Protecting investor capital **&** **Generating** attractive returns

Timbercreek Financial

2019 Annual Report


$1.2B
institutional-quality portfolio
10+ year track record, no principal losses
$8.75
Book value per share
100% commercial real estate focused

Protecting investor capital & **generating** attractive returns. It's our focus.

Our investment process begins with one overriding objective: protecting investors' capital. We think defence first. We underwrote our first loan 13 years ago, and our approach has served us well through market cycles, volatility, and other unforeseen events. Our investors also look to us to provide attractive returns through regular monthly cash dividends. We achieve this by focusing on high-quality, stable assets – such as rental apartments and office buildings – that offer durable and consistent income streams to our borrowers. In periods of increased risk or volatility, borrower strength and asset quality (i.e. well located cash-flowing real estate) are paramount, and are at the core of our underwriting process and focus.

experienced debt team
25+ team members

customization

service

speed

"In the transitional lending market, we compete on speed of execution and customization – differentiators that serve us well in periods of volatility where many other lenders retreat from the market. We continue to review a robust pipeline of new investment opportunities, and we are applying rigorous risk management to select the best investments for our shareholders."

- Scott Rowland,
Managing Director,
Debt Investments

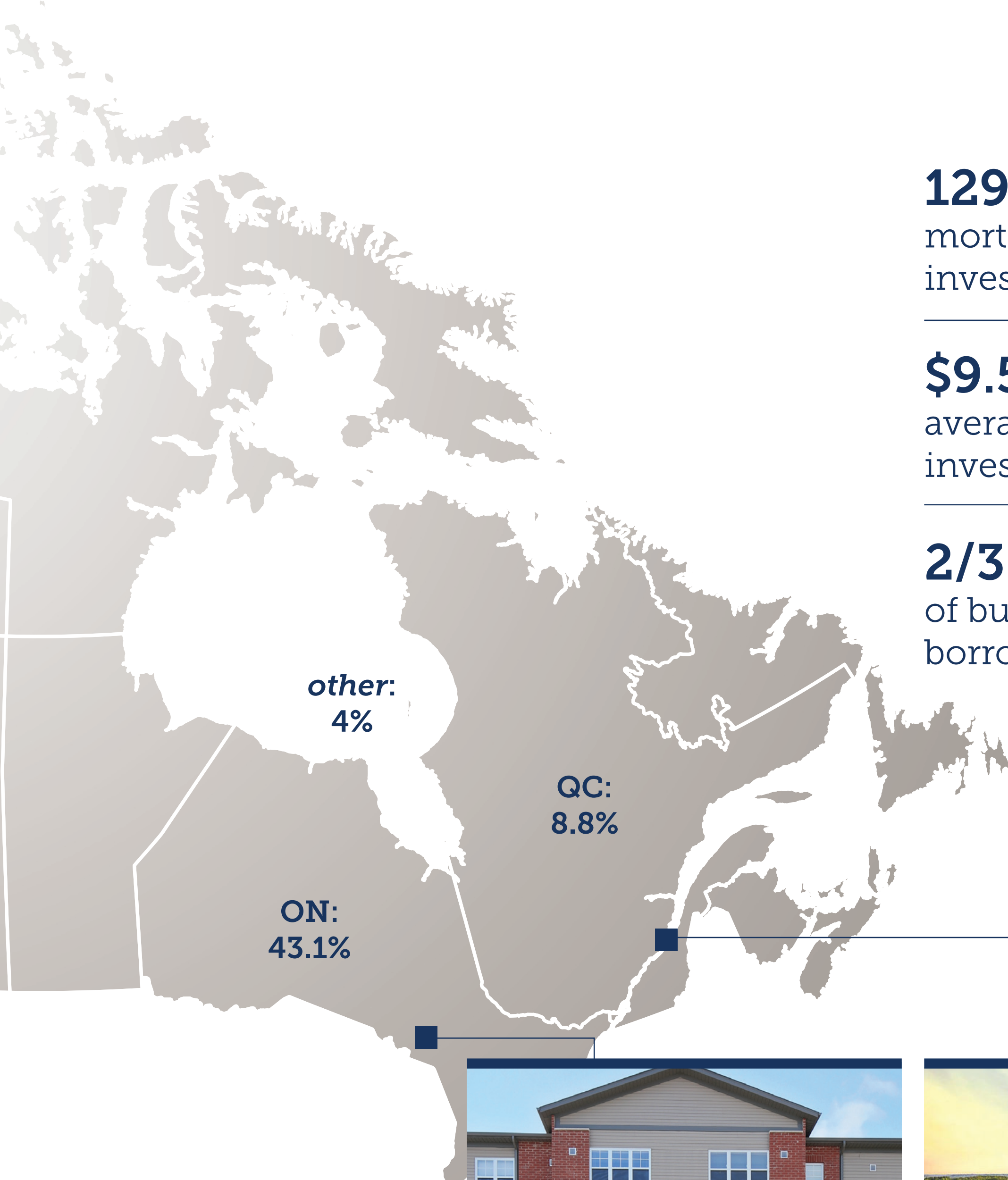
Diversified by asset class and region.
It's how we protect capital and manage risk.

Case Study A: The borrower (a repeat customer) utilized loan proceeds to refinance existing debt and buy out partnership interests. The loan is secured by a blanket 2nd mortgage charge on 15 mixed-use and retail properties located across Alberta and British Columbia.

Amount: $55,000,000
Position: Second Mortgage
Term: 36 months
Interest Rate: 7.95% Floor;
Prime + 4.00% months 1-35,
Prime + 7.00% thereafter

Case Study B: The borrower utilized loan proceeds to facilitate the acquisition of four multi-residential properties situated in British Columbia.

Amount: $21,000,000
Position: First Mortgage
Term: 36 months
Interest Rate: 5.75% fixed



129
mortgage investments

$9.5M
average mortgage investment size

2/3
of business from repeat borrowers

Case Study C: Loan proceeds, alongside borrower's equity, were utilized to acquire and stabilize two retirement home facilities located in Ontario.

Amount: $28,875,000
Position: First Mortgage
Term: 24 months
Interest Rate: 6.50% Floor;
Prime + 2.55% in months 1-23,
Prime + 4.55% thereafter.

Case Study D: Loan proceeds were used to refinance an existing construction loan, allowing the borrower to complete construction of the property and provide time for the stabilization of this multi-residential property located near Quebec City.

Amount: $22,950,000
Position: First Mortgage
Term: 24 months
Interest Rate: 6.50% Floor;
Prime + 2.55% in months 1-23,
Prime + 4.55% thereafter.

$0.72
distributable income per share in 2019

7.0%
dividend yield in 2019

$0.69
dividends per share in 2019

TF
TSX-listed

LETTER TO SHAREHOLDERS

Dear Shareholders:

Fiscal 2019 was an active and generally successful year for the company, and this annual report attempts to capture the key portfolio highlights and go deeper on how we manage risk and protect capital for shareholders – strategies that are more important now than ever.

Of course, a lot has changed in the world since the end of 2019. While the extent and duration of the COVID-19 pandemic – and resulting economic downturn – are unknown, we want to give you some perspective on how we are approaching this market volatility and why we believe our portfolio is positioned well to navigate uncertain times.

During 2019, Timbercreek Financial continued to find attractive investment opportunities that met its risk and return objectives. New investments and advances totalled $833 million – a record year for capital deployment. Transaction activity is typically stronger in the second half of the year, and this was certainly the case in 2019. Our fourth quarter new investments and advances – at more than $387 million – also represented a record quarter for the company. The net value of the mortgage portfolio, excluding syndications, increased by $33 million over 2018 and ended the year at close to $1.24 billion.

The combination of strong transaction activity, a larger balance sheet, and higher average interest rate resulted in year-over-year gains in our investment income and income from operations, which increased by 4.7% and 5.0%, respectively, over 2018. Importantly, we delivered our primary objective: regular monthly income to our shareholders.

We achieved these results against a backdrop of heightened competition, especially for the high-quality, income-producing assets we target. Fortunately, our strong presence and reputation continues to allow us to win business and find attractive opportunities that fit our risk-return profile. And we stayed true to our risk management principles and core strengths: building a diversified, conservative portfolio underpinned by cashflowing properties. At year end, 54% of the portfolio was secured by rental apartments, an asset class with highly stable and predictable cash flow characteristics, up from 40% at the end of 2018.

New investments and advances totalled **$833 million** – a record year for capital deployment.

Like many other companies, our outlook for 2020 must now consider new risks and uncertainties related to COVID-19. As to our positioning and readiness, it is important for you to know a few points:

- With credit markets gyrating, liquidity (i.e. capital availability) is at a premium. Timbercreek Financial is largely funded with permanent equity capital, supplemented by three convertible debentures (none of which mature in the next 12 months) and a credit facility syndicated among 10 financial institutions. From a capital perspective, we are in a good position.
- From a portfolio perspective, ***stability*** and *security* remain key themes. We have discussed the potential for a change in the economic cycle for some time and have made efforts to de-risk at the portfolio level since the merger in 2016.
    - The loan book currently has an average of approximately 70% loan-to-value (meaning we sit in priority position to the equity sponsor's 30%).

- Approximately 90% of the loans are secured first mortgages on largely cash-flowing real estate.

- Given our focus on commercial assets (including multi-family rental assets), our borrowers benefit from a diversified pool of rent-paying tenants. Overall, the portfolio should be better positioned to protect capital and maintain its income characteristics than if it had a higher component of land and construction (i.e. non-income-producing real estate), or a lower percentage of first mortgages.

- We currently have zero exposure to hotels and limited exposure to tertiary markets (which would include resort towns), favouring large urban markets instead.

We stayed true to our risk management principles and core strengths: building a diversified, conservative portfolio underpinned by cash-flowing properties.

• 77% of our investments have floating rate coupons with rate floors, which has muted the impact of recent interest rate cuts. The portfolio's run-rate weighted average interest rate is down less than 10 basis points (versus what it would have been), after the 150 basis point cumulative reductions in the Bank of Canada rate in March.

• Historically, times of volatility can create attractive opportunities in the private lending space as borrowers seek transaction certainty in an uncertain market. Given the stability of our capital base and our strong market presence, we are seeing increased deal flow, but will continue to be highly selective, applying our rigorous risk management processes with full consideration of the changing market dynamics.

We don't want to suggest there will be no impact to our business. While it's still early, we believe some of the loans we had expected to be repaid in the near term will have to be extended. This is okay; loans that we extend will generate fee income for our shareholders and capital will continue to be deployed at attractive rates.

As a lender, we have second derivative exposure to what is happening at the property level. Our expectation is that every part of the chain will have to demonstrate some flexibility, as we work through this pandemic together with our clients, who are established and well capitalized real estate firms, most of whom have been through prior downturns.

