

Management's Discussion and Analysis

TIMBERCREEK FINANCIAL

For the three months ended March 31, 2023



TIMBERCREEK
FINANCIAL

FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

The terms, the "Company", "we", "us" and "our" in the following Management Discussion & Analysis ("MD&A") refer to Timbercreek Financial Corp. (the "Company" or "Timbercreek Financial"). This MD&A may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. These statements are typically identified by expressions like "believe", "expects", "anticipates", "would", "will", "intends", "projected", "in our opinion" and other similar expressions. By their nature, forward-looking statements require us to make assumptions which include, among other things, that (i) the Company will have sufficient capital under management to effect its investment strategies and pay its targeted dividends to shareholders, (ii) the investment strategies will produce the results intended by Timbercreek Capital Inc. ("Manager"), a subsidiary to Timbercreek Asset Management Inc. ("TAMI"), (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages and other investments of a quality that will generate returns that meet and/or exceed the Company's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in, geopolitical uncertainty, impacts as a result of COVID-19, and the risks detailed from time to time in the Company's public disclosures. For more information on risks, please refer to the "Risks and Uncertainties" section in this MD&A, and the "Risk Factors" section of our Annual Information Form ("AIF"), which can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Company, investors and others should carefully consider these factors, as well as other uncertainties and potential events and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Company and the Manager do not undertake, and specifically disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.

This MD&A is dated May 8, 2023. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company's website at www.timbercreekfinancial.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

BUSINESS OVERVIEW

Timbercreek Financial is a leading non-bank lender providing financing solutions to qualified real estate investors who are generally in a transitional phase of the investment process.

Timbercreek Financial fulfills a financing requirement that is not well serviced by the commercial banks: primarily shorter duration, structured financing. Real estate investors typically use short-term mortgages to bridge a period (generally one to five years) during which they conduct property repairs, redevelop the property or purchase another investment. These short-term “bridge” mortgages are typically repaid with traditional bank mortgages (lower cost and longer-term debt) once the transitional period is over, a restructuring is complete or from proceeds generated on the sale of assets. Timbercreek Financial focuses primarily on lending against income-producing real estate such as multi-residential, retail and office properties. This emphasis on cash-flowing properties is an important risk management strategy.

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

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

BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three months ended March 31, 2023. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023 and 2022, and the audited consolidated financial statements for the years ended December 31, 2022 and 2021, which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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

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

NON-IFRS MEASURES

The Company prepares and releases unaudited interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. In this MD&A, and as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS (collectively the “non-IFRS measures”).

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

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

Non-IFRS financial measures for net mortgage investments:

- i. Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date.
- ii. Weighted average loan-to-value ("WALTV") – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an "as completed" basis. For unimproved land property, fair value is based on an "as is" basis. Net mortgage investments measured at fair value through profit or loss ("FVTPL") are excluded from weighted average loan-to-value computation. This is a key measure to explain period to period performance variances of net mortgage investments.
- iii. Turnover ratio – represents total borrower repayments and syndications of mortgage investments that occurred more than 30 days past the initial net mortgage investment advance date during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period. The Company makes mortgages or loans to only commercial borrowers that are short-term (generally one to five years), as such the portfolio turnover rate is higher than typical mortgage portfolios which include individual or non-commercial borrower loans. This is a key measure to explain period to period performance variances of net mortgage investments as turnover from both scheduled and early repayments impacts revenue.
- iv. Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments.
- v. Weighted average lender fees for the period – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as lender fees are one of the main contributors to net investment income and distributable income.

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- vi. Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as average net mortgage investment portfolio is a basis for interest income earned during the period.
- vii. Enhanced return portfolio – represents other investments and net equity in investment properties not included in net mortgage investments.

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

It is the Company's view that IFRS net income and earnings per share ("EPS") measures do not necessarily provide a complete measure of the Company's operating performance as IFRS net income and EPS include non-cash items such as amortization of lender fees, amortization of financing costs, unrealized fair value changes, and allowance for mortgage investments loss, which are not representative of current year operating performance. Distributable income is a non-IFRS financial measure of cash flows based on the definition set forth by the Company.

Distributable income is computed as IFRS consolidated net income, adjusted for the earlier mentioned items, calculated on an IFRS basis. The Company uses Distributable Income in assessing its dividend paying capacity. A reconciliation of the distributable income is provided in "Analysis of Financial Information for the Period" section of the MD&A.

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

- i. Distributable income – represents the Company's ability to generate cash flows for dividends by removing the effect of amortization, accretion, unrealized fair value adjustments, allowance for mortgage investments loss, and unrealized gain or loss from total net income and comprehensive income.
- ii. Distributable income per share – represents the total distributable income divided by the weighted average common shares outstanding for the stated period.
- iii. Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.
- iv. Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.
- v. Adjusted distributable income – represents distributable income adjusted for the impact of a realized gain/(loss) on an investment measured at FVTPL as well as non-recurring foreign currency gains on other investment.
- vi. Adjusted distributable income per share – represents the total adjusted distributable income divided by the weighted average common shares outstanding for the stated period.
- vii. Payout ratio on adjusted distributable income – represents total common share dividends paid and declared for payment, divided by adjusted distributable income for the stated period.

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- viii. Adjusted net income and comprehensive income – represents adjusted net income and comprehensive income for the stated period to exclude the impact from unrealized fair value (gain)/loss on financial assets measured at FVTPL and on derivative contracts (interest rate swap) used for hedging purposes but hedge accounting was not adopted. The fair value loss on financial assets represents the change in unrealized loss determined based on the fair value that the Company determined using its valuation policies on the financial assets. The fair value (gain)/loss on the interest rate swap contract represents the change in unrealized appreciation or depreciation of fair value of the interest rate swap, determined based on the fair value that the Company would pay or receive if the interest rate swap had been terminated as at the reporting date.
- ix. Adjusted earnings per share – adjusted earnings per share is calculated in the same manner as earnings per share using adjusted net income and comprehensive income for the stated period.
- x. Payout ratio on adjusted earnings per share – represents total common share dividends paid and declared for payment, divided by adjusted net income and comprehensive income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

In Q1 2023, the Company reported another quarter of strong financial performance, highlighted by a 44% increase in net investment income on financial assets measured at amortized cost and 38% increase in earnings per share, which reached \$0.22 per share (basic), versus \$0.16 per share (basic) in Q1 2022. Importantly, distributable income grew significantly to \$18.3 million or \$0.22 per share, representing a payout ratio of 79.1%. These year-over-year gains reflect a sizeable net mortgage portfolio (comprising of \$1,149.1 million) at a higher weighted-average interest rate for the quarter of 9.7%.

Q1 2023 saw net new mortgage advances of \$39.3 million, and advances on existing mortgages of \$12.8 million, offset by total mortgage portfolio repayments of \$98.8 million, including borrower repayments of \$61.3 million. Management continues to see healthy borrower demand and anticipates higher new funding activity in the coming quarters. Mortgage repayment activity was lower in the first quarter after an active Q4 2022 and as a result, portfolio turnover decreased to 8.4% compared with 17.2% in Q4 2022.

Generally the portfolio performed well in the first quarter, reflecting the focus on high quality, income producing assets in urban markets. In select situations, the Company's borrowers are experiencing challenges in the current macroeconomic environment, and Timbercreek's investment team continues to actively manage these loans. During the quarter, management meaningfully advanced its exit plans with its Stage III loans. The Company discharged \$1.9 million of its Stage III condo inventory loan in the quarter with more units under contract to close in Q2 2023 and increased sales activity expected in the second half of 2023. It continues to work toward an exit plan on its Stage III medical office building in Ottawa. The remaining two assets in Stage III are owned by a sponsor group that filed for CCAA in Q4 2022. Management is working with the monitor to exit these positions and achieve the best outcome for the Company's shareholders. The Company continues to believe there will be limited principal exposure on these two loans in the coming months as they are high quality assets.

