

Interim Condensed Consolidated  
Financial Statements of

# Timbercreek Financial

Three months and six months ended June 30, 2018 and 2017



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

(In thousands of Canadian dollars)

As at	Note	June 30, 2018	December 31, 2017
<b>ASSETS</b>			
Cash and cash equivalents	\$	541	\$ 700
Other assets	8 and 15(b)	42,220	8,672
Mortgage investments, including mortgage syndications	4(a)(b)(c)(d)	1,656,183	1,554,369
Other investments	4(e)	83,461	57,934
Investment properties	5	44,832	42,748
Foreclosed properties held for sale		296	336
<b>Total assets</b>	<b>\$</b>	<b>1,827,533</b>	<b>\$ 1,664,759</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and accrued expenses	\$	5,771	\$ 5,426
Dividends payable	9(b)	4,564	4,271
Due to Manager	15(a)	1,067	1,140
Mortgage funding holdbacks		704	200
Prepaid mortgage interest		2,161	1,960
Credit facility	6	396,653	394,046
Convertible debentures	8	165,369	163,946
Mortgage syndication liabilities	4(a)(c)	556,685	440,648
<b>Total liabilities</b>		<b>1,132,974</b>	<b>1,011,637</b>
Shareholders' equity	9	694,559	653,122
<b>Total liabilities and equity</b>	<b>\$</b>	<b>1,827,533</b>	<b>\$ 1,664,759</b>
Commitments and contingencies	4, 6 and 20		
Subsequent events	9(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 June 30,		Six months ended June 30,	
		2018	2017	2018	2017
<b>Investment income</b>					
Gross interest and other income, including mortgage syndications	4(b)(e)	\$ 31,327	\$ 27,936	\$ 59,506	\$ 55,804
Interest and other income on mortgage syndications		(7,850)	(6,488)	(14,182)	(13,589)
<b>Net investment income</b>		<b>23,477</b>	<b>21,448</b>	<b>45,324</b>	<b>42,215</b>
<b>Net rental income</b>					
Revenue from investment properties	7	477	—	860	—
Property operating costs		(298)	—	(532)	—
<b>Net rental income</b>		<b>179</b>	<b>—</b>	<b>328</b>	<b>—</b>
<b>Expenses</b>					
Management fees	11	2,908	2,564	5,807	5,062
Servicing fees	11	164	162	302	319
Provision for mortgage investments loss	4(d)	254	—	254	200
General and administrative		426	365	775	734
<b>Total expenses</b>		<b>3,752</b>	<b>3,091</b>	<b>7,138</b>	<b>6,315</b>
<b>Income from operations</b>		<b>19,904</b>	<b>18,357</b>	<b>38,514</b>	<b>35,900</b>
<b>Net operating (loss) income from foreclosed properties held for sale</b>		<b>(5)</b>	<b>19</b>	<b>(7)</b>	<b>83</b>
<b>Fair value loss on foreclosed properties held for sale</b>		<b>(40)</b>	<b>(143)</b>	<b>(40)</b>	<b>(143)</b>
<b>Financing costs</b>					
Interest on credit facility	6	4,111	2,831	8,172	5,569
Interest on convertible debentures	8	3,321	2,267	6,201	4,191
<b>Total financing costs</b>		<b>7,432</b>	<b>5,098</b>	<b>14,373</b>	<b>9,760</b>
<b>Net income and comprehensive income</b>		<b>\$ 12,427</b>	<b>\$ 13,135</b>	<b>\$ 24,094</b>	<b>\$ 26,080</b>
<b>Earnings per share</b>					
Basic	12	\$ 0.16	\$ 0.18	\$ 0.31	\$ 0.35
Diluted	12	\$ 0.16	\$ 0.18	\$ 0.31	\$ 0.35

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

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

(In thousands of Canadian dollars)

	Common shares	Retained earnings	Equity component of convertible debentures	Total
<b>Six months ended June 30, 2018</b>				
Balance, December 31, 2017	\$ 650,988	\$ 196	\$ 1,938	\$ 653,122
Issuance of common shares, net of issue costs	42,171	—	—	42,171
Dividends	—	(27,068)	—	(27,068)
Issuance of common shares under dividend reinvestment plan	2,240	—	—	2,240
Total net income and comprehensive income	—	24,094	—	24,094
Balance, June 30, 2018	\$ 695,399	\$ (2,778)	\$ 1,938	\$ 694,559

	Common shares	Retained earnings	Equity component of convertible debentures	Total
<b>Six months ended June 30, 2017</b>				
Balance, December 31, 2016	647,173	(1,272)	771	646,672
Issuance of convertible debentures, net of issue costs	—	—	1,167	1,167
Dividends	—	(25,290)	—	(25,290)
Issuance of common shares under dividend reinvestment plan	2,059	—	—	2,059
Repurchase of common shares	(331)	—	—	(331)
Total net income and comprehensive income	—	26,081	—	26,081
Balance, June 30, 2017	\$ 648,901	\$ (481)	\$ 1,938	\$ 650,358

