



TIMBERCREEK  
FINANCIAL

ANNUAL REPORT 2020



**13+ YEAR**  
TRACK RECORD

**8.1%**  
CURRENT YIELD  
ON BOOK VALUE

**\$1.1B**  
INSTITUTIONAL-QUALITY  
PORTFOLIO

**100%**  
COMMERCIAL  
REAL ESTATE  
FOCUSED



# **ABOUT TIMBERCREEK FINANCIAL**

We are a leading non-bank commercial lender, focused exclusively on shorter-duration, structured financing solutions to commercial real estate investors. Our portfolio of institutional-quality commercial mortgages are secured by stabilized, income-producing real estate in urban markets across Canada. This portfolio construction enables us to deliver on our time-tested investment strategy. We preserve investor capital by lending primarily against income-producing assets, diversifying geographically, by asset type and borrower, and ensuring conservative loan-to-value ratios. And we provide strong risk-adjusted returns by investing in short-duration loans (<5 years), ensuring high portfolio turnover, and achieving premium pricing through customization, service and speed of execution for our borrowers.

# LETTER TO SHAREHOLDERS



**BLAIR TAMBLIN**  
**CHIEF EXECUTIVE OFFICER**

I'm pleased to address our shareholders once again as CEO of the company, a role I returned to following the reorganization of Timbercreek Asset Management late last year, which resulted in the separation of the debt and equity businesses into two companies. Timbercreek Capital – the new name of the debt platform – continues as manager of Timbercreek Financial, building on a 13-year track record as a leading alternative lender in the Canadian market. For our investors, this change had no impact on the operations and financial performance of the company. We manage a portfolio of commercial mortgages, and the investment team responsible for sourcing, underwriting, and servicing these deals – several of whom we profile in this report – has not changed.

It's safe to say 2020 was a year without precedent, from an economic, social and geopolitical perspective. Like many other businesses, this resulted in a rapidly changing operating environment for Timbercreek and presented new challenges for some of our borrowers. Fortunately, our internal team was able to adapt quickly and operate remotely without interruption. On the whole, our portfolio was quite resilient through 2020, owing to our focus on income-producing assets and significant multi-family residential exposure.

Ultimately, we are in the business of creating attractive risk-adjusted income for our shareholders, and we concluded the year with a 97.3% dividend payout ratio on distributable income of \$0.71 per share, which are both within our operating target and expectations. Over the past 16 quarters, we have maintained an average dividend payout ratio of 94.9% on distributable income despite the historically low interest rate environment, demonstrating our ability to maintain steady income which is fundamental to our investment proposition.

As we discussed during 2020, we have not been fully immune from the effects of COVID. Looking at last year's industry data, national commercial real estate investment volume decreased by almost 22% from 2019 and volume in the underlying property markets fell to levels not seen since 2016. This had predictable effects on our loan origination activity, which was materially lower earlier in 2020, yet showed resilience and increased as the year progressed, culminating in a fairly active fourth quarter.

Not surprisingly, the crisis affected certain asset types and sectors materially while others were stable and some even thrived. The Canadian multifamily sector – a segment we have always been highly focused on and which represents more than 52% of the portfolio – withstood the worst of the pandemic better than most other property types. Conversely, office, retail, and hotel assets were harder hit, resulting in multiple large real estate investment trusts reducing their distributions.

We felt the impact of COVID in Q4 2020, as we recorded non-cash fair value adjustments principally on a legacy retail asset that has been affected by the negative retail environment. This is one of a handful of unique, legacy situations in a small portion of the total loan portfolio (3.5% of the total assets).

In a portfolio of 116 loans, and given the environment in 2020, we are very pleased with the durability of the investments. We fared comparatively well in large part because of how we have constructed the portfolio. For example, close to 85% of our investments were secured by income-producing assets at year end, first mortgages represented more than 90% of the portfolio, and our average loan-to-value was 68.5%. At year end, we had only two mortgage investments of 116 in arrears and no COVID-19 related concessions. In addition, the interest and principal payments from our borrowers continue to be largely unaffected.

As we look ahead in 2021, while we remain focused on investing safely and prudently given the continued uncertainty, we are seeing opportunities that provide an attractive risk-return profile and generally expect transaction activity to improve versus 2020. Our outlook is very much sector-dependant. Retail, hospitality and office have been more challenging sectors, and we will continue to approach these cautiously. Multi-family proved resilient and remains an attractive and important segment for the company. Our history and reputation put us solidly in the transaction flow on these types of assets.

Our experience shows us that, through these periods of transition, there is likely to be opportunity for specialized lenders like Timbercreek that have a sizable capital base and can bring speed of execution and customization to a transaction. Between syndications, repayments and availability on our recently expanded credit facility, we remain very well capitalized with ample liquidity.

We would like to thank our team for their commitment in an unusually difficult year. Their hard work and dedication enables us to deliver on our investment objectives. We also want to thank you, our shareholders, for your continuing support and confidence in us.

Sincerely,



Blair Tamblyn  
Chief Executive Officer

# OUR TEAM

Timbercreek Capital, manager of Timbercreek Financial, has a deep team of more than 40 professionals focused on commercial real estate debt strategies. The firm has originated and managed more than \$13B in commercial mortgages across Canada, U.S., Ireland & UK.

**“OUR CONSERVATIVE PORTFOLIO POSITIONING SERVED US WELL IN 2020 AND REMAINS A HALLMARK OF HOW WE INVEST TO ACHIEVE THE INVESTMENT OBJECTIVES FOR SHAREHOLDERS.”**



**SCOTT ROWLAND**  
**CHIEF INVESTMENT OFFICER**

Scott is responsible for the development of investment strategies and processes, as well as the overall performance of Timbercreek’s portfolios. Scott is a highly seasoned investment professional with over 25 years of industry experience, including serving as the Co-Head of Debt Strategies for Fiera Properties, Managing Director for Blackstone’s debt business in Canada and Managing Director for GE Capital Real Estate.



**TRACY JOHNSTON, CPA, CA**  
**CHIEF FINANCIAL OFFICER**

Tracy is responsible for overseeing corporate financing, financial reporting and the risk analytics platform for the firm. Tracy joined the team following 15 years in senior finance roles mainly in the real estate industry, including senior roles with The Cadillac Fairview Corporation, DREAM Office REIT and DREAM Industrial REIT, as well as Deloitte & Touche LLP.

**“WHILE INDUSTRY-WIDE TRANSACTION ACTIVITY WAS SLOWER IN 2020, WE CONTINUE TO SEE SOLID DEMAND AND ATTRACTIVE RISK-ADJUSTED OPPORTUNITIES, AND BELIEVE OUR DEPTH OF CAPITAL, SPEED OF EXECUTION AND MORE FLEXIBLE TERMS PROVIDE US WITH A COMPETITIVE ADVANTAGE.”**



**GEOFF MCTAIT**  
**MANAGING DIRECTOR,**  
**ORIGINATION – CANADA**  
**HEAD OF GLOBAL SYNDICATION**

Geoff leads the Canadian debt origination team and facilitates growth of the Canadian investment portfolios. Geoff joined the team with more 20 years of commercial real estate lending experience, including origination leadership positions of increasing seniority at Fiera Properties, Blackstone and GE Capital Real Estate.

**PATRICK SMITH**  
**MANAGING DIRECTOR,**  
**GLOBAL CREDIT – CANADA**

Patrick is responsible for leading the global underwriting team in support of origination and credit approval for the Canadian platform. Patrick has 20 years of experience in real estate finance and asset management, including senior positions with Conundrum Capital and Merrill Lynch’s Canadian CMBS lending group, where he managed the origination, underwriting and structuring of over \$2 billion in commercial mortgage loans.

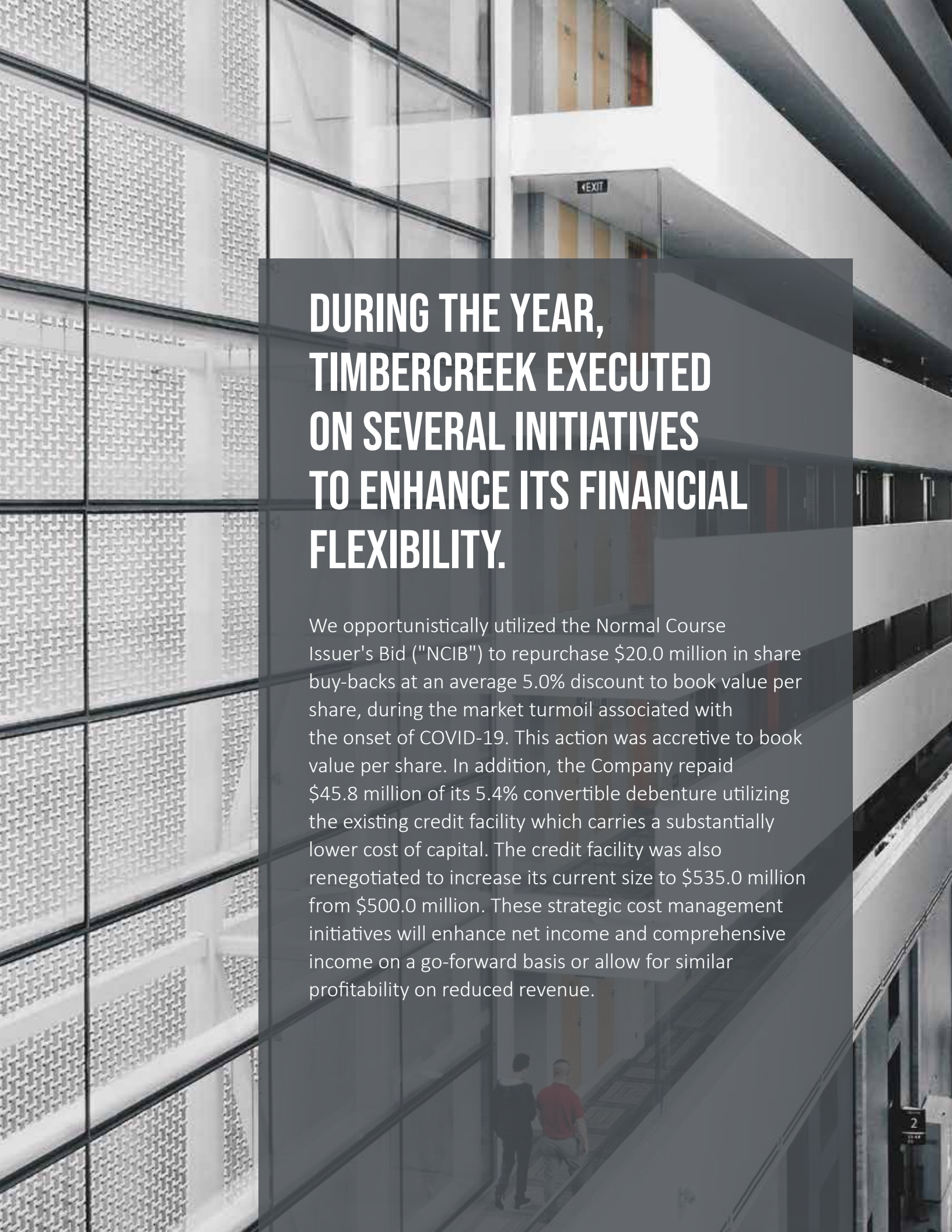


**“AS ONE OF THE MOST EXPERIENCED LENDERS IN OUR SPACE, WE HAVE ESTABLISHED AN ENVIABLE TRACK RECORD OF DELIVERING CONSISTENT INCOME FOR OUR SHAREHOLDERS WHILE MANAGING RISK, WHICH WE BELIEVE SETS US APART.”**

**KARYNNA MA**  
**VICE PRESIDENT,**  
**INVESTOR RELATIONS**

Karynna oversees sales and investor relations for the company and works closely with institutional investors and investment consultants in Canada, the U.S., and Europe. Karynna brings over 20 years of experience providing financial products and services to retail and institutional investors in public and private markets, including roles with Bastion Infrastructure Group, Mackenzie Investments and Fidelity Investments.



A photograph of a modern building's interior, featuring a large glass wall on the left and a concrete structure with a staircase on the right. The text is overlaid on a dark grey semi-transparent rectangle.

## **DURING THE YEAR, TIMBERCREEK EXECUTED ON SEVERAL INITIATIVES TO ENHANCE ITS FINANCIAL FLEXIBILITY.**

We opportunistically utilized the Normal Course Issuer's Bid ("NCIB") to repurchase \$20.0 million in share buy-backs at an average 5.0% discount to book value per share, during the market turmoil associated with the onset of COVID-19. This action was accretive to book value per share. In addition, the Company repaid \$45.8 million of its 5.4% convertible debenture utilizing the existing credit facility which carries a substantially lower cost of capital. The credit facility was also renegotiated to increase its current size to \$535.0 million from \$500.0 million. These strategic cost management initiatives will enhance net income and comprehensive income on a go-forward basis or allow for similar profitability on reduced revenue.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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 Timbercreek Capital Inc. ("Manager"), a subsidiary and as successor in interest to Timbercreek Asset Management Inc. ("TAMI"), (iii) the markets will react and perform in a manner consistent with the investment strategies and (iv) the Company is able to invest in mortgages and other investments of a quality that will generate returns that meet and/or exceed the Company's targeted investment returns.

Forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will prove not to be accurate. We caution readers of this MD&A not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to, general market conditions, impacts as a result of COVID-19, 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](http://www.sedar.com).

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

This MD&A is dated March 5, 2021. 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](http://www.timbercreekfinancial.com). Additional information about the Company, including its AIF, can be found at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### BUSINESS OVERVIEW

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

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

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

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

### BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the year ended December 31, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019, 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](http://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 is not met, mortgage investments are reported on a gross basis, with the portion related to the syndicated mortgages being included in the mortgage investments, including mortgage syndications and a corresponding liability as mortgage syndication liabilities. Mortgage syndication liabilities are non-recourse mortgages with period to period variances not impacting the Company's performance. Refer to note 4 of the 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

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

## RECENT DEVELOPMENTS AND OUTLOOK

### RECENT DEVELOPMENTS

Reflecting on 2020 we will all agree it will be remembered as a year almost without precedent, from an economic, social and geopolitical perspective. The onset of the COVID-19 pandemic in Q1 2020 resulted in a rapidly changing Timbercreek Financial's operating environment, but our team adapted quickly to the work from home model, and as a result our business was able to achieve many of its objectives. Overall national commercial real estate investment volume decreased by 21.9% versus 2019 and marking the lowest overall level since 2016. Corresponding loan origination activity was also materially lower earlier in the year, however we saw resilience and increased activity as the year progressed. Looking past transaction volumes to the underlying operating performance of investment grade real assets, not surprisingly the hospitality and retail sectors were particularly affected, resulting in multiple large real estate investment trusts reducing their distributions, while other national and global real estate owners and operators revised numerous asset-level investment programs. While the long-term economic effects of COVID-19 remain unknown, we are optimistic that the vaccination programs will prove successful and that brighter days are on the horizon.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

From a portfolio perspective, our conservative approach and focus on income-producing assets and significant multi-family residential exposure served us well last year. Overall, we concluded the year with a 97.3% dividend payout ratio on distributable income of \$0.71 per share, which is within our operating target and expectations. In addition, the interest and principal payments from our borrowers continued to be in line with historical collection rates and, at year end, we had only 2 mortgage investments (of 116) in arrears and no COVID-19 related concessions. Weighted average loan-to-value decreased from 70.5% as at December 31, 2019 to 68.5% as at December 31, 2020, primarily a result of conservative reinvestment activities in 2020 on new investments.

Over the last 16 quarters we have maintained an average dividend payout ratio of 94.9% on distributable income despite the historically low interest rate environment we have experienced, demonstrating the Company's resiliency and ability to maintain steady income which is fundamental to our investment proposition.

The mortgage portfolio asset mix remains firmly weighted to multi-family residential assets at 52.3%. From a COVID-19 risk perspective the portfolio has zero hospitality exposure and only modest retail exposure at 18.3%. Of note, approximately 80% of the Company's retail exposure is secured by downtown "high-street" assets in Vancouver, Toronto and Montreal that are characterized by strategic locations and store front access. These assets have performed well through the pandemic and have strong long-term value expectations – as opposed to traditional format fashion-oriented assets that were enduring a systemic shift towards online shopping pre-pandemic, which has dramatically accelerated by the COVID-19 induced shift to e-commerce.

Geographically, our Alberta exposure was reduced to \$201.7 million from \$252.4 million at the end of 2019 reflective of our cautious view of this energy exposed market while our Quebec exposure has increased to \$260.5 million from \$109.1 million. Quebec was a focus area in 2020 given the diversified economic characteristics of the province. To continue to advance these efforts, Timbercreek Capital is planning to open a Montreal office in early 2021. Current year end exposure in Ontario has been reduced as a result of specific repayments in late 2020, with this expected to increase again in 2021.

During the year the Company has executed on two initiatives to enhance its financial flexibility:

- The Company opportunistically utilized its Normal Course Issuer's Bid ("NCIB") to repurchase \$20.0 million in share buy-backs at an average 5.0% discount to current book value per share, during the market turmoil associated with the onset of COVID-19. This action was accretive to book value per share; and
- On October 22, the Company repaid \$45.8 million of its 5.4% convertible debenture utilizing the existing credit facility which carries a substantially lower cost of capital. The credit facility was also re-negotiated to increase its current size to \$535.0 million from \$500.0 million, and the revolving nature of the facility allows the Company to save even further during periods when the funds are undrawn.

These strategic cost management initiatives will enhance net income and comprehensive income on a go-forward basis or allow for similar profitability on reduced revenue should the investment portfolio be reduced as a result of conservative investment measures taken by the Manager.

While the aggregate portfolio has held up well in the pandemic environment, the component of the net mortgage portfolio measured at FVTPL, which represents 3.5% of total assets, was reduced by \$15.5 million in Q4 2020 (\$19.5 million for the year) to \$60.7 million. The majority of this fair value loss reflects the Company's view that the valuation on a smaller-market enclosed retail asset has been materially affected by the negative retail environment being exacerbated by COVID-19, as noted above. After completing a strategic review of the asset in Q4 the borrower elected to pursue a redevelopment plan, and the Company is adjusting its valuation accordingly. The Company has been actively working with the borrower to conclude on a strategy for the asset, which has evolved from a legacy loan that required enforcement action in 2018 after the previous operator was unable to manage the rapidly changing traditional retail lease up strategies. A second fair market value adjustment was taken related to a manufactured housing project that has experienced significant approval delays. We are focused on exiting these positions prudently to allow for redeployment of capital into new mortgage investments. If the fair value loss taken in 2020 proves to be permanent, the implied lost interest yield would equate to less than 2.0% of 2020 net income and other comprehensive income and similarly represents 1.7% of net mortgage investments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### OUTLOOK

Timbercreek Financial continues to see strong demand for mid-market alternative lending in Canada and attractive risk-adjusted lending opportunities. COVID-19 has had a material impact on commercial real estate with key differences depending on sector. While overall transaction volumes declined in 2020, there was a strong rebound by the Q4. In addition, while multi-family proved very resilient, and in fact ended 2020 with a record investment volume, that was more than offset by weakness in retail, hospitality and office.