We are in uncertain times, no doubt. What is certain is our team will continue to manage the company with the same investment discipline that has served us so well in the past. Protecting capital continues to be our primary focus. Over a 13-year history in this market, we are proud of our track record of no principal losses.

We thank you for your continued support and look forward to reporting on our progress throughout 2020.

Cameron Goodnough
Chief Executive Officer

Timbercreek Financial
March 2020

Management's Discussion and Analysis

For the year ended December 31, 2019
In thousands of Canadian dollars, except units, per unit amounts and where otherwise noted

FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

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

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

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

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

BUSINESS OVERVIEW

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

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

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

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

BASIS OF PRESENTATION

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

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

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

NON-IFRS MEASURES

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

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

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

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

Non-IFRS financial measures for net mortgage investments:

i. Net mortgage investments – represents total mortgage investments, net of mortgage syndication liabilities and before adjustments for interest receivable, unamortized lender fees and allowance for mortgage investments loss as at the reporting date.

ii. Weighted average loan-to-value ("WALTV") – a measure of advanced and unadvanced mortgage commitments on a mortgage investment, including priority or pari-passu debt on the underlying real estate, as a percentage of the fair value of the underlying real estate collateral at the time of approval of the mortgage investment. For construction/redevelopment mortgage investments, fair value is based on an "as completed" basis. For unimproved land property, fair value is based on an "as is" basis. Net mortgage investments measured at fair value through profit or loss ("FVTPL") are excluded from weighted average loan-to-value computation. This is a key measure to explain period to period performance variances of net mortgage investments.

iii. Turnover ratio – represents total net mortgage investments repayments during the stated period, expressed as a percentage of the average net mortgage investment portfolio for the stated period. The Company makes mortgages or loans to only commercial borrowers that are short-term (generally one to five years), as such the portfolio turnover rate is higher than typical mortgage portfolios which include individual or non-commercial borrower loans. This is a key measure to explain period to period performance variances of net mortgage investments as turnover from both scheduled and early repayments impacts revenue.

iv. Weighted average interest rate for the period – represents the weighted average of daily interest rates (not including lender fees) on the net mortgage investments for the daily period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments.

v. Weighted average lender fees for the period – represents the cash lender fees received on individual mortgage investments during the stated period, expressed as a percentage of the Company's advances on those mortgage investments. If the entire lender fee is received but the mortgage investment is not fully funded, the denominator is adjusted to include the Company's unadvanced commitment. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as lender fees is one of the main contributors to net investment income and distributable income.

vi. Average net mortgage investment portfolio – represents the daily average of net mortgage investments for the stated period. As a result, the Company complements IFRS measures (which presents financial positions as a point of time basis) with weighted daily average data to explain significant variances. This is a key measure to explain period to period performance variances of net mortgage investments as average net mortgage investment portfolio is a basis for interest income earned during the period.

vii. Enhanced return portfolio – represents other investments and net equity in investment properties not included in net mortgage investments.

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

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

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

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

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

RECENT DEVELOPMENTS AND OUTLOOK

During 2019, Timbercreek Financial continued to find attractive investment opportunities that meet its risk and return objectives despite a competitive environment in the commercial mortgage sector. The number of new net mortgage investments increased considerably over the prior year, yet the financial metrics by which the Company measures risk have been maintained or improved, and returns to the Company remain stable. In particular, the portfolio is diversified across a larger number of investments; investments secured by multi-unit residential properties have increased; exposure to cash-flowing properties has increased; and loan-to-value levels are stable and remain below target levels.

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

PORTFOLIO ACTIVITY

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

At the end of Q4 2019, the enhanced return portfolio was $78.2 million, which included $61.5 million of other investments, and $16.7 million of net equity in investment properties, representing 5.7% of total assets, net of syndications.

We believe Timbercreek Financial offers investors an attractive yield with a superior risk profile. Our risk management strategy includes a focus on lending to income-producing assets, an emphasis on first mortgages and focus on urban centres. Although higher interest and fees can be earned by investing in higher risk loans, our focus is primarily on income-producing, lower-risk segments of the market such as multi-residential apartment buildings.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Financial Position

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

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

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

OPERATING RESULTS[1]

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

1 Refer to non-IFRS measures section.

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

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

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

- The Company funded 25 new net mortgage investments (Q4 2018 – 17) totaling $336.2 million (Q4 2018 – $212.2 million), made additional advances on existing mortgage investments totaling $50.7 million (Q4 2018 – $27.5 million). The weighted average interest rate on new net mortgage investments was 6.6% and new funding mainly comprised of $199.4 million in multi-residential investments. The Company fully discharged 24 mortgage investments (Q4 2018 – 14) and partially discharged mortgage investments totaling $316.9 million (Q4 2018 – $165.5 million). Weighted average interest rate on fully discharged net mortgage investment was 7.0%. The net effect of these funding and discharges resulted in a reduction in quarterly weighted average interest rate from 7.3% in Q3 2019 to 7.2% in Q4 2019 (Q4 2018 – 7.3%).
- Other investments within the enhanced return portfolio was $61.5 million (September 30, 2019 – $88.8 million). Net decrease of $27.3 million in the quarter was mainly due to liquidation of marketable securities.
- Net investment income remained consistent quarter over quarter: $25.2 million in Q4 2019 compared to $25.2 million in Q4 2018. Consistent net investment income during Q4 2019 compared to Q4 2018, despite reduction in weighted average interest rate, was primarily due to:
  - higher average net mortgage investment portfolio; $1,199.8 million during Q4 2019 compared to $1,169.7 million during Q4 2018, resulted in marginally higher interest income on net mortgage investments.
  - Increase in lender fee income, attributable to increase in lender fee received and a higher turnover rate, which was partly offset by decrease in interest income on collateralized loans, primarily due to discharges during the quarter.

- The Company generated income from operations of $21.6 million (Q4 2018 – $21.7 million), a decrease of $34 or 0.2% from Q4 2018. Quarter over quarter decrease in income from operation is primarily from increase in allowance for credit losses, due to higher net mortgage investment balance.
- General and administrative expense remained consistent at $0.5 million (Q4 2018 – $0.5 million).
- The floating rate loans with rate floors represented 77.3% (December 31, 2018 – 57.7%) of total loan portfolio compared to 63.7% as at September 30, 2019.
- Non-refundable cash lender fees recorded were $3.5 million (Q4 2018 – $2.4 million). The quarterly weighted average lender fees on new and renewed mortgages during the quarter was 1.0% (Q4 2018 – 0.9%), while the quarterly weighted average lender fee on new mortgages only for the quarter was 1.1% (Q4 2018 – 1.1%)
- The Company generated net income and comprehensive income of $14.1 million (Q4 2018 – $15.3 million) or earnings per share of $0.17, basic and diluted (Q4 2018 – $0.19 basic and $0.18 diluted). The Company declared $14.4 million in dividends (Q4 2018 – $14.1 million) to common shareholders, a payout ratio of 101.8% (Q4 2018 – 92.2%) on an earnings per share basis.
- The Company generated distributable income of $15.6 million (Q4 2018 – $16.3 million) or distributable income per share of $0.19 (Q4 2018 – $0.20), a payout ratio of 92.3% (Q4 2018 – 86.3%) on a distributable income basis.

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

- The Company funded 63 new net mortgage investments (2018 – 56) totaling $733.5 million (2018 – $673.4 million), made additional advances on existing mortgage investments totaling $99.7 million (2018 – $124.3 million) and fully discharged 57 mortgage investments (2018 – 46) and partially discharged mortgage investments totaling $799.6 million (2018 – $691.4 million). As a result, the net mortgage investment portfolio as at December 31, 2019 has increased by $33.1 million, net of foreign exchange translation loss of $470, which is hedged through currency contracts, to $1,244.1 million (December 31, 2018 – $1,211.0 million), or 2.7% from December 31, 2018.
- Other investments within the enhanced return portfolio was $61.5 million, including an allowance for credit loss of $25 (December 31, 2018 – $91.0 million and $215, respectively). Net decrease of $29.5 million was mainly due to discharging of collateralized loan investments.
- 2019 began with $1,211.0 million of net mortgage investments with 7.2% weighted average interest rate. By the end of Q3 2019, net mortgage investments had declined to $1,174.1 million at a relatively consistent 7.2% weighted average interest rate. The decline in net mortgage investments by Q3 2019 was driven by repayment activity and slower new originations during the summer months which is typical of the industry. By the end of Q4 2019 , net mortgage investments increased to $1,244.1 million.

- Net investment income earned was $99.4 million (2018 – $95.0 million), an increase of $4.4 million, or 4.6% from 2018. Increase in net investment income 2019 compared to 2018 was primarily due to:
    - Increase in interest income on net mortgage investment attributable to change in average net mortgage investment portfolio to $1,197.4 million during 2019 compared to $1,131.5 million in 2018 and weighted average interest rate consistent at 7.2% year over year.
    - Increase in lender fee income, as a result of acceleration of lender fee income recognition due to increased number of earlier than scheduled repayments of net mortgage investments during 2019, compared to 2018.
- The Company generated income from operations of $85.0 million (2018 – $81.0 million), an increase of $4.0 million or 4.9% from 2018. Increase in net investment income was partially offset by increase in total expenses. primarily driven by increase in allowance for expected credit loss and management fees due to higher net mortgage investment balance.
- Weighted average loan-to-value at origination increased from 66.6% as at December 31, 2018 to 69.8% as at December 31, 2019. Primary drivers of this change were repayments from hotel and self-storage asset classes with lower loan-to-value, and an increase in multi-family residential exposure at a relatively higher loan-to-value.
- General and administrative expense remained consistent at $1.7 million (2018 – $1.7 million).
- The floating rate loans with rate floors represents 77.3% compared to 57.7% in December 31, 2018, consistent with overall asset allocation strategy shift toward floating rate assets.
- Non-refundable cash lender fees recorded were $10.0 million (2018 – $11.3 million). The weighted average lender fees on new and renewed mortgages during the year was 1.0% (2018 – 1.1%), while the weighted average lender fee on new mortgages only for the quarter was 1.1% (2018 – 1.3%)
- The Company generated net income and comprehensive income of $54.7 million (2018 – $53.1 million) or earnings per share $0.66, basic and diluted (2018 – $0.67, basic and diluted). The Company declared $57.1 million in dividends (2018 – $54.9 million) to common shareholders resulting in a payout ratio of 104.3% (2018 – 103.4%) on an earnings per share basis.
- The Company generated distributable income of $59.3 million (2018 – $60.1 million) or distributable income per share of $0.72 (2018 – $0.76) resulting in a payout ratio of 96.2% (2018 – 93.2%) on a distributable income basis.
- The Company issued 1,167,000 of common shares for gross proceeds of $10.9 million at an average price of $9.35 per common share and paid $218 in commission to the agent, pursuant to the equity distribution agreement for the Company's ATM Program.
- In Q1 2019, the Company recognized one-time net other income of $413, primarily from the recovery of HST credits from 2015 and prior.

