

Interim Condensed Consolidated Financial  
Statements of

# Timbercreek Financial

Three months and nine months ended September 30, 2020 and 2019



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

(In thousands of Canadian dollars)

	Note	September 30, 2020	December 31, 2019
<b>ASSETS</b>			
Cash and cash equivalents		\$ 69,529	\$ 8,991
Other assets	15(c)	13,184	11,960
Mortgage investments, including mortgage syndications	4	1,616,092	1,667,686
Other investments	4(e)	76,395	61,520
Investment properties	5	47,817	47,349
<b>Total assets</b>		<b>1,823,017</b>	<b>1,797,506</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and accrued expenses		3,528	3,674
Dividends payable	9(d)	4,651	4,787
Due to Manager	15(a)	1,113	1,114
Mortgage and other loans funding holdbacks		2,611	3,741
Prepaid mortgage and other loans interest		7,321	5,437
Derivative liability (interest rate swap contract)	6(a)	4,790	—
Credit facility (mortgage investments)	6(a)	469,241	459,767
Credit facility (investment properties)	6(b)	30,646	30,622
Convertible debentures	8	134,213	133,033
Mortgage syndication liabilities	4(a)(c)	464,286	426,939
<b>Total liabilities</b>		<b>1,122,400</b>	<b>1,069,114</b>
Shareholders' equity	9	700,617	728,392
<b>Total liabilities and equity</b>		<b>\$ 1,823,017</b>	<b>\$ 1,797,506</b>
Commitments and contingencies	4, 6 and 20		
Subsequent events	2(d), 6(b), 8 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 September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Investment income					
Gross interest and other income, including mortgage syndications		\$ 30,820	\$ 30,567	\$ 90,759	\$ 93,530
Interest and other expenses on mortgage syndications		(6,756)	(5,825)	(20,637)	(19,300)
Net investment income	4(b)(e)	24,064	24,742	70,122	74,230
Net rental income					
Revenue from investment properties	7	703	712	2,171	2,085
Property operating costs		(359)	(353)	(1,091)	(1,059)
Net rental income		344	359	1,080	1,026
Expenses					
Management fees	11	3,116	3,037	9,386	9,303
Servicing fees	11	197	115	601	383
Allowance for expected credit loss	4(d)	348	249	970	980
General and administrative		520	367	1,507	1,203
Total expenses		4,181	3,768	12,464	11,869
Income from operations		20,227	21,333	58,738	63,387
Other income, net		—	—	—	413
Financing costs					
Financing cost on credit facilities	6	4,291	5,216	13,628	16,563
Financing cost on convertible debentures	8	2,306	2,203	6,705	6,598
Unrealized fair value (gain) loss on derivative contract	6(a)	(817)	—	4,790	—
Total financing costs		5,780	7,419	25,123	23,161
Net income and comprehensive income		\$ 14,447	\$ 13,914	\$ 33,615	\$ 40,639
<b>Earnings per share</b>					
Basic	12	\$ 0.18	\$ 0.17	\$ 0.41	\$ 0.49
Diluted	12	\$ 0.18	\$ 0.17	\$ 0.41	\$ 0.49

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
<b>Nine months ended September 30, 2020</b>				
Balance, December 31, 2019	\$ 730,418	\$ (3,964)	\$ 1,938	\$ 728,392
Repurchase of common shares under normal course issuer bid	(19,999)	—	—	(19,999)
Dividends issued to shareholders	—	(42,494)	—	(42,494)
Issuance of common shares under dividend reinvestment plan	3,506	—	—	3,506
Repurchase of common shares for dividend reinvestment plan	(2,403)	—	—	(2,403)
Total net income and comprehensive income	—	33,615	—	33,615
Balance, September 30, 2020	\$ 711,522	\$ (12,843)	\$ 1,938	\$ 700,617

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

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT**
**OF CASH FLOW** (Unaudited)

(In thousands of Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>OPERATING ACTIVITIES</b>					
Net income		\$ 14,447	\$ 13,914	\$ 33,615	\$ 40,639
Amortization of lender fees		(2,366)	(2,953)	(7,181)	(7,369)
Lender fees received		1,391	1,955	5,691	5,260
Interest and other income, net of syndications		(22,207)	(22,459)	(66,413)	(67,539)
Interest and other income received, net of syndications		21,759	21,772	64,990	72,442
Financing costs		6,597	7,419	20,333	23,161
Net unrealized loss on investments measured at FVTPL		395	669	3,472	677
Unrealized fair value (gain) loss on derivative contracts		(817)	—	4,790	—
Net realized and unrealized foreign exchange gain		(13)	(20)	(13)	(10)
Allowance for expected credit loss		348	249	970	980
Net change in non-cash operating items	13	211	(399)	(185)	3,060
		<b>19,745</b>	<b>20,147</b>	<b>60,069</b>	<b>71,301</b>
<b>FINANCING ACTIVITIES</b>					
Net credit facility advances (repayments) – mortgage investments		25,000	(36,344)	9,000	(59,233)
Net credit facility advances – investment properties		—	—	—	178
Net margin facility advances – marketable securities		—	13,987	—	13,987
Net proceeds from issuance of common shares		—	2,029	—	10,543
Interest paid		(6,595)	(7,290)	(18,753)	(20,659)
Dividends paid to shareholders		(12,820)	(13,193)	(39,124)	(39,228)
Repurchase of common shares		(5,714)	—	(22,402)	(338)
		<b>(129)</b>	<b>(40,811)</b>	<b>(71,279)</b>	<b>(94,750)</b>
<b>INVESTING ACTIVITIES</b>					
Purchases of marketable securities		—	(36,533)	—	(36,533)
Proceeds from sale of marketable securities		—	531	—	531
Additions to investment properties		(197)	(305)	(468)	(695)
Net payments on maturity of forward contracts		—	176	(432)	319
Funding of other investments		(11,000)	(363)	(22,217)	(4,736)
Proceeds from other investments		25	14,933	8,011	27,582
Funding of mortgage investments, net of syndications		(89,620)	(140,108)	(316,245)	(446,299)
Discharges of mortgage investments, net of syndications		145,845	181,885	403,184	482,758
		<b>45,053</b>	<b>20,216</b>	<b>71,833</b>	<b>22,927</b>
Net foreign exchange (loss) gain on cash accounts		(1)	97	(85)	84
Increase (decrease) in cash and cash equivalents		64,668	(351)	60,538	(438)
Cash and cash equivalents, beginning of period		4,861	454	8,991	541
Cash and cash equivalents, end of period		\$ 69,529	\$ 103	\$ 69,529	\$ 103

