Interim Condensed Consolidated Financial Statements of

TIMBERCREEK FINANCIAL

Three months and six months ended June 30, 2021 and 2020

TIMBERCREEK FINANCIAL

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Unaudited)

(In thousands of Canadian dollars)

	Note	June 30, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents		$ **407**	$ 428
Other assets	15(c)	**9,496**	16,161
Mortgage investments, including mortgage syndications	4(a)	**1,664,760**	1,572,577
Other investments	4(e)	**77,266**	74,434
Investment properties	5	**48,059**	47,862
Total assets		**1,799,988**	1,711,462
LIABILITIES AND EQUITY			
Accounts payable and accrued expenses		**4,534**	3,015
Dividends payable	9(c)	**4,664**	4,651
Due to Manager	15(a)	**79**	1,089
Mortgage and other loans funding holdbacks		**1,317**	2,177
Prepaid mortgage and other loans interest		**4,404**	3,708
Derivative liability (interest rate swap contract)	6(a)	**1,989**	3,940
Credit facility (mortgage investments)	6(a)	**468,397**	458,299
Credit facility (investment properties)	6(b)	**30,675**	30,656
Convertible debentures	8	**89,513**	88,962
Mortgage syndication liabilities	4(a)(c)	**506,738**	429,915
Total liabilities		**1,112,310**	1,026,412
Shareholders' equity	9	**687,678**	685,050
Total liabilities and equity		$ **1,799,988**	$ 1,711,462
Commitments and contingencies	4, 6 and 20		
Subsequent events	2(d), 8(a) and 21		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME (Unaudited)

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

	Note	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Investment income on financial assets measured at amortized cost					
Gross interest and other income, including mortgage syndications		**$ 29,348**	$ 31,083	**$ 57,946**	$ 61,946
Interest and other expenses on mortgage syndications		**(5,958)**	(7,060)	**(12,117)**	(13,881)
Net investment income on financial assets measured at amortized cost	4(b)(e)	**23,390**	24,023	**45,829**	48,065
Fair value gain (loss) and other income on financial assets measured at FVTPL	4(a)(e)	**211**	(2,053)	**690**	(2,007)
Total income on financial assets		**23,601**	21,970	**46,519**	46,058
Net rental income					
Revenue from investment properties	7	**731**	718	**1,471**	1,468
Property operating costs		**(355)**	(342)	**(747)**	(732)
Net rental income		**376**	376	**724**	736
Expenses					
Management fees	11	**2,997**	3,153	**5,888**	6,270
Servicing fees	11	**165**	206	**357**	404
Allowance for expected credit loss	4(d)	**1,638**	255	**1,938**	622
General and administrative		**377**	505	889	987
Total expenses		**5,177**	4,119	9,072	8,283
Income from operations		**18,800**	**18,227**	**38,171**	38,511
Financing costs					
Financing cost on credit facilities	6	**4,746**	4,482	**8,649**	9,337
Financing cost on convertible debentures	8	**1,543**	2,199	**2,997**	4,399
Unrealized fair value (gain) loss on derivative contract	6(a)	**(974)**	(197)	**(1,951)**	5,607
Total financing costs		**5,315**	6,484	**9,695**	19,343
Net income and comprehensive income		**$ 13,485**	$ 11,743	**$ 28,476**	$ 19,168
Earnings per share					
Basic	12	**$ 0.17**	$ 0.14	**$ 0.35**	$ 0.23
Diluted	12	**$ 0.17**	$ 0.14	**$ 0.35**	$ 0.23

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

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

(In thousands of Canadian dollars)

Six months ended June 30, 2021	Common shares	Retained (loss)/ earnings	Equity component of convertible debentures	Total
Balance, December 31, 2020	$ 711,521	$ (28,409)	$ 1,938	$ 685,050
Issuance of common shares, net of issue costs	142	—	—	142
Dividends issued to shareholders	—	(27,945)	—	(27,945)
Issuance of common shares under dividend reinvestment plan	2,371	—	—	2,371
Repurchase of common shares for dividend reinvestment plan	(416)	—	—	(416)
Total net income and comprehensive income	—	28,476	—	28,476
Balance, June 30, 2021	$ 713,618	$ (27,878)	$ 1,938	$ 687,678

Six months ended June 30, 2020	Common shares	Retained (loss)/ earnings	Equity component of convertible debentures	Total
Balance, December 31, 2019	$ 730,418	$ (3,964)	$ 1,938	$ 728,392
Repurchase of common shares under normal course issuer bid	(16,398)	—	—	(16,398)
Dividends issued to shareholders	—	(28,530)	—	(28,530)
Issuance of common shares under dividend reinvestment plan	2,301	—	—	2,301
Repurchase of common shares for dividend reinvestment plan	(1,198)	—	—	(1,198)
Total net income and comprehensive income	—	19,168	—	19,168
Balance, June 30, 2020	$ 715,123	$ (13,326)	$ 1,938	$ 703,735

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (Unaudited)

(In thousands of Canadian dollars)