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

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

Distributable income

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

1 Refer to non-IFRS measures section.
2. Excluding other income of $413 in 2019(2018 YTD – $1,217) the distributable income per share for the year ended December 31, 2019 would have been $0.71 (2018 – $0.74) and payout ratio on distributable income would have been 96.9% (2018 – 93.2%).

The distributable income reconciliation above provides a link between the Company's IFRS reporting requirements and its ability to generate recurring cash flows for dividends.

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

STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

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

NET INVESTMENT INCOME

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

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

a. Interest income

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

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

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

b. Lender fee income

For Q4 2019 and 2019, the Company recorded non-refundable upfront cash lender fees of $3.5 million and $10.0 million (Q4 2018 – $2.4 million; 2018 – $11.3 million), or a weighted average lender fee on new and renewed mortgages of 1.0% and 1.0%, respectively (Q4 2018 – 0.9%; 2018 – 1.1%). Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method. For Q4 2019 and 2019, lender fees of $2.7 million and $10.0 million were amortized to lender fee income (Q4 2018 – $2.3 million; 2018 – $8.3 million).

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

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

c. Other income

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

NET RENTAL INCOME FROM INVESTMENT PROPERTIES

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

EXPENSES

Management fees

The management fee is equal to 0.85% per annum of the gross assets of the Company, calculated and paid monthly in arrears, plus applicable taxes. Gross assets are defined as the total assets of the Company less unearned revenue before deducting any liabilities, less any amounts that are reflected as mortgage syndication liabilities.

For Q4 2019 and 2019, the Company incurred management fees of $3.1 million and $12.4 million (Q4 2018 – $3.1 million; 2018 – $11.9 million). The increase is related to the increase in gross assets, net of syndication liabilities averaging $1,319.5 million in 2019, compared to $1,268.7 million in 2018.

Servicing fees

As part of the management agreement, the Manager is entitled to a servicing fee equal to 0.10% per annum, plus applicable taxes, of the amount of any senior tranche of a mortgage that is syndicated by the Manager to a third party investor on behalf of the Company, where the Company retains the corresponding subordinated portion.

For Q4 2019 and 2019, the Company incurred $114 and $497, respectively (Q4 2018 and 2018 – $163 and $622) in servicing fees. The decrease is related to the decrease in syndications.

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

General and administrative

For Q4 2019 and 2019, the Company incurred general and administrative expenses of $487 and $1.7 million, respectively (Q4 2018 – $478; 2018 – $1.7 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees, other operating costs and administration of the mortgage and other investments portfolio. There was no material variance in General and administrative expenses.

FINANCING COST ON CREDIT FACILITY – MORTGAGE INVESTMENTS

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

FINANCING COST ON CREDIT FACILITY – INVESTMENT PROPERTIES

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

FINANCING COST ON CONVERTIBLE DEBENTURES

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

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 December 31,		Year ended December 31,	
	2019	**2018**	**2019**	**2018**
Interest on the convertible debentures	**$ 1,842**	$ 1,841	**$ 7,366**	$ 8,477
Amortization of issue costs and accretion of the convertible debentures	**361**	361	**1,435**	2,151
Total financing cost on convertible debentures	**$ 2,203**	$ 2,202	**$ 8,801**	$ 10,628

EARNINGS PER SHARE

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

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

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

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:

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

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

1. Refer to non-IFRS measures section.

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

PORTFOLIO ALLOCATION

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

a. Security Position

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

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

b. Region

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

c. Maturity

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

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

d. Asset Type

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

1. Includes seven construction loans (2018 – 6) totaling $26.7 million (2018 – $12.7 million). Construction loan is provided for the purposes of building a new asset.
2 Unimproved land loan is provided to a non-income producing property that does not contemplate construction during the loan period.
3 Weighted average loan-to-value measured at time of origination.

ENHANCED RETURN PORTFOLIO

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

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

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

During Q4 2017, the Company entered into an 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of $5.4 million at the time of the transaction. Refer to note 4(e) of the Consolidated Financial Statements for the years ended December 31, 2019 and 2018.

On August 16, 2017, the Company acquired a 20.46% undivided beneficial interest in the Saskatchewan Portfolio which is comprised of 14 investment properties totaling 1,079 units located in Saskatoon and Regina, Saskatchewan for a total purchase price of $201.7 million (the Company's share is $41.3 million). As at December 31, 2019, the Company's share of the investment properties has an aggregate fair value of $47.3 million (December 31, 2018 – $46.5 million) and are pledged as security for the credit facility of the co-ownership. The Company is entitled to receive incremental profits from the excess returns generated over certain thresholds.

MORTGAGE SYNDICATION LIABILITIES

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of $426.9 million (December 31, 2018 – $575.0 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time, and are not necessarily indicative of a future trend.

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

ALLOWANCE FOR CREDIT LOSSES ("ACL")

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

Multi-residential Mortgage Investments	Year Ended December 31, 2019				Year Ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments[1]	$ 925,025	$ —	$ 2,903	$ 927,928	$ 851,402	$ —	$ 2,790	$ 854,192
Mortgage syndication liabilities[1]	240,724	—	—	240,724	322,244	—	—	322,244
Net mortgage investments	684,301	—	2,903	687,204	529,158	—	2,790	531,948
Allowance for credit losses[2]	1,003	—	253	1,256	627	—	3	630
	683,298	—	2,650	685,948	528,531	—	2,787	531,318

Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments[1]	674,306	—	3,102	677,408	853,383	—	37,790	891,173
Mortgage syndication liabilities[1]	187,274	—	—	187,274	253,694	—	—	253,694
Net mortgage investments	487,032	—	3,102	490,134	599,689	—	37,790	637,479
Allowance for credit losses[2]	334	—	713	1,047	200	—	587	787
	486,698	—	2,389	489,087	599,489	—	37,203	636,692

Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross mortgage investments[1]	48,407	—	—	48,407	66,483	—	7,014	73,497
Mortgage syndication liabilities[1]	—	—	—	—	—	—	—	—
Net mortgage investments	48,407	—	—	48,407	66,483	—	7,014	73,497
Allowance for credit losses[2]	25	—	—	25	212	—	3	215
	$ 48,382	$ —	$ —	$ 48,382	$ 66,271	$ —	$ 7,011	$ 73,282

1 Including interest receivable

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

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

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

	Year Ended December 31, 2019				Year Ended December 31, 2018			
Multi-residential Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	$ 627	$ —	$ 3	$ 630	$ 603	$ 26	$ —	$ 629
Allowance for credit losses								
Remeasurement	(4)	2	250	248	24	—	(23)	1
Transfer to/(from)								
Stage 1	2	—	—	2	—	—	—	—
Stage 2	—	(2)	—	(2)	—	(26)	—	(26)
Stage 3	—	—	—	—	—	—	26	26
Total allowance for credit losses	625	—	253	878	627	—	3	630
Fundings	863	—	—	863	340	—	—	340
Discharges	(485)	—	—	(485)	(340)	—	—	(340)
Balance at end of fiscal period	$ 1,003	$ —	$ 253	$ 1,256	$ 627	$ —	$ 3	$ 630

Other Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	$ 200	$ —	$ 587	$ 787	$ 1	$ 209	$ —	$ 210
Allowance for credit losses								
Remeasurement	142	—	742	884	252	—	378	630
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	(209)	—	(209)
Stage 3	—	—	—	—	—	—	209	209
Total allowance for credit losses	342	—	1,329	1,671	253	—	587	840
Fundings	134	—	—	134	88	—	—	88
Discharges	(142)	—	(616)	(758)	(141)	—	—	(141)
Balance at end of fiscal period	$ 334	$ —	$ 713	$ 1,047	$ 200	$ —	$ 587	$ 787

Other loan Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at beginning of period	$ 212	$ —	$ 3	$ 215	$ 232	$ —	$ —	$ 232
Allowance for credit losses								
Remeasurement	8	—	—	8	(16)	—	—	(16)
Transfer to/(from)								
Stage 1	3	—	—	3	(3)	—	—	(3)
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	(3)	(3)	—	—	3	3
Total allowance for credit losses	223	—	—	223	213	—	3	216
Fundings	3	—	—	3	65	—	—	65
Discharges	(201)	—	—	(201)	(66)	—	—	(66)
Balance at end of fiscal period	$ 25	$ —	$ —	$ 25	$ 212	$ —	$ 3	$ 215

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

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

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

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

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

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

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

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

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

	Year Ended December 31, 2019				Year Ended December 31, 2018			
Multi-residential Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low risk	**$ 205,588**	**$ —**	**$ —**	**$ 205,588**	$ 221,309	$ —	$ —	$ 221,309
Medium-Low risk	**444,496**	**—**	**—**	**444,496**	289,144	—	—	289,144
Medium-High risk	**34,217**	**—**	**—**	**34,217**	18,705	—	—	18,705
High risk	**—**	**—**	**—**	**—**	—	—	—	—
Default	**—**	**—**	**2,903**	**2,903**	—	—	2,790	2,790
Net	**684,301**	**—**	**2,903**	**687,204**	529,158	—	2,790	531,948
Allowance for credit losses	**1,003**	**—**	**253**	**1,256**	627	—	3	630
Mortgage investments[1]	**$ 683,298**	**$ —**	**$ 2,650**	**$ 685,948**	$ 528,531	$ —	$ 2,787	$ 531,318
Other Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low risk	**$ 118,546**	**$ —**	**$ —**	**$ 118,546**	$ 177,567	$ —	$ —	$ 177,567
Medium-Low risk	**275,349**	**—**	**—**	**275,349**	341,418	—	—	341,418
Medium-High risk	**82,054**	**—**	**—**	**82,054**	66,644	—	—	66,644
High risk	**11,083**	**—**	**—**	**11,083**	14,060		—	14,060
Default	**—**	**—**	**3,102**	**3,102**	—	—	37,790	37,790
Net	**487,032**	**—**	**3,102**	**490,134**	599,689	—	37,790	637,479
Allowance for credit losses	**334**	**—**	**713**	**1,047**	200	—	587	787
Mortgage investments[1]	**$ 486,698**	**$ —**	**$ 2,389**	**$ 489,087**	$ 599,489	$ —	$ 37,203	$ 636,692
Other Loan Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Medium-Low risk	**—**	**—**	**—**	**—**	—	—	—	—
Medium-High risk	**—**	**—**	**—**	**—**	—	—	—	—
High risk	**48,407**	**—**	**—**	**48,407**	66,483		—	66,483
Default	**—**	**—**	**—**	**—**	—	—	7,014	7,014
Net	**48,407**	**—**	**—**	**48,407**	66,483	—	7,014	73,497
Allowance for credit losses	**25**	**—**	**—**	**25**	212	—	3	215
Other loan Investments[1]	**$ 48,382**	**—**	**$ —**	**$ 48,382**	$ 66,271	$ —	$ 7,011	$ 73,282

1. net of allowance and mortgage syndications

NET WORKING CAPITAL

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

CREDIT FACILITY (MORTGAGE INVESTMENTS)

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

The rates of interest and fees of the Fourth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2018 – prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2018 – 2.25%) and standby fee of 0.4000% per annum (December 31, 2018 – 0.5625%) on the unutilized credit facility balance. As at

December 31, 2019, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Fourth Amending Credit Agreement is $500.0 million.

