

Management's Discussion and Analysis

TIMBERCREEK FINANCIAL

For the three and six months ended June 30, 2023



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, interest rates, regulatory and statutory developments, the effects of competition in areas that the Company may invest in, geopolitical uncertainty, 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 2, 2023. 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, 2023. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2023 and 2022, and the audited consolidated financial statements for the years ended December 31, 2022 and 2021, 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 WALTV computation. This is a key measure to explain period to period performance variances of net mortgage investments.
- iii. Turnover ratio – represents total borrower repayments and syndications of mortgage investments that occurred more than 30 days past the initial net mortgage investment advance date 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.

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- 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 and earnings per share ("EPS") measures do not necessarily provide a complete measure of the Company's operating performance as IFRS net income and EPS include 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/(loss) on an investment measured at FVTPL as well as non-recurring foreign currency gains on other investment.

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- 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.

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RECENT DEVELOPMENTS AND OUTLOOK

The Company is pleased to report another quarter of strong financial results highlighted by net investment income of \$31.5 million, representing an increase of 22% over the prior year. Earnings per share and distributable income per share were \$0.20 and \$0.21 versus \$0.17 and \$0.19, respectively, in the same period last year, demonstrating continued strong underlying fundamentals. The distributable income payout ratio was 81.1%.

The loan portfolio of \$1,123.7 million had a weighted-average interest rate for the quarter of 9.8%. In the second quarter, the Company advanced net new mortgages of \$64.7 million, and \$43.3 million on existing mortgages, offset by total mortgage portfolio repayments of \$133.4 million, including borrower repayments of \$128.1 million. Management is seeing increased borrower demand and anticipates higher new funding activity in the coming quarters. Mortgage repayment activity was higher in the second quarter after a slower Q1 2023 and as a result, portfolio turnover increased to 11.6% compared with 8.4% in Q1 2023. Increased activity is viewed positively as borrowers are able to transact on their sales or refinancing activities signaling a more active commercial real estate market in the near term. As discussed in the past two quarters, the Company has been able to originate loans at slightly lower loan-to-values ("LTV") and modestly lower rates while ensuring sufficient cash to generate a very attractive payout ratio on distributable income and earnings per share.

The majority of the mortgage portfolio continued to perform well in the second quarter, reaffirming the Company's focus on high quality, income producing assets in urban markets. The investment team continues to closely manage several select situations where borrowers are experiencing challenges in the current macroeconomic environment. The Company is experienced in navigating these situations and utilizing various approaches to achieve resolution. The following is a brief summary of loans reported in Stage III and Stage II:

Stage III loans:

1. \$76.1 million net mortgage investments in relation to two loans (retirement/multi-family) currently part of a CCAA process.
Status: expected court process resolution in Q3. A full recovery of the Company's exposure is expected.
2. \$143.3 million net mortgage investments relating to seven income producing multi-family loans with the same sponsor.
Status: advancing from Stage II in Q1, the Company along with a broader lender group moved to put a receiver in place to resolve these loans via a sales process. The process is advancing well with a full recovery of the Company's exposure expected largely if not all by year end.
3. \$17.9 million net mortgage investment condo inventory exposure.
Status: \$1.3 million of inventory was sold in Q2 with more units set to close in Q3 2023. The Company is satisfied with the sales proceeds received and expects the remainder of the loan to be repaid by the end of 2024.
4. \$8.7 million net mortgage investment on a medical office building.
Status: the Company recently engaged a new property manager with deep expertise in the market to complete the leasing strategy. The investment team is confident that with the level of expertise of this manager, their presence in the Ottawa market, and their overall alignment with the intended repositioning plan of the asset will generate the best outcome for the property and the ultimate repayment of principal.

Stage II loan:

1. \$16.5 million net mortgage income producing multi-family loan.
Status: loan matured in Q2 with an extension being negotiated to provide the borrower time to complete a sales process. The loan is current and the Company expects full repayment.

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PORTFOLIO ACTIVITY

In Q2 2023 the Company advanced \$64.7 million on 9 new net mortgage investments and made additional advances of \$43.3 million. Portfolio turnover increased to 11.6% (with total mortgage portfolio repayments of \$133.4 million, including borrower repayments of \$128.1 million), compared with 8.4% in Q1 2023. This resulted in the net value of the mortgage portfolio, excluding syndications, to be lower by \$25.4 million (from \$1,149.1 million in Q1 2023 to \$1,123.7 million at the end of Q2 2023). The Company's credit facility had a balance of \$360.9 million at the end of Q2 2023, compared to \$387.0 million at the end of Q1 2023.

At the end of Q2 2023, 87.7% of the mortgage investments were secured by income-producing properties ("IPP"), compared to 89.0% in Q1 2023. Multi-residential real estate assets (apartment buildings) continue to comprise the largest portion of the portfolio at 50.1% at quarter end, compared to 50.8% in Q1 2023.

The Company's exposure to first mortgages was 91.4% of the net mortgage portfolio at quarter end. WALTV of 68.3% was consistent with the 68.5% WALTV in Q1 2023. Our weighted average interest rate Q2 2023 was 9.8% with an exit rate of 9.9% as at June 30, 2023, which is slightly higher than the 9.7% exit rate at March 31, 2023. As noted above, the distributable income payout ratio was a very healthy 81.1%.

