

**Interim Condensed Consolidated
Financial Statements of**

TIMBERCREEK FINANCIAL

Three Months ended March 31, 2021 and 2020



**TIMBERCREEK
FINANCIAL**

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

(In thousands of Canadian dollars)

| | Note | March 31, 2021 | December 31, 2020 |
|---|-------------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | | \$ 679 | \$ 428 |
| Other assets | 15(c) | 9,819 | 16,161 |
| Mortgage investments, including mortgage syndications | 4 | 1,587,186 | 1,572,577 |
| Other investments | 4(e) | 70,077 | 74,434 |
| Investment properties | 5 | 47,939 | 47,862 |
| Total assets | | 1,715,700 | 1,711,462 |
| LIABILITIES AND EQUITY | | | |
| Accounts payable and accrued expenses | | 2,683 | 3,015 |
| Dividends payable | 9(c) | 4,656 | 4,651 |
| Due to Manager | 15(a) | 1,027 | 1,089 |
| Mortgage and other loans funding holdbacks | | 2,485 | 2,177 |
| Prepaid mortgage and other loans interest | | 5,090 | 3,708 |
| Derivative liability (interest rate swap contract) | 6(a) | 2,963 | 3,940 |
| Credit facility (mortgage investments) | 6(a) | 450,716 | 458,299 |
| Credit facility (investment properties) | 6(b) | 30,665 | 30,656 |
| Convertible debentures | 8 | 89,193 | 88,962 |
| Mortgage syndication liabilities | 4(a)(c) | 439,359 | 429,915 |
| Total liabilities | | 1,028,837 | 1,026,412 |
| Shareholders' equity | 9 | 686,863 | 685,050 |
| Total liabilities and equity | | \$ 1,715,700 | \$ 1,711,462 |
| Commitments and contingencies | 4, 6 and 20 | | |
| Subsequent events | 2(d), 6(b) and 21 | | |

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

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

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

| | Note | Three months ended March 31, | |
|--|---------|------------------------------|-----------|
| | | 2021 | 2020 |
| Investment income on financial assets measured at amortized cost | | | |
| Gross interest and other income, including mortgage syndications | | \$ 28,598 | \$ 30,863 |
| Interest and other expenses on mortgage syndications | | (6,159) | (6,821) |
| Net investment income on financial assets measured at amortized cost | 4(b)(e) | 22,439 | 24,042 |
| Fair value gain and other income on financial assets measured at FVTPL | 4(a)(e) | 479 | 46 |
| Total income on financial assets | | 22,918 | 24,088 |
| Net rental income | | | |
| Revenue from investment properties | 7 | 740 | 750 |
| Property operating costs | | (392) | (390) |
| Net rental income | | 348 | 360 |
| Expenses | | | |
| Management fees | 11 | 2,891 | 3,117 |
| Servicing fees | 11 | 192 | 198 |
| Allowance for expected credit loss | 4(d) | 300 | 367 |
| General and administrative | | 512 | 482 |
| Total expenses | | 3,895 | 4,164 |
| Income from operations | | 19,371 | 20,284 |
| Financing costs | | | |
| Financing cost on credit facilities | 6 | 3,903 | 4,855 |
| Financing cost on convertible debentures | 8 | 1,454 | 2,200 |
| Unrealized fair value (gain) loss on derivative contract | 6(a) | (977) | 5,804 |
| Total financing costs | | 4,380 | 12,859 |
| Net income and comprehensive income | | \$ 14,991 | \$ 7,425 |
| Earnings per share | | | |
| Basic | 12 | \$ 0.19 | \$ 0.09 |
| Diluted | 12 | \$ 0.18 | \$ 0.09 |

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

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

(In thousands of Canadian dollars)

| | Common shares | Retained (loss)/ earnings | Equity component of convertible debentures | Total |
|--|------------------|---------------------------------|---|------------|
| Three months ended March 31, 2021 | | | | |
| Balance, December 31, 2020 | \$ 711,521 | \$ (28,409) | \$ 1,938 | \$ 685,050 |
| Dividends issued to shareholders | — | (13,961) | — | (13,961) |
| Issuance of common shares under dividend reinvestment plan | 1,199 | — | — | 1,199 |
| Repurchase of common shares for dividend reinvestment plan | (416) | — | — | (416) |
| Total net income and comprehensive income | — | 14,991 | — | 14,991 |
| Balance, March 31, 2021 | \$ 712,304 | \$ (27,379) | \$ 1,938 | \$ 686,863 |

| | Common shares | Retained (loss)/ earnings | Equity component of convertible debentures | Total |
|--|------------------|---------------------------------|---|------------|
| Three months ended March 31, 2020 | | | | |
| Balance, December 31, 2019 | \$ 730,418 | \$ (3,964) | \$ 1,938 | \$ 728,392 |
| Repurchase of common shares under normal course issuer bid | (753) | — | — | (753) |
| Dividends issued to shareholders | — | (14,375) | — | (14,375) |
| Issuance of common shares under dividend reinvestment plan | 1,134 | — | — | 1,134 |
| Repurchase of common shares for dividend reinvestment plan | — | — | — | — |
| Total net income and comprehensive income | — | 7,425 | — | 7,425 |
| Balance, March 31, 2020 | \$ 730,799 | \$ (10,914) | \$ 1,938 | \$ 721,823 |

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

INTERIM CONDENSED CONSOLIDATED STATEMENT
OF CASH FLOW (Unaudited)