As expected in this market, some borrowers are experiencing financial strain from the rising interest costs and delays in their asset sale or refinancing strategies. During the recent period, a series of individual loans with one sponsorship group were moved into Stage II. While these loans continue to be performing loans (i.e. interest remains current), there is a noted increased risk in the liquidity of the sponsorship group absent any imminent asset sales or refinancings. The loans are secured by high quality income producing multi-family assets (built less than seven years ago) in Quebec. The Company has concluded that while there is sponsorship level risk the underlying assets are strong with valuations that should more than support the Company's loan exposures.

As discussed with Q4 results, with the rapid increase in the Bank of Canada prime rate and shorter term bond yields, the Company has been able to originate loans at slightly lower loan-to-values ("LTV") and modestly lower rates while ensuring sufficient cash to generate a very attractive payout ratio on distributable income and earnings per share.

PORTFOLIO ACTIVITY

In Q1 2023 the Company advanced \$39.3 million on 4 new net mortgage investments and made additional advances of \$12.8 million. Portfolio turnover decreased to 8.4% (with total mortgage portfolio repayments totaling \$98.8 million, including borrower repayments of \$61.3 million), compared with 17.2% in Q4 2022. This resulted in the net value of the mortgage portfolio, excluding syndications, to be lower by \$46.7 million (from \$1,195.8 million in Q4 2022 to \$1,149.1 million at the end of Q1 2023). The Company's credit facility had a balance of \$387.0 million at the end of Q1 2023, compared to \$451.0 million at the end of Q4 2022. With \$133.7 million available on the credit facility, Timbercreek Financial continues to be in a strong liquidity position for Q2 2023.

At the end of Q1 2023, 89.0% of the mortgage investments were secured by income-producing properties ("IPP"), compared to 87.4% in Q4 2022, the increase resulting from a construction loan being converted to IPP in the quarter. Multi-residential real estate assets (apartment buildings) continue to comprise the largest portion of the portfolio at 50.8% at quarter end, compared to 52.5% in Q4 2022.

The Company's exposure to first mortgages was 92.0% of the net mortgage portfolio at quarter end. The weighted average LTV ratio was consistent with the prior quarter at 68.5% compared to 68.3% in Q4 2022. Our weighted average interest rate for the period was 9.7% in Q1 2023 with an exit rate of 9.7% as at March 31, 2023, which is lower than the 10.0% exit rate at December 31, 2022. The interest rate decrease reflects the Company's strategy to deploy loans with a reduced risk profile in exchange for slightly lower rates. As demonstrated this quarter with a distributable income payout ratio of 79.1% the Company is still able to generate very healthy results at moderately lower risk.

The Company's mortgage portfolio remains heavily weighted toward Canada's largest provinces, with approximately 96.5% of its capital invested in Ontario, British Columbia, Quebec and Alberta, and focused on urban markets that generally experience better real estate liquidity and thus offer a better risk profile. Originations in the quarter were largely centered around low LTV unimproved commercial land deals in urban markets and industrial, which increased to 5.8% and 10.5% of the portfolio, respectively, from 4.7% and 9.1%, respectively in Q4 2022. Management continues to see a good volume of opportunities in its core multi-residential categories, as well as low LTV land. We believe the Company can achieve the appropriate risk/return while providing safety in additional diversification.

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FINANCIAL HIGHLIGHTS
KEY FINANCIAL
POSITION INFORMATION

	March 31, 2023	March 31, 2022	December 31, 2022
Net mortgage investments ¹	\$ 1,149,149	\$ 1,263,341	\$ 1,195,809
Enhanced Return Portfolio ¹	\$ 59,412	\$ 80,578	\$ 72,945

CAPITAL STRUCTURE

Total assets	\$ 1,854,721	\$ 1,871,906	\$ 1,916,039
Total liabilities	\$ 1,153,371	\$ 1,175,741	\$ 1,217,496
Shareholders' equity	\$ 701,350	\$ 696,165	\$ 698,543
Book value per share	\$ 8.37	\$ 8.33	\$ 8.33
Convertible debentures, par	\$ 146,000	\$ 146,000	\$ 146,000
Credit facility (investment properties)	\$ —	\$ 30,683	\$ —
Credit facility	\$ 386,564	\$ 514,640	\$ 450,347
Total debentures and credit facility utilized	\$ 532,564	\$ 691,323	\$ 596,347
Maximum credit limit available	\$ 746,000	\$ 751,690	\$ 700,528
Credit utilization rate	71.4 %	92.0 %	85.1 %

COMMON SHARE INFORMATION

Number of common shares outstanding	83,775,016	83,601,255	83,887,516
Closing trading price	\$ 8.00	\$ 9.49	\$ 7.11
Market capitalization	\$ 670,200	\$ 793,376	\$ 596,440

¹ Refer to non-IFRS measures section.

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OPERATING RESULTS¹

	Three months ended March 31,		Year ended December 31,
NET INCOME AND COMPREHENSIVE INCOME	2023	2022	2022
Net Investment Income on financial assets measured at amortized cost	\$ 32,709	\$ 22,677	\$ 109,803
Total fair value gain (loss) and other income on financial assets measured at FVTPL	282	(103)	1,388
Net rental (loss) income	(359)	382	(151)
Total fair value gain on real estate properties	63	—	(296)
Expenses	(4,443)	(4,241)	(22,592)
Income from operations	\$ 28,252	\$ 18,715	\$ 88,152
Financing costs:			
Financing cost on credit facilities	(7,898)	(3,560)	(23,234)
Financing cost on convertible debentures	(2,250)	(2,273)	(9,022)
Net income and comprehensive income	\$ 18,104	\$ 12,882	\$ 55,896
Payout ratio on earnings per share	79.8 %	110.8 %	103.3 %
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME			
Net income and comprehensive income	\$ 18,104	\$ 12,882	\$ 55,896
Add: Net unrealized (gain) loss on financial assets measured at FVTPL	(57)	946	1,546
Add: Net unrealized loss on real estate properties	—	—	95
Adjusted net income and comprehensive income¹	\$ 18,047	\$ 13,828	\$ 57,537
Payout ratio on adjusted earnings per share ¹	80.1 %	103.2 %	100.3 %
PER SHARE INFORMATION			
Dividends declared to shareholders	\$ 14,451	\$ 14,268	\$ 57,721
Weighted average common shares (in thousands)	83,970	82,583	83,622
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.69
Earnings per share (basic)	\$ 0.22	\$ 0.16	\$ 0.67
Earnings per share (diluted)	\$ 0.21	\$ 0.16	\$ 0.67
Adjusted earnings per share (basic) ¹	\$ 0.21	\$ 0.17	\$ 0.69
Adjusted earnings per share (diluted) ¹	\$ 0.21	\$ 0.17	\$ 0.69

¹ Refer to non-IFRS measures section.

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OPERATING RESULTS¹

DISTRIBUTABLE INCOME	Three months ended March 31,		Year ended
	2023	2022	December 31,
			2022
Adjusted net income and comprehensive income ¹	\$ 18,047	\$ 13,828	\$ 57,537
Less: Amortization of lender fees	(2,465)	(2,290)	(8,726)
Add: Lender fees received and receivable	1,709	2,459	7,708
Add: Amortization of financing costs, credit facility	253	215	984
Add: Amortization of financing costs, convertible debentures	244	252	1,006
Add: Accretion expense, convertible debentures	113	113	454
Add: Unrealized fair value loss (gain) on DSU	75	(33)	(201)
Add: Allowance for expected credit loss	300	649	7,482
Distributable income and adjusted distributable income^{1 2}	\$ 18,276	\$ 15,193	\$ 66,244
Payout ratio on distributable income and adjusted distributable income ¹²	79.1 %	93.9 %	87.1 %
PER SHARE INFORMATION			
Dividends declared to shareholders	\$ 14,451	\$ 14,268	\$ 57,721
Weighted average common shares (in thousands)	83,970	82,583	83,622
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.69
Distributable and adjusted distributable income per share ¹	\$ 0.22	\$ 0.18	\$ 0.79

¹ Refer to non-IFRS measures section,

² There are no adjustments for the periods presented.

