

Management's Discussion and Analysis

Timbercreek Financial

For the year ended December 31, 2019



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 March 5, 2020. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekfinancial.com. 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

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

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

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

BASIS OF PRESENTATION

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

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

Copies of these documents have been filed electronically with securities regulators in Canada through SEDAR and may be accessed through the SEDAR website at www.sedar.com.

NON-IFRS MEASURES

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

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

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

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

Non-IFRS financial measures for net mortgage investments:

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

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

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

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

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

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

- i. Distributable income – represents the Company's ability to generate recurring cash flows for dividends by removing the effect of amortization, accretion, unrealized fair value adjustments, allowance for mortgage investments loss, and unrealized gain or loss from total net income and comprehensive income.
- ii. Distributable income per share – represents the total distributable income divided by the weighted average common outstanding shares for the stated period.
- iii. Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.
- iv. Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

During 2019, Timbercreek Financial continued to find attractive investment opportunities that meet its risk and return objectives despite a competitive environment in the commercial mortgage sector. The number of new net mortgage investments 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.

Consistent with the seasonal uptick in transaction activity levels experienced in prior years, management experienced robust transaction activity during the fourth quarter in several areas, including multi-residential lending. Management anticipates that real estate transaction levels will remain healthy, as Timbercreek Financial continues to support its clients with flexible customized financing solutions.

PORTFOLIO ACTIVITY

Transaction activity was strong in Q4 2019 both in terms of originations and repayments. The Company funded 25 new net mortgage investments totaling \$336.2 million and made additional advances of \$50.7 million. Portfolio turnover increased considerably to 26.0%, compared with 14.2% in Q3 2019. The net value of the mortgage portfolio, excluding syndications, was approximately \$1,244.1 million at the end of Q4 2019, an increase of \$70.0 million from Q3 2019. The amount drawn on the credit facility funding mortgage investments was \$461.0 million at the end of Q4 2019, compared to \$418.9 million at the end of Q3 2019.

At the end of Q4 2019, the enhanced return portfolio was \$78.2 million, which included \$61.5 million of other investments, and \$16.7 million of net equity in investment properties, representing 5.7% 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 interest and fees can be earned by investing in higher risk loans, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings.

At the end of Q4 2019, 86.8% of the mortgage investments were secured by income-producing properties, compared to 87.4% in Q3 2019. The fourth quarter saw an increase in multi-residential real estate assets in the portfolio. Approximately 54.1% of the portfolio at year end was secured by multi-residential real estate (apartment buildings), compared to 46.5% in Q3 2019.

Our exposure to first mortgages was 90.5% of the net mortgage portfolio at year end, compared to 92.8% in Q3 2019. Our current weighted average loan-to-value ratio was 70.5%, consistent with Q3 2019 and slightly above our internal target of 70%. Our weighted average interest rate for the period was 7.2% in Q4 2019 with an exit rate of 7.1% as at December 31, 2019, compared with 7.3% in Q3 2019 and an exit rate of 7.2% as at September 30, 2019.

The floating rate loans with rate floors represented 77.3% of total loan portfolio compared to 63.7% as at September 30, 2019.

The net mortgage portfolio remains heavily weighted towards Canada's largest provinces, with approximately 96.0% of the mortgage portfolio invested in Ontario, British Columbia, Alberta and Quebec, the majority of which are in urban markets that generally experience better real estate liquidity and thus offer a better risk profile.

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FINANCIAL HIGHLIGHTS

FINANCIAL POSITION

As at	December 31, 2019	December 31, 2018	December 31, 2017
KEY FINANCIAL POSITION INFORMATION			
Mortgage investments ¹	\$ 1,667,686	\$ 1,796,822	\$ 1,554,369
Other investments	\$ 61,520	\$ 90,957	\$ 57,934
Investment properties	\$ 47,349	\$ 46,494	\$ 42,748
Total assets	\$ 1,797,506	\$ 1,945,031	\$ 1,664,759
Credit facilities	\$ 490,389	\$ 508,939	\$ 394,046
Convertible debentures	\$ 133,033	\$ 131,597	\$ 163,946
Total liabilities ¹	\$ 1,069,114	\$ 1,229,066	\$ 1,011,637
CAPITAL STRUCTURE			
Shareholders' equity	\$ 728,392	\$ 715,965	\$ 653,122
Convertible debentures, par	\$ 136,800	\$ 136,800	\$ 171,300
Credit facility limit	\$ 530,690	\$ 533,277	\$ 433,277
COMMON SHARE INFORMATION			
Number of common shares outstanding	83,254,130	81,632,844	74,277,356
Closing trading price	\$ 9.93	\$ 8.75	\$ 9.62
Market capitalization	\$ 826,714	\$ 714,287	\$ 714,548

¹ Includes mortgage syndications (note 4(a)) and mortgage syndication liabilities of \$426.9 million (2018 - \$575.0 million, 2017 - \$440.6 million)

OPERATING RESULTS¹

	Three months ended December 31,		Year ended December 31,		
	2019	2018	2019	2018	2017
Net investment income	\$ 25,207	\$ 25,169	\$ 99,437	\$ 94,958	\$ 88,937
Net rental income	\$ 414	\$ 358	\$ 1,440	\$ 821	\$ 193
Income from operations	\$ 21,627	\$ 21,661	\$ 85,014	\$ 81,003	\$ 75,374
Other income, net	\$ —	\$ 1,217	\$ 413	\$ 1,217	\$ —
Total net income and comprehensive income	\$ 14,101	\$ 15,263	\$ 54,740	\$ 53,068	\$ 52,204
Earnings per share (basic) ²	\$ 0.17	\$ 0.19	\$ 0.66	\$ 0.67	\$ 0.70
Earnings per share (diluted) ²	\$ 0.17	\$ 0.18	\$ 0.66	\$ 0.67	\$ 0.70
Dividends to shareholders	\$ 14,355	\$ 14,076	\$ 57,078	\$ 54,890	\$ 50,736
Dividends per common share	\$ 0.173	\$ 0.173	\$ 0.690	\$ 0.690	\$ 0.685
Payout ratio on earnings per share ²	101.8%	92.2%	104.3%	103.4%	97.2%
Distributable income ³	\$ 15,555	\$ 16,302	\$ 59,341	\$ 60,105	\$ 55,262
Distributable income per share ³	\$ 0.19	\$ 0.20	\$ 0.72	\$ 0.76	\$ 0.75
Payout ratio on distributable income ³	92.3%	86.3%	96.2%	91.3%	91.8%

1. Refer to non-IFRS measures section.

2. Excluding other income of \$413 in 2019 (2018 - \$1,217) the basic and diluted EPS for the year ended December 31, 2019 would have been \$0.66 (2018 - \$0.65) and EPS payout ratio 105.1% (2018 - 105.9%).