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		Six months ended	
	Note	June 30,		June 30,	
		2018	2017	2018	2017
<b>OPERATING ACTIVITIES</b>					
Total net income and comprehensive income	\$	12,427	\$ 13,135	\$ 24,094	\$ 26,081
Amortization of lender fees		(1,910)	(1,922)	(3,532)	(3,656)
Lender fees received		3,516	2,283	6,272	3,642
Interest and income, net of syndications		(21,480)	(19,526)	(41,694)	(38,539)
Interest and other income received, net of syndications		19,937	18,169	38,101	35,683
Financing costs		7,432	5,098	14,373	9,760
Realized (gain) loss on disposal of marketable securities		—	—	70	—
Unrealized gain on investments measured at fair value through profit or loss		(86)	—	(155)	—
Net realized and unrealized foreign exchange loss (gain)		13	(48)	(10)	(11)
Fair value loss on foreclosed properties held for sale		40	143	40	143
Provision for mortgage investment loss		254	—	254	200
Net change in non-cash operating items	13	(1,289)	(1,637)	1,909	(3,038)
		<b>18,854</b>	<b>15,695</b>	<b>39,722</b>	<b>30,265</b>
<b>FINANCING ACTIVITIES</b>					
Net credit facility advances - mortgage investments		3,331	67,311	824	63,010
Net credit facility advances – investment properties		776	—	1,453	—
Net proceeds from issuance of convertible debentures		—	42,774	—	86,437
Deposit with convertible debentures' trustee for redemption of convertible debentures		(35,064)	—	(35,064)	—
Net proceeds from issuance of common shares		—	—	42,383	—
Interest paid		(6,489)	(2,753)	(13,066)	(7,629)
Dividends paid to shareholders		(12,491)	(11,592)	(24,534)	(23,220)
Repurchase of common shares		—	—	—	(331)
		<b>(49,937)</b>	<b>95,740</b>	<b>(28,004)</b>	<b>118,267</b>
<b>INVESTING ACTIVITIES</b>					
Proceeds from disposition of foreclosed properties held for sale		—	457	—	457
Addition to investment properties		(967)	—	(2,084)	—
Funding of other investments		(29,230)	(33,148)	(43,185)	(48,179)
Proceeds of other investments		1,711	1,030	17,187	1,030
Funding of mortgage investments, net of mortgage syndications		(155,972)	(180,847)	(370,289)	(240,615)
Discharges of mortgage investments, net of mortgage syndications		205,693	101,430	386,697	139,191
		<b>21,235</b>	<b>(111,078)</b>	<b>(11,674)</b>	<b>(148,116)</b>
Net foreign exchange loss on cash accounts		(72)		(203)	—
(Decrease) increase in cash and cash equivalents		(9,920)	357	(159)	416
Cash and cash equivalents, beginning of period		10,461	120	700	61
Cash and cash equivalents, end of period	\$	\$ 541	\$ 477	\$ 541	\$ 477

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

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PRESENTATION

#### (a) Statement of compliance

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

The presentation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”). These unaudited condensed consolidated interim financial statements should be read in conjunction with the notes to the audited consolidated financial statements for the year ended December 31, 2017 since these financial statements do not contain all disclosures required by IFRS for annual financial statements. These unaudited interim condensed consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented unaudited condensed.

The unaudited interim condensed consolidated financial statements were approved by the Board of Directors on August 13, 2018.

#### (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 the historical cost basis except for investment properties, foreclosed properties held for sale, marketable securities, debt investments not meeting the solely payments of principal and interest criterion, participating debentures, cross-currency swaps and foreign currency forward contracts, which are measured at fair value through profit or loss (“FVTPL”) at each reporting date. The presentation and functional currency of the Company is Canadian dollars.

#### (d) Critical accounting estimates, assumptions and judgements

In the preparation of these unaudited interim condensed consolidated financial statements, Timbercreek Asset Management Inc. (the “Manager”) has made judgements, estimates and assumptions that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these unaudited interim condensed consolidated financial statements. In addition to those estimates, assumptions and judgments noted in consolidated financial statements for the year ended December 31, 2017, the Company has identified new judgment areas as a result of the adoption of IFRS 9 as follows:

### Classification of mortgage and other investments

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

### Measurement of expected credit loss

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and recognition of lifetime losses on performing loans that have experienced a significant increase in credit risk since origination.

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and borrower specific criteria as identified by the Manager.

The assessment of significant increase in credit risk requires experienced credit judgment. In determining whether there has been a significant increase in credit risk and in calculating the amount of expected credit losses, we rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. In determining expected credit losses, we have considered key macroeconomic variables that are relevant to each investment type. Key economic variables include unemployment rate, housing price index and interest rates. The forecast is developed internally by the Manager. We exercise experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same, except as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS.

### Changes in accounting policies

The Company has adopted IFRS 9 and IFRS 15 effective January 1, 2018 without restatement of comparative periods.

#### IFRS 15, Revenue from contracts with customers ("IFRS 15")

The Company adopted the standard on January 1, 2018 and applied the requirements of the standards retrospectively. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or are completed on January 2017 do not require restatement.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

The implementation of IFRS 15 did not have a significant impact on the Company's revenue streams from its investment properties.

### IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The Company adopted IFRS 9 beginning January 1, 2018 using transitional provisions allowing the Company to not restate comparative periods. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

### Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") - debt investment; FVOCI - equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: it is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments are measured at fair value through profit or loss. However, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets as at January 1, 2018.



**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(In thousands of Canadian dollars)

	Original Classification	New Classification under IFRS 9	Original carrying amount under IAS 39	Reclassification	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and Receivables	Amortized Cost	700	—	700
Other assets	Loans and Receivables	Amortized Cost	8,606	(890)	7,716
Derivative	Held-for-trading	Mandatorily at FVTPL	66	—	66
Mortgage investments, including mortgage syndications	Held to maturity	Amortized Cost	1,554,369	(78,123)	1,476,246
Mortgage investments, including mortgage syndications <sup>1</sup>	Held to maturity	FVTPL	—	79,013	79,013
Other investments	Loans and receivables	Amortized Cost	50,846	—	50,846
Other investments	FVTPL	FVTPL	4,874	—	4,874

<sup>1</sup>\$55,198 of syndication balance is measured at amortized cost

Upon adoption of IFRS 9, the Company identified one mortgage investment with a gross carrying value of \$79,013. The Company's portion of this mortgage investment with carrying value of \$23,815 includes a profit participation feature, which does not meet the SPPI criterion. Accordingly, the entire gross carrying value, including the profit participation receivable of \$890, previously recorded in other assets, has been reclassified at FVTPL.