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For the three months ended March 31, 2023 ("Q1 2023") and March 31, 2022 ("Q1 2022")

- The net mortgage investment portfolio has decreased by \$46.7 million from \$1,195.8 million at the end of Q4 2022, to \$1,149.1 million at the end of the quarter (Q1 2022 – \$1,263.3 million). The Company advanced \$52.1 million in net mortgage investments, offset by total mortgage portfolio repayments of \$98.8 million, including borrower repayments of \$61.3 million, there is no further FVTPL write down in the quarter.
- On net mortgage investment advances, the Company advanced 4 new net mortgage investments (Q1 2022 – 18) totaling \$39.3 million (Q1 2022 – \$215.5 million), and made additional advances on existing net mortgage investments of \$12.8 million (Q1 2022 – \$16.1 million). The collaterals on new advances in net mortgage investments comprised of mainly multi-residential real estate assets. The weighted average interest rate on net mortgages' advances was 9.2%, up from 9.0% in Q4 2022 (Q1 2022 - 6.7%).
- On net mortgage investment repayments, 10 net mortgage investments (Q1 2022 – 9) were fully repaid, the Company received total mortgage portfolio repayments of \$98.8 million (Q1 2022 – \$125.7 million), including borrower repayments of \$61.3 million (Q1 2022 – \$120.7 million). The weighted average interest rate on fully repaid net mortgage investments was 10.8%. Turnover ratio was 8.4% for Q1 2023 compared to 11.4% in Q1 2022 due to lower portfolio balance and lower repayments in the period.
- The quarterly weighted average interest rate on net mortgage investments was 9.7% in Q1 2023, compared to 9.7% in Q4 2022 (Q1 2022 – 6.6%), reflecting repayments of loans with higher rates and lower LTVs at origination causing price compression, offset by one Bank of Canada policy rate increase in Q1 2023 of 25 basis points.
 - In Q1 2022, first mortgage positions represented 92.4% of the net mortgage investments whereas in Q1 2023 first mortgage positions represented 92.0% of the net mortgage investments.
 - Interest rate exposure in the existing portfolio was well protected at the end of Q1 2023 floating rate loans with rate floors representing 88.2% (Q1 2022 – 85.6%). Of the remaining portfolio, 6.4% (Q1 2022 – 6.2%) is allocated to floating rate loans without floors and 5.4% (Q1 2022 – 8.2%) is allocated to fixed rate loans.
- Other investments within the enhanced return portfolio were \$59.4 million (Q1 2022 – \$67.1 million), a net decrease of \$13.5 million year-over-year, primarily due to other loan investments repayments.
- Net investment income on financial assets measured at amortized cost increased by \$10.0 million from the previous year (\$32.7 million in Q1 2023 compared to \$22.7 million in Q1 2022), predominantly attributable to significantly higher interest rates compared to Q1 2022, positively impacting the variable rate loans, as well as the higher average balance in net mortgage investments (\$1,181.5 million in Q1 2023 compared to \$1,144.7 million in Q1 2022).
- Fair value gain (loss) and other income on financial assets measured at FVTPL improved from a loss of \$103 in Q1 2022 to a gain of \$282 in Q1 2023
- Net rental loss from real estate properties was \$359 (Q1 2022 – income of \$382) for the quarter.
 - Net rental loss in the current quarter was related to land inventory from an equity interest conversion completed last year on April 12, 2022 (previously FVTPL mortgage). The Company intends on selling the land and has accordingly recorded this as land inventory, with rental income of \$83, offset by operating losses of \$442.
 - Net rental income earned in Q1 2022 was related to investment properties – Saskatchewan portfolio, which was disposed on April 28, 2022. In February 2023, the Company received \$62 in final distribution of working capital settlement that further reduced overall loss on disposal.

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- Expenses for the period was \$4,443 (Q1 2022 \$4,241) for the quarter.
 - Management fees of \$3.3 million (Q1 2022 – \$2.9 million). The average gross assets were \$1,299.1 million compared to \$1,342.6 million in Q1 2022.
 - General and administrative expenses of \$664 for Q1 2023 (Q1 2022 – \$501), after adjusting for the impact of DSU market-to-market loss of \$75 (Q1 2022 - gain of \$33) and foreign exchange loss of \$53 (Q1 2022 - gain of \$209), general and administrative expenses were \$536 (Q1 2022 - \$743) for the quarter, representing a decrease of \$207 over the comparable quarter due to lower costs associated with professional services and annual shareholder reporting.
 - Provisions for mortgage investment losses of \$300 for Q1 2023 (Q1 2022 - \$649) representing an net increase in loan loss provisions in the quarter on Stage II and Stage III loans, offset by repayments of loans in Stage I. The loan loss provisions are an approximation of losses on the Stage III loans and include forward looking interest on the loans until the anticipated exit/resolution date of the loan.
- Income from operations saw a \$9.5 million increase over the prior year (\$28.2 million in Q1 2023 compared to \$18.7 million in Q1 2022) largely driven by an increase on net investment income on financial assets measured at amortized cost of \$10.0 million as noted above.
- Interest expense on the credit facility for the quarter was \$7.6 million (Q1 2022 – \$3.2 million) largely due to 425 basis points of Bank of Canada policy rate increases since the comparable quarter (Q1 2023 - Prime rate 6.70% compared to Q1 2022 - 2.45%), offset slightly by a \$61.4M decrease in average credit utilization (Q1 2023 was \$443.1 million compared to \$504.5 million in Q1 2022)
- Interest on the convertible debentures for the quarter was \$1.9 million (Q1 2022 - \$1.9 million) reflecting three series of debentures outstanding in the current period, same as prior period.
- Net income and comprehensive income of \$18.1 million (Q1 2022 - \$12.9 million) or basic and diluted earnings per share of \$0.22 and \$0.21 (Q1 2022 – \$0.16 basic and diluted earnings per share), representing a payout ratio on earnings per share of 79.8% (Q1 2022 - 110.8%). The results were significantly improved over the prior period as a result of higher top-line interest income.
- After adjusting for the unrealized fair value gain from financial assets measured at FVTPL of \$57 (Q1 2022 – loss of \$0.9 million), the Company generated adjusted net income and comprehensive income of \$18.0 million (Q1 2022 – \$13.8 million) or basic and diluted adjusted earnings per share of \$0.21 (Q1 2022 – \$0.17 basic and diluted adjusted earnings per share).
- The Company declared \$14.5 million in dividends to common shareholders (Q1 2022 – \$14.3 million), representing a payout ratio of 80.1% (Q1 2022 – 103.2%) on an adjusted earnings per share basis.
- Non-refundable lender fees recorded were \$1.7 million (Q1 2022 – \$2.5 million), non-refundable lender fees are less than prior period due to lower originations in the period, \$39.3 million in Q1 2023 versus \$210.5 million in Q1 2022, The quarterly weighted average lender fees on new and renewed mortgages was 1.1% during the quarter (Q1 2022 – 1.2%), while the quarterly weighted average lender fee on new mortgages only was 1.5% (Q1 2022 – 1.2%). The Company received an one-time cash lender fee of \$0.9 million that was initially withheld for loan syndications which did not occur.
- The Company generated distributable income of \$18.3 million (Q1 2022 - \$15.2 million) or distributable income per share of \$0.22 (Q1 2022 - \$0.18) representing a payout ratio of 79.1% (Q1 2022 - 93.9%) for the quarter.

Management's Discussion and Analysis

For the three months ended March 31, 2023

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ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD**Net investment income on financial assets measured at amortized cost**

For analysis purposes, net interest income and its component parts are discussed net of payments made on account of mortgage syndications to provide the reader with a more representative reflection of the Company's performance.