From a competitive standpoint, the reduction in interest rates has resulted in some near-term compression of mortgage coupons especially in conventional longer-term lending. While Timbercreek Financial's focus on shorter-term opportunities to support value-add projects generally results in more durable pricing, competition to deploy capital is a potential headwind in 2021, especially earlier in the year while large institutional players put capital to work to meet their allocation targets. Offsetting a reduction in interest rates are two factors; (i) a corresponding reduction in interest expense on our credit facility and (ii) and a lower cost of capital from senior conventional syndication partners to actively generate strong B-note returns for the Company.

Timbercreek Financial will continue to be cautious in 2021 and will evaluate the ongoing economic environment and COVID-19 related uncertainty. Through these periods of transition, there will also be opportunity and the Company is well capitalized to take advantage of these situations. Finally, during this unique period of uncertainty with non-multi-family assets, Timbercreek Financial will likely be more active in well located development projects where risk-return opportunities are attractive. However, non-income producing assets will remain less than 20% of total exposure.

### PORTFOLIO ACTIVITY

In the fourth quarter, collections remained high and largely unaffected by COVID-19. We collected approximately 99.2% of December 2020 interest payments which is materially in line with historical collection rates. This performance highlights the creditworthiness and financial capacity of our existing borrower base.

Industry-wide transaction activity improved in the fourth quarter, relative to Q3 2020. Despite COVID-19 challenges, the Company funded 11 new net mortgage investments totaling \$212.5 million and made additional advances of \$68.4 million. Portfolio turnover increased to 19.6%, compared with 12.3% in Q3 2020 and the net value of the mortgage portfolio, excluding syndications, was \$1,143.1 million at the end of Q4 2020, a decrease of \$10.1 million from Q3 2020. The amount drawn on the credit facility funding mortgage investments was \$458.8 million at the end of Q4 2020, compared to \$470.0 million at the end of Q3 2020. With approximately \$76.2 million available on the credit facility, Timbercreek Financial was in a strong liquidity position entering 2021.

At the end of Q4 2020, 84.9% of the mortgage investments were secured by income-producing properties, compared to 84.1% in Q3 2020. Multi-residential real estate assets (apartment buildings) comprise the largest portion of the portfolio at 52.3% at quarter end, compared to 50.0% in Q3 2020.

Our exposure to first mortgages was 90.3% of the net mortgage portfolio at year end. Our current weighted average loan-to-value ratio increased modestly to 68.5% compared to 68.2% in Q3 2020, reflecting our conservative positioning. Despite this positioning, we have maintained our margins and rates. Our weighted average interest rate for the period was 7.2% in Q4 2020 with an exit rate of 7.2% as at December 31, 2020, consistent with the period Q3 2020 and as at September 30, 2020.

The net mortgage portfolio remains heavily weighted toward Canada's largest provinces, with approximately 97.1% of the mortgage portfolio invested in Ontario, British Columbia, Quebec and Alberta, the majority of which are in urban markets that generally experience better real estate liquidity and thus offer a better risk profile.

The weighted average interest rate in the existing portfolio is well protected at the end of Q4 2020, due to floating rate loans with rate floors representing 78.1% (Q3 2020 – 77.3% and Q4 2019 – 71.0%) of the portfolio. The high percentage of floating rate loans with rate floors has muted the impact of interest rate cuts in Q1 2020 and pricing on recent transactions has remained relatively unchanged.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

## FINANCIAL HIGHLIGHTS

### KEY FINANCIAL POSITION INFORMATION

|                                        | December 31, 2020 | December 31, 2019 | December 31, 2018 |
|----------------------------------------|-------------------|-------------------|-------------------|
| Net mortgage investments <sup>1</sup>  | \$ 1,143,121      | \$ 1,244,082      | \$ 1,210,993      |
| Enhanced Return Portfolio <sup>1</sup> | \$ 91,640         | \$ 78,247         | \$ 104,678        |

### CAPITAL STRUCTURE

|                                         |              |              |              |
|-----------------------------------------|--------------|--------------|--------------|
| Total assets                            | \$ 1,711,462 | \$ 1,797,506 | \$ 1,945,031 |
| Total liabilities                       | \$ 1,026,412 | \$ 1,069,114 | \$ 1,229,066 |
| Shareholders' equity                    | \$ 685,050   | \$ 728,392   | \$ 715,965   |
| Book value per share                    | \$ 8.47      | \$ 8.75      | \$ 8.77      |
| Convertible debentures, par             | \$ 91,000    | \$ 136,800   | \$ 136,800   |
| Credit facility (investment properties) | \$ 30,656    | \$ 30,622    | \$ 32,773    |
| Credit facility (mortgage investments)  | \$ 458,299   | \$ 459,767   | \$ 476,166   |
| Total credit facility limit             | \$ 565,690   | \$ 530,690   | \$ 533,277   |
| Credit utilization rate                 | 88.3%        | 94.0%        | 96.4%        |

### COMMON SHARE INFORMATION

|                                     |            |            |            |
|-------------------------------------|------------|------------|------------|
| Number of common shares outstanding | 80,887,433 | 83,254,130 | 81,632,844 |
| Closing trading price               | \$ 8.65    | \$ 9.93    | \$ 8.75    |
| Market capitalization               | \$ 699,676 | \$ 826,714 | \$ 714,287 |

1. Refer to non-IFRS measures section.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### OPERATING RESULTS<sup>1</sup>

|                                                                                     | Three months ended December 31, |            | Year ended December 31, |             |             |
|-------------------------------------------------------------------------------------|---------------------------------|------------|-------------------------|-------------|-------------|
|                                                                                     | 2020                            | 2019       | 2020                    | 2019        | 2018        |
| <b>NET INCOME AND COMPREHENSIVE INCOME</b>                                          |                                 |            |                         |             |             |
| Net Investment Income on financial assets measured at amortized cost                | \$ 23,958                       | \$ 24,690  | \$ 95,940               | \$ 98,514   | \$ 94,087   |
| Total fair value (loss) gain and other income on financial assets measured at FVTPL | \$ (14,918)                     | \$ 517     | \$ (16,778)             | \$ 923      | \$ 871      |
| Net rental income                                                                   | \$ 373                          | \$ 414     | \$ 1,453                | \$ 1,440    | \$ 821      |
| Expenses                                                                            | (5,560)                         | (3,994)    | (18,024)                | (15,863)    | (14,776)    |
| Income from operations                                                              | \$ 3,853                        | \$ 21,627  | \$ 62,591               | \$ 85,014   | \$ 81,003   |
| Other income, net                                                                   | \$ —                            | \$ —       | \$ —                    | \$ 413      | \$ 1,217    |
| Fair value loss on FPHFS                                                            | \$ —                            | \$ —       | \$ —                    | \$ —        | \$ (109)    |
| Loss from foreclosed properties held for sale                                       | \$ —                            | \$ —       | \$ —                    | \$ —        | \$ (39)     |
| Financing costs:                                                                    |                                 |            |                         |             |             |
| Financing cost on credit facilities                                                 | \$ (4,397)                      | \$ (5,323) | \$ (18,025)             | \$ (21,886) | \$ (18,376) |
| Financing cost on convertible debentures                                            | \$ (1,919)                      | \$ (2,203) | \$ (8,624)              | \$ (8,801)  | \$ (10,628) |
| Fair value gain (loss) on derivative contract                                       | \$ 850                          | \$ —       | \$ (3,940)              | \$ —        | \$ —        |
| Net (loss) income and comprehensive income                                          | \$ (1,613)                      | \$ 14,101  | \$ 32,002               | \$ 54,740   | \$ 53,068   |
| Payout ratio on earnings per share                                                  | n/a                             | 101.8%     | 176.4%                  | 104.3%      | 103.4%      |
| <b>ADJUSTED NET INCOME AND COMPREHENSIVE INCOME</b>                                 |                                 |            |                         |             |             |
| Net (loss) income and comprehensive income                                          | \$ (1,613)                      | \$ 14,101  | \$ 32,002               | \$ 54,740   | \$ 53,068   |
| Add: fair value (gain) loss on derivative contract (interest rate swap)             | \$ (850)                        | \$ —       | \$ 3,940                | \$ —        | \$ —        |
| Add: net unrealized loss (gain) on financial assets measured at FVTPL               | \$ 15,477                       | \$ (489)   | \$ 18,949               | \$ 188      | \$ (74)     |
| Adjusted net income and comprehensive income <sup>1</sup>                           | \$ 13,014                       | \$ 13,612  | \$ 54,891               | \$ 54,928   | \$ 52,994   |
| Payout ratio on adjusted earnings per share <sup>1</sup>                            | 107.2%                          | 105.5%     | 102.8%                  | 103.9%      | 103.6%      |
| <b>DISTRIBUTABLE INCOME</b>                                                         |                                 |            |                         |             |             |
| Adjusted net income and comprehensive income <sup>1</sup>                           | \$ 13,014                       | \$ 13,612  | \$ 54,891               | \$ 54,928   | \$ 52,994   |
| Less: amortization of lender fees                                                   | (2,929)                         | (2,660)    | (10,110)                | (10,029)    | (8,328)     |
| Add: lender fees received and receivable                                            | 1,813                           | 3,502      | 7,660                   | 10,039      | 11,342      |
| Add: amortization of financing costs, credit facility                               | 249                             | 407        | 953                     | 1,655       | 1,248       |
| Add: amortization of financing costs, debentures                                    | 470                             | 300        | 1,458                   | 1,191       | 1,767       |
| Add: accretion expense, debentures                                                  | 79                              | 61         | 271                     | 244         | 384         |
| Add: unrealized fair value (gain) loss on FPHFS                                     | —                               | —          | —                       | —           | 109         |
| Add: net operating (gain) loss on FPHFS                                             | —                               | —          | —                       | —           | 39          |
| Add: unrealized fair value (gain) loss on DSU                                       | (99)                            | —          | (99)                    | —           | —           |
| Add: allowance for expected credit loss loss                                        | 2,024                           | 333        | 2,994                   | 1,313       | 550         |
| Distributable income <sup>1</sup>                                                   | \$ 14,621                       | \$ 15,555  | \$ 58,018               | \$ 59,341   | \$ 60,105   |
| Payout ratio on distributable income <sup>1</sup>                                   | 95.4%                           | 92.3%      | 97.3%                   | 96.2%       | 91.3%       |
| <b>PER SHARE INFORMATION</b>                                                        |                                 |            |                         |             |             |
| Dividends paid to shareholders                                                      | \$ 13,953                       | \$ 14,355  | \$ 56,447               | \$ 57,078   | \$ 54,890   |
| Weighted average common shares                                                      | 80,887,433                      | 83,196,897 | 81,870,250              | 82,663,775  | 79,344,276  |
| Dividends per share                                                                 | \$ 0.17                         | \$ 0.17    | \$ 0.69                 | \$ 0.69     | \$ 0.69     |
| Earnings per share (basic and diluted)                                              | \$ (0.02)                       | \$ 0.17    | \$ 0.39                 | \$ 0.66     | \$ 0.66     |
| Adjusted earnings per share (basic and diluted) <sup>1</sup>                        | \$ 0.16                         | \$ 0.16    | \$ 0.67                 | \$ 0.66     | \$ 0.67     |
| Distributable income per share <sup>1</sup>                                         | \$ 0.18                         | \$ 0.19    | \$ 0.71                 | \$ 0.72     | \$ 0.76     |

1. Refer to non-IFRS measures section.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### FOR THE THREE MONTHS ENDED DECEMBER 31, 2020 ("Q4 2020") AND DECEMBER 31, 2019 ("Q4 2019")

- The Company funded 11 new net mortgage investments (Q4 2019 – 25) totaling \$212.5 million (Q4 2019 – \$336.2 million), and made additional advances on existing mortgage investments totaling \$68.4 million (Q4 2019 – \$50.7 million). The weighted average interest rate on new net mortgage investments was 6.3% and new funding mainly comprised of \$129.0 million in multi-residential investments. The Company fully discharged 24 mortgage investments (Q4 2019 – 24) and partially discharged mortgage investments totaling \$275.5 million (Q4 2019 – \$316.9 million). Weighted average interest rate on fully discharged net mortgage investments was 6.6%. The quarterly weighted average interest rate on net mortgage investment was 7.2% in Q4 2020, compared to 7.2% in Q3 2020 (Q4 2019 – 7.2%). The weighted average interest rate remained steady compared to Q3 2020.
- Funding of new and existing net mortgage investments of \$280.9 million, offset by repayments of \$275.5 million and negative fair value adjustment of \$15.5 million, resulted in a lower net mortgage investment portfolio of \$1,143.1 million, compared to \$1,153.2 million at the end of Q3 2020.
- Turnover ratio was 19.6% for Q4 2020 (Q4 2019 – 26.0%). While improved from 12.3% at Q3 2020, the decrease in the turnover ratio from Q4 2019 can be directly tied to the market environment as a result of COVID-19 where sale transactions have been delayed but are still reasonably expected to progress as underwritten.
- Other investments within the enhanced return portfolio were \$74.4 million (September 30, 2020 – \$76.4 million), a net decrease of \$2.0 million in the quarter, primarily due to partial repayment of a collateralized loan investment.
- Net investment income on financial assets measured at amortized cost decreased by \$700 quarter over quarter (\$24.0 million in Q4 2020 compared to \$24.7 million in Q4 2019), primarily attributable to lower weighted average net investments over the periods (\$1,124.2 million in Q4 2020 compared to \$1,197.4 million in Q4 2019).
- Fair value loss or gains and other income on financial assets measured at FVTPL decreased this quarter from a gain of \$517 in Q4 2019 to a loss of \$14.9 million in Q4 2020 resulting primarily from negative unrealized fair value adjustments of \$15.5 million (Q4 2019 – \$489) on mortgage investments measured at FVTPL including a negative adjustment on a mortgage investment secured by a retail asset resulting from the effects COVID-19 has had on existing tenancies as well as the risks and costs associated with a redevelopment plan to stabilize the asset, as well as a negative adjustment on a mortgage investment for a manufactured housing project secured by land resulting from approval delays and the associated risks in commencing the development of the project.
- Income from operations saw a \$17.7 million decrease quarter over quarter (\$3.9 million in Q4 2020 compared to \$21.6 million in Q4 2019), after adjusting for unrealized fair value loss or gain on financial assets measured at FVTPL of \$15.5 million for Q4 2020 (\$489 for Q4 2019), described above, adjusted income from operations for Q4 2020 was \$18.5 million (\$21.1 million Q4 2019). The decrease of \$2.6 million over prior year is primarily as a result of the decrease in net investment income described above of \$700 and an increase in the allowance for credit loss of \$1.7 million, partially offset by lower general and administrative expenses.
- Non-refundable cash lender fees were \$1.8 million (Q4 2019 – \$3.5 million), due primarily to lower new net mortgage investments of \$212.5 million in the period versus \$336.2 million for the same period in 2019. The quarterly weighted average lender fees on new and renewed mortgages was 0.7% during the quarter (Q4 2019 – 1.0%), while the quarterly weighted average lender fee on new mortgages only was 1.5% (Q4 2019 – 1.1%). The quarterly weighted average lender fees on renewed mortgage accounts was 0.25% (Q4 2019 – 0.20%) and accounts for 56.0% of the weighted cash lender fee, compared to 19.5% in Q4 2019, which is a significant contributing factor to lower quarterly weighted average lender fees on new and renewed mortgages.
- The Company recorded an \$850 fair value gain from a 2-year interest rate swap contract (the "Contract") entered into in December 2019. The fair value gain relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. Refer to note 6(a) of the annual financial statements for the years ended December 31, 2020 and 2019.
- Excluding the \$850 fair value gain arising from the Contract and the unrealized loss from financial assets measured at FVTPL of \$15.5 million, the Company generated adjusted net income and comprehensive income of \$13.0 million (Q4 2019 – \$13.6 million) or adjusted earnings per share of \$0.16 basic and diluted (Q4 2019 – \$0.16 basic and diluted). The

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

Company declared \$14.0 million in dividends (Q4 2019 – \$14.4 million) to common shareholders, representing a payout ratio of 107.2% (Q4 2019 – 105.5%) on an adjusted earnings per share basis.

- General and administrative expenses were \$298 (Q4 2019 – \$487), reflecting slightly reduced operating costs due to COVID-19 that had been accrued for in the year, but did not materialize.
- Weighted average interest rate in the existing portfolio is well protected at the end of Q4 2020 with 14.4% fixed rate exposure (December 31, 2019 – 22.7%) and floating rate loans with rate floors representing 78.1% (December 31, 2019 – 71.0%), this is consistent with the overall asset allocation strategy shift toward floating rate assets.
- The Company generated distributable income of \$14.6 million (Q4 2019 – \$15.6 million) or distributable income per share of \$0.18 (Q4 2019 – \$0.19), representing a payout ratio of 95.4% (Q4 2019 – 92.3%) on a distributable income basis.
- On October 22, 2020, in accordance with the terms of the 5.4% series debenture, the Company repaid \$46.4 million in aggregate principal and interest. The Company drew \$40.0 million from its credit facility to fund the redemption and associated accrued interest. This resulted in interest savings of approximately \$170 for the quarter.

### FOR THE YEARS ENDED DECEMBER 31, 2020 ("2020") AND DECEMBER 31, 2019 ("2019")

- The Company funded 42 new net mortgage investments (2019 – 62) totaling \$451.3 million (2019 – \$733.5 million), made additional advances on existing mortgage investments totaling \$146.0 million (2019 – \$99.7 million) and fully discharged 55 mortgage investments (2019 – 57) and partially discharged mortgage investments totaling \$678.8 million (2019 – \$799.6 million). As a result, the net mortgage investment portfolio as at December 31, 2020 has decreased by \$101.0 million, including a fair value loss of \$19.5 million, to \$1,143.1 million (December 31, 2019 – \$1,244.1 million), or 8.1% from December 31, 2019. During the year, the Company proactively bought back shares under its NCIB at an average price of \$8.05 per share, aggregating to \$20.0 million, contributing to the reduction in the net mortgage investments on a levered basis of approximately \$35.1 million.
- Other investments within the enhanced return portfolio were \$74.4 million, including an allowance for credit loss of \$1.6 million (December 31, 2019 – \$61.5 million and \$25, respectively). The net increase of \$12.9 million was mainly due to new fundings of collateralized loan investments, and foreign exchange translation, which is economically hedged through current cross currency or forward contracts.
- 2020 began with \$1,244.1 million of net mortgage investments bearing a 7.1% weighted average interest rate. By the end of Q4 2020, net mortgage investments had declined to \$1,143.1 million, as described above at a relatively consistent 7.2% weighted average interest rate.
- Net Investment Income on financial assets measured at amortized cost was \$95.9 million (2019 – \$98.5 million), a decrease of \$2.6 million, or 2.6% from 2019. Decrease in net investment income 2020 compared to 2019 was primarily due to:
  - \$1.0 million decrease in interest income from net mortgage and collateralized loan investments, as a result of lower net mortgage investments; and
  - \$2.3 million decrease in lender fees due to lower book turnover in the year.
- Fair value loss or gains and other income on financial assets measured at FVTPL decreased in the year from a gain of \$923 in 2019 to a loss of \$16.8 million in 2020 resulting primarily from negative unrealized fair value adjustments of \$18.9 million (2019 – \$188) on mortgage investments measured at FVTPL including a negative adjustment on a mortgage investment secured by a retail asset resulting from the effects COVID-19 has had on existing tenancies as well as the risks and costs associated with a redevelopment plan to stabilize the asset, as well as a negative adjustment on a mortgage investment for a manufactured housing project secured by land resulting from approval delays and the associated risks in commencing the development of the project.
- The Company generated income from operations of \$62.6 million (2019 – \$85.0 million), a decrease of \$22.4 million or 26.4% from 2019, after adjusting for unrealized fair value loss on financial assets measured at FVTPL of \$18.9 million for 2020 (\$188 for 2019), described above, adjusted income from operations for 2020 was \$81.5 million (\$85.2 million 2019). The decrease of \$3.7 million over prior year is primarily as a result of the decrease in net investment income described

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

above of \$2.6 million and an increase in the ACL of \$1.7 million, offsetting this was a net increase of \$1.5 million of interest income earned on financial assets measured at FVTPL in the year.