The Company's mortgage portfolio remains heavily weighted toward Canada's largest provinces, with approximately 96.7% of its capital invested in Ontario, British Columbia, Quebec and Alberta, and focused on urban markets that generally experience better real estate liquidity. Originations in the quarter were largely centered around low LTV multi-family assets. Management continues to see a good volume of opportunities in its core multi-residential categories, as well as low LTV land opportunities (set at current market values) in urban markets. The Company believes it can achieve the appropriate risk/return while providing safety in additional diversification.

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FINANCIAL HIGHLIGHTS
KEY FINANCIAL
POSITION INFORMATION

	June 30, 2023	June 30, 2022	December 31, 2022
Net mortgage investments ¹	\$ 1,123,728	\$ 1,235,018	\$ 1,195,809
Enhanced Return Portfolio ¹	\$ 58,696	\$ 68,158	\$ 72,945

CAPITAL STRUCTURE

Total assets	\$ 1,788,431	\$ 1,950,464	\$ 1,916,039
Total liabilities	\$ 1,087,030	\$ 1,250,441	\$ 1,217,496
Shareholders' equity	\$ 701,401	\$ 700,023	\$ 698,543
Book value per share	\$ 8.41	\$ 8.33	\$ 8.33
Convertible debentures, par	\$ 146,000	\$ 146,000	\$ 146,000
Credit facility	\$ 360,672	\$ 490,885	\$ 450,347
Total debentures and credit facility utilized	\$ 506,672	\$ 636,885	\$ 596,347
Maximum credit limit available	\$ 573,300	\$ 721,000	\$ 700,528
Credit utilization rate	88.4 %	88.3 %	85.1 %

COMMON SHARE INFORMATION

Number of common shares outstanding	83,450,416	84,004,916	83,887,516
Closing trading price	\$ 7.45	\$ 7.95	\$ 7.11
Market capitalization	\$ 621,706	\$ 667,839	\$ 596,440

1. Refer to non-IFRS measures section.

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OPERATING RESULTS¹

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2023	2022	2023	2022	2022
NET INCOME AND COMPREHENSIVE INCOME					
Net investment income on financial assets measured at amortized cost	\$31,471	\$25,802	\$ 64,180	\$ 48,479	\$ 109,803
Fair value gain and other income on financial assets measured at FVTPL	306	352	588	249	1,388
Net rental (loss) income	(293)	36	(652)	418	(151)
Fair value (loss) gain on real estate properties	—	(378)	63	(378)	(296)
Expenses	(5,139)	(4,150)	(9,582)	(8,391)	(22,592)
Income from operations	\$26,345	\$21,662	\$ 54,597	\$ 40,377	\$ 88,152
Financing costs:					
Financing cost on credit facilities	(7,208)	(4,749)	(15,106)	(8,309)	(23,234)
Financing cost on convertible debentures	(2,249)	(2,233)	(4,499)	(4,506)	(9,022)
Net income and comprehensive income	\$16,888	\$ 14,680	\$ 34,992	\$ 27,562	\$ 55,896
Payout ratio on earnings per share	85.5 %	98.7 %	82.5 %	104.3 %	103.3 %
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME					
Net income and comprehensive income	\$16,888	\$14,680	\$ 34,992	\$ 27,562	\$ 55,896
Add: Net unrealized loss on financial assets measured at FVTPL	68	377	11	1,323	1,546
Add: Net unrealized loss on real estate properties	—	95	—	95	95
Adjusted net income and comprehensive income¹	\$16,956	\$15,152	\$ 35,003	\$ 28,980	\$ 57,537
Payout ratio on adjusted earnings per share ¹	85.1 %	95.6 %	82.5 %	99.2 %	100.3 %
PER SHARE INFORMATION					
Dividends declared to shareholders	\$14,434	\$14,482	\$ 28,885	\$ 28,750	\$ 57,721
Weighted average common shares (in thousands)	83,737	83,912	83,760	83,251	83,622
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.35	\$ 0.35	\$ 0.69
Earnings per share (basic)	\$ 0.20	\$ 0.17	\$ 0.42	\$ 0.33	\$ 0.67
Earnings per share (diluted)	\$ 0.20	\$ 0.17	\$ 0.41	\$ 0.33	\$ 0.67
Adjusted earnings per share (basic) ¹	\$ 0.20	\$ 0.18	\$ 0.42	\$ 0.35	\$ 0.69
Adjusted earnings per share (diluted) ¹	\$ 0.20	\$ 0.18	\$ 0.41	\$ 0.35	\$ 0.69

1. Refer to non-IFRS measures section.

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OPERATING RESULTS¹

DISTRIBUTABLE INCOME	Three months ended		Six months ended		Year ended
	2023	June 30, 2022	2023	June 30, 2022	December 31, 2022
Adjusted net income and comprehensive income ¹	\$ 16,956	\$ 15,152	\$ 35,003	\$ 28,980	\$ 57,537
Less: Amortization of lender fees	(2,181)	(2,263)	(4,646)	(4,553)	(8,726)
Add: Lender fees received and receivable	1,672	2,117	3,381	4,576	7,708
Add: Amortization of financing costs, credit facility	172	254	425	469	984
Add: Amortization of financing costs, convertible debentures	242	251	486	503	1,006
Add: Accretion expense, convertible debentures	114	114	227	227	454
Add: Unrealized fair value (gain) loss on DSU	(48)	(57)	27	(90)	(201)
Add: Allowance for expected credit loss	875	301	1,175	950	7,482
Distributable income and adjusted distributable income^{1,2}	\$ 17,802	\$ 15,869	\$ 36,078	\$ 31,062	\$ 66,244
Payout ratio on distributable income and adjusted distributable income ^{1,2}	81.1 %	91.3 %	80.1 %	92.6 %	87.1 %
PER SHARE INFORMATION					
Dividends declared to shareholders	\$ 14,434	\$ 14,482	\$ 28,885	\$ 28,750	\$ 57,721
Weighted average common shares (in thousands)	83,737	83,912	83,760	83,251	83,622
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.35	\$ 0.35	\$ 0.69
Distributable and adjusted distributable income per share ¹	\$ 0.21	\$ 0.19	\$ 0.43	\$ 0.37	\$ 0.79