**Impairment**

IFRS 9 introduces a new single expected credit loss ("ECL") impairment model for all financial assets and certain off-balance sheet loan commitments and guarantees. The ECL model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event. This differs from the Company's previous approach where the allowance recorded on performing loans was designed to capture only incurred losses whether or not they have been specifically identified.

The ECL model requires the recognition of credit losses based on 12 months of expected losses for performing loans (Stage 1) and the recognition of lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2). The allowance for assets in Stage 2 will be higher than for those in Stage 1 as a result of the longer time horizon associated with this stage. Stage 3 requires lifetime losses for all credit impaired assets.

IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions which is available without undue cost or effort, in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. The standard also requires future economic conditions be based on an unbiased, probability-weighted assessment of possible future outcomes.

The determination of a significant increase in credit risk takes into account different factors and will vary by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and borrower specific criteria as identified by the Manager. As is typical in shorter duration, structured financing, the Manager does not solely believe there has been a significant deterioration in credit risk as it is not uncommon for mortgage and other investments to go into overhold position for a period greater than 30 days. The Manager actively monitors these mortgage and other investments and applies judgement in determining whether there has been significant increase in credit risk. The Company considers a financial asset to be in default when the borrower is more than 90 days past due and when there is objective evidence that there has been a deterioration

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(In thousands of Canadian dollars)

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.

In cases where a borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a loan. Modifications may include payment deferrals, extension of amortization periods, debt consolidation, forbearance and other modifications intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. The Company determines the appropriate remediation strategy based on the individual borrower. If the Company determines that a modification results in expiry of cash flows, the original asset is derecognized while a new asset is recognized based on the new contractual terms. Significant increase in credit risk is assessed relative to the risk of default on the date of modification. If the Company determines that a modification does not result in derecognition, significant increase in credit risk is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For loans that were modified while having a lifetime ECL, the loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

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

<b>As at June 30, 2018</b>	<b>Note</b>	<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications - at amortized cost	4(b)(c)	\$ 1,540,245	\$ (500,625)	\$ 1,039,620
Interest receivable		11,968	(2,238)	9,730
		<b>1,552,213</b>	<b>(502,863)</b>	<b>1,049,350</b>
Unamortized lender fees		(9,334)	1,376	(7,958)
Allowance for mortgage investments loss	4(d)	(1,102)	—	(1,102)
At amortized cost		<b>1,541,777</b>	<b>(501,487)</b>	<b>1,040,290</b>
Mortgage investments, including mortgage syndications - at fair value through profit or loss <sup>1</sup>		107,253	(55,000)	52,253
Interest receivable		7,153	(198)	6,955
At FVTPL		<b>114,406</b>	<b>(55,198)</b>	<b>59,208</b>
Mortgage investments, including mortgage syndications		<b>\$ 1,656,183</b>	<b>\$ (556,685)</b>	<b>\$ 1,099,498</b>

<sup>1</sup>Syndication balance is measured at amortized cost

<b>As at December 31, 2017<sup>2</sup></b>		<b>Gross mortgage investments</b>	<b>Mortgage syndication liabilities</b>	<b>Net</b>
Mortgage investments, including mortgage syndications	\$	1,543,589	\$ (439,945)	\$ 1,103,644
Interest receivable		18,326	(1,584)	16,742
		<b>1,561,915</b>	<b>(441,529)</b>	<b>1,120,386</b>
Unamortized lender fees		(6,465)	881	(5,584)
Allowance for mortgage investments loss		(1,081)	—	(1,081)
	\$	<b>1,554,369</b>	<b>\$ (440,648)</b>	<b>\$ 1,113,721</b>

<sup>2</sup>Presented under IAS 39

As at June 30, 2018, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$232,365 (December 31, 2017 – \$154,945) of which \$55,067 (December 31, 2017 – \$60,755) belongs to the Company's syndicated partners.

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(In thousands of Canadian dollars)

**(b) Net mortgage investments**

	%	June 30, 2018	%	December 31, 2017
Interest in first mortgages	92 \$	1,005,480	93 \$	1,026,395
Interest in non-first mortgages	8	86,393	7	77,249
	<b>100 \$</b>	<b>1,091,873</b>	<b>100 \$</b>	<b>1,103,644</b>

The mortgage investments are secured by real property and will mature between the remainder of 2018 and 2022 (December 31, 2017 – 2017 and 2022). During the three and six months ended June 30, 2018 (“Q2 2018” and “YTD 2018”, respectively), the Company generated net interest income and other income excluding lender fee income of \$20,030 and \$39,109 (three and six months ended June 30, 2017 “Q2 2017” and “YTD 2017” – \$20,414 and \$40,582). During Q2 2018 and YTD 2018, the weighted average interest rate earned on net mortgage investments was 7.1% and 7.0% (Q2 2017 – 7.2%; YTD 2017 – 7.2%).

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.

