lender fees associated with loans originated on Company's balance sheet in order to ensure management's interests are aligned with the shareholders.

c. Other income

During Q2 2019 and YTD 2019, the Company earned other income of $36 and $111 (Q2 2018 - $191; YTD 2018 - $230).

Net rental income from investment properties

The net rental income from investment properties for Q2 2019 and YTD 2019 was $351 and $667, respectively (Q2 2018 $179; YTD 2018 – $328).

[2] For analysis purposes, net interest 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.

Expenses

For Q2 2019 and YTD 2019, the expense ratio was 1.1% and 1.1%, respectively (Q2 2018 and YTD 2018 – 1.1% and 1.1%, respectively).

Management fees

The management fee is equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. 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.

For Q2 2019 and YTD 2019, the Company incurred management fees of $3.1 million and $6.3 million (Q2 2018 – $2.9 million; YTD 2018 – $5.8 million). The increase is directly related to the increase in gross assets averaging $1,337.9 million in YTD 2019, compared to $1,241.1 million in YTD 2018.

Servicing fees

As part of the management agreement, the Manager is entitled to a servicing fee equal to 0.10% per annum, plus applicable taxes, 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.

For Q2 2019 and YTD 2019, the Company incurred $128 and $269, respectively (Q2 2018 and YTD 2018 – $164 and $302) in servicing fees.

General and administrative

For Q2 2019 and YTD 2019, the Company incurred general and administrative expenses of $418 and $835, respectively (Q2 2018 – $426; YTD 2018 – $775). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage and other investments portfolio.

Interest on credit facility – mortgage investments

The Company actively monitors its advances and repayments while efficiently using bankers' acceptances for the majority of its borrowings to minimize interest costs. Financing costs include interest paid on amounts drawn on the credit facility, standby fees charged on unutilized credit facility amounts and amortization of financing costs which were incurred on closing of the credit facility. Financing costs for Q2 2019 and YTD 2019 relating to the credit facility were $5.2 million and $10.6 million, respectively (Q2 2018 – $3.8 million; YTD 2018 – $7.5 million). The increase over the comparable 2018 periods is directly related to the increase in credit facility utilization and prime rate during 2019. The average credit utilization in YTD 2019 was $442.6 million compared to $350.6 million in YTD 2018. As at June 30, 2019, the Company had a credit facility balance of $455.2 million (December 31, 2018 - $478.1 million).

As at June 30, 2019, the Company has incurred financing costs of $5.0 million relating to the credit facility, which includes upfront fees, legal and other costs. During Q2 2019 and YTD 2019, the Company incurred additional financing costs of nil and $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.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2019 and YTD 2019, included in financing costs is interest on the credit facility of $4.8 million and $9.8 million (Q2 2018 – $3.5 million; YTD 2018 – $7.0 million) and financing costs amortization of $403 and $801 (Q2 2018 – $283; YTD 2018 – $550).

Interest on credit facility – investment properties held for sale

As a co-owner of the Saskatchewan Portfolio, which comprises of 14 investment properties totaling 1,079 units that are located in Saskatoon and Regina, Saskatchewan, the Company entered into a credit facility agreement with a Schedule 1 Bank in August 2017. Under the terms of the agreement, the co-ownership have 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. This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides the co-owners with the option to borrow at either the prime rate of interest plus 1.50% LIBOR plus 2.50%, or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of $229.1 million. The Company's share of the carrying value is $46.9 million. As at June 30, 2019, the Company had a credit facility balance of $33.0 million (December 31, 2018 - $32.8 million).

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2019 and YTD 2019, included in financing costs is interest on the credit facility of $355 and $722 (Q2 2018 – $321; YTD 2018 – $617) and financing costs amortization of $15 and $30 (Q2 2018 – $15; YTD 2018 – $30).

As at June 30, 2019, the co-owners borrowed LIBOR 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 unaudited interim condensed consolidated financial statements for the three months and six months ended June 30, 2019 for risk management details. As at June 30, 2019, $161.3 million of Canadian Dollar Loans were outstanding on the credit facility. The Company's share of the outstanding amount is $33.0 million.

Earnings per share

For Q2 2019 and YTD 2019, basic and diluted earnings per share were $0.16 and $0.33 (Q2 2018 and YTD 2018 – basic and diluted earnings per share $0.16 and $0.31).