1. Refer to non-IFRS measures section.

2. There are no adjustments for the periods presented.

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For the three months ended June 30, 2023 ("Q2 2023") and June 30, 2022 ("Q2 2022")

- The net mortgage investment portfolio has decreased by \$25.4 million from \$1,149.1 million at the end of Q1 2023, to \$1,123.7 million at the end of Q2 2023 (Q2 2022 – \$1,235.0 million). The Company advanced \$108.0 million in net mortgage investments, offset by total mortgage portfolio repayments of \$133.4 million, including borrower repayments of \$128.1 million.
- On net mortgage investment advances, the Company advanced 9 new net mortgage investments (Q2 2022 – 14) totaling \$64.7 million (Q2 2022 – \$150.8 million), and made additional advances on existing net mortgage investments of \$43.3 million (Q2 2022 – \$13.9 million). The collateral on new advances in net mortgage investments comprised of mainly multi-residential real estate assets. The weighted average interest rate on net mortgages' advances was 9.0%, down from 9.2% in Q1 2023 (Q2 2022 – 7.2%).
- On net mortgage investment repayments, 12 net mortgage investments (Q2 2022 – 14) were fully repaid. The Company received total mortgage portfolio repayments of \$133.4 million (Q2 2022 – \$162.8 million), including borrower repayments of \$128.1 million (Q2 2022 – \$98.2 million). The weighted average interest rate on fully repaid net mortgage investments was 10.7%. Turnover ratio was 11.6% for Q2 2023 compared to 8.1% in Q2 2022 due to lower portfolio balance in the period.
- The quarterly weighted average interest rate on net mortgage investments was 9.8% in Q2 2023, compared to 9.7% in Q1 2023 (Q2 2022 – 7.2%), reflecting one Bank of Canada rate increase in the latter part of Q2 2023 of 25 basis points.
 - In Q2 2022, first mortgage positions represented 92.5% of the net mortgage investments whereas in Q2 2023 first mortgage positions represented 91.4% of the net mortgage investments.
 - Interest rate exposure in the existing portfolio was well protected at the end of Q2 2023 floating rate loans with rate floors representing 88.3% (Q2 2022 – 87.5%). Of the remaining portfolio, 6.1% (Q2 2022 – 6.5%) is allocated to floating rate loans without floors and 5.6% (Q2 2022 – 6.0%) is allocated to fixed rate loans.
- Other investments within the enhanced return portfolio were \$58.7 million (Q2 2022 – \$68.2 million), during Q2 2023, the Company received \$0.7 million return of capital distributions on investment measured at FVTPL, year-over-year decrease of \$9.5 million was primarily due to loan repayments.
- Net investment income on financial assets measured at amortized cost increased by \$5.7 million from the previous year (\$31.5 million in Q2 2023 compared to \$25.8 million in Q2 2022), predominantly attributable to significantly higher interest rates compared to Q2 2022, positively impacting the variable rate loans, slightly offset by a lower average balance in net mortgage investments (\$1,146.0 million in Q2 2023 compared to \$1,181.5 million in Q2 2022).
- Fair value gain and other income on financial assets measured at FVTPL decreased from a gain of \$352 in Q2 2022 to a gain of \$306 in Q2 2023.
- Net rental loss from real estate properties was \$293 (Q2 2022 – income of \$36) for the quarter related to operating losses on the land inventory.
- No further fair value loss on real estate properties was recorded in Q2 2023 (Q2 2022 – loss of \$378).
- Expenses for the quarter were \$5.1 million (Q2 2022 – \$4.2 million).
 - Management fees of \$2.9 million (Q2 2022 – \$3.2 million). The average gross assets were \$1,241.3 million compared to \$1,373.2 million in Q2 2022.