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

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PRESENTATION

#### (a) Statement of compliance

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

The presentation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”). These unaudited 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, 2019 since these financial statements do not contain all disclosures required by IFRS for annual financial statements.

The unaudited interim condensed consolidated financial statements were approved by the Board of Directors on November 12, 2020.

#### (b) Principles of consolidation

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

#### (c) Basis of measurement

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

#### (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.

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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 September 30, 2020, the Company collected approximately 99.6% of October 2020 interest payments which is materially in line with historical collection rates. As of September 30, 2020 there were no active deferred payment plans related to COVID-19.

The allowance for credit losses and carrying value for the Company's investments measured at FVTPL reflect its best estimate. As at September 30, 2020, for the purpose of assessing allowance for credit losses, our assumption relating to the probability of default on mortgage investments secured by retail assets was initially updated in June 2020 and remained in place to reflect the potential for increased risk to property cash flows as a result of the ongoing COVID-19 pandemic.

Additionally, a land mortgage investment measured at FVTPL recorded a negative adjustment in fair value of \$578 due to project development delays unrelated to COVID-19. Refer to note 4(a) and 4(d) of the interim condensed consolidated financial statements for the three months and nine months ended September 30, 2020 and 2019 for additional details. Actual results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruptions is longer than initially anticipated.

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

### Measurement of fair values

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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. 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.

### 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, except as noted below, as those applied by the Company in its consolidated financial statements for the year ended December 31, 2019, which were prepared in accordance with IFRS.



**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

**Changes in accounting policies**
**Amendments to References to the Conceptual Framework in IFRS Standards**

On March 29, 2018 the International Accounting Standards Board ("IASB") issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020.

The Company has adopted the amendments in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's financial statements.

**Definition of Material (Amendments to IAS 1 and IAS 8)**

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from International Accounting Standards ("IAS") 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8"). The amendments are effective for annual periods beginning on or after January 1, 2020.

The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Company has adopted the amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's financial statements.

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

<b>As at September 30, 2020</b>	<b>Note</b>	<b>Mortgages, including mortgage syndications</b>	<b>Mortgage syndication liabilities</b>	<b>Net Mortgage Investments</b>
Mortgage investments, including mortgage syndications - at amortized cost	4(b)(c)	\$ 1,543,657	\$ (463,523)	\$ 1,080,134
Interest receivable		10,377	(1,935)	8,442
		<b>1,554,034</b>	<b>(465,458)</b>	<b>1,088,576</b>
Unamortized lender fees		(9,319)	1,172	(8,147)
Allowance for expected credit loss	4(d)	(2,788)	—	(2,788)
Mortgage investments at amortized cost		<b>1,541,927</b>	<b>(464,286)</b>	<b>1,077,641</b>
Mortgage investments, including mortgage syndications - at FVTPL		73,067	—	73,067
Interest receivable		1,098	—	1,098
Mortgage investments at FVTPL		<b>74,165</b>	<b>—</b>	<b>74,165</b>
Mortgage investments, including mortgage syndications		<b>\$ 1,616,092</b>	<b>\$ (464,286)</b>	<b>\$ 1,151,806</b>

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

<b>As at December 31, 2019</b>	<b>Mortgages, including mortgage syndications</b>	<b>Mortgage syndication liabilities</b>	<b>Net Mortgage Investments</b>
Mortgage investments, including mortgage syndications - at amortized cost	\$ 1,595,332	\$ (426,252)	\$ 1,169,080
Interest receivable	10,004	(1,746)	8,258
	1,605,336	(427,998)	1,177,338
Unamortized lender fees	(10,519)	1,059	(9,460)
Allowance for expected credit loss	(2,303)	—	(2,303)
Mortgage investments at amortized cost	1,592,514	(426,939)	1,165,575
Mortgage investments, including mortgage syndications - at FVTPL	75,002	—	75,002
Interest receivable	170	—	170
Mortgage investments at FVTPL	75,172	—	75,172
Mortgage investments, including mortgage syndications	\$ 1,667,686	\$ (426,939)	\$ 1,240,747

As at September 30, 2020, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to \$276,021 (December 31, 2019 – \$211,753) of which \$156,693 (December 31, 2019 – \$81,295) belong to the Company's syndicated partners. The Company expects the syndicated partners to fund their respective commitments.

