Management's Discussion and Analysis

TIMBERCREEK FINANCIAL

For the three months and six months ended June 30, 2022

TIMBERCREEK FINANCIAL

FORWARD-LOOKING STATEMENTS

Forward-looking statement advisory

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

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

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

This MD&A is dated August 10, 2022. Disclosure contained in this MD&A is current to that date, unless otherwise noted. Additional information on the Company, its dividend reinvestment plan and its mortgage investments is available on the Company’s website at www.timbercreekfinancial.com. Additional information about the Company, including its AIF, can be found at www.sedar.com.

BUSINESS OVERVIEW

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

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

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

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

BASIS OF PRESENTATION

This MD&A has been prepared to provide information about the financial results of the Company for the three and six months ended June 30, 2022. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2021 and 2020, which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

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

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

NON-IFRS MEASURES

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

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

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

Non-IFRS financial measures for net mortgage investments:

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

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

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

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

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

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

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

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

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

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

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

i. Distributable income – represents the Company's ability to generate cash flows for dividends by removing the effect of amortization, accretion, unrealized fair value adjustments, allowance for mortgage investments loss, and unrealized gain or loss from total net income and comprehensive income.

ii. Distributable income per share – represents the total distributable income divided by the weighted average common shares outstanding for the stated period.

iii. Payout ratio on distributable income – represents total common share dividends paid and declared for payment, divided by distributable income for the stated period.

iv. Payout ratio on earnings per share – represents total common share dividends paid and declared for payment, divided by total net income and comprehensive income for the stated period.

v. Adjusted distributable income – represents distributable income adjusted for the impact of a realized gain on an investment measured at FVTPL as well as non-recurring foreign currency gains on other investment.

vi. Adjusted distributable income per share – represents the total adjusted distributable income divided by the weighted average common shares outstanding for the stated period.

vii. Payout ratio on adjusted distributable income – represents total common share dividends paid and declared for payment, divided by adjusted distributable income for the stated period.

viii. Adjusted net income and comprehensive income – represents adjusted net income and comprehensive income for the stated period to exclude the impact from unrealized fair value (gain)/loss on financial assets measured at FVTPL and on derivative contracts (interest rate swap) used for hedging purposes but hedge accounting was not adopted. The fair value loss on financial assets represents the change in unrealized loss determined based on the fair value that the Company determined using its valuation policies on the financial assets. The fair value (gain)/loss on the interest rate swap contract represents the change in unrealized appreciation or depreciation of fair value of the interest rate swap, determined based on the fair value that the Company would pay or receive if the interest rate swap had been terminated as at the reporting date.

ix. Adjusted earnings per share – adjusted earnings per share is calculated in the same manner as earnings per share using adjusted net income and comprehensive income for the stated period.

x. Payout ratio on adjusted earnings per share – represents total common share dividends paid and declared for payment, divided by adjusted net income and comprehensive income for the stated period.

RECENT DEVELOPMENTS AND OUTLOOK

The Company is pleased to report Q2 2022 distributable income and adjusted distributable income of $15.9 million or $0.19 per share, representing a payout and adjusted payout ratio of 91.3% which continues to be within Management's desired range. The Q2 2022 results are reflective of a strong quarter on the funding front as well as the initial benefit of benchmark interest rate increases in the period and in Q1 2022, which translated to a higher weighted average interest rate in the Company's portfolio given the predominance of variable rate mortgages.

The second quarter saw net new mortgage fundings of $150.8 million, advances on existing mortgages of $13.9 million and mortgage repayments and syndications of $162.8 million, as well as a discharge of $30.0 million relating to two FVTPL mortgages (held in a 50/50 joint venture) with the Company converting its interest to equity in the underlying real estate at the equivalent value of one of these mortgages, now at 100% ownership. The origination activity was in-line with Management's expectations with net assets up from a year ago. New exposure is comprised primarily of desirable multi-family residential and industrial assets. Also, subsequent to Q2 2022, the credit facility for mortgage investments was upsized by $25.0 million, providing additional capacity, enabling the Company to continue to seek out more opportunities for growth.

The Company's portfolio continues to perform well and there were no new additions to either Stage II or Stage III loans this quarter.

In late April, the Company closed on the sale of the Saskatchewan portfolio for proceeds approximating its carrying value. The Saskatchewan portfolio was settled through an assumption of the credit facility - investment properties, an issuance of a $5.5 million vendor-take-back ("VTB") mortgage to the purchaser, and the remainder in cash. Separately, the Company exchanged its mortgage investment in one of the FVTPL mortgages for an equity interest in the underlying real estate comprising primarily of land, while also converting its second FVTPL mortgage interest into equity in the same land. The majority of the assets are development lands and the Company will be engaging a commercial broker to begin the final disposition process. Exiting these low income-generating positions will allow the Company to reinvest this capital in mortgages that will be accretive to distributable income.

Looking forward to the rest of 2022, with COVID restrictions largely eliminated, a 225 basis point interest rate increase already in effect and more presumed to be coming, the environment is likely to be noticeably different than the last two years. We expect the interest rate increases to have a net positive benefit to the Company as the majority of our loans are floating rates, and after the most recent rate increase are largely through their floors on the existing book. Further, we anticipate turnover may be reduced in the second half of the year as market activity adjusts to the new reality of higher rates. This is tied to the price discovery process between buyers and sellers and tends to result in a reduction in sales activity in the near term.

The opportunities for the Company in these transitional periods is typically strong with favourable risk/return characteristics as traditional senior lenders retrench.

PORTFOLIO ACTIVITY

In Q2 2022 the Company funded 14 new net mortgage investments totaling $150.8 million and made additional advances of $13.9 million. Portfolio turnover decreased to 8.1% (with fully discharged and partially discharged net mortgage investments totaling $98.2 million), compared with 11.4% in Q1 2022. Including syndications of $64.5 million and the transfer of two FVTPL mortgage interests of $30.0 million, total discharges were $192.7 million. This resulted in the net value of the mortgage portfolio, excluding syndications, to be lower by $28.3 million (from $1,263.3 million in Q1 2022 to $1,235.0 million at the end of Q2 2022). The amount drawn on the credit facility funding mortgage investments was $492.0 million at the end of Q2 2022, compared to $516.0 million at the end of Q1 2022. With $83.0 million available on the credit facility and another $25.0 million exercised subsequently on the accordion feature of the facility, Timbercreek Financial continues to be in a strong liquidity position entering Q3 2022.

At the end of Q2 2022, 90.8% of the mortgage investments were secured by income-producing properties, compared to 90.3% in Q1 2022. Multi-residential real estate assets (apartment buildings) continue to comprise the largest portion of the portfolio at 55.4% at quarter end, compared to 55.3% in Q1 2022.

Our exposure to first mortgages was 92.5% of the net mortgage portfolio at quarter end. Our weighted average loan-to-value ratio decreased from the prior quarter to 69.9% compared to 71.3% in Q1 2022, primarily resulting from partial pay downs on some loans, decreasing their LTVs. Our weighted average interest rate for the period was 7.2% in Q2 2022 with an exit rate of 7.6% as at June 30, 2022, a significant change from 6.6% as at and for the three month period ended March 31, 2022. The rate change reflects the two 50 bps rate increases that the Bank of Canada implemented in April and June of this year, pushing most of the variable rate loans that have interest rate floors through their floors and increasing top line income, partially offset by a corresponding rate change on the credit facility - mortgage investments. The Company continues to be able to produce a sustained distributable income ratio well within management' target range.

The net mortgage portfolio remains heavily weighted toward Canada’s largest provinces, with approximately 91.1% of the mortgage portfolio invested in Ontario, British Columbia, Quebec and Alberta, focused on urban markets that generally experience better real estate liquidity and thus offer a better risk profile.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL POSITION INFORMATION	June 30, 2022	June 30, 2021	December 31, 2021
Net mortgage investments[1]	**$ 1,235,018**	$ 1,159,208	$ 1,159,634
Enhanced Return Portfolio[1]	**$ 68,158**	$ 94,650	$ 84,603
CAPITAL STRUCTURE			
Total assets	**$ 1,950,464**	$ 1,799,988	$ 1,732,064
Total liabilities	**$ 1,250,441**	$ 1,112,310	$ 1,047,481
Shareholders' equity	**$ 700,023**	$ 687,678	$ 684,583
Book value per share	**$ 8.33**	$ 8.48	$ 8.33
Convertible debentures, par	**$ 146,000**	$ 91,000	$ 146,000
Credit facility (investment properties)	**$ —**	$ 30,675	$ 30,690
Credit facility (mortgage investments)	**$ 490,885**	$ 468,397	$ 419,179
Total debentures and credit facility utilized	**$ 636,885**	$ 590,072	$ 595,869
Maximum credit limit available	**$ 721,000**	$ 656,690	$ 711,690
Credit utilization rate	**88.3 %**	89.9 %	83.7 %
COMMON SHARE INFORMATION			
Number of common shares outstanding	**84,004,916**	81,122,983	82,219,602
Closing trading price	**$ 7.95**	$ 9.54	$ 9.61
Market capitalization	**$ 667,839**	$ 773,913	$ 790,130

1. Refer to non-IFRS measures section.

OPERATING RESULTS[1]

