

Consolidated Financial Statements of

# Timbercreek Financial

Years ended December 31, 2017 and 2016



# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Timbercreek Financial Corp.

We have audited the accompanying consolidated financial statements of Timbercreek Financial Corp. (the "Company"), formerly Timbercreek Mortgage Investment Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of net income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a single horizontal line.

Chartered Professional Accountants, Licensed Public Accountants

March 5, 2018

Toronto, Canada

# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of Canadian dollars

As at December 31,	Note	2017	2016
<b>ASSETS</b>			
Cash and cash equivalents		\$ 700	\$ 61
Other assets	15(b)	8,672	3,191
Mortgage investments, including mortgage syndications	4(a)(b)(c)(d)	1,554,369	1,549,849
Other investments	4(e)	57,934	9,828
Investment properties	5	42,748	–
Foreclosed properties held for sale	6	336	11,041
<b>Total assets</b>		<b>\$ 1,664,759</b>	<b>\$ 1,573,970</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and accrued expenses		\$ 5,426	\$ 2,188
Dividends payable	10(b)	4,271	4,210
Due to Manager	15(a)	1,140	819
Mortgage funding holdbacks		200	137
Prepaid mortgage interest		1,960	682
Credit facility	7	394,046	299,000
Convertible debentures	9	163,946	76,757
Mortgage syndication liabilities	4(a)(c)	440,648	543,505
<b>Total liabilities</b>		<b>1,011,637</b>	<b>927,298</b>
<b>Shareholders' equity</b>		<b>653,122</b>	<b>646,672</b>
<b>Total liabilities and equity</b>		<b>\$ 1,664,759</b>	<b>\$ 1,573,970</b>

Commitments and contingencies 4, 7 and 22

Subsequent events 10(b) and 23

See accompanying notes to the consolidated financial statements.

# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## CONSOLIDATED STATEMENT OF NET INCOME AND COMPREHENSIVE INCOME

In thousands of Canadian dollars, except per share amounts

Year ended December 31,	Note	2017	2016
Investment income			
Gross interest and other income, including mortgage syndications	4(b) and (e)	\$ 115,535	\$ 83,002
Interest and other income on mortgage syndications		(26,598)	(21,580)
Net investment income		88,937	61,422
Net rental income			
Revenue from investment properties	8	569	–
Property operating costs		(376)	–
Net rental income		193	–
Expenses			
Management fees	12	10,649	7,926
Servicing fees	12	580	300
Performance fees	12	–	1,207
Provision for mortgage investments loss	4(d)	800	–
General and administrative		1,727	758
Total expenses		13,756	10,191
<b>Income from operations</b>		<b>75,374</b>	<b>51,231</b>
Net operating income from foreclosed properties held for sale		70	23
Fair value adjustment on foreclosed properties held for sale	6	(190)	(1,075)
Termination of management contracts	20	–	(7,438)
Transaction costs relating to the Amalgamation	20	–	(1,657)
Bargain purchase gain	20	–	15,154
Financing costs			
Interest on credit facility	7	13,074	6,281
Interest on convertible debentures	9	9,976	3,958
Total financing costs		23,050	10,239
<b>Net income and comprehensive income</b>		<b>\$ 52,204</b>	<b>\$ 45,999</b>
Earnings per share			
Basic	13	\$ 0.70	\$ 0.80
Diluted	13	\$ 0.70	\$ 0.80

See accompanying notes to the consolidated financial statements.

# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Canadian dollars

<b>Year Ended December 31, 2017</b>	<b>Common Shares</b>	<b>Retained Earning</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
Balance, December 31, 2016	\$ 647,173	\$ (1,272)	\$ 771	\$ 646,672
Issuance of convertible debentures, net of issue costs	–	–	1,167	1,167
Common shares issued as part of the acquisition of TSMIC	–	–	–	–
Common shares issued to the Manager	–	–	–	–
Dividends	–	(50,736)	–	(50,736)
Issuance of common shares under dividend reinvestment plan	4,146	–	–	4,146
Repurchase of common shares	(331)	–	–	(331)
Total net income and comprehensive income	–	52,204	–	52,204
Balance, December 31, 2017	\$ 650,988	\$ 196	\$ 1,938	\$ 653,122

<b>Year Ended December 31, 2016</b>	<b>Common Shares</b>	<b>Retained Earning</b>	<b>Equity Component of Convertible Debentures</b>	<b>Total</b>
Balance, December 31, 2015	\$ 369,162	\$ (7,378)	\$ 545	\$ 362,329
Issuance of convertible debentures, net of issue costs	–	–	226	226
Common shares issued as part of the acquisition of TSMIC	271,483	–	–	271,483
Common shares issued to the Manager	6,528	–	–	6,528
Dividends	–	(39,893)	–	(39,893)
Issuance of common shares under dividend reinvestment plan	3,156	–	–	3,156
Repurchase of common shares	(3,156)	–	–	(3,156)
Total net income and comprehensive income	–	45,999	–	45,999
Balance, December 31, 2016	\$ 647,173	\$ (1,272)	\$ 771	\$ 646,672

See accompanying notes to the consolidated financial statements.

# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## CONSOLIDATED STATEMENT OF CASH FLOW

In thousands of Canadian dollars

Year ended December 31,	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Total net income and comprehensive income		\$ 52,204	\$ 45,999
Amortization of lender fees		(7,858)	(5,720)
Lender fees received		6,802	5,905
Interest and income, net of syndications		(80,138)	(55,488)
Interest and other income received, net of syndications		76,423	52,656
Financing costs		23,050	10,245
Realized gain on disposal of marketable securities		(89)	–
Unrealized loss on marketable securities		41	–
Net realized and unrealized foreign exchange loss		158	–
Fair value adjustment on foreclosed properties held for sale		190	1,075
Provision for mortgage investment loss		800	–
Termination of management contracts		–	6,528
Bargain purchase gain		–	(15,154)
Net change in non-cash operating items	14	(2,068)	(4,596)
		69,515	41,450
<b>FINANCING ACTIVITIES</b>			
Net credit facility advances – mortgage investments		65,334	65,118
Net credit facility advances – investment properties		30,175	–
Net proceeds from issuance of convertible debentures		86,437	43,498
Interest paid		(19,835)	(10,167)
Dividends paid		(46,531)	(39,688)
Repurchase of common shares		(331)	–
		115,249	58,761
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposition of foreclosed properties held for sale		951	720
Acquisition of investment properties, net of debt assumed	5	(41,297)	–
Addition to investment properties		(1,451)	–
Net payments on maturity of forward contracts		1,252	–
Funding of other investments		(53,970)	9,828
Proceeds of other investments		11,227	–
Funding of mortgage investments, net of mortgage syndications		(474,810)	(430,822)
Discharges of mortgage investments, net of mortgage syndications		374,022	339,640
		(184,076)	(100,290)
Net foreign exchange loss on cash accounts		(49)	–
Increase (decrease) in cash and cash equivalents		688	(79)
Cash and cash equivalents, beginning of year		61	140
<b>Cash and cash equivalents, end of year</b>		<b>\$ 700</b>	<b>\$ 61</b>

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".