		Three months ended June 30,		Six months ended June 30,	
	Note	2021	2020	2021	2020
OPERATING ACTIVITIES					
Net income		$ **13,485**	$ 11,743	$ **28,476**	$ 19,168
Amortization of lender fees		**(2,361)**	(2,315)	**(4,443)**	(4,815)
Lender fees received		**2,476**	2,243	**4,603**	4,300
Interest and other income, net of syndications		**(21,633)**	(22,127)	**(42,585)**	(44,206)
Interest and other income received, net of syndications		**22,444**	20,907	**42,932**	43,231
Financing costs		**6,289**	6,681	**11,646**	13,736
Net unrealized loss on investments measured at FVTPL		**1,100**	2,586	**1,216**	3,077
Unrealized fair value (gain) loss on derivative contracts		**(974)**	(197)	**(1,951)**	5,607
Net realized and unrealized foreign exchange loss (gain)		**(260)**	20	**(238)**	—
Allowance for expected credit loss		**1,638**	255	**1,938**	622
Net change in non-cash operating items	13	**(931)**	(218)	**(996)**	(396)
		21,273	19,578	**40,598**	40,324
FINANCING ACTIVITIES					
Net credit facility draws (repayments) – mortgage investments		**18,384**	42,000	**10,688**	(16,000)
Interest paid		**(6,903)**	(5,263)	**(11,941)**	(12,158)
Dividends paid to shareholders		**(12,804)**	(13,070)	**(25,562)**	(26,304)
Repurchase of common shares		**—**	(16,688)	**(416)**	(16,688)
		(1,323)	6,979	**(27,231)**	(71,150)
INVESTING ACTIVITIES					
Additions to investment properties		**(120)**	(118)	**(197)**	(271)
Net proceeds (payments) on maturity of forward contracts		**626**	(242)	**626**	(432)
Funding of other investments		**(18,651)**	(4,500)	**(39,162)**	(11,217)
Proceeds from other investments		**10,330**	25	**34,310**	7,986
Funding of mortgage investments, net of syndications		**(96,286)**	(101,373)	**(253,841)**	(226,625)
Discharges of mortgage investments, net of syndications		**83,951**	78,413	**244,951**	257,339
		(20,150)	(27,795)	**(13,313)**	26,780
(Decrease) increase in cash and cash equivalents		**(200)**	**(1,238)**	**54**	(4,046)
Net foreign exchange loss on cash accounts		**(72)**	(33)	**(75)**	(84)
Cash and cash equivalents, beginning of period		**679**	6,132	**428**	8,991
Cash and cash equivalents, end of period		$ **407**	$ 4,861	$ **407**	$ 4,861

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

1. CORPORATE INFORMATION

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

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

The presentation of these unaudited interim condensed consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). These unaudited interim condensed consolidated financial statements should be read in conjunction with the notes to the audited consolidated financial statements for the year ended December 31, 2020 since these financial statements do not contain all disclosures required by IFRS for annual financial statements.

The unaudited interim condensed consolidated financial statements were approved by the Board of Directors on August 5, 2021.

(b) Principles of consolidation

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

(c) Basis of measurement

These unaudited interim condensed consolidated financial statements have been prepared on both a going concern and the historical cost bases except for certain items which have been measured at FVTPL at each reporting date and include: investment properties, debt investments not meeting the solely payments of principal and interest criterion, participating debentures, cross-currency swaps, interest rate swaps and foreign currency forward contracts.

(d) Critical accounting estimates, assumptions and judgements

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

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

Beginning March 2020, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. To date, the COVID-19 pandemic continues to have an impact on economies around the world. The public health and emergency measures put in place to combat the spread of the virus resulted in a world-wide economic slowdown and many of these restrictions remain in place or were reinstated as regions experienced additional waves of the virus. New COVID-19 variants are emerging and have resulted in additional restrictions in many jurisdictions. There is now more optimism as vaccination rates are increasing in Canada and vaccines are being distributed around the world, however, there is still uncertainty as to how effective the vaccines will be against the new variants, when the restrictions may be lifted and when the economy is expected to recover. 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 June 30, 2021, the Company collected approximately 99% of July 2021 interest payments which is materially in line with historical collection rates.

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. The Company did not identify any material changes to its view of fair value for the FVTPL loans.

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 18 – Fair value measurements.

Measurement of expected credit loss

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

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.

(In thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited interim condensed consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2020, which were prepared in accordance with IFRS.

4. MORTGAGE AND OTHER INVESTMENTS, INCLUDING MORTGAGE SYNDICATIONS

(a) Mortgage investments

As at June 30, 2021	Note	Mortgages, including mortgage syndications	Mortgage syndication liabilities	Net Mortgage Investments
Mortgage investments, including mortgage syndications - at amortized cost	4(b)(c)	**$ 1,603,506**	**$ (507,069)**	**$ 1,096,437**
Interest receivable		**10,336**	**(1,694)**	**8,642**
		1,613,842	**(508,763)**	**1,105,079**
Unamortized lender fees		**(9,244)**	**2,025**	**(7,219)**
Allowance for expected credit loss	4(d)	**(4,272)**	**—**	**(4,272)**
Mortgage investments at amortized cost		**1,600,326**	**(506,738)**	**1,093,588**
Mortgage investments, including mortgage syndications - at FVTPL		**62,771**	**—**	**62,771**
Interest receivable		**1,663**	**—**	**1,663**
Mortgage investments at FVTPL		**64,434**	**—**	**64,434**
Mortgage investments, including mortgage syndications		**$ 1,664,760**	**$ (506,738)**	**$ 1,158,022**
Unadvanced Mortgage commitments		$ 334,419	$ 227,353	$ 107,066