- Weighted average loan-to-value decreased from 70.5% as at December 31, 2019 to 68.5% as at December 31, 2020 (and up from 68.2% as at Q3 2020). The change is primarily a result of conservative reinvestment activities in 2020 on new investments.
- General and administrative expense was at \$1.8 million (2019 – \$1.7 million), remaining consistent with prior year.
- Weighted average interest rate in the existing net mortgage portfolio is well protected at the end of Q4 2020 with 14.4% of the portfolio at fixed interest rate (December 31, 2019 – 22.7%) and floating interest rate loans with rate floors representing 78.1% of the portfolio (December 31, 2019 – 71.0%), consistent with overall asset allocation strategy shift toward floating rate assets.
- Non-refundable cash lender fees recorded were \$7.7 million (2019 – \$10.0 million). Lower cash lender fees is directly attributable to lower transaction volumes. The overall weighted average lender fees on new and renewed mortgages during the year was 0.7% (2019 – 1.0%), while the weighted average lender fee on only new mortgages 2020 was 1.2% (2019 – 1.1%).
- Excluding the \$3.9 million unrealized fair value loss arising from the Contract and the \$18.9 million unrealized fair value loss on financial assets carried at FVTPL, the Company generated adjusted net income and comprehensive income of \$54.9 million (2019 – \$54.9 million) or adjusted earnings per share of \$0.67 basic and diluted (2019 – \$0.66 basic and diluted). The Company declared \$56.4 million in dividends (2019 – \$57.1 million) to common shareholders, representing a payout ratio of 102.8% (2019 – 103.9%) on an adjusted earnings per share basis.
- The Company generated distributable income of \$58.0 million (2019 – \$59.3 million) or distributable income per share of \$0.71 (2019 – \$0.72) resulting in a payout ratio of 97.3% (2019 – 96.2%) on a distributable income basis.
- On March 26, 2020, the Company announced that the TSX approved its NCIB to repurchase for cancellation up to 8,309,785 common shares over a 12-month period. During 2020, the Company repurchased 2,484,515 common shares (2019 – nil) for \$20.0 million (2019 – nil). The average price per common share repurchased was \$8.05. As of December 31, 2020, the Company has paused the NCIB program after reaching its \$20.0 million milestone. The Company may reconsider additional repurchases during the remainder of allotted 12-month period.
- On September 18, 2020, the Company entered into an amendment to its existing revolving credit facility (“Sixth Amending Credit Agreement”) in order to, among other things, increase the aggregate credit limit by \$35.0 million to a total of \$535.0 million. General terms of the credit facility remain unchanged.
- On October 22, 2020, in accordance with the terms of the 5.4% series debenture, the Company repaid \$46.4 million in aggregate principal and interest. The Company drew \$40.0 million from its credit facility to fund the redemption and associated accrued interest.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

#### NET INVESTMENT INCOME ON FINANCIAL ASSETS MEASURED AT AMORTIZED COST

For analysis purposes, net investment 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 2020 and 2020, the Company earned net investment income of \$24.0 million and \$95.9 million (Q4 2019 – \$24.7 million; 2019 – \$98.5 million). Net investment income includes the following:

##### A. Interest income

During Q4 2020 and 2020, the Company earned interest income on net mortgage investments of \$19.6 million and \$80.6 million (Q4 2019 – \$20.7 million; 2019 – \$82.4 million). The weighted average interest rate on net mortgage investments during Q4 2020 and 2020 was 7.2% and 7.2% (Q4 2019 – 7.2%; 2019 – 7.2%). The decrease in interest income quarter-over-quarter was due to a lower weighted-average net mortgage investment portfolio in the quarter, however, year-over-year the company maintained a higher weighted average net mortgage investment portfolio, generating higher interest income for the year.

During Q4 2020 and 2020, the Company earned \$1.4 million and \$5.1 million (Q4 2019 – \$1.2 million; 2019 – \$6.3 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. Decrease in interest income for the year is primarily due to lower average loan balance in other investments held during 2020.

##### B. Lender fee income

For Q4 2020 and 2020, the Company recorded non-refundable upfront cash lender fees of \$1.8 million and \$7.7 million (Q4 2019 – \$3.5 million; 2019 – \$10.0 million), or a weighted average lender fee on new and renewed mortgages of 0.7% and 0.7%, respectively (Q4 2019 – 1.0%; 2019 – 1.0%). Lower cash lender fees are directly attributable from lower transaction volumes. 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 2020 and 2020, lender fees of \$2.9 million and \$10.0 million were amortized to lender fee income (Q4 2019 – \$2.7 million; 2019 – \$10.0 million).

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

##### C. Other income/loss

During Q4 2020 and 2020, the Company incurred other income of \$45 and \$231 (Q4 2019 – \$49; 2019 – other income \$269), primarily attributable to bank interest income, miscellaneous income and dividend income.

#### FAIR VALUE (LOSSES) GAINS AND OTHER INCOME ON FINANCIAL ASSETS MEASURED AT FVTPL

During Q4 2020 and 2020, the Company incurred on total loss on financial assets measured at FVTPL of \$14.9 million and \$16.8 million (Q4 2019 – gain \$489; 2019 – loss \$188). the Company earned interest income on net mortgage investments measured at FVTPL of \$540 and \$2.1 million (Q4 2019 – \$170; 2019 – \$170), offset by decrease in fair value of mortgage investments classified as measured at FVTPL of \$15.5 million and \$18.9 million (Q4 2019 – nil; 2019 – nil), respectively.

The fair value loss is primarily related to a retail asset where e-commerce and COVID-19 continue to affect tenancy, as well as the risks and costs associated with a redevelopment plan to stabilize the asset. Additionally, a mortgage investment for a manufactured housing project secured by land measured at FVTPL recorded a negative adjustment in fair value due to project development delays unrelated to COVID-19.

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. In some instances it has identified areas where cash flows in valuation models have been adjusted to reflect longer lease-up periods and repositioning of the assets as well as development delays. Additionally, in normal course, the Company has reviewed its valuation models and adjusted overall capitalization rates and stabilized net operating income. Combined, these have resulted in a net \$19.5 million unrealized fair value decrease in the statement of net income and other comprehensive income.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### NET RENTAL INCOME FROM INVESTMENT PROPERTIES

The net rental income from investment properties for Q4 2020 and 2020 was \$373 and \$1.5 million (Q4 2019 \$414; 2019 – \$1.4 million), respectively. The rental revenue is consistent at stable occupancy levels offset by a moderate operating cost increase.

### EXPENSES

#### Management, Servicing and Arrangement Fees

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

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

The term of the Management Agreement is for a period of 10 years commencing on April 1, 2020, and will be automatically renewed for successive five year terms. The management fee and servicing fee remains consistent with the Original Management Agreement. As compensation for the Manager's work on syndicating any mortgage investments, the Management Agreement permits the Manager to collect a portion of the lender fee paid by borrowers of mortgage investments. The Management Agreement provides that, in respect of each mortgage investment made on or after April 1, 2020 involving syndication to another party of a senior tranche with the Company retaining a subordinated component, the Manager shall be entitled to retain, from any lender fee generated in respect of such loan, an amount equal to 0.20% of the whole loan amount ("Arrangement Fee") if such syndication occurs within 90 days of closing of the mortgage. The Arrangement Fee will not apply to any renewal of existing mortgage investments which already include syndicated senior and subordinated components. The Manager may make an annual election, subject to approval of the independent Directors of the Board, to receive the Arrangement Fee in common shares of the Company instead of cash.

For Q4 2020 and 2020, the Company incurred management fees of \$3.1 million and \$12.4 million (Q4 2019 – \$3.1 million; 2019 – \$12.4 million). The average gross assets were \$1,296.0 million and \$1,325.2 million compared to Q4 2019 \$1,304.8 million and 2019 \$1,319.5 million. For Q4 2020 and 2020, the Company incurred \$187 and \$788, respectively (Q4 2019 – \$114 and 2019 – \$497) in servicing fees. The increase is related to the increase in the average syndications balance during the period. For Q4 2020 and 2020, Arrangement Fees of \$92 and \$134 was retained by the Manager (Q4 2019 – nil and 2019 – nil).

#### General and administrative

For Q4 2020 and 2020, the Company incurred general and administrative expenses of \$298 and \$1.8 million, respectively (Q4 2019 – \$487; 2019 – \$1.7 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees, legal fees, other operating costs and administration of the mortgage and other investments portfolio. While quarter over quarter decrease is a recovery in accrued liabilities from operating activities paused during COVID-19, the year over year costs remained relatively consistent.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### INTEREST ON CREDIT FACILITY – MORTGAGE INVESTMENTS

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q4 2020 and 2020, included in financing costs is interest on the credit facility \$3.2 million and \$13.4 million (Q4 2019 – \$4.6 million; 2019 – \$18.9 million), and realized loss on the Contract of \$761 and \$2.7 million (Q4 2019 – nil; 2019 – nil) and financing costs amortization of \$236 and \$909 (Q4 2019 – \$398; 2019 – \$1.6 million). The unrealized fair value relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. For Q4 2020 and 2020, included in financing costs is unrealized fair value gain of \$850 and loss of \$3.9 million (Q4 2019 – nil, YTD 2019 – nil). The average credit utilization in 2020 was \$471.8 million compared to \$441.8 million 2019. The higher utilization is partially due the utilization of the credit facility to repay \$45.8 million 5.4% convertible debentures. The decrease of interest expense over the comparable 2019 period is related to the overall reduction in borrowing cost with effective cost rate of 3.58% (2019 – 4.34%).

### INTEREST ON CREDIT FACILITY – INVESTMENT PROPERTIES

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q4 2020 and 2020, included in financing costs is interest on the credit facility of \$234 and \$944 (Q4 2019 – \$270; 2019 – \$1.4 million) and financing costs amortization of \$13 and \$44 (Q4 2019 – \$9; 2019 – \$48). The decrease of interest expense over the comparable 2019 period is related to the overall reduction in borrowing cost.

### FINANCING COST ON CONVERTIBLE DEBENTURES

The Company has \$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, 2020. On October 22, 2020, the Company repaid in full \$45.8 million of 5.40% convertible unsecured subordinated debentures, deferred issue costs and accretion expense of \$314 were written off upon full repayment. 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, |                 |
|-------------------------------------------------------------------------|---------------------------------|-----------------|-------------------------|-----------------|
|                                                                         | 2020                            | 2019            | 2020                    | 2019            |
| Interest on the convertible debentures                                  | \$ 1,370                        | \$ 1,842        | \$ 6,895                | \$ 7,366        |
| Amortization of issue costs and accretion of the convertible debentures | 549                             | 361             | 1,729                   | 1,435           |
| <b>Total financing cost on convertible debentures</b>                   | <b>\$ 1,919</b>                 | <b>\$ 2,203</b> | <b>\$ 8,624</b>         | <b>\$ 8,801</b> |

### EARNINGS PER SHARE

For Q4 2020 and 2020, basic and diluted earnings per share were \$(0.02) and \$0.39, basic and diluted adjusted earnings per share were \$0.16 and \$0.67. (Q4 2019 – basic and diluted \$0.17, basic and diluted adjusted \$0.16; 2019 – basic and diluted \$0.66, basic and diluted adjusted \$0.66)

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

## STATEMENTS OF FINANCIAL POSITION

### NET MORTGAGE INVESTMENTS

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

Reconciliation of gross and net mortgage investments balance is as follows:

| Net Mortgage Investments                              | December 31, 2020 | December 31, 2019 |
|-------------------------------------------------------|-------------------|-------------------|
| Mortgage investments, excluding mortgage syndications | \$ 1,142,662      | \$ 1,240,747      |
| Mortgage syndications                                 | 429,915           | 426,939           |
| Mortgage investments, including mortgage syndications | 1,572,577         | 1,667,686         |
| Mortgage syndication liabilities                      | (429,915)         | (426,939)         |
|                                                       | 1,142,662         | 1,240,747         |
| Interest receivable                                   | (10,209)          | (8,428)           |
| Unamortized lender fees                               | 6,958             | 9,460             |
| Allowance for mortgage investments loss               | 3,710             | 2,303             |
| Net mortgage investments                              | \$ 1,143,121      | \$ 1,244,082      |

|                                                             | Three months ended December 31, |              | Year ended December 31, |              |
|-------------------------------------------------------------|---------------------------------|--------------|-------------------------|--------------|
| Net mortgage investments statistics and ratios <sup>1</sup> | 2020                            | 2019         | 2020                    | 2019         |
| Total number of mortgage investments                        | 116                             | 129          | 116                     | 129          |
| Average net mortgage investment                             | \$ 10,022                       | \$ 9,524     | \$ 10,022               | \$ 9,524     |
| Average net mortgage investment portfolio                   | \$ 1,083,435                    | \$ 1,199,831 | \$ 1,124,189            | \$ 1,197,377 |
| Weighted average interest rate for the period               | 7.2%                            | 7.2%         | 7.2%                    | 7.2%         |
| Weighted average lender fees for the period                 | 0.7%                            | 1.0%         | 0.7%                    | 1.0%         |
| Turnover ratio                                              | 19.6%                           | 26.0%        | 57.0%                   | 67.0%        |
| Average remaining term to maturity (years)                  | 1.0                             | 1.4          | 1.0                     | 1.4          |
| Net mortgage investments secured by cash-flowing properties | 84.9%                           | 86.8%        | 84.9%                   | 86.8%        |
| Weighted average loan-to-value                              | 68.5%                           | 70.5%        | 68.5%                   | 70.5%        |

1. Refer to non-IFRS measures section.

### PORTFOLIO ALLOCATION

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

#### a. Security position

|                                                     | December 31, 2020 |                          | December 31, 2019 |                          |
|-----------------------------------------------------|-------------------|--------------------------|-------------------|--------------------------|
|                                                     | Number            | Net Mortgage Investments | Number            | Net Mortgage Investments |
| Interest in first mortgages                         | 99                | \$ 1,031,984             | 114               | \$ 1,125,797             |
| Interest in second and third mortgages <sup>1</sup> | 17                | 111,137                  | 15                | 118,285                  |
|                                                     | 116               | \$ 1,143,121             | 129               | \$ 1,244,082             |

1. Included in the Company's interest in second and third mortgages as at December 31, 2020 was \$17.2 million of the net mortgage investments in which the Company holds a subordinated position (December 31, 2019 – \$42.6 million). The Company's syndicated partners who hold a senior position as at December 31, 2020 was \$42.7 million (December 31, 2019 – \$32.7 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### b. Region

| December 31, 2020                              |        |                          | December 31, 2019 |                          |  |
|------------------------------------------------|--------|--------------------------|-------------------|--------------------------|--|
|                                                | Number | Net Mortgage Investments | Number            | Net Mortgage Investments |  |
| Ontario                                        | 46     | \$ 380,616               | 65                | \$ 535,622               |  |
| British Columbia                               | 24     | 267,055                  | 29                | 297,580                  |  |
| Alberta                                        | 15     | 201,650                  | 14                | 252,437                  |  |
| Quebec                                         | 21     | 260,469                  | 11                | 109,092                  |  |
| Other (Saskatchewan, Nova Scotia and Manitoba) | 10     | 33,331                   | 10                | 49,351                   |  |
|                                                | 116    | \$ 1,143,121             | 129               | \$ 1,244,082             |  |

### c. Maturity

| December 31, 2020   |        |                          | December 31, 2019 |                          |  |
|---------------------|--------|--------------------------|-------------------|--------------------------|--|
|                     | Number | Net Mortgage Investments | Number            | Net Mortgage Investments |  |
| 2020                | 0      | \$ —                     | 47                | \$ 416,478               |  |
| 2021                | 60     | 606,667                  | 59                | 543,274                  |  |
| 2022                | 42     | 381,196                  | 20                | 232,257                  |  |
| 2023                | 13     | 150,758                  | 3                 | 52,073                   |  |
| 2024                | —      | —                        | —                 | —                        |  |
| 2025 and thereafter | 1      | 4,500                    | —                 | —                        |  |
|                     | 116    | \$ 1,143,121             | 129               | \$ 1,244,082             |  |

### d. Asset Type / WALTV at origination<sup>3</sup>

| December 31, 2020                          |        |                          |                      | December 31, 2019 |                          |                                   |  |
|--------------------------------------------|--------|--------------------------|----------------------|-------------------|--------------------------|-----------------------------------|--|
|                                            | Number | Net Mortgage Investments | WALTV at origination | Number            | Net Mortgage Investments | WALTV at origination <sup>3</sup> |  |
| Multi-Residential <sup>1</sup>             | 68     | \$ 597,771               | 72.3%                | 79                | \$ 673,585               | 74.0%                             |  |
| Retail                                     | 17     | 184,104                  | 70.7%                | 19                | 192,749                  | 69.1%                             |  |
| Unimproved Land <sup>2</sup>               | 10     | 105,943                  | 51.3%                | 9                 | 106,874                  | 49.4%                             |  |
| Office                                     | 8      | 97,761                   | 62.3%                | 10                | 105,936                  | 62.6%                             |  |
| Retirement                                 | 3      | 77,567                   | 74.1%                | 3                 | 58,175                   | 75.6%                             |  |
| Industrial                                 | 5      | 16,855                   | 63.2%                | 5                 | 30,187                   | 66.6%                             |  |
| Single-Residential                         | 1      | 1,574                    | 69.5%                | 1                 | 1,574                    | 69.5%                             |  |
| Self-Storage                               | 1      | 830                      | 80.9%                | —                 | —                        | —%                                |  |
|                                            | 113    | 1,082,405                | 69.1%                | 126               | 1,169,080                | 69.8%                             |  |
| Net mortgage investments measured at FVTPL | 3      | 60,716                   | n/a                  | 3                 | 75,002                   | n/a                               |  |
|                                            | 116    | \$ 1,143,121             |                      | 129               | \$ 1,244,082             |                                   |  |

1 Includes 11 construction loans (December 31, 2019 – 7) totaling \$38.3 million (December 31, 2019 – \$26.7 million). Construction loans are provided for the purposes of building a new asset.