(In thousands of Canadian dollars)

| | | Three months ended March 31, | |
|---|-------------|-------------------------------------|-----------------|
| | Note | 2021 | 2020 |
| OPERATING ACTIVITIES | | | |
| Net income | | \$ 14,991 | \$ 7,425 |
| Amortization of lender fees | | (2,082) | (2,500) |
| Lender fees received | | 2,127 | 2,057 |
| Interest and other income, net of syndications | | (20,952) | (22,079) |
| Interest and other income received, net of syndications | | 20,488 | 22,324 |
| Financing costs | | 5,357 | 7,055 |
| Net unrealized loss on investments measured at FVTPL | | 116 | 491 |
| Unrealized fair value (gain) loss on derivative contracts | | (977) | 5,804 |
| Net realized and unrealized foreign exchange loss (gain) | | 22 | (20) |
| Allowance for expected credit loss | | 300 | 367 |
| Net change in non-cash operating items | 13 | (65) | (178) |
| | | 19,325 | 20,746 |
| FINANCING ACTIVITIES | | | |
| Net credit facility repayments – mortgage investments | | (7,696) | (58,000) |
| Interest paid | | (5,038) | (6,895) |
| Dividends paid to shareholders | | (12,758) | (13,234) |
| Repurchase of common shares | | (416) | — |
| | | (25,908) | (78,129) |
| INVESTING ACTIVITIES | | | |
| Additions to investment properties | | (77) | (153) |
| Net payments on maturity of forward contracts | | — | (190) |
| Funding of other investments | | (20,511) | (6,717) |
| Proceeds from other investments | | 23,980 | 7,961 |
| Funding of mortgage investments, net of syndications | | (157,555) | (125,252) |
| Discharges of mortgage investments, net of syndications | | 161,000 | 178,926 |
| | | 6,837 | 54,575 |
| Increase (decrease) in cash and cash equivalents | | 254 | (2,808) |
| Net foreign exchange loss on cash accounts | | (3) | (51) |
| Cash and cash equivalents, beginning of period | | 428 | 8,991 |
| Cash and cash equivalents, end of period | | \$ 679 | \$ 6,132 |

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

The presentation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”). These unaudited interim condensed consolidated financial statements should be read in conjunction with the notes to the audited consolidated financial statements for the year ended December 31, 2020 since these financial statements do not contain all disclosures required by IFRS for annual financial statements.

The unaudited interim condensed consolidated financial statements were approved by the Board of Directors on May 4, 2021.

(b) Principles of consolidation

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

(c) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on both a going concern and the historical cost bases except for certain items which have been measured at FVTPL at each reporting date and include: investment properties, debt investments not meeting the solely payments of principal and interest criterion, participating debentures, cross-currency swaps, interest rate swaps and foreign currency forward contracts.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

(d) Critical accounting estimates, assumptions and judgements

In the preparation of the Company's unaudited interim condensed consolidated financial statements, Timbercreek Capital Inc. ("Manager"), a subsidiary and as successor in interest to Timbercreek Asset Management Inc. ("TAMI") has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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

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

The near-term impacts of COVID-19 are primarily with respect to interest collections and mortgage investment discharges. Subsequent to March 31, 2021, the Company collected approximately 98% of April 2021 interest payments which is materially in line with historical collection rates.

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. The Company did not identify any material changes to its view of fair value for the FVTPL loans.

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

Measurement of fair values

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The information about the assumptions made in measuring fair value is included in the following notes:

Note 4 – Mortgage and other investments, including mortgage syndications;

Note 5 – Investment properties; and

Note 18 – Fair value measurements.

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. The Company exercises significant credit judgment in the determination of a significant increase in credit risk since initial recognition, credit impairment of debt investments and expected recoverable amount of credit impaired debt investments. Refer to note 4(d).

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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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.

(e) Functional and Presentation Currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2020, which were prepared in accordance with IFRS.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

| As at March 31, 2021 | Note | Mortgages, including mortgage syndications | Mortgage syndication liabilities | Net Mortgage Investments |
|--|-------------|---|---|-------------------------------------|
| Mortgage investments, including mortgage syndications - at amortized cost | 4(b)(c) | \$ 1,524,537 | \$ (439,158) | \$ 1,085,379 |
| Interest receivable | | 11,182 | (1,625) | 9,557 |
| | | 1,535,719 | (440,783) | 1,094,936 |
| Unamortized lender fees | | (8,298) | 1,424 | (6,874) |
| Allowance for expected credit loss | 4(d) | (3,909) | — | (3,909) |
| Mortgage investments at amortized cost | | 1,523,512 | (439,359) | 1,084,153 |
| Mortgage investments, including mortgage syndications - at FVTPL | | 62,212 | — | 62,212 |
| Interest receivable | | 1,462 | — | 1,462 |
| Mortgage investments at FVTPL | | 63,674 | — | 63,674 |
| Mortgage investments, including mortgage syndications | | \$ 1,587,186 | \$ (439,359) | \$ 1,147,827 |
| Unadvanced Mortgage commitments | | \$ 268,946 | \$ 162,179 | \$ 106,767 |
| As at December 31, 2020 | | Mortgages, including mortgage syndications | Mortgage syndication liabilities | Net Mortgage Investments |
| Mortgage investments, including mortgage syndications - at amortized cost | | \$ 1,511,783 | \$ (429,378) | \$ 1,082,405 |
| Interest receivable | | 10,682 | (1,735) | 8,947 |
| | | 1,522,465 | (431,113) | 1,091,352 |
| Unamortized lender fees | | (8,156) | 1,198 | (6,958) |
| Allowance for expected credit loss | | (3,710) | — | (3,710) |
| Mortgage investments at amortized cost | | 1,510,599 | (429,915) | 1,080,684 |
| Mortgage investments, including mortgage syndications - at FVTPL | | 60,716 | — | 60,716 |
| Interest receivable | | 1,262 | — | 1,262 |
| Mortgage investments at FVTPL | | 61,978 | — | 61,978 |
| Mortgage investments, including mortgage syndications | | \$ 1,572,577 | \$ (429,915) | \$ 1,142,662 |
| Unadvanced mortgage commitments | | \$ 248,589 | \$ 144,734 | \$ 103,855 |

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

Mortgages classified at FVTPL

The Company establishes fair value for mortgage investments that are classified at FVTPL using an appropriate valuation technique. These valuation techniques include internal valuation models and/or independent appraisals that employ significant assumptions such as cash flow projection, stabilized net operating income generated from the property to estimate fair value, a capitalization rate/discount rate that reflects the features of the specific underlying property securing the investment and transaction prices for directly comparable properties.