As at December 31, 2020	Mortgages, including mortgage syndications	Mortgage syndication liabilities	Net Mortgage Investments
Mortgage investments, including mortgage syndications - at amortized cost	$ 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	(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

(In thousands of Canadian dollars)

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 normal course, the Company has reviewed its valuation models and adjusted overall capitalization rates and stabilized net operating income. During Q2 2021 and YTD 2021, the Company recorded $714 and $914 unrealized fair value loss in the statement of net income and other comprehensive income (Q2 2020 – $2,697; YTD 2020 – $3,363).

The changes during the three months and six months ended June 30, 2021 and year ended December 31, 2020 are as follows:

Mortgage investments, measured at FVTPL	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Balance at beginning of period	$ 62,212	$ 60,716	$ 75,002
Fundings	1,273	2,969	5,184
Fair value loss	(714)	(914)	(19,470)
Balance at end of period	$ 62,771	$ 62,771	$ 60,716

(b) Net mortgage investments

As at		June 30, 2021		December 31, 2020
Interest in first mortgages	92.0 % $	1,066,814	90.3 % $	1,031,984
Interest in second and third mortgages	8.0 %	92,394	9.7 %	111,137
	100.0 % $	1,159,208	100.0 % $	1,143,121

The mortgage investments are secured by real property and will mature between the remainder of 2021 and 2025 (December 31, 2020 – 2021 and 2025). During Q2 2021 and YTD 2021, the Company generated net interest income and other income on net mortgage investments, excluding lender fee income of $20,235 and $39,906 (Q2 2020 – $20,913 and YTD 2020 – $41,879).

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.

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

During Q2 2021 and YTD 2021, the Company amortized lender fee income on net mortgage investments classified at amortized cost, net of fees relating to mortgage syndication liabilities of $2,267 and $4,239 (Q2 2020 – $2,383; YTD 2020 – $4,838). During Q2 2021 and YTD 2021, the Company recorded non-refundable upfront cash lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of $2,044 and $4,558 (Q2 2020 – $2,054; YTD 2020 – $4,206), 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	June 30, 2021
2021	$ 425,636
2022	423,147
2023	305,925
2024	—
2025	4,500
Total	$ 1,159,208

(c) Mortgage syndication liabilities

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

(In thousands of Canadian dollars)

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

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on mortgage and other investments classified at amortized cost. The allowance for credit losses amounted to $5,347 as at June 30, 2021 (December 31, 2020 - $5,323), of which $4,272 (December 31, 2020 - $3,710) was recorded against mortgage investments and $1,075 (December 31, 2020 - $1,613) was recorded against other investments.

	As at June 30, 2021				As at December 31, 2020			
Multi-Residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications[1]	$ 862,592	$ 43,632	$ 3,131	$ 909,355	$ 780,537	$ 43,569	$ 3,055	$ 827,161
Mortgage syndication liabilities[1]	297,695	—	—	297,695	209,778	—	—	209,778
Net mortgage investments	564,897	43,632	3,131	611,660	570,759	43,569	3,055	617,383
Allowance for credit losses[2]	1,150	96	1,481	2,727	967	91	1,405	2,463
	563,747	**43,536**	**1,650**	**608,933**	**569,792**	**43,478**	**1,650**	**614,920**
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications[1]	702,113	—	2,374	704,487	692,069	—	3,235	695,304
Mortgage syndication liabilities[1]	211,068	—	—	211,068	221,335	—	—	221,335
Net mortgage investments	491,045	—	2,374	493,419	470,734	—	3,235	473,969
Allowance for credit losses[2]	296	—	1,249	1,545	293	—	954	1,247
	490,749	**—**	**1,125**	**491,874**	**470,441**	**—**	**2,281**	**472,722**
Other Loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Other loans, including mortgage syndications[1]	59,712	—	5,400	65,112	55,416	—	6,669	62,085
Other loans syndication liabilities[1]	—	—	—	—	—	—	—	—
Net other loans investments	59,712	—	5,400	65,112	55,416	—	6,669	62,085
Allowance for credit losses[2]	100	—	975	1,075	97	—	1,516	1,613
	$ 59,612	**$ —**	**$ 4,425**	**$ 64,037**	**$ 55,319**	**$ —**	**$ 5,153**	**$ 60,472**