3. Excluding other income of \$413 in 2019 (2018 - \$1,217) the distributable income per share for the year ended December 31, 2019 would have been \$0.71 (2018 - \$0.74) and payout ratio on distributable income would have been 96.9% (2018 - 93.2%).

For the three months ended December 31, 2019 ("Q4 2019") and December 31, 2018 ("Q4 2018")

- The Company funded 25 new net mortgage investments (Q4 2018 – 17) totaling \$336.2 million (Q4 2018 – \$212.2 million), made additional advances on existing mortgage investments totaling \$50.7 million (Q4 2018 – \$27.5 million). The weighted average interest rate on new net mortgage investments was 6.6% and new funding mainly comprised of \$199.4 million in multi-residential investments. The Company fully discharged 24 mortgage investments (Q4 2018 – 14) and partially discharged mortgage investments totaling \$316.9 million (Q4 2018 – \$165.5 million). Weighted average interest rate on fully discharged net mortgage investment was 7.0%. The net effect of these funding and discharges resulted in a reduction in quarterly weighted average interest rate from 7.3% in Q3 2019 to 7.2% in Q4 2019 (Q4 2018 - 7.3%).
- Other investments within the enhanced return portfolio was \$61.5 million (September 30, 2019 - \$88.8 million). Net decrease of \$27.3 million in the quarter was mainly due to liquidation of marketable securities.
- Net investment income remained consistent quarter over quarter: \$25.2 million in Q4 2019 compare to \$25.2 million in Q4 2018. Consistent net investment income during Q4 2019 compared to Q4 2018, despite reduction in weighted average interest rate, was primarily due to:
 - higher average net mortgage investment portfolio; \$1,199.8 million during Q4 2019 compared to \$1,169.7 million during Q4 2018, resulted in marginally higher interest income on net mortgage investments.
 - Increase in lender fee income, attributable to increase in lender fee received and a higher turnover rate, which was partly offset by decrease in interest income on collateralized loans, primarily due to discharges during the quarter.
- The Company generated income from operations of \$21.6 million (Q4 2018 – \$21.7 million), a decrease of \$34 or 0.2% from Q4 2018. Quarter over quarter decrease in income from operation is primarily from increase in allowance for credit losses, due to higher net mortgage investment balance.
- General and administrative expense remained consistent at \$0.5 million (Q4 2018 - \$0.5 million).
- The floating rate loans with rate floors represented 77.3% (December 31, 2018 - 57.7%) of total loan portfolio compared to 63.7% as at September 30, 2019.
- Non-refundable cash lender fees recorded were \$3.5 million (Q4 2018 – \$2.4 million). The quarterly weighted average lender fees on new and renewed mortgages during the quarter was 1.0% (Q4 2018 - 0.9%), while the quarterly weighted average lender fee on new mortgages only for the quarter was 1.1% (Q4 2018 - 1.1%)
- The Company generated net income and comprehensive income of \$14.1 million (Q4 2018 – \$15.3 million) or earnings per share of \$0.17, basic and diluted (Q4 2018 – \$0.19 basic and \$0.18 diluted). The Company declared \$14.4 million in dividends (Q4 2018 – \$14.1 million) to common shareholders, a payout ratio of 101.8% (Q4 2018 – 92.2%) on an earnings per share basis.
- The Company generated distributable income of \$15.6 million (Q4 2018 – \$16.3 million) or distributable income per share of \$0.19 (Q4 2018 – \$0.20), a payout ratio of 92.3% (Q4 2018 – 86.3%) on a distributable income basis.

For the years ended December 31, 2019 ("2019") and December 31, 2018 ("2018")

- The Company funded 63 new net mortgage investments (2018 – 56) totaling \$733.5 million (2018 – \$673.4 million), made additional advances on existing mortgage investments totaling \$99.7 million (2018 – \$124.3 million) and fully discharged 57 mortgage investments (2018 – 46) and partially discharged mortgage investments totaling \$799.6 million (2018 – \$691.4 million). As a result, the net mortgage investment portfolio as at December 31, 2019 has increased by \$33.1 million, net of foreign exchange translation loss of \$470, which is hedged through currency contracts, to \$1,244.1 million (December 31, 2018 – \$1,211.0 million), or 2.7% from December 31, 2018.
- Other investments within the enhanced return portfolio was \$61.5 million, including an allowance for credit loss of \$25 (December 31, 2018 - \$91.0 million and \$215, respectively). Net decrease of \$29.5 million was mainly due to discharging of collateralized loan investments.
- 2019 began with \$1,211.0 million of net mortgage investments with 7.2% weighted average interest rate. By the end of Q3 2019, net mortgage investments had declined to \$1,174.1 million at a relatively consistent 7.2% weighted average interest rate. The decline in net mortgage investments by Q3 2019 was driven by repayment activity and slower new originations during the summer months which is typical of the industry. By the end of Q4 2019, net mortgage investments increased to \$1,244.1 million.
- Net investment income earned was \$99.4 million (2018 – \$95.0 million), an increase of \$4.4 million, or 4.6% from 2018. Increase in net investment income 2019 compared to 2018 was primarily due to:
 - Increase in interest income on net mortgage investment attributable to change in average net mortgage investment portfolio to \$1,197.4 million during 2019 compared to \$1,131.5 million in 2018 and weighted average interest rate consistent at 7.2% year over year.
 - Increase in lender fee income, as a result of acceleration of lender fee income recognition due to increased number of earlier than scheduled repayments of net mortgage investments during 2019, compared to 2018.
- The Company generated income from operations of \$85.0 million (2018 – \$81.0 million), an increase of \$4.0 million or 4.9% from 2018. Increase in net investment income was partially offset by increase in total expenses, primarily driven by increase in allowance for expected credit loss and management fees due to higher net mortgage investment balance.
- Weighted average loan-to-value at origination increased from 66.6% as at December 31, 2018 to 69.8% as at December 31, 2019. Primary drivers of this change were repayments from hotel and self-storage asset classes with lower loan-to-value, and an increase in multi-family residential exposure at a relatively higher loan-to-value.
- General and administrative expense remained consistent at \$1.7 million (2018 – \$1.7 million).
- The floating rate loans with rate floors represents 77.3% compared to 57.7% in December 31, 2018, consistent with overall asset allocation strategy shift toward floating rate assets.
- Non-refundable cash lender fees recorded were \$10.0 million (2018 – \$11.3 million). The weighted average lender fees on new and renewed mortgages during the year was 1.0% (2018 – 1.1%), while the weighted average lender fee on new mortgages only for the quarter was 1.1% (2018 – 1.3%)
- The Company generated net income and comprehensive income of \$54.7 million (2018 – \$53.1 million) or earnings per share \$0.66, basic and diluted (2018 – \$0.67, basic and diluted). The Company declared \$57.1 million in dividends (2018 – \$54.9 million) to common shareholders resulting in a payout ratio of 104.3% (2018 – 103.4%) on an earnings per share basis.