For Q1 2023, the Company earned net investment income of \$32.7 million (Q1 2022 – \$22.7 million). Net investment income includes the following:

a. Interest income

During Q1 2023, the Company earned interest income on net mortgage investments measured at amortized cost of \$28.6 million (Q1 2022 – \$18.9 million). The weighted average interest rate on net mortgage investments during Q1 2023 was 9.7% (Q1 2022 - 6.6%). Increase in interest income on net mortgage investments is attributable to a 425 bps increase in prime rate in 2022 and early 2023, adding to this was a higher average net mortgage investment portfolio of \$1,181.5 million during Q1 2023, compared to \$1,144.7 million during Q1 2022.

During Q1 2023, the Company earned \$1.4 million (Q1 2022 – \$1.4 million) of interest income on other loan investments in other investments in the enhanced return portfolio. The interest income is comparable for the quarter, with smaller loan balance of \$55.9 million in Q1 2023, compared to \$57.6 million during Q1 2022.

b. Lender fee income

For Q1 2023, lender fees of \$2.5 million (Q1 2022 – \$2.3 million) were amortized to lender fee income. The Company also recorded non-refundable upfront cash lender fees of \$1.7 million for Q1 2023 (Q1 2022 – \$2.5 million). Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method.

The weighted average lender fee on new and renewed mortgages was 1.1% for Q1 2023 (Q1 2022 – 1.2%), while the quarterly weighted average lender fee on new mortgages only was 1.5% (Q1 2022 – 1.2%).

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

c. Other income (loss)

During Q1 2023, the Company recognized other income of \$186 (Q1 2022 – \$91), attributable to bank interest income, rental income from lease receivables, and miscellaneous income.

Fair value (losses) gains and other income on financial assets measured at FVTPL

During Q1 2023, the Company recognized a gain on financial assets measured at FVTPL of \$282 (Q1 2022 – loss of \$103). The Company earned interest income on net mortgage investment measured at FVTPL of \$161 (Q1 2022 – \$616). The Company received \$63 (Q1 2022 - \$227) in income distributions and recorded a fair value gain on financial assets measured at FVTPL of \$57 (Q1 2022 – fair value loss of \$946).

Management's Discussion and Analysis

For the three months ended March 31, 2023

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

Net rental income (loss) from real estate properties

The net rental loss from real estate properties for Q1 2023 was \$359 (Q1 2022 – gain of \$382). On April 12, 2022 the Company converted its investment in a mortgage at FVTPL to an equity interest in real estate properties. The Company intends on selling the lands and has accordingly recorded them as land inventory. In the interim it will recognize net rental income (losses) on the portfolio.

Net rental income earned in Q1 2022 was related to investment properties – Saskatchewan portfolio, which was disposed on April 28, 2022. In February 2023, the Company received \$62 in final distribution of working capital settlement that further reduced overall loss on disposal.

Expenses**Management, Servicing and Arrangement Fees**

The management agreement has a term of 10 years that commenced on April 1, 2020 and is automatically renewed for successive five year terms at the expiration of the initial term and pays (i) management fee equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes, and (ii) servicing fee equal to 0.10% of the amount of any senior tranche of a mortgage that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion. Gross assets are defined as the total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

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

For Q1 2023, the Company incurred management fees of \$3.3 million (Q1 2022 – \$2.9 million). The average gross assets were \$1,299.1 million compared to \$1,342.6 million in Q1 2022. For Q1 2023, the Company incurred \$192 (Q1 2022 – \$150) in servicing fees, resulting from marginally higher a-note syndications. For Q1 2023, Arrangement Fees of \$169 paid by borrower were retained by the Manager (Q1 2022 – \$423).

General and administrative

For Q1 2023, the Company incurred general and administrative expenses of \$664 (Q1 2022 – \$501). General and administrative expenses consist mainly of audit fees, professional fees, director fees, legal fees, other operating costs, administration of the mortgage and other investments portfolio, DSU expense including mark-to-market adjustments and foreign exchange net gains. After adjusting for the non-cash market to market loss on DSUs of \$75 (Q1 2022 - gain of \$33) and foreign currency net realized and unrealized loss of \$53 for Q1 2023 (Q1 2022 - gain of \$209), general and administrative expenses would have been \$536 for Q1 2023 (Q1 2022 - \$743) the decrease of \$207 from prior quarter was mainly due to lower costs associated with professional fees and annual shareholder reporting.

Management's Discussion and Analysis

For the three months ended March 31, 2023

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Interest on credit facility – mortgage investments

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q1 2023, included in financing costs is interest on the credit facility of \$7.6 million (Q1 2022 – \$3.2 million), and financing costs amortization of \$253 (Q1 2022 – \$204). The increase of interest expense over the comparable 2022 period was largely due to a 425 basis points policy rate increase by the Bank of Canada (Q1 2023 - Prime rate 6.70% compared to Q1 2022 - 2.45%), offset slightly by a \$61.4M decrease in average credit utilization (Q1 2023 was \$443.1 million compared to \$504.5 million in Q1 2022)

Financing cost on convertible debentures

The Company has \$46.0 million of 5.00% convertible unsecured subordinated debentures, \$55.0 million of 5.25% convertible unsecured subordinated debentures, and \$45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at March 31, 2023. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. Interest on the debentures is included in financing costs and is made up of the following:

	Three months ended	
	March 31,	
	2023	2022
Interest on the convertible debentures	\$ 1,893	\$ 1,908
Amortization of issue costs and accretion of the convertible debentures	357	365
Total financing cost on convertible debentures	\$ 2,250	\$ 2,273

Earnings per share

For Q1 2023, basic and diluted earnings per share were \$0.22 and \$0.21 (Q1 2022 – \$0.16 basic and diluted earnings per share). For Q1 2023, basic and diluted adjusted earnings per share were \$0.21 (Q1 2022 - \$0.17).

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

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

Management's Discussion and Analysis

For the three months ended March 31, 2023

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

STATEMENTS OF FINANCIAL POSITION
Net Mortgage Investments

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

Net Mortgage Investments	March 31, 2023	December 31, 2022
Mortgage investments, excluding mortgage syndications	\$ 1,143,740	\$ 1,189,215
Mortgage syndications	613,929	611,291
Mortgage investments, including mortgage syndications	1,757,669	1,800,506
Mortgage syndication liabilities	(613,929)	(611,291)
	1,143,740	1,189,215
Interest receivable	(11,649)	(10,812)
Unamortized lender fees	6,153	6,801
Allowance for mortgage investments loss	10,905	10,605
Net mortgage investments	\$ 1,149,149	\$ 1,195,809

Net mortgage investments statistics and ratios¹	Three months ended		Year ended
	2023	March 31, 2022	December 31, 2022
Total number of mortgage investments	107	115	113
Average net mortgage investment	\$ 11,042	\$ 10,542	\$ 10,862
Average net mortgage investment portfolio	\$ 1,181,458	\$ 1,144,722	\$ 1,227,371
Weighted average interest rate for the period	9.7 %	6.6 %	9.7 %
Weighted average lender fees for the period	1.1 %	1.2 %	1.2 %
Turnover ratio	8.4 %	11.4 %	17.2 %
Average remaining term to maturity (years)	0.8	1.1	0.9
Net mortgage investments secured by cash-flowing properties	89.0 %	90.3 %	87.4 %
Weighted average loan-to-value	68.5 %	71.3 %	68.3 %

¹ Refer to non-IFRS measures section.