**Mortgages classified at FVTPL**

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

As at September 30, 2020, mortgage investments including mortgage syndications of \$73,067 (December 31, 2019 – \$75,002) are classified as measured at FVTPL. Total change in balance for the three months and nine months ended September 30, 2020 was an increase of \$375 and \$1,935 (Q3 2019 – \$647; YTD 2019 – \$1,906). During the three and nine months ended September 30, 2020, the Company made additional advances of \$952 and \$2,005 (Q3 2019 – \$647; YTD 2019 – \$1,906), and recorded an unrealized fair value losses of \$577 and \$3,940 (Q3 2019 – nil; YTD 2019 – nil), primarily related to a negative fair value adjustment in Q3 due to project development delays unrelated to COVID-19 on a land mortgage investment and a negative fair value adjustment in Q2 related to an increase in the discount rate used to value a retail asset impacted by COVID-19.

**(b) Net mortgage investments**

<b>As at</b>	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Interest in first mortgages	90.4%	\$ 1,042,248	90.5%	\$ 1,125,797
Interest in second and third mortgages	9.6%	110,953	9.5%	118,285
	100.0%	\$ 1,153,201	100.0%	\$ 1,244,082

The mortgage investments are secured by real property and will mature between the remainder of 2020 and 2025 (December 31, 2019 – 2020 and 2023). During Q3 2020 and YTD 2020, the Company generated net interest income and other income on net mortgage investments classified at amortized cost, excluding lender fee income of \$20,790 and \$62,669 (Q3 2019 – \$20,379 and YTD 2019 – \$61,760).

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

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

During Q3 2020 and YTD 2020, the Company amortized lender fee income on net mortgage investments classified at amortized cost, net of fees relating to mortgage syndication liabilities of \$2,173 and \$7,011 (Q3 2019 – \$2,755; YTD 2019 – \$7,024). During Q3 2020 and YTD 2020, the Company recorded non-refundable upfront cash lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$1,344 and \$5,550 (Q3 2019 – \$1,955; YTD 2019 – \$5,260), 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:

<b>As at</b>	<b>September 30, 2020</b>
2020	\$ 119,072
2021	559,731
2022	388,185
2023	81,713
2024 and thereafter	4,500
<b>Total</b>	<b>\$ 1,153,201</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 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).

**(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 \$3,298 as at September 30, 2020 (December 31, 2019 - \$2,328), of which \$2,788 (December 31, 2019 - \$2,303) was recorded against mortgage investments and \$510 (December 31, 2019 - \$25) was recorded against other investments.

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

	Nine months ended September 30, 2020				Year Ended December 31, 2019			
<b>Multi-residential Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications <sup>1</sup>	\$ 848,991	\$ 7,616	\$ 3,017	\$ 859,624	\$ 925,025	\$ —	\$ 2,903	\$ 927,928
Mortgage syndication liabilities <sup>1</sup>	268,902	—	—	268,902	240,724	—	—	240,724
Net mortgage investments	580,089	7,616	3,017	590,722	684,301	—	2,903	687,204
Allowance for credit losses <sup>2</sup>	994	54	367	1,415	1,003	—	253	1,256
	<b>579,095</b>	<b>7,562</b>	<b>2,650</b>	<b>589,307</b>	<b>683,298</b>	<b>—</b>	<b>2,650</b>	<b>685,948</b>
<b>Other Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications <sup>1</sup>	607,038	84,168	3,204	694,410	674,306	—	3,102	677,408
Mortgage syndication liabilities <sup>1</sup>	144,287	52,269	—	196,556	187,274	—	—	187,274
Net mortgage investments	462,751	31,899	3,204	497,854	487,032	—	3,102	490,134
Allowance for credit losses <sup>2</sup>	551	15	807	1,373	334	—	713	1,047
	<b>462,200</b>	<b>31,884</b>	<b>2,397</b>	<b>496,481</b>	<b>486,698</b>	<b>—</b>	<b>2,389</b>	<b>489,087</b>
<b>Other loan Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Other loans, including mortgage syndications <sup>1</sup>	56,248	6,842	—	63,090	48,407	—	—	48,407
Other loans syndication liabilities <sup>1</sup>	—	—	—	—	—	—	—	—
Net other loans investments	56,248	6,842	—	63,090	48,407	—	—	48,407
Allowance for credit losses <sup>2</sup>	70	440	—	510	25	—	—	25
	<b>\$ 56,178</b>	<b>\$ 6,402</b>	<b>\$ —</b>	<b>\$ 62,580</b>	<b>\$ 48,382</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 48,382</b>

<sup>1</sup>Including interest receivable

<sup>2</sup>Allowance 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 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:

	<b>Nine Months Ended September 30, 2020</b>				<b>Nine Months Ended September 30, 2019</b>			
<b>Multi-residential Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	\$ 1,003	\$ —	\$ 253	\$ 1,256	\$ 627	\$ —	\$ 3	\$ 630
Allowance for credit losses:								
Remeasurement	156	101	114	371	10	2	211	223
Transfer to/(from)								
Stage 1	(5)	—	—	(5)	(3)	—	—	(3)
Stage 2	—	5	—	5	—	3	—	3
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	1,154	106	367	1,627	634	5	214	853
Fundings	288	—	—	288	380	—	—	380
Discharges	(448)	(52)	—	(500)	(282)	—	—	(282)
Balance at end of period	<b>994</b>	<b>54</b>	<b>367</b>	<b>1,415</b>	<b>732</b>	<b>5</b>	<b>214</b>	<b>951</b>
<b>Other Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	334	—	713	1,047	200	—	587	787
Allowance for credit losses:								
Remeasurement	197	—	94	291	127	—	710	837
Transfer to/(from)								
Stage 1	(15)	—	—	(15)	—	—	—	—
Stage 2	—	15	—	15	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	516	15	807	1,338	327	—	1,297	1,624
Fundings	97	—	—	97	103	—	—	103
Discharges	(62)	—	—	(62)	(92)	—	—	(92)
Balance at end of period	<b>551</b>	<b>15</b>	<b>807</b>	<b>1,373</b>	<b>338</b>	<b>—</b>	<b>1,297</b>	<b>1,635</b>
<b>Other loan Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	25	—	—	25	212	—	3	215
Allowance for credit losses:								
Remeasurement	(402)	435	—	33	8	—	—	8
Transfer to/(from)								
Stage 1	(5)	—	—	(5)	3	—	—	3
Stage 2	—	5	—	5	—	—	—	—
Stage 3	—	—	—	—	—	—	(3)	(3)
Total allowance for credit losses	(382)	440	—	58	223	—	—	223
Fundings	24	—	—	24	3	—	—	3
Discharges	428	—	—	428	(201)	—	—	(201)
Balance at end of period	<b>\$ 70</b>	<b>\$ 440</b>	<b>\$ —</b>	<b>\$ 510</b>	<b>\$ 25</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 25</b>

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

In assessing credit risk, the Company utilizes a risk rating framework that considers the following factors: collateral type, property rank that is applicable to the Company's security and/or priority positions, loan-to-value and population of location of the collateral. In Q1 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.

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

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

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

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

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

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

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

	As at September 30, 2020				As at December 31, 2019			
<b>Multi-residential Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	\$ 189,554	\$ —	\$ —	\$ 189,554	\$ 205,588	\$ —	\$ —	\$ 205,588
Medium-Low risk	357,739	—	—	357,739	444,496	—	—	444,496
Medium-High risk	32,796	7,616	—	40,412	34,217	—	—	34,217
High risk	—	—	—	—	—	—	—	—
Default	—	—	3,017	3,017	—	—	2,903	2,903
Net Mortgage Investments <sup>1</sup>	580,089	7,616	3,017	590,722	684,301	—	2,903	687,204
Allowance for credit losses	994	54	367	1,415	1,003	—	253	1,256
	<b>579,095</b>	<b>7,562</b>	<b>2,650</b>	<b>589,307</b>	<b>683,298</b>	<b>—</b>	<b>2,650</b>	<b>685,948</b>
<b>Other Mortgage Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	81,373	—	—	81,373	118,546	—	—	118,546
Medium-Low risk	298,717	18,775	—	317,492	275,349	—	—	275,349
Medium-High risk	65,692	13,124	—	78,816	82,054	—	—	82,054
High risk	16,969	—	—	16,969	11,083	—	—	11,083
Default	—	—	3,204	3,204	—	—	3,102	3,102
Net Mortgage Investments <sup>1</sup>	462,751	31,899	3,204	497,854	487,032	—	3,102	490,134
Allowance for credit losses	551	15	807	1,373	334	—	713	1,047
	<b>462,200</b>	<b>31,884</b>	<b>2,397</b>	<b>496,481</b>	<b>486,698</b>	<b>—</b>	<b>2,389</b>	<b>489,087</b>
<b>Other loan Investments</b>	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	—	—	—	—	—	—	—	—
Medium-Low risk	—	—	—	—	—	—	—	—
Medium-High risk	—	—	—	—	—	—	—	—
High risk	56,248	6,842	—	63,090	48,407	—	—	48,407
Default	—	—	—	—	—	—	—	—
Net Mortgage Investments <sup>1</sup>	56,248	6,842	—	63,090	48,407	—	—	48,407
Allowance for credit losses	70	440	—	510	25	—	—	25
	<b>\$ 56,178</b>	<b>\$ 6,402</b>	<b>\$ —</b>	<b>\$ 62,580</b>	<b>\$ 48,382</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 48,382</b>

<sup>1</sup> Net of mortgage syndications

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

**(e) Other investments**

As at	September 30, 2020	December 31, 2019
Collateralized loans, net of allowance for credit loss	\$ 62,432	\$ 48,326
Finance lease receivable, measured at amortized cost	6,020	6,020
Investments, measured at FVTPL	5,718	4,949
Indirect real estate development, measured using equity method:		
Investment in Joint Venture	2,225	2,225
<b>Total Other Investments</b>	<b>\$ 76,395</b>	<b>\$ 61,520</b>

During Q3 2020 and YTD 2020, collateralized loans in other investments generated interest income of \$1,397 and \$3,639 (Q3 2019 – \$1,381; YTD 2019 – \$5,031) and amortized lender fee income of \$78 and \$170 (Q3 2019 – \$197; YTD 2019 – \$345). During Q3 2020 and YTD 2020, the Company recorded non-refundable upfront cash lender fees of \$108 and \$297 (Q3 2019 – nil; YTD 2019 – nil), 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, 2019 - \$6,020) is included in other investments. Concurrently, the Company entered into a \$3,300 construction loan on the leased property with the lessee which is included in other loan investments. The lease payment began in the third quarter of 2018.

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

**5. INVESTMENT PROPERTIES**

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

Jointly Controlled Assets	Location	Property Type	Ownership Interest	
			September 30, 2020	December 31, 2019
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties & Development Property	20.46%	20.46%
Balance, beginning of period			\$ 47,349	\$ 46,494
Additions			468	855
Balance, end of period			<b>\$ 47,817</b>	<b>\$ 47,349</b>

As at September 30, 2020, the investment properties are pledged as security for the credit facility (note 6(b)).