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

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

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

	Six Months Ended June 30, 2021				Six Months Ended June 30, 2020			
Multi-Residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	$ 977	$ 93	$ 1,443	$ 2,513	$ 1,003	$ —	$ 253	$ 1,256
Allowance for credit losses:								
Remeasurement	28	3	38	69	156	101	76	333
Transfer to/(from)								
Stage 1	—	—	—	—	(5)	—	—	(5)
Stage 2	—	—	—	—	—	5	—	5
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	1,005	96	1,481	2,582	1,154	106	329	1,589
Fundings	192	—	—	192	202	—	—	202
Discharges	(47)	—	—	(47)	(217)	(52)	—	(269)
Balance at end of period	**1,150**	**96**	**1,481**	**2,727**	**1,139**	**54**	**329**	**1,522**
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	294	—	1,102	1,396	334	—	713	1,047
Allowance for credit losses:								
Remeasurement	—	—	147	147	197	—	63	260
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	—	—	147	1,543	531	—	776	1,307
Fundings	62	—	—	62	80	—	—	80
Discharges	(60)	—	—	(60)	(20)	—	—	(20)
Balance at end of period	**296**	**—**	**1,249**	**1,545**	**591**	**—**	**776**	**1,367**
Other Loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	95	—	1,619	1,714	25	—	—	25
Allowance for credit losses:								
Remeasurement	—	—	(644)	(644)	33	—	—	33
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	95	—	975	1,070	58	—	—	58
Fundings	10	—	—	10	10	—	—	10
Discharges	(5)	—	—	(5)	(7)	—	—	(7)
Balance at end of period	**$ 100**	**$ —**	**$ 975**	**$ 1,075**	**$ 61**	**$ —**	**$ —**	**$ 61**

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

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

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

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

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

	As at June 30, 2021				As at December 31, 2020			
Multi-Residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	$ 154,213	$ —	$ —	$ 154,213	$ 209,373	$ —	$ —	$ 209,373
Medium-Low risk	342,785	35,729	—	378,514	307,977	35,953	—	343,930
Medium-High risk	67,201	7,903	—	75,104	53,409	7,616	—	61,025
High risk	698	—	—	698	—	—	—	—
Default	—	—	3,131	3,131	—	—	3,055	3,055
Net Mortgage Investments[1]	564,897	43,632	3,131	611,660	570,759	43,569	3,055	617,383
Allowance for credit losses	1,150	96	1,481	2,727	967	91	1,405	2,463
	563,747	**43,536**	**1,650**	**608,933**	**569,792**	**43,478**	**1,650**	**614,920**
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	69,777	—	—	69,777	72,957	—	—	72,957
Medium-Low risk	382,831	—	—	382,831	333,990	—	—	333,990
Medium-High risk	38,437	—	—	38,437	41,012	—	—	41,012
High risk	—	—	—	—	22,775	—	—	22,775
Default	—	—	2,374	2,374	—	—	3,235	3,235
Net Mortgage Investments[1]	491,045	—	2,374	493,419	470,734	—	3,235	473,969
Allowance for credit losses	296	—	1,249	1,545	293	—	954	1,247
	490,749	**—**	**1,125**	**491,874**	**470,441**	**—**	**2,281**	**472,722**
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	13,873	—	—	13,873	—	—	—	—
High risk	45,839	—	—	45,839	55,416	—	—	55,416
Default	—	—	5,400	5,400	—	—	6,669	6,669
Net Mortgage Investments[1]	59,712	—	5,400	65,112	55,416	—	6,669	62,085
Allowance for credit losses	100	—	975	1,075	97	—	1,516	1,613
	$ 59,612	**$ —**	**$ 4,425**	**$ 64,037**	**$ 55,319**	**$ —**	**$ 5,153**	**$ 60,472**

1. Net of mortgage syndications

(e) Other investments

As at	June 30, 2021	December 31, 2020
Collateralized loans, net of allowance for credit loss	**$ 63,813**	$ 60,370
Finance lease receivable, measured at amortized cost	**6,020**	6,020
Investments, measured at FVTPL	**5,208**	5,819
Indirect real estate development, measured using equity method:		
Investment in Joint Venture	**2,225**	2,225
Total Other Investments	**$ 77,266**	$ 74,434

During Q2 2021 and YTD 2021, collateralized loans in other investments generated interest income of $1,391 and $2,655 (Q2 2020 – $1,191; YTD 2020 – $2,241) and amortized lender fee income of $94 and $204 (Q2 2020 – $47; YTD 2020 – $92). During Q2 2021 and YTD 2021, the Company recorded non-refundable upfront cash lender fees of $273 and $320 (Q2 2020 – $107; YTD 2020 – $189), which are amortized over the term of the related collateralized loans using the effective interest rate method.

(In thousands of Canadian dollars)

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, 2020 - $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

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.

			Ownership Interest	
Jointly Controlled Assets	**Location**	**Property Type**	**June 30, 2021**	**December 31, 2020**
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties	**20.46%**	20.46 %

Balance, beginning of period	**$ 47,862**	$ 47,349
Additions	**197**	513
Balance, end of period	**$ 48,059**	$ 47,862

As at June 30, 2021, 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 June 30, 2021, the weighted average capitalization rate for the Company's investment properties is 5.43% (December 31, 2020 - 5.43%). The estimated fair value would decrease by $2,138 (December 31, 2020 - $2,138) if overall capitalization rates were higher by 0.25%; whereas estimated fair value would increase by $2,351 (December 31, 2020 - $2,351) if overall capitalization rates were lower by 0.25%. In addition, the estimated fair value would increase by $489 (December 31, 2020 - $489) if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by $489 (December 31, 2020 - $489) if stabilized net operating income were lower by 1%.