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. In normal course, the Company has reviewed its valuation models and adjusted overall capitalization rates and stabilized net operating income. Combined, these have resulted in a \$200 (Q1 2020 – \$666) unrealized fair value loss in the statement of net income and other comprehensive income.

The changes during the three months ended March 31, 2021 and year ended December 31, 2020 are as follows:

| Mortgage investments, measured at FVTPL | Three Months Ended | | Year Ended | |
|--|---------------------------|--------|--------------------------|----------|
| | March 31, 2021 | | December 31, 2020 | |
| Balance at beginning of period | \$ | 60,716 | \$ | 75,002 |
| Fundings | | 1,696 | | 5,184 |
| Fair value loss | | (200) | | (19,470) |
| Balance at end of period | \$ | 62,212 | \$ | 60,716 |

(b) Net mortgage investments

| As at | | March 31, 2021 | | December 31, 2020 | |
|--|-------------------|-----------------------|-------------------|--------------------------|--|
| Interest in first mortgages | 90.3 % \$ | 1,036,099 | 90.3 % \$ | 1,031,984 | |
| Interest in second and third mortgages | 9.7 % | 111,492 | 9.7 % | 111,137 | |
| | 100.0 % \$ | 1,147,591 | 100.0 % \$ | 1,143,121 | |

The mortgage investments are secured by real property and will mature between 2021 and 2025 (December 31, 2020 – 2021 and 2025). During the three months ended March 31, 2021, the Company generated net interest income and other income on net mortgage investments, excluding lender fee income and fair value losses of \$19,671 (Q1 2020 – \$20,966).

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

For the three months ended March 31, 2021, the Company amortized lender fee income on net mortgage investments classified at amortized cost, net of fees relating to mortgage syndication liabilities of \$1,972 (Q1 2020 – \$2,455). For the three months ended March 31, 2021, the Company recorded non-refundable upfront cash lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$2,514 (Q1 2020 – \$2,152), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

| As at | | March 31, 2021 |
|---------------------|-----------|-----------------------|
| 2021 | \$ | 471,595 |
| 2022 | | 436,035 |
| 2023 | | 235,461 |
| 2024 | | — |
| 2025 and thereafter | | 4,500 |
| Total | \$ | 1,147,591 |

(c) Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense are recognized in profit and loss and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 18).

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on mortgage and other investments classified at amortized cost. The allowance for credit losses amounted to \$5,623 as at March 31, 2021 (December 31, 2020 - \$5,323), of which \$3,909 (December 31, 2020 - \$3,710) was recorded against mortgage investments and \$1,714 (December 31, 2020 - \$1,613) was recorded against other investments.

| | As at March 31, 2021 | | | | As at December 31, 2020 | | | |
|---|----------------------|---------------|-----------------|------------------|-------------------------|---------------|-----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Multi-Residential Mortgage Investments | | | | | | | | |
| Mortgages, including mortgage syndications ¹ | \$ 782,316 | \$ 43,567 | \$ 3,093 | \$ 828,976 | \$ 780,537 | \$ 43,569 | \$ 3,055 | \$ 827,161 |
| Mortgage syndication liabilities ¹ | 224,909 | — | — | 224,909 | 209,778 | — | — | 209,778 |
| Net mortgage investments | 557,407 | 43,567 | 3,093 | 604,067 | 570,759 | 43,569 | 3,055 | 617,383 |
| Allowance for credit losses ² | 977 | 93 | 1,443 | 2,513 | 967 | 91 | 1,405 | 2,463 |
| | 556,430 | 43,474 | 1,650 | 601,554 | 569,792 | 43,478 | 1,650 | 614,920 |
| Other Mortgage Investments | | | | | | | | |
| Mortgages, including mortgage syndications ¹ | 703,476 | — | 3,267 | 706,743 | 692,069 | — | 3,235 | 695,304 |
| Mortgage syndication liabilities ¹ | 215,874 | — | — | 215,874 | 221,335 | — | — | 221,335 |
| Net mortgage investments | 487,602 | — | 3,267 | 490,869 | 470,734 | — | 3,235 | 473,969 |
| Allowance for credit losses ² | 294 | — | 1,102 | 1,396 | 293 | — | 954 | 1,247 |
| | 487,308 | — | 2,165 | 489,473 | 470,441 | — | 2,281 | 472,722 |
| Other Loan Investments | | | | | | | | |
| Other loans, including mortgage syndications ¹ | 51,485 | — | 6,707 | 58,192 | 55,416 | — | 6,669 | 62,085 |
| Other loans syndication liabilities ¹ | — | — | — | — | — | — | — | — |
| Net other loans investments | 51,485 | — | 6,707 | 58,192 | 55,416 | — | 6,669 | 62,085 |
| Allowance for credit losses ² | 95 | — | 1,619 | 1,714 | 97 | — | 1,516 | 1,613 |
| | \$ 51,390 | \$ — | \$ 5,088 | \$ 56,478 | \$ 55,319 | \$ — | \$ 5,153 | \$ 60,472 |

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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