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

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

CREDIT FACILITY (INVESTMENT PROPERTIES)

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

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

1) Tranche A credit facility provides the co-owners with an option to borrow at either the prime rate of interest plus 1.00% or at the bankers' acceptances with a stamping fee of 2.00% ("Canadian Dollar Loans"), or at LIBOR plus 2.00%, with maturity date of October 9, 2021.The credit facility is secured by a first charge on specific assets with a gross carrying value of $31.7 million. The Company's share of the carrying value is $6.5 million
2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as tranche B properties (the "Tranche B Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with maturity date of October 9, 2020 and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of $39.7 million. The Company's share of the carrying value is $8.1 million.
3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as tranche C properties (the "Tranche C Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of $78.6 million. The Company's share of the carrying value is $16.1 million.

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

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

CONVERTIBLE DEBENTURES

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

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

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

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

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

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

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

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

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

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

The convertible debentures are comprised of as follows

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

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

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

SHAREHOLDERS' EQUITY

a. Common shares

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to receive notice of and to attend and vote at all shareholder meetings as well as to receive dividends as declared by the Board of Directors. The common shares are classified within shareholders' equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity.

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

Net proceeds of the ATM Program were used to repay amounts owing under its secured revolving credit facility, and will subsequently draw on the credit facility for purposes of funding the purchase of new investments in accordance with the strategies, investment objectives and investment guidelines of the Company.

During Q4 2019 and 2019, the Company issued nil and 1,167,000 (Q4 2018 – 57,500 and 2018 – 458,100) of common shares for gross proceeds of nil and $10.9 million (Q4 2018 – $0.5 million and 2018 – $4.3 million) at an average price of $9.35 per common share and paid nil and $218 in commission to the agent, pursuant to the ATM Program's equity distribution agreement.

b. Dividends

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q4 2019 and 2019, the Company declared dividends of $14.4 million and $57.1 million, or $0.1725 and $0.6900 per common share (Q4 2018 – $14.1 million, $0.1725 per share; 2018 – $54.9 million, $0.6900 per share).

As at December 31, 2019, $4.8 million in aggregate dividends (December 31, 2018 – $4.7 million) was payable to the holders of common shares by the Company. Subsequent to December 31, 2019, the Board of Directors of the Company declared dividends of $0.0575 per common share to be paid on February 14, 2020 and March 13, 2020 to the common shareholders of record on January 31, 2020 and February 28, 2020.

c. Dividend reinvestment plan ("DRIP")

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

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

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

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

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

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

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

STATEMENT OF CASH FLOWS

Cash from operating activities

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

Cash used in financing activities

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

Cash used in investing activities

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

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

QUARTERLY FINANCIAL INFORMATION

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

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

1 Refer to non-IFRS measures section.

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

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 FPHFS 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.

RELATED PARTY TRANSACTIONS

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

As at December 31, 2019, included in other assets is $9.0 million (December 31, 2018 – $3.1 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.

As at December 31, 2019, the Company had no outstanding mortgage investments which an independent director of the Company was also an officer and/or part-owner of the borrowers:

- A mortgage investment with a total gross commitment of $9.5 million (December 31, 2018 – $9.5 million), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is $3.6 million (December 31, 2018 – $3.6 million). For the year ended December 31, 2019, the Company has recognized net interest income of $314 (Q4 2018 – $344) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of $1.9 million (December 31, 2018 – $1.9 million), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is $1.9 million (December 31, 2018 – $1.9 million). For the year ended December 31, 2019, the Company has recognized net interest income of $102 (Q4 2018 – $115) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of $16.5 million (December 31, 2018 – $16.5 million). The Company's share of the commitment is $3.0 million (December 31, 2018 – $2.5 million), of which $3.0 million (December 31, 2018 – $2.5 million) has been funded as at December 31, 2019. During the year ended December 31, 2019, the mortgage investment was restructured and the independent director is no longer related to the mortgage investment. For the year ended December 31, 2019, the Company recognized net interest income of $245 (2018 – $238) from this mortgage investment during the year.

As at December 31, 2019, the Company and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Real Estate Financing U.S. Holding LP ("TREF") are related parties as they are managed by wholly owned subsidiary of the Manager, and they have co invested in 29 (December 31, 2018 – 18) gross mortgage investments totaling $349.0 million (December 31, 2018 – $258.8 million). The Company's share in these gross mortgage investments is $202.9 million (December 31, 2018 – $178.4 million). Included in these amounts is one net mortgage investments (December 31, 2018 – two) totaling $18.4 million (December 31, 2018 – $23.0 million) loaned to limited partnerships in which T4Q is invested.

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

As at December 31, 2019, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling $4.9 million or €3.4 million (December 31, 2018 – $4.6 million or €2.9 million), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.

As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. For the year ended December 31, 2019, Property Management Fees of $140 was charged by the Manager to the Company (Q4 2018 – $129.9). As at December 31, 2019, $12 was payable to the Manager (December 31, 2018 – $18).

COMMITMENTS AND CONTINGENCIES

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

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

CRITICAL ACCOUNTING ESTIMATES

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

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these consolidated financial statements. The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the consolidated financial statements are as follows:

Measurement of fair values

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

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

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

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

The information about the assumptions made in measuring fair value is included in the following notes within the consolidated financial statements:

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

Note 5 – Investment properties; and

Note 19 – Fair value measurements.

Syndication liabilities

The Company applies judgement in assessing the relationship between parties with which it enters into participation agreements in order to assess the derecognition of transfers relating to mortgage and other investments.

Classification of mortgage and other investments

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

Measurement of expected credit loss

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

Convertible debentures

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

Accounting for acquisitions

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

SIGNIFICANT ACCOUNTING POLICIES

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

OUTSTANDING SHARE DATA

As at March 5, 2020, the Company's authorized capital consists of an unlimited number of common shares, of which 83,330,663 are issued and outstanding.

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

CAPITAL STRUCTURE AND LIQUIDITY

Capital structure

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

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

Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has a borrowing ability of $500.0 million through its credit facility – mortgage investments and $30.7 million through its credit facility – investment properties and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at December 31, 2019, the Company is in compliance with its credit facilities covenants and expects to remain in compliance going forward.

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

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at December 31, 2019, including expected interest payments:

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

1. Credit facility (mortgage investments) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 18, 2021.
2 Credit facility (investment properties) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on October 9, 2020.
3 The 2016 debentures are assumed to be redeemable July 31, 2019, the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.
4 Unadvanced mortgage commitments include syndication commitments of which $81.3 million belongs to the Company's syndicated partners.
5 The principal repayments of $426.3 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

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

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

FINANCIAL INSTRUMENTS

Financial assets

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

Financial liabilities

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

RISKS AND UNCERTAINTIES

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2019, $992.3 million of net mortgage investments and $6.6 million of other investments bear interest at variable rates (December 31, 2018 – $717.5 million and $21.8 million, respectively). $917.2 million of net mortgage investments have a "floor rate" (December 31, 2018 – $626.0 million). If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments would be a decrease in net income of $1.3 million or an increase in net income of

$5.0 million, respectively (Q4 2018 – $2.5 million and $3.7 million, respectively). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of $491.7 million as at December 31, 2019 (December 31, 2018 – $510.9 million). During Q4 2019, the Company entered into the Contract (refer to note 6(a)) which reduced the exposure in interest rate risk. As at December 31, 2019, net exposure to interest rate risk was $241.7 million (December 31, 2018 – $510.9 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will decrease or increase net income by $1.2 million (2018 – $2.6 million).

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

Currency risk

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

As at December 31, 2019, the Company has US$5.1 million and €3.4 million in other investments denominated in foreign currencies (December 31, 2018 – US$5.0 million, US$5.1 million and €2.9 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at December 31, 2019, the Company has one U.S. dollars currency contracts with an aggregate notional value of US$5.1 million, at a weighted average forward contract rate of 1.3316, maturing in April 2020 and one Euro currency contract with an aggregate notional value of €3.5 million at a weighted average contract rate of 1.4745, maturing in March 2020.

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

Credit risk

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

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

The exposure to credit risk at December 31, 2019 relating to net mortgages and other investments amount to $1,319.6 million (December 31, 2018 – $1,320.0 million).

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

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

Liquidity risk

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

DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

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

ADDITIONAL INFORMATION

Dividend Reinvestment Plan

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

Phone

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

Internet

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

Mail

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Financial Corp.

Opinion

We have audited the consolidated financial statements of Timbercreek Financial Corp. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of net income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies;

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprise:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
The engagement partner on the audit resulting in this auditors' report is Amit Shah.