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.

STATEMENTS OF FINANCIAL POSITION

Net mortgage investments

The balance of net mortgage investments is as follows:

	June 30, 2019	December 31, 2018
Mortgage investments, including mortgage syndications	**$ 1,656,729**	$ 1,796,822
Mortgage syndication liabilities	**(437,050)**	(575,040)
	1,219,679	1,221,782
Interest receivable	**(15,033)**	(20,578)
Unamortized lender fees	**7,551**	8,372
Allowance for mortgage investments loss	**2,345**	1,417
Net mortgage investments	**$ 1,214,542**	$ 1,210,993

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2019	**2018**	**2019**	**2018**	**2018**
Net mortgage investments statistics and ratios[1]					
Total number of net mortgage investments	**130**	113	**130**	113	124
Average net mortgage investment	**$ 9,450**	$ 9,661	**$ 9,450**	$ 9,661	$ 9,762
Average net mortgage investment portfolio	**$1,139,377**	$1,113,502	**$1,143,582**	$1,117,432	$ 1,131,531
Weighted average interest rate for the period	**7.2%**	7.1%	**7.2%**	7.0%	7.2%
Weighted average lender fees	**1.0%**	1.1%	**0.9%**	1.1%	1.1%
Turnover ratio	**13.9%**	18.6%	**25.1%**	34.8%	60.6%
Remaining term to maturity (years)	**1.1**	1.1	**1.1**	1.1	1.2
Net mortgage investments secured by cash-flowing properties	**86.1%**	83.9%	**86.1%**	83.9%	87.5%
Weighted average loan-to-value	**67.4%**	67.7%	**67.4%**	67.7%	67.1%

[1] Refer to non-IFRS measures section.

Portfolio allocation

The Company's net mortgage investments, excluding enhanced return portfolio, were allocated across the following categories:

a. Security position

	June 30, 2019		December 31, 2018	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
First mortgages	**117**	**93.8%**	113	93.2%
Non-first mortgages	**13**	**6.2%**	11	6.8%
	130	**100.0%**	124	100.0%

b. Region

	June 30, 2019		December 31, 2018	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Ontario	**64**	**45.1%**	59	42.5%
British Columbia	**30**	**21.4%**	28	23.5%
Alberta	**15**	**21.3%**	13	20.9%
Quebec	**13**	**7.0%**	14	6.1%
Other	**8**	**5.2%**	10	7.0%
	130	**100.0%**	124	100.0%

c. Maturity

	June 30, 2019		December 31, 2018	
Maturing	# of Net investments	% of Net investments	# of Net investments	% of Net investments
2019	**36**	**29.9%**	51	38.4%
2020	**46**	**31.9%**	51	40.9%
2021	**36**	**30.0%**	20	19.4%
2022	**11**	**7.4%**	2	1.3%
2023 and thereafter	**1**	**0.8%**	0	0.0%
	130	**100.0%**	124	100.0%

d. Asset type

	June 30, 2019		December 31, 2018	
	# of Net investments	% of Net investments	# of Net investments	% of Net investments
Multi-residential	**74**	**46.3%**	65	40.1%
Retail	**20**	**19.2%**	19	18.8%
Unimproved land	**9**	**10.9%**	10	10.1%
Hotels	**1**	**4.3%**	4	4.9%
Retirement	**4**	**4.1%**	5	4.1%
Industrial	**8**	**4.5%**	8	4.8%
Office	**9**	**7.1%**	8	13.5%
Self-storage	**2**	**1.7%**	2	1.7%
Other-residential	**1**	**1.6%**	1	1.6%
Single-family residential	**2**	**0.3%**	2	0.4%
	130	**100.0%**	124	100.0%

Enhanced return portfolio

As at June 30, 2019, enhanced return portfolio was $96.4 million (December 31, 2018 - $104.6 million), which include $82.5 million (December 31, 2018 – $91.0 million) of other investments and $13.9 million (December 31, 2018 - $13.7 million) of net equity in investment properties.

Other investments may include collateralized loans, participating loans, debentures, joint ventures, finance lease receivables and marketable securities. As at June 30, 2019, the Company has $63.8 million (December 31, 2018 - $72.8 million) of collateralized loan investments, $6.0 million (December 31, 2018 – $6.0 million) of finance lease receivable, $7.5 million (December 31, 2018 – $7.5 million) of indirect development properties, $5.2 million of a participating loan (December 31, 2018 – $4.6 million).