| | Three Months Ended March 31, 2021 | | | | Three Months Ended March 31, 2020 | | | |
|---|-----------------------------------|-------------|-----------------|-----------------|-----------------------------------|-------------|-------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Multi-Residential Mortgage Investments | | | | | | | | |
| Balance at beginning of period | \$ 967 | \$ 91 | \$ 1,405 | \$ 2,463 | \$ 1,003 | \$ — | \$ 253 | \$ 1,256 |
| Allowance for credit losses: | | | | | | | | |
| Remeasurement | (4) | 2 | 38 | 36 | 157 | 101 | 38 | 296 |
| Transfer to/(from) | | | | | | | | |
| Stage 1 | — | — | — | — | (5) | — | — | (5) |
| Stage 2 | — | — | — | — | — | 5 | — | 5 |
| Stage 3 | — | — | — | — | — | — | — | — |
| Total allowance for credit losses | 963 | 93 | 1,443 | 2,499 | 1,155 | 106 | 291 | 1,552 |
| Fundings | 62 | — | — | 62 | 182 | — | — | 182 |
| Discharges | (48) | — | — | (48) | (93) | — | — | (93) |
| Balance at end of period | 977 | 93 | 1,443 | 2,513 | 1,244 | 106 | 291 | 1,641 |
| Other Mortgage Investments | | | | | | | | |
| Balance at beginning of period | 293 | — | 954 | 1,247 | 334 | — | 713 | 1,047 |
| Allowance for credit losses: | | | | | | | | |
| Remeasurement | (4) | — | 148 | 144 | (71) | — | 31 | (40) |
| Transfer to/(from) | | | | | | | | |
| Stage 1 | — | — | — | — | — | — | — | — |
| Stage 2 | — | — | — | — | — | — | — | — |
| Stage 3 | — | — | — | — | — | — | — | — |
| Total allowance for credit losses | 289 | — | 1,102 | 1,391 | 263 | — | 744 | 1,007 |
| Fundings | 10 | — | — | 10 | 36 | — | — | 36 |
| Discharges | (5) | — | — | (5) | (14) | — | — | (14) |
| Balance at end of period | 294 | — | 1,102 | 1,396 | 285 | — | 744 | 1,029 |
| Other Loan Investments | | | | | | | | |
| Balance at beginning of period | 97 | — | 1,516 | 1,613 | 25 | — | — | 25 |
| Allowance for credit losses: | | | | | | | | |
| Remeasurement | (7) | — | 103 | 96 | — | — | — | — |
| Transfer to/(from) | | | | | | | | |
| Stage 1 | — | — | — | — | — | — | — | — |
| Stage 2 | — | — | — | — | — | — | — | — |
| Stage 3 | — | — | — | — | — | — | — | — |
| Total allowance for credit losses | 90 | — | 1,619 | 1,709 | 25 | — | — | 25 |
| Fundings | 5 | — | — | 5 | 5 | — | — | 5 |
| Discharges | — | — | — | — | (5) | — | — | (5) |
| Balance at end of period | \$ 95 | \$ — | \$ 1,619 | \$ 1,714 | \$ 25 | \$ — | \$ — | \$ 25 |

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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

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 on interest payment or maturity date and/or the Company assesses 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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

| | As at March 31, 2021 | | | | As at December 31, 2020 | | | |
|---|----------------------|---------------|-----------------|------------------|-------------------------|---------------|-----------------|------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Multi-Residential Mortgage Investments | | | | | | | | |
| Low risk | \$ 162,182 | \$ — | \$ — | \$ 162,182 | \$ 209,373 | \$ — | \$ — | \$ 209,373 |
| Medium-Low risk | 344,822 | 35,725 | — | 380,547 | 307,977 | 35,953 | — | 343,930 |
| Medium-High risk | 50,403 | 7,842 | — | 58,245 | 53,409 | 7,616 | — | 61,025 |
| High risk | — | — | — | — | — | — | — | — |
| Default | — | — | 3,093 | 3,093 | — | — | 3,055 | 3,055 |
| Net Mortgage Investments ¹ | 557,407 | 43,567 | 3,093 | 604,067 | 570,759 | 43,569 | 3,055 | 617,383 |
| Allowance for credit losses | 977 | 93 | 1,443 | 2,513 | 967 | 91 | 1,405 | 2,463 |
| | 556,430 | 43,474 | 1,650 | 601,554 | 569,792 | 43,478 | 1,650 | 614,920 |
| Other Mortgage Investments | | | | | | | | |
| Low risk | 69,744 | — | — | 69,744 | 72,957 | — | — | 72,957 |
| Medium-Low risk | 359,292 | — | — | 359,292 | 333,990 | — | — | 333,990 |
| Medium-High risk | 35,912 | — | — | 35,912 | 41,012 | — | — | 41,012 |
| High risk | 22,654 | — | — | 22,654 | 22,775 | — | — | 22,775 |
| Default | — | — | 3,267 | 3,267 | — | — | 3,235 | 3,235 |
| Net Mortgage Investments ¹ | 487,602 | — | 3,267 | 490,869 | 470,734 | — | 3,235 | 473,969 |
| Allowance for credit losses | 294 | — | 1,102 | 1,396 | 293 | — | 954 | 1,247 |
| | 487,308 | — | 2,165 | 489,473 | 470,441 | — | 2,281 | 472,722 |
| Other Loan Investments | | | | | | | | |
| Low risk | — | — | — | — | — | — | — | — |
| Medium-Low risk | — | — | — | — | — | — | — | — |
| Medium-High risk | — | — | — | — | — | — | — | — |
| High risk | 51,485 | — | — | 51,485 | 55,416 | — | — | 55,416 |
| Default | — | — | 6,707 | 6,707 | — | — | 6,669 | 6,669 |
| Net Mortgage Investments ¹ | 51,485 | — | 6,707 | 58,192 | 55,416 | — | 6,669 | 62,085 |
| Allowance for credit losses | 95 | — | 1,619 | 1,714 | 97 | — | 1,516 | 1,613 |
| | \$ 51,390 | \$ — | \$ 5,088 | \$ 56,478 | \$ 55,319 | \$ — | \$ 5,153 | \$ 60,472 |

1. Net of mortgage syndications

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

(e) Other investments

| As at | March 31, 2021 | December 31, 2020 |
|---|-----------------------|--------------------------|
| Collateralized loans, net of allowance for credit loss | \$ 56,236 | \$ 60,370 |
| Finance lease receivable, measured at amortized cost | 6,020 | 6,020 |
| Investments, measured at FVTPL | 5,596 | 5,819 |
| Indirect real estate development, measured using equity method: | | |
| Investment in Joint Venture | 2,225 | 2,225 |
| Total Other Investments | \$ 70,077 | \$ 74,434 |

For the three months ended March 31, 2021, collateralized loans in other investments generated interest income of \$1,264 (Q1 2020 – \$1,050) and amortized lender fee income of \$110 (Q1 2020 – \$45). For the three months ended March 31, 2021, the Company recorded non-refundable upfront cash lender fees of \$47 (Q1 2020 – \$82), which are amortized over the term of the related collateralized loans using the effective interest rate method.