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### ENHANCED RETURN PORTFOLIO

| As at                                                           | December 31, 2020 | December 31, 2019 |
|-----------------------------------------------------------------|-------------------|-------------------|
| Collateralized loans, net of allowance for credit loss          | \$ 60,370         | \$ 48,326         |
| Finance lease receivable, measured at amortized cost            | 6,020             | 6,020             |
| Investment, measured at FVTPL                                   | 5,819             | 4,949             |
| Indirect real estate development, measured using equity method: |                   |                   |
| Investment in Joint Venture                                     | 2,225             | 2,225             |
| <b>Total Other Investments</b>                                  | <b>74,434</b>     | 61,520            |
| Investment properties                                           | 47,862            | 47,349            |
| Credit facility (investment properties)                         | (30,656)          | (30,622)          |
| Net equity in investment properties                             | 17,206            | 16,727            |
| <b>Total Enhanced Return Portfolio</b>                          | <b>\$ 91,640</b>  | \$ 78,247         |

During Q4 2020 and 2020, the Company earned \$1.4 million and \$5.1 million (Q4 2019 – \$1.2 million and 2019 – \$6.3 million) of interest income on collateralized loans in other investments in the enhanced return portfolio.

During Q4 2020 and 2020, the Company amortized lender fee income of \$89 and \$259 on collateralized loans in other investments, net of fees relating to mortgage syndication liabilities (Q4 2019 – \$41 and 2019 – \$386). During Q4 2020 and 2020, the Company recorded non-refundable upfront cash lender fees of nil and \$297 (Q4 2019 – nil; 2019 – nil), which are amortized over the term of the collateralized loans in other investments using the effective interest rate method.

In 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, 2020 and 2019.

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, 2020, the Company's share of the investment properties has an aggregate fair value of \$47.9 million (December 31, 2019 – \$47.3 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 \$429.9 million (December 31, 2019 – \$426.9 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time and are not necessarily indicative of a future trend.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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 \$5.3 million as at December 31, 2020 (December 31, 2019 – \$2.3 million), of which \$3.7 million (December 31, 2019 – \$2.3 million) was recorded against mortgage investments and \$1,613 (December 31, 2019 – \$25) was recorded against other investments.

|                                                         | As at December 31, 2020 |               |                 |                  | As at December 31, 2019 |             |              |                  |
|---------------------------------------------------------|-------------------------|---------------|-----------------|------------------|-------------------------|-------------|--------------|------------------|
|                                                         | Stage 1                 | Stage 2       | Stage 3         | Total            | Stage 1                 | Stage 2     | Stage 3      | Total            |
| <b>Multi-residential Mortgage Investments</b>           |                         |               |                 |                  |                         |             |              |                  |
| Mortgages, including mortgage syndications <sup>1</sup> | \$ 780,537              | \$ 43,569     | \$ 3,055        | \$ 827,161       | \$ 925,025              | \$ —        | \$ 2,903     | \$ 927,928       |
| Mortgage syndication liabilities <sup>1</sup>           | 209,778                 | —             | —               | 209,778          | 240,724                 | —           | —            | 240,724          |
| Net mortgage investments                                | 570,759                 | 43,569        | 3,055           | 617,383          | 684,301                 | —           | 2,903        | 687,204          |
| Allowance for credit losses <sup>2</sup>                | 967                     | 91            | 1,405           | 2,463            | 1,003                   | —           | 253          | 1,256            |
|                                                         | <b>569,792</b>          | <b>43,478</b> | <b>1,650</b>    | <b>614,920</b>   | <b>683,298</b>          | <b>—</b>    | <b>2,650</b> | <b>685,948</b>   |
| <b>Other Mortgage Investments</b>                       |                         |               |                 |                  |                         |             |              |                  |
| Mortgages, including mortgage syndications <sup>1</sup> | 692,069                 | —             | 3,235           | 695,304          | 674,306                 | —           | 3,102        | 677,408          |
| Mortgage syndication liabilities <sup>1</sup>           | 221,335                 | —             | —               | 221,335          | 187,274                 | —           | —            | 187,274          |
| Net mortgage investments                                | 470,734                 | —             | 3,235           | 473,969          | 487,032                 | —           | 3,102        | 490,134          |
| Allowance for credit losses <sup>2</sup>                | 293                     | —             | 954             | 1,247            | 334                     | —           | 713          | 1,047            |
|                                                         | <b>470,441</b>          | <b>—</b>      | <b>2,281</b>    | <b>472,722</b>   | <b>486,698</b>          | <b>—</b>    | <b>2,389</b> | <b>489,087</b>   |
| <b>Other loan Investments</b>                           |                         |               |                 |                  |                         |             |              |                  |
| Mortgages, including mortgage syndications <sup>1</sup> | 55,416                  | —             | 6,669           | 62,085           | 48,407                  | —           | —            | 48,407           |
| Mortgage syndication liabilities <sup>1</sup>           | —                       | —             | —               | —                | —                       | —           | —            | —                |
| Net mortgage investments                                | 55,416                  | —             | 6,669           | 62,085           | 48,407                  | —           | —            | 48,407           |
| Allowance for credit losses <sup>2</sup>                | 97                      | —             | 1,516           | 1,613            | 25                      | —           | —            | 25               |
|                                                         | <b>\$ 55,319</b>        | <b>\$ —</b>   | <b>\$ 5,153</b> | <b>\$ 60,472</b> | <b>\$ 48,382</b>        | <b>\$ —</b> | <b>\$ —</b>  | <b>\$ 48,382</b> |

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 Stage1 with minimal ACL.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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:

| Multi-residential Mortgage Investments | As at December 31, 2020 |              |                 |                 | As at December 31, 2019 |             |               |                 |
|----------------------------------------|-------------------------|--------------|-----------------|-----------------|-------------------------|-------------|---------------|-----------------|
|                                        | Stage 1                 | Stage 2      | Stage 3         | Total           | Stage 1                 | Stage 2     | Stage 3       | Total           |
| Balance at beginning of period         | \$ 1,003                | \$ —         | \$ 253          | \$ 1,256        | \$ 627                  | \$ —        | \$ 3          | \$ 630          |
| Allowance for credit losses            |                         |              |                 |                 |                         |             |               |                 |
| Remeasurement                          | 241                     | 133          | 1,152           | 1,526           | (4)                     | 2           | 250           | 248             |
| Transfer to/(from)                     |                         |              |                 |                 |                         |             |               |                 |
| Stage 1                                | (5)                     | —            | —               | (5)             | 2                       | —           | —             | 2               |
| Stage 2                                | —                       | 5            | —               | 5               | —                       | (2)         | —             | (2)             |
| Stage 3                                | —                       | —            | —               | —               | —                       | —           | —             | —               |
| Total allowance for credit losses      | 1,239                   | 138          | 1,405           | 2,782           | 625                     | —           | 253           | 878             |
| Fundings                               | 544                     | 5            | —               | 549             | 863                     | —           | —             | 863             |
| Discharges                             | (816)                   | (52)         | —               | (868)           | (485)                   | —           | —             | (485)           |
| <b>Balance at end of fiscal period</b> | <b>\$ 967</b>           | <b>\$ 91</b> | <b>\$ 1,405</b> | <b>\$ 2,463</b> | <b>\$ 1,003</b>         | <b>\$ —</b> | <b>\$ 253</b> | <b>\$ 1,256</b> |

| Other Mortgage Investments             | As at December 31, 2020 |             |               |                 | As at December 31, 2019 |             |               |                 |
|----------------------------------------|-------------------------|-------------|---------------|-----------------|-------------------------|-------------|---------------|-----------------|
|                                        | Stage 1                 | Stage 2     | Stage 3       | Total           | Stage 1                 | Stage 2     | Stage 3       | Total           |
| Balance at beginning of period         | \$ 334                  | \$ —        | \$ 713        | \$ 1,047        | \$ 200                  | \$ —        | \$ 587        | \$ 787          |
| Allowance for credit losses            |                         |             |               |                 |                         |             |               |                 |
| Remeasurement                          | (132)                   | —           | 241           | 109             | 142                     | —           | 742           | 884             |
| Transfer to/(from)                     |                         |             |               |                 |                         |             |               |                 |
| Stage 1                                | (5)                     | —           | —             | (5)             | —                       | —           | —             | —               |
| Stage 2                                | —                       | 5           | —             | 5               | —                       | —           | —             | —               |
| Stage 3                                | —                       | —           | —             | —               | —                       | —           | —             | —               |
| Total allowance for credit losses      | 197                     | 5           | 954           | 1,156           | 342                     | —           | 1,329         | 1,671           |
| Fundings                               | 173                     | —           | —             | 173             | 134                     | —           | —             | 134             |
| Discharges                             | (77)                    | (5)         | —             | (82)            | (142)                   | —           | (616)         | (758)           |
| <b>Balance at end of fiscal period</b> | <b>\$ 293</b>           | <b>\$ —</b> | <b>\$ 954</b> | <b>\$ 1,247</b> | <b>\$ 334</b>           | <b>\$ —</b> | <b>\$ 713</b> | <b>\$ 1,047</b> |

| Other loan Investments                 | As at December 31, 2020 |             |                 |                 | As at December 31, 2019 |             |             |              |
|----------------------------------------|-------------------------|-------------|-----------------|-----------------|-------------------------|-------------|-------------|--------------|
|                                        | Stage 1                 | Stage 2     | Stage 3         | Total           | Stage 1                 | Stage 2     | Stage 3     | Total        |
| Balance at beginning of period         | \$ 25                   | \$ —        | \$ —            | \$ 25           | \$ 212                  | \$ —        | \$ 3        | \$ 215       |
| Allowance for credit losses            |                         |             |                 |                 |                         |             |             |              |
| Remeasurement                          | —                       | —           | 1,511           | 1,511           | 8                       | —           | —           | 8            |
| Transfer to/(from)                     |                         |             |                 |                 |                         |             |             |              |
| Stage 1                                | (5)                     | —           | —               | (5)             | 3                       | —           | —           | 3            |
| Stage 2                                | —                       | —           | —               | —               | —                       | —           | —           | —            |
| Stage 3                                | —                       | —           | 5               | 5               | —                       | —           | (3)         | (3)          |
| Total allowance for credit losses      | 20                      | —           | 1,516           | 1,536           | 223                     | —           | —           | 223          |
| Fundings                               | 82                      | —           | —               | 82              | 3                       | —           | —           | 3            |
| Discharges                             | (5)                     | —           | —               | (5)             | (201)                   | —           | —           | (201)        |
| <b>Balance at end of fiscal period</b> | <b>\$ 97</b>            | <b>\$ —</b> | <b>\$ 1,516</b> | <b>\$ 1,613</b> | <b>\$ 25</b>            | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 25</b> |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

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

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

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

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

| As at December 31, 2020                   |                  |               |                 |                  | As at December 31, 2019 |             |              |                  |
|-------------------------------------------|------------------|---------------|-----------------|------------------|-------------------------|-------------|--------------|------------------|
| Multi-residential Mortgage Investments    | Stage 1          | Stage 2       | Stage 3         | Total            | Stage 1                 | Stage 2     | Stage 3      | Total            |
| Low risk                                  | \$ 209,373       | \$ —          | \$ —            | \$ 209,373       | \$ 205,588              | \$ —        | \$ —         | \$ 205,588       |
| Medium-Low risk                           | 307,977          | 35,953        | —               | 343,930          | 444,496                 | —           | —            | 444,496          |
| Medium-High risk                          | 53,409           | 7,616         | —               | 61,025           | 34,217                  | —           | —            | 34,217           |
| High risk                                 | —                | —             | —               | —                | —                       | —           | —            | —                |
| Default                                   | —                | —             | 3,055           | 3,055            | —                       | —           | 2,903        | 2,903            |
| Net                                       | 570,759          | 43,569        | 3,055           | 617,383          | 684,301                 | —           | 2,903        | 687,204          |
| Allowance for credit losses               | 967              | 91            | 1,405           | 2,463            | 1,003                   | —           | 253          | 1,256            |
| <b>Mortgage investments<sup>1</sup></b>   | <b>569,792</b>   | <b>43,478</b> | <b>1,650</b>    | <b>614,920</b>   | <b>683,298</b>          | <b>—</b>    | <b>2,650</b> | <b>685,948</b>   |
| Other Mortgage Investments                | Stage 1          | Stage 2       | Stage 3         | Total            | Stage 1                 | Stage 2     | Stage 3      | Total            |
| Low risk                                  | 72,957           | —             | —               | 72,957           | 118,546                 | —           | —            | 118,546          |
| Medium-Low risk                           | 333,990          | —             | —               | 333,990          | 275,349                 | —           | —            | 275,349          |
| Medium-High risk                          | 41,012           | —             | —               | 41,012           | 82,054                  | —           | —            | 82,054           |
| High risk                                 | 22,775           | —             | —               | 22,775           | 11,083                  | —           | —            | 11,083           |
| Default                                   | —                | —             | 3,235           | 3,235            | —                       | —           | 3,102        | 3,102            |
| Net                                       | 470,734          | —             | 3,235           | 473,969          | 487,032                 | —           | 3,102        | 490,134          |
| Allowance for credit losses               | 293              | —             | 954             | 1,247            | 334                     | —           | 713          | 1,047            |
| <b>Mortgage investments<sup>1</sup></b>   | <b>470,441</b>   | <b>—</b>      | <b>2,281</b>    | <b>472,722</b>   | <b>486,698</b>          | <b>—</b>    | <b>2,389</b> | <b>489,087</b>   |
| 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                                 | 55,416           | —             | —               | 55,416           | 48,407                  | —           | —            | 48,407           |
| Default                                   | —                | —             | 6,669           | 6,669            | —                       | —           | —            | —                |
| Net                                       | 55,416           | —             | 6,669           | 62,085           | 48,407                  | —           | —            | 48,407           |
| Allowance for credit losses               | 97               | —             | 1,516           | 1,613            | 25                      | —           | —            | 25               |
| <b>Other loan Investments<sup>1</sup></b> | <b>\$ 55,319</b> | <b>\$ —</b>   | <b>\$ 5,153</b> | <b>\$ 60,472</b> | <b>\$ 48,382</b>        | <b>\$ —</b> | <b>\$ —</b>  | <b>\$ 48,382</b> |

1 Net of allowance and mortgage syndications

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### NET WORKING CAPITAL

Net working capital increased by \$2.2 million to \$13.3 million at December 31, 2020 from \$11.1 million at December 31, 2019.

### CREDIT FACILITY (MORTGAGE INVESTMENTS)

The Company originally had a \$400.0 million 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 \$500.0 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, 2019 – prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2019 – 2.00%) and standby fee of 0.40% per annum (December 31, 2019 – 0.40%) on the unutilized credit facility balance. As at December 31, 2020, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Fourth Amending Credit Agreement is \$493.6 million.

As at December 31, 2020, the Company had a 2-year interest rate swap contract (the "Contract") with three Canadian banks with notional value of \$250.0 million, maturing December 2021. Under the terms of the Contract, the Company is required to pay fixed rate of 2.02% and receive floating rate based on 1-month banker's acceptance. Net realized and unrealized fair value gain or loss from the Contract is recognized in statement of net income and comprehensive income. As at December 31, 2020, the Company recorded \$3.9 million in fair value loss (December 31, 2019 – nil), and the fair value gain or loss relating to the Contract is recorded in accordance with IFRS, which will expire at par upon maturity.

During the year ended December 31, 2020, the Company incurred financing costs of \$200. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the 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, 2020, the co-owners borrowed \$150.0 million from the Credit Facilities. The Company's share of the outstanding amount 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 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 \$31.7 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 a maturity date of October 9, 2020, and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of \$39.7 million. The Company's share of the carrying value is \$8.1 million. Upon maturity, the Tranche B credit facility was extended to February 5, 2021 with borrowing options by way of fixed rate of 3.305%, Prime Loans or Bankers' Acceptances following the same cost structure as stated in Tranche A. Subsequent to December 31, 2020, the agreement was further amended to extend the maturity date to May 7, 2021.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

- 3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche C properties (the "Tranche C Properties") in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of \$78.6 million. The Company's share of the carrying value is \$16.1 million.

The co-owners of the Saskatchewan Portfolio (note 5 of the financial statement) 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, 2020, 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 million, plus an overallotment option of \$5.8 million on August 5, 2016, of 5.40% convertible unsecured subordinated debentures for net proceeds of \$43.5 million (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 \$45.8 million. The issue costs of \$2.3 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

On October 22, 2020, the 2016 debentures were redeemed at par plus accrued and unpaid interest of \$46.4 million. The Company drew \$40 million from its credit facility to fund the redemption plus accrued and unpaid interest.

- (b) On February 7, 2017, the Company completed a public offering of \$40 million, plus an overallotment option of \$6 million, of 5.45% convertible unsecured subordinated debentures for net proceeds of \$43.7 million (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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

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 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (c) On June 13, 2017, the Company completed a public offering of \$40 million, plus an overallotment option of \$5 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of \$42.8 million (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 million. The issue costs of \$2.2 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

The convertible debentures are comprised of as follows:

|                                                                      | December 31, 2020 | December 31, 2019 |
|----------------------------------------------------------------------|-------------------|-------------------|
| Issued                                                               | \$ 91,000         | \$ 136,800        |
| Unamortized financing cost and amount classified as equity component | (2,038)           | (3,767)           |
| Debentures, end of period                                            | \$ 88,962         | \$ 133,033        |

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

|                                                                         | Year ended December 31, |          |
|-------------------------------------------------------------------------|-------------------------|----------|
|                                                                         | 2020                    | 2019     |
| Interest on the convertible debentures                                  | \$ 6,895                | \$ 7,366 |
| Amortization of issue costs and accretion of the convertible debentures | 1,729                   | 1,435    |
| Total                                                                   | \$ 8,624                | \$ 8,801 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

## SHAREHOLDERS' EQUITY

### COMMON SHARES

The Company is authorized to issue an unlimited number of common shares. Holders of common shares are entitled to receive notice of 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.

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

The Company announced on June 21, 2018 that it has established an ATM Program which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to \$70 million to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange (the "TSX"). The common shares distributed under the ATM Program were at the market prices prevailing at the time of sale, and therefore prices varied between purchasers and over time. Net proceeds of the ATM Program were used to repay amounts owing under its secured revolving credit facility and the Company will subsequently draw on the credit facility for purposes of funding the purchase of new investments in accordance with its strategies, investment objectives and investment. The ATM Program was active between July 2018 to July 2019 and expired on January 11, 2020.

#### (b) Normal course issuer bid ("NCIB")

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

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

During Q4 2020 and 2020, the Company repurchased nil and 2,484,515 common shares (Q4 2019 – nil; 2019 – nil) for total amount of \$20.0 million (Q4 2019 – nil; 2019 – nil). The average price per common share repurchased was \$8.05 for 2020. As of December 31, 2020, the Company has paused the NCIB program after reaching its \$20.0 million milestone. The Company may reconsider additional repurchases during the remainder of allotted 12-month period.