Management's Discussion and Analysis

For the three months ended March 31, 2023

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Portfolio allocation

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

a. Security position	March 31, 2023			December 31, 2022		
	Number	Net Mortgage Investments		Number	Net Mortgage Investments	
Interest in first mortgages	96	\$	1,057,473	102	\$	1,105,431
Interest in second and third mortgages ¹	11		91,676	11		90,378
	107	\$	1,149,149	113	\$	1,195,809

¹Included in the Company's interest in second and third mortgages as at March 31, 2023 was \$12.5 million of the net mortgage investments in which the Company holds a subordinated position (December 31, 2022 - \$12.5 million). The Company's syndicated partners who hold a senior position as at March 31, 2023 was \$14.2 million (December 31, 2022 - \$14.2 million).

b. Region	March 31, 2023			December 31, 2022		
	Number	Net Mortgage Investments		Number	Net Mortgage Investments	
Quebec	35	\$	448,288	36	\$	449,571
Ontario	32		301,797	33		295,664
British Columbia	22		256,018	25		298,778
Alberta	9		102,754	9		99,936
Other (Saskatchewan, Nova Scotia, Manitoba and New Brunswick)	9		40,292	10		51,860
	107	\$	1,149,149	113	\$	1,195,809

c. Maturity	March 31, 2023			December 31, 2022		
	Number	Net Mortgage Investments		Number	Net Mortgage Investments	
2023	58	\$	643,340	65	\$	676,561
2024	38		382,700	41		398,124
2025	8		73,020	5		45,284
2026	3		50,089	2		75,840
	107	\$	1,149,149	113	\$	1,195,809

d. Asset Type / WALTV at origination ³	March 31, 2023			December 31, 2022		
	Number	Net Mortgage Investments	WALTV at origination ³	Number	Net Mortgage Investments	WALTV at origination ³
Multi-Residential ¹	62	\$ 584,310	71.0%	68	\$ 627,892	70.4%
Retail	11	147,645	70.5%	12	151,806	70.4%
Unimproved Land ²	6	66,243	56.0%	5	56,097	58.7%
Office	7	89,661	61.0%	6	83,556	62.5%
Retirement	2	78,655	80.8%	2	78,649	80.8%
Industrial	15	121,098	57.9%	16	109,424	60.1%
Single-Residential	3	56,037	56.0%	3	82,885	54.0%
	106	1,143,649	67.6%	112	1,190,309	67.9%
Net mortgage investments measured at FVTPL	1	5,500	n/a	1	5,500	n/a
	107	\$ 1,149,149		113	\$ 1,195,809	

¹ Includes 3 construction loans (December 31, 2022 - 6) totaling \$20.9 million (December 31, 2022 - \$27.2 million). Construction loans are provided for the purposes of building a new asset.

² Unimproved land loans are provided to non-income producing properties that does not contemplate construction during the loan period.

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

Management's Discussion and Analysis

For the three months ended March 31, 2023

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Enhanced return portfolio

As at	March 31, 2023	December 31, 2022
Other loan investments, net of allowance for credit loss	\$ 46,367	\$ 59,956
Finance lease receivable, measured at amortized cost	6,020	6,020
Investment, measured at FVTPL	4,800	4,744
Investment in indirect real estate development	2,225	2,225
Total Other Investments	59,412	72,945
Total Enhanced Return Portfolio	\$ 59,412	\$ 72,945

During Q1 2023, the Company earned \$1.4 million (Q1 2022 - \$1.4 million) of interest income on other loan investments in other investments in the enhanced return portfolio.

During Q1 2023, the Company recognized lender fee income of \$108 on other loan investments in other investments, net of fees relating to mortgage syndication liabilities (Q1 2022 – \$54). During Q1 2023, the Company recorded non-refundable upfront lender fees of nil (Q1 2022 – \$100), which are amortized over the term of the other loan investments using the effective interest rate method.

In October 2017, the Company entered into a 20-year emphyteutic lease under which the lessee has the obligation to purchase the property at \$9.9 million at the end of the lease term on September 2038 and the option to purchase the property earlier based on a prescribed purchase price schedule. Refer to note 4(e) of the Interim Condensed Consolidated Financial Statements for the three months ended March 31, 2023 and 2022.

Land Inventory

On April 12, 2022 the Company obtained title to parcels of land, which it intends to sell, in exchange for the discharge of certain mortgage investments at FVTPL. On exchange the Company recognized a fair value loss of \$95 recorded in fair value loss on real estate properties.

As at March 31, 2023, the Company has land inventory of \$30.3 million (December 31, 2022 – \$30.2 million), which is recorded at the lower of cost and net realizable value.

Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position.

These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of \$613.9 million (December 31, 2022 – \$611.3 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time and are not necessarily indicative of a future trend.

Management's Discussion and Analysis

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Allowance for Credit Losses (“ACL”)

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to \$11.7 million as at March 31, 2023 (December 31, 2022 – \$11.4 million), of which \$10.9 million (December 31, 2022 – \$10.6 million) was recorded against mortgage investments and \$0.7 million (December 31, 2022 – \$0.7 million) was recorded against other investments.

Multi-residential Mortgage Investments	As at March 31, 2023				As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	\$ 807,874	\$ 193,517	\$ 134,652	\$1,136,043	\$1,020,893	\$ —	\$ 132,767	\$1,153,660
Mortgage syndication liabilities ¹	333,246	74,623	60,368	468,237	382,077	—	60,361	442,438
Net mortgage investments	474,628	118,894	74,284	667,806	638,816	—	72,406	711,222
Allowance for credit losses ²	171	1,013	2,575	3,759	1,424	—	1,409	2,833
	474,457	117,881	71,709	664,047	637,392	—	70,997	708,389
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	604,551	—	30,546	635,097	628,128	—	32,227	660,355
Mortgage syndication liabilities ¹	147,659	—	—	147,659	170,508	—	—	170,508
Net mortgage investments	456,892	—	30,546	487,438	457,620	—	32,227	489,847
Allowance for credit losses ²	452	—	6,694	7,146	414	—	7,358	7,772
	456,440	—	23,852	480,292	457,206	—	24,869	482,075
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	47,139	—	—	47,139	60,742	—	—	60,742
Mortgage syndication liabilities ¹	—	—	—	—	—	—	—	—
Net mortgage investments	47,139	—	—	47,139	60,742	—	—	60,742
Allowance for credit losses ²	745	—	—	745	745	—	—	745
	\$ 46,394	\$ —	\$ —	\$ 46,394	\$ 59,997	\$ —	\$ —	\$ 59,997

¹Including interest receivable

²Allowance for credit losses in finance lease receivable and unadvanced commitments in stage 1 and 2 considered to be with minimal ACL. In stage 3, unadvanced commitments amounts to \$34.7 million, the Company's share is \$4.8 million.

Management's Discussion and Analysis

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

	Three Months Ended March 31, 2023				Three Months Ended March 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Balance at beginning of period	\$ 1,424	\$ —	\$ 1,409	\$ 2,833	\$ 882	\$ —	\$ —	\$ 882
Allowance for credit losses:								
Remeasurement	(352)	157	1,166	971	95	—	—	95
Transfer to/(from)								
Stage 1	(856)	—	—	(856)	—	—	—	—
Stage 2	—	856	—	856	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	216	1,013	2,575	3,804	977	—	—	977
Fundings	10	—	—	10	434	—	—	434
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(55)	—	—	(55)	(115)	—	—	(115)
Balance at end of period	\$ 171	\$ 1,013	\$ 2,575	\$ 3,759	1,296	—	—	1,296
Other Mortgage Investments								
Balance at beginning of period	\$ 414	\$ —	\$ 7,358	\$ 7,772	283	52	1,753	2,088
Allowance for credit losses:								
Remeasurement	38	—	(664)	(626)	(4)	1	153	150
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	452	—	6,694	7,146	279	53	1,906	2,238
Fundings	10	—	—	10	25	—	—	25
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(10)	—	—	(10)	(18)	—	—	(18)
Balance at end of period	\$ 452	\$ —	\$ 6,694	\$ 7,146	286	53	1,906	2,245
Other loan Investments								
Balance at beginning of period	\$ 745	\$ —	\$ —	\$ 745	898	—	—	898
Allowance for credit losses:								
Remeasurement	44	—	—	44	84	—	—	84
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	789	—	—	789	982	—	—	982
Fundings	—	—	—	—	—	—	—	—
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(44)	—	—	(44)	(5)	—	—	(5)
Balance at end of period	\$ 745	\$ —	\$ —	\$ 745	\$ 977	\$ —	\$ —	\$ 977

Management's Discussion and Analysis

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In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

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, population of location of the collateral and an assessment of possible loan deterioration factors. These factors include consideration of the sponsor's ability to make interest payments, the condition of the asset and cash flows, economic and market factors as well as any changes to business strategy that could affect the execution risk of the loan.