In October, 2017, the Company entered into an 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5,400 at the time of the transaction. According to the terms of the lease, the lessee has the obligation to purchase the property at \$9,934 at the end of the lease term on September 2038 and the option to purchase the property earlier at a prescribed purchase price schedule. The Company has classified the lease as a finance lease and the lease receivable balance of \$6,020 (December 31, 2020 - \$6,020) is included in other investments. The lease payment began in the third quarter of 2018. Concurrently, the Company entered into a 20-year \$3,300 construction loan on the leased property with the lessee which is included in other loan investments. The loan amortization payment began in the fourth quarter of 2019.

| The lease receivable payments are due as follows: | Future minimum lease payments | Present value of minimum lease payments |
|---|--------------------------------------|--|
| Less than one year | \$ 107 | \$ 103 |
| Between one and five years | 576 | 493 |
| More than five years | 12,829 | 5,424 |
| | \$ 13,512 | \$ 6,020 |

5. INVESTMENT PROPERTIES

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

| Jointly Controlled Assets | Location | Property Type | Ownership Interest | |
|----------------------------------|------------------------|----------------------|---------------------------|--------------------------|
| | | | March 31, 2021 | December 31, 2020 |
| Saskatchewan Portfolio | Saskatoon & Regina, SK | Income Properties | 20.46% | 20.46 % |
| Balance, beginning of period | | | \$ 47,862 | \$ 47,349 |
| Additions | | | 77 | 513 |
| Balance, end of period | | | \$ 47,939 | \$ 47,862 |

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

As at March 31, 2021, the investment properties are pledged as security for the credit facility (note 6(b)). Investment properties have been categorized as Level 3 fair value assets based on the inputs to the valuation technique used. Subsequent to initial recognition, the investment properties are measured at fair value based on available market evidence.

The fair values of the Company's investment properties are sensitive to changes in the key valuation assumptions. As at March 31, 2021, the weighted average capitalization rate for the Company's investment properties is 5.43% (December 31, 2020 - 5.43%). The estimated fair value would decrease by \$2,138 (December 31, 2020 - \$2,138) if overall capitalization rates were higher by 0.25%; whereas estimated fair value would increase by \$2,351 (December 31, 2020 - \$2,351) if overall capitalization rates were lower by 0.25%. In addition, the estimated fair value would increase by \$489 (December 31, 2020 - \$489) if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by \$489 (December 31, 2020 - \$489) if stabilized net operating income were lower by 1%.

6. CREDIT FACILITIES

| As at | | March 31, 2021 | | December 31, 2020 |
|---|----|----------------|----|-------------------|
| Credit facility (mortgage investments) | \$ | 451,127 | \$ | 458,824 |
| Unamortized financing costs (mortgage investments) | | (411) | | (525) |
| | | 450,716 | | 458,299 |
| Credit facility (investment properties) | | 30,690 | | 30,690 |
| Unamortized financing costs (investment properties) | | (25) | | (34) |
| | | 30,665 | | 30,656 |
| Total credit facilities | \$ | 481,381 | \$ | 488,955 |
| Derivative liability (interest rate swap contract) | \$ | 2,963 | \$ | 3,940 |

(a) Credit facility (mortgage investments)

The Company originally had a \$400,000 in revolving credit facility with 10 Canadian banks and by exercising the accordion features on February 13, 2018, November 16, 2018 and on September 18, 2020, the Company increased the aggregate credit limit to \$535,000. The facility is secured by a general security agreement over the Company's assets and its subsidiaries and has a maturity date of December 18, 2021. On September 18, 2020, the Company entered into an amendment to its existing revolving credit facility ("Sixth Amending Credit Agreement") in order to, among other things, increase the aggregate limit by \$35,000 to a total of \$535,000. General terms of the credit facility remain unchanged.

The interest rates and fees of the Sixth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2020 - prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2020 - 2.00%) and standby fee of 0.40% per annum (December 31, 2020 - 0.40%) on the unutilized credit facility balance. As at March 31, 2021, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Sixth Amending Credit Agreement is \$498,359.

In December 2019, the Company entered into a 2-year interest rate swap contract (the "Contract") with three Canadian banks with notional value of \$250,000. Under the terms of the Contract, the Company is required to pay fixed rate of 2.02% and receive floating rate based on 1-month banker's acceptance. Net realized and unrealized fair value gains or losses from the Contract are recognized in the statement of net income and comprehensive income.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

As at March 31, 2021, the Company recorded the fair value of the Contract as a liability of \$2,963 (December 31, 2020 – \$3,940). The fair value of the Contract is calculated as the present value of the estimated future cash flows discounted at interest rates and an applicable yield curve with similar risk characteristics for the duration of the contract. Estimates of the future cash flows are the sum of contractually fixed future amounts and expected variable future amounts, which are based on quoted swap rates, futures prices and estimated borrowing rates.

During the three months ended March 31, 2021, the Company incurred financing costs of \$28 (Q1 2020 – \$35). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the credit facility agreement.

Interest on the credit facility is recorded in financing costs and calculated using the effective interest rate method. For Q1 2021, included in financing costs is interest on the credit facility \$2,647 (Q1 2020 – \$4,302), realized loss on the Contract of \$886 (Q1 2020 – \$87), and financing costs amortization of \$142 (Q1 2020 – \$205).

The unrealized fair value relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. For Q1 2021, included in financing costs is unrealized fair value gain of \$977 (Q1 2020 – fair value loss of \$5,804).

(b) 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. Under the terms of the agreement, the co-ownership had a maximum available credit of \$162,644. The gross initial advance on the credit facility was \$144,644. The Company's share of the initial advance was \$29,594 plus \$109 of unamortized financing costs.