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- The Company generated distributable income of \$59.3 million (2018 – \$60.1 million) or distributable income per share of \$0.72 (2018 – \$0.76) resulting in a payout ratio of 96.2% (2018 – 93.2%) on a distributable income basis.
- The Company issued 1,167,000 of common shares for gross proceeds of \$10.9 million at an average price of \$9.35 per common share and paid \$218 in commission to the agent, pursuant to the equity distribution agreement for the Company's ATM Program.
- In Q1 2019, the Company recognized one-time net other income of \$413, primarily from the recovery of HST credits from 2015 and prior.

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ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

DISTRIBUTABLE INCOME

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net income and comprehensive income	\$ 14,101	\$ 15,263	\$ 54,740	\$ 53,068
Less: amortization of lender fees	(2,660)	(2,318)	(10,029)	(8,328)
Add: lender fees received and receivable	3,502	2,359	10,039	11,342
Add: amortization of financing costs, credit facility	407	354	1,655	1,248
Add: amortization of financing costs, debentures	300	299	1,191	1,767
Add: accretion expense, debentures	61	62	244	384
Add: unrealized fair value (gain) loss on FPHFS	—	29	—	109
Add: net operating (gain) loss on FPHFS	—	15	—	39
Add: unrealized (gain) loss on equity investments	(489)	112	188	(74)
Add: allowance for mortgage investments loss	333	127	1,313	550
Distributable income ¹	\$ 15,555	\$ 16,302	\$ 59,341	\$ 60,105
Less: dividends on common shares	(14,355)	(14,076)	(57,078)	(54,890)
Under (over) distribution	\$ 1,200	\$ 2,226	\$ 2,263	\$ 5,215
Weighted average common shares during the period	83,196,897	81,286,084	82,663,775	79,344,276
Distributable income per share ²	\$ 0.19	\$ 0.20	\$ 0.72	\$ 0.76

1. Refer to non-IFRS measures section.

2. Excluding other income of \$413 in 2019(2018 YTD - \$1,217) the distributable income per share for the year ended December 31, 2019 would have been \$0.71 (2018 - \$0.74) and payout ratio on distributable income would have been 96.9% (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		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Net investment income	\$ 25,207	\$ 25,169	\$ 99,437	\$ 94,958
Net rental income	414	358	1,440	821
Expenses	(3,994)	(3,866)	(15,863)	(14,776)
Income from operations	21,627	21,661	85,014	81,003
Other income, net	—	1,217	413	1,217
Net operating loss from foreclosed properties held for sale	—	(15)	—	(39)
Fair value loss on foreclosed properties held for sale	—	(29)	—	(109)
Financing costs:				
Financing cost on credit facilities	(5,323)	(5,368)	(21,886)	(18,376)
Financing cost on convertible debentures	(2,203)	(2,203)	(8,801)	(10,628)
Net income and comprehensive income	\$ 14,101	\$ 15,263	\$ 54,740	\$ 53,068
Earnings per share				
Basic	\$ 0.17	\$ 0.19	\$ 0.66	\$ 0.67
Diluted	\$ 0.17	\$ 0.18	\$ 0.66	\$ 0.67

Net investment income

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.

For Q4 2019 and 2019, the Company earned net investment income of \$25.2 million and \$99.4 million (Q4 2018 – \$25.2 million; 2018 – \$95.0 million). Net investment income includes the following:

a. Interest income

During Q4 2019 and 2019, the Company earned interest income on net mortgage investments of \$20.9 million and \$82.5 million (Q4 2018 – \$20.8 million; 2018 – \$79.5 million). The weighted average interest rate on net mortgage investments for the quarter and year ended December 31, 2019 was 7.2% and 7.2% (Q4 2018 – 7.3%; 2018 – 7.2%).

Overall increase in interest income on net mortgage investment with relatively constant weighted average interest rates is attributable to higher average net mortgage investment portfolio of \$1,199.8 million and \$1,197.4 million during Q4 2019 and 2019, respectively, compared to \$1,169.7 million and \$1,131.5 million during Q4 2018 and 2018, respectively.

During Q4 2019 and 2019, the Company earned \$1.2 million and \$6.3 million (Q4 2018 - \$1.9 million; 2018 – \$6.5 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. Decrease in quarter over quarter interest income, is primarily due to discharges during the Q4 2019. Year over year, interest income is relatively stable, as first three quarters of 2018 was generating lower interest income in comparison to first three quarters of 2019.

b. Lender fee income

For Q4 2019 and 2019, the Company recorded non-refundable upfront cash lender fees of \$3.5 million and \$10.0 million (Q4 2018 – \$2.4 million; 2018 – \$11.3 million), or a weighted average lender fee on new and renewed mortgages of 1.0% and 1.0%, respectively (Q4 2018 – 0.9%; 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 Q4 2019 and 2019, lender fees of \$2.7 million and \$10.0 million were amortized to lender fee income (Q4 2018 – \$2.3 million; 2018 – \$8.3 million).

Higher lender fee received during Q4 2019 resulted into higher lender fee income during the quarter in comparison to Q4 2018, and acceleration of lender fee income recognition due to increased number of earlier than scheduled repayments of net mortgage investments resulted in increased in lender fee income during 2019 compared to 2018.

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

c. Other income

During Q4 2019 and 2019, the Company earned other income of \$395 and \$577 (Q4 2018 - \$207; 2018 - \$605).

Net rental income from investment properties

The net rental income from investment properties for Q4 2019 and 2019 was \$414 and \$1.4 million, respectively (Q4 2018 \$358; 2018 – \$821). The increase in net rental income was due to increase in the gross rental income upon completion of development activities, as well as overall reduction in the vacancy rates.