**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

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 September 30, 2020, the weighted average capitalization rate for the Company's investment properties is 5.30% (December 31, 2019 - 5.30%). The estimated fair value would decrease by \$2,122 (December 31, 2019 - \$2,122) if overall capitalization rates were higher by 25 bps; whereas estimated fair value would increase by \$2,332 (December 31, 2019 - \$2,332) if overall capitalization rates were lower by 25 bps. In addition, the estimated fair value would increase by \$471 (December 31, 2019 - \$471) if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by \$471 (December 31, 2019 - \$471) if stabilized net operating income were lower by 1%.

**6. CREDIT FACILITIES**

As at	September 30, 2020	December 31, 2019
Credit facility (mortgage investments)	\$ 470,000	\$ 461,000
Unamortized financing costs (mortgage investments)	(759)	(1,233)
	469,241	459,767
Credit facility (investment properties)	30,690	30,690
Unamortized financing costs (investment properties)	(44)	(68)
	30,646	30,622
Total credit facilities	\$ 499,887	\$ 490,389

**(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, 2019 - prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2019 - 2.00%) and standby fee of 0.40% per annum (December 31, 2019 - 0.40%) on the unutilized credit facility balance. As at September 30, 2020, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Sixth Amending Credit Agreement is \$486,174.

In December 2019, the Company entered into a 2-year interest rate swap contract (the "Contract") with two Canadian banks with notional value of \$250,000, and subsequently during Q1 2020, a portion of the Contract was assigned to a third counter-party, a Canadian bank. 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 gain or loss from the Contract is recognized in the statement of net income and comprehensive income. As at September 30, 2020, the Company recorded the fair value of the Contract as a liability of \$4,790 (December 31, 2019 - nil). The fair value of the Contract is calculated as the present value of the estimated future cash flows. 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.



## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

During Q3 2020 and YTD 2020, the Company incurred financing costs of \$72 and \$198 (Q3 2019 – nil; YTD 2019 – \$56). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement.

Interest on the credit facility is recorded in financing costs and calculated using the effective interest rate method. For Q3 2020 and YTD 2020, included in financing costs is interest on the credit facility and realized loss on the Contract of \$3,895 and \$12,214 (Q3 2019 – \$4,442; YTD 2019 – \$14,235) and financing costs amortization of \$157 and \$673 (Q3 2019 – \$408; YTD 2019 – \$1,209).

The unrealized fair value relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. For Q3 2020 and YTD 2020, included in financing costs is unrealized fair value gain of \$817 and loss of \$4,790 (Q3 2019 – nil, YTD 2019 – nil).

### **(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 September 30, 2020, 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. Subsequent to September 30, 2020, the Tranche B credit facility was amended resulting in the maturity date being extended to February 5, 2021 and the interest rate changing to same borrowing option as the Tranche A credit facility.
- 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. During Q3 2020 and YTD 2020, included in financing costs is interest on the credit facility of \$229 and \$710 (Q3 2019 – \$358; YTD 2019 – \$1,080) and financing costs amortization of \$10 and \$31 (Q3 2019 – \$9; YTD 2019 – \$39).

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

**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 2020 and 2022. Rental revenue from operating leases for the three months and nine months ended September 30, 2020 was \$703 and \$2,171 (Q3 2019 – \$712; YTD 2019 – \$2,085).

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Within 1 year	\$ 2,181	\$ 1,950
2 to 5 years	361	163
Over 5 years	—	—

**8. CONVERTIBLE DEBENTURES**

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

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

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

The Company announced on September 21, 2020 that it has issued a notice of redemption to holders of the 2016 debentures due July 31, 2021, representing a redemption in full of all of the currently outstanding 2016 debentures.

The 2016 debentures were redeemed on October 22, 2020 at par, plus accrued and unpaid interest of \$561. The aggregate principal amount of the 2016 debentures outstanding was \$45,800 as at September 30, 2020 and on redemption date. The Company drew \$40,000 from its credit facility to fund the redemption and associated interest.

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

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

The February 2017 debentures are redeemable on and after March 31, 2020, but prior to March 31, 2021, the February 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On or after March 31, 2021 and prior to the maturity date, the February 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice.

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

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

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

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

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(In thousands of Canadian dollars)

The convertible debentures are comprised of as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Issued	\$ 136,800	\$ 136,800
Unamortized financing cost and amount classified as equity component	(2,587)	(3,767)
Debentures, end of period	\$ 134,213	\$ 133,033

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 September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Interest on the convertible debentures	\$ 1,842	\$ 1,842	\$ 5,525	\$ 5,524
Amortization of issue costs and accretion of the convertible debentures	464	361	1,180	1,074
Total	\$ 2,306	\$ 2,203	\$ 6,705	\$ 6,598

**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:

	<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>
Balance, beginning of period	83,254,130	81,632,844
Issuance of common shares	—	1,167,000
Common shares issued under dividend reinvestment plan	410,484	370,295
Common shares repurchased for dividend reinvestment plan	(292,666)	(36,866)
Common shares repurchased under normal course issuer bid	(2,484,515)	—
Balance, end of period	80,887,433	83,133,273

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

The Company announced on June 21, 2018 that it has established an ATM Program which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to \$70,000 to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange (the "TSX"). The common shares distributed under the ATM Program were at the market prices prevailing at the time of sale, and therefore prices varied between purchasers and over time. The ATM Program was active between July 2018 to July 2019 and expired on January 11, 2020.