During Q2 2018 and YTD 2018, the Company earned lender fee income on net mortgage investments, net of fees relating to mortgage syndication liabilities of \$1,831 and \$3,313 (Q2 2017 - \$1,875; YTD 2017 - \$3,577). During Q2 2018 and YTD 2018, the Company received lender fees net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$3,198 and \$5,687 (Q2 2017 - \$1,955; YTD 2017 - \$3,194), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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

2018	\$	369,510
2019		279,732
2020		363,368
2021		77,997
2022 and thereafter		1,266
<b>Total</b>	<b>\$</b>	<b>1,091,873</b>

**(c) Mortgage syndication liabilities**

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

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

The allowance for credit losses recorded in the Interim Condensed Consolidated Statement of Financial Position is maintained at a level that we consider adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$1,335 as at June 30, 2018, of which \$1,102 was recorded in mortgage investments and \$233 recorded in other investments in our Interim Condensed Consolidated Statement of Financial Position.

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

### **Allowance on Performing Loans**

We maintain an allowance in order to cover impairment in the existing portfolio for loans that have not yet been individually identified as impaired. Our approach to establishing and maintaining the allowance for performing loans is based on the requirements of IFRS.

Under the IFRS 9 expected credit loss ECL methodology, an allowance is recorded for expected credit losses on financial assets regardless of whether there has been an actual loss event. We recognize a loss allowance at an amount equal to 12 month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). We will record expected credit losses over the remaining life of performing financial assets which are considered to have experienced a significant increase in credit risk (Stage 2).

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due and borrower specific criteria identified by the Manager.

We consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in calculating the amount of expected losses. In assessing information about possible future economic conditions, we utilized multiple economic scenarios including our base case, which represents the most probable outcome and is consistent with our view of the portfolio. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used. Our ECL methodology also requires the use of experienced credit judgment to incorporate the estimated impact of factors that are not captured in the modelled ECL results.

### **Allowance on Impaired Loans**

Allowances for impaired loans (Stage 3) are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. We review our loans on an ongoing basis to assess whether any loans should be classified as impaired and whether an allowance or write-off should be recorded. The review of individually significant problem loans is conducted at least quarterly by the Manager, who assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan.

To determine the amount, we expect to recover from an individually significant impaired loan, we use the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

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Provision for credit losses :

<b>Multi-residential</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Gross mortgage investments, including interest receivable	709,254	—	2,713	711,967
Mortgage syndication liabilities, including interest receivable	242,978	—	—	242,978
Net	466,276	—	2,713	468,989
Allowance for loan losses	493	—	3	496
Mortgage investments, net of allowance and mortgage syndications	465,783	—	2,710	468,493

<b>Other Mortgage Investments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Gross mortgage investments, including interest receivable	803,323	—	36,923	840,246
Mortgage syndication liabilities, including interest receivable	259,885	—	—	259,885
Net	543,438	—	36,923	580,361
Allowance for loan losses	143	—	463	606
Mortgage investments, net of allowance and mortgage syndications	543,295	—	36,460	579,755

<b>Other loan Investments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Gross loan investments, including interest receivable	68,499	—	—	68,499
Other loan syndication liabilities, including interest receivable	—	—	—	—
Net	68,499	—	—	68,499
Allowance for loan losses	233	—	—	233
Other loan Investments, net of allowance and mortgage syndications	68,266	—	—	68,266

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(In thousands of Canadian dollars)

The changes in the provision for credit losses are shown in the following tables.

<b>Multi-residential</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at beginning of period	603	26	—	629
Provision for credit losses				
Remeasurement	(115)	—	(23)	(138)
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	(26)	—	(26)
Stage 3	—	—	26	26
Total provision for credit losses	488	—	3	491
Fundings	81	—	—	81
Repayments	(76)	—	—	(76)
Balance at end of period	493	—	3	496

<b>Other Mortgage Investments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at beginning of period	15	209	—	224
Provision for credit losses				
Remeasurement	123	—	254	377
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	(209)	—	(209)
Stage 3	—	—	209	209
Total provision for credit losses	138	—	463	601
Fundings	21	—	—	21
Repayments	(16)	—	—	(16)
Balance at end of period	143	—	463	606

<b>Other loan Investments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Balance at beginning of period	228	—	—	228
Provision for credit losses				
Remeasurement	2	—	—	2
Transfer to/(from)				
Stage 1	—	—	—	—
Stage 2	—	—	—	—
Stage 3	—	—	—	—
Total provision for credit losses	230	—	—	230
Fundings	7	—	—	7
Repayments	(4)	—	—	(4)
Balance at end of period	233	—	—	233

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

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**(e) Other investments**

As at June 30, 2018, the Company held \$73,702 in collateralized loans and financial lease receivable measured at amortized cost, net of allowance for credit loss of \$233(December 31, 2017 - \$50,873 and nil, respectively), \$4,400 in investments that are measured at FVPTL (December 31, 2017 - \$4,847), \$5,357 in an indirect real estate development through two investees, recognized using the equity method (December 31, 2017 - \$2,214).

As at June 30, 2018, investments that are measured at FVPTL, after fair value adjustment and net foreign exchange loss of \$25, was \$4,400. During Q2 2018 and YTD 2018, the Company acquired \$1,815 and \$2,694 worth of participating loans and disposed nil and \$3,116 worth of marketable securities investments.

During Q2 2018 and YTD 2018, loan investments generated net interest income of \$1,512 and \$2,647 (Q2 2017 - \$1,038; YTD 2017 - \$1,638), earned a weighted average yield of 11.2% and 11.6% (Q2 2017 - 10.9%; YTD 2017 - 11.1%) and net lender fee income of \$79 and \$219 (Q2 2017 - \$47; YTD 2017 - \$79). During Q2 2018 and YTD 2018, the Company received net lender fees from loan investments of \$318 and \$585 (Q2 2017 - \$327; YTD 2017 - \$447), which are amortized over the term of the related other loan investments using the effective interest rate method.