#### (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 2020 and 2020, the Company purchased from open market 141,430 and 434,096 common shares (Q4 2019 – nil and 2019 – 36,866) for total amount of \$1.2 million and \$3.6 million (Q4 2019 – nil; 2019 – \$338) at an average price of \$8.28 per common share.

During Q4 2020 and 2020, the Company issued from treasury nil and 117,818 common shares (Q4 2019 – 120,857 and 2019 – 454,286) and retained nil and \$1.1 million in dividends (Q4 2019 – \$1.2 million; 2019 – \$4.2 million) at an average price of \$9.62 per common share.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

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

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q4 2020 and 2020, the Company declared dividends of \$14.0 million or \$0.1725 per common share and \$56.4 million or \$0.6900 per common share (Q4 2019 – \$14.4 million, \$0.1725 per share and 2019 – \$57.1 million, \$0.6900 per share).

As at December 31, 2020, \$4.7 million in aggregate dividends (December 31, 2019 – \$4.8 million) was payable to the holders of common shares by the Company. Subsequent to December 31, 2020, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on January 15, 2021 to the common shareholders of record on December 31, 2020.

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

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

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

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

During Q4 2020 and 2020, 9,951 and 40,466 units were issued (2019 – 8,274 and 32,417) and as at December 31, 2020, 108,187 units were outstanding (December 31, 2019 – 84,308 units). No DSUs were exercised or canceled, resulting in a DSU expense of \$81 and \$341 (2019 – \$86 and YTD 2019 – \$338). As at December 31, 2020, \$81 (December 31, 2019 – \$86) in compensation was granted in DSUs, which will be issued subsequent to December 31, 2020.

## STATEMENT OF CASH FLOWS

### CASH FROM OPERATING ACTIVITIES

Cash from operating activities for 2020 was \$79.4 million (2019 – \$102.5 million).

### CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities for 2020 consisted of the Company's net repayments on the operating credit facility of \$2.2 million (2019 – \$17.1 million of net repayments). The Company received net proceeds of nil from the issuance of common shares (2019 – \$10.5 million). The Company repaid \$45.8 million in convertible debentures (2019 – nil). The Company paid interest on the debentures and credit facilities of \$24.6 million (2019 – \$28.4 million), paid common share dividends of \$51.9 million (2019 – \$52.4 million) and repurchased common shares under dividend reinvestment plan of \$23.6 million (2019 – \$338). The net cash used in financing activities for 2020 was \$148.0 million (2019 – \$89.9 million used in financing activities).

### CASH FROM (USED IN) INVESTING ACTIVITIES

Net cash from investing activities in 2020 was \$60.2 million (2019 – \$4.3 million used in) and consisted of the funding of net mortgage investments of \$596.5 million (2019 – \$793.0 million), offset by repayments of net mortgage investments of \$670.6 million (2019 – \$766.1 million), funding of other investments of \$22.3 million (2019 – \$4.7 million), offset by repayments of other investments of \$9.0 million (2019 – \$27.6 million), net addition to investment properties of \$513 (2019 – \$855), and net loss on maturing of forward contracts of \$159 (2019 – \$451 net proceeds).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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 2020           | Q3 2020          | Q2 2020          | Q1 2020          | Q4 2019          | Q3 2019          | Q2 2019          | Q1 2019          |
|-------------------------------------------------------------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>NET INCOME AND COMPREHENSIVE INCOME</b>                                    |                   |                  |                  |                  |                  |                  |                  |                  |
| Net Investment Income on financial assets measured at amortized cost          | \$ 23,958         | \$ 23,917        | \$ 24,023        | \$ 24,042        | \$ 24,690        | \$ 24,772        | \$ 24,741        | \$ 24,311        |
| Fair value (loss) gain and other income on financial assets measured at FVTPL | (14,918)          | 147              | (2,053)          | 46               | 517              | (30)             | 236              | 200              |
| Net rental income                                                             | 373               | 344              | 376              | 360              | 414              | 359              | 351              | 316              |
| Expenses                                                                      | (5,560)           | (4,181)          | (4,119)          | (4,164)          | (3,994)          | (3,768)          | (4,005)          | (4,095)          |
| Income from operations                                                        | 3,853             | 20,227           | 18,227           | 20,284           | 21,627           | 21,333           | 21,323           | 20,732           |
| Other income, net                                                             | —                 | —                | —                | —                | —                | —                | —                | 413              |
| Financing costs:                                                              |                   |                  |                  |                  |                  |                  |                  |                  |
| Financing cost on credit facilities                                           | (4,397)           | (4,291)          | (4,482)          | (4,855)          | (5,323)          | (5,216)          | (5,531)          | (5,816)          |
| Financing cost on debentures                                                  | (1,919)           | (2,306)          | (2,199)          | (2,200)          | (2,203)          | (2,203)          | (2,199)          | (2,196)          |
| Fair value gain (loss) on derivative contract                                 | 850               | 817              | 197              | (5,804)          | —                | —                | —                | —                |
| <b>Net (loss) income and comprehensive income</b>                             | <b>\$ (1,613)</b> | <b>\$ 14,447</b> | <b>\$ 11,743</b> | <b>\$ 7,425</b>  | <b>\$ 14,101</b> | <b>\$ 13,914</b> | <b>\$ 13,593</b> | <b>\$ 13,133</b> |
| <b>ADJUSTED NET INCOME AND COMPREHENSIVE INCOME</b>                           |                   |                  |                  |                  |                  |                  |                  |                  |
| Net (loss) income and comprehensive income                                    | \$ (1,613)        | \$ 14,447        | \$ 11,743        | \$ 7,425         | \$ 14,101        | \$ 13,914        | \$ 13,593        | \$ 13,133        |
| Add: fair value (gain) loss on derivative contract (interest rate swap)       | \$ (850)          | (817)            | (197)            | 5,804            | —                | —                | —                | —                |
| Add: net unrealized loss (gain) on financial assets measured at FVTPL         | \$ 15,477         | \$ 395           | \$ 2,586         | \$ 491           | \$ (489)         | \$ 669           | \$ (25)          | \$ 33            |
| <b>Adjusted net income and comprehensive income<sup>1</sup></b>               | <b>\$ 13,014</b>  | <b>\$ 14,025</b> | <b>\$ 14,132</b> | <b>\$ 13,720</b> | <b>\$ 13,612</b> | <b>\$ 14,583</b> | <b>\$ 13,568</b> | <b>\$ 13,166</b> |
| <b>PER SHARE INFORMATION</b>                                                  |                   |                  |                  |                  |                  |                  |                  |                  |
| Dividends per share                                                           | \$ 0.17           | \$ 0.17          | \$ 0.17          | \$ 0.17          | \$ 0.17          | \$ 0.17          | \$ 0.17          | \$ 0.17          |
| Earnings per share (basic)                                                    | \$ (0.02)         | \$ 0.18          | \$ 0.14          | \$ 0.09          | \$ 0.17          | \$ 0.17          | \$ 0.16          | \$ 0.16          |
| Adjusted earnings per share (basic) <sup>1</sup>                              | \$ 0.16           | \$ 0.17          | \$ 0.17          | \$ 0.16          | \$ 0.16          | \$ 0.18          | \$ 0.16          | \$ 0.16          |
| Distributable income per share <sup>1</sup>                                   | \$ 0.18           | \$ 0.18          | \$ 0.18          | \$ 0.17          | \$ 0.19          | \$ 0.19          | \$ 0.17          | \$ 0.17          |

1. Refer to non-IFRS measures section.

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

- 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;
- In any given quarter, the Company is subject to volatility from fair value adjustments to financial assets measured at FVTPL and allowance for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;
- The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### RELATED PARTY TRANSACTIONS

As at December 31, 2020, due to Manager mainly includes management and servicing fees payable of \$1.1 million (December 31, 2019 – \$1.1 million).

During 2020, Arrangement Fees of \$472 was retained by the Manager (2019 – nil).

As at December 31, 2020, included in other assets is \$14.0 million (December 31, 2019 – \$9.0 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, 2020, the Company has the following mortgage investments which a director of the Company is also an officer and part-owner a syndication partner of these mortgages

- A mortgage investment with a total gross commitment of \$11.6 million (December 31, 2019 – nil). The Company's share of the commitment is \$931 (December 31, 2019 – nil). For the year ended December 31, 2020, the Company has recognized net interest income of \$43 (2019 – nil) from this mortgage investment during the year.
- A mortgage investment with a total gross commitment of \$45.7 million (December 31, 2019 – nil). The Company's share of the commitment is \$4.2 million (December 31, 2019 – nil). For the year ended December 31, 2020, the Company has recognized net interest income of \$87 (2019 – nil) from this mortgage investment during the year.

As at December 31, 2020, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 1 mortgage (December 31, 2019 – 1) totaling \$21.7 million (December 31, 2019 – \$22.1 million). The Company's share in this mortgage investment is \$6.4 million (December 31, 2019 – \$6.6 million).

On March 9, 2020, the Company's former manager, TAMI, sold its equity business to Hazelview Investments Inc ("HII"), in order to focus entirely on its real estate finance strategies. As a result, Four Quadrant Global Real Estate Partners ("4Q"), and Hazelview Global Real Estate Fund are no longer related parties with the Company as they are separately managed by HII.

- As at December 31, 2020, the three parties co-invested in 28 mortgages (December 31, 2019 – 29) and other investments totaling \$302.1 million (December 31, 2019 – \$349.1 million), on a gross basis including mortgage syndication. The Company's share in these mortgage investments is \$162.0 million (December 31, 2019 – \$202.9 million).
- One mortgage investment (December 31, 2019 – one) totaling \$7.4 million (December 31, 2019 – \$18.4 million), net of mortgage syndication, is loaned to a limited partnership in which 4Q has a minimal interest in the partnership.
- As at December 31, 2020, the Company and 4Q invested in one indirect real estate development through one investee, totaling \$4.5 million (December 31, 2019 – \$4.5 million), the Company's share in this investment is \$2.2 million (December 31, 2019 – \$2.2 million).

As at December 31, 2020, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$5.8 million or €3.7 million (December 31, 2019 – \$4.9 million or €3.4 million), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.

As part of the Saskatchewan Portfolio co-ownership, the Company, 4Q and a third-party co-owner are party to property management agreements with HII, as successor in interest to TAMI as of March 9, 2020, in respect of such property management agreements. HII provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. For the year ended December 31, 2020, Property Management Fees of \$40 was charged by the Manager to the Company (Q4 2019 – \$140). As at December 31, 2020, \$11 was payable to the Manager (December 31, 2019 – \$12).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

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

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

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

The near-term impacts of COVID-19 are primarily with respect to interest collections and mortgage investment discharges. Subsequent to December 31, 2020, the Company collected approximately 99.2% of January and February 2021 interest payments which is materially in line with historical collection rates. As of December 31, 2020 there was one active deferred payment plans related to COVID-19.

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. In some instances it has identified areas where cash flows in valuation models have been adjusted to reflect longer lease-up periods and repositioning of the assets as well as development delays.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### 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.

### MEASUREMENT OF EXPECTED CREDIT LOSS

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

### SYNDICATION LIABILITIES

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

### CLASSIFICATION OF MORTGAGE AND OTHER INVESTMENTS

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

### 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### SIGNIFICANT ACCOUNTING POLICIES

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

### OUTSTANDING SHARE DATA

As at March 5, 2021, the Company's authorized capital consists of an unlimited number of common shares, of which 80,887,433 are issued and outstanding.

### CAPITAL STRUCTURE AND LIQUIDITY

#### CAPITAL STRUCTURE

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

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

#### 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 \$493.6 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, 2020, 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at December 31, 2020, including expected interest payments:

|                                                                                        | Carrying<br>value | Contractual<br>cash flow | Within<br>a year | Following<br>year | 3–5 years |
|----------------------------------------------------------------------------------------|-------------------|--------------------------|------------------|-------------------|-----------|
| Accounts payable and accrued expenses                                                  | \$ 3,015          | \$ 3,015                 | \$ 3,015         | \$ —              | \$ —      |
| Dividends payable                                                                      | 4,651             | 4,651                    | 4,651            | —                 | —         |
| Due to Manager                                                                         | 1,089             | 1,089                    | 1,089            | —                 | —         |
| Mortgage and other loans funding holdbacks                                             | 2,177             | 2,177                    | 2,177            | —                 | —         |
| Prepaid mortgage and other loans interest                                              | 3,708             | 3,708                    | 3,708            | —                 | —         |
| Derivative liability (interest rate swap contract)                                     | 3,940             | 3,940                    | 3,940            | —                 | —         |
| Credit facility (mortgage investments) <sup>1</sup>                                    | 458,299           | 469,637                  | 469,637          | —                 | —         |
| Credit facility (investment properties) <sup>2</sup>                                   | 30,656            | 31,304                   | 31,304           | —                 | —         |
| Convertible debentures <sup>3</sup>                                                    | 88,962            | 102,482                  | 4,892            | 49,012            | 48,578    |
|                                                                                        | \$ 596,497        | \$ 622,003               | \$ 524,413       | \$ 49,012         | \$ 48,578 |
| Unadvanced mortgage commitments <sup>4</sup>                                           | —                 | 248,589                  | 248,589          | —                 | —         |
| Total contractual liabilities, excluding mortgage syndication liabilities <sup>5</sup> | \$ 596,497        | \$ 870,592               | \$ 773,002       | \$ 49,012         | \$ 48,578 |

1 Credit facility (mortgage investments) includes interest based upon December 2020 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 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturities on May 7, 2021 and October 9, 2021.

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

4 Unadvanced mortgage commitments include syndication commitments of which \$144.7 million belong to the Company's syndicated partners.

5 The principal repayments of \$429.4 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments in note 4(b).

As at December 31, 2020, the Company had a cash position of \$428 (December 31, 2019 – \$9.0 million), an unutilized credit facility (mortgage investments) balance of \$76.2 million (December 31, 2019 – \$39.0 million) and an unutilized credit facility (investment properties) balance of nil (December 31, 2019 – nil). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at December 31, 2020, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to \$248.6 million (December 31, 2019 – \$211.8 million) of which \$144.7 million (December 31, 2019 – \$81.3 million) belong to the Company's syndicated partners. The Company expects the syndication partners to fund their respective commitments.

## FINANCIAL INSTRUMENTS

### FINANCIAL ASSETS

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

### FINANCIAL LIABILITIES

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### 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, 2020, \$1,019.2 million of net mortgage investments and \$11.0 million of other investments bear interest at variable rates (December 31, 2019 – \$992.3 million and \$6.6 million, respectively). As of December 31, 2020 \$935.5 million of net mortgage investments have a "floor rate" (December 31, 2019 – \$917.2 million). If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income would be a decrease in net income of \$78 (December 31, 2019 – \$1.3 million) or an increase in net income of \$243 (December 31, 2019 – \$5.0 million). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio and its use of floor rates in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which have a balance of \$489.5 million as at December 31, 2020 (December 31, 2019 – \$491.7 million). During Q4 2019, the Company entered into the Contract (refer to note 6(a) of consolidated financial statements for the years ended December 31, 2020 and 2019) which reduced the exposure in interest rate risk. As at December 31, 2020, net exposure to interest rate risk was \$215.3 million (December 31, 2019 – \$241.7 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1.1 million (December 31, 2019 – \$1.2 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. Convertible debentures carry a fixed rate of interest and are not subject to interest rate risk. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk 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, 2020, the Company has US\$5.1 million and €3.7 million in other investments denominated in foreign currencies (December 31, 2019 – US\$5.1 million and €3.4 million). The Company has entered into a series of foreign currency contracts to reduce the its exposure to foreign currency risk. As at December 31, 2020, the Company has one thousandth U.S. dollars currency contracts with an aggregate notional value of US\$5.1 million, at a weighted average forward contract rate of 1.3251, maturing in April 2021 and one Euro currency contract with an aggregate notional value of €3.5 million at a weighted average contract rate of 1.5685, maturing in April 2021.

The fair value of the foreign currency forward contracts as at December 31, 2020 is an asset of \$302 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

### 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, 2020 relating to net mortgages and other investments amount to \$1,236.3 million (December 31, 2019 – \$1,319.6 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, 2020 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, 2020 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, 2020 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2020

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

## 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

Blair Tamblyn, CEO

Tracy Johnston, CFO

Karynna Ma, Vice President, Investor Relations

1-844-304-9967

### INTERNET

Visit SEDAR at [www.sedar.com](http://www.sedar.com); or the Company's website at [www.timbercreekfinancial.com](http://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, 2020 and 2019;
- 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### BASIS FOR 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.

### KEY AUDIT MATTERS

Key audit matters ("KAMs") are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the KAMs to be communicated in our auditors' report.

### EVALUATION OF ALLOWANCE OF CREDIT LOSSES ON MORTGAGE AND OTHER LOAN INVESTMENTS CLASSIFIED AT AMORTIZED COST

#### DESCRIPTION OF THE MATTER

We draw attention to Note 2(d), Note 3(b) and Note 4(d) of the financial statements. The Entity has recorded an allowance of credit losses ("ACL") on mortgage and other loan investments classified at amortized cost ("Debt Investments") of \$5.3 million.

The ACL for non credit impaired financial assets reflects a probability-weighted outcome that considers Entity's assessment of all expected cash shortfalls over 12-months after the reporting date or expected life, as applicable, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The significant assumptions include probability-weighting and expected cash shortfalls.

ACL for credit-impaired financial assets is recorded for individually identified credit impaired Debt Investments to reduce their carrying value to the expected recoverable amount based on the estimated future cash flows discounted at the Debt Investment's original effective interest rate. The expected recoverable amount is a significant assumption.

The Entity exercises significant credit judgment in the determination of a significant increase in credit risk since initial recognition, credit impairment of Debt Investments and expected recoverable amount of credit impaired Debt Investments.

### WHY THE MATTER IS A KEY AUDIT MATTER

We identified the evaluation of the ACL on Debt Investments classified at amortized cost as a key audit matter. Evaluation of ACL on Debt Investments represented an area of significant risk of material misstatement given the high degree of measurement uncertainty associated with the estimate of the ACL. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the Entity's significant assumptions. Further, professionals with specialized skills and knowledge were needed to evaluate the Entity's methodology and significant assumptions for non-credit impaired debt investments.

### HOW THE MATTER WAS ADDRESSED IN THE AUDIT

The primary procedures we performed to address this key audit matter included the following:

For a selection of Debt Investments, we evaluated the Entity's assigned credit risk ratings against the Entity's borrower risk rating scale, and the Entity's assessment of significant increase in credit risk and of credit impairment. Our evaluation was based on information prepared by the Entity and assessed against source documents, as applicable.

We involved credit risk professionals with specialized skills, industry knowledge and relevant experience who assisted in:

- evaluating the model methodology including the application of significant increases in credit risk by assessing compliance with IFRS 9, Financial Instruments; and
- assessed the probability-weighting and expected cash shortfalls by comparing to publicly available information.