**(b) 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.

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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.

During Q3 2020 and YTD 2020, the Company repurchased 424,879 and 2,484,515 common shares (Q3 2019 – nil; YTD 2019 – nil) for a total amount of \$3,601 and \$19,999 (Q3 2019 – nil; YTD 2019 – nil). The average price per common share repurchased was \$8.48 for Q3 2020 and \$8.05 for YTD 2020.

### (c) Dividend reinvestment plan ("DRIP")

The DRIP provided eligible beneficial and registered holders of common shares with a means to reinvest dividends declared and payable on such common shares into additional common shares. Under the DRIP, shareholders could enroll to have their cash dividends reinvested to purchase additional common shares. The common shares can be purchased from the open market based upon the prevailing market rates or from treasury at a price of 98% of the average of the daily volume weighted average closing price on the TSX for the 5 trading days preceding payment, the price of which will not be less than the book value per common share.

During Q3 2020 and YTD 2020, the Company purchased from open market 141,136 and 292,666 common shares (Q3 2019 – nil and YTD 2019 – 36,866) for total amount of \$1,205 and \$2,404 (Q3 2019 – nil; YTD 2019 – \$338). During YTD 2020, common shares were purchased from open market at an average price of \$8.21 per common share.

During Q3 2020 and YTD 2020, the Company issued from treasury nil and 117,818 common shares (Q3 2019 – 121,419 and YTD 2019 – 333,429) and retained nil and \$1,134 in dividends (Q3 2019 – \$1,132; YTD 2019 – \$3,071). During YTD 2020, common shares were issued from treasury at an average price of \$9.62 per common share.

### (d) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q3 2020 and YTD 2020, the Company declared dividends of \$13,964 or \$0.1725 per common share and \$42,494 or \$0.5175 per common share (Q3 2019 – \$14,333, \$0.1725 per share and YTD 2019 – \$42,723, \$0.5175 per share).

As at September 30, 2020, \$4,651 in aggregate dividends (December 31, 2019 – \$4,787) was payable to the holders of common shares by the Company. Subsequent to September 30, 2020, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on October 15, 2020 to the common shareholders of record on September 30, 2020.

## 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. Until June 30, 2018, each director was also entitled to an additional 25% of DSUs that are issued in the quarter up to a maximum value of \$5 per annum.



## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

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 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 Q3 2020 and YTD 2020, 9,965 and 30,515 units were issued (Q3 2019 and YTD 2019 – 8,146 and 24,143) and as at September 30, 2020, 114,823 units were outstanding (December 31, 2019 – 84,308 units). No DSUs were exercised or canceled, resulting in a DSU expense of \$74 and \$260 (Q3 2019 and YTD 2019 – \$86 and YTD 2019 – \$252). As at September 30, 2020, \$74 (December 31, 2019 – \$86) in compensation was granted in DSUs, which will be issued subsequent to September 30, 2020.

### 11. MANAGEMENT, SERVICING AND ARRANGEMENT FEES

On April 3, 2020, the Board of Directors approved an amended and restated management agreement dated effective April 1, 2020 (the "Management Agreement") between the Company and the Manager, which amended and restated the management agreement (the "Original Management Agreement") dated June 30, 2016.

The Original Management Agreement had a term of 10 years and could be automatically renewed for successive five year terms at the expiration of the initial term and paid the Company (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 retained 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.

The term of the Management Agreement is for a period of 10 years commencing on April 1, 2020, and will be automatically renewed for successive five year terms. The management fee and servicing fee remains consistent with the Original Management Agreement. 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.

During Q3 2020 and YTD 2020, the Company incurred management fees plus applicable taxes of \$3,116 and \$9,386 (Q3 2019 – \$3,037; YTD 2019 – \$9,303) and servicing fees including applicable taxes of \$197 and \$601 (Q3 2019 – \$115 ; YTD 2019 – \$383). During Q3 2020 and YTD 2020, Arrangement Fees of \$92 and \$134 was retained by the Manager (Q3 2019 – nil and YTD 2019 – 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.

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

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

The following table shows the computation of per share amounts:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Total net income and comprehensive income (basic)	\$ 14,447	\$ 13,914	\$ 33,615	\$ 40,639
Interest expense on convertible debentures	1,458	1,509	—	2,230
Total net income and comprehensive income (diluted)	\$ 15,905	\$ 15,423	\$ 33,615	\$ 42,869
Weighted average number of common shares (basic)	81,004,443	83,074,741	82,200,247	82,484,114
Effect of conversion of convertible debentures	8,631,168	9,134,328	—	4,557,214
Weighted average number of common shares (diluted)	89,635,611	92,209,069	82,200,247	87,041,328
Earnings per share – basic	\$ 0.18	\$ 0.17	\$ 0.41	\$ 0.49
Earnings per share – diluted	\$ 0.18	\$ 0.17	\$ 0.41	\$ 0.49

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

Change in non-cash operating items:	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Other assets	\$ 972	\$ 416	\$ (1,067)	\$ (2,686)
Accounts payable and accrued expenses	(88)	(934)	129	(76)
Due to Manager	(46)	(32)	(1)	(435)
Prepaid mortgage and other loans interest	(999)	50	1,884	4,110
Mortgage and other loans funding holdbacks	372	101	(1,130)	2,147
	\$ 211	\$ (399)	\$ (185)	\$ 3,060