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
NET INCOME AND COMPREHENSIVE INCOME	**2022**	2021	**2022**	2021	2021
Net Investment Income on financial assets measured at amortized cost	**$ 25,802**	$ 23,390	**$ 48,479**	$ 45,829	$ 90,249
Total fair value (loss) gain and other income on financial assets measured at FVTPL	**$ 352**	$ 211	**$ 249**	$ 690	$ (10,291)
Net rental income	**$ 36**	$ 376	**$ 418**	$ 724	$ 1,499
Total fair value loss on real estate properties	**$ (378)**	$ —	**$ (378)**	$ —	$ (4,374)
Expenses	**$ 4,150**	$ 5,177	**$ 8,391**	$ 9,072	$ 16,237
Income from operations	**$ 21,662**	$ 18,800	**$ 40,377**	$ 38,171	$ 60,846
Financing costs:					
Financing cost on credit facilities	**$ 4,749**	$ 4,746	**$ 8,309**	$ 8,649	$ 16,734
Financing cost on convertible debentures	**$ 2,233**	$ 1,543	**$ 4,506**	$ 2,997	$ 6,745
Fair value gain on derivative contract	**$ —**	$ (974)	**$ —**	$ (1,951)	$ (3,940)
Net income and comprehensive income	**$ 14,680**	$ 13,485	**$ 27,562**	$ 28,476	$ 41,307
Payout ratio on earnings per share	**98.7 %**	103.7 %	**104.3 %**	98.1 %	135.9 %
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME					
Net income and comprehensive income	**$ 14,680**	$ 13,485	**$ 27,562**	$ 28,476	$ 41,307
Less: fair value gain on derivative contract (interest rate swap)	**$ —**	$ (974)	**$ —**	$ (1,951)	$ (3,940)
Add: net unrealized loss on financial assets measured at FVTPL	**$ 377**	$ 1,100	**$ 1,323**	$ 1,216	$ 13,748
Add: Net unrealized loss on real estate properties	**$ 95**	$ —	**$ 95**	$ —	$ 4,374
Adjusted net income and comprehensive income[1]	**$ 15,152**	$ 13,611	**$ 28,980**	$ 27,741	$ 55,489
Payout ratio on adjusted earnings per share[1]	**95.6 %**	102.7 %	**99.2 %**	100.7 %	101.2 %
PER SHARE INFORMATION					
Dividends declared to shareholders	**$ 14,482**	$ 13,984	**$ 28,750**	$ 27,945	$ 56,142
Weighted average common shares (in thousands)	**83,912**	81,046	**83,251**	80,983	81,325
Dividends per share	**$ 0.17**	$ 0.17	**$ 0.35**	$ 0.35	$ 0.69
Earnings per share (basic)	**$ 0.17**	$ 0.17	**$ 0.33**	$ 0.35	$ 0.51
Earnings per share (diluted)	**$ 0.17**	$ 0.17	**$ 0.33**	$ 0.35	$ 0.51
Adjusted earnings per share (basic)[1]	**$ 0.18**	$ 0.17	**$ 0.35**	$ 0.34	$ 0.68
Adjusted earnings per share (diluted)[1]	**$ 0.18**	$ 0.17	**$ 0.35**	$ 0.34	$ 0.68

1. Refer to non-IFRS measures section.

OPERATING RESULTS[1]

	Three months ended June 30,		Six months ended June 30		Year ended December 31,
DISTRIBUTABLE INCOME	**2022**	2021	**2022**	2021	2021
Adjusted net income and comprehensive income[1]	**$ 15,152**	$ 13,611	**$ 28,980**	$ 27,741	$ 55,489
Less: amortization of lender fees	**(2,263)**	(2,361)	**(4,553)**	(4,443)	$ (9,275)
Add: lender fees received and receivable	**2,117**	2,317	**4,576**	4,878	$ 10,746
Add: amortization of financing costs, credit facility	**254**	501	**469**	655	$ 1,022
Add: amortization of financing costs, debentures	**251**	252	**503**	433	$ 1,060
Add: accretion expense, debentures	**114**	68	**227**	118	$ 323
Add: unrealized fair value (gain) loss on DSU	**(57)**	87	**(90)**	106	104
Add: allowance for expected credit loss	**301**	1,638	**950**	1,938	1,660
Distributable income[1]	**$ 15,869**	$ 16,113	**$ 31,062**	$ 31,426	$ 61,129
Payout ratio on distributable income[1]	**91.3 %**	86.8 %	**92.6 %**	88.9 %	91.8 %
ADJUSTED DISTRIBUTABLE INCOME					
Distributable income	**$ 15,869**	$ 16,113	**$ 31,062**	$ 31,426	$ 61,129
Less: One-time distribution income	**—**	(707)	**—**	(707)	(707)
Adjusted Distributable income[1]	**$ 15,869**	$ 15,406	**$ 31,062**	$ 30,719	$ 60,422
Payout ratio on adjusted distributable income[1]	**91.3 %**	90.8 %	**92.6 %**	91.0 %	92.9 %
PER SHARE INFORMATION					
Dividends declared to shareholders	**$ 14,482**	$ 13,984	**$ 28,750**	$ 27,945	$ 56,142
Weighted average common shares (in thousands)	**83,912**	81,046	**83,251**	80,983	81,325
Dividends per share	**$ 0.17**	$ 0.17	**$ 0.35**	$ 0.35	$ 0.69
Distributable income per share[1]	**$ 0.19**	$ 0.20	**$ 0.37**	$ 0.34	$ 0.75
Adjusted distributable income per share[1]	**$ 0.19**	$ 0.19	**$ 0.37**	$ 0.34	$ 0.74

1. Refer to non-IFRS measures section.

For the three months ended June 30, 2022 (“Q2 2022”) and June 30, 2021 (“Q2 2021”)

- The Company funded 14 new net mortgage investments (Q2 2021 – 8) totaling $150.8 million (Q2 2021 – $84.7 million), and made additional advances on existing net mortgage investments totaling $13.9 million (Q2 2021 – $11.6 million). New funding was mainly comprised of multi-residential real estate. The weighted average interest rate on net mortgages funded was 7.2%, which has increased from 6.7% in Q1 2022.

- The Company fully discharged 14 net mortgage investments (Q2 2021 – 12) and partially discharged net mortgage investments totaling $98.2 million (Q2 2021 – $84.0 million). The weighted average interest rate on fully discharged net mortgage investments was 6.8%.

- The quarterly weighted average interest rate on net mortgage investments was 7.2% in Q2 2022, compared to 6.6% in Q1 2022 (Q2 2021 – 7.2%), reflecting two policy rate increases in Q2 2022 of 50 bps each. In Q2 2021, first mortgage positions represented 92.0% of the net mortgage investments whereas in Q2 2022 first mortgage positions represented 92.5% of the mortgage portfolio. While first mortgage positions generally bear a lower face rate of interest, the Company has the ability to seek higher advance rates on these positions, generating a higher equity return.

- Funding of new and existing net mortgage investments of $164.6 million, offset by actual repayments and partial repayments of $98.2 million, syndications of $64.5 million and the exchange of two FVTPL of mortgage investments of $30.0 million resulted in a lower net mortgage investment portfolio of $1,235.0 million (Q1 2022– $1,263.3 million).

- Turnover ratio was 8.1% for Q2 2022 compared to 7.2% in Q2 2021.

- Other investments within the enhanced return portfolio were $68.2 million (Q1 2022 – $77.3 million), a net decrease of $9.1 million in the quarter, primarily due to the discharge of collateralized loan investments.

- Net investment income on financial assets measured at amortized cost increased by $2.4 million from the previous year ($25.8 million in Q2 2022 compared to $23.4 million in Q2 2021), attributable to interest rate increases in the period impacting the variable rate loans as well as higher average net mortgage investments at amortized cost in Q2 2022 ($1,181.5 million in Q2 2022 compared to $1,075.2 million in Q2 2021).

- Fair value gain and other income on financial assets measured at FVTPL increased from a gain of $211 in Q2 2021 to a gain of $353 in Q2 2022, resulting primarily from the decrease in fair value loss on mortgage investments due to the discharge of two out of three of these investments. The Company recorded an unrealized fair value loss from mortgage investments measured at FVTPL of $222 in Q2 2022 versus $714 in Q2 2021.

- Income from operations saw a $3.1 million increase over the prior year ($21.9 million in Q2 2022 compared to $18.8 million in Q2 2021) largely driven by higher net investment income on financial assets measured at amortized cost of $2.4 million as noted above, lower provisions for mortgage investment losses of $1.3 million over the prior year period, partially offsetting this was a decline of $0.4 million on net rental income from real estate properties.

- Weighted average interest rate in the existing portfolio was well protected at the end of Q2 2022 with only 6.0% of the loans with fixed rate exposure (Q2 2021 – 11.5%) and floating rate loans with rate floors representing 87.5% (Q2 2021 – 79.5%). The remaining 6.5% of the portfolio is allocated to floating rate loans without floors.

- Non-refundable lender fees recorded were $2.1 million (Q2 2021 – $2.3 million), after adjusting for a non-recurring fee in the prior year of $141, non-refundable lender fees were consistent with prior year. The quarterly weighted average lender fees on new and renewed mortgages was 1.0% during the quarter (Q2 2021 – 0.8%), while the quarterly weighted average lender fee on new mortgages only was 1.2% (Q2 2021 – 1.3%).

- General and administrative expenses were $431 (Q2 2021 – $377), after adjusting for the impact of DSU mark-to-market gains and losses and foreign exchange gains and losses, general and administrative expenses increased by $95 in the quarter largely due to professional costs associated with the at-the-market equity issuance program as well as shareholder reporting.

- On April 28, 2022, the Company disposed of its interest in a portfolio of multi-family properties. Net rental income from the portfolio was $120 (Q2 2021 – $375). Separately, on April 12, 2022, the Company converted its investment in a mortgage at FVTPL to an equity interest in the underlying real estate properties. The Company intends on selling the lands and has accordingly recorded them as land inventory. In the interim it has recognized $85 (Q2 2021 – nil) in net rental losses on the portfolio.

- The Company recognized a loss on disposal of $283, recorded in fair value gains (losses) on real estate properties. On April 12, 2022, the Company, in exchange for the discharge of certain mortgage investments at FVTPL, obtained title to parcels of land which it intends to sell. The Company recognized a fair value loss of $95 on exchange.