During Q2 2019 and YTD 2019, the Company earned $1.7 million and $3.7 million (Q2 2018 - $1.4 million and YTD 2018 – $2.5 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. The weighted average interest rate on collateralized loans during Q2 2019 and YTD 2019 was 11.1% and 11.1%, respectively (Q2 2018 - 11.2% and YTD 2018 – 11.6%).

During Q2 2019 and YTD 2019, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities, of $71 and $147 (Q2 2018 – $79 and YTD 2018 – $219), respectively. During Q2 2019 and YTD 2019, the Company received nil in lender fees on other investments (Q2 2018 – $318 and YTD 2018 – $585), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

During Q4 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 $5.4 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, 2019 and 2018.

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, 2019, the Company's share of the investment properties has an aggregate fair value of $46.9 million (December 31, 2018 – $46.5 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. Refer to notes 5 and 5(b) of the Consolidated Financial Statements for the period ended June 30, 2019 and December 31, 2018

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 $437.1 million (December 31, 2018 – $575.0 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 not necessarily indicative of a future trend.

Allowance for Credit Losses ("ACL")

The allowance for credit losses is maintained at a level that we consider adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to $2.4 million as at June 30, 2019 (December 31, 2018 - $1.6 million), of which $2.3 million (December 31, 2018 - $1.4 million) was recorded in mortgage investments and $17 (December 31, 2018 - $215) was recorded in other investments.

Allowance for credit losses as at June 30, 2019[1]:

Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	$ 877,103	$ —	$ 2,826	$ 879,929
Mortgage syndication liabilities, including interest receivable	214,326	—	—	214,326
Net	662,777	—	2,826	665,603
Allowance for credit losses	714	—	176	890
Mortgage investments, net of allowance and mortgage syndications	**662,063**	**—**	**2,650**	**664,713**

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments, including interest receivable	711,187	—	38,297	749,484
Mortgage syndication liabilities, including interest receivable	223,082	—	—	223,082
Net	488,105	—	38,297	526,402
Allowance for credit losses	311	—	1,144	1,455
Mortgage investments, net of allowance and mortgage syndications	**487,794**	**—**	**37,153**	**524,947**

Other loan Investments	Stage 1	Stage 2	Stage 3	Total
Gross loan investments, including interest receivable	56,798	—	7,232	64,030
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	56,798	—	7,232	64,030
Allowance for credit losses	14	—	3	17
Other loan Investments, net of allowance and mortgage syndications	**56,784**	**—**	**7,229**	**64,013**

[1]As at June 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, 2018[2]:

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**

[2]As at June 30, 2018, finance lease receivable (note 4(e)) and unadvanced commitments (note 4(a)) are all considered to be in Stage 1 with minimal ACL.

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

	Six Months Ended June 30, 2019				Six Months Ended June 30, 2018			
Multi-residential Mortgage Investments	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	6	—	173	179	(115)	—	(23)	(138)
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	(26)	—	(26)
Stage 3	—	—	—	—	—	—	26	26
Total allowance for credit losses	633	—	176	809	488	—	3	491
Fundings	306	—	—	306	81	—	—	81
Repayments	(225)	—	—	(225)	(76)	—	—	(76)
Balance at end of fiscal period	**714**	**—**	**176**	**890**	**493**	**—**	**3**	**496**

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	59	—	557	616	123	—	254	377
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	(209)	—	(209)
Stage 3	—	—	—	—	—	—	209	209
Total allowance for credit losses	259	—	1,144	1,403	124	—	463	587
Fundings	76	—	—	76	35	—	—	35
Repayments	(24)	—	—	(24)	(16)	—	—	(16)
Balance at end of fiscal period	**311**	**—**	**1,144**	**1,455**	**143**	**—**	**463**	**606**

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	—	—	—	—	2	—	—	2
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	212	—	3	215	234	—	—	234
Fundings	—	—	—	—	65	—	—	65
Repayments	(198)	—	—	(198)	(66)	—	—	(66)
Balance at end of fiscal period	**14**	**—**	**3**	**17**	**233**	**—**	**—**	**233**