On June 30, 2016, Timbercreek Mortgage Investment Corporation ("TMIC") and Timbercreek Senior Mortgage Investment Corporation ("TSMIC") amalgamated to form the Company under the laws of the Province of Ontario by Articles of Arrangement ("Amalgamation"). Details of the Amalgamation are outlined in note 4. For purposes of financial reporting, TMIC was considered the acquirer and, as a result, these financial statements reflect the assets, liabilities and results from operations of TMIC prior to June 30, 2016, the effective date of the Amalgamation ("Effective Date"). References to the Company relating to periods prior to June 30, 2016 refer to TMIC. Results related to TSMIC's operations are included in the Company's financial results beginning June 30, 2016.

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 International Accounting Standards Board.

Certain comparative amounts have been reclassified to conform with the current period's presentation. Other investments have been separately presented on the statement of financial position as compared to the prior period where it was presented within mortgage investments. In addition, fees and other income, including mortgage syndications have been presented with gross interest and other income, including mortgage syndications. In the prior periods, these amounts were presented separately.

The consolidated financial statements were approved by the Board of Directors on March 5, 2018.

#### (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 the historical cost basis except for investment properties, foreclosed properties held for sale, marketable securities, participating debentures and foreign currency

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

forward contracts, which are measured at fair value through profit and loss ("FVTPL") at each reporting date. The functional currency of the Company is Canadian dollars.

### (d) Critical accounting estimates, assumptions and judgments

In the preparation of these consolidated financial statements, Timbercreek Asset Management Inc. (the "Manager") has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses.

In making estimates, the Manager relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Manager believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The significant estimates and judgments 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 Manager reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or appraisals are used to measure fair values, the Manager 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 5 – Mortgage and other investments, including mortgage syndications;

Note 6 – Investment properties;

Note 7 – Foreclosed properties held for sale; and

Note 19 – Fair value measurements.

#### Mortgage and other investments

The Company is required to make an assessment of the impairment of mortgage and other investments. Mortgage and other investments are considered to be impaired only if objective evidence indicates that one or more events ("loss



## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

events") have occurred after its initial recognition, that have a negative effect on the estimated future cash flows of that asset. Specifically, the Company will consider loss events including, but not limited to: (i) payment default by a borrower which is not cured during a reasonable period; (ii) whether security of the mortgage is significantly negatively impacted by some events; and (iii) financial difficulty experienced by a borrower. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, 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 Company applies judgment 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.

### Convertible debentures

The Manager 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.

### Business combinations

The Manager exercised judgement in determining the accounting treatment of the Amalgamation as described in note 4 which was accounted for in accordance with IFRS 3 – Business Combinations ("IFRS 3"). The Manager considered the guidance in IFRS 3 in determining which entity is considered the "acquirer" based on the relative voting rights in the combined entity after the transaction, the composition of the governing body of the combined entity and the terms of the exchange of equity interests, among others.

### Accounting for acquisitions

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

## 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. Cash and cash equivalents are classified as loans and receivables and carried at amortized cost.

### (b) Mortgage investments

Mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost using the effective interest method, less any impairment losses. Mortgage investments are assessed on each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered to be impaired only if objective evidence indicates

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

that one or more loss events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, 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 materially. The Company considers evidence of impairment for mortgage investments at both a specific asset and collective level. All individually significant mortgage investments are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but is not yet identifiable at an individual mortgage level. Mortgage investments that are not individually significant are collectively assessed for impairment by grouping together mortgage investments with similar risk characteristics.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

### (c) Other investments

Other investments may include collateralized loans, participating loans, debentures, joint ventures, finance lease receivables and marketable securities. Other investments, with the exception of certain investments, are classified as loans and receivables and are measured at amortized cost. Marketable securities and participating loans are classified at FVTPL.

### (d) 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.

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

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.

### **(e) 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 6(c)).

### **(f) 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 provision for mortgage investment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale ("FPHFS"). At each reporting date, FPHFS are measured at fair value, with changes in fair value recorded in profit or loss in the period they arise. The Company uses management's best estimate to determine fair value of the properties, which may involve frequent inspections, engaging realtors to assess market conditions based on previous property transactions or retaining professional appraisers to provide independent valuations.

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

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

### (g) 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.

### (h) 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.

### (i) Leases

Leases are classified as financing 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 loan 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.

### (j) Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum, as at the acquisition date, of the fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement, if applicable. Transaction and restructuring costs are expensed as incurred. The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquirer's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

fair values as at the acquisition date. Goodwill, if any, is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any non-controlling interest in the acquiree and c) fair value of any existing equity interest in the acquiree, over the fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. a bargain purchase gain) is recognized in profit or loss immediately.

### **(k) Financial instruments**

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value, plus, in the case of financial instruments not classified as FVTPL, any incremental direct transaction costs. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The classifications of the Company's financial instruments are outlined in note 18.

### **(l) Derecognition of financial assets and liabilities**

#### **Financial assets**

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 qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

#### **Financial liabilities**

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

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

### (m) Foreign currency forward contract

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

### (n) 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.

### (o) Changes in accounting policies

#### Annual Improvements to IFRS (2014-2016) Cycle

On December 8, 2016, the IASB issued narrow-scope amendments to IFRS 12 Disclosures of Interests in Other Entities ("IFRS 12") as part of its annual improvements process. A clarification was made that IFRS 12 also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017. Upon adoption of the amendment, the Company's financial statements were not materially impacted.

#### IAS 7 Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* ("IAS 7") which will require specific disclosures for movements in liabilities arising from financing activities on the statement of cash flows. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The Company has adopted the amendments to comply with the requirements.

### (p) Future changes in accounting policies

A number of new standards, amendments to standards and interpretations are effective in future periods and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

#### Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments apply for periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is



## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the new standard to have a material impact on the financial statements.

### **IFRS 9, Financial Instruments ("IFRS 9")**

The Company will adopt IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date. IFRS 9 must be applied retrospectively with some exemptions.