(In thousands of Canadian dollars)

6. CREDIT FACILITIES

As at		June 30, 2021		December 31, 2020
Credit facility (mortgage investments)	$	**469,511**	$	458,824
Unamortized financing costs (mortgage investments)		**(1,114)**		(525)
		468,397		458,299
Credit facility (investment properties)		**30,690**		30,690
Unamortized financing costs (investment properties)		**(15)**		(34)
		30,675		30,656
Total credit facilities	$	**499,072**	$	488,955
Derivative liability (interest rate swap contract)	$	**1,989**	$	3,940

(a) Credit facility (mortgage investments)

The Company originally had a $400,000 in revolving credit facility with 10 Canadian banks. By exercising the accordion features on February 13, 2018, November 16, 2018, and September 18, 2020 the Company increased the aggregate credit limit to $535,000. On May 10, 2021, the Company entered into an amendment to its existing revolving credit facility ("Seventh Amending Credit Agreement") in order to, among other things extend the maturity date to May 10, 2023, and amend the Company's option to increase the aggregate credit limit to $635,000. General terms of the credit facility remain unchanged. The facility is secured by a general security agreement over the Company's assets and its subsidiaries.

The interest rates and fees of the Seventh Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2020 - prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2020 - 2.00%) and standby fee of 0.40% per annum (December 31, 2020 - 0.40%) on the unutilized credit facility balance. As at June 30, 2021, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Seventh Amending Credit Agreement is $516,568.

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 June 30, 2021, the Company recorded the fair value of the Contract as a liability of $1,989 (December 31, 2020 – $3,940). 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 Q2 2021 and YTD 2021, the Company incurred financing costs of $1,188 and $1,216 (Q2 2020 – $91; YTD 2020 – $126). 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 Q2 2021 and YTD 2021, included in financing costs is interest on the credit facility and realized loss on the Contract of $4,038 and $7,571 (Q2 2020 – $3,930; YTD 2020 – $8,319) and financing costs amortization of $486 and $628 (Q2 2020 – $311; YTD 2020 – $516).

The unrealized fair value relating to the Contract is recorded at FVTPL in accordance with IFRS, which will expire at par upon maturity. For Q2 2021 and YTD 2021, included in financing costs is unrealized fair value gain of $974 and gain of $1,951 (Q2 2020 – gain of 197, YTD 2020 – loss of 5,607).

(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 June 30, 2021, the co-owners had borrowed $150,000 from the Credit Facilities. The Company's share of the outstanding amount is $30,690. The original credit facility provided the co-owners with the option to borrow at either the prime rate of interest plus 1.50% or at bankers’ acceptances with a stamping fee of 2.50% ("Canadian Dollar Loans"), or at LIBOR plus 2.50%. Under the Amended and Restated Credit Agreement, the Credit Facilities consist of following:

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

2) Tranche B credit facility comprises of a commercial mortgage loan for certain properties defined as Tranche B properties (the “Tranche B Properties”) in the Amended and Restated Credit Agreement, where terms and conditions are set forth in a rate lock agreement, with a maturity date of October 9, 2020, and a locked in rate of 3.305%. The Tranche B credit facility is secured by a first charge on the Tranche B Properties with a gross carrying value of $39,690. The Company’s share of Tranche B is $8,121. Upon maturity, the Tranche B credit facility was extended to October 9, 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.

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

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

Interest on the credit facility (investment properties) is recorded in financing costs using the effective interest rate method. During Q2 2021 and YTD 2021, included in financing costs is interest on the credit facility of $207 and $423 (Q2 2020 – $230; YTD 2020 – $481) and financing costs amortization of $15 and $27 (Q2 2020 – $11; YTD 2020 – $21).

(In thousands of Canadian dollars)

7. REVENUE FROM PROPERTY OPERATIONS

As part of the joint arrangement of the Saskatchewan Portfolio, the Company leases residential properties under operating leases generally with a term of not more than one year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between the year 2021 and 2023. Rental revenue from operating leases for the three months and six months ended June 30, 2021 was $731 and $1,471 (Q2 2020 – $718; YTD 2020 – $1,468).

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

	June 30, 2021	December 31, 2020
Within 1 year	$ 1,788	$ 2,021
2 to 5 years	30	258

8. CONVERTIBLE DEBENTURES

(a) 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.