In October, 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 \$5,400 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 is included in other investments. Concurrently, the Company entered into a \$3,300 construction loan on the leased property with the lessee which is included in other loan investments. The lease payment will begin in the third quarter of 2018.

The lease receivable payments are due as follows:

		<b>Future minimum lease payments</b>	<b>Present value of minimum lease payments</b>
Less than one year	\$	12	\$ 11
Between one and five years		267	221
More than five years		13,311	5,788
	\$	13,590	\$ 6,020

**5. INVESTMENT PROPERTIES**

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

<b>Jointly Controlled Assets</b>	<b>Location</b>	<b>Property Type</b>	<b>Ownership Interest</b>	
			<b>June 30, 2018</b>	<b>December 31, 2017</b>
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties & Development Property	20.46%	20.46%



**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

(In thousands of Canadian dollars)

		<b>Total</b>
Balance, beginning of period	\$	42,748
Additions – development expenditures		1,361
Additions – capital expenditures		723
Balance, end of period	\$	44,832

As at June 30, 2018, the investment properties are pledged as security for the credit facility (note 6(b)).

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

The fair values of the Company's investment properties are sensitive to changes in the key valuation assumptions. As at June 30, 2018, the weighted average capitalization rate for the Company's investment properties is 5.34% (December 31, 2017 - 5.34%). The estimated fair value would decrease by \$1,586 if overall capitalization rates were higher by 25 bps; whereas estimated fair value would increase by \$1,742 if overall capitalization rates were lower by 25 bps. In addition, the estimated fair value would increase by \$355 if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by \$355 if stabilized net operating income were lower by 1%. The carrying value of the property under development approximates its fair value as construction is in its preliminary phase.

**6. CREDIT FACILITY**

<b>As at</b>		<b>June 30, 2018</b>		<b>December 31, 2017</b>
Credit facility – mortgage investments	\$	366,738	\$	365,914
Credit facility - investment properties		31,628		30,175
Unamortized financing costs		(1,713)		(2,043)
Total credit facility	\$	396,653	\$	394,046

**(a) Credit facility - mortgage investments**

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

The rates of interest and fees of the Amended Credit Agreement and previous credit agreements remain unchanged which are either at the prime rate of interest plus 1.25% per annum (December 31, 2017 – prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2017 – 2.25%) and standby fee of 0.5625% per annum (December 31, 2017 – 0.5625%) on the unutilized credit facility balance. As at June 30, 2018, the Company's qualified credit facility limit is \$369,585 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at June 30, 2018, the Company has incurred financing costs of \$3,998 relating to the credit facility, which includes upfront fees, legal and other costs. During Q2 2018 and YTD 2018, the Company incurred additional financing costs of \$12 and \$250, the majority of which relates to the exercise of the accordion feature. 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.



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(In thousands of Canadian dollars)

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2018 and YTD 2018, included in financing costs is interest on the credit facility of \$3,492 and \$6,975 (Q2 2017 – \$2,538; YTD 2017 – \$4,998) and financing costs amortization of \$283 and \$550 (Q2 2017 – \$293; YTD 2017 – \$571).

**(b) Credit facility - investment properties**

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement with a Schedule 1 Bank. Under the terms of the agreement, the co-ownership has a maximum available credit of \$162,644. The gross initial advance on the credit facility was \$144,644. The Company's share of the initial advance was \$29,594 plus \$109 of unamortized financing costs.

This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides the co-owners with the option to borrow at either the prime rate of interest plus 1.50%, LIBOR plus 2.50% or at the bankers' acceptances with a stamping fee of 2.50%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$219,123. The Company's share of the carrying value is \$44,832. The co-owners of the Saskatchewan Portfolio (note 5) are each individually subject to financial covenants outlined in the investment properties credit facility agreement. Notwithstanding, the lender's recourse is limited to each co-owner's proportionate interest in the investment properties credit facility.

As at June 30, 2018, the co-owners borrowed to LIBOR and prime rate loans from the credit facility. At the time of borrowing LIBOR loans, which are denominated in U.S. dollars, the co-owners concurrently entered into cross-currency swaps to effectively converting the LIBOR loans into Canadian dollar loans. Refer to note 17 for risk management details. As at June 30, 2018, \$154,585 was outstanding on the credit facility. The Company's share of the outstanding amount is \$31,628.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2018 and YTD 2018, included in financing costs is interest on the credit facility of \$321 and \$617 (Q2 2017 – nil; YTD 2017 – nil) and financing costs amortization of \$15 and \$30 (Q2 2017 – nil; YTD 2017 – nil).

**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 remainder of 2018 and 2020, except for one lease maturing in 2033. Rental revenue from operating leases was \$477 and \$860 during the three months and six months ended June 30, 2018.

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

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Within 1 year	\$ 1,261	\$ 769
2 to 5 years	80	55
Over 5 years	106	110

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**8. CONVERTIBLE DEBENTURES**

The debentures are comprised of as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
Issued	\$ 171,300	\$ 171,300
Issue costs, net of amortization	(4,910)	(6,074)
Equity component	(2,043)	(2,043)
Issue costs attributed to equity component	105	105
Cumulative accretion	917	658
Debentures, end of period	\$ 165,369	\$ 163,946

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:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Interest on the convertible debentures	\$ 2,390	\$ 1,909	\$ 4,778	\$ 3,444
Amortization of issue costs	758	334	1,163	613
Accretion of the convertible debentures	173	24	261	134
Total	\$ 3,321	\$ 2,267	\$ 6,202	\$ 4,191

On May 31, 2018, the Company announced redemption of 6.35% Convertible Unsecured Debentures with redemption date of July 3, 2018. As at June 30, 2018, other assets include \$35,064 deposited with the debenture trustee.