Expenses

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 Q4 2019 and 2019, the Company incurred management fees of \$3.1 million and \$12.4 million (Q4 2018 – \$3.1 million; 2018 – \$11.9 million). The increase is related to the increase in gross assets, net of syndication liabilities averaging \$1,319.5 million in 2019, compared to \$1,268.7 million in 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 Q4 2019 and 2019, the Company incurred \$114 and \$497, respectively (Q4 2018 and 2018 – \$163 and \$622) in servicing fees. The decrease is related to the decrease in syndications.

General and administrative

For Q4 2019 and 2019, the Company incurred general and administrative expenses of \$487 and \$1.7 million, respectively (Q4 2018 – \$478; 2018 – \$1.7 million). 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. There was no material variance in General and administrative expenses.

Financing cost on credit facility – mortgage investments

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q4 2019 and 2019, included in financing costs is interest on the credit facility of \$4.6 million and \$18.9 million (Q4 2018 – \$4.8 million; 2018 – \$16.0 million) and financing costs amortization of \$398 and \$1.6 million (Q4 2018 – \$348; 2018 – \$1.2 million). The increase over the comparable 2018 periods is related to higher average credit facility utilization during 2019. The average credit utilization in 2019 was \$441.8 million compared to \$384.9 million in 2018.

Financing cost on credit facility – investment properties

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q4 2019 and 2019, included in financing costs is interest on the credit facility of \$270 and \$1.4 million (Q4 2018 – \$170; 2018 – \$1,125) and financing costs amortization of \$9 and \$48 (Q4 2018 – \$6; 2018 – \$52).

Financing cost on convertible debentures

The Company has \$45.8 million of 5.40% convertible unsecured subordinated debentures, \$46.0 million of 5.45% convertible unsecured subordinated debentures and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at December 31, 2019.

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

	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2,018
Interest on the convertible debentures	\$ 1,842	\$ 1,841	\$ 7,366	\$ 8,477
Amortization of issue costs and accretion of the convertible debentures	361	361	1,435	2151
Total financing cost on convertible debentures	\$ 2,203	\$ 2,202	\$ 8,801	\$ 10,628

Earnings per share

For Q4 2019 and 2019, basic and diluted earnings per share were \$0.17 and \$0.66 (Q4 2018 – basic \$0.19; diluted \$0.18 and 2018 – basic and diluted \$0.67).

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.

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STATEMENTS OF FINANCIAL POSITION

Net Mortgage Investments

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

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

Net Mortgage Investments	December 31, 2019		December 31, 2018	
Mortgage investments, excluding mortgage syndications	\$	1,240,747	\$	1,221,782
Mortgage syndications		426,939	\$	575,040
Mortgage investments, including mortgage syndications		1,667,686	\$	1,796,822
Mortgage syndication liabilities		(426,939)		(575,040)
		1,240,747		1,221,782
Interest receivable		(8,428)		(20,578)
Unamortized lender fees		9,460		8,372
Allowance for mortgage investments loss		2,303		1,417
Net mortgage investments	\$	1,244,082	\$	1,210,993

Net mortgage investments statistics and ratios¹	Three months ended		Year ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Total number of mortgage investments	129	124	129	124
Average net mortgage investment	\$ 9,524	\$ 9,762	\$ 9,524	\$ 9,762
Average net mortgage investment portfolio	\$ 1,199,831	\$ 1,169,696	\$ 1,197,377	\$ 1,131,531
Weighted average interest rate for the period	7.2%	7.3%	7.2%	7.2%
Weighted average lender fees for the period	1.0%	0.9%	1.0%	1.1%
Turnover ratio	26.0%	13.8%	67.0%	60.6%
Remaining term to maturity (years)	1.4	1.2	1.4	1.2
Net mortgage investments secured by cash-flowing properties	86.8%	87.5%	86.8%	87.5%
Weighted average loan-to-value	70.5%	67.4%	70.5%	67.4%

¹ Refer to non-IFRS measures section.

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Portfolio allocation

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

a. Security position

	December 31, 2019		December 31, 2018	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Interest in first mortgages	114	\$ 1,125,797	113	\$ 1,128,366
Interest in second and third mortgages ¹	15	118,285	11	82,627
	129	\$ 1,244,082	124	\$ 1,210,993

¹Included in the Company's interest in second and third mortgages as at December 31, 2019 was \$42.6 million of the net mortgage investments in which the Company holds subordinated position (December 31, 2018 - \$12.9 million). The Company's syndicated partners who hold senior position as at December 31, 2019 was \$32.7 million (December 31, 2018 - \$43.9 million).

b. Region

	December 31, 2019		December 31, 2018	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Ontario	65	\$ 535,622	59	\$ 515,124
British Columbia	29	297,580	28	284,336
Alberta	14	252,437	13	253,023
Quebec	11	109,092	14	73,886
Other (Saskatchewan, Nova Scotia and Manitoba)	10	49,351	10	84,624
	129	\$ 1,244,082	124	\$ 1,210,993

c. Maturity

	December 31, 2019		December 31, 2018	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
2019	—	\$ —	51	\$ 463,777
2020	47	416,478	51	495,498
2021	59	543,274	20	235,465
2022	20	232,257	2	16,253
2023	3	52,073	—	—
	129	\$ 1,244,082	124	\$ 1,210,993

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d. Asset type

	December 31, 2019			December 31, 2018		
	Number	Net Mortgage Investments	WALTV at origination ³	Number	Net Mortgage Investments	WALTV at origination ³
Multi-Residential ¹	79	\$ 673,585	74.0%	64	\$ 467,635	72.4%
Retail	19	192,749	69.1%	19	227,497	68.2%
Unimproved Land ²	9	106,874	49.4%	9	105,515	52.4%
Office	10	105,936	62.6%	8	162,922	62.8%
Retirement	3	58,175	75.6%	5	50,000	66.4%
Industrial	5	30,187	66.6%	8	58,115	68.1%
Single-Residential	1	1,574	69.5%	2	4,631	65.5%
Hotels	—	—	—%	4	59,300	52.6%
Self-Storage	—	—	—%	2	20,636	54.1%
	126	1,169,080	69.8%	121	1,156,251	66.6%
Net mortgage investments measured at FVTPL	3	75,002	n/a	3	54,742	n/a
	129	\$ 1,244,082		124	\$ 1,210,993	

¹ Includes seven construction loans (2018 - 6) totaling \$26.7 million (2018 - \$12.7 million). Construction loan is provided for the purposes of building a new asset.