The Company announced on June 21, 2021 that it has issued a notice of redemption to holders of the February 2017 Debentures due March 31, 2022, representing a redemption in full of all of the currently outstanding February 2017 Debentures. The February 2017 Debentures were redeemed on July 23, 2021 at par, plus accrued and unpaid interest. The aggregate principal amount of the February 2017 Debentures outstanding was $46,000 as at June 30, 2021 and on redemption date. The Company drew $40,000 from its credit facility and used cash on hand to fund the redemption and associated interest.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

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

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

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

The convertible debentures are comprised of as follows:		**June 30, 2021**		December 31, 2020
Issued	**$**	**91,000**	$	91,000
Unamortized financing cost and amount classified as equity component		**(1,487)**		(2,038)
Debentures, end of period	**$**	**89,513**	$	88,962

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

	Three months ended June 30,				Six months ended June 30,			
		2021		**2020**		**2021**		**2020**
Interest on the convertible debentures	**$**	**1,223**	$	1,841	**$**	**2,446**	$	3,683
Amortization of issue costs and accretion of the convertible debentures		**320**		358		**551**		716
Total	**$**	**1,543**	$	2,199	**$**	**2,997**	$	4,399

(In thousands of Canadian dollars)

9. COMMON SHARES

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

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

On June 10, 2021, the Company filed a base shelf prospectus in all provinces and territories of Canada.

The changes in the number of common shares were as follows:	Six months ended June 30,	
	2021	**2020**
Balance, beginning of period	**80,887,433**	83,254,130
Issuance of common shares	**15,200**	—
Common shares issued under dividend reinvestment plan	**268,158**	269,348
Common shares repurchased for dividend reinvestment plan	**(47,808)**	(151,530)
Common shares repurchased under normal course issuer bid	**—**	(2,059,636)
Balance, end of period	**81,122,983**	81,312,312

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

The Company announced on June 18, 2021 that it has established an ATM Program which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to $90,000 to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement are 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 are at the market prices prevailing at the time of sale, and therefore prices vary between purchasers and over time.

The Company currently intends to use the net proceeds of the ATM Program for general investment and working capital purposes, including, if and as required, repaying amounts owing under its secured revolving credit facility. The credit facility is used for day to day working capital requirements of the Company and for other general corporate purposes, particularly the funding of mortgage loans.

During Q2 2021, the Company issued 15,200 of common shares for gross proceeds of $145 at an average price of $9.35 per common share and paid $3 in commissions to the agent, pursuant to the equity distribution agreement.

(b) Dividend reinvestment plan ("DRIP")

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

During Q2 2021 and YTD 2021, the Company purchased from open market nil and 47,808 common shares (Q2 2020 – 151,530 and YTD 2020 – 151,530) for total amount of nil and $416 (Q2 2020 – $1,198; YTD 2020 – $1,198). During YTD 2021, common shares were purchased from open market at an average price of $8.69 per common share.

During Q2 2021 and YTD 2021, the Company issued from treasury 130,308 and 220,350 common shares (Q2 2020 – nil and YTD 2020 – 117,818) and retained $1,172 and $1,955 in dividends (Q2 2020 – nil; YTD 2020 – $1,134). During YTD 2021, common shares were issued from treasury at an average price of $8.87 per common share.

(c) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q2 2021 and YTD 2021, the Company declared dividends of $13,984 or $0.1725 per common share and $27,945 or $0.3450 per common share (Q2 2020 – $14,155, $0.1725 per share and YTD 2020 – $28,530, $0.3450 per share).

As at June 30, 2021, $4,664 in aggregate dividends (December 31, 2020 – $4,651) were payable to the holders of common shares by the Company. Subsequent to June 30, 2021, the Board of Directors of the Company declared dividends of $0.0575 per common share to be paid on July 15, 2021 to the common shareholders of record on June 30, 2021.

(d) Normal course offering bid (NCIB)

On April 13, 2021, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,030,909 common shares over a 12-month period. Repurchases under the NCIB commenced on April 15, 2021 and will continue until April 14, 2022, 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.

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.

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

During Q2 2021 and YTD 2021, 9,387 and 18,748 units were issued (Q2 2020 and YTD 2020 – 11,163 and 20,550) and as at June 30, 2021, 126,935 units were outstanding (December 31, 2020 – 108,187 units). No DSUs were exercised or canceled, resulting in a DSU expense of $86 and $169 (Q2 2020 and YTD 2020 – $87 and YTD 2020 – $186). As at June 30, 2021, $86 (December 31, 2020 – $81) in compensation was granted in DSUs, which will be issued subsequent to June 30, 2021.

11. MANAGEMENT, SERVICING AND ARRANGEMENT FEES

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

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

During Q2 2021 and YTD 2021, the Company incurred management fees plus applicable taxes of $2,997 and $5,888 (Q2 2020 – $3,153; YTD 2020 – $6,270) and servicing fees including applicable taxes of $165 and $357 (Q2 2020 – $206 ; YTD 2020 – $404). During Q2 2021 and YTD 2021, Arrangement Fees of $806 and $1,117 paid by borrower were retained by the Manager (Q2 2020 – $42 and YTD 2020 – $42).

12. EARNINGS PER SHARE

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

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

Diluted earnings per share are calculated by adding back the interest expense relating to the 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.