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

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

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

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

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

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

TIMBERCREEK FINANCIAL

Management's Discussion and Analysis

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	As at March 31, 2023				As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Low risk	\$ 159,153	\$ —	\$ —	\$ 159,153	\$ 117,051	\$ —	\$ —	\$ 117,051
Medium-Low risk	255,532	—	—	255,532	324,592	—	—	324,592
Medium-High risk	57,517	115,363	—	172,880	194,748	—	—	194,748
High risk	2,426	3,531	—	5,957	2,425	—	—	2,425
Default	—	—	74,284	74,284	—	—	72,406	72,406
Net	474,628	118,894	74,284	667,806	638,816	—	72,406	711,222
Allowance for credit losses	171	1,013	2,575	3,759	1,424	—	1,409	2,833
Mortgage investments¹	474,457	117,881	71,709	664,047	637,392	—	70,997	708,389
Other Mortgage Investments								
Low risk	70,748	—	—	70,748	107,417	—	—	107,417
Medium-Low risk	259,443	—	—	259,443	233,874	—	—	233,874
Medium-High risk	99,816	—	—	99,816	116,329	—	—	116,329
High risk	26,885	—	—	26,885	—	—	—	—
Default	—	—	30,546	30,546	—	—	32,227	32,227
Net	456,892	—	30,546	487,438	457,620	—	32,227	489,847
Allowance for credit losses	452	—	6,694	7,146	414	—	7,358	7,772
Mortgage investments¹	456,440	—	23,852	480,292	457,206	—	24,869	482,075
Other loan Investments								
Low risk	—	—	—	—	—	—	—	—
Medium-Low risk	—	—	—	—	—	—	—	—
Medium-High risk	—	—	—	—	—	—	—	—
High risk	47,139	—	—	47,139	60,742	—	—	60,742
Default	—	—	—	—	—	—	—	—
Net	47,139	—	—	47,139	60,742	—	—	60,742
Allowance for credit losses	745	—	—	745	745	—	—	745
Other loan Investments¹	\$ 46,394	\$ —	\$ —	\$ 46,394	\$ 59,997	\$ —	\$ —	\$ 59,997

¹ Net of allowance and mortgage syndications

Management's Discussion and Analysis

For the three months ended March 31, 2023

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

Net working capital

Net working capital increased by \$0.4 million to \$9.3 million at March 31, 2023 from \$8.9 million at December 31, 2022.

Credit facility

As of March 31, 2023, the Company has an aggregate credit limit of \$600.0 million and an accordion option of \$35.0 million on its credit facility. The facility is secured by a general security agreement over the Company's assets and its subsidiaries. The current credit facility agreement matures February 2024.

The rates of interest and fees of the Eighth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2022 – prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2022 – 2.00%) and standby fee of 0.40% per annum (December 31, 2022 – 0.40%) on the unutilized credit facility balance. As at March 31, 2023, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Eighth Amending Credit Agreement is \$520.7 million.

During Q1 2023, the Company incurred financing costs of \$36 (Q1 2022 – \$0.7 million). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the credit facility agreement.

Convertible debentures

As at March 31, 2023, and December 31, 2022, the Company's obligations under the convertible unsecured debentures are as follows:

Series	Interest Rate	Date of Maturity	Interest Payment Date	Conversion Price per share	Equity Component	March 31, 2023	December 31, 2022
June 2017 Debentures	5.30 %	June 30, 2024	June 30 and December 31	\$ 11.10	\$ 560	\$ 45,000	\$ 45,000
July 2021 Debentures	5.25 %	July 31, 2028	January 31 and July 31	11.40	1,107	55,000	55,000
December 2021 Debentures	5.00 %	December 31, 2028	June 30 and December 31	11.40	1,405	46,000	46,000
Unsecured Debentures, principal						146,000	146,000
Unamortized financing cost and amount allocated to equity component						(6,224)	(6,580)
Debentures, end of period						\$ 139,776	\$ 139,420

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

	Three months ended March 31,	
	2023	2022
Interest on the convertible debentures	\$ 1,893	\$ 1,908
Amortization of issue costs and accretion of the convertible debentures	357	365
Total	\$ 2,250	\$ 2,273

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June 2017 Debentures

On June 13, 2017, the Company completed a public offering of \$40.0 million, plus an over-allotment option of \$5.0 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42.3 million (the "June 2017 Debentures").

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.

The issue costs of \$2.2 million 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.

July 2021 Debentures

On July 8, 2021 the Company completed a public offering of \$50.0 million, plus an over-allotment option of \$5.0 million on July 15, 2021, of 5.25% convertible unsecured subordinated debentures for net proceeds of \$52.1 million (the "July 2021 Debentures"). The July 2021 Debentures are redeemable on or after July 31, 2024 and prior to July 31, 2026 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 and after July 31, 2026 and prior to the maturity date, the July 2021 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.

The issue costs of \$2.9 million 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.

December 2021 Debentures

On December 3, 2021 the Company completed a public offering of \$40.0 million plus an over-allotment option of \$6.0 million on December 10, 2021, of 5.00% convertible unsecured subordinated debentures for net proceeds of \$43.8 million (the "December 2021 Debentures"). The December 2021 Debentures are redeemable on or after December 31, 2024 and prior to December 31, 2026 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 and after December 31, 2026 and prior to the maturity date, the December 2021 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.

The issue costs of \$2.2 million 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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SHAREHOLDERS' EQUITY**Common shares**

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

The common shares are classified within shareholders' equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. On June 10, 2021, the Company filed base shelf prospectus in all provinces and territories of Canada.

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

The Company announced on June 18, 2021 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 \$90 million to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange (the "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 Company currently intends to use the net proceeds of the ATM Program for general investment and working capital purposes, including, if and as required, repaying amounts owing under its secured revolving credit facility. The credit facility is used for day to day working capital requirements of the Company and for other general corporate purposes, particularly the funding of mortgage loans.

For the three months ended March 31, 2023, the Company did not issue any common shares under the ATM program. For the three months ended March 31, 2022, the Company issued 1,248,200 of common shares for gross proceeds of \$11.9 million at an average price of \$9.55 per common share and paid \$198 in commissions to the agent, pursuant to the equity distribution agreement.

(b) Dividend reinvestment plan ("DRIP")

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

For the three months ended March 31, 2023, the Company purchased from the open market and issued under DRIP 181,710 common shares (Q1 2022 - nil) for a total amount of \$1.5 million (Q1 2022 - nil). During Q1 2023, common shares were purchased from the open market at an average price of \$7.98 per common share.

For the three months ended March 31, 2023, no shares were issued from treasury under DRIP (Q1 2022 - 133,453) and no dividends retained (Q1 2022 - \$1.3 million).

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(c) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. For the three months ended March 31, 2023, the Company declared dividends of \$14.5 million or \$0.1725 per share (Q1 2022 – \$14.3 million or \$0.1725 per share).

As at March 31, 2023, \$4.8 million in aggregate dividends (December 31, 2022 – \$4.8 million) were payable to the holders of common shares by the Company. Subsequent to March 31, 2023, the Board of Directors of the Company declared dividends of \$0.0575 per share to be paid on April 14, 2023 to the common shareholders of record on March 31, 2023.

(d) Normal course offering bid ("NCIB")

On May 24, 2022, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,330,591 common shares over a 12-month period. Repurchases under the NCIB were permitted to commence on May 26, 2022 and continue until May 25, 2023, when the bid will expire.