- After adjusting for the unrealized fair value loss from financial assets measured at fair value of $376 (Q2 2021 – $1,100), the Company generated adjusted net income and comprehensive income of $15.2 million (Q2 2021 – $13.6 million) or basic and diluted adjusted earnings per share of $0.18 (Q2 2021 – basic and diluted of $0.17). The Company declared $14.5 million in dividends to common shareholders (Q2 2021 – $14.0 million), representing a payout ratio of 95.6% (Q2 2021 – 102.7%) on an adjusted earnings per share basis.

- The Company generated distributable income and adjusted distributable income of $15.9 million (Q2 2021 – distributable income of $16.1 million and adjusted distributable income of $15.4 million) or distributable income and adjusted distributable income per share of $0.19 (Q2 2021 – $0.20), representing a payout ratio of 91.3% (Q2 2021 – 90.8%) on an adjusted distributable income basis.

- During Q2 2022, the Company incurred interest on the credit facility – mortgage investments of $4.4 million (Q2 2021 – $3.0 million), Q2 2021 included an unrealized fair value gain of $974. After adjusting for this gain, interest on the credit facility was approximately $4.0 million. The increase over prior year is primarily due to a higher utilization of the credit facility in the current year, partially offsetting this was a higher interest rate in prior year due to $250.0 million of the credit facility being hedged at 4.0% interest. Financing costs amortization for the quarter was $248 (Q2 2021 – $486), in the prior year the facility was extended and therefore any financing costs at that time were written off causing the increase quarter-over-quarter. During Q2 2022, interest on the credit facility investment properties was $69 (Q2 2021 – $207) and financing costs amortization of $6 (Q2 2021 – $15). On April 28, 2022 and prior to maturity, the credit facility investment properties was assumed by a third party and the Company no longer has any obligations associated with the facility aside from a guarantee for its former share of $30.7 million. Interest on the convertible debentures for the quarter was $1.9 million (Q2 2021 - $1.2 million) reflecting three series of debentures outstanding in the current year versus two in the prior.

- On June 22, 2021, the Company issued a notice of redemption for the full outstanding amount of $46.0 million of 5.45% convertible unsecured subordinated debentures (the "February 2017 Debentures"). On July 23, 2021 the February 2017 Debentures were redeemed at par, plus accrued and unpaid interest. The aggregate principal amount of the February 2017 Debentures outstanding was $46.0 million on redemption date. The Company drew $40.0 million from its credit facility and used cash on hand to fund the redemption and associated interest.

- On July 8, 2021 the Company completed a public offering of $50.0 million, plus an over-allotment option of $5.0 million on July 15, 2021, of 5.25% convertible unsecured subordinated debentures for net proceeds of $52.1 million (the "July 2021 Debentures"). The July 2021 Debentures will mature on July 31, 2028 and will accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on January 31 and July 31 of each year, commencing January 31, 2022.

- On December 3, 2021 the Company completed a public offering of $40.0 million plus an over-allotment option of $6.0 million on December 10, 2021, of 5.00% convertible unsecured subordinated debentures for net proceeds of $43.8 million (the "December 2021 Debentures"). The December 2021 Debentures will mature on December 31, 2028 and will accrue interest at the rate of 5.00% per annum payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2022.

- The Company continued to be active with its at-the-market equity program in the early part of the quarter which allows it to issue common shares from treasury having an aggregate gross sales amount of up to $90.0 million. In the quarter, the Company has issued 256,000 common shares for gross proceeds of $2.4 million at an average price of $9.40 per common share.

For the six months ended June 30, 2022 (“YTD 2022”) and June 30, 2021 (“YTD 2021”)

- The Company funded 32 new net mortgage investments (YTD 2021 – 19) totaling $366.3 million (YTD 2021 – $169.2 million), made additional advances on existing net mortgage investments totaling $30.0 million (YTD 2021 – $84.7 million) and fully discharged 23 net mortgage investments (YTD 2021 – 22) and partially discharged net mortgage investments totaling $290.0 million (YTD 2021 – $236.8 million). Additionally, the Company syndicated $69.5 million and exchanged two of its FVTPL of mortgage investments of $30.0 million for an equity interest in the underlying real estate of one of the mortgages. As a result, the net mortgage investment portfolio as at June 30, 2022 increased by $75.4 million, to $1,235.0 million (December 31, 2021 – $1,159.6 million), or 6.5% from December 31, 2021.

- Other investments within the enhanced return portfolio were $68.2 million, including an allowance for credit loss of $0.8 million (December 31, 2021 – $71.2 million and $0.9 million, respectively). The net decrease of $3.0 million was mainly due to discharges of collateralized loan investments.

- Net mortgage investments of $1,235.0 million bore a weighted average interest rate of 7.6% as at June 30, 2022 (December 31, 2021 – $1,235.0 million, 6.8%), an increase year-to-date resulting primarily from interest rate increases of 100 basis points in Q2 2022 and most loans coming up through their interest rate floors.

- Net investment income on financial assets measured at amortized cost was $48.5 million (YTD 2021 – $45.8 million), an increase of $2.7 million, or 5.9% from YTD 2021. The increase in net investment income YTD 2022 compared to YTD 2021 was primarily due to higher average net mortgage investments through the year.

- Fair value loss and other income on financial assets measured at FVTPL was lower in 2022, from a net gain of $0.7 million in 2021 to a net gain of $0.3 million in 2022 resulting primarily from a non-recurring gain on a financial asset in 2021 of approximately $0.7 million, partially offsetting this was higher fair value losses in 2021. Fair value loss on real estate properties was $0.4 million in 2022 (YTD 2021 – nil) due to a loss on disposal of the multi-family investment property portfolio as well as the loss on land inventory which did not exist in the prior year.

- The Company generated income from operations of $40.7 million (YTD 2021 – $38.2 million). This is an increase of $2.5 million or 6.5% from YTD 2021 driven by the factors noted above.

- Weighted average interest rate in the existing net mortgage portfolio is well protected at the end of Q2 2022 with 6.0% of the portfolio at fixed interest rate (December 31, 2021 – 9.8%) and floating interest rate loans with rate floors representing 87.5% of the portfolio (December 31, 2021 – 84.6%), consistent with the overall asset allocation strategy shift toward floating rate assets.

- Weighted average loan-to-value decreased slightly from 70.1% as at December 31, 2021 to 69.9% as at June 30, 2022 (and a decline compared to 71.3% as at Q1 2022). The change is primarily due to partial pay downs on some mortgages reducing the overall portfolio LTV.

- General and administrative expense were $0.9 million (YTD 2021 – $0.9 million), remaining consistent with the prior year. After adjusting for the impact of DSU mark-to-market gains and losses and foreign exchange gains and losses, general and administrative expenses increased by $336 in the year to date period largely due to professional costs associated with the at-the-market equity issuance program as well as shareholder reporting.

- On April 28, 2022, the Company disposed of its interest in a portfolio of multi-family properties. The company recognized a loss on disposal of $283, recorded in fair value gains (losses) on real estate properties. Net rental income from the portfolio was $503 (YTD 2021 – $723).

- Separately, on April 12, 2022 the Company converted its investment in a mortgage at FVTPL to an equity interest in real estate properties. In exchange for the discharge of certain mortgage investments at FVTPL,

the Company obtained title to parcels of land which it intends to sell. The Company recognized a fair value loss of $95 on exchange. The Company intends on selling the lands and has accordingly recorded them as land inventory. In the interim it has recognized $85 (YTD 2021 – nil) in net rental losses on the portfolio.

- Non-refundable lender fees recorded were $4.6 million (YTD 2021 – $4.9 million). Lower lender fees are attributable to decreased new loan commitment fees. The overall weighted average lender fees on new and renewed mortgages during the year was 1.1% (YTD 2021 – 0.8%), while the weighted average lender fee on only new mortgages YTD 2022 was 1.3% (YTD 2021 – 1.2%).

- Excluding the $1.3 million fair value loss on financial assets carried at FVTPL and unrealized fair value losses on real estate properties of $95.0, the Company generated adjusted net income and comprehensive income of $29.0 million (YTD 2021 – $27.7 million) or basic and diluted adjusted earnings per share of $0.35 (YTD 2021 – basic and diluted of $0.35). The Company declared $28.8 million in dividends (YTD 2021 – $27.9 million) to common shareholders, representing a payout ratio of 99.2% (YTD 2021 – 100.7%) on an adjusted earnings per share basis.

- The Company generated distributable income of $31.1 million (YTD 2021 – $31.4 million) or distributable income per share of $0.37 (YTD 2021 – $0.34). Adjusted distributable income was $31.1 million (YTD 2021 – $30.7 million) or adjusted distributable income per share of $0.37 (YTD 2021 – $0.34), representing a payout ratio of 92.6% (YTD 2020 – 91.0%) on an adjusted distributable income basis.

- For the YTD 2022, the Company incurred interest on the credit facility - mortgage investments of $7.6 million (YTD 2021 – $5.6 million), prior year included a realized gain on the derivative contract of $2.0 million. After adjusting for the gain, financing costs on the credit facility were approximately $7.6 million. The increase over prior year is primarily due to a higher utilization of the credit facility in the current year, partially offsetting this was a higher rate in prior year due to $250.0 million of the credit facility being hedged at 4.0% interest. Financing costs amortization for the year was $452 (YTD 2021 – $628) in the prior year the facility was extended and therefore any financing costs at that time were written off causing the increase year-over-year. For the YTD 2022, interest on the credit facility investment properties was $253 (YTD 2021 – $423) and financing costs amortization of $17 (YTD 2021 – $27). On April 28, 2022 and prior to maturity, credit facility investment properties was assumed by a third party and the Company no longer has any obligations associated with the facility aside from a guarantee for its former share of $30.7 million. Interest on the convertible debentures for YTD 2022 was $3,776 (YTD 2021 - $2,446), reflecting the fact that there are three series of convertible debentures outstanding the current year versus two in the prior year comparative period.