The Company will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transition provision. Under this approach, the 2017 comparative period will not be restated and a cumulative transition adjustment to the opening retained earnings, if required, will be recognized at January 1, 2018.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments and to contract assets. The new ECL model will require an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event. IFRS 9 requires the ECL model to consider past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a significant increase in credit risk since origination, and in calculating the amount of ECL.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company does not currently apply hedge accounting in its consolidated financial statements.

## Notes to the Consolidated Financial Statements

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The Company continues to refine its evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at December 31, 2017, the principal areas impacted are: classification of financial assets and impairment of financial assets. As at December 31, 2017, the Company identified a mortgage investment of \$72,300, including syndication balance of \$55,000, with profit participation features, which will be reclassified from amortized cost to FVTPL as this mortgage investment does not meet the 'solely for payments of principal and interest' requirement. The estimated fair value of this mortgage investment is not materially different from the amortized cost carrying value. In addition, the Company estimates the adoption of the new ECL model will not result in a material change to its current impairment provision. We continue to refine our assessment process which may change the actual impact on adoption.

### **IFRS 15, Revenue from Contracts with Customers ("IFRS 15")**

IFRS 15, Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2018, and will replace all existing guidance in IFRS related to revenue, including (but not limited to) IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 15 Agreements for the Construction of Real Estate. IFRS 15 contains a single, control-based model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard. The Company will adopt IFRS 15 in its financial statements for the annual period beginning January 1, 2018. The Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at January 1, 2018. As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented. Management does not expect that the adoption of IFRS 15 will have a material impact on the financial statements. However, additional disclosure requirements may result in separate disclosure of revenue for service components that are part of a lease (i.e. a non-lease component).

### **IFRS 16, Leases ("IFRS 16")**

On January 13, 2016, the IASB issued IFRS 16 Leases. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.



# TIMBERCREEK FINANCIAL

(formerly Timbercreek Mortgage Investment Corporation)

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

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

#### (a) Mortgage investments

As at December 31, 2017	Note	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications	4(b) and (c)	\$ 1,543,589	\$ (439,945)	\$ 1,103,644
Interest receivable		18,326	(1,584)	16,742
		1,561,915	(441,529)	1,120,386
Unamortized lender fees		(6,465)	881	(5,584)
Allowance for mortgage investments loss	4(d)	(1,081)	–	(1,081)
		\$ 1,554,369	\$ (440,648)	\$ 1,113,721

As at December 31, 2016	Gross mortgage investments	Mortgage syndication liabilities	Net
Mortgage investments, including mortgage syndications	\$ 1,542,198	\$ (542,052)	\$ 1,000,146
Interest receivable	16,536	(2,452)	14,084
	1,558,734	(544,504)	1,014,230
Unamortized lender fees	(7,735)	999	(6,736)
Allowance for mortgage investments loss	(1,150)	–	(1,150)
	\$ 1,549,849	\$ (543,505)	\$ 1,006,344

As at December 31, 2017, unadvanced mortgage commitments under the existing gross mortgage investments amounted to \$154,945 (2016 – \$160,715) of which \$60,755 (2016 – \$82,325) belongs to the Company's syndicated partners.

#### (b) Net mortgage investments

As at December 31,	%	2017	%	2016
Interest in first mortgages	93	\$ 1,026,395	84	\$ 841,108
Interest in non-first mortgages	7	77,249	16	159,038
	100	\$ 1,103,644	100	\$ 1,000,146

The mortgage investments are secured by real property and will mature between the remainder of 2018 and 2022 (December 31, 2016 – 2017 and 2022). During the year ended December 31, 2017, the Company generated net interest income and other income excluding lender fee income of \$76,706 (2016 – \$55,701). During the year ended December 31, 2017, the weighted average interest rate earned on the net mortgage investments was 7.0% (2016 – 7.9%).

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.

## Notes to the Consolidated Financial Statements

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

2018	\$	551,520
2019		319,538
2020		199,808
2021		31,500
2022 and thereafter		1,278
<b>Total</b>	<b>\$</b>	<b>1,103,644</b>

**(c) Mortgage syndication liabilities**

The Company has entered into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. The Company generally retains an option to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. Under certain participation agreements, the Company has retained a residual portion of the credit and/or default risk as it is holding the residual interest in the mortgage investment. As a result, the lender's portion of these mortgages is recorded as a mortgage investment with the transferred position recorded as a non-recourse mortgage syndication liability. The interest and fees earned on the transferred participation interests and the related interest expense is recognized in profit and loss and accordingly, only the Company's portion of the mortgage is recorded as mortgage investment. The fair value of the transferred assets and mortgage syndication liabilities approximate their carrying values (see note 20).

**(d) Allowance for mortgage investments loss**

As at December 31, 2017, the Company has concluded that there is no objective evidence of impairment on any individual mortgage investment other than those previously recorded. At a collective level, the Company assesses for impairment to identify losses that have been incurred, but not yet identified, on an individual basis. As part of the Company's analysis, it has grouped mortgage investments with similar risk characteristics, including geographical exposure, collateral type, loan-to-value, counterparty and other relevant groupings, and assesses them for impairment using available data. Based on the amounts determined by the analysis, the Company uses judgement to determine whether the actual future losses are expected to be greater or less than the amounts calculated. For the year ended December 31, 2017 collective impairment of \$800 was recognized (2016 – nil).

As at December 31, 2017, the Company has no specific unrealized impairment allowance (2016 – \$900) and a collective unrealized allowance of \$1,081 (2016 – \$250).

On August 16, 2017, the Company received \$38,918, representing full repayment of the original mortgage principal (net of syndications), Debtor-in-possession financing and accrued interest, from first mortgage investments located in Saskatchewan which the borrower had filed for protection under the Companies' Creditor Arrangement Act in December 2016. These first mortgage investments were repaid as a result of the sale of the underlying properties, along with other properties of the same default borrower (the "Saskatchewan Portfolio").

As at December 31, 2017, the Company has identified one net mortgage investment with a carrying value of \$16,000 located in Ontario that is considered to be in default due to accrued overdue interest for more than 90 days and has past its

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

contractual maturity date as of the report date. The Manager has evaluated the current status of the borrower, mortgage, and the value of the underlying assets and concluded that there is no objective evidence of impairment.

### (e) Other investments

As at December 31, 2017, the Company held \$50,873 in collateralized loans and financial lease receivable measured at amortized cost (December 31, 2016 - \$9,828), \$1,710 in participating loans measured at fair value through profit and loss (December 31, 2016 - nil), \$3,137 in marketable securities measured at fair value through profit and loss (December 31, 2016 - nil), and \$2,214 in an indirect real estate development through a joint venture recognized using the equity method (December 31, 2016 - nil).