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- General and administrative expenses of \$1.2 million for Q2 2023 (Q2 2022 – \$431), after adjusting for the impact of DSU market-to-market gain of \$48 (Q2 2022 – gain of \$57) and foreign exchange gain of \$28 (Q2 2022 – gain of \$156), general and administrative expenses were \$1.3 million (Q2 2022 – \$0.6 million) for the quarter, representing an increase of \$0.6 million over the comparable primarily due to non-reimbursable legal costs associated with Stage 3 loans in Quebec. These costs may persist for the balance of the year as the Company continues to work through resolution on these loans.
- Provisions for mortgage investment losses of \$0.9 million for Q2 2023 (Q2 2022 – \$301) represents a net increase in loan loss provisions in the quarter on Stage III loans. The loan loss provisions are an approximation of losses on the Stage III loans and include future interest on the loans until the anticipated exit/resolution date of the loan. Management continues to be optimistic that it will recover the principal amounts on its loans.
- Income from operations saw a \$4.4 million increase over the prior year (\$26.3 million in Q2 2023 compared to \$21.7 million in Q2 2022) largely driven by an increase on net investment income on financial assets measured at amortized cost of \$5.7 million as noted above.
- Financing cost on credit facility was \$7.2 million (Q2 2022 – \$4.7 million), including interest expense of \$7.0 million (Q2 2022 – \$4.4 million) and financing fee amortization of \$172 (Q2 2022 – \$254). Significant increase in interest expense of \$2.6 million over the prior year comparative period was largely due to 325 basis points of Bank of Canada policy rate increases since the comparable quarter (Q2 2023 – prime rate of 6.95% compared to Q2 2022 – 3.70%), partially offset by a \$98.0 million decrease in average credit utilization (Q2 2023 was \$416.8 million compared to \$514.7 million in Q2 2022).
- Financing cost on the convertible debentures was \$2.2 million (Q2 2022 – \$2.2 million), including interest expense of \$1.9 million (Q2 2022 – \$1.9 million) and financing fee amortization and accretion expense of \$356 (Q2 2022 – \$365).
- Net income and comprehensive income of \$16.9 million (Q2 2022 – \$14.7 million) or basic and diluted earnings per share of \$0.20 (Q2 2022 – \$0.17 basic and diluted earnings per share), representing a payout ratio on earnings per share of 85.5% (Q2 2022 – 98.7%). The results improved over the prior period as a result of higher top-line interest income.
- After adjusting for the unrealized fair value loss from financial assets measured at FVTPL of \$68 (Q2 2022 – loss of \$377), the Company generated adjusted net income and comprehensive income of \$17.0 million (Q2 2022 – \$15.2 million) or basic and diluted adjusted earnings per share of \$0.20 (Q2 2022 – \$0.18 basic and diluted adjusted earnings per share).
- The Company declared \$14.4 million in dividends to common shareholders (Q2 2022 – \$14.5 million), representing a payout ratio of 85.1% (Q2 2022 – 95.6%) on an adjusted earnings per share basis.
- Non-refundable lender fees recorded were \$1.7 million (Q2 2022 – \$2.1 million), resulting from lower originations in the period, \$76.1 million in Q2 2023 versus \$184.7 million in Q2 2022. The quarterly weighted average lender fees on new and renewed mortgages was 1.1% during the quarter (Q2 2022 – 1.0%), while the quarterly weighted average lender fee on new mortgages only was 1.2% (Q2 2022 – 1.2%).
- The Company generated distributable income and adjusted distributable income of \$17.8 million (Q2 2022 – \$15.9 million) or distributable income and adjusted distributable income per share of \$0.21 (Q2 2022 – \$0.19) representing a payout ratio of 81.1% (Q2 2022 – 91.3%) for the quarter.
- On May 24, 2023, the Company renewed its Normal-Course Issuer Bid program (the "NCIB") to repurchase shares. During Q2 2023, the Company repurchased 324,600 common shares for cancellation at an average price of \$7.40 per share. There were no repurchases made under NCIB in Q2 2022.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

For the six months ended June 30, 2023 ("YTD 2023") and June 30, 2022 ("YTD 2022")

- The net mortgage investment portfolio as at June 30, 2023 decreased by \$72.1 million, to \$1,123.7 million (December 31, 2022 – \$1,195.8 million), or a 6.0% decrease from December 31, 2022. The Company advanced \$160.1 million in net mortgage investments, offset by total mortgage portfolio repayments of \$189.4 million, including borrower repayments of \$232.2 million.
- The Company advanced 13 new net mortgage investments (YTD 2022 – 32) totaling \$104.0 million (YTD 2022 – \$366.3 million), made additional advances on existing net mortgage investments totaling \$56.1 million (YTD 2022 – \$30.0 million).
- On net mortgage investment repayments, 22 (YTD 2022 – 23) net mortgage investments were fully repaid and net mortgage investments totaling \$189.4 million (YTD 2022 – \$290.0 million) were partially repaid. The Company syndicated \$42.8 million of its mortgage investments.
- WALTV stayed consistent at 68.3% as at June 30, 2023 compared to 68.3% as at December 31, 2022. The is primarily due to new mortgage originations at LTVs around the same average.
- Net mortgage investments of \$1,123.7 million bore a weighted average interest rate of 9.9% as at June 30, 2023 (December 31, 2022 – \$1,195.8 million, 10.0%), a slight decrease year-over-year resulting primarily from repayments of loans with higher rates, offset by interest rate increases of 350 basis points since June 2022 and substantially all loans coming up through their interest rate floors. Weighted average interest rate in the existing net mortgage portfolio is well protected at the end of Q2 2023 with only 5.6% of the portfolio at fixed interest rate (December 31, 2022 – 6.0%) and floating interest rate loans with rate floors representing 88.3% of the portfolio (December 31, 2022 – 88.5%).
- Other investments within the enhanced return portfolio were \$58.7 million, including an allowance for credit loss of \$0.5 million (December 31, 2022 – \$72.9 million and \$0.7 million, respectively).
- Net investment income on financial assets measured at amortized cost was \$64.2 million (YTD 2022 – \$48.5 million), an increase of \$15.7 million, or 32.4% from YTD 2022. The increase in net investment income for YTD 2023, as compared to YTD 2022 was primarily due to the 325 basis points of Bank of Canada policy rate increases (June 30, 2023 – prime rate of 6.95% compared to June 30, 2022 – prime rate of 3.70%), partially offset by lower average net mortgage investments through the year.
- Fair value gain and other income on financial assets measured at FVTPL was higher in 2023, a net gain of \$0.6 million YTD 2023 compared to a net gain of \$249 in YTD 2022.
- Net rental loss from real estate properties was \$0.7 million (YTD 2022 – income of \$418), relating to operating losses at a Marina on the Lagoon City Lands.
- Fair value gain of \$63 on real estate properties was recorded in YTD 2023 (YTD 2022 – loss of \$378).
- Expenses for YTD 2023 were \$9.6 million (YTD 2022 – \$8.4 million).
 - Management fees of \$6.2 million (YTD 2022 – \$6.2 million). The average gross assets were \$1,268.3 million compared to \$1,357.9 million in YTD 2022.
 - General and Administrative expenses of \$1.9 million (YTD 2022 – \$0.9 million), after adjusting for the impact of DSU mark-to-market loss of \$27 and foreign exchange losses of \$25, general and administrative expenses increased by \$0.9 million largely due to non-reimbursable legal costs associated with Stage 3 loans in Quebec, and inflation impact on professional costs. The legal costs may persist for the balance of the year as the Company continues to work through resolution on these loans.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