Notes to the Interim Condensed Consolidated Financial Statements

(In thousands of Canadian dollars)

The following table shows the computation of per share amounts:	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Total net income and comprehensive income (basic)	**$ 13,485**	$ 11,743	**$ 28,476**	$ 19,168
Interest expense on convertible debentures	**—**	—	**1,386**	—
Total net income and comprehensive income (diluted)	**$ 13,485**	$ 11,743	**$ 29,862**	$ 19,168
Weighted average number of common shares (basic)	**81,046,462**	82,293,201	**80,982,826**	82,804,719
Effect of conversion of convertible debentures	**—**	—	**4,054,054**	—
Weighted average number of common shares (diluted)	**81,046,462**	82,293,201	**85,036,880**	82,804,719
Earnings per share – basic	**$ 0.17**	$ 0.14	**$ 0.35**	$ 0.23
Earnings per share – diluted	**$ 0.17**	$ 0.14	**$ 0.35**	$ 0.23

13. CHANGE IN NON-CASH OPERATING ITEMS

	Three months ended June 30,		Six months ended June 30,	
Change in non-cash operating items:	**2021**	**2020**	**2021**	**2020**
Other assets	**$ 688**	$ (3,239)	**$ (1,068)**	$ (2,039)
Accounts payable and accrued expenses	**1,183**	20	**1,247**	217
Due to Manager	**(948)**	17	**(1,011)**	45
Prepaid mortgage and other loans interest	**(686)**	3,230	**696**	2,883
Mortgage and other loans funding holdbacks	**(1,168)**	(246)	**(860)**	(1,502)
	$ (931)	$ (218)	**$ (996)**	$ (396)

14. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Six months ended June 30,	
Debentures	**2021**	**2020**
Balance, beginning of period	**$ 88,962**	$ 133,033
Amortization of issue costs and accretion expense	**551**	716
Balance, end of period	**$ 89,513**	$ 133,749

	Six months ended June 30,	
Credit Facilities	**2021**	**2020**
Balance, beginning of period	**$ 488,955**	$ 490,389
Deferred financing cost[1]	**(1,226)**	(134)
Net credit facility (repayments) advances – mortgage investments	**10,688**	(16,000)
Total financing cash flow activities	**9,462**	(16,134)
Amortization of financing costs	**655**	537
Balance, end of period	**$ 499,072**	$ 474,792

[1] Deferred financing cost is included in interest paid section in the interim condensed consolidated statement of cash flow

15. RELATED PARTY TRANSACTIONS

(a) As at June 30, 2021, due to Manager mainly includes management and servicing fees payable of $79 (December 31, 2020 – $1,089).

(b) During Q2 2021 and YTD 2021, Arrangement Fees of $806 and $1,117 paid by borrower were retained by the Manager (Q2 2020 – $42 and YTD 2020 – $42).

(c) As at June 30, 2021, included in other assets is $5,721 (December 31, 2020 – $14,000) 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 June 30, 2021, the Company has the following mortgage investments which a director or directors of the Company are also officers and part-owners of a syndication partner of these mortgages

- A mortgage investment with a total gross commitment of $11,611 (December 31, 2020 – $11,611). The Company's share of the commitment is $931 (December 31, 2020 – $931). For the three months and six months ended June 30, 2021, the Company has recognized net interest income of $26 and $52 (Q2 2020 and YTD 2020 – nil) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of $45,715 (December 31, 2020 – $45,715). The Company's share of the commitment is $4,153 (December 31, 2020 – $4,153). For the three months and six months ended June 30, 2021, the Company has recognized net interest income of $60 and $119 (Q2 2020 and YTD 2020 – nil) from this mortgage investment during the period.

(e) As at June 30, 2021, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 2 mortgage (December 31, 2020 – 1) totaling $64,844 (December 31, 2020 – $21,711). The Company's share in this mortgage investment is $19,206 (December 31, 2020 – $6,431).

(f) As at June 30, 2021, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling $5,206 or €3,541 (December 31, 2020 – $5,819 or €3,704), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager. During Q2 2021 and YTD 2021, the Company received a cash distribution of $707 from TREF Ireland 1.

16. CAPITAL RISK MANAGEMENT

The Company manages its capital structure in order to support ongoing operations while focusing on its primary objectives of preserving shareholder capital and generating a stable monthly cash dividend to shareholders. The Company defines its capital structure to include common shares, 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 June 30, 2021, the Company was in compliance with its investment restrictions.

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

17. RISK MANAGEMENT

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

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

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of June 30, 2021, $1,131,727 of net mortgage investments and $11,271 of other investments bear interest at variable rates (December 31, 2020 – $1,019,219 and $10,968, respectively). Net mortgage investments totaling $977,547 have a "floor rate" (December 31, 2020 – $935,458).

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 for the next 12 months would be a decrease in net income of $46 (December 31, 2020 – $78) or an increase in net income of $2,035 (December 31, 2020 – $243). 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 $500,201 as at June 30, 2021 (December 31, 2020 – $489,514). 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 June 30, 2021, net exposure to interest rate risk was $234,110 (December 31, 2020 – $215,302), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will decrease or increase net income and comprehensive income for the next 12 months by $1,171 (December 31, 2020 – $1,077).