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

Debtures	Nine months ended September 30,	
	2020	2019
Balance, beginning of period	\$ 133,033	\$ 131,597
Capitalized financing cost, net of amortization	988	891
Accretion expense	192	183
Balance, end of period	\$ 134,213	\$ 132,671

Credit Facilities	Nine months ended September 30,	
	2020	2019
Balance, beginning of period	\$ 490,389	\$ 508,939
Capitalized financing cost <sup>1</sup>	(206)	(73)
Net credit facility (repayments) advances – mortgage investments	9,000	(59,233)
Net credit facility (repayments) advances – investment properties	—	178
Total financing cash flow activities	8,794	(59,128)
Amortization of financing costs	704	1,248
Balance, end of period	\$ 499,887	\$ 451,059

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

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

**15. RELATED PARTY TRANSACTIONS**

- (a) As at September 30, 2020, due to Manager mainly includes management and servicing fees payable of \$1,113 (December 31, 2019 – \$1,114).
- (b) During Q3 2020 and YTD 2020, Arrangement Fees of \$92 and \$134 was retained by the Manager (Q3 2019 – nil and YTD 2019 – nil).
- (c) As at September 30, 2020, included in other assets is \$9,932 (December 31, 2019 – \$8,959) 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.
- (d) As at September 30, 2020, the Company has the following mortgage investments which an independent 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, 2019 – nil). The Company's share of the commitment is \$931 (December 31, 2019 – nil). For the three months and nine months ended September 30, 2020, the Company has recognized net interest income of \$17 (Q3 2019 and YTD 2019 – nil) from this mortgage investment during the period.
  - A mortgage investment with a total gross commitment of \$45,715 (December 31, 2019 – nil). The Company's share of the commitment is \$4,103 (December 31, 2019 – nil). For the three months and nine months ended September 30, 2020, the Company has recognized net interest income of \$1 (Q3 2019 and YTD 2019 – nil) from this mortgage investment during the period.
- (e) As at September 30, 2020, the Company, Four Quadrant Global Real Estate Partners ("4Q", formerly Timbercreek Four Quadrant Global Real Estate Partners), Hazelview Global Real Estate Fund (formerly Timbercreek Global Real Estate Income Fund) and Timbercreek Real Estate Financing U.S. Holding LP are related parties as they are managed by the Manager or its related parties, and they have co-invested in 31 mortgages (December 31, 2019 – 29) and other investments totaling \$329,791 (December 31, 2019 – \$349,050), on a gross basis including mortgage syndications. The Company's share in these mortgage investments is \$182,385 (December 31, 2019 – \$202,932). Additionally, one mortgage investment (December 31, 2019 – one) totaling \$18,951 (December 31, 2019 – \$18,402), net of mortgage syndication, is loaned to a limited partnership in which T4Q has a minimal interest in the partnership.
- (f) As at September 30, 2020, the Company and 4Q invested in one indirect real estate development through one investee, totaling \$4,450 (December 31, 2019 – \$4,450), the Company's share in this investment is \$2,225 (December 31, 2019 – \$2,225).
- (g) As at September 30, 2020, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$5,718 or €3,661 (December 31, 2019 – \$4,948 or €3,398), 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.
- (h) As part of the Saskatchewan Portfolio co-ownership, the Company, 4Q and a third-party co-owner are party to property management agreements with Hazelview Investment Inc. ("HII", formerly Timbercreek Equities Corp.), as successor in interest to TAMI as of March 9, 2020, in respect of such property management agreements. HII provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. During Q3 2020 \$38 of Property Management Fees were charged by HII and for YTD 2020, \$40 of such fees were charged by TAMI prior to March 9, 2020, and \$69 of such fees were charged by HII subsequent to March 9, 2020 (Q3 2019 \$39 and YTD 2019 – \$115). As at September 30, 2020, \$13 remained payable to the HII (December 31, 2019 – \$12 was payable to TAMI).



## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

### 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 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 September 30, 2020, 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 September 30, 2020, \$990,746 of net mortgage investments and \$11,323 of other investments bear interest at variable rates (December 31, 2019 – \$992,301 and \$6,560, respectively). \$937,671 of net mortgage investments have a "floor rate" (December 31, 2019 – \$917,172). 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 is minimal as of September 30, 2020 (December 31, 2019 – decrease \$1,283 or increase \$4,994, 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 have a balance of \$500,690 as at September 30, 2020 (December 31, 2019 – \$491,690). 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 September 30, 2020, net exposure to interest rate risk was \$226,478 (December 31, 2019 – \$241,700), 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 and comprehensive income by \$1,132 (December 31, 2019 – \$1,208).

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

## Notes to the Consolidated Financial Statements

(In thousands of Canadian dollars)

### **(b) Currency risk**

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

As at September 30, 2020, the Company has US\$5,050 and €3,661 in other investments denominated in foreign currencies (December 31, 2019 – US\$5,050 and €3,398 in other investments). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at September 30, 2020, 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 1.3962, maturing in October 2020 and one Euro currency contract with an aggregate notional value of €3,500 at contract rate of 1.5401, maturing in October 2020. The Company has entered into a cross-currency swap to economically hedge with notional value of US\$4,911, 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 contracts as at September 30, 2020 is an asset of \$248 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 September 30, 2020 relating to net mortgages and other investments amount to \$1,246,746 (December 31, 2019 – \$1,319,631).

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.