**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.

On February 7, 2018 and February 16, 2018, the Company completed a public offering of 4,302,000 plus an over-allotment option of 545,300 common shares, respectively, at \$9.30 per common share for total net proceeds of \$42,383.

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

	<b>Note</b>	<b>Six months ended June 30,</b>	
		<b>2018</b>	<b>2017</b>
Balance, beginning of period		74,277,356	73,858,499
Issuance of common shares		4,847,300	—
Converted under Convertible Debentures		5,422	—
Common shares repurchased		—	(37,603)
Issued under dividend reinvestment plan		250,597	230,340
Balance, end of period		79,380,675	74,051,236

**(a) 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

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

During Q2 2018 and YTD 2018, no common shares were purchased on the open market (Q2 2017 – nil; YTD 2017 – 37,603) and 133,904 and 250,597 (Q2 2017 – 118,020 and YTD 2017 – 192,737) were issued from treasury.

### **(b) Dividends to holders of common shares**

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q2 2018 and YTD 2018, the Company declared dividends of \$13,685 and \$27,068, or \$0.17 and \$0.35 per the Company common share (Q2 2017 – \$12,656, \$0.17 per share; YTD 2017 – \$25,290, \$0.34 per share).

As at June 30, 2018, \$4,564 in aggregate dividends (December 31, 2017 – \$4,271) was payable to the holders of common shares by the Company. Subsequent to June 30, 2018, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on July 13, 2018 and August 15, 2018 to the common shareholders of record on June 29, 2018 and July 31, 2018, respectively.

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

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

Sales of the Common Shares will be made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange. The Common Shares will be distributed under the ATM Program at the market prices prevailing at the time of sale, and therefore prices may vary as between purchasers and over time. The ATM Program will be activated at the Company's discretion and will end on the earlier of the date of distribution of the Maximum Amount and January 11, 2020.

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

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

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

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

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

During Q2 2018 and YTD 2018, 5,585 and 38,490 units were issued and outstanding (Q2 2017 and YTD 2017 - 5,771 and 11,125) and no DSUs were exercised or cancelled resulting in a DSU expense of \$52 and \$93 based on a Fair Market Value of \$9.31 (\$59 and \$110 based on a Fair Market Value of \$9.22) per common share. As at

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June 30, 2018, \$52 in quarterly compensation was granted in DSUs, which will be issued subsequent to June 30, 2018 at the Fair Market Value.

**11. MANAGEMENT AND SERVICING FEES**

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

During Q2 2018 and YTD 2018, the Company incurred management fees plus applicable taxes of \$2,908 and \$5,807 (Q2 2017 – \$2,564; YTD 2017– \$5,062) and servicing fees plus applicable taxes of \$164 and \$302 (Q2 2017 - \$162; YTD 2017 – \$319).

**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 convertible debentures to total net income and comprehensive income and increasing the weighted average number of common shares by treating the 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		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Total net income and comprehensive income	\$ 12,427	\$ 13,135	\$ 24,094	\$ 26,081
Adjustment for dilutive effect of convertible debentures	—	1,454	—	2,703
Total net income and comprehensive income (diluted)	\$ 12,427	\$ 14,589	\$ 24,094	\$ 28,784
Weighted average number of common shares (basic)	79,310,708	73,993,878	78,229,019	73,939,307
Convertible debentures <sup>1</sup>	—	9,134,328	—	8,148,099
Weighted average number of common shares (diluted)	79,310,708	83,128,206	78,229,019	82,087,406
Earnings per share – basic	\$ 0.16	\$ 0.18	\$ 0.31	\$ 0.35
Earnings per share – diluted	\$ 0.16	\$ 0.18	\$ 0.31	\$ 0.35

<sup>1</sup> 2014 debentures are excluded as they are anti-dilutive.

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**13. CHANGE IN NON-CASH OPERATING ITEMS**

	Three months ended		Six months ended	
	2018	June 30, 2017	2018	June 30, 2017
Change in non-cash operating items:				
Other assets	\$ (657)	\$ (3,420)	\$ 548	\$ (6,085)
Accounts payable and accrued expenses	(933)	42	729	190
Due to Manager	(83)	60	(73)	134
Prepaid mortgage interest	382	1,888	201	2,274
Mortgage funding holdbacks	2	(207)	504	449
	\$ (1,289)	\$ (1,637)	\$ 1,909	\$ (3,038)

**14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES**

	Six months ended June 30, 2018	
	Debentures	Credit Facilities
Balance, beginning of period	\$ 163,946	\$ 394,046
Capitalized financing cost	—	(250)
Net credit facility advances - mortgage investments	—	824
Net credit facility advances - investment properties	—	1,453
Total financing cash flow activities	—	2,027
Amortization of financing costs	—	580
Accretion expense	261	—
Amortization of issue costs	1,163	—
Total financing non-cash flow activities	1,424	580
Balance, end of period	\$ 165,370	\$ 396,653

**15. RELATED PARTY TRANSACTIONS**

- (a) As at June 30, 2018, Due to Manager includes mainly management and servicing fees payable of \$1,067 (December 31, 2017 – \$1,140).
- (b) As at June 30, 2018, included in other assets is \$2,865 (December 31, 2017 – \$2,407) 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 funding holdbacks and prepaid mortgage interest received from various borrowers.
- (c) As at June 30, 2018, the Company has three mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:
- A mortgage investment with a total gross commitment of \$84,108 (December 31, 2017 – \$84,108). The Company’s share of the commitment was \$29,108 (December 31, 2017 – \$29,108). During Q2 2018, the mortgage investment was fully repaid (December 31, 2017 – \$15,066). During Q2 2018 and YTD 2018, the Company has recognized net interest income of \$101 and \$460 (Q2 2017 – \$196; YTD 2017 – \$363) from this mortgage investment during the period.
  - A mortgage investment with a total gross commitment of \$9,500 (December 31, 2017 – \$15,600). The Company’s share of the commitment is \$3,636 (December 31, 2017 – \$5,970), of which \$3,636 (December 31, 2017 – \$3,636) has been funded as at June 30, 2018. During Q2 2018 and YTD 2018, the