² Unimproved land loan is provided to a non-income producing property that does not contemplate construction during the loan period.

³ Weighted average loan-to-value measured at time of origination.

Enhanced return portfolio

As at	December 31, 2019	December 31, 2018
Collateralized loans, net of allowance for credit loss	\$ 48,326	\$ 72,840
Finance lease receivable, measured at amortized cost	6,020	6,020
Investment, measured at FVTPL	4,949	4,605
Indirect real estate development, measured using equity method:		
Investment in Joint Venture	2,225	2,225
Investment in Associate	—	5,267
Total Other Investments	61,520	90,957
Investment properties	47,349	46,494
Credit facility (investment properties)	(30,622)	(32,773)
Net equity in investment properties	16,727	13,721
Total Enhanced Return Portfolio	\$ 78,247	\$ 104,678

During Q4 2019 and 2019, the Company earned \$1.2 million and \$6.3 million (Q4 2018 - \$1.9 million and 2018 - \$6.5 million) of interest income on collateralized loans in other investments in the enhanced return portfolio.

During Q4 2019 and 2019, the Company earned lender fee income on other investments, net of fees relating to mortgage syndication liabilities, of \$41 and \$386 (Q4 2018 - \$154 and 2018 - \$488), respectively. During Q4 2019 and 2019, the Company received nil in lender fees from other investments, respectively (Q4 2018 - nil and 2018 - \$683), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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During Q4 2017, the Company entered into a 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5.4 million at the time of the transaction. Refer to note 4(e) of the Consolidated Financial Statements for the years ended December 31, 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 December 31, 2019, the Company's share of the investment properties has an aggregate fair value of \$47.3 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.

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 \$426.9 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 are not necessarily indicative of a future trend.

Allowance for Credit Losses (“ACL”)

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$2.3 million as at December 31, 2019 (December 31, 2018 - \$1.6 million), of which \$2.3 million (December 31, 2018 - \$1.4 million) was recorded in mortgage investments and \$25 (December 31, 2018 - \$215) was recorded in other investments.

	Year Ended December 31, 2019				Year Ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Gross mortgage investments ¹	\$ 925,025	\$ —	\$ 2,903	\$ 927,928	\$ 851,402	\$ —	\$ 2,790	\$ 854,192
Mortgage syndication liabilities ¹	240,724	—	—	240,724	322,244	—	—	322,244
Net mortgage investments	684,301	—	2,903	687,204	529,158	—	2,790	531,948
Allowance for credit losses ²	1,003	—	253	1,256	627	—	3	630
	683,298	—	2,650	685,948	528,531	—	2,787	531,318
Other Mortgage Investments								
Gross mortgage investments ¹	674,306	—	3,102	677,408	853,383	—	37,790	891,173
Mortgage syndication liabilities ¹	187,274	—	—	187,274	253,694	—	—	253,694
Net mortgage investments	487,032	—	3,102	490,134	599,689	—	37,790	637,479
Allowance for credit losses ²	334	—	713	1,047	200	—	587	787
	486,698	—	2,389	489,087	599,489	—	37,203	636,692
Other loan Investments								
Gross mortgage investments ¹	48,407	—	—	48,407	66,483	—	7,014	73,497
Mortgage syndication liabilities ¹	—	—	—	—	—	—	—	—
Net mortgage investments	48,407	—	—	48,407	66,483	—	7,014	73,497
Allowance for credit losses ²	25	—	—	25	212	—	3	215
	\$ 48,382	\$ —	\$ —	\$ 48,382	\$ 66,271	\$ —	\$ 7,011	\$ 73,282

¹Including interest receivable

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

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

Multi-residential Mortgage Investments	Year Ended December 31, 2019				Year Ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 627	\$ —	\$ 3	\$ 630	\$ 603	\$ 26	\$ —	\$ 629
Allowance for credit losses								
Remeasurement	(4)	2	250	248	24	—	(23)	1
Transfer to/(from)								
Stage 1	2	—	—	2	—	—	—	—
Stage 2	—	(2)	—	(2)	—	(26)	—	(26)
Stage 3	—	—	—	—	—	—	26	26
Total allowance for credit losses	625	—	253	878	627	—	3	630
Fundings	863	—	—	863	340	—	—	340
Discharges	(485)	—	—	(485)	(340)	—	—	(340)
Balance at end of fiscal period	\$ 1,003	\$ —	\$ 253	\$ 1,256	\$ 627	\$ —	\$ 3	\$ 630
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 200	\$ —	\$ 587	\$ 787	\$ 1	\$ 209	\$ —	\$ 210
Allowance for credit losses								
Remeasurement	142	—	742	884	252	—	378	630
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	(209)	—	(209)
Stage 3	—	—	—	—	—	—	209	209
Total allowance for credit losses	342	—	1,329	1,671	253	—	587	840
Fundings	134	—	—	134	88	—	—	88
Discharges	(142)	—	(616)	(758)	(141)	—	—	(141)
Balance at end of fiscal period	\$ 334	\$ —	\$ 713	\$ 1,047	\$ 200	\$ —	\$ 587	\$ 787
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 212	\$ —	\$ 3	\$ 215	\$ 232	\$ —	\$ —	\$ 232
Allowance for credit losses								
Remeasurement	8	—	—	8	(16)	—	—	(16)
Transfer to/(from)								
Stage 1	3	—	—	3	(3)	—	—	(3)
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	(3)	(3)	—	—	3	3
Total allowance for credit losses	223	—	—	223	213	—	3	216
Fundings	3	—	—	3	65	—	—	65
Discharges	(201)	—	—	(201)	(66)	—	—	(66)
Balance at end of fiscal period	\$ 25	\$ —	\$ —	\$ 25	\$ 212	\$ —	\$ 3	\$ 215

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

In assessing credit risk, the Company utilizes a risk rating framework that considers the following factors: collateral type, property rank that is applicable to the Company's security and/or priority positions, loan-to-value and population of location of the collateral.