- Provisions for mortgage investment losses were \$1.2 million (2022 – \$1.0 million) represents a net increase in loan loss provisions in the year on Stage III loans. The loan loss provisions are an approximation of losses on the Stage III loans and include forward looking interest on the loans until the anticipated exit/resolution date of the loan. Management continues to be optimistic that it will recover the principal amounts on its loans.
- The Company generated income from operations of \$54.5 million (YTD 2022 – \$40.7 million). This is an increase of \$13.8 million or 33.9% from YTD 2022 driven by the factors noted above.
- Financing cost on credit facility was \$15.1 million (YTD 2022 – \$8.1 million), including interest expense of \$14.7 million (YTD 2022 – \$7.6 million) and financing fee amortization of \$425 (YTD 2022 – \$469). The significant increase in financing costs was primarily due to 450 basis points of Bank of Canada policy rate increases over the comparable period (June 30, 2023 – prime rate of 6.95% compared to January 1, 2022 at 2.45%), partially offset by a 19% lower average utilization of the credit facility (YTD 2023 – \$416.8 million versus YTD 2022 – \$514.7 million).
- For YTD 2023 financing cost on the convertible debentures was \$4.5 million (YTD 2022 - \$4.5 million), including interest expense of \$3.8 million (YTD 2022 – \$3.8 million), reflecting the fact that there are three series of convertible debentures outstanding in the current year, same as prior year and amortization and accretion of \$713 (YTD 2022 - \$730).
- The Company generated net income and comprehensive income of \$36.1 million (YTD 2022 – \$31.1 million) or basic and diluted earnings per share of \$0.42 (YTD 2022 – \$0.35 per share), representing a payout ratio on earnings per share of 82.5% (YTD 2022 – 104.3%) and payout ratio on adjusted earnings per share of 82.5% (YTD 2022 – 99.2%). The results were significantly improved over the prior year period as a result of higher top-line interest income.
- The Company generated adjusted net income and comprehensive income of \$35.0 million (YTD 2022 – \$29.0 million) or basic and diluted adjusted earnings per share of \$0.42 (YTD 2022 – basic and diluted of \$0.35 per share). The Company declared \$28.9 million in dividends (YTD 2022 – \$28.8 million) to common shareholders, representing a payout ratio of 82.5% (YTD 2022 – 99.2%) on an adjusted earnings per share basis.
- Non-refundable lender fees recorded were \$3.4 million (YTD 2022 – \$4.6 million). Lower lender fees are attributable to decreased originations from low turnover, partially offset by higher lender fee rates. The overall weighted average lender fee on new and renewed mortgages during the year was 1.1% (YTD 2022 – 1.1%), while the weighted average lender fee on only new mortgages YTD 2023 was 1.3% (YTD 2022 – 1.3%).
- The Company generated distributable income of \$36.1 million (YTD 2022 – \$31.1 million) or distributable income per share of \$0.43 (YTD 2022 – \$0.37 per share). Adjusted distributable income was \$36.1 million (YTD 2022 – \$31.1 million) or adjusted distributable income per share of \$0.43 (YTD 2022 – \$0.37 per share), representing a payout ratio of 80.1% (2021 – 92.6%) on an adjusted distributable income basis.
- On May 24, 2023, the Company announced that the TSX approved the Company's NCIB to repurchase for cancellation up to 8,305,467 common shares over a 12-month period. Repurchases under the NCIB were permitted to commence on May 26, 2023 and continue until May 25, 2024 upon expiry. In 2023 the Company repurchased 437,100 for \$3,249 at an average price of \$7.43 per share. There were no share repurchases made under NCIB in YTD 2022.

ANALYSIS OF FINANCIAL INFORMATION FOR THE PERIOD

Net investment income on financial assets measured at amortized cost

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

For Q2 2023 and YTD 2023, the Company earned net investment income on financial assets measured at amortized cost of \$31.5 million and \$64.2 million (Q2 2022 – \$25.8 million; YTD 2022 – \$48.5 million). Net investment income includes the following:

a. Interest income

During Q2 2023 and YTD 2023, the Company earned interest income on mortgages at amortized cost of \$28.1 million and \$56.7 million (Q2 2022 – \$22.0 million; YTD 2022 – \$40.9 million). The weighted average interest rate on net mortgage investments during Q2 2023 and YTD 2023 was 9.8% and 9.7%, respectively (Q2 2022 – 7.2%; YTD 2022 – 6.8%). The increase in interest income for the quarter and for the year was due to rate increases throughout the year, offset by lower weighted-average net mortgage investments over both periods.