- The Company launched and commenced its at-the-market equity program in June 2021 which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to $90 million. To date in 2022 the Company has issued 1,504,200 (YTD 2021 - 15,200) common shares for gross proceeds of $14.3 million (YTD 2021 - $145.0) at an average price of $9.52 (YTD 2021 - $9.35) per common share.

- On June 22, 2021, the Company issued a notice of redemption for the full outstanding amount of $46.0 million of 5.45% convertible unsecured subordinated debentures (the "February 2017 Debentures"). On July 23, 2021 the February 2017 Debentures were redeemed at par, plus accrued and unpaid interest. The aggregate principal amount of the February 2017 Debentures outstanding was $46.0 million on redemption date. The Company drew $40.0 million from its credit facility and used cash on hand to fund the redemption and associated interest.

- On July 8, 2021 the Company completed a public offering of $50.0 million, plus an over-allotment option of $5.0 million on July 15, 2021, of 5.25% convertible unsecured subordinated debentures for net proceeds of $52.1 million (the “July 2021 Debentures”). The July 2021 Debentures will mature on July 31, 2028 and will accrue interest at the rate of 5.25% per annum payable semi-annually in arrears on January 31 and July 31 of each year, commencing January 31, 2022.

- On December 3, 2021 the Company completed a public offering of $40.0 million plus an over-allotment option of $6.0 million on December 10, 2021, of 5.00% convertible unsecured subordinated debentures for net proceeds of $43.8 million (the “December 2021 Debentures”). The December 2021 Debentures will mature on December 31, 2028 and will accrue interest at the rate of 5.00% per annum payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2022.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

Net investment income on financial assets measured at amortized cost

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

For Q2 2022 and YTD 2022, the Company earned net investment income on financial assets measured at amortized cost of $25.8 million and $48.5 millionn (Q2 2021 – $23.4 million; YTD 2021 – $45.8 million). Net investment income includes the following:

a. Interest income

During Q2 2022 and YTD 2022, the Company earned interest income on mortgages at amortized cost of $22.0 million and $40.9 million (Q2 2021 – $20.2 million; YTD 2021 – $39.2 million). The weighted average interest rate on net mortgage investments during Q2 2022 and YTD 2022 was 7.2% and 6.8% (Q2 2021 – 7.2%; YTD 2021 – 7.2%). The increase in interest income quarter-over-quarter and for year-to-date was due to higher weighted-average net mortgage investment portfolio over both periods, as well as higher weighted-average interest rates for the Q2 2022 period .

During Q2 2022 and YTD 2022, the Company earned $1.3 million and $2.7 million (Q2 2021 – $1.4 million; YTD 2021 – $2.7 million) of interest income on collateralized loans in other investments in the enhanced return portfolio.The steady interest income for the quarter is a result of higher weighted average interest rates due to rate increases in 2022 offset by a lower collateralized loan portfolio.

b. Lender fee income

For Q2 2022 and YTD 2022, the Company recorded non-refundable upfront lender fees of $2.1 million and $4.6 million (Q2 2021 – $2.3 million; YTD 2021 – $4.9 million), or a weighted average lender fee on new and renewed mortgages of 1.0% and 1.1%, respectively (Q2 2021 – 0.8%; YTD 2021 – 0.8%). Lower lender fees are driven by one-time fees recognized in the prior year that did not reoccur. Lender fees are received upfront and are amortized to income over the life of the respective loan, using the effective interest rate method. For Q2 2022 and YTD 2022, lender fees of $2.4 million and $4.6 million were amortized to lender fee income (Q2 2021 – $2.4 million; YTD 2021 – $4.4 million).

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

c. Other income/loss

During Q2 2022 and YTD 2022, the Company recognized other income of $142 and $233 (Q2 2021 – $45; YTD 2021 – $231), attributable to bank interest income, miscellaneous income, and administration fee income.

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

During Q2 2022 and YTD 2022, the Company incurred a total gain on financial assets measured at FVTPL of $353 and $250 (Q2 2021 – gain of $211; YTD 2021 – gain of $690). The Company earned interest income on net mortgage investments measured at FVTPL of $597 and $1.2 million (Q2 2021 – $$585; YTD 2021 – $1.2 million), offset by a loss on the fair value of financial assets measured at FVTPL of $377 and $1.3 million (Q2 2021 – $1.1 million; YTD 2021 – $1.2 million), respectively.

During Q2 2022 and YTD 2022, a net unrealized fair value loss on mortgage investments measured at FVTPL of $0.2 million and $0.9 million (Q2 2021 – $0.7 million ; YTD 2021 - $0.9 million) was recorded in the statement of net income and other comprehensive income.

Net rental income from real estate properties

The net rental income from real estate properties for Q2 2022 and YTD 2022 was $36 and $418 (Q2 2021 – $376; YTD 2021 – $724), respectively. On April 28, 2022, the Company disposed of its interest in a portfolio of multi-family properties. Separately, on April 12, 2022 the Company converted its investment in a mortgage at FVTPL to an equity interest in real estate properties. The Company intends on selling the lands and has accordingly recorded them as land inventory. In the interim it will recognize net rental income (losses) on the portfolio.

Loss on real estate properties

For Q2 2022 and YTD 2022, the Company incurred a loss of $283 on real estate properties upon disposition (Q2 2021 – nil; YTD 2021 – nil) due to increased time to stabilize assets and slower market conditions. Additionally, in Q2 2022 the Company, in exchange for the discharge of certain mortgage investments at FVTPL, obtained title to parcels of land which it intends to sell, on exchange the Company recognized a fair value loss of $95 (Q2 2021 – nil; YTD 2021 – nil).

Expenses

Management, Servicing and Arrangement Fees

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

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

For Q2 2022 and YTD 2022, the Company incurred management fees of $3.2 million and $6.2 million (Q2 2021 – $3.0 million; YTD 2021 – $5.9 million). The average gross assets were $1,373.2 million and $1,357.9 million compared to Q2 2021 $1,284.8 million and YTD 2021 $1,263.3 million. For Q2 2022 and YTD 2022, the Company incurred $196 and $346, respectively (Q2 2021 – $165 and YTD 2021 – $357) in servicing fees. The decrease is related to the decrease in the average syndications balance during the period. For Q2 2022 and YTD 2022, Arrangement Fees of $130 and $0.6 million paid by borrower were retained by the Manager (Q2 2021 – $806 and YTD 2021 – $1,117). Decrease over prior year is due to decreased loan syndication activity in 2022 relative to 2021.

General and administrative

For Q2 2022 and YTD 2022, the Company incurred general and administrative expenses of $431 and $932, respectively (Q2 2021 – $377; YTD 2021 – $889). General and administrative expenses consist mainly of audit fees, professional fees, director fees, legal fees, other operating costs and administration of the mortgage and other investments portfolio. After adjusting for foreign currency net realized and unrealized losses of $156 and $365 for Q2 2022 and YTD 2022, and non-cash mark to market gains on DSUs of $145 and $196, for Q2 2022 and YTD 2022 respectively, general and administrative expenses increased primarily due to professional fees associated with the at-the-market equity issuance program as well as shareholder reporting and investor relations.

Interest on credit facility – mortgage investments

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2022 and YTD 2022, included in financing costs is interest on the credit facility of $4.4 million and $7.6 million (Q2 2021– $3.0 million; YTD 2021 – $5.6 million), the prior year periods included a realized gain on an interest rate swap of Q2 2021 – $1.0 million; YTD 2021 – $2.0 million and financing costs amortization of $248 and $452 (Q2 2021 – $486; YTD 2021 – $628). The average credit utilization in YTD 2022 was $514.7 million compared to $467.6 million for YTD 2021. Interest expense on the credit facility increased over the periods largely due higher utilization of the facility.

Interest on credit facility – investment properties

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2022 and YTD 2022, included in financing costs is interest on the credit facility for investment properties of $69 and $253 (Q2 2021 – $207; YTD 2021 – $423) and financing costs amortization of $6 and $17 (Q2 2021 – $15; YTD 2021 – $27). In connection with its disposition of a portfolio of multi-family investment properties on April 28, 2022, the Company also discharged its obligation on the credit facility - investment properties. It did however retain a guarantee on its prior pro rata share of the facility.

Financing cost on convertible debentures

The Company has $46.0 million of 5.00% convertible unsecured subordinated debentures, $55.0 million of 5.25% convertible unsecured subordinated debentures, and $45.0 million of 5.30% convertible unsecured subordinated debentures outstanding as at June 30, 2022. Interest costs related to the debentures are recorded in financing costs using the effective interest rate method. Interest on the debentures is included in financing costs and is made up of the following:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Interest on the convertible debentures	**$ 1,868**	$ 1,223	**$ 3,776**	$ 2,446
Amortization of issue costs and accretion of the convertible debentures	**365**	320	**730**	551
Total financing cost on convertible debentures	**$ 2,233**	$ 1,543	**$ 4,506**	$ 2,997

Earnings per share

For Q2 2022 and YTD 2022, basic and diluted earnings per share were $0.17 and $0.33, basic and diluted adjusted earnings per share were $0.18 and $0.35 (Q2 2021 – basic $0.17 and diluted $0.17, YTD 2021 – basic and diluted $0.35, basic and diluted adjusted $0.35).