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

(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 June 30, 2021, the Company has US$14,696 and €3,541 in other investments denominated in foreign currencies (December 31, 2020 – US$5,050 and €3,704 in other investments). The Company has entered into a series of foreign currency contracts to reduce the its exposure to foreign currency risk. As at June 30, 2021, the Company has one U.S. dollar currency forward contract with an aggregate notional value of US$5,050, at a weighted average forward contract rate of 1.2615, maturing in July 2021 and one Euro currency contract with an aggregate notional value of €3,500 at contract rate of 1.4869, maturing in October 2021.

The fair value of the foreign currency forward contracts as at June 30, 2021 is an asset of $158 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 June 30, 2021 relating to net mortgages and other investments amount to $1,247,584 (December 31, 2020 – $1,236,299).

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.

(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 June 30, 2021, including expected interest payments:

June 30, 2021	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	$ 4,534	$ 4,534	$ 4,534	$ —	$ —
Dividends payable	4,664	4,664	4,664	—	—
Due to Manager	79	79	79	—	—
Mortgage and other loans funding holdbacks	1,317	1,317	1,317	—	—
Prepaid mortgage and other loans interest	4,404	4,404	4,404	—	—
Derivative liability (interest rate swap contract)	1,989	1,989	1,989	—	—
Credit facility (mortgage investments)[1]	468,397	490,756	11,420	479,336	—
Credit facility (investment properties)[2]	30,675	30,948	30,948	—	—
Convertible debentures[3]	89,513	98,311	48,541	2,385	47,385
	$ 605,572	$ 637,002	$ 107,896	$ 481,721	$ 47,385
Unadvanced mortgage commitments[4]	—	334,419	334,419	—	—
Total contractual liabilities, excluding mortgage syndication liabilities[5]	$ 605,572	$ 971,421	$ 442,315	$ 481,721	$ 47,385

1 Credit facility (mortgage investments) includes interest based upon June 2021 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on May 10, 2023.

2 Credit facility (investment properties) includes interest based upon June 2021 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on 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 maturity on June 30, 2024. On July 23, 2021 the Company repaid the full outstanding amount of the February 2017 convertible unsecured subordinated debenture.

4 Unadvanced mortgage commitments include syndication commitments of which $227,353 belongs to the Company's syndicated partners.

5 The principal repayments of $507,069 mortgage syndication liabilities by contractual maturity date are shown net with mortgage investments in note 4(b).

As at June 30, 2021, the Company had a cash position of $407 (December 31, 2020 – $428), an unutilized credit facility (mortgage investments) balance of $65,489 (December 31, 2020 – $76,176) and an unutilized credit facility (investment properties) balance of nil (December 31, 2020 – nil). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

(In thousands of Canadian dollars)

18. FAIR VALUE MEASUREMENTS

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

		Carrying value		
As at June 30, 2021	**Note**	**Amortized cost**	**Fair value through profit or loss**	**Fair value**
Assets measured at fair value				
Investment properties	5	$ —	$ 48,059	$ 48,059
Financial assets				
Cash and cash equivalents		407	—	407
Other assets		7,202	158	7,360
Mortgage investments, including mortgage syndications		1,600,326	64,434	1,664,760
Other investments	4(e)	69,833	5,208	75,041
Financial liabilities				
Accounts payable and accrued expenses		3,323	1,211	4,534
Dividends payable		4,664	—	4,664
Due to Manager		79	—	79
Mortgage funding holdbacks		1,317	—	1,317
Prepaid mortgage interest		4,404	—	4,404
Derivative liability (interest rate swap contract)		—	1,989	1,989
Credit facility (mortgage investments)		468,397	—	469,511
Credit facility (investment properties)		30,675	—	30,690
Convertible debentures		89,513	—	91,835
Mortgage syndication liabilities		506,738	—	506,738

		Carrying value		
As at December 31, 2020	**Note**	**Amortized cost**	**Fair value through profit or loss**	**Fair value**
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

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 June 30, 2021.

19. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During Q2 2021 and YTD 2021, the compensation expense of the members of the Board of Directors amounts to $86 and $169 (Q2 2020 – $87 and YTD 2020 – $186), which is paid in a combination of DSUs and cash. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (note 11).

20. COMMITMENTS AND CONTINGENCIES

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

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

21. SUBSEQUENT EVENTS

On July 8, 2021 the Company completed a public offering of $50,000, plus an over-allotment of $5,000 was completed on July 15, 2021 of 5.25% convertible unsecured subordinated debentures of the Company due July 31, 2028 (the "2021 Debentures") for net proceeds of $52,696**.** The 2021 Debentures will mature on July 31, 2028 and will accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on January 31 and July 31 of each year, commencing January 31, 2022. The 2021 Debentures are convertible into common shares at the option of the holder at any time prior to their maturity at a conversion price of $11.40 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures.

On and after July 31, 2024 and prior to July 31, 2026, the 2021 Debentures may be redeemed, in whole or in part, from time to time at the Company's option at par plus accrued and unpaid interest, provided that the weighted average trading price of the common shares of the Company on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of the redemption is given is not less than 125% of the conversion price. On and after July 31, 2026, the Company may, at its option, redeem the 2021 Debentures, in whole or in part, from time to time at par plus accrued and unpaid interest.