On 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 \$150,000. As at March 31, 2021, the co-owners had borrowed \$150,000 from the Credit Facilities. The Company's share of the outstanding amount is \$30,690. 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 bankers' acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following:

- 1) Tranche A credit facility provides the co-owners an option to borrow at either the prime rate of interest plus 1.00% or at 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 \$31,662. The Company's share of Tranche A is \$6,478.
- 2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche B properties (the "Tranche B Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2020, and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of \$39,690. The Company's share of Tranche B is \$8,121. Upon maturity, the Tranche B credit facility was extended to May 7, 2021 with borrowing options by way of fixed rate of 3.305%, Prime Loans or Bankers' Acceptances following the same cost structure as stated in Tranche A.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

- 3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche C properties (the “Tranche C Properties”) in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of \$78,648. The Company’s share of Tranche C is \$16,091.

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.

Interest on the credit facility (investment properties) is recorded in financing costs using the effective interest rate method. For Q1 2021, included in financing costs is interest on the credit facility of \$216 (Q1 2020 – \$251) and financing costs amortization of \$12 (Q1 2020 – \$10).

7. REVENUE FROM PROPERTY OPERATIONS

As part of the joint arrangement of the Saskatchewan Portfolio, the Company leases residential properties under operating leases generally with a term of not more than one year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between the year 2021 and 2023. Rental revenue from operating leases for the three months ended March 31, 2021 was \$740 (Q1 2020 – \$750).

Aggregate minimum lease payments under its non-cancellable operating leases by each of the following periods are as follows:

| | March 31, 2021 | December 31, 2020 |
|---------------|----------------|-------------------|
| Within 1 year | \$ 1,930 | \$ 2,021 |
| 2 to 5 years | 58 | 258 |

8. CONVERTIBLE DEBENTURES

- (a) 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.

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(In thousands of Canadian dollars)

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.

- (b) 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: | | March 31, 2021 | December 31, 2020 |
|--|----|-----------------------|--------------------------|
| Issued | \$ | 91,000 | \$ 91,000 |
| Unamortized financing cost and amount classified as equity component | | (1,807) | (2,038) |
| Debentures, end of period | \$ | 89,193 | \$ 88,962 |

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

| | | Three months ended March 31, | |
|---|----|-------------------------------------|-------------|
| | | 2021 | 2020 |
| Interest on the convertible debentures | \$ | 1,223 | \$ 1,842 |
| Amortization of issue costs and accretion of the convertible debentures | | 231 | 358 |
| Total | \$ | 1,454 | \$ 2,200 |

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

9. COMMON SHARES

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

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

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

| | Three months ended March 31, | |
|--|-------------------------------------|-------------|
| | 2021 | 2020 |
| Balance, beginning of period | 80,887,433 | 83,254,130 |
| Common shares issued under dividend reinvestment plan | 137,850 | 117,818 |
| Common shares repurchased for dividend reinvestment plan | (47,808) | — |
| Common shares repurchased under normal course issuer bid | — | (106,564) |
| Balance, end of period | 80,977,475 | 83,265,384 |

(a) Normal course issuer bid ("NCIB")

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

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

Under the normal course issuer bid which ended on March 29, 2021, Timbercreek was authorized to purchase up to 8,309,785 shares and purchased 2,484,515 shares at an average price of \$8.05 per share.

On April 15, 2021, the NCIB program was renewed for a full year until April 14, 2022 or the date on which Timbercreek has purchased the maximum number of shares permitted under the NCIB. Under the NCIB, the company may, over a 12-month period purchase up to a maximum of 8,030,909 shares, representing 10% of the issued and outstanding shares as of March 31, 2021. The maximum number of shares that the company may acquire on any one trading day is 25,120.

For the three months ended March 31, 2021, the Company did not make any repurchases under the NCIB.

(b) Dividend reinvestment plan ("DRIP")

The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could 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.

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(In thousands of Canadian dollars)

For the three months ended March 31, 2021, 47,808 common shares were purchased on the open market (Q1 2020 – nil) for \$416 (Q1 2020 – nil), at an average price of \$8.69 (Q1 2020 – nil) per common share. Additionally, the Company issued 90,042 common shares from treasury (Q1 2020 – 117,818) and retained \$782 in dividends (Q1 2020 – \$1,134), at an average price of \$8.69 (Q1 2020 – \$9.62) per common share.

(c) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. For the three months ended March 31, 2021, the Company declared dividends of \$13,961, or \$0.17 per common share (Q1 2020 – \$14,375, \$0.17 per common share).

As at March 31, 2021, \$4,656 in aggregate dividends (December 31, 2020 – \$4,651) was payable to the holders of common shares by the Company. Subsequent to March 31, 2021, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on April 15, 2021 to the common shareholders of record on March 31, 2021.

10. 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.

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.

For the three months ended March 31, 2021, 9,361 units were issued (Q1 2020 – 9,387) and as at March 31, 2021, 117,548 units were outstanding (December 31, 2020 – 108,187). DSU expense for the three months ended is \$83 (Q1 2020 – \$99). As at March 31, 2021, \$83 (December 31, 2020 – \$81) in compensation was granted in DSUs, which will be issued subsequent to March 31, 2021.

11. MANAGEMENT, SERVICING AND ARRANGEMENT FEES

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

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

For the three months ended March 31, 2021, the Company incurred management fees plus applicable taxes of \$2,891 (Q1 2020 – \$3,117) and servicing fees including applicable taxes of \$192 (Q1 2020 – \$198). During Q1 2021, Arrangement Fees of \$311 were retained by the Manager (Q1 2020 – nil).