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 June 30, 2019				As at December 31, 2018			
Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	263,313	—	—	263,313	221,309	—	—	221,309
Medium-Low risk	370,449	—	—	370,449	289,144	—	—	289,144
Medium-High risk	29,015	—	—	29,015	18,705	—	—	18,705
High risk	—	—	—	—	—	—	—	—
Default	—	—	2,826	2,826	—	—	2,790	2,790
Net	662,777	—	2,826	665,603	529,158	—	2,790	531,948
Allowance for credit losses	714	—	176	890	627	—	3	630
Mortgage investments[1]	**662,063**	**—**	**2,650**	**664,713**	**528,531**	**—**	**2,787**	**531,318**
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	152,418	—	—	152,418	177,567	—	—	177,567
Medium-Low risk	260,588	—	—	260,588	341,418	—	—	341,418
Medium-High risk	64,016	—	—	64,016	66,644	—	—	66,644
High risk	11,083	—	—	11,083	14,060	—	—	14,060
Default	—	—	38,297	38,297	—	—	37,790	37,790
Net	488,105	—	38,297	526,402	599,689	—	37,790	637,479
Allowance for credit losses	311	—	1,144	1,455	200	—	587	787
Mortgage investments[1]	**487,794**	**—**	**37,153**	**524,947**	**599,489**	**—**	**37,203**	**636,692**
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	56,798	—	—	56,798	66,483	—	—	66,483
Default	—	—	7,232	7,232	—	—	7,014	7,014
Net	56,798	—	7,232	64,030	66,483	—	7,014	73,497
Allowance for credit losses	14	—	3	17	212	—	3	215
Other loan Investments[1]	**56,784**	**—**	**7,229**	**64,013**	**66,271**	**—**	**7,011**	**73,282**

[1]net of allowance and mortgage syndications

Net working capital

Net working capital decreased by $6.0 million to $13.4 million at June 30, 2019 from $19.4 million at December 31, 2018.

Credit facility (mortgage investments)

Currently, the Company has a $500.0 million credit facility with 10 Canadian banks, 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 $350.0 million and a maturity date of May 2018. On June 20, 2017, the Company increased the credit limit by $50.0 million to $400.0 million, 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 $400.0 million which may be increased by $100.0 million through an accordion feature, subject to certain conditions. The credit facility will mature on December 20, 2019. On February 13, 2018, the Company completed the exercise of a portion of the accordion feature, which increased the credit limit by $40.0 million to $440.0 million. On November 16, 2018, the Company exercised remainder portion of the accordion feature which increased the credit limit by $60.0 million to $500.0 million, the Company further amended the credit facility agreement (the "Second Amending Agreement to Credit Agreement") and extended 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 June 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 $500.0 million.

As at June 30, 2019, the Company has incurred inception to date financing costs of $5.0 million relating to the credit facility, which includes upfront fees, legal and other costs. During Q2 2019 and YTD 2019, the Company incurred additional financing costs of nil and $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.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2019 and YTD 2019, included in financing costs is interest on the credit facility of $4.8 million and $9.8 million (Q2 2018 – $3.5 million; YTD 2018 – $7.0 million) and financing costs amortization of $403 and $801 (Q2 2018 – $283; YTD 2018 – $550).

Credit facility (investment properties held for sale)

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement with a Schedule 1 Bank. 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.

This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. 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 $229.1 million. The Company's share of the carrying value is $46.9 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. During the period ended June 30, 2019, the co-owners borrowed to LIBOR and prime rate loans 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 converting the LIBOR loans into Canadian Dollar Loans. Refer to note 17 unaudited interim condensed consolidated financial statements for the three months and six months ended June 30, 2019 for risk management details. As at June 30, 2019, $161.3 million Canadian dollar equivalent of LIBOR loans were outstanding on the credit facility. The Company's share of the outstanding amount in Canadian dollar is $33.0 million.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2019 and YTD 2019, included in financing costs is interest on the credit facility of $355 and $722 (Q2 2018 – $321; YTD 2018 – $617) and financing costs amortization of $15 and $30 (Q2 2018 – $15; YTD 2018 – $30).

Convertible debentures

The debentures are comprised of as follows:

		June 30, 2019		December 31, 2018
Issued	$	**136,800**	$	136,800
Unamortized financing cost and amount classified as equity component		**(4,490)**		(5,203)
Debentures, end of period	$	**132,310**	$	131,597

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,		
		2019		2018
Interest on the convertible debentures	$	**3,682**	$	4,778
Amortization of issue costs and accretion of the convertible debentures		**713**		1,424
Total	$	**4,395**	$	6,202

SHAREHOLDERS' EQUITY

a. 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.