During Q2 2023 and YTD 2023, the Company earned \$1.2 million and \$2.6 million (Q2 2022 – \$1.3 million; YTD 2022 – \$2.7 million) of interest income on collateralized loans in other investments in the enhanced return portfolio. The decreased interest income for the quarter is a result of a lower collateralized loan portfolio offset by higher weighted average interest rates due to rate increases in 2023.

b. Lender fee income

During Q2 2023 and YTD 2023, the Company amortized lender fee income on net mortgage investments, net of fees relating to mortgage syndication liabilities of \$2.0 million and \$4.4 million (Q2 2022 – \$2.2 million; YTD 2022 – \$4.5 million). During Q2 2023 and YTD 2023, the Company recorded non-refundable upfront lender fees on net mortgage investments, net of fees relating to mortgage syndication liabilities, of \$1.4 million and \$3.1 million (Q2 2022 – \$2.0 million; YTD 2022 – \$4.4 million), which are amortized to interest income over the term of the related mortgage investments using the effective interest rate method.

During Q2 2023 and YTD 2023, other loan investments amortized lender fee income of \$166 and \$274 (Q2 2022 – \$133; YTD 2022 – \$186). During Q2 2023 and YTD 2023, the Company recorded non-refundable upfront cash lender fees of \$300 and \$300 (Q2 2022 – \$93; YTD 2022 – \$193), which are amortized over the term of the related other loan investments using the effective interest rate method.

The weighted average lender fee on new and renewed mortgages of 1.1% and 1.1% for Q2 2023 and YTD 2023, respectively (Q2 2022 – 1.0%; YTD 2022 – 1.1%), while the weighted average lender fee on new mortgages only was 1.2% and 1.3% for Q2 2023 and YTD 2023, respectively (Q2 2022 – 1.2%; YTD 2022 – 1.3%).

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

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

c. Other income/loss

During Q2 2023 and YTD 2023, the Company recognized other income of \$135 and \$321 (Q2 2022 – \$142; YTD 2022 – \$233), attributable to bank interest income, rental income from lease receivables, and miscellaneous income.

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

During Q2 2023 and YTD 2023, the Company recognized a total gain on financial assets measured at FVTPL of \$306 and \$0.6 million (Q2 2022 – gain of \$352; YTD 2022 – gain of \$250).

The Company earned interest income on net mortgage investments measured at FVTPL of \$164 in Q2 2023 and \$325 in YTD 2023 (Q2 2022 – \$0.6 million; YTD 2022 – \$1.2 million). No further loss recorded in 2023 since vendor-take-back mortgage exchange in November 2022 (Q2 2022 – loss of \$265; YTD 2022 – loss of \$0.9 million).

On investment measured at FVTPL, during Q2 2023 and YTD 2023, the Company received total cash distribution of \$0.9 million and \$1.0 million, respectively (Q2 2022 – \$167; YTD 2022 – \$0.6 million), out of which \$0.7 million and \$0.7 million were a return of capital on the investment (Q2 2022 – \$62; YTD 2022 – \$174), \$210 and \$274 were a distribution (Q2 2022 – \$111; YTD 2022 – \$338). During Q2 2023 and YTD 2023, the Company recognized an unrealized fair value loss of \$68 and \$11 (Q2 2022 – loss of \$155; YTD 2022 – loss of \$445).

Net rental (loss) income from real estate properties

The net rental loss from real estate properties for Q2 2023 and YTD 2023 was \$293 and \$0.7 million, respectively (Q2 2022 – income of \$36; YTD 2022 – income of \$418, respectively).

Rental loss incurred in 2023 is related to land inventory operations acquired in Q2 2022 as part of debt to equity exchange. The Company intends on selling the lands and has accordingly recorded them as land inventory.

Rental income for comparable 2022 period was related to investment properties – Saskatchewan portfolio, which was disposed on April 28, 2022.

Fair value loss on real estate properties

In the YTD 2023, the Company received \$63 in final distribution of working capital settlement from investment properties – Saskatchewan portfolio. For Q2 2022 comparative period, the Company recognized \$283 fair value loss on disposition of investment properties – Saskatchewan portfolio. Additionally, in Q2 2022 the company recognized \$95 fair value loss upon acquisition when obtaining land inventory.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

Expenses**Management, Servicing and Arrangement Fees**

The management agreement has a term of 10 years that commenced on April 1, 2020 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 2023 and YTD 2023, the Company incurred management fees of \$2.9 million and \$6.2 million (Q2 2022 – \$3.2 million; YTD 2022 – \$6.2 million). The average gross assets were \$1,241.3 million and \$1,268.3 million (Q2 2022 – \$1,373.2 million and YTD 2022 – \$1,357.9 million). For Q2 2023 and YTD 2023, the Company incurred \$185 and \$377, respectively (Q2 2022 – \$196 and YTD 2022 – \$346) in servicing fees. The year over year increase in servicing fees is related to the increase in the average syndications balance during the period while Q2 2023 had a lower average syndication balance compared to Q2 2022. For Q2 2023 and YTD 2023, Arrangement Fees of nil and \$169, respectively, paid by borrower were retained by the Manager (Q2 2022 – \$130 and YTD 2022 – \$0.6 million). Decrease over prior year is due to decreased loan syndication activity in 2023 relative to 2022.