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

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

STATEMENTS OF FINANCIAL POSITION

Net Mortgage Investments

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

Net Mortgage Investments	June 30, 2022	December 31, 2021
Mortgage investments, excluding mortgage syndications	**$ 1,235,567**	$ 1,159,210
Mortgage syndications	**605,980**	444,429
Mortgage investments, including mortgage syndications	**1,841,547**	1,603,639
Mortgage syndication liabilities	**(605,980)**	(444,429)
	1,235,567	1,159,210
Interest receivable	**(13,080)**	(10,824)
Unamortized lender fees	**8,530**	8,278
Allowance for mortgage investments loss	**4,001**	2,970
Net mortgage investments	**$ 1,235,018**	$ 1,159,634

Net mortgage investments statistics and ratios[1]	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2022	**2021**	**2022**	**2021**	**2021**
Total number of mortgage investments	**118**	113	**118**	113	109
Average net mortgage investment	**$ 10,460**	$ 10,439	**$ 10,460**	$ 10,439	$ 10,942
Average net mortgage investment portfolio	**$ 1,218,318**	$ 1,098,531	**$1,181,520**	$1,075,162	$ 1,067,598
Weighted average interest rate for the period	**7.2 %**	7.2 %	**6.8 %**	7.2 %	7.1 %
Weighted average lender fees for the period	**1.0 %**	0.8 %	**1.1 %**	0.8 %	0.8 %
Turnover ratio	**8.1 %**	7.2 %	**18.7 %**	20.9 %	65.4 %
Average remaining term to maturity (years)	**1.0**	0.9	**1.0**	0.9	1.0
Net mortgage investments secured by cash-flowing properties	**90.8 %**	89.0 %	**90.8 %**	89.0 %	88.3 %
Weighted average loan-to-value	**69.9 %**	69.7 %	**69.9 %**	69.7 %	70.1 %

[1] Refer to non-IFRS measures section.

Portfolio allocation

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

a. Security position	June 30, 2022			December 31, 2021		
	Number		Net Mortgage Investments	Number		Net Mortgage Investments
Interest in first mortgages	106	$	1,141,849	98	$	1,080,376
Interest in second and third mortgages[1]	12		93,169	11		79,258
	118	$	1,235,018	109	$	1,159,634

[1]Included in the Company's interest in second and third mortgages as at June 30, 2022 was $16.7 million of the net mortgage investments in which the Company holds a subordinated position (December 31, 2021 - $41.8 million). The Company's syndicated partners who hold a senior position as at June 30, 2022 was $45.9 million (December 31, 2021 - $69.3 million).

b. Region	June 30, 2022			December 31, 2021		
	Number		Net Mortgage Investments	Number		Net Mortgage Investments
Quebec	39	$	460,507	24	$	360,143
Ontario	36		336,954	41		340,195
British Columbia	24		285,167	25		307,401
Alberta	9		109,390	10		122,707
Other (Saskatchewan, Nova Scotia, Manitoba and New Brunswick)	10		43,000	9		29,188
	118	$	1,235,018	109	$	1,159,634

c. Maturity	June 30, 2022			December 31, 2021		
	Number		Net Mortgage Investments	Number		Net Mortgage Investments
2022	29	$	372,058	48	$	595,530
2023	52		478,814	53		489,299
2024	35		374,333	7		70,305
2025	2		9,813	1		4,500
	118	$	1,235,018	109	$	1,159,634

d. Asset Type / WALTV at origination[3]	June 30, 2022				December 31, 2021			
	Number		Net Mortgage Investments	WALTV at origination[3]	Number		Net Mortgage Investments	WALTV at origination[3]
Multi-Residential[1]	72	$	683,694	72.3%	64	$	533,844	72.3%
Retail	21		184,675	71.2%	14		215,977	72.1%
Unimproved Land[2]	1		66,380	54.6%	6		72,350	52.3%
Office	9		76,025	63.3%	6		76,994	62.5%
Retirement	5		106,323	77.6%	4		132,834	75.2%
Industrial	7		94,661	60.4%	9		51,402	67.6%
Single-Residential	1		1,574	69.5%	2		23,929	69.4%
Self-Storage	1		830	80.9%	1		830	80.9%
	117		1,214,162	70.2%	106		1,108,160	70.3%
Net mortgage investments measured at FVTPL	1		20,856	n/a	3		51,474	n/a
	118	$	1,235,018		109	$	1,159,634	

[1] Includes 9 construction loans (December 31, 2021 - 10) totaling $39.3 million (December 31, 2021 - $56.6 million). Construction loans are provided for the purposes of building a new asset.
[2] Unimproved land loans are provided to non-income producing properties that does not contemplate construction during the loan period.
[3] Weighted average loan-to-value measured at time of origination.

Enhanced return portfolio

As at		June 30, 2022		December 31, 2021
Collateralized loans, net of allowance for credit loss	$	**55,517**	$	58,000
Finance lease receivable, measured at amortized cost		**6,020**		6,020
Investment, measured at FVTPL		**4,396**		4,985
Indirect real estate development, measured using equity method:				
Investment in Joint Venture		**2,225**		2,225
Total Other Investments		**68,158**		71,230
Investment properties		**—**		44,063
Credit facility (investment properties)		**—**		(30,690)
Net equity in investment properties		**—**		13,373
Total Enhanced Return Portfolio	$	**68,158**	$	84,603

During Q2 2022 and YTD 2022, the Company earned $1.3 million and $2.7 million (Q2 2021 – $1.4 million and YTD 2021 – $2.7 million) of interest income on collateralized loans in other investments in the enhanced return portfolio.

During Q2 2022 and YTD 2022, the Company recognized lender fee income of $133 and $186 on collateralized loans in other investments, net of fees relating to mortgage syndication liabilities (Q2 2021 – $94 and YTD 2021 – $204). During Q2 2022 and YTD 2022, the Company recorded non-refundable upfront lender fees of $93 and $193 (Q2 2021 – $273; YTD 2021 – $320), which are amortized over the term of the collateralized loans in other investments using the effective interest rate method.

In 2017, the Company entered into a 20-year emphyteutic lease on a foreclosed property held for sale in Quebec, which had a fair value of $5.4 million at the time of the transaction. Refer to note 4(e) of the Interim Condensed Consolidated Financial Statements for the three months and six months ended June 30, 2022 and 2021.

On August 16, 2017, the Company acquired a 20.46% undivided beneficial interest in the Saskatchewan Portfolio which is comprised of 14 investment properties totaling 1,079 units located in Saskatoon and Regina, Saskatchewan for a total purchase price of $201.7 million (the Company's share is $41.3 million). On April 28, 2022 the Company disposed of its interest in the Saskatchewan Portfolio, recognizing a loss on sale of $283. As at December 31, 2021 the Company's share of the investment properties has an aggregate fair value of $44.1 million and was pledged as security for the credit facility of the co-ownership.

Mortgage syndication liabilities

The Company enters into certain mortgage participation agreements with third party lenders, using senior and subordinated participation, whereby the third-party lenders take the senior position and the Company retains the subordinated position. These agreements generally provide an option to the Company to repurchase the senior position, but not the obligation, at a purchase price equal to the outstanding principal amount of the lenders' proportionate share together with all accrued interest. The Company has mortgage syndication liabilities of $606.0 million (December 31, 2021 – $444.4 million). In general, mortgage syndication liabilities vary from quarter to quarter and are dependent on the type of investments seen at any particular time and are not necessarily indicative of a future trend.

Allowance for Credit Losses (“ACL”)

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on our mortgage and other investments. The allowance for credit losses amounted to $4.8 million as at June 30, 2022 (December 31, 2021 – $3.9 million), of which $4.0 million (December 31, 2021 – $3.0 million) was recorded against mortgage investments and $817 (December 31, 2021 – $898) was recorded against other investments.

	As at June 30, 2022				As at December 31, 2021			
Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications[1]	**$ 1,223,266**	**$ —**	**$ —**	**$1,223,266**	$ 980,245	$ —	$ —	$ 980,245
Mortgage syndication liabilities[1]	**489,380**	**—**	**—**	**489,380**	283,528	—	—	283,528
Net mortgage investments	**733,886**	**—**	**—**	**733,886**	696,717	—	—	696,717
Allowance for credit losses[2]	**1,226**	**—**	**—**	**1,226**	882	—	—	882
	732,660	**—**	**—**	**732,660**	695,835	—	—	695,835
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications[1]	**576,457**	**8,399**	**24,368**	**609,224**	549,078	8,404	25,418	582,900
Mortgage syndication liabilities[1]	**119,012**	**—**	**—**	**119,012**	163,133	—	—	163,133
Net mortgage investments	**457,445**	**8,399**	**24,368**	**490,212**	385,945	8,404	25,418	419,767
Allowance for credit losses[2]	**319**	**48**	**2,408**	**2,775**	283	52	1,753	2,088
	457,126	**8,351**	**21,960**	**487,437**	385,662	8,352	23,665	417,679
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications[1]	**56,414**	**—**	**—**	**56,414**	58,999	—	—	58,999
Mortgage syndication liabilities[1]	**—**	**—**	**—**	**—**	—	—	—	—
Net mortgage investments	**56,414**	**—**	**—**	**56,414**	58,999	—	—	58,999
Allowance for credit losses[2]	**817**	**—**	**—**	**817**	898	—	—	898
	$ 55,597	**$ —**	**$ —**	**$ 55,597**	$ 58,101	$ —	$ —	$ 58,101

[1]Including interest receivable
[2]Allowance for credit losses in finance lease receivable (note 4(e)) and unadvanced commitments (note 4) are all considered to be in Stage1 with minimal ACL.