On June 21, 2018, the Company entered into an equity distribution agreement with a Canadian financial institution to offer common shares, having an aggregate offering amount of up to $70 million for sale to the public.

During Q2 2019 and YTD 2019, the Company issued 736,500 and 1,141,500 (Q2 2018 – nil and YTD 2018 – nil) of common shares for gross proceeds of $6.9 million and $10.7 million (Q2 2018 – nil and YTD 2018 – nil) at an average price of $9.37 and $9.35 per common share and paid $138 and $213 in commission to the agent, pursuant to the ATM Program's equity distribution agreement.

b. Dividends

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q2 2019 and YTD 2019, the Company declared dividends of $14.3 million and $28.4 million, or $0.173 and $0.345 per the Company common share (Q2 2018 – $13.7 million, $0.173 per share; YTD 2018 – $27.1 million, $0.345 per share).

As at June 30, 2019, $4.8 million in aggregate dividends (December 31, 2018 – $4.7 million) was payable to the holders of common shares by the Company. Subsequent to June 30, 2019, the Board of Directors of the Company declared dividends of $0.0575 per common share to be paid on August 15, 2019 to the common shareholders of record on July 31, 2019.

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 2019 and YTD 2019, nil and 36,866 common shares were purchased on the open market (Q2 2018 and YTD 2018 – nil) and 127,095 and 212,010 common shares were issued from treasury (Q2 2018 – 133,904 and YTD 2018 – 250,597).

d. 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 Q2 2019 and YTD 2019, 8,359 and 15,997 units were issued (2018 - 5,585 and 10,447) and as at June 30, 2019, 67,888 units were outstanding (December 31, 2018 – 51,891). No DSUs were exercised or canceled, resulting in a DSU expense of $166 (2018 – $93). As at June 30, 2019, $84 in quarterly compensation was granted in DSUs, which will be issued subsequent to June 30, 2019.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for Q2 2019 and YTD 2019 was $29.8 million and $51.2 million (Q2 2018 – $18.9 million; YTD 2018 – $39.7 million).

Cash used in financing activities

Cash used in financing activities for Q2 2019 and YTD 2019 consisted of the Company's net repayments on the operating credit facility of $32.5 million and net repayments of $22.9 million (Q2 2018 – $3.3 million of net advances; YTD 2018 – $0.8 million of net advances) as well as advances of $0.2 million and advances of $0.2 million during Q2 2019 and YTD 2019 (Q2 2018 $0.8 million of net advances and YTD 2018 – $1.5 million of net advances) on the investment properties held for sale credit facility.

The Company received net proceeds of $5.0 million and $8.5 million from the issuance of common shares in Q2 2019 and YTD 2019. The Company paid interest on the debentures and credit facilities of $7.5 million and $13.4 million (Q2 2018 – $6.5 million; YTD 2018 – $13.1 million), and paid common share dividends of $13.1 million and $26.0 million (Q2 2018 – $12.5 million; YTD 2018 – $24.5 million). During Q2 2019 and YTD 2019 nil and $0.3 million of common shares were repurchases from open market (Q2 2018 – nil; YTD 2018 – nil).

The net cash used in financing activities for Q2 2019 and YTD 2019 was $47.9 million and $53.9 million (Q2 2018 – used in $49.9 million and used in YTD 2018 – $28.0 million).

Cash from (used in) investing activities

Net cash received from investing activities in Q2 2019 and YTD 2019 was $18.2 million and $2.7 million (received from Q2 2018 – $21.2 million; used in YTD 2018 – $11.7 million) and consisted of the funding of net mortgage investments of $153.8 million and $306.2 million (Q2 2018 – $156.0 million; YTD 2018 – $370.3 million), funding $0.3 million and $0.4 million in investment properties (Q2 2018 and YTD 2018 - $0.0 million), offset by repayments of net mortgage investments of $166.5 million and $300.9 million (Q2 2018 – $205.7 million; YTD 2018 – $386.7 million), funding of other investments of $2.0 million and $4.4 million (Q2 2018 – $29,230 and YTD 2018 – $43.2 million), offset by repayments of other investments of $8.0 million and $12.6 million (Q2 2018 and YTD 2018 – $1.7 million and $17.2 million).