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

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

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

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

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

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

Multi-residential Mortgage Investments	As at December 31, 2019				As at December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	\$ 205,588	\$ —	\$ —	\$ 205,588	\$ 221,309	\$ —	\$ —	\$ 221,309
Medium-Low risk	444,496	—	—	444,496	289,144	—	—	289,144
Medium-High risk	34,217	—	—	34,217	18,705	—	—	18,705
High risk	—	—	—	—	—	—	—	—
Default	—	—	2,903	2,903	—	—	2,790	2,790
Net	684,301	—	2,903	687,204	529,158	—	2,790	531,948
Allowance for credit losses	1,003	—	253	1,256	627	—	3	630
Mortgage investments¹	683,298	—	2,650	685,948	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	118,546	—	—	118,546	177,567	—	—	177,567
Medium-Low risk	275,349	—	—	275,349	341,418	—	—	341,418
Medium-High risk	82,054	—	—	82,054	66,644	—	—	66,644
High risk	11,083	—	—	11,083	14,060	—	—	14,060
Default	—	—	3,102	3,102	—	—	37,790	37,790
Net	487,032	—	3,102	490,134	599,689	—	37,790	637,479
Allowance for credit losses	334	—	713	1,047	200	—	587	787
Mortgage investments¹	486,698	—	2,389	489,087	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	48,407	—	—	48,407	66,483	—	—	66,483
Default	—	—	—	—	—	—	7,014	7,014
Net	48,407	—	—	48,407	66,483	—	7,014	73,497
Allowance for credit losses	25	—	—	25	212	—	3	215
Other loan Investments¹	\$ 48,382	\$ —	\$ —	\$ 48,382	\$ 66,271	\$ —	\$ 7,011	\$ 73,282

¹net of allowance and mortgage syndications

Net working capital

Net working capital decreased by \$8.2 million to \$11.1 million at December 31, 2019 from \$19.4 million at December 31, 2018.

Credit facility (mortgage investments)

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

The rates of interest and fees of the Fourth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2018 - prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2018 - 2.25%) and standby fee of 0.4000% per annum (December 31, 2018 - 0.5625%) on the unutilized credit facility balance. As at December 31, 2019, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Fourth Amending Credit Agreement is \$500.0 million.

As at December 31, 2019, the Company entered into a 2-year interest rate swap contract (the "Contract") with 2 Canadian banks with notional value of \$250 million. Under the terms of the Contract, the Company is required to pay fixed rate of 2.02% and receive floating rate based on 1-month banker's acceptance. Net realized and unrealized gain or loss from the Contract is recorded as financing cost on the credit facility.

During the year ended December 31, 2019, the Company incurred financing costs of \$903. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement.

Credit facility (investment properties)

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

On October 9, 2019, the credit facility agreement was further amended (the "Amended and Restated Credit Agreement") to establish Tranche A, Tranche B and Tranche C credit facilities (the "Credit Facilities"). Under the amended terms, the maximum available credit is \$150 million. As at December 31, 2019, the co-owners borrowed \$150.0 million from the Credit Facilities. The Company's share of the outstanding amount is \$30.7 million. The original credit facility provided the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at the bankers' acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following:

- 1) Tranche A credit facility provides the co-owners have an option to borrow at either the prime rate of interest plus 1.00% or at the bankers' acceptances with a stamping fee of 2.00% ("Canadian Dollar Loans"), or at LIBOR plus 2.00%, with maturity date of October 9, 2021. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$31.7 million. The Company's share of the carrying value is \$6.5 million
- 2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as tranche B properties (the "Tranche B Properties") in the Amended and Restated Credit Agreement, where terms and

conditions are set forth in a rate lock agreement, with maturity date of October 9, 2020 and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of \$39.7 million. The Company's share of the carrying value is \$8.1 million.

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

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

As at December 31, 2019, the co-owners borrowed \$150.0 million from the Credit Facilities. The Company's share of the outstanding amount in is \$30.7 million.

Convertible debentures

- (a) On July 29, 2016, the Company completed a public offering of \$40,000, plus an overallotment option of \$5,800 on August 5, 2016, of 5.40% convertible unsecured subordinated debentures for net proceeds of \$43,498 (the "2016 debentures"). The 2016 debentures mature on July 31, 2021 and pay interest semi-annually on January 31 and July 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

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

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$226, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45,800. The issue costs of \$2,302 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (b) On February 7, 2017, the Company completed a public offering of \$40,000, plus an overallotment option of \$6,000, of 5.45% convertible unsecured subordinated debentures for net proceeds of \$43,663 (the "February 2017 debentures"). The February 2017 debentures mature on March 31, 2022 and pay interest semi-annually on September 30 and March 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$10.05 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures. The February 2017 debentures are redeemable on and after March 31, 2020, but prior to March 31, 2021, the February 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company's sole

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

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$607, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$46,000. The issue costs of \$2,240 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (c) On June 13, 2017, the Company completed a public offering of \$40,000, plus an overallotment option of \$5,000 on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42,774 (the "June 2017 debentures"). The June 2017 debentures mature on June 30, 2024 and pay interest semi-annually on June 30 and December 31 of each year. The debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of \$11.10 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

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

Upon issuance of the debentures, the liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option. The difference between these two amounts, which is \$560, has been recorded as equity with the remainder allocated to long-term debt. The discount on the debentures is being accreted such that the liability at maturity will equal the face value of \$45,000. The issue costs of \$2,226 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

The convertible debentures are comprised of as follows:

	December 31, 2019	December 31, 2018
Issued	\$ 136,800	\$ 136,800
Unamortized financing cost and amount classified as equity component	(3,767)	(5,203)
Debentures, end of period	\$ 133,033	\$ 131,597

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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:

	December 31, 2019	December 31, 2018
Interest on the convertible debentures	\$ 7,366	\$ 8,477
Amortization of issue costs and accretion of the convertible debentures	1,435	2,151
Total	\$ 8,801	\$ 10,628

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.

The Company announced on June 21, 2018 that it has established an ATM Program that allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to \$70 million to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange. The common shares distributed under the ATM Program were at the market prices prevailing at the time of sale, and therefore prices varied between purchasers and over time. The ATM Program was active between July 2018 to July 2019 and expired on January 11, 2020.

Net proceeds of the ATM Program were used 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 Q4 2019 and 2019, the Company issued nil and 1,167,000 (Q4 2018 – 57,500 and 2018 – 458,100) of common shares for gross proceeds of nil and \$10.9 million (Q4 2018 – \$0.5 million and 2018 – \$4.3 million) at an average price of \$9.35 per common share and paid nil and \$218 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 Q4 2019 and 2019, the Company declared dividends of \$14.4 million and \$57.1 million, or \$0.1725 and \$0.6900 per common share (Q4 2018 – \$14.1 million, \$0.1725 per share; 2018 – \$54.9 million, \$0.6900 per share).