For a selection of credit impaired Debt Investments, we evaluated the appropriateness of the expected recoverable amount by comparing to reports of real estate commentators and available industry transaction databases, considering the features of the specific property.

## EVALUATION OF THE FAIR VALUE OF MORTGAGE INVESTMENTS CLASSIFIED AT FAIR VALUE THROUGH PROFIT AND LOSS

### DESCRIPTION OF THE MATTER

We draw attention to Note 2(d), Note 3(b) and Note 4(a) of the financial statements. The Entity has recorded \$61.9 million of mortgage investments at Fair Value Through Profit and Loss ("FVTPL"). Significant assumptions in determining the fair value of mortgage investments classified at FVTPL include:

- cash flow projections
- capitalization rates and discount rates
- transaction prices for directly comparable properties

### WHY THE MATTER IS A KEY AUDIT MATTER

We identified the evaluation of the fair value of mortgage investments classified at FVTPL as a key audit matter. This matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty in determining the fair value of mortgage investments classified at FVTPL. Significant auditor judgment, including specialized skills and knowledge, were required in evaluating the significant assumptions.

### HOW THE MATTER WAS ADDRESSED IN THE AUDIT

The following were the primary procedures we performed to address this key audit matter.

For a selection of mortgage investments, we evaluated the fair value of mortgage investments classified at FVTPL by:

- Comparing the cash flow projections to budget and/or business plans, to reports of real estate commentators and market comparable transactions, as applicable.
- Involving valuations professionals with specialized skills and knowledge who assisted in:
  - evaluating the capitalization rates and discount rates by comparing them to published reports of real estate industry commentators considering the features of the specific property; and
  - evaluating the appropriateness of the valuation methodologies

- Assessing transaction prices for directly comparable properties to published information considering the features of the specific property as applicable based on the features of the specific underlying property securing the investment.

## **OTHER INFORMATION**

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report."

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.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## **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 International Financial Reporting Standards (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' RESPONSIBILITIES 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.

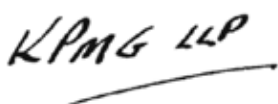
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the KAMs. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the text, there is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Amit Shah.

Toronto, Canada

March 5, 2021

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Canadian dollars)

|                                                       | Note    | December 31, 2020   | December 31, 2019   |
|-------------------------------------------------------|---------|---------------------|---------------------|
| <b>ASSETS</b>                                         |         |                     |                     |
| Cash and cash equivalents                             |         | \$ 428              | \$ 8,991            |
| Other assets                                          | 15(c)   | 16,161              | 11,960              |
| Mortgage investments, including mortgage syndications | 4       | 1,572,577           | 1,667,686           |
| Other investments                                     | 4(e)    | 74,434              | 61,520              |
| Investment properties                                 | 5       | 47,862              | 47,349              |
| <b>Total assets</b>                                   |         | <b>1,711,462</b>    | <b>1,797,506</b>    |
| <b>LIABILITIES AND EQUITY</b>                         |         |                     |                     |
| Accounts payable and accrued expenses                 |         | 3,015               | 3,674               |
| Dividends payable                                     | 9(d)    | 4,651               | 4,787               |
| Due to Manager                                        | 15(a)   | 1,089               | 1,114               |
| Mortgage and other loans funding holdbacks            |         | 2,177               | 3,741               |
| Prepaid mortgage and other loans interest             |         | 3,708               | 5,437               |
| Derivative liability (interest rate swap contract)    | 6(a)    | 3,940               | —                   |
| Credit facility (mortgage investments)                | 6(a)    | 458,299             | 459,767             |
| Credit facility (investment properties)               | 6(b)    | 30,656              | 30,622              |
| Convertible debentures                                | 8       | 88,962              | 133,033             |
| Mortgage syndication liabilities                      | 4(a)(c) | 429,915             | 426,939             |
| <b>Total liabilities</b>                              |         | <b>1,026,412</b>    | <b>1,069,114</b>    |
| Shareholders' equity                                  | 9       | 685,050             | 728,392             |
| <b>Total liabilities and equity</b>                   |         | <b>\$ 1,711,462</b> | <b>\$ 1,797,506</b> |

Commitments and contingencies

4, 6 and 21

Subsequent events

2(d), 6(b) and 22

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)

|                                                                               |         | Year ended December 31, |            |
|-------------------------------------------------------------------------------|---------|-------------------------|------------|
|                                                                               | Note    | 2020                    | 2019       |
| Investment income on financial assets measured at amortized cost              |         |                         |            |
| Gross interest and other income, including mortgage syndications              |         | \$ 122,779              | \$ 123,471 |
| Interest and other expenses on mortgage syndications                          |         | (26,839)                | (24,957)   |
| Net investment income on financial assets measured at amortized cost          | 4(b)(e) | 95,940                  | 98,514     |
| Fair value (loss) gain and other income on financial assets measured at FVTPL | 4(a)(e) | (16,778)                | 923        |
| Total income on financial assets                                              |         | 79,162                  | 99,437     |
| Net rental income                                                             |         |                         |            |
| Revenue from investment properties                                            | 7       | 2,919                   | 2,831      |
| Property operating costs                                                      |         | (1,466)                 | (1,391)    |
| Net rental income                                                             |         | 1,453                   | 1,440      |
| Expenses                                                                      |         |                         |            |
| Management fees                                                               | 11      | 12,437                  | 12,363     |
| Servicing fees                                                                | 11      | 788                     | 497        |
| Allowance for expected credit loss                                            | 4(d)    | 2,994                   | 1,313      |
| General and administrative                                                    |         | 1,805                   | 1,690      |
| Total expenses                                                                |         | 18,024                  | 15,863     |
| Income from operations                                                        |         | 62,591                  | 85,014     |
| Other income, net                                                             |         | —                       | 413        |
| Financing costs                                                               |         |                         |            |
| Financing cost on credit facilities                                           | 6       | 18,025                  | 21,886     |
| Financing cost on convertible debentures                                      | 8       | 8,624                   | 8,801      |
| Unrealized fair value (gain) loss on derivative contract                      | 6(a)    | 3,940                   | —          |
| Total financing costs                                                         |         | 30,589                  | 30,687     |
| Net income and comprehensive income                                           |         | \$ 32,002               | \$ 54,740  |
| <b>Earnings per share</b>                                                     |         |                         |            |
| Basic                                                                         | 12      | \$ 0.39                 | \$ 0.66    |
| Diluted                                                                       | 12      | \$ 0.39                 | \$ 0.66    |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

| <b>Year ended December 31, 2020</b>                        | <b>Common<br/>shares</b> | <b>Retained<br/>(loss)/earnings</b> | <b>Equity<br/>component<br/>of convertible<br/>debentures</b> | <b>Total</b> |
|------------------------------------------------------------|--------------------------|-------------------------------------|---------------------------------------------------------------|--------------|
| Balance, December 31, 2019                                 | \$ 730,418               | \$ (3,964)                          | \$ 1,938                                                      | \$ 728,392   |
| Repurchase of common shares under normal course issuer bid | (20,000)                 | —                                   | —                                                             | (20,000)     |
| Dividends issued to shareholders                           | —                        | (56,447)                            | —                                                             | (56,447)     |
| Issuance of common shares under dividend reinvestment plan | 4,695                    | —                                   | —                                                             | 4,695        |
| Repurchase of common shares for dividend reinvestment plan | (3,592)                  | —                                   | —                                                             | (3,592)      |
| Total net income and comprehensive income                  | —                        | 32,002                              | —                                                             | 32,002       |
| Balance, December 31, 2020                                 | \$ 711,521               | \$ (28,409)                         | \$ 1,938                                                      | \$ 685,050   |

| <b>Year ended December 31, 2019</b>                        | <b>Common<br/>shares</b> | <b>Retained<br/>(loss)/earnings</b> | <b>Equity<br/>component<br/>of convertible<br/>debentures</b> | <b>Total</b> |
|------------------------------------------------------------|--------------------------|-------------------------------------|---------------------------------------------------------------|--------------|
| 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 issued to shareholders                           | —                        | (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   |

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOW

(In thousands of Canadian dollars)

|                                                         |      | Year ended December 31, |                 |
|---------------------------------------------------------|------|-------------------------|-----------------|
|                                                         | Note | 2020                    | 2019            |
| <b>OPERATING ACTIVITIES</b>                             |      |                         |                 |
| Net income                                              |      | \$ 32,002               | \$ 54,740       |
| Amortization of lender fees                             |      | (10,110)                | (10,029)        |
| Lender fees received                                    |      | 7,660                   | 10,039          |
| Interest and other income, net of syndications          |      | (88,002)                | (89,739)        |
| Interest and other income received, net of syndications |      | 85,627                  | 100,863         |
| Financing costs                                         |      | 26,649                  | 30,687          |
| Net unrealized loss on investments measured at FVTPL    |      | 18,949                  | 188             |
| Unrealized fair value loss on derivative contracts      |      | 3,940                   | —               |
| Net realized and unrealized foreign exchange gain       |      | (16)                    | (15)            |
| Allowance for expected credit loss                      |      | 2,994                   | 1,313           |
| Net change in non-cash operating items                  | 13   | (303)                   | 4,468           |
|                                                         |      | <b>79,390</b>           | <b>102,515</b>  |
| <b>FINANCING ACTIVITIES</b>                             |      |                         |                 |
| Net credit facility repayments – mortgage investments   |      | (2,176)                 | (17,104)        |
| Net credit facility repayments – investment properties  |      | —                       | (2,130)         |
| Repayment of convertible debentures                     |      | (45,800)                | —               |
| Net proceeds from issuance of common shares             |      | —                       | 10,543          |
| Interest paid                                           |      | (24,581)                | (28,401)        |
| Dividends paid to shareholders                          |      | (51,888)                | (52,425)        |
| Repurchase of common shares                             |      | (23,592)                | (338)           |
|                                                         |      | <b>(148,037)</b>        | <b>(89,855)</b> |
| <b>INVESTING ACTIVITIES</b>                             |      |                         |                 |
| Purchases of marketable securities                      |      | —                       | (36,533)        |
| Proceeds from sale of marketable securities             |      | —                       | 36,625          |
| Additions to investment properties                      |      | (513)                   | (855)           |
| Net payments on maturity of forward contracts           |      | (159)                   | 451             |
| Funding of other investments                            |      | (22,255)                | (4,736)         |
| Proceeds from other investments                         |      | 9,037                   | 27,606          |
| Funding of mortgage investments, net of syndications    |      | (596,528)               | (792,957)       |
| Discharges of mortgage investments, net of syndications |      | 670,596                 | 766,112         |
|                                                         |      | <b>60,178</b>           | <b>(4,287)</b>  |
| Net foreign exchange (loss) gain on cash accounts       |      | (94)                    | 77              |
| (Decrease) increase in cash and cash equivalents        |      | (8,563)                 | 8,450           |
| Cash and cash equivalents, beginning of period          |      | 8,991                   | 541             |
| Cash and cash equivalents, end of period                |      | \$ 428                  | \$ 8,991        |

See accompanying notes to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PRESENTATION

#### (A) STATEMENT OF COMPLIANCE

These 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.

Certain comparative amounts have been reclassified to conform with the current period’s presentation. Investment income on financial assets measured at amortized cost and investment income on financial assets measured at fair value through profit or loss (“FVTPL”) have been separately presented on the consolidated statement of net income and comprehensive income. In the prior periods, these amounts were presented within investment income.

The consolidated financial statements were approved by the Board of Directors on March 5, 2021.

#### (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 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 Capital Inc. (“Manager”), a subsidiary and as successor in interest to Timbercreek Asset Management Inc. (“TAMI”) has made judgements, estimates and assumptions that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

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

Beginning March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. The COVID-19 outbreak has had a notable impact on general economic conditions, including but not limited to the temporary closures of many businesses; “shelter in place” and other governmental regulations; and reduced consumer spending due to both job losses and other effects attributable to COVID-19 which has resulted in an uncertain and challenging economic environment that could

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

negatively impact the Company's operations and financial results in future periods. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Company's future operating assumptions and expectations as compared to prior periods. As such, it is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's estimate of allowance for credit losses and investments measured at FVTPL, both in the short term and in the long term.

The near-term impacts of COVID-19 are primarily with respect to interest collections and mortgage investment discharges. Subsequent to December 31, 2020, the Company collected approximately 99.2% of January and February 2021 interest payments which is materially in line with historical collection rates. As of December 31, 2020 there was one active deferred payment plans related to COVID-19.

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. In some instances it has identified areas where cash flows in valuation models have been adjusted to reflect longer lease-up periods and repositioning of the assets as well as development delays.

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.

### Measurement of expected credit loss

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

### Syndication liabilities

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### Classification of mortgage and other investments

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

### Convertible debentures

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

### (E) FUNCTIONAL AND PRESENTATION CURRENCY

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### 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. |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### 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 on credit impaired loans (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 the credit risk on a financial asset has increased significantly if interest payment or maturity date is more than 30 days past due and/or borrower or underlying security criteria as identified by the Manager. As 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 interest payment or maturity date is more than 90 days past due and/or the Company assesses that there has been a deterioration of credit quality to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest and/or when the Company has commenced enforcement remedies available to it under its contractual agreements.

The assessment of significant increase in credit risk requires significant 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### Measurement of ECL – non credit impaired financial assets

The ECL for non credit impaired financial assets reflects a probability-weighted outcome that considers Entity's assessment of all expected cash shortfalls over 12-months after the reporting date or expected life as applicable, and reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions is considered. The probability weighting and expected cash shortfalls are significant assumptions.

Lifetime ECLs are the ECLs that result from all possible default event over the expected life of a financial instrument.

12-month 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 allowance, 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. 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.

### Measurement of ECL – credit impaired financial assets

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

The review of individually credit impaired debt investments is conducted at least quarterly by the Manager, who assesses the ultimate collectability and estimated recoveries for a specific debt investment based on all events and conditions that are relevant to the loan. To determine the amount we expect to recover from an individually impaired debt investment, we use the value of the estimated future cash flows discounted at the debt investment's original effective interest rate. The determination of estimated future cash flows of a collateralized impaired debt investment 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

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 AND INTEREST RATE SWAP

The Company may enter into foreign currency forward contracts and interest rate swaps to economically hedge its foreign currency risk and interest rate risk exposure of its mortgage and other investments. The value of forward currency contracts and interest rate swaps 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 or interest rate swap is designated and effective as a hedging instrument under IFRS. The Company has elected to not account for the foreign currency contracts and interest rate swaps 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

#### Amendments to References to the Conceptual Framework in IFRS Standards

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### (M) NEW IFRS PRONOUNCEMENT NOT YET EFFECTIVE

On January 23, 2020, the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

The Company will adopt the amendments in its financial statements for the annual period beginning on January 1, 2023. The Company does not expect the amendments to have a material impact on the financial statements.

## 4. MORTGAGE AND OTHER INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

### (A) MORTGAGE INVESTMENTS

| As at December 31, 2020                                                      | Note    | Mortgages,<br>including<br>mortgage<br>syndications | Mortgage<br>syndication<br>liabilities | Net Mortgage<br>Investments |
|------------------------------------------------------------------------------|---------|-----------------------------------------------------|----------------------------------------|-----------------------------|
| Mortgage investments, including mortgage syndications<br>– at amortized cost | 4(b)(c) | \$ 1,511,783                                        | \$ (429,378)                           | \$ 1,082,405                |
| Interest receivable                                                          |         | 10,682                                              | (1,735)                                | 8,947                       |
|                                                                              |         | 1,522,465                                           | (431,113)                              | 1,091,352                   |
| Unamortized lender fees                                                      |         | (8,156)                                             | 1,198                                  | (6,958)                     |
| Allowance for expected credit loss                                           | 4(d)    | (3,710)                                             | —                                      | (3,710)                     |
| Mortgage investments at amortized cost                                       |         | 1,510,599                                           | (429,915)                              | 1,080,684                   |
| Mortgage investments, including mortgage syndications – at FVTPL             |         | 60,716                                              | —                                      | 60,716                      |
| Interest receivable                                                          |         | 1,262                                               | —                                      | 1,262                       |
| Mortgage investments at FVTPL                                                |         | 61,978                                              | —                                      | 61,978                      |
| Mortgage investments, including mortgage syndications                        |         | \$ 1,572,577                                        | \$ (429,915)                           | \$ 1,142,662                |
| Unadvanced Mortgage commitments                                              |         | \$ 248,589                                          | \$ 144,734                             | \$ 103,855                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

| <b>As at December 31, 2019</b>                                            | <b>Mortgages,<br/>including<br/>mortgage<br/>syndications</b> | <b>Mortgage<br/>syndication<br/>liabilities</b> | <b>Net Mortgage<br/>Investments</b> |
|---------------------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------|-------------------------------------|
| Mortgage investments, including mortgage syndications – at amortized cost | \$ 1,595,332                                                  | \$ (426,252)                                    | \$ 1,169,080                        |
| Interest receivable                                                       | 10,004                                                        | (1,746)                                         | 8,258                               |
|                                                                           | 1,605,336                                                     | (427,998)                                       | 1,177,338                           |
| Unamortized lender fees                                                   | (10,519)                                                      | 1,059                                           | (9,460)                             |
| Allowance for expected credit loss                                        | (2,303)                                                       | —                                               | (2,303)                             |
| Mortgage investments at amortized cost                                    | 1,592,514                                                     | (426,939)                                       | 1,165,575                           |
| Mortgage investments, including mortgage syndications – at FVTPL          | 75,002                                                        | —                                               | 75,002                              |
| Interest receivable                                                       | 170                                                           | —                                               | 170                                 |
| Mortgage investments at FVTPL                                             | 75,172                                                        | —                                               | 75,172                              |
| Mortgage investments, including mortgage syndications                     | \$ 1,667,686                                                  | \$ (426,939)                                    | \$ 1,240,747                        |
| Unadvanced mortgage commitments                                           | \$ 211,753                                                    | \$ 81,295                                       | \$ 130,458                          |

### Mortgages classified at FVTPL

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

The Company reviewed its portfolio of FVTPL loans in light of the continuing impact COVID-19 is having on the economy, capital markets, transaction volumes and lower interest rate environment. In some instances it has identified areas where cash flows in valuation models have been adjusted to reflect longer lease-up periods and repositioning of the assets as well as development delays. Additionally, in normal course, the Company has reviewed its valuation models and adjusted overall capitalization rates and stabilized net operating income. Combined, these have resulted in a net \$19,470 (2019 – nil) unrealized fair value loss in the statement of net income and other comprehensive income.