Certain investments are measured at FVTPL. During 2017, the Company acquired \$6,138 and disposed \$1,384 worth of investments. Ending balance that are measured at FVPTL, after fair value adjustment and net foreign exchange gain of \$93, was \$4,847.

For the year ended December 31, 2017, loan investments generated net interest income of \$4,368 (2016 - \$186), earned a weighted average yield of 11.5% (2016 - 10.5%) and net lender fee income of \$260 (2016 - \$6). For the year ended December 31, 2017, the Company received net lender fees from loan investments of \$357 (2016 - \$143), which are amortized over the term of the related other loan investments using the effective interest rate method.

In October, 2017, the Company entered into an 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of \$5,400 at the time of the transaction. According to the terms of the lease, the lessee has the obligation to purchase the property at \$9,934 at the end of the lease term on September 2038 and the option to purchase the property earlier at a prescribed purchase price schedule. The Company has classified the lease as a finance lease and the lease receivable balance of \$5,964 is included in other investments. Concurrently, the Company entered into a \$3,300 construction loan on the leased property with the lessee which is included in other loan investments. The lease payment will begin in the third quarter of 2018.

The lease receivable payments are due as follows:

	Future minimum lease payments	Present value of minimum lease payments
Less than one year	\$ 12	\$ 11
Between one and five years	267	221
More than five years	13,311	5,732
	\$ 13,590	\$ 5,964

## 5. INVESTMENT PROPERTIES

### (a) Acquisition of investment properties

Investment properties have been recorded as asset acquisitions and recognized initially at acquisition cost plus transaction costs with the results of operations included in these financial statements from the date of acquisition. On August 16, 2017, the Company acquired a 20.46% undivided beneficial interest in the Saskatchewan Portfolio which comprised 14 investment properties totaling 1,079 units that are located in Saskatoon and Regina, Saskatchewan for a total purchase price

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

of \$201,695 (the Company's share is \$41,267). The Company is entitled to receive incremental profits from the excess returns generated over certain thresholds.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed as follows:

	<b>Total</b>
Income properties	\$ 35,636
Property under development	5,655
Other assets and liabilities, net	(24)
<b>Total purchase price allocation</b>	<b>\$ 41,267</b>
Cash paid	\$ 11,673
Credit facility advance	29,594
<b>Total purchase price allocation</b>	<b>\$ 41,267</b>

**(b) Investment properties**

	<b>Total</b>
Balance, beginning of the year	\$ -
Acquisition of income properties	35,636
Acquisition of property under development	5,655
Additions – development expenditures	696
Additions – capital expenditures	761
<b>Balance, end of year</b>	<b>\$ 42,748</b>

As at December 31, 2017, the investment properties are pledged as security for the credit facility (note 8(b)).

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

The fair values of the Company's investment properties are sensitive to changes in the key valuation assumptions. As at December 31, 2017, the weighted average capitalization rate for the Company's investment properties was 5.34%. The estimated fair value would increase by \$1,741 if overall capitalization rates were lower by 25bps; whereas estimated fair value would decrease by \$1,586 if overall capitalization rates were higher by 25bps. In addition, the estimated fair value would increase by \$355 if stabilized net operating income were higher by 1%; whereas estimated fair value would decrease by \$355 if stabilized net operating income were lower by 1%. The carrying value of the property under development approximates its fair value as construction is in its preliminary phase.

**(c) Co-ownership interests**

The Saskatchewan Portfolio 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 16(g)).

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

Jointly Controlled Assets	Location	Property Type	Ownership Interest	
			December 31, 2017	December 31, 2016
Saskatchewan Portfolio	Saskatoon & Regina, SK	Income Properties & Development Property	20.46%	-

**6. FORECLOSED PROPERTIES HELD FOR SALE**

As at December 31, 2017, there is one foreclosed property held for sale ("FPHFS") (December 31, 2016 – three) which is recorded at its fair value of \$336 (December 31, 2016 – \$11,041). The fair value has been categorized as a level 3 fair value, based on inputs used in internal fair value assessments.

In June 2017, the Company disposed of a foreclosed property with a book value of \$5,000 resulting in a net loss of \$143. As part of the sale, the Company issued the purchaser a mortgage of \$4,400 due in 2020. In July 2017, the Company disposed one residential unit (2016 – five) within a foreclosed residential property for net proceeds of \$112 (2016 – \$720).

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 and recorded a fair value gain of \$146. Refer to note 4(e).

During the year ended December 31, 2017, the Company has recorded a total fair market value adjustment of \$(190) on one (2016 – two) of its FPHFS in Saskatchewan (2016 – \$1,075).

The key valuation techniques used in measuring the fair values of the FPHFS are set out in the following table:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Direct Capitalization Method. The valuation method is based on stabilized net operating income ('NOI') divided by an overall capitalization rate.	<ul style="list-style-type: none"> <li>Stabilized NOI is based on the location, type and quality of the property and supported by current market rents for similar properties, adjusted for estimated vacancy rates and expected operating costs.</li> <li>Capitalization rate is based on location, size and quality of the property and takes into account market data at the valuation date.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>Stabilized NOI was higher (lower)</li> <li>Overall capitalization rates were lower (higher)</li> </ul>
Direct Sales Comparison	The fair value is based on comparison to recent sales of properties of similar types, locations and quality.	The significant unobservable input is adjustments due to characteristics specific to each property that could cause the fair value to differ from the property to which it is being compared.

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The changes in the FPHFS during the years ended December 31, 2017 and 2016 were as follows:

As at December 31,	Note	2017	2016
Balance, beginning of year		\$ 11,041	\$ 12,836
Disposition		(5,115)	–
Transfer	4(e)	(5,400)	–
Fair market value adjustment		(190)	(1,075)
Balance, end of year		\$ 336	\$ 11,041

## 7. CREDIT FACILITY

As at December 31,	2017	2016
Credit facility – mortgage investments	\$ 365,914	\$ 300,580
Credit facility - investment properties	30,175	–
Unamortized financing costs	(2,043)	(1,580)
Total credit facility	\$ 394,046	\$ 299,000

## (a) Credit facility – mortgage investments

Concurrent with the Amalgamation, effective June 30, 2016, the Company entered into a credit facility agreement with a credit limit of \$350,000 and a maturity date of May 2018. The credit facility is secured by a general security agreement over the Company's assets and its subsidiaries. On June 20, 2017, the Company increased the credit limit by \$50,000 to \$400,000 through the utilization of the accordion feature. On December 21, 2017, the Company further amended the credit facility agreement (the "Amended Credit Agreement") for a credit limit of \$400,000 which may be increased by \$100,000 through an accordion feature, subject to certain conditions. The credit facility will mature on December 20, 2019.