QUARTERLY FINANCIAL INFORMATION

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

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net investment income[1]	**$ 24,977**	$ 24,511	$ 25,169	$ 24,465	$ 23,477	$ 21,847	$ 23,178	$ 23,547
Net rental income	**351**	316	358	135	179	149	99	94
Expenses[2]	**(4,005)**	(4,095)	(3,866)	(3,774)	(3,752)	(3,386)	(3,633)	(3,809)
Income from operations[1]	**21,323**	20,732	21,661	20,826	19,904	18,610	19,644	19,832
Other income, net	**—**	413	1,217	—	—	—	—	—
Net operating loss from FPHFS	**—**	—	(15)	(18)	(5)	(2)	(40)	27
Fair value (loss) gain of FPHFS	**—**	—	(29)	(40)	(40)	—	146	(193)
Financing costs:								
Interest on credit facility	**(5,531)**	(5,816)	(5,368)	(4,836)	(4,111)	(4,061)	(3,986)	(3,519)
Interest on convertible debentures	**(2,199)**	(2,196)	(2,203)	(2,224)	(3,321)	(2,880)	(2,886)	(2,899)
Total financing costs	**(7,730)**	(8,012)	(7,571)	(7,060)	(7,432)	(6,941)	(6,872)	(6,418)
Total net income and comprehensive income (basic)	**$ 13,593**	$ 13,133	$ 15,263	$ 13,708	$ 12,427	$ 11,667	$ 12,876	$ 13,248
Total net income and comprehensive income (diluted)	**$ 14,336**	$ 13,133	$ 17,466	$ 15,911	$ 12,427	$ 11,667	$ 15,080	$ 15,468
Earnings per share (basic)	**$ 0.16**	$ 0.16	$ 0.19	$ 0.17	$ 0.16	$ 0.15	$ 0.17	$ 0.18
Earnings per share (diluted)	**$ 0.16**	$ 0.16	$ 0.18	$ 0.17	$ 0.16	$ 0.15	$ 0.17	$ 0.18
Distributable income[1]	**$ 13,690**	$ 14,208	$ 16,302	$ 14,818	$ 15,477	$ 13,508	$ 13,681	$ 14,091
Distributable income per share[1]	**$ 0.17**	$ 0.17	$ 0.20	$ 0.19	$ 0.20	$ 0.18	$ 0.18	$ 0.19

[1] Refer to non-IFRS measures section.
[2] Amounts include allowance for mortgage investments loss.

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

i. 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;

ii. Within expenses, the Company accrues the performance fee payable to the Manager. Given that the performance fee is adjusted for cash items, the volatility of cash receipts in the year (mainly relating to lender fees) will typically have an impact on the amount expensed in any quarter;

iii. 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;

iv. 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, 2019, due to Manager includes mainly management and servicing fees payable of $1.1 million (December 31, 2018 - $1.5 million).

As at June 30, 2019, included in other assets is $9.2 million (December 31, 2018 – $3.1 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, 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 $9.5 million (December 31, 2018 – $9.5 million). The Company's share of the commitment is $3.6 million (December 31, 2018 – $3.6 million), of which $3.6 million (December 31, 2018 – $3.6 million) has been funded as at June 30, 2019. During Q2 2019 and YTD 2019, the Company has recognized net interest income of $86 and $172 (Q2 2018 – $86; YTD 2018 – $172) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of $1.9 million (December 31, 2018 – $1.9 million). The Company's share of the commitment was $1.9 million (December 31, 2018 – $1.9 million), of which $1.9 million has been funded as at June 30, 2019 (December 31, 2018 – $1.9 million). During Q2 2019 and YTD 2019, the Company has recognized net interest income of $30 and $60 (Q2 2018 $32 and YTD 2018 – $61) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of $16.5 million (December 31, 2018 – $16.5 million). The Company's share of the commitment is $2.5 million (December 31, 2018 – $2.5 million), of which $2.5 million (December 31, 2018 – $2.5 million) has been funded as at June 30, 2019. During Q2 2019 and YTD 2019, the Company has recognized net interest income of $57 and $113 (Q2 2018 $61and YTD 2018 – $122) from this mortgage investment during the period.