As at December 31, 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 December 31, 2019, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on February 14, 2020 and March 13, 2020 to the common shareholders of record on January 31, 2020 and February 28, 2020.

c. Dividend reinvestment plan ("DRIP")

The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be

purchased from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share.

During Q4 2019 and 2019, nil and 36,866 common shares were purchased on the open market (Q4 2018 and 2018 – nil) and 120,857 and 454,286 common shares were issued from treasury at an average price of \$9.30 per common share (Q4 2018 – 105,175 and 2018 – 483,335).

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

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

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

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

During Q4 2019 and 2019, 8,274 and 32,417 units were issued (2018 - 7,751 and 23,848) and as at December 31, 2019, 84,308 units were outstanding (December 31, 2018 – 51,891). No DSUs were exercised or canceled, resulting in a DSU expense of \$338 (2018 – \$240). As at December 31, 2019, \$86 in compensation was granted in DSUs, which will be issued subsequent to December 31, 2019.

STATEMENT OF CASH FLOWS**Cash from operating activities**

Cash from operating activities for 2019 was \$102.5 million (2018 – \$78.0 million).

Cash used in financing activities

Cash used in financing activities for 2019 and cash from financing activities for 2019 consisted of the Company's net repayments on the operating credit facility of \$17.1 million (2018 – \$112.2 million of net advances) and net repayments on investment properties credit facility of \$2.1 million (2018 – \$2.6 million of net advances). The Company received net proceeds of \$10.4 million from the issuance of common shares (2018 – \$60.3 million). The Company paid interest on the debentures and credit facilities of \$28.4 million (2018 – \$29.8 million), paid common share dividends of \$52.4 million (2018 – \$50.1 million) and repurchased common shares under dividend reinvestment plan of \$338 (2018 – nil). The net cash used in financing activities for 2019 was \$89.9 million (2018 – \$60.7 million from financing activities).

Cash used in investing activities

Net cash used in investing activities in 2019 was \$4.3 million (2018 – \$138.9 million) and consisted of the funding of net mortgage investments of \$793.0 million (2018 – \$792.7 million), offset by repayments of net mortgage investments of \$766.1 million (2018 – \$690.3 million), funding of other investments of \$4.7 million (2018 – \$51.9 million), offset by repayments of other investments of \$27.6 million (2018 – \$19.6 million), net addition to investment properties of \$855 (2018 – \$3.6 million), purchase of \$36.5 million marketable securities (2018 – nil), offset by proceeds from sale of marketable securities \$36.6 million (2018 – nil), and net proceeds on maturing of forward contracts of \$451 (2018 – \$845 net payments).

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QUARTERLY FINANCIAL INFORMATION

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

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net investment income	\$ 25,207	\$ 24,742	\$ 24,976	\$ 24,512	\$ 25,169	\$ 24,465	\$ 23,477	\$ 21,847
Net rental income	414	359	351	316	358	135	179	149
Expenses	(3,994)	(3,769)	(4,005)	(4,095)	(3,866)	(3,774)	(3,752)	(3,386)
Income from operations	21,627	21,332	21,322	20,733	21,661	20,826	19,904	18,610
Other income, net	—	—	—	413	1,217	—	—	—
Net operating loss from FPHFS	—	—	—	—	(15)	(18)	(5)	(2)
Fair value loss of FPHFS	—	—	—	—	(29)	(40)	(40)	—
Financing costs:								
Financing cost on credit facilities	(5,323)	(5,216)	(5,531)	(5,816)	(5,368)	(4,836)	(4,111)	(4,061)
Financing cost on convertible debentures	(2,203)	(2,203)	(2,199)	(2,196)	(2,203)	(2,224)	(3,321)	(2,880)
Total financing costs	(7,526)	(7,419)	(7,730)	(8,012)	(7,571)	(7,060)	(7,432)	(6,941)
Total net income and comprehensive income (basic)	\$ 14,101	\$ 13,913	\$ 13,592	\$ 13,134	\$ 15,263	\$ 13,708	\$ 12,427	\$ 11,667
Total net income and comprehensive income (diluted)	\$ 16,304	\$ 15,422	\$ 14,335	\$ 13,134	\$ 17,466	\$ 15,911	\$ 12,427	\$ 12,359
Earnings per share (basic)	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.19	\$ 0.17	\$ 0.16	\$ 0.15
Earnings per share (diluted)	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16	\$ 0.18	\$ 0.17	\$ 0.16	\$ 0.15
Distributable income ¹	\$ 15,555	\$ 15,888	\$ 13,690	\$ 14,208	\$ 16,302	\$ 14,818	\$ 15,477	\$ 13,508
Distributable income per share ¹	\$ 0.19	\$ 0.19	\$ 0.17	\$ 0.17	\$ 0.20	\$ 0.19	\$ 0.20	\$ 0.18

¹ Refer to non-IFRS measures section.

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

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

RELATED PARTY TRANSACTIONS

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

As at December 31, 2019, included in other assets is \$9.0 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 December 31, 2019, the Company had no outstanding mortgage investments which an independent director of the Company was also an officer and/or part-owner of the borrowers:

- A mortgage investment with a total gross commitment of \$9.5 million (December 31, 2018 – \$9.5 million), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is \$3.6 million (December 31, 2018 – \$3.6 million). For the year ended December 31, 2019, the Company has recognized net interest income of \$314 (Q4 2018 – \$344) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$1.9 million (December 31, 2018 – \$1.9 million), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is \$1.9 million (December 31, 2018 – \$1.9 million). For the year ended December 31, 2019, the Company has recognized net interest income of \$102 (Q4 2018 – \$115) from this mortgage investment during the year.
- 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 \$3.0 million (December 31, 2018 – \$2.5 million), of which \$3.0 million (December 31, 2018 – \$2.5 million) has been funded as at December 31, 2019. During the year ended December 31, 2019, the mortgage investment was restructured and the independent director is no longer related to the mortgage investment. For the year ended December 31, 2019, the Company recognized net interest income of \$245 (2018 – \$238) from this mortgage investment during the year.

As at December 31, 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 29 (December 31, 2018 – 18) gross mortgage investments totaling \$349.0 million (December 31, 2018 – \$258.8 million). The Company's share in these gross mortgage investments is \$202.9 million (December 31, 2018 – \$178.4 million). Included in these amounts is one net mortgage investments (December 31, 2018 – two) totaling \$18.4 million (December 31, 2018 – \$23.0 million) loaned to limited partnerships in which T4Q is invested.