The changes during the years ended December 31, 2019 and 2020 were as follows:

| <b>Mortgage investments, measured at FVTPL</b> | <b>December 31, 2020</b> | <b>December 31, 2019</b> |
|------------------------------------------------|--------------------------|--------------------------|
| Balance at beginning of period                 | \$ 75,002                | \$ 54,741                |
| Fundings                                       | 5,184                    | 38,692                   |
| Discharges                                     | —                        | (18,431)                 |
| Fair value loss                                | (19,470)                 | —                        |
| Balance at end of period                       | \$ 60,716                | \$ 75,002                |

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### (B) NET MORTGAGE INVESTMENTS

| As at                                  | December 31, 2020 |              | December 31, 2019 |              |
|----------------------------------------|-------------------|--------------|-------------------|--------------|
| Interest in first mortgages            | 90.3%             | \$ 1,031,984 | 90.5%             | \$ 1,125,797 |
| Interest in second and third mortgages | 9.7%              | 111,137      | 9.5%              | 118,285      |
|                                        | 100.0%            | \$ 1,143,121 | 100.0%            | \$ 1,244,082 |

The mortgage investments are secured by real property and will mature between 2021 and 2025 (December 31, 2019 – 2020 and 2023). During the year ended December 31, 2020, the Company generated net interest income and other income on net mortgage investments, excluding lender fee income and fair value losses of \$82,808 (2019 – \$82,704).

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, 2020, the Company amortized lender fee income on net mortgage investments, net of fees relating to mortgage syndication liabilities of \$9,851 (2019 – \$9,643). For the year ended December 31, 2020, the Company recorded non-refundable upfront cash lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$7,363 (2019 – \$10,039), 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, 2020 |
|---------------------|-------------------|
| 2021                | \$ 606,667        |
| 2022                | 381,196           |
| 2023                | 150,758           |
| 2024                | —                 |
| 2025 and thereafter | 4,500             |
| Total               | \$ 1,143,121      |

### (C) MORTGAGE SYNDICATION LIABILITIES

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

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### (D) ALLOWANCE FOR CREDIT LOSSES ("ACL")

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on mortgage and other investments classified at amortized cost. The allowance for credit losses amounted to \$5,323 as at December 31, 2020 (December 31, 2019 – \$2,328), of which \$3,710 (December 31, 2019 – \$2,303) was recorded against mortgage investments and \$1,613 (December 31, 2019 – \$25) was recorded against other investments.

| Multi-Residential<br>Mortgage Investments                 | Year ended December 31, 2020 |               |                 |                  | Year Ended December 31, 2019 |             |              |                  |
|-----------------------------------------------------------|------------------------------|---------------|-----------------|------------------|------------------------------|-------------|--------------|------------------|
|                                                           | Stage 1                      | Stage 2       | Stage 3         | Total            | Stage 1                      | Stage 2     | Stage 3      | Total            |
| Mortgages, including mortgage syndications <sup>1</sup>   | \$ 780,537                   | \$ 43,569     | \$ 3,055        | \$ 827,161       | \$ 925,025                   | \$ —        | \$ 2,903     | \$ 927,928       |
| Mortgage syndication liabilities <sup>1</sup>             | 209,778                      | —             | —               | 209,778          | 240,724                      | —           | —            | 240,724          |
| Net mortgage investments                                  | 570,759                      | 43,569        | 3,055           | 617,383          | 684,301                      | —           | 2,903        | 687,204          |
| Allowance for credit losses <sup>2</sup>                  | 967                          | 91            | 1,405           | 2,463            | 1,003                        | —           | 253          | 1,256            |
|                                                           | <b>569,792</b>               | <b>43,478</b> | <b>1,650</b>    | <b>614,920</b>   | <b>683,298</b>               | <b>—</b>    | <b>2,650</b> | <b>685,948</b>   |
| Other Mortgage Investments                                | Stage 1                      | Stage 2       | Stage 3         | Total            | Stage 1                      | Stage 2     | Stage 3      | Total            |
| Mortgages, including mortgage syndications <sup>1</sup>   | 692,069                      | —             | 3,235           | 695,304          | 674,306                      | —           | 3,102        | 677,408          |
| Mortgage syndication liabilities <sup>1</sup>             | 221,335                      | —             | —               | 221,335          | 187,274                      | —           | —            | 187,274          |
| Net mortgage investments                                  | 470,734                      | —             | 3,235           | 473,969          | 487,032                      | —           | 3,102        | 490,134          |
| Allowance for credit losses <sup>2</sup>                  | 293                          | —             | 954             | 1,247            | 334                          | —           | 713          | 1,047            |
|                                                           | <b>470,441</b>               | <b>—</b>      | <b>2,281</b>    | <b>472,722</b>   | <b>486,698</b>               | <b>—</b>    | <b>2,389</b> | <b>489,087</b>   |
| Other Loan Investments                                    | Stage 1                      | Stage 2       | Stage 3         | Total            | Stage 1                      | Stage 2     | Stage 3      | Total            |
| Other loans, including mortgage syndications <sup>1</sup> | 55,416                       | —             | 6,669           | 62,085           | 48,407                       | —           | —            | 48,407           |
| Other loans syndication liabilities <sup>1</sup>          | —                            | —             | —               | —                | —                            | —           | —            | —                |
| Net other loans investments                               | 55,416                       | —             | 6,669           | 62,085           | 48,407                       | —           | —            | 48,407           |
| Allowance for credit losses <sup>2</sup>                  | 97                           | —             | 1,516           | 1,613            | 25                           | —           | —            | 25               |
|                                                           | <b>\$ 55,319</b>             | <b>\$ —</b>   | <b>\$ 5,153</b> | <b>\$ 60,472</b> | <b>\$ 48,382</b>             | <b>\$ —</b> | <b>\$ —</b>  | <b>\$ 48,382</b> |

<sup>1</sup>Including interest receivable

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

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

| Multi-Residential<br>Mortgage Investments | Year Ended December 31, 2020 |                |                 |                 | Year Ended December 31, 2019 |                |                |              |
|-------------------------------------------|------------------------------|----------------|-----------------|-----------------|------------------------------|----------------|----------------|--------------|
|                                           | Stage 1                      | Stage 2        | Stage 3         | Total           | Stage 1                      | Stage 2        | Stage 3        | Total        |
| Balance at beginning of period            | \$ 1,003                     | \$ —           | \$ 253          | \$ 1,256        | \$ 627                       | \$ —           | \$ 3           | \$ 630       |
| Allowance for credit losses:              |                              |                |                 |                 |                              |                |                |              |
| Remeasurement                             | 241                          | 133            | 1,152           | 1,526           | (4)                          | 2              | 250            | 248          |
| Transfer to/(from)                        |                              |                |                 |                 |                              |                |                |              |
| Stage 1                                   | (5)                          | —              | —               | (5)             | 2                            | —              | —              | 2            |
| Stage 2                                   | —                            | 5              | —               | 5               | —                            | (2)            | —              | (2)          |
| Stage 3                                   | —                            | —              | —               | —               | —                            | —              | —              | —            |
| Total allowance for credit losses         | 1,239                        | 138            | 1,405           | 2,782           | 625                          | —              | 253            | 878          |
| Fundings                                  | 544                          | 5              | —               | 549             | 863                          | —              | —              | 863          |
| Discharges                                | (816)                        | (52)           | —               | (868)           | (485)                        | —              | —              | (485)        |
| Balance at end of period                  | <b>967</b>                   | <b>91</b>      | <b>1,405</b>    | <b>2,463</b>    | <b>1,003</b>                 | <b>—</b>       | <b>253</b>     | <b>1,256</b> |
| <b>Other Mortgage Investments</b>         | <b>Stage 1</b>               | <b>Stage 2</b> | <b>Stage 3</b>  | <b>Total</b>    | <b>Stage 1</b>               | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| Balance at beginning of period            | 334                          | —              | 713             | 1,047           | 200                          | —              | 587            | 787          |
| Allowance for credit losses:              |                              |                |                 |                 |                              |                |                |              |
| Remeasurement                             | (132)                        | —              | 241             | 109             | 142                          | —              | 742            | 884          |
| Transfer to/(from)                        |                              |                |                 |                 |                              |                |                |              |
| Stage 1                                   | (5)                          | —              | —               | (5)             | —                            | —              | —              | —            |
| Stage 2                                   | —                            | 5              | —               | 5               | —                            | —              | —              | —            |
| Stage 3                                   | —                            | —              | —               | —               | —                            | —              | —              | —            |
| Total allowance for credit losses         | 197                          | 5              | 954             | 1,156           | 342                          | —              | 1,329          | 1,671        |
| Fundings                                  | 173                          | —              | —               | 173             | 134                          | —              | —              | 134          |
| Discharges                                | (77)                         | (5)            | —               | (82)            | (142)                        | —              | (616)          | (758)        |
| Balance at end of period                  | <b>293</b>                   | <b>—</b>       | <b>954</b>      | <b>1,247</b>    | <b>334</b>                   | <b>—</b>       | <b>713</b>     | <b>1,047</b> |
| <b>Other Loan Investments</b>             | <b>Stage 1</b>               | <b>Stage 2</b> | <b>Stage 3</b>  | <b>Total</b>    | <b>Stage 1</b>               | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| Balance at beginning of period            | 25                           | —              | —               | 25              | 212                          | —              | 3              | 215          |
| Allowance for credit losses:              |                              |                |                 |                 |                              |                |                |              |
| Remeasurement                             | —                            | —              | 1,511           | 1,511           | 8                            | —              | —              | 8            |
| Transfer to/(from)                        |                              |                |                 |                 |                              |                |                |              |
| Stage 1                                   | (5)                          | —              | —               | (5)             | 3                            | —              | —              | 3            |
| Stage 2                                   | —                            | —              | —               | —               | —                            | —              | —              | —            |
| Stage 3                                   | —                            | —              | 5               | 5               | —                            | —              | (3)            | (3)          |
| Total allowance for credit losses         | 20                           | —              | 1,516           | 1,536           | 223                          | —              | —              | 223          |
| Fundings                                  | 82                           | —              | —               | 82              | 3                            | —              | —              | 3            |
| Discharges                                | (5)                          | —              | —               | (5)             | (201)                        | —              | —              | (201)        |
| Balance at end of period                  | <b>\$ 97</b>                 | <b>\$ —</b>    | <b>\$ 1,516</b> | <b>\$ 1,613</b> | <b>\$ 25</b>                 | <b>\$ —</b>    | <b>\$ —</b>    | <b>\$ 25</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

| Multi-Residential<br>Mortgage Investments | As at December 31, 2020 |               |                 |                  | As at December 31, 2019 |             |              |                  |
|-------------------------------------------|-------------------------|---------------|-----------------|------------------|-------------------------|-------------|--------------|------------------|
|                                           | Stage 1                 | Stage 2       | Stage 3         | Total            | Stage 1                 | Stage 2     | Stage 3      | Total            |
| Low risk                                  | \$ 209,373              | \$ —          | \$ —            | \$ 209,373       | \$ 205,588              | \$ —        | \$ —         | \$ 205,588       |
| Medium-Low risk                           | 307,977                 | 35,953        | —               | 343,930          | 444,496                 | —           | —            | 444,496          |
| Medium-High risk                          | 53,409                  | 7,616         | —               | 61,025           | 34,217                  | —           | —            | 34,217           |
| High risk                                 | —                       | —             | —               | —                | —                       | —           | —            | —                |
| Default                                   | —                       | —             | 3,055           | 3,055            | —                       | —           | 2,903        | 2,903            |
| Net Mortgage Investments <sup>1</sup>     | 570,759                 | 43,569        | 3,055           | 617,383          | 684,301                 | —           | 2,903        | 687,204          |
| Allowance for credit losses               | 967                     | 91            | 1,405           | 2,463            | 1,003                   | —           | 253          | 1,256            |
|                                           | <b>569,792</b>          | <b>43,478</b> | <b>1,650</b>    | <b>614,920</b>   | <b>683,298</b>          | <b>—</b>    | <b>2,650</b> | <b>685,948</b>   |
| Other Mortgage Investments                | Stage 1                 | Stage 2       | Stage 3         | Total            | Stage 1                 | Stage 2     | Stage 3      | Total            |
| Low risk                                  | 72,957                  | —             | —               | 72,957           | 118,546                 | —           | —            | 118,546          |
| Medium-Low risk                           | 333,990                 | —             | —               | 333,990          | 275,349                 | —           | —            | 275,349          |
| Medium-High risk                          | 41,012                  | —             | —               | 41,012           | 82,054                  | —           | —            | 82,054           |
| High risk                                 | 22,775                  | —             | —               | 22,775           | 11,083                  | —           | —            | 11,083           |
| Default                                   | —                       | —             | 3,235           | 3,235            | —                       | —           | 3,102        | 3,102            |
| Net Mortgage Investments <sup>1</sup>     | 470,734                 | —             | 3,235           | 473,969          | 487,032                 | —           | 3,102        | 490,134          |
| Allowance for credit losses               | 293                     | —             | 954             | 1,247            | 334                     | —           | 713          | 1,047            |
|                                           | <b>470,441</b>          | <b>—</b>      | <b>2,281</b>    | <b>472,722</b>   | <b>486,698</b>          | <b>—</b>    | <b>2,389</b> | <b>489,087</b>   |
| 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                                 | 55,416                  | —             | —               | 55,416           | 48,407                  | —           | —            | 48,407           |
| Default                                   | —                       | —             | 6,669           | 6,669            | —                       | —           | —            | —                |
| Net Mortgage Investments <sup>1</sup>     | 55,416                  | —             | 6,669           | 62,085           | 48,407                  | —           | —            | 48,407           |
| Allowance for credit losses               | 97                      | —             | 1,516           | 1,613            | 25                      | —           | —            | 25               |
|                                           | <b>\$ 55,319</b>        | <b>\$ —</b>   | <b>\$ 5,153</b> | <b>\$ 60,472</b> | <b>\$ 48,382</b>        | <b>\$ —</b> | <b>\$ —</b>  | <b>\$ 48,382</b> |

1. Net of mortgage syndications

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### (E) OTHER INVESTMENTS

| As at                                                           | December 31, 2020 | December 31, 2019 |
|-----------------------------------------------------------------|-------------------|-------------------|
| Collateralized loans, net of allowance for credit loss          | \$ 60,370         | \$ 48,326         |
| Finance lease receivable, measured at amortized cost            | 6,020             | 6,020             |
| Investments, measured at FVTPL                                  | 5,819             | 4,949             |
| Indirect real estate development, measured using equity method: |                   |                   |
| Investment in Joint Venture                                     | 2,225             | 2,225             |
| Total Other Investments                                         | \$ 74,434         | \$ 61,520         |

For the year ended December 31, 2020, collateralized loans in other investments generated interest income of \$5,064 (2019 – \$6,310) and amortized lender fee income of \$259 (2019 – \$386). For the year ended December 31, 2020, the Company recorded non-refundable upfront cash lender fees of \$297 (2019 – nil), which are amortized over the term of the related collateralized loans using the effective interest rate method.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(h)).

| Jointly Controlled Assets  | Location               | Property Type     | Ownership Interest |                   |
|----------------------------|------------------------|-------------------|--------------------|-------------------|
|                            |                        |                   | December 31, 2020  | December 31, 2019 |
| Saskatchewan Portfolio     | Saskatoon & Regina, SK | Income Properties | 20.46%             | 20.46%            |
| Balance, beginning of year |                        |                   | \$ 47,349          | \$ 46,494         |
| Additions                  |                        |                   | 513                | 855               |
| Balance, end of year       |                        |                   | \$ 47,862          | \$ 47,349         |

As at December 31, 2020, the investment properties are pledged as security for the credit facility (note 6(b)).

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

The fair values of the Company's investment properties are sensitive to changes in the key valuation assumptions. As at December 31, 2020, the weighted average capitalization rate for the Company's investment properties is 5.43% (December 31, 2019 – 5.30%). The estimated fair value would decrease by \$2,138 (December 31, 2019 – \$2,122) if overall capitalization rates were higher by 25 bps; whereas estimated fair value would increase by \$2,351 (December 31, 2019 – \$2,332) if overall capitalization rates were lower by 25 bps. In addition, the estimated fair value would increase by \$489 (December 31, 2019 – \$471) if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by \$489 (December 31, 2019 – \$471) if stabilized net operating income were lower by 1%.

### 6. CREDIT FACILITIES

| As at                                               | December 31, 2020 | December 31, 2019 |
|-----------------------------------------------------|-------------------|-------------------|
| Credit facility (mortgage investments)              | \$ 458,824        | \$ 461,000        |
| Unamortized financing costs (mortgage investments)  | (525)             | (1,233)           |
|                                                     | 458,299           | 459,767           |
| Credit facility (investment properties)             | 30,690            | 30,690            |
| Unamortized financing costs (investment properties) | (34)              | (68)              |
|                                                     | 30,656            | 30,622            |
| Total credit facilities                             | \$ 488,955        | \$ 490,389        |
| Derivative liability (interest rate swap contract)  | \$ 3,940          | \$ —              |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### (A) CREDIT FACILITY (MORTGAGE INVESTMENTS)

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

The interest rates and fees of the Sixth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2019 – prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2019 – 2.00%) and standby fee of 0.40% per annum (December 31, 2019 – 0.40%) on the unutilized credit facility balance. As at December 31, 2020, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Sixth Amending Credit Agreement is \$493,621.

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

As at December 31, 2020, the Company recorded the fair value of the Contract as a liability of \$3,940 (December 31, 2019 – nil). The fair value of the Contract is calculated as the present value of the estimated future cash flows discounted at interest rates and an applicable yield curve with similar risk characteristics for the duration of the contract. Estimates of the future cash flows are the sum of contractually fixed future amounts and expected variable future amounts, which are based on quoted swap rates, futures prices and estimated borrowing rates.

During the year ended December 31, 2020, the Company incurred financing costs of \$200 (2019 – \$903). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the credit facility agreement.

Interest on the credit facility is recorded in financing costs and calculated using the effective interest rate method. For the year ended December 31, 2020, included in financing costs is interest on the credit facility \$13,400 (2019 – \$18,882), realized loss on the Contract of \$2,728 (2019 – nil), and financing costs amortization of \$909 (2019 – \$1,607).

The unrealized fair value relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. For the year ended December 31, 2020, included in financing costs is unrealized fair value loss of \$3,940 (YTD 2019 – nil).

### (B) CREDIT FACILITY (INVESTMENT PROPERTIES)

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

On October 9, 2019, the credit facility agreement was further amended (the "Amended and Restated Credit Agreement") to establish Tranche A, Tranche B and Tranche C credit facilities (the "Credit Facilities"). Under the amended terms, the maximum available credit is \$150,000. As at December 31, 2020, the co-owners had borrowed \$150,000 from the Credit Facilities. The Company's share of the outstanding amount is \$30,690. The original credit facility provided the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at bankers' acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 a maturity date of October 9, 2020, and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of \$39,690. The Company’s share of Tranche B is \$8,121. Upon maturity, the Tranche B credit facility was extended to February 5, 2021 with borrowing options by way of fixed rate of 3.305%, Prime Loans or Bankers’ Acceptances following the same cost structure as stated in Tranche A. Subsequent to December 31, 2020, the agreement was further amended to extend the maturity date to May 7, 2021.
- 3) Tranche C credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche C properties (the “Tranche C Properties”) in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2021 and a locked in rate of 3.114%. The Tranche C credit facility is secured by a first charge on the Tranche C Properties with a gross carrying value of \$78,648. The Company’s share of Tranche C is \$16,091.