The rates of interest and fees of the Amended Credit Agreement and previous credit agreements remain unchanged which are at either the prime rate of interest plus 1.25% per annum (December 31, 2016– prime rate of interest plus 1.25% per annum) or bankers' acceptances with a stamping fee of 2.25% (December 31, 2016 – 2.25%), and standby fee of 0.5625% per annum (December 31, 2016 – 0.5625%) on the unutilized credit facility balance. As at December 31, 2017, the Company's qualified credit facility limit is \$392,536 and is subject to a borrowing base as defined in the new amended and restated credit agreement.

As at December 31, 2017, the Company has incurred financing costs of \$3,748 relating to the credit facility, which includes upfront fees, legal and other costs. During the year ended December 31, 2017, the Company incurred additional financing costs of \$1,607, the majority of which relates to the exercise of the accordion feature. The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the new credit facility agreement. The unamortized financing costs from the previous credit facility agreement prior to the Amalgamation had been fully amortized at the time of the Amalgamation.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2017, included in financing costs is interest on the credit facility of \$11,376 (2016 – \$5,506) and financing costs amortization of \$1,243 (2016 – \$775).

## Notes to the Consolidated Financial Statements

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### (b) Credit facility – investment properties

Concurrently with the Saskatchewan Portfolio acquisition, the Company and the co-owners entered into a credit facility agreement with a Schedule 1 Bank. Under the terms of the agreement, the co-ownership has 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.

This credit facility will mature on August 10, 2019 with an option to extend the credit facility by one year. The credit facility provides 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%. The credit facility is secured by a first charge on specific assets with a gross carrying value of \$208,933. The Company's share of the carrying value is \$42,748. The co-owners of the Saskatchewan Portfolio (note 6) 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, 2017, \$147,484 was outstanding on the credit facility. The Company's share of the outstanding amount is \$30,175.

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For the year ended December 31, 2017, included in financing costs is interest on the credit facility of \$432 (2016 – nil) and financing costs amortization of \$23 (2016 – nil).

## 8. 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 1 year and, in many cases, tenants lease rental space on a month-to-month basis. The operating leases mature between 2018 and 2019, except for one lease maturing in 2033. Rental revenue from operating leases was \$569 during the year ended December 31, 2017.

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

Year ended December 31,	2017	2016
Within 1 year	\$ 769	\$ –
2 to 5 years	55	–
Over 5 years	110	–

## 9. CONVERTIBLE DEBENTURES

- (a) On February 25, 2014, TMIC completed a public offering of \$30,000, plus an overallotment of \$4,500 on March 3, 2014, of 6.35% convertible unsecured subordinated debentures for net proceeds of \$32,533 (the "2014 debentures"). The 2014 debentures mature on March 31, 2019 and pay interest semi-annually on March 31 and September 30 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 \$11.25 per common share, subject to adjustment in certain events in accordance with the trust indenture governing the terms of the debentures. The 2014 debentures are redeemable on and after March 31, 2017 and prior to the maturity date by the Company, subject to certain conditions, in whole or in part, from time to time at



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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.

In accordance with the Amalgamation, the Company has assumed the obligations of TMIC in respect of the 2014 debentures in the aggregate principal amount of \$34,500.

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 \$545, 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 \$34,500. The issue costs of \$1,967 were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

- (b) On July 29, 2016, the Company completed a public offering of \$40,000, plus an over-allotment 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.

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.

- (c) On February 7, 2017, the Company completed a public offering of \$40,000, plus an over-allotment 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 and prior to March 31, 2021, 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.



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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.

- (d) 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 and prior to June 30, 2022, 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.

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

The debentures are comprised of as follows:

As at December 31,	2017	2016
Issued	\$ 171,300	\$ 80,300
Issue costs, net of amortization	(6,074)	(3,117)
Equity component	(2,043)	(814)
Issue costs attributed to equity component	105	43
Cumulative accretion	658	345
<b>Debentures, end of year</b>	<b>\$ 163,946</b>	<b>\$ 76,757</b>

## Notes to the Consolidated Financial Statements

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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,		2017	2016
Interest on the convertible debentures	\$	8,224	\$ 3,257
Amortization of issue costs		1,438	566
Accretion of the convertible debentures		314	135
<b>Total</b>	<b>\$</b>	<b>9,976</b>	<b>\$ 3,958</b>

### 10. 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.

As a result of the Amalgamation, 40,523,728 TF common shares were issued to shareholders of TMIC at a ratio of one-to-one; whereas 32,551,941 TF common shares were issued to shareholders of TSMIC at an exchange ratio of 1:1.035. For financial reporting purposes, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC (note 22).

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

Year ended December 31,	Note	2017	2016
Balance, beginning of year		73,858,499	40,523,728
Common shares issued as part of acquisition of TSMIC	20	—	32,551,941
Common shares issued to the Manager	12	—	782,830
Repurchased		(37,603)	(382,306)
Issued under dividend reinvestment plan		456,460	382,306
<b>Balance, end of year</b>		<b>74,277,356</b>	<b>73,858,499</b>

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

In connection with the Amalgamation, the DRIP under TMIC was terminated effective June 22, 2016 and a new DRIP was subsequently adopted by the Company on July 13, 2016.

The new DRIP has terms and conditions substantially similar to those of the terminated plan. 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 issued 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

## Notes to the Consolidated Financial Statements

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book value per common share. For the year ended December 31, 2017, 37,603 common shares were purchased on the open market (2016 - 382,306) and 456,460 were issued from treasury (2016 - nil).

### (b) 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, 2017, TF declared dividends of \$50,736, or \$0.69 per TF common share (2016 - \$39,893, \$0.70 per share). As at December 31, 2017, \$4,271 in aggregate dividends (December 31, 2016 - \$4,210) was payable to the holders of common shares of TF by the Company. Subsequent to December 31, 2017, the Board of Directors of the Company declared dividends of \$0.0575 per common share to be paid on February 15, 2018 to the common shareholders of record on January 31, 2018.

## 11. NON-EXECUTIVE DIRECTOR DEFERRED SHARE UNIT PLAN

Pursuant to the Amalgamation, on the Effective Date, the deferred share unit ("DSU") plan for TMIC was terminated and the outstanding DSUs were settled by TMIC in accordance with the terms of the respective plans. As a result, TMIC's outstanding DSUs of 30,497 were cancelled and \$300 was paid to the directors in July 2016.

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. Each director is also entitled to an additional 25% of DSUs that are issued in the quarter up to a maximum value of \$5 per annum.