Toronto, Canada
March 5, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

As at	Note	December 31, 2019	December 31, 2018
ASSETS		$	$
Cash and cash equivalents		**8,991**	541
Other assets	15(b)	**11,960**	10,217
Mortgage investments, including mortgage syndications	4	**1,667,686**	1,796,822
Other investments	4(e)	**61,520**	90,957
Investment properties	5	**47,349**	46,494
Total assets		**1,797,506**	1,945,031
LIABILITIES AND EQUITY			
Accounts payable and accrued expenses		$ **3,674**	$ 4,221
Dividends payable	9(c)	**4,787**	4,694
Due to Manager	15(a)	**1,114**	1,493
Mortgage and other loans funding holdbacks		**3,741**	657
Prepaid mortgage and other loans interest		**5,437**	2,425
Credit facility (mortgage investments)	6(a)	**459,767**	476,166
Credit facility (investment properties)	6(b)	**30,622**	32,773
Convertible debentures	8	**133,033**	131,597
Mortgage syndication liabilities	4(a)(c)	**426,939**	575,040
Total liabilities		**1,069,114**	1,229,066
Shareholders' equity	9	**728,392**	715,965
Total liabilities and equity		$ **1,797,506**	$ 1,945,031
Commitments and contingencies	4, 6 and 21		
Subsequent events	9(c)		

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

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

	Note		Year ended December 31, 2019		2018
Investment income					
Gross interest and other income, including mortgage syndications		**$**	**124,394**	$	124,801
Interest and other expenses on mortgage syndications			**(24,957)**		(29,843)
Net investment income	4(b)(e)		**99,437**		94,958
Net rental income					
Revenue from investment properties	7		**2,831**		1,991
Property operating costs			**(1,391)**		(1,170)
Net rental income			**1,440**		821
Expenses					
Management fees	11		**12,363**		11,879
Servicing fees	11		**497**		622
Allowance for expected credit loss	4(d)		**1,313**		550
General and administrative			**1,690**		1,725
Total expenses			**15,863**		14,776
Income from operations			**85,014**		81,003
Other income, net			**413**		1,217
Net operating loss from foreclosed properties held for sale			**—**		(39)
Fair value loss on foreclosed properties held for sale			**—**		(109)
Financing costs					
Financing cost on credit facilities	6		**21,886**		18,376
Financing cost on convertible debentures	8		**8,801**		10,628
Total financing costs			**30,687**		29,004
Net income and comprehensive income		**$**	**54,740**	$	53,068
Earnings per share					
Basic	12	**$**	**0.66**	$	0.67
Diluted	12	**$**	**0.66**	$	0.67

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

Year ended December 31, 2019	Common shares	Retained earnings	Equity component of convertible debentures	Total
Balance, December 31, 2018	$ 715,653	$ (1,626)	$ 1,938	$ 715,965
Issuance of common shares, net of issue costs	10,543	—	—	10,543
Dividends	—	(57,078)	—	(57,078)
Issuance of common shares under dividend reinvestment plan	4,560	—	—	4,560
Repurchase of common shares for dividend reinvestment plan	(338)	—	—	(338)
Total net income and comprehensive income	—	54,740	—	54,740
Balance, December 31, 2019	**$ 730,418**	**$ (3,964)**	**$ 1,938**	**$ 728,392**

Year ended December 31, 2018	Common shares	Retained earnings	Equity component of convertible debentures	Total
Balance, December 31, 2017	$ 650,988	$ 196	$ 1,938	$ 653,122
Issuance of common shares, net of issue costs	60,314	—	—	60,314
Dividends	—	(54,890)	—	(54,890)
Issuance of common shares under dividend reinvestment plan	4,351	—	—	4,351
Total net income and comprehensive income	—	53,068	—	53,068
Balance, December 31, 2018	$ 715,653	$ (1,626)	$ 1,938	$ 715,965

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

(In thousands of Canadian dollars)

	Note	Year ended December 31, 2019	2018
OPERATING ACTIVITIES			
Net income		**$ 54,740**	$ 53,068
Amortization of lender fees		**(10,029)**	(8,328)
Lender fees received		**10,039**	11,342
Interest and income, net of syndications		**(89,739)**	(86,613)
Interest and other income received, net of syndications		**100,863**	78,238
Financing costs		**30,687**	29,004
Realized loss on disposal of marketable securities		**—**	70
Net unrealized loss (gain) on investments measured at FVTPL		**188**	(74)
Net realized and unrealized foreign exchange gain		**(15)**	(9)
Fair value loss on foreclosed properties held for sale		**—**	109
Allowance for expected credit loss		**1,313**	550
Net change in non-cash operating items	13	**4,468**	599
		102,515	77,956
FINANCING ACTIVITIES			
Net (repayments) advances in credit facility – mortgage investments		**(17,104)**	112,190
Net (repayments) advances in credit facility – investment properties		**(2,130)**	2,645
Redemption of convertible debentures		**—**	(34,500)
Issuance of common shares, net of issue costs		**10,543**	60,314
Interest paid		**(28,401)**	(29,842)
Dividends paid to shareholders		**(52,425)**	(50,117)
Repurchase of common shares for dividend reinvestment plan		**(338)**	—
		(89,855)	60,690
INVESTING ACTIVITIES			
Proceeds from disposition of foreclosed properties held for sale		**—**	227
Purchases of marketable securities		**(36,533)**	—
Proceeds from sale of marketable securities		**36,625**	—
Additions to investment properties		**(855)**	(3,557)
Net payments on maturity of forward contracts		**451**	(845)
Funding of other investments		**(4,736)**	(51,944)
Proceeds from other investments		**27,606**	19,616
Funding of mortgage investments, net of mortgage syndications		**(792,957)**	(792,705)
Discharges of mortgage investments, net of mortgage syndications		**766,112**	690,313
		(4,287)	(138,895)
Net foreign exchange gain on cash accounts		**77**	90
Increase (decrease) in cash and cash equivalents		**8,373**	(249)
Cash and cash equivalents, beginning of period		**541**	700
Cash and cash equivalents, end of period		**$ 8,991**	$ 541

See accompanying notes to the consolidated financial statements.

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The consolidated financial statements were approved by the Board of Directors on March 5, 2020

(b) Principles of consolidation

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

(c) Basis of measurement

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

(d) Critical accounting estimates, assumptions and judgements

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

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgements in these consolidated financial statements. The significant estimates and judgements used in determining the recorded amount for assets and liabilities in the consolidated financial statements are as follows:

Measurement of fair values

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

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

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

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

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

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

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

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

Note 5 – Investment properties; and

Note 19 – Fair value measurements.

Syndication liabilities
The Company applies judgement in assessing the relationship between parties with which it enters into participation agreements in order to assess the derecognition of transfers relating to mortgage and other investments.

Classification of mortgage and other investments
Mortgage investments and other loan investments are classified based on the business model for managing assets and the contractual cash flow characteristics of the asset. The Company exercises judgment in determining both the business model for managing the assets and whether cash flows of the financial asset comprise solely payments of principal and interest.

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

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

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

acquire an integrated set of processes as part of the transaction that is normally associated with a business combination.

(e) Functional and Presentation Currency
These consolidated financial statements are presented in Canadian dollar, which is the Company's functional currency. All amount have been rounded to the nearest thousand, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents
The Company considers highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents.

(b) Financial instruments

Recognition and initial measurement
All financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement – financial assets
On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company has no debt investments measured at FVOCI.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods. the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the syndicated assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Subsequent measurement and gains and losses – financial assets

Financial assets at FVTPL	Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	Measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Classification, subsequent measurement and gains and losses – financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Impairment of financial assets

The Company recognizes loss allowances for expected credit loss (“ECL”) on financial assets measured at amortized cost, unfunded loan commitments and financial guarantee contracts. The Company applies a three-stage approach to measure allowance for credit losses. The Company measures loss allowance at an amount equal to 12 months of expected losses for performing loans if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses on performing loans that have experienced a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The determination of a significant increase in credit risk takes into account different factors and varies by nature of investment. The Company uses property specific factors in assessing significant change in credit risk, which includes:

- Income producing properties – borrower or guarantor’s financial position, change in market conditions, deterioration in cash flows due to vacancy, property conditions, loss of major tenants, change in execution of business plan.
- Construction loans – borrower or guarantor’s financial position, change in market conditions, property conditions, material cost-to-complete concerns, change in execution of business plan.
- Unimproved land – borrower or guarantor’s financial position, change in market conditions, business plan, adverse zoning change.

The Company assumes that the credit risk on a financial asset has increased significantly if interest payment or maturity date is more than 30 days past due, and borrower specific criteria as identified by the Manager. As is typical in shorter duration structured financing, the Manager does not solely believe there has been a significant deterioration in credit risk or an asset to be credit impaired if mortgage and other investments go into overhold position past the maturity date for a period greater than 30 days or 90 days, respectively. The Manager actively monitors these mortgage and other investments and applies judgement in determining whether there has been significant increase in credit risk. The Company considers a financial asset to be credit impaired when the borrower is more than 90 days past due and when there is objective evidence that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest or/and when the Company has commenced enforcement remedies available to it under its contractual agreements.

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

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

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Lifetime ECLs are the ECLs that result from all possible default event over the expected life of a financial instrument. 12-months ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining the expected credit loss provision, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. We consider past events, current market conditions and reasonable forward-looking supportable information about future economic conditions. In assessing information about possible future economic conditions, we utilized multiple economic scenarios including our base case, which represents the most probable outcome and is consistent with our view of the portfolio. In considering the lifetime of a loan, the contractual period of the loan, including prepayment, extension and other options is generally used.

The calculation of expected credit losses includes the explicit incorporation of forecasts of future economic conditions. In determining expected credit losses, we have considered key macroeconomic variables that are relevant to each investment type. Key economic variables include unemployment rate, housing price index and interest rates. The estimation of future cash flows also includes assumptions about local real estate market conditions, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary. The forecast is developed internally by the Manager. We exercise experienced credit judgment to incorporate multiple economic forecasts which are probability-weighted in the determination of the final expected credit loss. The allowance is sensitive to changes in both economic forecast and the probability-weight assigned to each forecast scenario.

Credit-impaired financial assets

Allowances for Stage 3 are recorded for individually identified impaired loans to reduce their carrying value to the expected recoverable amount. We review our loans on an ongoing basis to assess whether any loans carried at amortized cost should be classified as credit impaired and whether an allowance or write-off should be recorded.

The review of individually significant default loans is conducted at least quarterly by the Manager, who assesses the ultimate collectability and estimated recoveries for a specific loan based on all events and conditions that are relevant to the loan. To determine the amount we expect to recover from an individually significant impaired loan, we use the value of the estimated future cash flows discounted at the loan's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired loan reflects the expected realization of the underlying security, net of expected costs and any amounts legally required to be paid to the borrower.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial asset measured at amortized cost are deducted from the gross carrying amount of the asset.

Write-offs

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(c) Investment properties

Income properties

The Company has elected to account for its investment properties using the fair value method. A property is determined to be an investment property when it is principally held to earn rental income and/or capital appreciation. Investment properties are initially measured at cost including transaction costs associated with acquiring the properties. Subsequent to initial recognition, the investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit or loss during the period in which they arise. The investment properties are measured at fair value based on available market evidence, which may be obtained from external appraisals. The Company may also use alternative valuation methods such as discounted cash flow projections or income capitalization methods where appropriate.

The fair value of the investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditures) that could be expected in respect of the investment properties. Subsequent capital expenditures are charged to the investment property only when it is probable that future economic benefits of the expenditure will flow to the Company and the cost can be measured reliably.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the carrying amount and are recognized in the consolidated statement of net income and comprehensive income at the end of each reporting period of disposal.

Property under development

Property under development for future use as investment property are accounted for as investment property under International Accounting Standard 40, Investment Property. Costs eligible for capitalization to property under development are initially recorded at cost, and subsequent to initial recognition are accounted for using the fair value method. At each reporting date, the property under development is recorded at fair value based on available market evidence. The related gain or loss in fair value is recognized in net income in the year which it arises.