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

	Six Months Ended June 30, 2022				Six Months Ended June 30, 2021			
Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 882**	**$ —**	**$ —**	**$ 882**	$ 977	$ 93	$ 1,443	$ 2,513
Allowance for credit losses:								
Remeasurement	**10**	**—**	**—**	**10**	28	3	38	69
Transfer to/(from)								
Stage 1	**—**	**—**	**—**	**—**	—	—	—	—
Stage 2	**—**	**—**	**—**	**—**	—	—	—	—
Stage 3	**—**	**—**	**—**	**—**	—	—	—	—
Total allowance for credit losses	**892**	**—**	**—**	**892**	1,005	96	1,481	2,582
Fundings	**525**	**—**	**—**	**525**	192	—	—	192
Discharges	**(191)**	**—**	**—**	**(191)**	(47)	—	—	(47)
Balance at end of period	**$ 1,226**	**$ —**	**$ —**	**$ 1,226**	1,150	96	1,481	2,727
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	$ 283	$ 52	$ 1,753	$ 2,088	294	—	1,102	1,396
Allowance for credit losses:								
Remeasurement	8	(4)	655	659	—	—	147	147
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	291	48	2,408	2,747	—	—	147	1,543
Fundings	53	—	—	53	62	—	—	62
Discharges	(25)	—	—	(25)	(60)	—	—	(60)
Balance at end of period	$ 319	$ 48	$ 2,408	$ 2,775	296	—	1,249	1,545
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 898**	**$ —**	**$ —**	**$ 898**	95	—	1,619	1,714
Allowance for credit losses:								
Remeasurement	**(25)**	**—**	**—**	**(25)**	—	—	(644)	(644)
Transfer to/(from)								
Stage 1	**—**	**—**	**—**	**—**	—	—	—	—
Stage 2	**—**	**—**	**—**	**—**	—	—	—	—
Stage 3	**—**	**—**	**—**	**—**	—	—	—	—
Total allowance for credit losses	**873**	**—**	**—**	**873**	95	—	975	1,070
Fundings	**8**	**—**	**—**	**8**	10	—	—	10
Discharges	**(64)**	**—**	**—**	**(64)**	(5)	—	—	(5)
Balance at end of period	**$ 817**	**$ —**	**$ —**	**$ 817**	$ 100	$ —	$ 975	$ 1,075

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

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

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

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

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

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

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

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

	As at June 30, 2022				As at December 31, 2021			
Multi-residential Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	**$ 160,881**	**$ —**	**$ —**	**$ 160,881**	$ 140,125	$ —	$ —	$ 140,125
Medium-Low risk	**441,836**	**—**	**—**	**441,836**	474,200	—	—	474,200
Medium-High risk	**126,856**	**—**	**—**	**126,856**	76,608	—	—	76,608
High risk	**4,313**	**—**	**—**	**4,313**	5,784	—	—	5,784
Default	**—**	**—**	**—**	**—**	—	—	—	—
Net	**733,886**	**—**	**—**	**733,886**	696,717	—	—	696,717
Allowance for credit losses	**1,226**	**—**	**—**	**1,226**	882	—	—	882
Mortgage investments[1]	**732,660**	**—**	**—**	**732,660**	695,835	—	—	695,835
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	**48,753**	**—**	**—**	**48,753**	9,120	—	—	9,120
Medium-Low risk	**372,442**	**—**	**—**	**372,442**	321,997	—	—	321,997
Medium-High risk	**36,250**	**8,399**	**—**	**44,649**	54,828	8,404	—	63,232
High risk	**—**	**—**	**—**	**—**	—	—	—	—
Default	**—**	**—**	**24,368**	**24,368**	—	—	25,418	25,418
Net	**457,445**	**8,399**	**24,368**	**490,212**	385,945	8,404	25,418	419,767
Allowance for credit losses	**319**	**48**	**2,408**	**2,775**	283	52	1,753	2,088
Mortgage investments[1]	**457,126**	**8,351**	**21,960**	**487,437**	385,662	8,352	23,665	417,679
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	**—**	**—**	**—**	**—**	—	—	—	—
Medium-Low risk	**—**	**—**	**—**	**—**	—	—	—	—
Medium-High risk	**—**	**—**	**—**	**—**	—	—	—	—
High risk	**56,414**	**—**	**—**	**56,414**	58,999	—	—	58,999
Default	**—**	**—**	**—**	**—**	—	—	—	—
Net	**56,414**	**—**	**—**	**56,414**	58,999	—	—	58,999
Allowance for credit losses	**817**	**—**	**—**	**817**	898	—	—	898
Other loan Investments[1]	**$ 55,597**	**$ —**	**$ —**	**$ 55,597**	$ 58,101	$ —	$ —	$ 58,101

[1] Net of allowance and mortgage syndications

Net working capital

Net working capital decreased by $200 to $9.3 million at June 30, 2022 from $9.5 million at December 31, 2021.

Credit facility (mortgage investments)

As of December 31, 2021, the Company had an aggregate credit limit of $535 million and an accordion option of $100 million on its credit facility - mortgage investments. On February 10, 2022, the Company entered into an amendment to its existing revolving credit facility ("Eighth Amending Credit Agreement") in order to, among other things, extend the maturity date to February 10, 2024 and increase the aggregate credit limit to $575 million, with an accordion option of $60 million. Subsequent to June 30, 2022, the Company exercised its accordion option by drawing an additional $25 million off the accordion and increasing the overall limit on the facility to $600 million. General terms of the credit facility remain unchanged. The facility is secured by a general security agreement over the Company’s assets and its subsidiaries.

The rates of interest and fees of the Seventh Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2021 – prime rate of interest plus 1.00% per annum) or bankers’ acceptances with a stamping fee of 2.00% (December 31, 2021 – 2.00%) and standby fee of 0.40% per annum (December 31, 2021 – 0.40%) on the unutilized credit facility balance. As at June 30, 2022, the Company’s qualified credit facility limit, which is subject to a borrowing base as defined in the Eighth Amending Credit Agreement is $597.9 million, however borrowing within the credit facility is limited to the maximum capacity of $575.0 million.

During Q2 2022 and YTD 2022, the Company incurred financing costs of $5 and $747 (Q2 2021 – $1.2 million; YTD 2021 – $1.2 million). The financing costs are netted against the outstanding balance of the credit facility and are amortized over the term of the credit facility agreement.

Credit facility (investment properties)

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

On October 9, 2019, the credit facility agreement was further amended (the “Amended and Restated Credit Agreement”) to establish Tranche A, Tranche B and Tranche C credit facilities (the “Credit Facilities”). Under the amended terms, the maximum available credit is $150.0 million. On April 28, 2022 the credit facility was amended to the Second Restated Credit Agreement to, among other things, extend the maturity date to October 28, 2022 and then subsequently on June 30, 2022 it was amended again to the First Amendment to the Second Amended and Restated Credit Agreement, which among other things provides for two three-month extension options on the facility. As of April 28, 2022, the co-owners had borrowed $150.0 million from the Credit Facilities. The Company's share of the outstanding principal amount was $30.7 million. On April 28, 2022, in connection to the disposition of the Saskatchewan Portfolio (Note 5), the Company's share of the outstanding principal was assumed by the purchaser, however the Company still remains a borrower and a guarantor on the facility up to its share of the outstanding principal as of the date of disposal. Notwithstanding, the lender's recourse is limited to each co-owner's proportionate interest in the investment properties' credit facility.

Convertible debentures

As at June 30, 2022, and December 31, 2021, the Company's obligations under the convertible unsecured debentures are as follows:

Series	Interest Rate	Date of Maturity	Interest Payment Date	Conversion Price per share	Equity Component	June 30, 2022	December 31, 2021
June 2017 Debentures	5.30 %	June 30, 2024	June 30 and December 31	11.10	560	**45,000**	45,000
July 2021 Debentures	5.25 %	July 31, 2028	January 31 and July 31	11.40	1,107	**55,000**	55,000
December 2021 Debentures	5.00 %	December 31, 2028	June 30 and December 31	11.40	1,405	**46,000**	46,000
Unsecured Debentures, principal						**146,000**	146,000
Unamortized financing cost and amount allocated to equity component						**(7,534)**	(8,264)
Debentures, end of period						**138,466**	137,736

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:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Interest on the convertible debentures	**$ 3,776**	$ 2,446
Amortization of issue costs and accretion of the convertible debentures	**730**	551
Total	**$ 4,506**	$ 2,997

June 2017 Debentures

On June 13, 2017, the Company completed a public offering of $40.0 million, plus an over-allotment option of $5.0 million on June 27, 2017, of 5.30% convertible unsecured subordinated debentures for net proceeds of $42.8 million (the “June 2017 Debentures”). The June 2017 Debentures were redeemable on and after June 30, 2020, but prior to June 30, 2022. The June 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price.

On or after June 30, 2022 and prior to the maturity date, the June 2017 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice.

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

July 2021 Debentures

On July 8, 2021 the Company completed a public offering of $50.0 million, plus an over-allotment option of $5.0 million on July 15, 2021, of 5.25% convertible unsecured subordinated debentures for net proceeds of $52.1 million (the “July 2021 Debentures”). The July 2021 Debentures are redeemable on or after July 31, 2024 and prior to July 31, 2026. The July 2021 Debentures may be redeemed, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On and after July 31, 2026 and prior to the maturity date, the July 2021 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice.

The issue costs of $2.9 million were proportionately allocated to the liability and equity components. The issue costs allocated to the liability component are amortized over the term of the debentures using the effective interest rate method.

December 2021 Debentures

On December 3, 2021 the Company completed a public offering of $40.0 million plus an over-allotment option of $6.0 million on December 10, 2021, of 5.00% convertible unsecured subordinated debentures for net proceeds of $43.8 million (the “December 2021 Debentures”). The December 2021 Debentures are redeemable on or after December 31, 2024 and prior to December 31, 2026. The December 2021 Debentures may be redeemed, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price.