The 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, 2017, 22,308 units were issued and outstanding and no DSUs were exercised or cancelled resulting in a DSU expense of \$205 based on a Fair Market Value of \$9.17 per common share. As at December 31, 2017, \$45 quarterly compensation was granted in DSUs, which will be issued subsequent to December 31, 2017 at the Fair Market Value.

## 12. MANAGEMENT AND SERVICING FEES

Concurrently with the Amalgamation, TMIC's management agreement with the Manager was terminated and a new management agreement was entered on the Effective Date. TMIC agreed to pay the Manager a termination fee of \$7,438 as compensation for the removal of the performance fees previously incurred by TMIC annually and the reduced management fee under the new agreement. The termination fee was settled in cash of \$910 for HST payable and the balance

## Notes to the Consolidated Financial Statements

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payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Under IFRS 2 – Share-based Payment, the share consideration is required to be measured based on the trading price of TMIC common shares on the settlement date, whereas, the actual consideration was based on the book value of TMIC at March 31, 2016.

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

Upon the termination of the management agreement, \$1,207 of performance fees accrued up to June 29, 2016 prior to the Amalgamation were paid to the Manager in August 2016.

For the year ended December 31, 2017, the Company incurred management fees plus applicable taxes of \$10,649 (2016–\$7,926) and servicing fees plus applicable taxes of \$580 (2016–\$300).

### 13. 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 convertible debentures to total net income and comprehensive income and increasing the weighted average number of common shares by treating the 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:

<b>Year ended December 31,</b>	<b>2017</b>	<b>2016</b>
Total net income and comprehensive income	\$ 52,204	\$ 45,999
Adjustment for dilutive effect of convertible debentures	7,262	1,284
Total net income and comprehensive income (diluted)	59,466	47,283
Weighted average number of common shares (basic)	74,054,541	57,373,271
Convertible debentures	10,871,603	1,942,419
Weighted average number of common shares (diluted)	84,926,144	59,315,690
<b>Earnings per share – basic and diluted</b>	<b>\$ 0.70</b>	<b>\$ 0.80</b>

\* 2014 debentures are excluded as they are anti-dilutive

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

Year ended December 31,	2017	2016
Change in non-cash operating items:		
Other assets	\$ (5,204)	\$ 473
Accounts payable and accrued expenses	1,473	(1,329)
Due to Manager	321	(2,047)
Prepaid mortgage interest	1278	(992)
Mortgage funding holdbacks	64	(701)
	\$ (2,068)	\$ (4,596)

### 15. CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Year ended December 31, 2017	
	Debentures	Credit Facilities
Balance, beginning of period	\$ 76,757	\$ 299,000
Debenture issuance	91,000	-
Capitalized issue cost	(4,563)	-
Capitalized financing cost	-	(1,728)
Net credit facility advances – mortgage investments	-	65,334
Net credit facility advances – investment properties	-	30,175
Total financing cash flow activities	86,437	93,780
Capitalized financing cost, net of amortization	1,608	1,266
Accretion expense	314	-
Equity component, net of issue costs attributed to equity component	(1,170)	-
Total financing non-cash flow activities	752	1,266
Balance, end of period	\$ 163,946	\$ 394,046

### 16. RELATED PARTY TRANSACTIONS

- (a) As at December 31, 2017, Due to Manager includes mainly management and servicing fees payable of \$1,140 (December 31, 2016 – \$819).
- (b) As at December 31, 2017, included in other assets is \$2,407 (December 31, 2016 – \$819) 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 funding holdbacks and prepaid mortgage interest received from various borrowers.
- (c) As at December 31, 2017, the Company has five mortgage investments which an independent director of the Company is also an officer and/or part-owner of the borrowers of these mortgages:

## Notes to the Consolidated Financial Statements

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- A mortgage investment with a total gross commitment of \$84,108 (December 31, 2016 – \$84,108). The Company's share of the commitment is \$29,108 (December 31, 2016 – \$29,108), of which \$15,066 (December 31, 2016 – \$7,270) has been funded as at December 31, 2017. For the year ended December 31, 2017, the Company has recognized net interest income of \$922 (2016 – \$243) from this mortgage investment during the year.
  - A mortgage investment with a total gross commitment of \$15,600 (December 31, 2016 – \$15,600). The Company's share of the commitment is \$5,970 (December 31, 2016 – \$5,970), of which \$3,636 (December 31, 2016 – \$3,634) has been funded as at December 31, 2017. For the year ended December 31, 2017, the Company has recognized net interest income of \$341 (2016 – \$255) from this mortgage investment during the year.
  - A mortgage investment with a total gross commitment of \$4,264 (December 31, 2016 – \$6,000). The Company's share of the commitment is \$4,264 (December 31, 2016 – \$5,100), of which \$1,992 (December 31, 2016 – \$2,029) has been funded as at December 31, 2017. For the year ended December 31, 2017, the Company has recognized net interest income of \$156 (2016 – \$38) from this mortgage investment during the year.
  - A mortgage investment with a total gross commitment of \$1,920 (December 31, 2016 – \$1,920). The Company's share of the commitment is \$1,920 (December 31, 2016 – \$1,920), of which \$1,920 (December 31, 2016 – \$1,920) has been funded as at December 31, 2017. For the year ended December 31, 2017, the Company has recognized net interest income of \$115 (2016 – \$10) from this mortgage investment during the year.
  - A mortgage investment with a total gross commitment of \$16,500 (December 31, 2016 – nil). The Company's share of the commitment is \$2,500 (December 31, 2016 – nil), of which \$2,403 (December 31, 2016 – nil) has been funded as at December 31, 2017. For the year ended December 31, 2017, the Company has recognized net interest income of \$84 (2016 – nil) from this mortgage investment during the year.
- (d) As at December 31, 2017, the Company, Timbercreek Four Quadrant Global Real Estate Partners ("T4Q"), Timbercreek Global Real Estate Fund and Timbercreek Canadian Direct LP, related parties as all are managed by the Manager, co-invested in 19 (December 31, 2016 – 10) gross mortgage investments totaling \$358,027 (December 31, 2016 – \$254,935). The Company's share in these gross mortgage investments is \$172,153 (December 31, 2016 – \$109,493). Included in these amounts is one net mortgage investments (December 31, 2016 – 2) totaling \$5,700 (December 31, 2016 – \$17,681) loaned to a limited partnership in which T4Q is invested.
- (e) As at December 31, 2017, the Company and T4Q invested in an indirect real estate development through a joint venture totaling \$2,214 (December 31, 2016 – nil).
- (f) As at December 31, 2017, the Company invested in junior unsecured debentures of Timbercreek Ireland Private Debt Designated Activity Company totaling \$1,710 or €1,144 (December 31, 2016 – nil), which is included in loan investments within other investments. Timbercreek Ireland Private Debt Designated Activity Company is managed by a wholly owned subsidiary of the Manager.
- (g) As part of the Saskatchewan Portfolio co-ownership, the Company, T4Q and a third-party co-owner have entered into property management agreements with the Manager. The Manager provides property and leasing services to each of the properties and is entitled to receive property management and capital improvements service fees (the "Property

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Management Fees") at the disclosed rates in the agreements. For the year ended December 31, 2017, Property Management Fees of \$52 was charged by the Manager to the Company (December 31, 2016 – nil). As at December 31, 2017, \$20 was payable to the Manager (December 31, 2016 – nil).