As at June 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 23 (December 31, 2018 – 18) gross mortgage investments totaling $286.5 million (December 31, 2018 – $258.8 million). The Company's share in these gross mortgage investments is $186.6 million (December 31, 2018 – $178.4 million). Included in these amounts is two net mortgage investment (December 31, 2018 – two) totaling $23.6 million (December 31, 2018 – $23.0 million) loaned to limited partnerships in which T4Q is invested.

As at June 30, 2019, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling $5.2 million or €3.5 million (December 31, 2018 - $4.6 million or €2.9 million), 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.

As at June 30, 2019, the Company and T4Q invested in two indirect real estate developments through two investees, totaling $7.5 million (December 31, 2018 - two and $7.5 million).

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 Q2 2019 and YTD 2019, Property

Management Fees of $39 and $76 were charged by the Manager to the Company (Q2 2018 and YTD 2018 – $61). As at June 30, 2019, $15 was payable to the Manager (December 31, 2018 – $18).

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

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 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 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. We 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 form current assessments, which would require an increase or decrease in the allowance of credit risk. Refer to note 4(d) in interim financial statement.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these 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, 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.

OUTSTANDING SHARE DATA

As at August 6, 2019, the Company’s authorized capital consists of an unlimited number of common shares, of which 83,055,391 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 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 $33.3 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, 2019, 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, 2019, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	$ 4,728	$ 4,728	$ 4,728	$ —	$ —
Dividends payable	4,772	4,772	4,772	—	—
Due to Manager	1,090	1,090	1,090	—	—
Mortgage funding holdbacks	2,703	2,703	2,703	—	—
Prepaid mortgage interest	6,485	6,485	6,485	—	—
Credit facility (mortgage investments)[1]	454,022	484,232	19,710	464,522	—
Credit facility (investment properties held for sale)[2]	32,991	33,156	33,156	—	—
Convertible debentures[3]	132,310	141,271	141,271	—	—
	$ 639,101	$ 678,437	$ 213,915	$ 464,522	$ —
Unadvanced mortgage commitments[4]	—	195,891	195,891	—	—
Total contractual liabilities, excluding mortgage syndication liabilities[5]	$ 639,101	$ 874,328	$ 409,806	$ 464,522	$ —

1 Credit facility (mortgage investments) includes interest based upon June 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 June 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on August 10, 2019.

3 The 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, 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 $88.4 million belongs to the Company's syndicated partners.

[5] The principal repayments of $435.3 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at June 30, 2019, the Company had a cash position of $454 (December 31, 2018 – $541), an unutilized credit facility (mortgage investments) balance of $44.8 million (December 31, 2018 – $21.9 million) and an unutilized credit facility (investment properties) balance of $279 (December 31, 2018 – $457). The management believes that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is $88.4 million out of $195.9 million in total (December 31, 2018 – $58.0 million) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

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 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, 2019, $857.6 million of net mortgage investments and $19.4 million of other investments bear interest at variable rates (June 30, 2018 - $418.9 million and $22.2 million, respectively). $722.9 million of net mortgage investments have a "floor rate" (June 30, 2018 - $418.9 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 would be a decrease in net income of $1.4 million or an increase

in net income of $4.4 million, respectively (2018 - $802 and $2.2 million, 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 $488.2 million as at June 30, 2019. (June 30, 2018 - $398.4 million) Based on the outstanding credit facility balance as at June 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 $2.4 million (2018 - $2.0 million) annually.

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 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, 2019, the Company has US$5.1 million and €3.5 million in other investments denominated in foreign currencies (December 31, 2018 – US$5.0 million, US$5.1 million and €2.9 million). The Company has entered into a series of foreign currency contracts to reduce the its exposure to foreign currency risk. As at June 30, 2019, 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 1.3435, maturing in July 2019 and one Euro currency contracts with an aggregate notional value of €3.5 million at a weighted average contract rate of 1.5228, maturing in December 2019The Company has entered into a cross-currency swap to economically hedge the investment properties credit facility with notional value of US$24,977, 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 June 30, 2019 is an asset of $238 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 investments are approved by the investment committee before funding; and

iii. actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The exposure to credit risk at June 30, 2019 relating to net mortgages and other investments amount to $1,316.7 million (December 31, 2018 – $1,320.0 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.

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