On and after December 31, 2026 and prior to the maturity date, the December 2021 Debentures will be redeemable, in whole or in part, from time to time at the Company’s sole option at a price equal to the principal amount thereof, plus accrued and unpaid interest up to, but excluding, the date of redemption, on not more than 60 days’ and not less than 30 days’ prior written notice.

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

SHAREHOLDERS' EQUITY

Common shares

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

The common shares are classified within shareholders' equity in the statements of financial position. Any incremental costs directly attributable to the issuance of common shares are recognized as a deduction from shareholders' equity. On June 10, 2021, the Company filed a 25-month period base shelf prospectus in all provinces and territories of Canada which allows the Company to offer and issue common shares, debt securities, subscription receipts, warrants, and units (collectively, the "Securities") from time to time up to an aggregate offering price of $500.0 million.

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

The Company announced on June 18, 2021 that it has established an ATM Program which allows the Company to issue common shares from treasury having an aggregate gross sales amount of up to $90 million to the public from time to time, at the Company's discretion. Sales of the common shares under the equity distribution agreement were made through "at-the-market distributions" as defined in National Instrument 44-102 - Shelf Distributions, including sales made directly on the Toronto Stock Exchange (the "TSX"). The common shares distributed under the ATM Program were at the market prices prevailing at the time of sale, and therefore prices varied between purchasers and over time.

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

During Q2 2022, the Company issued 256,000 of common shares for gross proceeds of $2.4 million at an average price of $9.40 per common share and paid $48 in commissions to the agent, pursuant to the equity distribution agreement. For YTD 2022, the Company issued 1,504,200 of common shares for gross proceeds of $14.3 million at an average price of $9.52 per common share and paid $246 in commissions to the agent, pursuant to the equity distribution agreement.

(b) Dividend reinvestment plan ("DRIP")

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

No shares were purchased on the open market in Q2 2022, YTD 2022 and Q2 2021. During YTD 2021 the Company purchased from open market 47,808 common shares for total amount of $416 at an average price of $8.69 per common share.

During Q2 2022 and YTD 2022, the Company issued from treasury 147,661 and 281,114 common shares (Q2 2021 – 130,308 and YTD 2021 – 220,350) and retained $1.3 million and $2.6 million in dividends (Q2 2021 – 1,172,217; YTD 2021 – $2.0 million), common shares were issued from treasury at an average price of $9.08 per common share.

(c) Dividends to holders of common shares

The Company intends to pay dividends to holders of common shares monthly within 15 days following the end of each month. During Q2 2022 and YTD 2022, the Company declared dividends of $14.5 million or $0.1725 per share and $28.8 million or $0.3450 per share (Q2 2021 – $14.0 million, $0.1725 per share and YTD 2021 – $27.9 million, $0.3450 per share).

As at June 30, 2022, $4.8 million in aggregate dividends (December 31, 2021 – $4.7 million) was payable to the holders of common shares by the Company. Subsequent to June 30, 2022, the Board of Directors of the Company declared dividends of $0.0575 per share to be paid on July 15, 2022 to the common shareholders of record on June 30, 2022.

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

On May 24, 2022, the Company announced that the TSX approved the Company's normal course issuer bid (the "NCIB") to repurchase for cancellation up to 8,330,591 common shares over a 12-month period. Repurchases under the NCIB were permitted to commence on May 26, 2022 and continue until May 25, 2023, when the bid will expire. As of June 30, 2022, the Company did not repurchase any common shares under this plan, nor had it made any repurchases under its previous plan which expired in April 2022.

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

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

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

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

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

During Q2 2022 and YTD 2022, 9,262 and 18,702 units were issued (Q2 2021 and YTD 2021 – 9,387 and 18,748) and as at June 30, 2022, 129,598 units were outstanding (December 31, 2021 – 145,350 units). During Q2 2022 and YTD 2022, 34,454 DSUs were exercised (Q2 2021 and YTD 2021 – nil). DSU expense for Q2 2022 and YTD 2022 was $90 and $205 (Q2 2021 and YTD 2021 – $86 and – $169). As at June 30, 2022, $90 (December 31, 2021 – $101) in compensation was granted in DSUs, which will be issued subsequent to June 30, 2022.

STATEMENT OF CASH FLOWS

Cash from operating activities

Cash from operating activities for Q2 2022 and YTD 2022 was $16.7 million and $33.7 million (Q2 2021 – $21.3 million; YTD 2021 – $40.6 million).

Cash (used in) from financing activities

Cash used in financing activities for Q2 2022 and cash from financing activities YTD 2022 consisted of the Company’s net repayments on the operating credit facility of $24.0 million and net advances of $72.0 million (Q2 2021 – $18.4 million net advances, YTD 2021 – $10.7 million net advances). The Company paid interest on the debentures and credit facilities of $7.1 million and $13.0 million (Q2 2021 – $6.9 million; YTD 2021 – $11.9 million), and paid common share dividends of $13.1 million and $26.1 million (Q2 2021 – $12.8 million; YTD 2021 – $25.6 million). During Q2 2022 and YTD 2022, the Company purchased shares on the open market under the NCIB and DRIP programs of nil (Q2 2021 – nil; YTD 2021 – $416).

The net cash used in financing activities for Q2 2022 was $37.1 million and net cash from financing activities for YTD 2022 was $47.2 million (Net cash used Q2 2021 – $1.3 million and net cash used YTD 2021 – $27.2 million).

Cash from (used in) investing activities

Cash from investing activities for Q2 2022 and cash used in investing activities for YTD 2022 consisted of the Company's funding of net mortgage investments $202.4 million and $496.5 million (Q2 2021 – $96.3 million; YTD 2021 – $253.8 million). The Company received cash from discharge of net mortgage investments $213.7 million and $400.5 million (Q2 2021 – $84.0 million; YTD 2021 – $245.0 million). The Company used cash in funding of other investments of $5.8 million and $6.4 million (Q2 2021 – $18.7 million; YTD 2021 – $39.2 million). The Company received cash from repayments of other investments $6.4 million and $10.6 million (Q2 2021 – $10.3 million; YTD 2021 – $34.3 million). For Q2 2022 and YTD 2022, the company received cash of $7.6 million and $7.5 million relating to the disposition of investment properties (Q2 2021 – $120 used in funding additions and YTD 2021 – $197 used in funding additions). The company paid cash on maturity of currency forward hedging contracts of nil and nil (Q2 2021 – $626 and YTD 2021 $626). The net cash from investing activities for Q2 2022 was $19.5 million and net cash used in investing activities for YTD 2022 was $84.4 million (Q2 2021 – used $20.2 million; YTD 2021 – used $13.3 million).

QUARTERLY FINANCIAL INFORMATION

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

NET INCOME AND COMPREHENSIVE INCOME	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net Investment Income on financial assets measured at amortized cost	**$25,802**	$22,677	$22,378	$22,042	$23,390	$22,439	$23,958	$23,917
Fair value (loss) gain and other income on financial assets measured at FVTPL	**352**	(103)	(7,404)	(3,577)	211	479	(14,918)	147
Loss on real estate properties	**(95)**	—	(4,374)	—	—	—	—	—
Realized Loss on Disposal of Investment Properties	**(283)**	—	—	—	—	—	—	—
Net rental income	**36**	382	389	386	376	348	373	344
Expenses	**(4,150)**	(4,241)	(3,761)	(3,404)	(5,177)	(3,895)	(5,560)	(4,181)
Income from operations	**21,662**	18,715	7,228	15,447	18,800	19,371	3,853	20,227
Financing costs:								
Financing cost on credit facilities	**(4,749)**	(3,560)	(4,045)	(4,040)	(4,746)	(3,903)	(4,397)	(4,291)
Financing cost on debentures	**(2,233)**	(2,273)	(1,767)	(1,981)	(1,543)	(1,454)	(1,919)	(2,306)
Fair value loss (gain) on derivative contract	**—**	—	(994)	(995)	(974)	(977)	(850)	(817)
Net income (loss) and comprehensive income (loss)	**14,680**	$12,882	$ 2,410	$10,421	$13,485	$14,991	$(1,613)	$14,447
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME								
Net income (loss) and comprehensive income (loss)	**$14,680**	$12,882	$ 2,410	$10,421	$13,485	$14,991	$(1,613)	$14,447
Add: fair value (gain) loss on derivative contract (interest rate swap)	**—**	—	(994)	(995)	(974)	(977)	(850)	(817)
Add: net unrealized loss on financial assets measured at FVTPL	**$ 377**	$ 946	$ 8,237	$ 4,295	$ 1,100	$ 116	$15,477	$ 395
Add: net unrealized loss on investment properties	**95**	—	4,374	—	—	—	—	—
Adjusted net income and comprehensive income[1]	**$15,152**	$13,828	$14,027	$13,721	$13,611	$14,130	$13,014	$14,025
PER SHARE INFORMATION								
Dividends per share	**$ 0.17**	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17
Earnings (loss) per share (basic)	**$ 0.17**	$ 0.16	$ 0.03	$ 0.13	$ 0.17	$ 0.19	$ (0.02)	$ 0.18
Earnings (loss) per share (diluted)	**$ 0.17**	$ 0.16	$ 0.03	$ 0.13	$ 0.17	$ 0.18	$ (0.02)	$ 0.18
Adjusted earnings per share (basic)[1]	**$ 0.18**	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.16	$ 0.17
Adjusted earnings per share (diluted)[1]	**$ 0.18**	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.17	$ 0.16	$ 0.17
Distributable income per share[1]	**$ 0.19**	$ 0.18	$ 0.20	$ 0.17	$ 0.20	$ 0.19	$ 0.18	$ 0.18
Adjusted distributable income per share[1]	**$ 0.19**	$ 0.18	$ 0.20	$ 0.17	$ 0.19	$ 0.19	$ 0.18	$ 0.18

[1] Refer to non-IFRS measures section.