(h) As part of the procedure to complete the Saskatchewan Portfolio acquisition, the Company, T4Q and a third-party co-owner acquired one of the investment properties from TC Core LP, a related party by virtue of common management, which had temporarily held the property to facilitate the transaction procedure.

The above related party transactions are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### 17. INCOME TAXES

As of December 31 2017, the Company has non-capital losses carried forward for income tax purposes of \$31,450 (December 31, 2016 – \$29,750), which will expire between 2027 and 2037 if not used. The Company also has future deductible temporary differences resulting from share issuances, provision for impairment, prepaid mortgage interest, and unearned income for income tax purposes of \$8,144 (December 31, 2016 – \$10,639).

### 18. CAPITAL RISK MANAGEMENT

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

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

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

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.

### 19. 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.



## Notes to the Consolidated Financial Statements

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### (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, 2017, \$130,716 of net mortgage investments and \$8,058 of other investments bear variable interest rates. \$109,340 and \$6,348 of net mortgage investments and other investments have a "floor or ceiling rate", respectively. If there were a decrease of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments would be a decrease in net income of \$115 or an increase in net income of \$694, respectively. The Company manages its sensitivity to interest rate fluctuations by generally entering into fixed rate mortgage investments or adding a "floor-rate" to protect its negative exposure.

The Company is also exposed to interest rate risk on the credit facilities, which has a balance of \$396,089 as at December 31, 2017. Based on the outstanding credit facility balance as at December 31, 2017, 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 \$1,980 annually.

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 exposure to interest rate risk due to their short-term nature. Cash and cash equivalents carry a variable rate of interest and are subject to minimal interest rate risk and the debentures have no exposure to interest rate risk due to their fixed interest rate.

### (b) Currency risk

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

As at December 31, 2017, the Company has net mortgage and other investments foreign denominated currencies of USD \$20,706 and €1,144 (December 31, 2016 – USD \$2,917). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at December 31, 2017, the Company has six U.S. dollars currency contracts with an aggregate notional value of USD \$20,689, at a weighted average forward contract rate of 1.27 and maturity dates between January 2018 and May 2018, and two Euro currency contract with an aggregate notional value of €1,144 at an average contract rate of 1.52 and maturing October 2018. As a result, the Company is not exposed to any significant foreign currency risk.

The fair value of the foreign currency forward contract as at December 31, 2017 is an asset of \$67 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.



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**(c) Credit risk**

Credit risk is the risk that a borrower may be unable to honor 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 investments are approved by the investment committee before funding; and
- (iii) actively monitoring the mortgage investments and initiating recovery procedures, in a timely manner, where required.

The maximum exposure to credit risk at December 31, 2017 is the carrying values of its net mortgage and other investments, in addition to interest receivable recorded within other assets of \$894 (2016 – \$951), amounting to \$1,150,241 (2016 – \$1,025,129). The Company has recourse under these mortgage and the majority of other investments in the event of default by the borrower; in which case, the Company would have a claim against the underlying collateral.

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

**(d) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. This risk arises in the 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 as at December 31, 2017, including expected interest payments:

December 31, 2017	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years
Accounts payable and accrued expenses	\$ 5,426	\$ 5,426	\$ 5,426	\$ –	\$ –
Dividends payable	4,271	4,271	4,271	–	–
Due to Manager	1,140	1,140	1,140	–	–
Mortgage funding holdbacks	200	200	200	–	–
Prepaid mortgage interest	1,960	1,960	1,960	–	–
Credit facility – mortgage investments <sup>1</sup>	363,970	392,086	13,283	378,804	–
Credit facility – investment properties <sup>2</sup>	30,076	32,103	1,196	30,906	–
Convertible debentures <sup>3</sup>	163,946	187,002	42,048	52,135	92,819
	\$ 570,989	\$ 624,188	\$ 69,524	\$ 461,845	\$ 92,819
Unadvanced mortgage commitments <sup>4</sup>	–	154,945	154,945	–	–
<b>Total contractual liabilities</b>	<b>\$ 570,989</b>	<b>\$ 779,133</b>	<b>\$ 224,469</b>	<b>\$ 461,845</b>	<b>\$ 92,819</b>

1 Credit facility – mortgage investments includes interest based upon the current Q4 2017 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on December 20, 2019.

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- 2 Credit facility – investment properties includes interest based upon the current prime interest rate plus 1.50%, assuming the outstanding balance is not repaid until its maturity on August 10, 2019.
- 3 The 2014 debentures are deemed to be current as they are redeemable on and after March 31, 2017, the 2016 debentures are assumed to be redeemed on July 31, 2019 as they are redeemable on and after July 31, 2019, and the February 2017 debentures are assumed to be redeemed on March 30, 2020 as they are redeemable on and after March 30, 2020 and the June 2017 debentures are assumed to be redeemed on June 30, 2020 as they are redeemable on and after June 30, 2020.
- 4 Unadvanced mortgage commitments include syndication commitments of which \$60,755 belongs to the Company's syndicated partners.

As at December 31, 2017, the Company had a cash position of \$700 (December 31, 2016 – \$61), an unutilized credit facility – mortgage investments balance of \$34,086 (2016 – \$49,420) and credit facility – investment properties balance of \$3,102. The Company is confident that it will be able to finance its operations using the cash flow generated from operations and the credit facility. Included in the unadvanced mortgage commitments, \$60,755 (2016 – \$82,325) relates to the Company's syndication partners. The Company expects the syndication partners to fund this amount.