12. EARNINGS PER SHARE

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

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

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

The following table shows the computation of per share amounts:

| | Three months ended March 31, | |
|---|-------------------------------------|-------------|
| | 2021 | 2020 |
| Total net income and comprehensive income (basic) | \$ 14,991 | \$ 7,425 |
| Interest expense on convertible debentures | 1,454 | — |
| Total net income and comprehensive income (diluted) | \$ 16,445 | \$ 7,425 |
| Weighted average number of common shares (basic) | 80,918,484 | 83,316,802 |
| Effect of conversion of convertible debentures | 8,631,168 | — |
| Weighted average number of common shares (diluted) | 89,549,652 | 83,316,802 |
| Earnings per share – basic | \$ 0.19 | \$ 0.09 |
| Earnings per share – diluted | \$ 0.18 | \$ 0.09 |

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

13. CHANGE IN NON-CASH OPERATING ITEMS

| | Three months ended March 31, | |
|--|-------------------------------------|-----------------|
| | 2021 | 2020 |
| Change in non-cash operating items: | | |
| Other assets | \$ (1,756) | \$ 1,200 |
| Accounts payable and accrued expenses | 64 | 197 |
| Due to Manager | (63) | 28 |
| Prepaid mortgage and other loans interest | 1,382 | (347) |
| Mortgage and other loans funding holdbacks | 308 | (1,256) |
| | \$ (65) | \$ (178) |

14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

| Debentures | Three months ended March 31, | |
|---|-------------------------------------|-------------------|
| | 2021 | 2020 |
| Balance, beginning of period | \$ 88,962 | \$ 133,033 |
| Amortization of issue costs and accretion expense | 231 | 358 |
| Balance, end of period | \$ 89,193 | \$ 133,391 |

| Credit Facilities | Three months ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2021 | 2020 |
| Balance, beginning of period | \$ 488,955 | \$ 490,389 |
| Deferred financing cost ¹ | (32) | (42) |
| Net credit facility (repayments) advances – mortgage investments | (7,696) | (58,000) |
| Total financing cash flow activities | (7,728) | (58,042) |
| Amortization of financing costs | 154 | 215 |
| Balance, end of period | \$ 481,381 | \$ 432,562 |

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

15. RELATED PARTY TRANSACTIONS

- (a) As at March 31, 2021, due to Manager mainly includes management and servicing fees payable of \$1,027 (December 31, 2020 – \$1,089).
- (b) During Q1 2021, Arrangement Fees of \$311 were retained by the Manager (Q1 2020 – nil).
- (c) As at March 31, 2021, included in other assets is \$7,575 (December 31, 2020 – \$14,000) 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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

- (d) As at March 31, 2021, the Company has the following mortgage investments which a director of the Company is also an officer and part-owner a syndication partner of these mortgages
- A mortgage investment with a total gross commitment of \$11,611 (December 31, 2020 – \$11,611). The Company's share of the commitment is \$931 (December 31, 2020 – \$931). For the three months ended March 31, 2021, the Company has recognized net interest income of \$26 (Q1 2020 – nil) from this mortgage investment during the period.
 - A mortgage investment with a total gross commitment of \$45,715 (December 31, 2020 – \$45,715). The Company's share of the commitment is \$4,153 (December 31, 2020 – \$4,153). For the three months ended March 31, 2021, the Company has recognized net interest income of \$60 (Q1 2020 – nil) from this mortgage investment during the period.
- (e) As at March 31, 2021, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 1 mortgage (December 31, 2020 – 1) totaling \$21,417 (December 31, 2020 – \$21,711). The Company's share in this mortgage investment is \$6,343 (December 31, 2020 – \$6,431).
- (f) As at March 31, 2021, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$5,596 or €3,839 (December 31, 2020 – \$5,819 or €3,704), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.

16. CAPITAL RISK MANAGEMENT

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company defines its capital structure to include common shares, convertible debentures and the credit facilities.

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

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

At March 31, 2021, the Company was in compliance with its investment restrictions.

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

17. RISK MANAGEMENT

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of March 31, 2021, \$1,007,373 of net mortgage investments and \$17,496 of other investments bear interest at variable rates (December 31, 2020 – \$1,019,219 and \$10,968, respectively). Net mortgage investments totaling \$923,053 have a "floor rate" (December 31, 2020 – \$935,458).

If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income for the next 12 months would be a decrease in net income of \$53 (December 31, 2020 – \$78) or an increase in net income of \$871 (December 31, 2020 – \$243). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio and its use of floor rates in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which have a balance of \$481,817 as at March 31, 2021 (December 31, 2020 – \$489,514). During the year ended December 31, 2019, the Company entered into the Contract (refer to note 6(a)) which reduced the exposure in interest rate risk. As at March 31, 2021, net exposure to interest rate risk was \$207,605 (December 31, 2020 – \$215,302), 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 and comprehensive income for the next 12 months by \$1,038 (December 31, 2020 – \$1,077).

The Company's other assets, interest receivable, accounts payable and accrued expenses, prepaid mortgage interest, mortgage and other loan funding holdbacks, dividends payable and due to Manager have no significant exposure to interest rate risk due to their short-term nature. Convertible debentures carry a fixed rate of interest and are not subject to interest rate risk. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk.

(b) Currency risk

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

As at March 31, 2021, the Company has US\$5,050 and €3,839 in other investments denominated in foreign currencies (December 31, 2020 – US\$5,050 and €3,704 in other investments). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at March 31, 2021, the Company has one U.S. dollars currency forward contract with an aggregate notional value of US\$5,050, at a weighted average forward contract rate of 1.2615, maturing in July 2021 and one Euro currency contract with an aggregate notional value of €3,500 at contract rate of 1.4869, maturing in October 2021.

The fair value of the foreign currency forward contracts as at March 31, 2021 is an asset of \$680 which is included in other assets. The valuation of the foreign currency forward and swap contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

(c) Credit risk

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

- i. adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);
- 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 March 31, 2021 relating to net mortgages and other investments amount to \$1,232,093 (December 31, 2020 – \$1,236,299).