The cost of property under development includes direct development costs, realty taxes and borrowing costs that are directly attributable to the development. Borrowing costs associated with direct expenditures on property under development are capitalized. The amount of borrowing costs capitalized is determined by reference to specific to the project. Borrowing costs are capitalized from the commencement of the development until the date of practical completion.

Upon practical completion of a development, the development property is transferred to investment properties at the fair value on the date of practical completion. The Company considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally, this occurs when completion of construction and receipt of all necessary occupancy and other material permits.

(d) Joint arrangements

The Company is a co-owner of a portfolio of investment properties that are subject to joint control and has determined that all current joint arrangements are joint operations as the Company, through its subsidiaries, is the direct beneficial owner of the Company's interest in the investment properties. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to assets and obligations for the liabilities, relating to the arrangement. The Company recognizes its share of the assets, liabilities, revenue and expenses generated from the assets in proportion to its rights (note 5).

(e) Foreclosed properties held for sale

When the Company obtains legal title of the underlying security of an impaired mortgage investment, the carrying value of the mortgage investment, which comprises principal, costs incurred, accrued interest and the related allowance for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Company uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or retaining professional appraisers to provide independent valuations.

Contractual interest on the mortgage investment is discontinued from the date of transfer from mortgage investments to FPHFS. Net income or loss generated from FPHFS, if any, is recorded as net operating income/(loss) from FPHFS, while fair value adjustments on FPHFS are recorded separately.

(f) Convertible debentures

The convertible debentures are a compound financial instrument as they contain both a liability and an equity component.

At the date of issuance, the liability component of the convertible debentures is recognized at its estimated fair value of a similar liability that does not have an equity conversion option and the residual is allocated to the equity component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a convertible debenture is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition and will be transferred to share capital when the conversion option is exercised, or, if unexercised at maturity. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(g) Gross interest and other income

Gross interest and other income includes interest earned on the Company's mortgage and other investments, lender fees and interest earned on cash and cash equivalents. Interest income earned on mortgage and other investments is accounted for using the effective interest rate method. Lender fees, an integral part of the yield on mortgage and other investments, are amortized to profit and loss over the expected life of the specific mortgage and other investment using the effective interest rate method. Forfeited lender fees are taken to profit and loss at the time a borrower has not fulfilled the terms and conditions of a lending commitment and payment has been received.

(h) Leases

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. Leases are classified as finance leases if all the risks and rewards incidental to ownership of the leased asset are substantially transferred to the lessee. Otherwise they are classified as operating leases.

As lessor in a financing lease, a receivable is recognized equal to the investment in the lease, which is calculated as the present value of the minimum payments to be received from the lessee, discounted at the interest rate implicit in the lease, plus any unguaranteed residual value the Company expects to recover at the end of the lease. Finance lease income is recognized in gross interest and other income, including mortgage syndications in the consolidated statement of net income and comprehensive Income.

As a lessor in an operating lease, payments received are recognized in profit or loss on a straight-line basis over the lease term. Revenue from operating leases include rent, parking and other sundry revenue from investment properties.

(i) Derecognition of financial assets and liabilities

Financial assets – syndications

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that does not qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Company enters into transactions whereby it transfers mortgage investments recognized on its statement of financial position, but retains either all, substantially all, or a portion of the risks and rewards of the transferred mortgage investments. If all or substantially all risks and rewards are retained, then the transferred mortgage or loan investments are not derecognized.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial assets – modifications
The Company defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract, or changes that may have a significant impact on the contractual cash flow of the asset, including solely for payments of principal and interest criterion. The Company derecognizes the original asset when the modification results in substantial change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is initially recognized in Stage 1, and then assessed for significant increase in credit risk on an ongoing basis. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and significant increase in credit risk assessment

Financial liabilities
The Company derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires..

(j) Foreign currency forward contract
The Company may enter into foreign currency forward contracts to economically hedge its foreign currency risk exposure of its mortgage and other investments that are denominated in foreign currencies. The value of forward currency contracts entered into by the Company is recorded as the difference between the value of the contract on the reporting period and the value on the date the contract originated. Any resulting gain or loss is recognized in the statement of net income and comprehensive income unless the foreign currency contract is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for the foreign currency contracts as an accounting hedge.

(k) Income taxes
It is the intention of the Company to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. As such, the Company is able to deduct, in computing its income for a taxation year, dividends paid to its shareholders during the year or within 90 days of the end of the year. The Company intends to maintain its status as a MIC and pay dividends to its shareholders in the year and in future years to ensure that it will not be subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company being effectively exempt from taxation and no provision for current or deferred taxes is required for the Company and its subsidiaries.

(l) Changes in accounting policies

IFRS 16, *Leases* ("IFRS 16")
The Company has adopted IFRS 16 *Leases* ("IFRS 16") effective January 1, 2019 and applied the requirements of the standard retrospectively without restatement of comparative periods. IFRS 16 replaced IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. The implementation of IFRS 16 did not have a significant impact on the Company's leases of its investment properties

(m) New IFRS pronouncement not yet effective

Amendments to References to the Conceptual Framework in IFRS Standards

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

The Company will adopt the amendments in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the amendments to have a material impact on the financial statements.

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

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

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

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

The Company will adopt the amendments to IAS 1 and IAS 8 in its financial statements for the annual period beginning on January 1, 2020. The Company does not expect the amendments to have a material impact on the financial statements.

In thousands of Canadian dollars)

4. MORTGAGE AND OTHER INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

(a) Mortgage investments

As at December 31, 2019	Note	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications – at amortized cost	4(b)(c)	$ 1,595,332	$ (426,252)	$ 1,169,080
Interest receivable		10,004	(1,746)	8,258
		1,605,336	(427,998)	1,177,338
Unamortized lender fees		(10,519)	1,059	(9,460)
Allowance for expected credit loss	4(d)	(2,303)	—	(2,303)
Mortgage investments at amortized cost		1,592,514	(426,939)	1,165,575
Mortgage investments, including mortgage syndications – at FVTPL		75,002	—	75,002
Interest receivable		170	—	170
Mortgage investments at FVTPL		75,172	—	75,172
Mortgage investments, including mortgage syndications		$ 1,667,686	$ (426,939)	$ 1,240,747

As at December 31, 2018	Note	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications – at amortized cost		$ 1,674,812	$ (518,560)	$ 1,156,252
Interest receivable		15,355	(2,180)	13,175
		1,690,167	(520,740)	1,169,427
Unamortized lender fees		(9,270)	898	(8,372)
Allowance for expected credit loss		(1,417)	—	(1,417)
Mortgage investments at amortized cost		1,679,480	(519,842)	1,159,638
Mortgage investments, including mortgage syndications – at FVTPL[1]		109,741	(55,000)	54,741
Interest receivable		7,601	(198)	7,403
Mortgage investments at FVTPL		117,342	(55,198)	62,144
Mortgage investments, including mortgage syndications		$ 1,796,822	$ (575,040)	$ 1,221,782

1. Syndication balance is measured at amortized cost

As at December 31, 2019, unadvanced mortgage commitments under the existing gross mortgage investments amounted to $211,753 (December 31, 2018 – $184,265) of which $81,295 (December 31, 2018 – $57,951) belongs to the Company's syndicated partners.

In thousands of Canadian dollars)

Mortgages classified at FVTPL

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

As at December 31, 2019, mortgage investments including mortgage syndications of $75,002 (December 31, 2018 – $109,741) are classified as measured at FVTPL. Total change in balance for the years ended was $34,739, of which $38,692, $73,431, and nil were attributable to addition, discharge, and fair value adjustment, respectively.

(b) Net mortgage investments

As at			December 31, 2019			December 31, 2018
Interest in first mortgages	**90.5%**	**$**	**1,125,797**	93.2%	$	1,128,366
Interest in second and third mortgages	**9.5%**		**118,285**	6.8%		82,627
	100.0%	**$**	**1,244,082**	100.0%	$	1,210,993

The mortgage investments are secured by real property and will mature between 2020 and 2023 (December 31, 2018 – 2019 and 2022). During the year ended December 31, 2019, the Company generated net interest income and other income on net mortgage investments classified at amortized cost, excluding lender fee income of $82,704 (2018 – $79,899).

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

For the year ended December 31, 2019, the Company earned lender fee income on net mortgage investments classified at amortized cost, net of fees relating to mortgage syndication liabilities of $9,643 (2018 – $7,840). For the year ended December 31, 2019, the Company received lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of $10,039 (2018 – $10,659), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

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

As at		December 31, 2019
2020	**$**	**416,478**
2021		**543,274**
2022		**232,257**
2023		**52,073**
Total	**$**	**1,244,082**

(c) Mortgage syndication liabilities

The Company has entered into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 19).

In thousands of Canadian dollars)

(d) Allowance for Credit Losses ("ACL")

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on mortgage and other investments classified at amortized cost. The allowance for credit losses amounted to $2,328 as at December 31, 2019 (December 31, 2018 – $1,632), of which $2,303 (December 31, 2018 – $1,417) was recorded in mortgage investments and $25 (December 31, 2018 – $215) was recorded in other investments.

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

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

In thousands of Canadian dollars)

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

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

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

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

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

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

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

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

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

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

In thousands of Canadian dollars)

	Year Ended December 31, 2019				Year Ended December 31, 2018			
Multi-residential Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low risk	**$ 205,588**	**$ —**	**$ —**	**$ 205,588**	$ 221,309	$ —	$ —	$ 221,309
Medium-Low risk	**444,496**	**—**	**—**	**444,496**	289,144	—	—	289,144
Medium-High risk	**34,217**	**—**	**—**	**34,217**	18,705	—	—	18,705
High risk	**—**	**—**	**—**	**—**	—	—	—	—
Default	**—**	**—**	**2,903**	**2,903**	—	—	2,790	2,790
Net Mortgage Investments[1]	**684,301**	**—**	**2,903**	**687,204**	529,158	—	2,790	531,948
Allowance for credit losses	**1,003**	**—**	**253**	**1,256**	627	—	3	630
	683,298	**—**	**2,650**	**685,948**	528,531	—	2,787	531,318
Other Mortgage Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low risk	**118,546**	**—**	**—**	**118,546**	177,567	—	—	177,567
Medium-Low risk	**275,349**	**—**	**—**	**275,349**	341,418	—	—	341,418
Medium-High risk	**82,054**	**—**	**—**	**82,054**	66,644	—	—	66,644
High risk	**11,083**	**—**	**—**	**11,083**	14,060	—	—	14,060
Default	**—**	**—**	**3,102**	**3,102**	—	—	37,790	37,790
Net Mortgage Investments[1]	**487,032**	**—**	**3,102**	**490,134**	599,689	—	37,790	637,479
Allowance for credit losses	**334**	**—**	**713**	**1,047**	200	—	587	787
	486,698	**—**	**2,389**	**489,087**	599,489	—	37,203	636,692
Other loan Investments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Low risk	**—**	**—**	**—**	**—**	—	—	—	—
Medium-Low risk	**—**	**—**	**—**	**—**	—	—	—	—
Medium-High risk	**—**	**—**	**—**	**—**	—	—	—	—
High risk	**48,407**	**—**	**—**	**48,407**	66,483	—	—	66,483
Default	**—**	**—**	**—**	**—**	—	—	7,014	7,014
Net Mortgage Investments[1]	**48,407**	**—**	**—**	**48,407**	66,483	—	7,014	73,497
Allowance for credit losses	**25**	**—**	**—**	**25**	212	—	3	215
	$ 48,382	**$ —**	**$ —**	**$ 48,382**	$ 66,271	$ —	$ 7,011	$ 73,282

1. net of mortgage syndications

In thousands of Canadian dollars)

(e) Other investments

As at		December 31, 2019		December 31, 2018
Collateralized loans, net of allowance for credit loss	$	**48,326**	$	72,840
Finance lease receivable, measured at amortized cost		**6,020**		6,020
Investment, measured at FVTPL		**4,949**		4,605
Indirect real estate development, measured using equity method:				
Investment in Joint Venture		**2,225**		2,225
Investment in Associate		**—**		5,267
Total Other Investments	$	**61,520**	$	90,957

During the year ended December 31, 2019, the Company acquired $36,533 and subsequently fully disposed of marketable securities generating $497 in net investment income (2018 – $46 net investment loss).