Loan loss provisions

The allowance for credit losses is maintained at a level that management considers adequate to absorb credit-related losses on mortgage and other investments classified at amortized cost. The allowance for credit losses amounted to \$12.5 million as at June 30, 2023 (December 31, 2022 – \$11.4 million), of which \$12.0 million (December 31, 2022 – \$10.6 million) was recorded against mortgage investments and \$497 (December 31, 2022 – \$0.7 million) was recorded against other investments.

General and administrative

For Q2 2023 and YTD 2023, the Company incurred general and administrative expenses of \$1.2 million and \$1.9 million, respectively (Q2 2022 – \$431; YTD 2022 – \$0.9 million). General and administrative expenses consist mainly of audit fees, professional fees, director fees, legal fees, non-reimbursable legal fees, other operating costs, administration of the mortgage and other investments portfolio, DSU expense including mark-to-market adjustments and foreign exchange net gains.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

After adjusting for foreign currency net realized and unrealized losses of \$28 and gains of \$25 for Q2 2023 and YTD 2023, and non-cash mark to market gains on DSUs of \$48 and \$27, for Q2 2023 and YTD 2023 respectively, general and administrative expenses would have been \$1.3 million and \$1.8 million for Q2 2023 and YTD 2023 (\$0.6 million and \$1.4 million for Q2 2022 and YTD 2022). The adjusted increase compared to prior quarter and in the year was mainly due to non-reimbursable legal costs associated with Stage 3 loans in Quebec, and inflation impact on professional costs.

Financing Costs

Financing cost on credit facility

Interest on the credit facility is recorded in financing costs using the effective interest rate method. For Q2 2023 and YTD 2023, included in financing costs is interest on the credit facility of \$7.0 million and \$14.7 million (Q2 2022 – \$4.4 million; YTD 2022 – \$7.6 million), respectively. Additionally, financing costs amortization of \$172 and \$425 (Q2 2022 – \$248; YTD 2022 – \$452) were included in financing costs. The average credit utilization in YTD 2023 was \$416.8 million compared to \$514.7 million for YTD 2022. Interest expense on the credit facility increased over the periods largely due to higher interest rates, partially offset by a lower utilization of the facility.

For 2022 comparative period, the company incurred interest on the credit facility investment properties which was disposed on April 2022. During Q2 2022 and YTD 2022, included in financing costs is interest on the credit facility of \$69 and \$253 and financing costs amortization of \$6 and \$17.

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, 2023. 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		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Interest on the convertible debentures	\$ 1,893	\$ 1,868	\$ 3,786	\$ 3,776
Amortization of issue costs and accretion of the convertible debentures	356	365	713	730
Total financing cost on convertible debentures	\$ 2,249	\$ 2,233	\$ 4,499	\$ 4,506

Earnings per share

PER SHARE INFORMATION	Three months ended		Six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.35	\$ 0.35
Earnings per share (basic)	\$ 0.20	\$ 0.17	\$ 0.42	\$ 0.33
Earnings per share (diluted)	\$ 0.20	\$ 0.17	\$ 0.41	\$ 0.33
Adjusted earnings per share (basic) ¹	\$ 0.20	\$ 0.18	\$ 0.42	\$ 0.35
Adjusted earnings per share (diluted) ¹	\$ 0.20	\$ 0.18	\$ 0.41	\$ 0.35
Distributable income per share ¹	\$ 0.21	\$ 0.19	\$ 0.43	\$ 0.37
Adjusted distributable income per share ¹	\$ 0.21	\$ 0.19	\$ 0.43	\$ 0.37

1. Refer to non-IFRS measures section.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

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, 2023	December 31, 2022
Mortgage investments, excluding mortgage syndications	\$ 1,119,729	\$ 1,189,215
Mortgage syndications	574,014	611,291
Mortgage investments, including mortgage syndications	1,693,743	1,800,506
Mortgage syndication liabilities	(574,014)	(611,291)
	1,119,729	1,189,215
Interest receivable	(13,540)	(10,812)
Unamortized lender fees	5,510	6,801
Allowance for mortgage investments loss	12,029	10,605
Net mortgage investments	\$ 1,123,728	\$ 1,195,809

Net mortgage investments statistics and ratios¹	Three months ended		Six months ended		Year ended
	June 30,		June 30,		December 31,
	2023	2022	2023	2022	2022
Total number of mortgage investments	104	118	104	118	113
Average net mortgage investment	\$ 11,019	\$ 10,460	\$ 11,019	\$ 10,460	\$ 10,862
Average net mortgage investment portfolio	\$ 1,145,963	\$ 1,218,318	\$ 1,163,457	\$ 1,181,520	\$ 1,187,365
Weighted average interest rate for the period	9.8 %	7.2 %	9.7 %	6.8 %	8.1 %
Weighted average lender fees for the period	1.1 %	1.0 %	1.1 %	1.1 %	1.1 %
Turnover ratio	11.6 %	8.1 %	20.0 %	18.7 %	39.8 %
Average remaining term to maturity (years)	0.8	1.0	0.8	1.0	0.9
Net mortgage investments secured by cash-flowing properties	87.7 %	90.8 %	87.7 %	90.8 %	87.4 %
WALTV	68.3 %	69.9 %	68.3 %	69.9 %	68.3 %

1. Refer to non-IFRS measures section.

Management's Discussion and Analysis

For the three and six months ended June 30, 2023

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

Portfolio allocation

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

a. Security position	June 30, 2023		December 31, 2022	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Interest in first mortgages	92	\$ 1,026,871	102	\$ 1,105,431
Interest in second and third mortgages ¹	12	96,857	11	90,378
	104	\$ 1,123,728	113	\$ 1,195,809