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**

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Company has recognized net interest income of \$86 and \$172 (Q2 2017 – \$85; YTD 2017 – \$170) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of \$4,264 (December 31, 2017 – \$4,264). The Company's share of the commitment is \$4,264 (December 31, 2017 – \$4,264), of which \$2,023 (December 31, 2017 – \$1,992) has been funded as at June 30, 2018. During Q2 2018 and YTD 2018, the Company has recognized net interest income of \$41 and \$81 (Q2 2017 – \$39; YTD 2017 – \$79) from this mortgage investment during the period.
  - A mortgage investment with a total gross commitment of \$1,920 (December 31, 2017 – \$1,920). The Company's share of the commitment was \$1,920 (December 31, 2017 – \$1,920). During Q2 2018, the mortgage investment was fully repaid (December 31, 2017 – \$1,920). During Q2 2018 and YTD 2018, the Company has recognized net interest income of \$32 and \$61 (Q2 2017 \$29 and YTD 2017 – \$58) from this mortgage investment during the period.
  - A mortgage investment with a total gross commitment of \$16,500 (December 31, 2017 – \$16,500). The Company's share of the commitment is \$2,500 (December 31, 2017 – \$2,500), of which \$2,442 (December 31, 2016 – \$2,403) has been funded as at June 30, 2018. During Q2 2018 and YTD 2018, the Company has recognized net interest income of \$61 and \$122 (Q2 2017 and YTD 2017 – nil) from this mortgage investment during the period.
- (d) As at June 30, 2018, the Company and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek U.S. Short Term Debt (Founder) L.P. are related parties as they are managed by the Manager, and they have co-invested in 19 (December 31, 2017 – 19) gross mortgage and other investments totaling \$379,737 (December 31, 2017 – \$358,027). The Company's share in these gross mortgage investments is \$193,205 (December 31, 2017 – \$172,153). Additionally, two net mortgage investments (December 31, 2017 – one) totaling \$19,569 (December 31, 2017 – \$5,700) are loaned to limited partnerships in which T4Q is invested.
- (e) As at June 30, 2018, the Company and T4Q invested in two indirect real estate developments through two investees, totaling \$5,358 (December 31, 2017 – \$2,214).
- (f) As at June 30, 2018, the Company invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$4,400 or €2,792 (December 31, 2017 – \$1,710 or €1,144), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.
- (g) As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. During Q2 2018 and YTD 2018, Property Management Fees of \$33 and \$61 were charged by the Manager to the Company (Q2 2017 and YTD 2017 – nil). As at June 30, 2018, \$7 was payable to the Manager (December 31, 2017 – \$20).

**16. CAPITAL RISK MANAGEMENT**

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

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



## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

(In thousands of Canadian dollars)

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 June 30, 2018, the Company was in compliance with its investment restrictions.

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

### 17. RISK MANAGEMENT

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

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 June 30, 2018, \$418,898 of net mortgage investments and \$22,215 of other investments bear interest at variable rates. \$418,898 and \$17,898 of net mortgage investments and other investments have a "floor or ceiling rate". 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 \$802 or an increase in net income of \$2,184, 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 \$398,366 as at June 30, 2018. Based on the outstanding credit facility balance as at June 30, 2018, and assuming it was outstanding for the entire period a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1,983 annually.

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

#### (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 that are denominated in a currency other than the Canadian dollar. The Company uses foreign currency forwards to approximately 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 contracts, the Company buys or sells a currency against another currency at a set price on a future date.

As at June 30, 2018, the Company has net mortgage, credit facility - investment properties and other investments denominated in foreign currencies of US\$13,217 in net mortgage, US\$22,692 in credit facility - investment properties and €2,792 in other investments (December 31, 2017 – US\$20,706, nil and €1,144). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at June 30, 2018,

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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the Company has three U.S. dollars currency contracts with an aggregate notional value of US\$13,217, at a weighted average forward contract rate of 1.2772 and maturity dates between August 2018 and May 2019, and six Euro currency contracts with an aggregate notional value of €2,792 at a weighted average contract rate of 1.5380, maturing in October 2018. The Company has entered into a cross-currency swap to hedge with notional value of US\$22,692, which resets on a monthly basis. As a result, the Company is not exposed to any significant foreign currency risk.

The fair value of the foreign currency forward contract as at June 30, 2018 is a liability of \$461 which is included in accounts payable. The valuation of the foreign currency forward 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 investments are approved by the investment committee before funding; and
- iii. actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The exposure to credit risk at June 30, 2018 relating to net mortgages and other investments amount to \$1,191,610 (December 31, 2017 – \$1,150,241).

The Company has recourse under these mortgage and the majority of other investments in the event of default by the borrower; 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.