For the three months ended March 31, 2023, the Company repurchased 112,500 common shares (Q1 2022 – nil) for a total amount of \$846 (2022 – nil). The average price per common share repurchased in Q1 2023 was \$7.52. There were no unsettled common share trades subsequent to March 31, 2023.

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

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

Following each calendar quarter, the director DSU accounts will be credited with the number of DSUs calculated by multiplying the total compensation payable in DSUs divided by the Fair Market Value.

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

During Q1 2023, 9,812 units were issued (Q1 2022 – 9,440) and as at March 31, 2023, 108,849 units were outstanding (December 31, 2022 – 99,037). No DSUs were exercised or canceled, resulting in a DSU expense of \$96 (Q1 2022 – \$115). As at March 31, 2023, \$96 (December 31, 2022 – \$102) in compensation was granted in DSUs, which will be issued subsequent to March 31, 2023.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for Q1 2023 was \$24.8 million (Q1 2022 – \$17.0 million).

Cash used in financing activities

Cash used in financing activities for Q1 2023 consisted of the Company's net repayments on the operating credit facility of \$64.0 million (Q1 2022 – \$96.0 million net draws). The Company paid interest on the debentures and credit facilities of \$8.9 million (Q1 2022 – \$5.9 million), and paid common share dividends of \$13.0 million (Q1 2022 – \$13.0 million). During Q1 2023, the Company received net proceeds from issuance of common shares under the ATM program of nil (Q1 2022 - \$7.3 million) and repurchased shares on the open market under the NCIB and DRIP programs of \$2.3 million (Q1 2022 – nil).

The net cash used in financing activities for Q1 2023 was \$88.2 million (net cash provided in Q1 2022 – \$84.4 million).

Cash from (used in) investing activities

Cash used in investing activities for Q1 2023 consisted of the Company's funding of net mortgage investments \$72.8 million (Q1 2022 – \$294.2 million). The Company received cash from discharge of net mortgage investments \$121.5 million (Q1 2022 – \$186.8 million). The Company used cash in funding of other investments of \$0.8 million (Q1 2022 – \$0.6 million). The Company received cash from repayments of other investments \$14.6 million (Q1 2022 – \$4.1 million). For Q1 2022, the Company used cash in funding additions to investment properties that were later disposed of on April 28, 2022. The company paid cash on maturity of currency forward hedging contracts of \$603 (Q1 2022 - nil). The net cash from investing activities for Q1 2023 was \$61.9 million (net cash used in investing activities in Q1 2022 – \$103.9 million).

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QUARTERLY FINANCIAL INFORMATION

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

NET INCOME AND COMPREHENSIVE INCOME	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Net Investment Income on financial assets measured at amortized cost	\$32,709	\$31,342	\$29,982	\$25,802	\$22,677	\$22,378	\$22,042	\$23,390
Fair value gain (loss) and other income on financial assets measured at FVTPL	282	736	403	352	(103)	(7,404)	(3,577)	211
Fair value gain / (loss) on real estate properties	63	82	—	(378)	—	(4,374)	—	—
Net rental (loss) income	(359)	(278)	(291)	36	382	389	386	376
Expenses	(4,443)	(6,671)	(7,530)	(4,150)	(4,241)	(3,761)	(3,404)	(5,177)
Income from operations	28,252	25,211	22,564	21,662	18,715	7,228	15,447	18,800
Financing costs:								
Financing cost on credit facilities	(7,898)	(8,137)	(6,788)	(4,749)	(3,560)	(4,045)	(4,040)	(4,746)
Financing cost on debentures	(2,250)	(2,260)	(2,256)	(2,233)	(2,273)	(1,767)	(1,981)	(1,543)
Fair value gain on derivative contract	—	—	—	—	—	994	995	974
Net income and comprehensive income	18,104	\$14,814	\$13,520	\$14,680	\$12,882	\$ 2,410	\$10,421	\$13,485
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME								
Net income and comprehensive income	\$18,104	\$14,814	\$13,520	\$14,679	\$12,882	\$ 2,410	\$10,421	\$13,485
Add: fair value gain on derivative contract (interest rate swap)	—	—	—	—	—	(994)	(995)	(974)
Add: net unrealized (gain) loss on financial assets measured at FVTPL	\$ (57)	\$ (122)	\$ 369	\$ 377	\$ 946	\$ 8,237	\$ 4,295	\$ 1,100
Add: net unrealized loss on investment properties	—	—	—	95	—	4,374	—	—
Adjusted net income and comprehensive income¹	\$18,047	\$14,692	\$13,889	\$15,152	\$13,828	\$14,027	\$13,721	\$13,611
PER SHARE INFORMATION								
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17
Earnings per share (basic)	\$ 0.22	\$ 0.18	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.03	\$ 0.13	\$ 0.17
Earnings per share (diluted)	\$ 0.21	\$ 0.18	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.03	\$ 0.13	\$ 0.17
Adjusted earnings per share (basic) ¹	\$ 0.21	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17
Adjusted earnings per share (diluted) ¹	\$ 0.21	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17
Distributable income per share ¹	\$ 0.22	\$ 0.22	\$ 0.20	\$ 0.19	\$ 0.18	\$ 0.20	\$ 0.17	\$ 0.20
Adjusted distributable income per share ¹	\$ 0.22	\$ 0.22	\$ 0.20	\$ 0.19	\$ 0.18	\$ 0.20	\$ 0.17	\$ 0.19

¹ Refer to non-IFRS measures section.

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

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

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RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere, related party transactions include the following:

As at March 31, 2023, Due to Manager consists of management and servicing fees payable of \$1.1 million (December 31, 2022 – \$1.1 million). During Q1 2023, Arrangement Fees of \$0.2 million paid by borrower were retained by the Manager (Q1 2022 – \$0.4 million).

As at March 31, 2023, included in other assets is \$3.7 million (December 31, 2022 – \$6.1 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.

As at March 31, 2023, the Company has the following mortgage investments which a director of the Manager are also officers and part-owners of a syndication partner of these mortgages.

- A mortgage investment with a total gross commitment of \$48.8 million (December 31, 2022 – \$48.8 million). The Company's share of the commitment is \$4.4 million (December 31, 2022 – \$4.4 million). For the three months ended March 31, 2023, the Company has recognized net interest income of \$184 (Q1 2022 – \$74) from this mortgage investment during the period.

As at March 31, 2023, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 2 mortgages (December 31, 2022 – 2) and other investments totaling \$35.5 million (December 31, 2022 – \$35.5 million), on gross basis including mortgage syndications. The Company's share in these mortgage investments is \$10.5 million (December 31, 2022 – \$10.5 million).

As at March 31, 2023, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$4.8 million or €3.3 million (December 31, 2022 – \$4.7 million or €3.3 million), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.

As at March 31, 2023, the Company and Timbercreek North American Mortgage Fund are related parties as they are managed by the Manager, and they have co-invested in 1 mortgage (December 31, 2022 – 1) totaling \$20.6 million (December 31, 2022 – \$20.0 million). The Company's share in this mortgage investment is \$10.3 million (December 31, 2022 – \$10.0 million).

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.

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On April 28, 2022, the Company disposed of its interest in the investment properties in Saskatchewan Portfolio. The investment properties were pledged as security for the credit facility where the Company remains a guarantor as of March 31, 2023 for its share of the outstanding principal which is \$120.0 million at March 31, 2023 of which the Company's share is \$24.6 million.

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Company's unaudited interim condensed consolidated financial statements, the Manager has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties, other than the global market volatility noted below, 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.

Global financial markets continued to be volatile during Q1 2023, in part due to instability in the global markets due to banking concerns, economic fallout as well as continued high levels of inflation, globally high interest rates and Russia's military invasion of Ukraine and the related sanctions. There remains uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements. Given the current geopolitical landscape and the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of allowance for credit losses both in the short term and in the long term.