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

Interest on the credit facility (investment properties) is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2020, included in financing costs is interest on the credit facility of \$944 (2019 – \$1,350) and financing costs amortization of \$44 (2019 – \$48).

## 7. REVENUE FROM PROPERTY OPERATIONS

As part of the joint arrangement of the Saskatchewan Portfolio, the Company leases residential properties under operating leases generally with a term of not more than one year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between the year 2021 and 2022. Rental revenue from operating leases for the year ended December 31, 2020 was \$2,919 (2019 – \$2,831).

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

|               | December 31, 2020 | December 31, 2019 |
|---------------|-------------------|-------------------|
| Within 1 year | \$ 2,021          | \$ 1,950          |
| 2 to 5 years  | 258               | 163               |
| Over 5 years  | —                 | —                 |

## 8. CONVERTIBLE DEBENTURES

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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the Company's sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days' and not less than 30 days' prior written notice.

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

The 2016 debentures due July 31, 2021 were fully redeemed on October 22, 2020 at par, plus accrued and unpaid interest of \$561. The aggregate principal amount of the 2016 debentures outstanding was \$45,800 on redemption date.

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, 2020 | December 31, 2019 |
|----------------------------------------------------------------------|-------------------|-------------------|
| Issued                                                               | \$ 91,000         | \$ 136,800        |
| Unamortized financing cost and amount classified as equity component | (2,038)           | (3,767)           |
| Debentures, end of period                                            | \$ 88,962         | \$ 133,033        |

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

|                                                                         | Year ended December 31, |          |
|-------------------------------------------------------------------------|-------------------------|----------|
|                                                                         | 2020                    | 2019     |
| Interest on the convertible debentures                                  | \$ 6,895                | \$ 7,366 |
| Amortization of issue costs and accretion of the convertible debentures | 1,729                   | 1,435    |
| Total                                                                   | \$ 8,624                | \$ 8,801 |

## 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, |            |
|----------------------------------------------------------|-------------------------|------------|
|                                                          | 2020                    | 2019       |
| Balance, beginning of period                             | 83,254,130              | 81,632,844 |
| Issuance of common shares                                | —                       | 1,167,000  |
| Common shares issued under dividend reinvestment plan    | 551,914                 | 491,152    |
| Common shares repurchased for dividend reinvestment plan | (434,096)               | (36,866)   |
| Common shares repurchased under normal course issuer bid | (2,484,515)             | —          |
| Balance, end of period                                   | 80,887,433              | 83,254,130 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### (A) AT-THE-MARKET EQUITY PROGRAM (THE "ATM PROGRAM")

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

### (B) NORMAL COURSE ISSUER BID ("NCIB")

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

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

For the year ended December 31, 2020, the Company repurchased 2,484,515 common shares (2019 – nil) for total amount of \$20,000 (2019 – nil). The average price per common share repurchased was \$8.05 (2019 – nil).

### (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.

For the year ended December 31, 2020, 434,096 common shares were purchased on the open market (2019 – 36,866) for \$3,592 (2019 – \$338), at average price of \$8.28 (2019 – \$9.17) per common share. Additionally, the Company issued 117,818 common shares from treasury (2019 – 454,286) and retained \$1,134 in dividends (2019 – \$4,225), at an average price of \$9.62 (2019 – \$9.30) per common share.

### (D) DIVIDENDS TO HOLDERS OF COMMON SHARES

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. For the year ended December 31, 2020, the Company declared dividends of \$56,447, or \$0.69 per common share (2019 – \$57,078, \$0.69 per share).

As at December 31, 2020, \$4,651 in aggregate dividends (December 31, 2019 – \$4,787) was payable to the holders of common shares by the Company. Subsequent to December 31, 2020, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on January 15, 2021 to the common shareholders of record on December 31, 2020.

**10. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN (“DSU PLAN”)**

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

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

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

For the year ended December 31, 2020, 40,466 units were issued (2019 – 32,417) and as at December 31, 2020, 108,187 units were outstanding (December 31, 2019 – 84,308). During 2020, \$140 or 16,587 in DSUs were exercised and paid following a director’s departure, DSU expense for the year ended is \$341 (2019 – \$338). As at December 31, 2020, \$81 (December 31, 2019 – \$86) in compensation was granted in DSUs, which will be issued subsequent to December 31, 2020.

**11. MANAGEMENT, SERVICING AND ARRANGEMENT FEES**

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

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

The term of the Management Agreement is for a period of 10 years commencing on April 1, 2020, and will be automatically renewed for successive five year terms. The management fee and servicing fee remains consistent with the Original Management Agreement. As compensation for the Manager’s work on syndicating any mortgage investments, the Management Agreement permits the Manager to collect a portion of the lender fee paid by borrowers of mortgage investments. The Management Agreement provides that, in respect of each mortgage investment made on or after April 1, 2020 involving syndication to another party of a senior tranche with the Company retaining a subordinated component, the Manager shall be entitled to retain, from any lender fee generated in respect of such loan, an amount equal to 0.20% of the whole loan amount (“Arrangement Fee”) if such syndication occurs within 90 days of closing of the mortgage. The Arrangement Fee will not apply to any renewal of existing mortgage investments which already include syndicated senior and subordinated components. The Manager may make an annual election, subject to approval of the independent Directors of the Board, to receive the Arrangement Fee in common shares of the Company instead of cash.

For the year ended December 31, 2020, the Company incurred management fees plus applicable taxes of \$12,437 (2019 – \$12,363) and servicing fees including applicable taxes of \$788 (2019 – \$497). During 2020, Arrangement Fees of \$472 was retained by the Manager (2019 – nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, |            |
|-----------------------------------------------------|-------------------------|------------|
|                                                     | 2020                    | 2019       |
| Total net income and comprehensive income (basic)   | \$ 32,002               | \$ 54,740  |
| Interest expense on convertible debentures          | —                       | 2,975      |
| Total net income and comprehensive income (diluted) | \$ 32,002               | \$ 57,715  |
| Weighted average number of common shares (basic)    | 81,870,250              | 82,663,775 |
| Effect of conversion of convertible debentures      | —                       | 4,557,214  |
| Weighted average number of common shares (diluted)  | 81,870,250              | 87,220,989 |
| Earnings per share – basic and diluted              | \$ 0.39                 | \$ 0.66    |

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

| Change in non-cash operating items:        | Year ended December 31, |          |
|--------------------------------------------|-------------------------|----------|
|                                            | 2020                    | 2019     |
| Other assets                               | \$ 3,091                | \$ (935) |
| Accounts payable and accrued expenses      | (76)                    | (315)    |
| Due to Manager                             | (24)                    | (379)    |
| Prepaid mortgage and other loans interest  | (1,729)                 | 3,012    |
| Mortgage and other loans funding holdbacks | (1,565)                 | 3,085    |
|                                            | \$ (303)                | \$ 4,468 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### 14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

| Year ended December 31,                           |            |            |  |
|---------------------------------------------------|------------|------------|--|
| Debentures                                        | 2020       | 2019       |  |
| Balance, beginning of period                      | \$ 133,033 | \$ 131,597 |  |
| Debenture repayments                              | (45,800)   | —          |  |
| Total financing cash flow activities              | (45,800)   | —          |  |
| Amortization of issue costs and accretion expense | 1,729      | 1,436      |  |
| Balance, end of period                            | \$ 88,962  | \$ 133,033 |  |

| Year ended December 31,                                           |            |            |  |
|-------------------------------------------------------------------|------------|------------|--|
| Credit Facilities                                                 | 2020       | 2019       |  |
| Balance, beginning of period                                      | \$ 490,389 | \$ 508,939 |  |
| Deferred financing cost <sup>1</sup>                              | (211)      | (978)      |  |
| Net credit facility (repayments) advances – mortgage investments  | (2,176)    | (17,104)   |  |
| Net credit facility (repayments) advances – investment properties | —          | (2,130)    |  |
| Total financing cash flow activities                              | (2,387)    | (20,212)   |  |
| Amortization of financing costs                                   | 953        | 1,662      |  |
| Balance, end of period                                            | \$ 488,955 | \$ 490,389 |  |

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

### 15. RELATED PARTY TRANSACTIONS

- (a) As at December 31, 2020, due to Manager mainly includes management and servicing fees payable of \$1,089 (December 31, 2019 – \$1,114).
- (b) During 2020, Arrangement Fees of \$472 was retained by the Manager (2019 – nil).
- (c) As at December 31, 2020, included in other assets is \$14,000 (December 31, 2019 – \$8,959) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.
- (d) As at December 31, 2020, the Company has the following mortgage investments which a director of the Company is also an officer and part-owner a syndication partner of these mortgages
- A mortgage investment with a total gross commitment of \$11,611 (December 31, 2019 – nil). The Company's share of the commitment is \$931 (December 31, 2019 – nil). For the year ended December 31, 2020, the Company has recognized net interest income of \$43 (2019 – nil) from this mortgage investment during the year.
  - A mortgage investment with a total gross commitment of \$45,715 (December 31, 2019 – nil). The Company's share of the commitment is \$4,153 (December 31, 2019 – nil). For the year ended December 31, 2020, the Company has recognized net interest income of \$87 (2019 – nil) from this mortgage investment during the year.
- (e) As at December 31, 2020, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 1 mortgage (December 31, 2019 – 1 ) totaling \$21,711 (December 31, 2019 – \$22,147). The Company's share in this mortgage investment is \$6,431 (December 31, 2019 – \$6,560).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

- (f) On March 9, 2020, the Company's former manager, TAMI, sold its equity business to Hazelview Investments Inc ("HII"), in order to focus entirely on its real estate finance strategies. As a result, Four Quadrant Global Real Estate Partners ("4Q"), and Hazelview Global Real Estate Fund are no longer related parties with the Company as they are separately managed by HII.
- As at December 31, 2020, the three parties co-invested in 28 mortgages (December 31, 2019 – 29) and other investments totaling \$287,681 (December 31, 2019 – \$326,903), on a gross basis including mortgage syndication. The Company's share in these mortgage investments is \$162,686 (December 31, 2019 – \$196,372).
  - One mortgage investment (December 31, 2019 – one) totaling \$7,427 (December 31, 2019 – \$18,402), net of mortgage syndication, is loaned to a limited partnership in which 4Q has a minimal interest in the partnership.
  - As at December 31, 2020, the Company and 4Q invested in one indirect real estate development through one investee, totaling \$4,450 (December 31, 2019 – \$4,450), the Company's share in this investment is \$2,225 (December 31, 2019 – \$2,225).
- (g) As at December 31, 2020, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$5,819 or €3,704 (December 31, 2019 – \$4,948 or €3,398), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.
- (h) As part of the Saskatchewan Portfolio co-ownership, the Company, 4Q and a third-party co-owner are party to property management agreements with HII, as successor in interest to TAMI as of March 9, 2020, in respect of such property management agreements. HII provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property Management Fees") at the disclosed rates in the agreements. For the year ended December 31, 2020, Property Management Fees of \$40 was charged by the Manager to the Company (2019 – \$140). As at December 31, 2020, \$11 was payable to the Manager (December 31, 2019 – \$12).

## 16. INCOME TAXES

As of December 31, 2020, the Company has non-capital losses carried forward for income tax purposes of \$29,830 (December 31, 2019 – \$26,320), which will expire between 2031 and 2040 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 \$17,139 (December 31, 2019 – \$20,214). 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, convertible debentures and the credit facilities.

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

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

At December 31, 2020, the Company was in compliance with its investment restrictions.

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

**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, 2020, \$1,019,219 of net mortgage investments and \$10,968 of other investments bear interest at variable rates (December 31, 2019 – \$992,301 and \$6,560, respectively). \$935,458 of net mortgage investments have a "floor rate" (December 31, 2019 – \$917,172).

If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income would be a decrease in net income of \$78 (December 31, 2019 – \$1,283) or an increase in net income of \$243 (December 31, 2019 – \$4,994). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio and its use of floor rates in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which have a balance of \$489,514 as at December 31, 2020 (December 31, 2019 – \$491,690). During the year ended December 31, 2019, the Company entered into the Contract (refer to note 6(a)) which reduced the exposure in interest rate risk. As at December 31, 2020, net exposure to interest rate risk was \$215,302 (December 31, 2019 – \$241,690), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income and comprehensive income by \$1,077 (December 31, 2019 – \$1,208).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### (B) CURRENCY RISK

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

As at December 31, 2020, the Company has US\$5,050 and €3,704 in other investments denominated in foreign currencies (December 31, 2019 – US\$5,050 and €3,398 in other investments). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at December 31, 2020, the Company has one U.S. dollars currency forward contract with an aggregate notional value of US\$5,050, at a weighted average forward contract rate of 1.3251, maturing in April 2021 and one Euro currency contract with an aggregate notional value of €3,500 at contract rate of 1.5685, maturing in April 2021.

The fair value of the foreign currency forward contracts as at December 31, 2020 is an asset of \$302 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, 2020 relating to net mortgages and other investments amount to \$1,236,299 (December 31, 2019 – \$1,319,631).

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### (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.

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at December 31, 2020, including expected interest payments:

| December 31, 2020                                                                      | Carrying value | Contractual cash flow | Within a year | Following year | 3–5 years |
|----------------------------------------------------------------------------------------|----------------|-----------------------|---------------|----------------|-----------|
| Accounts payable and accrued expenses                                                  | \$ 3,015       | \$ 3,015              | \$ 3,015      | \$ —           | \$ —      |
| Dividends payable                                                                      | 4,651          | 4,651                 | 4,651         | —              | —         |
| Due to Manager                                                                         | 1,089          | 1,089                 | 1,089         | —              | —         |
| Mortgage and other loans funding holdbacks                                             | 2,177          | 2,177                 | 2,177         | —              | —         |
| Prepaid mortgage and other loans interest                                              | 3,708          | 3,708                 | 3,708         | —              | —         |
| Derivative liability (interest rate swap contract)                                     | 3,940          | 3,940                 | 3,940         | —              | —         |
| Credit facility (mortgage investments) <sup>1</sup>                                    | 458,299        | 469,637               | 469,637       | —              | —         |
| Credit facility (investment properties) <sup>2</sup>                                   | 30,656         | 31,304                | 31,304        | —              | —         |
| Convertible debentures <sup>3</sup>                                                    | 88,962         | 102,482               | 4,892         | 49,012         | 48,578    |
|                                                                                        | \$ 596,497     | \$ 622,003            | \$ 524,413    | \$ 49,012      | \$ 48,578 |
| Unadvanced mortgage commitments <sup>4</sup>                                           | —              | 248,589               | 248,589       | —              | —         |
| Total contractual liabilities, excluding mortgage syndication liabilities <sup>5</sup> | \$ 596,497     | \$ 870,592            | \$ 773,002    | \$ 49,012      | \$ 48,578 |

1. Credit facility (mortgage investments) includes interest based upon December 2020 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 2020 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturities on May 7, 2021 and October 9, 2021.

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

4. Unadvanced mortgage commitments include syndication commitments of which \$144,734 belongs to the Company's syndicated partners.

5. The principal repayments of \$429,378 mortgage syndication liabilities by contractual maturity date are shown net with mortgage investments in note 4(b).

As at December 31, 2020, the Company had a cash position of \$428 (December 31, 2019 – \$8,991), an unutilized credit facility (mortgage investments) balance of \$76,176 (December 31, 2019 – \$39,000) and an unutilized credit facility (investment properties) balance of nil (December 31, 2019 – nil). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In thousands of Canadian dollars

### 19. FAIR VALUE MEASUREMENTS

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

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

| As at December 31, 2020                               | Note | Carrying value |                                   | Fair value |
|-------------------------------------------------------|------|----------------|-----------------------------------|------------|
|                                                       |      | Amortized cost | Fair value through profit or loss |            |
| Assets measured at fair value                         |      |                |                                   |            |
| Investment properties                                 | 5    | \$ —           | \$ 47,349                         | \$ 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    |

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In thousands of Canadian dollars

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

### (A) MORTGAGE INVESTMENTS, OTHER INVESTMENTS, AND MORTGAGE SYNDICATION LIABILITIES

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

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

### (B) OTHER FINANCIAL ASSETS AND LIABILITIES

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

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

### (C) CONVERTIBLE DEBENTURES

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

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy during the three months ended December 31, 2020.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In thousands of Canadian dollars

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

During 2020, the compensation expense of the members of the Board of Directors amounts to \$341 (2019 – \$338), 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.

### **22. SUBSEQUENT EVENTS**

On January 29, 2021, the credit facility agreement for the investment properties was further amended. Under the amended terms, the maximum available credit is \$150,000 with maturity dates of May 7, 2021 and October 9, 2021, based on the tranche of the facility utilized. Tranche B borrowing options expanded to include fixed rate of 3.305%, Prime Loans or Bankers' Acceptance following the same cost structure as stated in Tranche A. The Company's share of the credit facility is \$30,690.

# 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.

**BLAIR TAMBLYN**

**DIRECTOR, CHIEF EXECUTIVE OFFICER,  
TIMBERCREEK FINANCIAL**

**SCOTT ROWLAND**

**DIRECTOR, CHIEF INVESTMENT OFFICER,  
TIMBERCREEK FINANCIAL**

**W. GLENN SHYBA**

**LEAD INDEPENDENT DIRECTOR, TIMBERCREEK FINANCIAL  
FOUNDER & PRINCIPAL, ORIGIN MERCHANT PARTNERS**

**AMAR BHALLA**

**INDEPENDENT DIRECTOR,  
TIMBERCREEK FINANCIAL  
PRINCIPAL, AMDEV PROPERTY GROUP,**

**STEVEN R. SCOTT**

**DIRECTOR, TIMBERCREEK FINANCIAL  
CHAIRMAN & CEO, STORAGEVAULT CANADA INC.  
AND THE ACCESS GROUP OF COMPANIES**

**PAMELA SPACKMAN**

**INDEPENDENT DIRECTOR,  
TIMBERCREEK FINANCIAL  
BOARD MEMBER OF WPT INDUSTRIAL REIT**

**DEREK J. WATCHORN, LL.B.**

**INDEPENDENT DIRECTOR,  
TIMBERCREEK FINANCIAL  
CONSULTANT**

# LEADERSHIP

**BLAIR TAMBLYN**

**CHIEF EXECUTIVE OFFICER**

**SCOTT ROWLAND**

**CHIEF INVESTMENT OFFICER**

**TRACY JOHNSON, CPA, CA**

**CHIEF FINANCIAL OFFICER**

**GEOFF MCTAIT**

**MANAGING DIRECTOR,  
ORIGINATION – CANADA & HEAD OF GLOBAL SYNDICATION**

**PATRICK SMITH**

**MANAGING DIRECTOR, GLOBAL CREDIT – CANADA**

**PAULA JON, J.D.**

**VICE PRESIDENT, CORPORATE SECRETARY**

**KARYNNA MA**

**VICE PRESIDENT, INVESTOR RELATIONS**

**HEAD OFFICE**

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KPMG LLP

**LEGAL COUNSEL**

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