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

i. In any given quarter, the Company is subject to volatility from portfolio turnover from both scheduled and early repayments. As a result, net interest income is susceptible to quarterly fluctuations. The Company models the portfolio throughout the year factoring in both scheduled and probable repayments, and the corresponding new mortgage advances, to determine its distributable income on a calendar year basis;

ii. In any given quarter, the Company is subject to volatility from fair value adjustments to financial assets measured at FVTPL and allowance for mortgage investments resulting in fluctuations in quarterly total net income and comprehensive income;

iii. The utilization of the credit facility to fund mortgage investments results in higher net interest income, which is partially offset by higher financing costs.

RELATED PARTY TRANSACTIONS

As at June 30, 2022, due to Manager mainly includes management and servicing fees payable of $1.3 million (December 31, 2021 – $1.4 million). During Q2 2022 and YTD 2022, Arrangement Fees of $130 and $0.6 million paid by borrower were retained by the Manager (Q2 2021 – $0.8 million and YTD 2021 – $1.1 million).

As at June 30, 2022, included in other assets is $5.4 million (December 31, 2021 – $14.0 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.

As at June 30, 2022, the Company has the following mortgage investments which a director or directors of the Company are also officers and part-owners of a syndication partner of these mortgages.

- A mortgage investment with a total gross commitment of $11.6 million (December 31, 2021 – $11.6 million). The Company's share of the commitment is $0.9 million (December 31, 2021 – $0.9 million). For the three months and six months ended June 30, 2022, the Company has recognized net interest income of $29 and $55 (Q2 2021 and YTD 2021 – $52) from this mortgage investment during the period.

- A mortgage investment with a total gross commitment of $48.8 million (December 31, 2021 – $45.7 million). The Company's share of the commitment is $4.4 million (December 31, 2021 – $4.2 million). For the three months and six months ended June 30, 2022, the Company has recognized net interest income of $107 and $181 (Q2 2021 and YTD 2021 – $119) from this mortgage investment during the period.

As at June 30, 2022, the Company and Timbercreek Real Estate Finance U.S. Holding LP are related parties as they are managed by the Manager, and they have co-invested in 2 mortgages (December 31, 2021 – 2) and other investments totaling $33.8 million (December 31, 2021 – $21.7 million), on gross basis including mortgage syndications. The Company's share in these mortgage investments is $10.0 million (December 31, 2021 – $9.8 million).

As at June 30, 2022, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling $4.4 million or €3.3 million (December 31, 2021 – $5.1 million or €3.5 million), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.

COMMITMENTS AND CONTINGENCIES

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

The COVID-19 pandemic has continued to result in uncertainty in global financial markets and the economic environment in which the Company operates. The duration and impact of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the associated fiscal and monetary interventions by governments and central banks. Global financial markets continued to be volatile during 2022, in part due to Russia's military invasion of Ukraine and the related sanctions and economic fallout. The COVID-19 pandemic has continued to result in uncertainty in global financial markets and the economic environment in which the Company operates. The duration and impact of the COVID-19 pandemic continues to be unknown at this time, as is the efficacy of the associated fiscal and monetary interventions by governments and central banks. As a result of the continuously evolving circumstances surrounding COVID-19 and other geopolitical events, some uncertainty still remains with the Company's future results. Most significantly the fact that it cannot predict how its borrowers will be impacted and therefore respond to the reinstatement of any restrictive measures and the impact on the Company's financial results and condition of the Company in future periods. To date, the Company has not experienced material changes in the collection of interest and repayments of principal, however, there is no certainty this will continue going forward. Accordingly, there remains some uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements. Given the evolving circumstances surrounding COVID-19, it is difficult to predict with certainty the extent and severity of the COVID-19 pandemic, the current geopolitical landscape and the impact these will have on the Company's estimate of allowance for credit losses and investments measured at FVTPL, both in the short term and in the long term.

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

Measurement of fair values

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

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

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

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

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

Note 4 – Mortgage and other investments, including mortgage syndications;
Note 5 – Investment properties; and
Note 6 – Land inventory
Note 19 – Fair value measurements.

Measurement of expected credit loss

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

Syndication liabilities

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

Classification of mortgage and other investments

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

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in the unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2021, , which were prepared in accordance with IFRS, except for those noted below:

Land inventory

Land inventory are lots of land that will be sold by the Company and are recorded at the lower of cost and estimated net realizable value. Impairment is reviewed at each reporting date, with any losses recognized in net income when the carrying value of the inventory exceeds its net realizable value. The net realizable value is defined as the entity-specific future selling price in the ordinary course of business less estimated costs of completion, if any, and selling costs.

OUTSTANDING SHARE DATA

As at August 10, 2022, the Company's authorized capital consists of an unlimited number of common shares, of which 84,004,916 are issued and outstanding.

CAPITAL STRUCTURE AND LIQUIDITY

Capital structure

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

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

Liquidity

Access to liquidity is an important element of the Company as it allows the Company to implement its investment strategy. The Company is, and intends to continue to be, qualified as a MIC as defined under Section 130.1(6) of the ITA and, as a result, is required to distribute not less than 100% of the taxable income of the Company to its shareholders. The Company manages its liquidity position through various sources of cash flows including cash generated from operations and credit facilities. The Company has a borrowing ability of $597.9 million through its credit facility – mortgage investments and intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at June 30, 2022, the Company is in compliance with its credit facilities covenants and expects to remain in compliance going forward.

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

The following are the contractual maturities of financial liabilities, excluding mortgage syndication liabilities as at June 30, 2022, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3–5 years	5 + Years
Accounts payable and accrued expenses	$ 3,687	$ 3,687	$ 3,687	$ —	$ —	$ —
Dividends payable	4,804	4,804	4,804	—	—	—
Due to Manager	1,258	1,258	1,258	—	—	—
Mortgage and other loans funding holdbacks	1,585	1,585	1,585	—	—	—
Prepaid mortgage and other loans interest	3,776	3,776	3,776	—	—	—
Derivative liability (interest rate swap contract)	—	—	—	—	—	—
Credit facility (mortgage investments)[1]	490,885	529,776	23,370	506,406	—	—
Convertible debentures[3]	138,466	183,287	7,573	52,573	15,563	107,578
	$ 644,461	$ 728,173	$ 46,053	$ 558,979	$ 15,563	$ 107,578
Unadvanced mortgage commitments[4]	—	351,825	351,825	—	—	—
Total contractual liabilities, excluding mortgage syndication liabilities[5]	$ 644,461	$ 1,079,998	$ 397,878	$ 558,979	$ 15,563	$ 107,578

1 Credit facility (mortgage investments) includes interest based upon June 2022 weighted average interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on Feb 10, 2024.

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

3 Unadvanced mortgage commitments include syndication commitments of which $194.8 million belong to the Company's syndicated partners.

4 The principal repayments of $605.8 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments.

As at June 30, 2022, the Company had a cash position of $2.7 million (December 31, 2021 – $6.3 million) and an unutilized credit facility (mortgage investments) balance of $83.0 million (December 31, 2021 – $115.0 million). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facilities.

As at June 30, 2022, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to $351.8 million (December 31, 2021 – $407.4 million) of which $194.8 million (December 31, 2021 – $253.5 million) belong to the Company’s syndicated partners. The Company expects the syndication partners to fund their respective commitments.

FINANCIAL INSTRUMENTS

Financial assets

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

Financial liabilities

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

RISKS AND UNCERTAINTIES

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial assets or financial liabilities will fluctuate because of changes in market interest rates. As of June 30, 2022, $1,237.1 million of net mortgage investments and $5.0 million of other investments bear interest at variable rates (December 31, 2021 – $1,104.8 million and $15.6 million, respectively). As of June 30, 2022, $1,151.5 million of net mortgage investments have a "floor rate" (December 31, 2021 – $1,048.0 million).

If there were a decrease or increase of 1.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income would be a decrease in net income of $11.9 million (December 31, 2021 – 0.5% and $46) or an increase in net income of $15.0 million (December 31, 2021 – 0.5% and $3.9 million). The Company manages its sensitivity to interest rate fluctuations by managing the fixed/floating ratio and its use of floor rates in its investment portfolio.

The Company is also exposed to interest rate risk on the credit facilities, which have a balance of $492.0 million as at June 30, 2022 (December 31, 2021 – $450.7 million). During Q4 2019, the Company entered into an interest rate swap contract to reduce its exposure in interest rate risk. The contract matured in December 2021 and was not renewed. As at June 30, 2022, net exposure to interest rate risk was $492.0 million (December 31, 2021 – $450.7 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by $2.5 million (December 31, 2021 – $2.3 million).

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

Currency risk

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

As at June 30, 2022, the Company has US$7.1 million and €3.3 million in other investments denominated in foreign currencies (December 31, 2021 – US$7.1 million and €3.5 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at June 30, 2022, the Company has one U.S. dollars currency contracts with an aggregate notional value of US$7.0 million, at a forward contract rate of 1.2710, that matures in July 2022. The Company also has one Euro currency contract with an aggregate notional value of €3.5 million at a contract rate of 1.3832, that matures in October 2022.

The fair value of the foreign currency forward contracts as at June 30, 2022 is a liability of $26 which is included in accounts payable. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

Credit risk

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

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

The exposure to credit risk at June 30, 2022 relating to net mortgages and other investments amount to $1,319.1 million (December 31, 2021 – $1,248.3 million).

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

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

Liquidity risk

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

ADDITIONAL INFORMATION

Dividend Reinvestment Plan

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

Phone

Blair Tamblyn, CEO
Tracy Johnston, CFO
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