## 20. FAIR VALUE MEASUREMENTS

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

As at December 31, 2017	Carrying Value			Fair value
	Loans and receivable	Fair value through profit and loss	Other financial liabilities	
<b>Assets measured at fair value</b>				
Foreclosed properties held for sale (refer to note 6)	\$ –	\$ 336	\$ –	\$ 336
Investment properties (refer to note 5)	–	42,748	–	42,748
<b>Assets not measured at fair value</b>				
Cash and cash equivalents	700	–	–	700
Other assets	8,606	66	–	8,672
Mortgage investments, including mortgage syndications	1,554,369	–	–	1,554,369
Other investments (refer to note 4e)	50,873	4,847	–	55,720
<b>Financial liabilities not measured at fair value</b>				
Accounts payable and accrued expenses	–	–	5,426	5,426
Dividends payable	–	–	4,271	4,271
Due to Manager	–	–	1,140	1,140
Mortgage funding holdbacks	–	–	200	200
Prepaid mortgage interest	–	–	1,960	1,960
Credit facility	–	–	394,046	396,089
Convertible debentures	–	–	163,946	172,957
Mortgage syndication liabilities	–	–	440,648	440,648

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As at December 31, 2016	Carrying Value			
	Loans and receivable	Fair value through profit and loss	Other financial liabilities	Fair value
<b>Assets measured at fair value</b>				
Foreclosed properties held for sale	\$ –	\$ 11,041	\$ –	\$ 11,041
<b>Assets not measured at fair value</b>				
Cash and cash equivalents	61	–	–	61
Other assets	3,191	–	–	3,191
Mortgage investments, including mortgage syndications	1,549,849	–	–	1,549,849
Other investments	9,828	–	–	9,828
<b>Financial liabilities not measured at fair value</b>				
Accounts payable and accrued expenses	–	–	2,188	2,188
Dividends payable	–	–	4,210	4,210
Due to Manager	–	–	819	819
Mortgage funding holdbacks	–	–	137	137
Prepaid mortgage interest	–	–	682	682
Credit facility	–	–	299,000	300,581
Convertible debentures	–	–	76,757	80,416
Mortgage syndication liabilities	–	–	543,505	543,505

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 facility approximate their carrying amounts due to their short-term maturities.

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### (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 year ended December 31, 2017.

## 21. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The compensation expense of the members of the Board of Directors amounts to \$205 (2016 – \$223), 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 12).

## 22. ACQUISITION OF TSMIC

On June 30, 2016, TMIC and TSMIC amalgamated to form the Company. The synergies and scale created from the combined entity is expected to result in a larger float and better liquidity, improved prospects for earnings and dividend growth, improved portfolio characteristics and cost savings.

For financial reporting purposes, the Amalgamation was considered a business combination in accordance with IFRS 3 with TMIC considered as the “acquirer” and TSMIC as the “acquiree”. Accordingly, on the Effective Date, TMIC is considered to have acquired all of the issued and outstanding common shares of TSMIC. The Amalgamation resulted in each TMIC shareholder receiving one TF share for each TMIC share held and each TSMIC shareholder receiving 1.035 TF shares for each TSMIC share held. The total purchase price paid by TMIC consisted of 32,551,941 common shares of TMIC (representing 31,451,154 TSMIC shares at an exchange ratio of 1:1.035) and were valued at \$8.34 per share, representing TMIC’s closing share price as at June 29, 2016. Under IFRS 3, the share consideration is required to be measured based on the trading price of TMIC’s common shares on the closing date of the business combination; whereas, the actual consideration pursuant to the Amalgamation was based on the adjusted book value per share of TMIC and TSMIC as at March 31, 2016.

The Company recorded the identifiable assets and liabilities of TSMIC at fair value resulting in the recognition of a bargain purchase gain of \$15,154, representing an excess in the fair value of net assets acquired over the consideration transferred for TSMIC.

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The fair value of the acquired identifiable net assets and bargain purchase gain are as follows:

	Total
Fair value of net assets acquired	
Mortgage investments, including mortgage syndications	\$ 545,112
Other assets	606
Accounts payable and accrued expenses	(1,303)
Dividends payable	(1,573)
Due to Manager	(441)
Mortgage funding holdbacks	(15)
Prepaid mortgage interest	(504)
Credit facility	(181,650)
Mortgage syndication liabilities	(73,595)
Total net assets acquired	\$ 286,637
Consideration transferred 32,551,941 common shares issued	\$ 271,483
Excess of net assets acquired over consideration transferred (bargain purchase gain)	\$ 15,154

In connection with the Amalgamation:

- Each of the TMIC credit facility and the TSMIC credit facility were amended and restated in their entirety under the new credit facility (note 8)
- TMIC's management agreement with the Manager was terminated and a new management agreement was entered as of the Effective Date. As consideration of the termination of the management agreement, TMIC agreed to pay the Manager a one-time termination fee of \$7,438 (note 12) which was settled in cash of \$910 for HST payable and the balance payable to the Manager in 782,830 TMIC shares valued at \$8.34 per share, representing TMIC's closing share price as of June 29, 2016. Performance fees of \$1,207 accrued for the period prior to the Amalgamation was payable to the Manager upon the termination of the management agreement and was paid by TF in August 2016. The new management agreement has a lower management fee, a servicing fee and does not have any annual performance fee.
- TMIC and TSMIC agreed that each party will pay all fees, costs and expenses incurred by each party with respect to the Amalgamation; however, they will share equally in the payment of, expenses such as, filing fees, proxy solicitation services, and applicable taxes payable in respect of any application, notification or other filing made in respect of any regulatory process contemplated by the Amalgamation. As at June 30, 2016, TMIC's share of transaction costs relating to the Amalgamation was \$1,657.

Had the Amalgamation of TSMIC occurred as of January 1, 2016, the Company's revenue for the year of December 31, 2016 would have been approximately \$75,966 and the net income for the period would have been \$53,704, inclusive of \$4,803 of net non-recurring gains related to the Amalgamation.

As part of the Amalgamation, all mortgage investments held by TSMIC were acquired by TMIC. As the TMIC and TSMIC portfolios are not maintained separately and had various co-invested mortgage investments, it is impracticable for TF to disclose the income and expenses of TSMIC since the acquisition date included in the consolidated statement of net income and comprehensive income.

## Notes to the Consolidated Financial Statements

In thousands of Canadian dollars

### 23. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims arising from investing in mortgages. 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 materially adverse effect on the Company's financial position.

### 24. SUBSEQUENT EVENTS

The Company has completed a share offering of 4,302,000 common shares at \$9.30 per common share for gross proceeds of \$40,009 on February 7, 2018. Subsequently, the Company completed an over-allotment option to further issue 545,300 common shares at \$9.30 for gross proceeds of \$5,071 on February 16, 2018. The Company completed the exercise of a portion of the accordion feature, which increased the commitments of the lenders by \$40 million, bringing the limit of the credit facility – mortgage investments, up to \$440 million.