For the year ended December 31, 2019, collateralized loans generated interest income of $6,310 (2018 – $6,502), lender fee income of $386 (2018 – $488). For the year ended December 31, 2019, the Company received lender fees from other loan investments of nil (2018 – $683), which are amortized over the term of the related other loan investments using the effective interest rate method.

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

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

In thousands of Canadian dollars)

5. INVESTMENT PROPERTIES

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

			Ownership Interest	
Jointly Controlled Assets	**Location**	**Property Type**	**December 31, 2019**	**December 31, 2018**
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties & Development Property	**20.46%**	20.46%

	December 31, 2019	December 31, 2018
Balance, beginning of year	**$ 46,494**	$ 42,748
Additions	**855**	3,746
Dispositions	**—**	—
Balance, end of year	**$ 47,349**	$ 46,494

As at December 31, 2019, the investment properties are pledged as security for the credit facility (note 6(b)).

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

The fair values of the Company's investment properties are sensitive to changes in the key valuation assumptions. As at December 31, 2019, the weighted average capitalization rate for the Company's investment properties is 5.30% (December 31, 2018 – 5.30%). The estimated fair value would decrease by $2,122 (December 31, 2018 – $2,161) if overall capitalization rates were higher by 25 bps; whereas estimated fair value would increase by $2,332 (December 31, 2018 – $2,202) if overall capitalization rates were lower by 25 bps. In addition, the estimated fair value would increase by $471 (December 31, 2018 – $379) if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by $471 (December 31, 2018 – $544) if stabilized net operating income were lower by 1%.

6. CREDIT FACILITIES

As at	December 31, 2019	December 31, 2018
Credit facility (mortgage investments)	**$ 461,000**	$ 478,104
Unamortized financing costs (mortgage investments)	**(1,233)**	(1,938)
	459,767	476,166
Credit facility (investment properties)	**30,690**	32,820
Unamortized financing costs (investment properties)	**(68)**	(47)
	30,622	32,773
Total credit facilities	**$ 490,389**	$ 508,939

(a) Credit facility (mortgage investments)

The Company originally had $400,000 in credit facility with 10 Canadian banks and by exercising the accordion feature on February 13, 2018 and November 16, 2018, the Company increased the credit limit to $500,000. The facility is secured by a general security agreement over the Company's assets and its subsidiaries and has a maturity date of December 18, 2021. On December 20, 2019, the Company amended the credit facility agreement (the "Fourth Amending Credit Agreement") to amend certain terms and conditions, including interest rates.

The interest rates and fees of the Fourth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2018 – prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2018 – 2.25%) and standby fee of 0.4000% per annum (December 31, 2018 – 0.5625%) on the unutilized credit facility balance. As at December 31, 2019, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Fourth Amending Credit Agreement is $500,000.

In December 2019, the Company entered into a 2-year interest rate swap contract (the "Contract") with 2 Canadian banks with notional value of $250,000. Under the terms of the Contract, the Company is required to pay fixed rate of 2.02% and receive floating rate based on 1-month banker's acceptance. Net realized and unrealized gain or loss from the Contract is recorded as financing cost on the credit facility.

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

Interest on the credit facility is recorded in financing costs and calculated using the effective interest rate method. For the year ended December 31, 2019, included in financing costs is interest on the credit facility of $18,882 (2018 – $16,003) and financing costs amortization of $1,607 (2018 – $1,196).

(b) Credit facility (investment properties)

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

On October 9,2019, the credit facility agreement was further amended (the "Amended and Restated Credit Agreement") to establish Tranche A, Tranche B and Tranche C credit facilities (the "Credit Facilities"). Under the amended terms, the maximum available credit is $150,000. As at December 31, 2019, the co-owners borrowed $150,000 from the Credit Facilities. The Company's share of the outstanding amount in is $30,690. The original credit facility provided the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at the bankers' acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following.

1) Tranche A credit facility provides the co-owners an option to borrow at either the prime rate of interest plus 1.00% or at the bankers' acceptances with a stamping fee of 2.00% ("Canadian Dollar Loans"), or at LIBOR plus 2.00%, with maturity date of October 9, 2021.The credit facility is secured by a first charge on specific assets with a gross carrying value of $31,662. The Company's share of Tranche A is $6,478.

In thousands of Canadian dollars)

2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as tranche B properties (the "Tranche B Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with maturity date of October 9, 2020 and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of $39,690. The Company's share of Tranche B is $8,121.
3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as tranche C properties (the "Tranche C Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of $78,648. The Company's share of Tranche C is $16,091.

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

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2019, included in financing costs is interest on the credit facility of $1,350 (2018 – $1,125) and financing costs amortization of $48 (2018 – $52).

7. REVENUE FROM PROPERTY OPERATIONS

As part of the joint arrangement of the Saskatchewan Portfolio, the Company leases residential properties under operating leases generally with a term of not more than one year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between the year 2020 and 2022. Rental revenue from operating leases for the years ended was $2,831 (2018 – $1,991)

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

	December 31, 2019	December 31, 2018
Within 1 year	$ 1,950	$ 1,789
2 to 5 years	163	64
Over 5 years	—	93

8. CONVERTIBLE DEBENTURES

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

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

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

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

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

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

In thousands of Canadian dollars)

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

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

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

The debentures are comprised of as follows:

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

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

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

In thousands of Canadian dollars)

9. COMMON SHARES

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

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

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

		Year ended December 31,		
		2019		2018
Balance, beginning of period	$	81,632,844	$	74,277,356
Issuance of common shares		1,167,000		6,866,731
Converted under Convertible Debentures		—		5,422
Common shares issued under dividend reinvestment plan		491,152		483,335
Common shares repurchased for dividend reinvestment plan		(36,866)		—
Balance, end of period	$	83,254,130	$	81,632,844

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

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

Net proceeds of the ATM Program were used to repay amounts owing under its secured revolving credit facility, and will subsequently draw on the credit facility for purposes of funding the purchase of new investments in accordance with the strategies, investment objectives and investment guidelines of the Company.

During the year ended December 31, 2019, the Company issued 1,167,000 of common shares (2018 – 458,100) for gross proceeds of $10,911 (2018 – $4,275) at an average price of $9.35 per common share and paid $218 in commission (2018 – $87) to the agent, pursuant to the ATM Program's 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 year ended December 31, 2019, 36,866 common shares were purchased on the open market (2018 – nil) and 454,286 (2018 – 483,335) common shares were issued from treasury at an average price of $9.30 per common share).

(c) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. For the year ended December 31, 2019, the Company declared dividends of $57,078, or $0.69 per common share (2018 – $54,890, $0.69 per share).

As at December 31, 2019, $4,787 in aggregate dividends (December 31, 2018 – $4,694) was payable to the holders of common shares by the Company. Subsequent to December 31, 2019, the Board of Directors of the Company declared dividends of $0.0575 per common share to be paid on February 14, 2020 to the common shareholders of record on January 31, 2020.

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

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

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

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

For the year ended December 31, 2019, 32,417 units were issued (2018 – 23,848) and as at December 31, 2019, 84,308 units were outstanding (December 31, 2018 – 51,891). No DSUs were exercised or canceled, resulting in a DSU expense of $338 (2018 – $240). As at December 31, 2019, $86 (December 31, 2018 – $71) in compensation was granted in DSUs, which will be issued subsequent to December 31, 2019.

11. MANAGEMENT AND SERVICING FEES

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

For the year ended December 31, 2019, the Company incurred management fees plus applicable taxes of $12,363 (2018 – $11,879) and servicing fees including applicable taxes of $497 (2018 – $622).

In thousands of Canadian dollars)

12. EARNINGS PER SHARE

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

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

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

The following table shows the computation of per share amounts:

		Year ended December 31,		
		2019		**2018**
Total net income and comprehensive income	**$**	**54,740**	$	53,068
Interest expense on convertible debentures		**2,975**		6,026
Total net income and comprehensive income (diluted)	**$**	**57,715**	$	59,094
Weighted average number of common shares (basic)		**82,663,775**		79,344,276
Effect of conversion of convertible debentures		**4,557,214**		9,134,328
Weighted average number of common shares (diluted)		**87,220,989**		88,478,604
Earnings per share – basic	**$**	**0.66**	$	0.67
Earnings per share – diluted	**$**	**0.66**	$	0.67

For the year ended December 31, 2019, 91,000 debentures (December 31, 2018: 79,500) were excluded from the diluted figures because their effect would have been anti-dilutive.