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(In thousands of Canadian dollars)

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at September 30, 2020, including expected interest payments:

<b>September 30, 2020</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	\$ 3,528	\$ 3,528	\$ 3,528	\$ —	\$ —
Dividends payable	4,651	4,651	4,651	—	—
Due to Manager	1,113	1,113	1,113	—	—
Mortgage and other loans funding holdbacks	2,611	2,611	2,611	—	—
Prepaid mortgage and other loans interest	7,321	7,321	7,321	—	—
Derivative liability (interest rate swap contract)	4,790	4,789	3,850	939	—
Credit facility (mortgage investments) <sup>1</sup>	469,241	484,174	11,628	472,546	—
Credit facility (investment properties) <sup>2</sup>	30,646	31,476	8,888	22,588	—
Convertible debentures <sup>3</sup>	134,213	136,800	136,800	—	—
	\$ 658,114	\$ 676,463	\$ 180,390	\$ 496,073	\$ —
Unadvanced mortgage commitments <sup>4</sup>	—	276,021	276,021	—	—
<b>Total contractual liabilities, excluding mortgage syndication liabilities<sup>5</sup></b>	<b>\$ 658,114</b>	<b>\$ 952,484</b>	<b>\$ 456,411</b>	<b>\$ 496,073</b>	<b>\$ —</b>

<sup>1</sup> Credit facility (mortgage investments) includes interest based upon September 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 18, 2021.

<sup>2</sup> Credit facility (investment properties) includes interest based upon September 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturities on Feb 5, 2021 and October 9, 2021.

<sup>3</sup> The convertible debentures are assumed to be redeemed within a year as they are redeemable as at the reporting date.

<sup>4</sup> Unadvanced mortgage commitments include syndication commitments of which \$156,693 belongs to the Company's syndicated partners.

<sup>5</sup> The principal repayments of \$463,523 mortgage syndication liabilities by contractual maturity date are shown net with mortgage investments in note 4(b).

As at September 30, 2020, the Company had a cash position of \$69,529 (December 31, 2019 – \$8,991), an unutilized credit facility (mortgage investments) balance of \$65,000 (December 31, 2019 – \$39,000) and an unutilized credit facility (investment properties) balance of nil (December 31, 2019 – 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 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:

<b>As at September 30, 2020</b>	<b>Note</b>	<b>Carrying value</b>		<b>Fair value</b>
		<b>Amortized cost</b>	<b>Fair value through profit or loss</b>	
Assets measured at fair value				
Investment properties	5	\$ —	\$ 47,817	\$ 47,817
Financial assets				
Cash and cash equivalents		69,529	—	69,529
Other assets		11,972	248	12,220
Mortgage investments, including mortgage syndications		1,541,927	74,165	1,616,092
Other investments	4(e)	68,452	5,718	74,170
Financial liabilities				
Accounts payable and accrued expenses		2,500	1,028	3,528
Dividends payable		4,651	—	4,651
Due to Manager		1,113	—	1,113
Mortgage funding holdbacks		2,611	—	2,611
Prepaid mortgage interest		7,321	—	7,321
Derivative liability (interest rate swap contract)		—	4,790	4,790
Credit facility (mortgage investments)		469,241	—	470,000
Credit facility (investment properties)		30,646	—	30,690
Convertible debentures		134,213	—	135,005
Mortgage syndication liabilities		464,286	—	464,286

<b>As at December 31, 2019</b>	<b>Note</b>	<b>Carrying value</b>		<b>Fair value</b>
		<b>Amortized cost</b>	<b>Fair value through profit or loss</b>	
Assets measured at fair value				
Investment properties	5	\$ —	\$ 47,349	\$ 47,349
Financial assets				
Cash and cash equivalents		8,991	—	8,991
Other assets		10,521	237	10,758
Mortgage investments, including mortgage syndications		1,592,514	75,172	1,667,686
Other investments	4(e)	54,346	4,949	59,295
Financial liabilities				
Accounts payable and accrued expenses		2,827	847	3,674
Dividends payable		4,787	—	4,787
Due to Manager		1,114	—	1,114
Mortgage funding holdbacks		3,741	—	3,741
Prepaid mortgage interest		5,437	—	5,437
Credit facility (mortgage investments)		459,767	—	461,000
Credit facility (investment properties)		30,622	—	30,690
Convertible debentures		133,033	—	139,478
Mortgage syndication liabilities		426,939	—	426,939

## Notes to the 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. 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 September 30, 2020.

## **19. COMPENSATION OF KEY MANAGEMENT PERSONNEL**

During Q3 2020 and YTD 2020, the compensation expense of the members of the Board of Directors amounts to \$74 and \$260 (Q3 2019 – \$86 and YTD 2019 – \$252), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

## **20. COMMITMENTS AND CONTINGENCIES**

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

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

**Notes to the Consolidated Financial Statements**

(In thousands of Canadian dollars)

**21. SUBSEQUENT EVENTS**

On September 21, 2020, the Company issued a notice of redemption for the full outstanding amount of the 2016 debentures due July 31, 2021. The aggregate principal amount of the 2016 debentures outstanding was \$45,800. On October 22, 2020, in accordance with the terms of the 2016 debentures, the Company paid \$46,361 in aggregate principal and interest. The Company drew \$40,000 from its credit facility to fund the redemption and associated accrued interest.

On October 13, 2020, the Company made a lump sum cash payment of \$144 less applicable taxes to an independent director and canceled 16,587 DSUs following the independent director's departure from the Board of Directors.