As at December 31, 2019, the Company and T4Q invested in one indirect real estate development through one investee, totaling \$2.2 million (December 31, 2018 – two indirect real estate development through two investees, totaling \$7.5 million).

As at December 31, 2019, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$4.9 million or €3.4 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 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. For the year ended December 31, 2019, Property Management Fees of \$140 was charged by the Manager to the Company (Q4 2018 – \$129.9). As at December 31, 2019, \$12 was payable to the Manager (December 31, 2018 – \$18).

COMMITMENTS AND CONTINGENCIES

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

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

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Company's 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 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 within the consolidated financial statements:

- Note 4 – Mortgage and other investments, including mortgage syndications;
- Note 5 – Investment properties; and
- Note 19 – 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 loan investments are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Company exercises judgment in determining both the business model for managing the assets and whether cash flows of the financial asset comprise solely payments of principal and interest.

Measurement of expected credit loss

The determination of the allowance for credit losses takes into account different factors and varies by nature of investment. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance of credit loss. Refer to note 3(b).

Convertible debentures

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

Accounting for acquisitions

The Company exercises judgement in determining whether an acquisition of a property should be accounted for as an asset purchase or business combination. This assessment impacts the treatment of transaction costs, allocation of acquisition costs and whether or not goodwill is recognized. The Manager has determined the acquisitions to date to be asset purchases as the Company did not acquire an integrated set of processes as part of the transaction that is normally associated with a business combination.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are outlined in note 3 to the consolidated financial statements

OUTSTANDING SHARE DATA

As at March 5, 2020, the Company's authorized capital consists of an unlimited number of common shares, of which 83,330,663 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 \$30.7 million through its credit facility – investment properties and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at December 31, 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 December 31, 2019, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 3,674	\$ 3,674	\$ 3,674	\$ —	\$ —
Dividends payable	4,787	4,787	4,787	—	—
Due to Manager	1,114	1,114	1,114	—	—
Mortgage funding holdbacks	3,741	3,741	3,741	—	—
Prepaid mortgage interest	5,437	5,437	5,437	—	—
Credit facility (mortgage investments) ¹	459,767	498,288	19,587	478,701	—
Credit facility (investment properties) ²	30,622	32,247	9,089	23,158	—
Convertible debentures ³	133,033	138,619	138,619	—	—
	\$ 642,175	\$ 687,907	\$ 186,048	\$ 501,859	\$ —
Unadvanced mortgage commitments ⁴	—	211,753	211,753	—	—
Total contractual liabilities, excluding mortgage syndication liabilities ⁵	\$ 642,175	\$ 899,660	\$ 397,801	\$ 501,859	\$ —

¹ Credit facility (mortgage investments) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 18, 2021.

² Credit facility (investment properties) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on October 9, 2020.

³ The 2016 debentures are assumed to be redeemable 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 \$81.3 million belongs to the Company's syndicated partners.

⁵ The principal repayments of \$426.3 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at December 31, 2019, the Company had a cash position of \$9.0 million (December 31, 2018 – \$541), an unutilized credit facility (mortgage investments) balance of \$39.0 million (December 31, 2018 – \$21.9 million) and an unutilized credit facility (investment properties) balance of nil (December 31, 2018 – \$457). The Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at December 31, 2019, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$211.8 million (December 31, 2018 – \$184.3 million) of which \$81.3 million (December 31, 2018 – \$58.0 million) belongs to the Company's syndicated partners. The Company expects the syndication partners to fund their respective commitments.

FINANCIAL INSTRUMENTS

Financial assets

The Company's cash and cash equivalents, other assets, mortgage investments and other investments, including mortgage syndications, are designated as loans and receivables and are measured at amortized cost. The fair values of cash and cash equivalents and other assets approximate their carrying amounts due to their short-term nature. The fair value of mortgage investments, including mortgage syndications, approximate their carrying value given the mortgage and other investments consist of short-term mortgages that are repayable at the option of the borrower without yield maintenance or penalties.

Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures 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 December 31, 2019, \$992.3 million of net mortgage investments and \$6.6 million of other investments bear interest at variable rates (December 31, 2018 - \$717.5 million and \$21.8 million, respectively). \$917.2 million of net mortgage investments have a "floor rate" (December 31, 2018 - \$626.0 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 \$1.3 million

or an increase in net income of \$5.0 million, respectively (Q4 2018 - \$2.5 million and \$3.7 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 \$491.7 million as at December 31, 2019 (December 31, 2018 - \$510.9 million). During Q4 2019, the Company entered into the Contract (refer to note 6(a)) which reduced the exposure in interest rate risk. As at December 31, 2019, net exposure to interest rate risk was \$241.7 million (December 31, 2018 - \$510.9 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will decrease or increase net income by \$1.2 million (2018 - \$2.6 million).

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

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk primarily from other investments and credit facility investment properties that are denominated in a currency other than the Canadian dollar. The Company uses foreign currency forwards and swaps to approximately economically hedge the principal balance of future earnings and cash flows caused by movements in foreign exchange rates. Under the terms of the foreign currency forward and swap contracts, the Company buys or sells a currency against another currency at a set price on a future date.

As at December 31, 2019, the Company has US\$5.1 million and €3.4 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 December 31, 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 1.3316, maturing in April 2020 and one Euro currency contract with an aggregate notional value of €3.5 million at a weighted average contract rate of 1.4745, maturing in March 2020.

The fair value of the foreign currency forward contracts as at December 31, 2019 is an asset of \$237 which is included in other assets. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

Credit risk

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

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

The exposure to credit risk at December 31, 2019 relating to net mortgages and other investments amount to \$1,319.6 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.

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company evaluated, or caused to be evaluated under their direct supervision, the design of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109")) at December 31, 2019 and, based on that evaluation, have concluded that the design of such disclosure controls and procedures was appropriate.

The Manager is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The CEO and the CFO assessed, or under their direct supervision caused an assessment of, the design of the Company's internal controls over financial reporting as at December 31, 2019 in accordance with the COSO Internal Control – Independent Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment they determined that the design of the Company's internal controls over financial reporting was appropriate.

There were no changes made in our design of internal controls over financial reporting during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgements could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

ADDITIONAL INFORMATION

Dividend Reinvestment Plan

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

Phone

Cameron Goodnough, CEO at 1-844-304-9967

Internet

Visit SEDAR at www.sedar.com; or the Company's website at www.timbercreekfinancial.com

Mail

Write to the Company at:
Timbercreek Financial
Attention: Corporate Communications
25 Price Street Toronto, Ontario M4W 1Z1