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

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

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at March 31, 2021, including expected interest payments:

| March 31, 2021 | Carrying value | Contractual cash flow | Within a year | Following year | 3–5 years |
|--|-----------------------|------------------------------|----------------------|-----------------------|------------------|
| Accounts payable and accrued expenses | \$ 2,683 | \$ 2,683 | \$ 2,683 | \$ — | \$ — |
| Dividends payable | 4,656 | 4,656 | 4,656 | — | — |
| Due to Manager | 1,027 | 1,027 | 1,027 | — | — |
| Mortgage and other loans funding holdbacks | 2,485 | 2,485 | 2,485 | — | — |
| Prepaid mortgage and other loans interest | 5,090 | 5,090 | 5,090 | — | — |
| Derivative liability (interest rate swap contract) | 2,963 | 2,963 | 2,963 | — | — |
| Credit facility (mortgage investments) ¹ | 450,716 | 458,586 | 458,586 | — | — |
| Credit facility (investment properties) ² | 30,665 | 31,069 | 31,069 | — | — |
| Convertible debentures ³ | 89,193 | 101,258 | 50,892 | 2,385 | 47,981 |
| | \$ 589,478 | \$ 609,817 | \$ 559,451 | \$ 2,385 | \$ 47,981 |
| Unadvanced mortgage commitments ⁴ | — | 268,946 | 268,946 | — | — |
| Total contractual liabilities, excluding mortgage syndication liabilities ⁵ | \$ 589,478 | \$ 878,763 | \$ 828,397 | \$ 2,385 | \$ 47,981 |

¹ Credit facility (mortgage investments) includes interest based upon March 2021 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 March 2021 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturities on May 7, 2021 and October 9, 2021.

³ The convertible debentures include interest based on coupon rate on the convertible debentures assuming the outstanding balance is not repaid until its contractual maturities on March 31, 2022 and June 30, 2024.

⁴ Unadvanced mortgage commitments include syndication commitments of which \$162,179 belongs to the Company's syndicated partners.

⁵ The principal repayments of \$439,158 mortgage syndication liabilities by contractual maturity date are shown net with mortgage investments in note 4(b).

As at March 31, 2021, the Company had a cash position of \$679 (December 31, 2020 – \$428), an unutilized credit facility (mortgage investments) balance of \$83,873 (December 31, 2020 – \$76,176) and an unutilized credit facility (investment properties) balance of nil (December 31, 2020 – nil). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

18. FAIR VALUE MEASUREMENTS

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

| As at March 31, 2021 | Note | Carrying value | | Fair value |
|---|------|----------------|-----------------------------------|------------|
| | | Amortized cost | Fair value through profit or loss | |
| Assets measured at fair value | | | | |
| Investment properties | 5 | \$ — | \$ 47,939 | \$ 47,939 |
| Financial assets | | | | |
| Cash and cash equivalents | | 679 | — | 679 |
| Other assets | | 8,524 | 680 | 9,204 |
| Mortgage investments, including mortgage syndications | | 1,523,512 | 63,674 | 1,587,186 |
| Other investments | 4(e) | 62,256 | 5,596 | 67,852 |
| Financial liabilities | | | | |
| Accounts payable and accrued expenses | | 1,645 | 1,038 | 2,683 |
| Dividends payable | | 4,656 | — | 4,656 |
| Due to Manager | | 1,027 | — | 1,027 |
| Mortgage funding holdbacks | | 2,485 | — | 2,485 |
| Prepaid mortgage interest | | 5,090 | — | 5,090 |
| Derivative liability (interest rate swap contract) | | — | 2,963 | 2,963 |
| Credit facility (mortgage investments) | | 450,716 | — | 451,127 |
| Credit facility (investment properties) | | 30,665 | — | 30,690 |
| Convertible debentures | | 89,193 | — | 92,107 |
| Mortgage syndication liabilities | | 439,359 | — | 439,359 |

| As at December 31, 2020 | Note | Carrying value | | Fair value |
|---|------|----------------|-----------------------------------|------------|
| | | Amortized cost | Fair value through profit or loss | |
| Assets measured at fair value | | | | |
| Investment properties | 5 | \$ — | \$ 47,862 | \$ 47,862 |
| Financial assets | | | | |
| Cash and cash equivalents | | 428 | — | 428 |
| Other assets | | 14,838 | 302 | 15,140 |
| Mortgage investments, including mortgage syndications | | 1,510,599 | 61,978 | 1,572,577 |
| Other investments | 4(e) | 66,390 | 5,819 | 72,209 |
| Financial liabilities | | | | |
| Accounts payable and accrued expenses | | 2,079 | 936 | 3,015 |
| Dividends payable | | 4,651 | — | 4,651 |
| Due to Manager | | 1,089 | — | 1,089 |
| Mortgage funding holdbacks | | 2,177 | — | 2,177 |
| Prepaid mortgage interest | | 3,708 | — | 3,708 |
| Derivative liability (interest rate swap contract) | | — | 3,940 | 3,940 |
| Credit facility (mortgage investments) | | 458,299 | — | 458,824 |
| Credit facility (investment properties) | | 30,656 | — | 30,690 |
| Convertible debentures | | 88,962 | — | 91,910 |
| Mortgage syndication liabilities | | 429,915 | — | 429,915 |

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

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

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

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

(b) Other financial assets and liabilities

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

The fair value of the Contract is calculated as the present value of the estimated future cash flows discounted at interest rates and an applicable yield curve with similar risk characteristics for the duration of the contract. Estimates of the future cash flows are the sum of contractually fixed future amounts and expected variable future amounts, which are based on quoted swap rates, futures prices and estimated borrowing rates.

(c) Convertible debentures

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

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during the three months ended March 31, 2021.

19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During Q1 2021, the compensation expense of the members of the Board of Directors amounts to \$83 (Q1 2020 – \$99), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

20. COMMITMENTS AND CONTINGENCIES

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

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

21. SUBSEQUENT EVENTS

On April 15, 2021, the NCIB program was renewed for a full year until April 14, 2022 or the date on which Timbercreek has purchased the maximum number of shares permitted under the NCIB. Under the NCIB, the company may, over a 12-month period purchase up to a maximum of 8,030,909 shares, representing 10% of the issued and outstanding shares as of March 31, 2021. The maximum number of shares that the company may acquire on any one trading day is 25,120.