13. CHANGE IN NON-CASH OPERATING ITEMS

		Year ended December 31,		
		2019		**2018**
Change in non-cash operating items:				
Other assets	**$**	**(935)**	$	(1,699)
Accounts payable and accrued expenses		**(315)**		1,004
Due to Manager		**(379)**		372
Prepaid mortgage and other loans interest		**3,012**		465
Mortgage and other loans funding holdbacks		**3,085**		457
	$	**4,468**	$	599

In thousands of Canadian dollars)

14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

Debentures	Year ended December 31, 2019	2018
Balance, beginning of period	$ 131,597	$ 163,946
Debenture repayments	—	(34,500)
Total financing cash flow activities	—	(34,500)
Capitalized financing cost, net of amortization	1,191	1,767
Accretion expense	245	384
Amortization of issue costs and accretion expense	1,436	2,151
Balance, end of period	133,033	131,597

Credit Facilities	Year ended December 31, 2019	2018
Balance, beginning of period	$ 508,939	$ 394,046
Capitalized financing cost[1]	(978)	(1,189)
Net credit facility (repayments) advances – mortgage investments	(17,104)	112,190
Net credit facility (repayments) advances – investment properties	(2,130)	2,645
Total financing cash flow activities	(20,212)	113,646
Amortization of financing costs	1,662	1,247
Balance, end of period	$ 490,389	$ 508,939

1. Capitalized financing cost is included in interest paid section in the annual statement of cash flow.

15. RELATED PARTY TRANSACTIONS

(a) As at December 31, 2019, due to Manager mainly includes management and servicing fees payable of $1,114 (December 31, 2018 – $1,493).

(b) As at December 31, 2019, included in other assets is $8,959 (December 31, 2018 – $3,083) 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.

(c) As at December 31, 2019, the Company had no outstanding mortgage investments which an independent director of the Company was also an officer and/or part-owner of the borrowers:

- A mortgage investment with a total gross commitment of $9,500 (December 31, 2018 – $9,500), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is $3,636 (December 31, 2018 – $3,636). For the year ended December 31, 2019, the Company has recognized net interest income of $314 (2018 – $344) from this mortgage investment during the year.

- A mortgage investment with a total gross commitment of $1,920 (December 31, 2018 – $1,920), which was fully repaid during the year ended December 31, 2019. The Company's share of the commitment is $1,920 (December 31, 2018 – $1,920). For the year ended December 31, 2019, the Company has recognized net interest income of $102 (2018 – $115) from this mortgage investment during the year.

- A mortgage investment with a total gross commitment of $16,500 (December 31, 2018 – $16,500). The Company's share of the commitment is $3,036 (December 31, 2018 – $2,500), of which $3,036 (December 31, 2018 – $2,481) has been funded as at December 31, 2019. During the year ended

December 31, 2019, the mortgage investment was restructured and the independent director is no longer related to the mortgage investment. For the year ended December 31, 2019, the Company recognized net interest income of $245 (2018 – $238) from this mortgage investment during the year.

(d) As at December 31, 2019, the Company and Timbercreek Four Quadrant Global Real Estate Partners ("T4Q") and Timbercreek Real Estate Financing U.S. Holding LP ("TREF") are related parties as they are managed by wholly owned subsidiary of the Manager, and they have co-invested in 29 (December 31, 2018 – 18) gross mortgage and other investments totaling $349,050 (December 31, 2018 – $258,818). The Company's share in these gross mortgage investments is $202,932 (December 31, 2018 – $178,412). Additionally, one net mortgage investments (December 31, 2018 – two) totaling $18,402 (December 31, 2018 – $22,972) are loaned to limited partnerships in which T4Q is invested.

(e) As at December 31, 2019, the Company and T4Q invested in one indirect real estate development through one investee, totaling $2,225 (December 31, 2018 – two indirect real estate development through two investees, totaling $7,492).

(f) As at December 31, 2019, the Company is invested in junior debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling $4,948 or €3,398 (December 31, 2018 – $4,605 or €2,923), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.

(g) As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. For the year ended December 31, 2019, Property Management Fees of $140 was charged by the Manager to the Company (2018 – $130). As at December 31, 2019, $12 was payable to the Manager (December 31, 2018 – $18).

16. INCOME TAXES

As of December 31, 2019, the Company has non-capital losses carried forward for income tax purposes of $26,320 (December 31, 2018 – $30,060), which will expire between 2028 and 2037 if not used. The Company also has future deductible temporary differences resulting from allowance for impairment, prepaid mortgage interest, and unearned income for income tax purposes of $20,214 (December 31, 2018 – $13,729). These temporary differences vary from year to year depending on the current year business activity and lender fee income amounts.

17. CAPITAL RISK MANAGEMENT

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

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

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

At December 31, 2019, the Company was in compliance with its investment restrictions.

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

18 RISK MANAGEMENT

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of December 31, 2019, $992,301 of net mortgage investments and $6,560 of other investments bear interest at variable rates (December 31, 2018 – $717,509 and $21,806, respectively). $917,172 of net mortgage investments have a "floor rate" (December 31, 2018 – $626,021). If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments would be a decrease in net income of $1,283 or an increase in net income of $4,994, respectively (2018 – $2,457 and $3,731, respectively). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of $491,690 as at December 31, 2019 (December 31, 2018 – $510,924). During the year ended December 31, 2019, the Company entered into the Contract (refer to note 6(a)) which reduced the exposure in interest rate risk. As at December 31, 2019, net exposure to interest rate risk was $241,690 (December 31, 2018 – no contract outstanding, net exposure of $510,924), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will decrease or increase net income by $1,208 (2018 – $2,555).

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

(b) Currency risk

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

As at December 31, 2019, the Company has US$5,050 and €3,398 in other investments denominated in foreign currencies (December 31, 2018 – US$5,000 in net mortgages, US$5,050 and €2,945 in other investments). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at December 31, 2019, the Company has one U.S. dollar currency forward contracts with an aggregate notional value of US$5,050, at a weighted average forward contract rate of 1.3316, maturing in April 2020 and one Euro currency contract with an aggregate notional value of €3,500 at contract rate of 1.4745, maturing in March 2020.

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

(c) Credit risk

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

i. adhering to the investment restrictions and operating policies included in the asset allocation model (subject to certain duly approved exceptions);

ii. ensuring all new mortgage and other investments are approved by the investment committee before funding; and

iii. actively monitoring the mortgage and other investments and initiating recovery procedures, in a timely manner, where required.

The exposure to credit risk at December 31, 2019 relating to net mortgages and other investments amount to $1,319,631 (December 31, 2018 – $1,320,011).

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

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

(d) Liquidity risk

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

In thousands of Canadian dollars)

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at December 31, 2019, including expected interest payments:

December 31, 2019	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	$ 3,674	$ 3,674	$ 3,674	$ —	$ —
Dividends payable	4,787	4,787	4,787	—	—
Due to Manager	1,114	1,114	1,114	—	—
Mortgage funding holdbacks	3,741	3,741	3,741	—	—
Prepaid mortgage interest	5,437	5,437	5,437	—	—
Credit facility (mortgage investments)[1]	459,767	498,288	19,587	478,701	—
Credit facility (investment properties)[2]	30,622	32,247	9,089	23,158	—
Convertible debentures[3]	133,033	138,619	138,619	—	—
	$ 642,175	$ 687,907	$ 186,048	$ 501,859	$ —
Unadvanced mortgage commitments[4]	—	211,753	211,753	—	—
Total contractual liabilities, excluding mortgage syndication liabilities[5]	$ 642,175	$ 899,660	$ 397,801	$ 501,859	$ —

1. Credit facility (mortgage investments) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 18, 2021.
2 Credit facility (investment properties) includes interest based upon December 2019 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on October 9, 2020.
3 The 2016 debentures are assumed to be redeemable July 31, 2019, the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.
4 Unadvanced mortgage commitments include syndication commitments of which $81,295 belongs to the Company's syndicated partners.
5 The principal repayments of $426,252 mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at December 31, 2019, the Company had a cash position of $8,991 (December 31, 2018 – $541), an unutilized credit facility (mortgage investments) balance of $39,000 (December 31, 2018 – $21,896) and an unutilized credit facility (investment properties) balance of nil (December 31, 2018 – $457). The Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at December 31, 2019, unadvanced mortgage commitments under the existing gross mortgage investments amounted to $211,753 (December 31, 2018 – $184,265) of which $81,295 (December 31, 2018 – $57,951) belongs to the Company's syndicated partners. The Company expects the syndication partners to fund their respective commitments.

In thousands of Canadian dollars)

19. FAIR VALUE MEASUREMENTS

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

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

As at December 31, 2018	Note	Carrying value: Amortized cost	Carrying value: Fair value through profit or loss	Fair value
Assets measured at fair value				
Investment properties	5	$ —	$ 46,494	$ 46,494
Financial assets				
Cash and cash equivalents		541	—	541
Other assets		10,217	—	10,217
Mortgage investments, including mortgage syndications		1,679,480	117,342	1,796,822
Other investments	4(e)	78,860	4,605	83,465
Financial liabilities				
Accounts payable and accrued expenses		3,893	328	4,221
Dividends payable		4,694	—	4,694
Due to Manager		1,493	—	1,493
Mortgage funding holdbacks		657	—	657
Prepaid mortgage interest		2,425	—	2,425
Credit facility		508,939	—	510,924
Convertible debentures		131,597	—	131,554
Mortgage syndication liabilities		$ 575,040	$ —	$ 575,040

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

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

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

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

(b) Other financial assets and liabilities

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

(c) Convertible debentures

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

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during the three months ended December 31, 2019.

20. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During 2019, the compensation expense of the members of the Board of Directors amounts to $338 (2018 – $240), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

21. 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.

Board of Directors

The directors of Timbercreek Financial have deep experience, established reputations and extensive contacts in the commercial real estate mortgage lending community, as well as in the capital markets and asset management sectors in Canada.

Zelick L. Altman
Independent Director,
Timbercreek Financial

Executive Chairman,
LaSalle Investment
Management (Canada)

Ugo Bizzarri
Director,
Timbercreek Financial

CEO, Timbercreek Equities

CIO & Global Head of
Real Estate Investment
Management, Timbercreek
Asset Management

Cameron Goodnough
Director,
Chief Executive Officer,
Timbercreek Financial

Steven R. Scott
Independent Director and Audit
Committee Chair,
Timbercreek Financial

Chairman & CEO, StorageVault
Canada Inc. and The Access Group
of Companies

W. Glenn Shyba
Lead Independent Director
Timbercreek Financial

Founder & Principal,
Origin Merchant Partners

Pamela Spackman
Independent Director,
Timbercreek Financial

Board member of
WPT Industrial REIT

Blair Tamblyn
Chairman,
Timbercreek Financial

CEO, Timbercreek Asset
Management

Derek J. Watchorn, LL.B.
Independent Director,
Timbercreek Financial

Consultant

Leadership

Cameron Goodnough
Chief Executive Officer

Gigi Wong, CPA, CA, CFA
Chief Financial Officer

Blair Tamblyn
Chief Executive Officer,
Timbercreek Asset Management

Scott Rowland
Managing Director,
Global Debt Investments

Patrick Smith
Executive Director,
Global Credit, Canada

Julie Neault
Managing Director,
Global Credit

Geoff McTait
Executive Director,
Head of Origination – Canada

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KPMG LLP

Legal Counsel

McCarthy Tétrault LLP

Timbercreek
Financial

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