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

Measurement of fair values

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

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

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

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

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The information about the assumptions made in measuring fair value is included in the following notes of the Company's interim condensed consolidated financial statements:

- Note 4 – Mortgage and other investments, including mortgage syndications, and
- Note 17 – Fair value measurements.

Measurement of expected credit loss

The determination of the allowance for credit losses takes into account different factors and varies by nature of investment. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessments, which would require an increase or decrease in the allowance of credit loss. The Company exercises significant credit judgment in the determination of a significant increase in credit risk since initial recognition, credit impairment of debt investments and expected recoverable amount of credit impaired debt investments. Refer to note 4(d) of the Company's interim condensed consolidated financial statements.

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.

Net realizable value of land inventory

Land inventory is stated at the lower of cost and net realizable value. In determining the net realizable value of land inventory, the Company estimates the selling prices of land parcels based on assumptions surrounding zoning and density approvals on those lands, prevailing market prices, and selling costs. The determination of net realizable value for the measurement of land inventory includes management estimates of the ultimate disposal values of various plots of land when in consideration with different sales strategies. Management applies judgement with respect to the potential scenarios for which the land can be disposed of under including assumptions around zoning and permitting of said lands.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in the unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2022, which were prepared in accordance with IFRS.

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DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to provide reasonable assurance that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") of Timbercreek Financial, along with the assistance of senior Management of the Manager with their supervision, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made in the design of internal controls over financial reporting during the period ended March 31, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including whether instances of fraud, if any, have been detected. These inherent limitations include, among other items:

- i. that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances;
- ii. the impact of any undetected errors; and
- iii. that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override.

OUTSTANDING SHARE DATA

As at May 8, 2023, the Company's authorized capital consists of an unlimited number of common shares, of which 83,775,016 are issued and outstanding.

CAPITAL STRUCTURE AND LIQUIDITY

Capital structure

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company believes that the conservative amount of structural leverage gained from the debentures and credit facility is accretive to net earnings, appropriate for the risk profile of the business. The Company anticipates meeting all of its contractual liabilities (described below) using its mix of capital structure and cash flow from operating activities.

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

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Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has an aggregate borrowing ability of \$600.0 million through its credit facility and it intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at March 31, 2023, the Company's qualified credit facility limit is subject to a borrowing base as defined in the Eighth Amending Credit Agreement, which is \$520.7 million. As at March 31, 2023, the Company is in compliance with its credit facility's covenants and expects to remain in compliance going forward.

The Company routinely forecasts cash flow sources and requirements, including unadvanced commitments, to ensure cash is efficiently utilized.

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at March 31, 2023, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years	5 + Years
Accounts payable and accrued expenses	\$ 3,521	\$ 3,521	\$ 3,521	\$ —	\$ —	\$ —
Dividends payable	4,809	4,809	4,809	—	—	—
Due to Manager	1,088	1,088	1,088	—	—	—
Mortgage and other loans funding holdbacks	679	679	679	—	—	—
Prepaid mortgage and other loans interest	3,005	3,005	3,005	—	—	—
Credit facility ¹	386,564	410,219	410,219	—	—	—
Convertible debentures ²	139,776	177,608	7,573	50,784	15,563	103,688
	\$ 539,442	\$ 600,929	\$ 430,894	\$ 50,784	\$ 15,563	\$ 103,688
Unadvanced mortgage commitments ³	—	255,548	255,548	—	—	—
Total contractual liabilities, excluding mortgage syndication liabilities ⁴	\$ 539,442	\$ 856,477	\$ 686,442	\$ 50,784	\$ 15,563	\$ 103,688

¹ Credit facility includes interest based upon March 2023 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on Feb 10, 2024. The Company intends to renew its credit facility prior to maturity.

² The convertible debentures include interest based on coupon rate on the convertible debentures assuming the outstanding balance is not repaid until its contractual maturity on June 30, 2024, July 31, 2028 and December 31, 2028.

³ Unadvanced mortgage commitments include syndication commitments of which \$134.9 million belong to the Company's syndicated partners.

⁴ The principal repayments of \$611.7 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments.

As at March 31, 2023, the Company had a cash position of \$1.3 million (December 31, 2022 – \$2.8 million) and an unutilized credit facility balance of \$133.7 million (December 31, 2022 – \$103.5 million). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at March 31, 2023, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to \$255.5 million (December 31, 2022 – \$293.4 million) of which \$134.9 million (December 31, 2022 – \$144.6 million) belong to the Company's syndicated partners. The Company expects the syndication partners to fund their respective commitments.

FINANCIAL INSTRUMENTS

Financial assets

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

Financial liabilities

The Company's accounts payable and accrued expenses, dividends payable, due to Manager, mortgage and other loan funding holdbacks, prepaid mortgage interest, credit facility, convertible debentures, derivative liability (interest rate swap contract) and mortgage syndication liabilities are designated as other financial liabilities and are measured at amortized cost. With the exception of convertible debentures and mortgage syndication liabilities, the fair value of these financial liabilities approximate their carrying amounts due to their short-term nature. The fair value of mortgage syndication liabilities approximate their carrying value given the mortgage investments consist of short-term mortgages that are repayable at the option of the borrower without yield maintenance or penalties. The fair value of the convertible debentures is based on the market trading price of convertible debentures at the reporting date.

RISKS AND UNCERTAINTIES

The Company is subject to certain risks and uncertainties that may affect the Company's future performance and its ability to execute on its investment objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while other risks cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage investments at rates consistent with rates historically achieved, not having adequate mortgage investment opportunities presented to us, change in currency rates and not having adequate sources of bank financing available. There have been no changes to the Company, which may affect the overall risk of the Company.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of March 31, 2023, \$1,126.2 million of net mortgage investments and \$5.0 million of other investments bear interest at variable rates (December 31, 2022 – \$1,173.7 million and \$5.0 million, respectively). As of March 31, 2023, \$1,049.8 million of net mortgage investments have a "floor rate" (December 31, 2022 – \$1,105.7 million).

If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income would be a decrease in net income of \$5.3 million (December 31, 2022 – 0.50% and \$5.7 million) or an increase in net income of \$5.6 million (December 31, 2022 – 0.50% and \$5.9 million). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio and its use of floor rates in its investment portfolio.

Management's Discussion and Analysis

For the three months ended March 31, 2023

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

The Company is also exposed to interest rate risk on the credit facility, which has a balance of \$387.0 million as at March 31, 2023 (December 31, 2022 – \$451.0 million). As at March 31, 2023, net exposure to interest rate risk was \$387.0 million (December 31, 2022 – \$451.0 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1.9 million (December 31, 2022 – \$2.3 million per 0.50% decrease or increase in interest rates).

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

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 March 31, 2023, the Company has US\$7.2 million and €3.3 million in other investments denominated in foreign currencies (December 31, 2022 – US\$7.1 million and €3.2 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at March 31, 2023, the Company has one U.S. dollars currency contract with an aggregate notional value of US\$7.0 million, at a forward contract rate of 1.3351, that matures in July 2023. The Company also has one Euro currency contract with an aggregate notional value of €3.2 million at a contract rate of 1.4568, that matured in April 2023 and has been subsequently renewed to May 2023.

The fair value of the foreign currency forward contracts as at March 31, 2023 is a liability of \$152 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.

Credit risk

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

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

The exposure to credit risk at March 31, 2023 relating to net mortgages and other investments amount to \$1,212.7 million (December 31, 2022 – \$1,276.7 million).

Management's Discussion and Analysis

For the three months ended March 31, 2023

In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

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 I bank, to be minimal.

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in normal operations from fluctuations in cash flow as a result of the timing of mortgage investment advances and repayments and the need for working capital. Management routinely forecasts future cash flow sources and requirements to ensure cash is efficiently utilized. For a discussion of the Company's liquidity, cash flow from operations and mitigation of liquidity risk, see the "Capital Structure and Liquidity" section in this MD&A.

ADDITIONAL INFORMATION**Dividend Reinvestment Plan**

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

Phone

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