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(In thousands of Canadian dollars)

The following are the contractual maturities of financial liabilities as at June 30, 2018, including expected interest payments:

<b>June 30, 2018</b>	<b>Carrying value</b>	<b>Contractual cash flow</b>	<b>Within a year</b>	<b>Following year</b>	<b>3–5 years</b>
Accounts payable and accrued expenses	\$ 5,771	\$ 5,771	\$ 5,771	\$ —	\$ —
Dividends payable	4,564	4,564	4,564	—	—
Due to Manager	1,067	1,067	1,067	—	—
Mortgage funding holdbacks	704	704	704	—	—
Prepaid mortgage interest	2,161	2,161	2,161	—	—
Credit facility – mortgage investments <sup>1</sup>	365,093	387,863	14,367	373,496	—
Credit facility – investment properties <sup>2</sup>	31,560	33,010	1,244	31,766	—
Convertible debentures <sup>3</sup>	165,369	183,684	42,413	141,271	—
	<b>\$ 576,289</b>	<b>\$ 618,824</b>	<b>\$ 72,291</b>	<b>\$ 546,533</b>	<b>\$ —</b>
Unadvanced mortgage commitments <sup>4</sup>	—	232,365	232,365	—	—
<b>Total contractual liabilities</b>	<b>\$ 576,289</b>	<b>\$ 851,189</b>	<b>\$ 304,656</b>	<b>\$ 546,533</b>	<b>\$ —</b>

<sup>1</sup> Credit facility - mortgage investments includes interest based upon June 2018 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2019.

<sup>2</sup> Credit facility – investment properties includes interest based upon June 2018 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on August 10, 2019.

<sup>3</sup> The 2014 debentures are current as they were redeemed on July 3rd, 2018, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.

<sup>4</sup> Unadvanced mortgage commitments include syndication commitments of which \$55,067 belongs to the Company's syndicated partners.

As at June 30, 2018, the Company had a cash position of \$541 (December 31, 2017 – \$700), an unutilized credit facility – mortgage investments balance of \$73,262 (December 31, 2017 – \$34,086) and credit facility – investment properties balance of \$1,649 (December 31, 2017 – \$3,102). The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included within the unadvanced mortgage commitments is \$55,067 (December 31, 2017 – \$60,755) relating to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

**Notes to the Unaudited Condensed Consolidated Interim Financial Statements**  
(In thousands of Canadian dollars)

**18. FAIR VALUE MEASUREMENTS**

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

As at June 30, 2018	Note	Carrying value			Fair value
		Amortized cost	Fair value through profit or loss	Other financial liabilities	
Assets measured at fair value					
Foreclosed properties held for sale		\$ —	\$ 296	\$ —	\$ 296
Financial assets					
Cash and cash equivalents		541	—	—	541
Other assets		42,220	—	—	42,220
Mortgage investments, including mortgage syndications		1,541,777	114,406	—	1,656,183
Other investments	4(e)	73,702	4,400	—	78,104
Financial liabilities					
Accounts payable and accrued expenses		—	461	5,310	5,771
Dividends payable		—	—	4,564	4,564
Due to Manager		—	—	1,067	1,067
Mortgage funding holdbacks		—	—	704	704
Prepaid mortgage interest		—	—	2,161	2,161
Credit facility		—	—	396,653	398,366
Convertible debentures		—	—	165,369	169,784
Mortgage syndication liabilities		—	—	556,685	556,685

As at December 31, 2017	Note	Carrying value			Fair value
		Loans and receivable	Fair value through profit or loss	Other financial liabilities	
Assets measured at fair value					
Foreclosed properties held for sale		\$ —	\$ 336	\$ —	\$ 336
Financial assets					
Cash and cash equivalents		700	—	—	700
Other assets		\$ 8,606	\$ 66	—	8,672
Mortgage investments, including mortgage syndications		1,554,369	—	—	1,554,369
Other investments	4(e)	50,873	4,847	—	55,720
Financial liabilities					
Accounts payable and accrued expenses		—	—	5,426	5,426
Dividends payable		—	—	4,271	4,271
Due to Manager		—	—	1,140	1,140
Mortgage funding holdbacks		—	—	200	200
Prepaid mortgage interest		—	—	1,960	1,960
Credit facility		—	—	394,046	396,089
Convertible debentures		—	—	163,946	172,957
Mortgage syndication liabilities		—	—	440,648	440,648

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

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

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

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

### (b) Other financial assets and liabilities

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

### (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 June 30, 2018.

## 19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During Q2 2018 and YTD 2018, the compensation expense of the members of the Board of Directors amounts to \$52 and \$93 (Q2 2017 – \$59 and YTD 2017 – \$110), 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 9).

## 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.

The Company announced on May 31, 2018 that it has issued a notice of redemption to holders of the 6.35% convertible unsecured subordinated debentures due March 31, 2019 (the "Debentures"), representing a redemption in full of all of the currently outstanding Debentures.

The Debentures were redeemed at a redemption price of \$1,000 per \$1,000 principal amount of Debentures, plus accrued and unpaid interest of \$16.3534 per \$1,000 principal amount of Debentures. As of the close of trading on May 30, 2018, the aggregate principal amount of the Debentures outstanding was \$34,500,000.

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**21. SUBSEQUENT EVENTS**

(a) On May 31, 2018, the Company issued a redemption notice for the full outstanding amount of 6.35% convertible unsecured subordinated debentures due March 31, 2019. The aggregate principal amount of the Debentures outstanding was \$34,500. On July 3, 2018, in accordance with the terms of the Debentures, the Company paid \$35,064 in aggregate principal and interest and converted \$61 in aggregate principal and interest into 5,422 common shares.

(b) On July 19, 2018, the Company commenced issuing common shares from treasury, through an at-the-market equity offering, up to a maximum aggregate gross sales amount of \$70,000.

(c) On July 19, 2018, the credit facility for mortgage investments was amended to increase the borrowing base margin from 50% to 60% on certain asset types. This amendment will increase the borrowing capacity by approximately \$60,000 and allow the Company to utilize the full \$440,000 that is available on the credit facility.