¹Included in the Company's interest in second and third mortgages as at June 30, 2023 was \$12.5 million of the net mortgage investments in which the Company holds a subordinated position (December 31, 2022 – \$12.5 million). The Company's syndicated partners who hold a senior position as at June 30, 2023 was \$14.2 million (December 31, 2022 – \$14.2 million).

b. Region	June 30, 2023		December 31, 2022	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
Quebec	34	\$ 435,989	36	\$ 449,571
Ontario	30	285,757	33	295,664
British Columbia	21	255,513	25	298,778
Alberta	10	108,954	9	99,936
Other (Saskatchewan, Nova Scotia, Manitoba and New Brunswick)	9	37,515	10	51,860
	104	\$ 1,123,728	113	\$ 1,195,809

c. Maturity	June 30, 2023		December 31, 2022	
	Number	Net Mortgage Investments	Number	Net Mortgage Investments
2023	43	\$ 510,093	65	\$ 676,561
2024	41	437,582	41	398,124
2025	15	120,706	5	45,284
2026	4	55,204	2	75,840
2027	1	143	—	—
	104	\$ 1,123,728	113	\$ 1,195,809

d. Asset Type / WALTV at origination ³	June 30, 2023			December 31, 2022		
	Number	Net Mortgage Investments	WALTV at origination ³	Number	Net Mortgage Investments	WALTV at origination ³
Multi-Residential ¹	62	\$ 563,219	71.6%	68	\$ 627,892	70.4%
Retail	11	148,368	70.5%	12	151,806	70.4%
Unimproved Land ²	7	81,342	50.5%	5	56,097	58.7%
Office	7	91,632	61.2%	6	83,556	62.5%
Retirement	2	78,655	80.8%	2	78,649	80.8%
Industrial	11	100,568	57.8%	16	109,424	60.1%
Single-Residential	3	54,444	55.6%	3	82,885	54.0%
	103	1,118,228	67.7%	112	1,190,309	67.9%
Net mortgage investments measured at FVTPL	1	5,500	n/a	1	5,500	n/a
	104	\$ 1,123,728		113	\$ 1,195,809	

¹ Includes 2 construction loans (December 31, 2022 – 6) totaling \$16.9 million (December 31, 2022 – \$27.2 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 WALTV measured at time of origination.

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

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 \$574.0 million (December 31, 2022 – \$611.3 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 \$12.5 million as at June 30, 2023 (December 31, 2022 – \$11.4 million), of which \$12.0 million (December 31, 2022 – \$10.6 million) was recorded against mortgage investments and \$0.5 million (December 31, 2022 – \$0.7 million) was recorded against other investments.

Multi-residential Mortgage Investments	As at June 30, 2023				As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	\$ 688,410	\$ 56,796	\$ 331,245	\$1,076,451	\$1,020,893	\$ —	\$ 132,767	\$1,153,660
Mortgage syndication liabilities ¹	275,783	40,272	111,917	427,972	382,077	—	60,361	442,438
Net mortgage investments	412,627	16,524	219,328	648,479	638,816	—	72,406	711,222
Allowance for credit losses ²	501	107	4,018	4,626	1,424	—	1,409	2,833
	412,126	16,417	215,310	643,853	637,392	—	70,997	708,389
Other Mortgage Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	601,628	—	29,122	630,750	628,128	—	32,227	660,355
Mortgage syndication liabilities ¹	147,516	—	—	147,516	170,508	—	—	170,508
Net mortgage investments	454,112	—	29,122	483,234	457,620	—	32,227	489,847
Allowance for credit losses ²	437	—	6,966	7,403	414	—	7,358	7,772
	453,675	—	22,156	475,831	457,206	—	24,869	482,075
Other loan Investments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Mortgages, including mortgage syndications ¹	47,080	—	—	47,080	60,742	—	—	60,742
Mortgage syndication liabilities ¹	—	—	—	—	—	—	—	—
Net mortgage investments	47,080	—	—	47,080	60,742	—	—	60,742
Allowance for credit losses ²	497	—	—	497	745	—	—	745
	\$ 46,583	\$ —	\$ —	\$ 46,583	\$ 59,997	\$ —	\$ —	\$ 59,997

¹Including interest receivable.

²Allowance for credit losses in finance lease receivable and unadvanced commitments are all considered to be with minimal ACL.

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

	Six Months Ended June 30, 2023				Six Months Ended June 30, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Balance at beginning of period	\$ 1,424	\$ —	\$ 1,409	\$ 2,833	\$ 882	\$ —	\$ —	\$ 882
Allowance for credit losses:								
Remeasurement	20	66	1,752	1,838	10	—	—	10
Transfer to/(from)								
Stage 1	(898)	—	—	(898)	—	—	—	—
Stage 2	—	41	—	41	—	—	—	—
Stage 3	—	—	857	857	—	—	—	—
Total allowance for credit losses	546	107	4,018	4,671	892	—	—	892
Fundings	35	—	—	35	525	—	—	525
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(80)	—	—	(80)	(191)	—	—	(191)
Balance at end of period	\$ 501	\$ 107	\$ 4,018	\$ 4,626	\$ 1,226	\$ —	\$ —	\$ 1,226
Other Mortgage Investments								
Balance at beginning of period	\$ 414	\$ —	\$ 7,358	\$ 7,772	283	52	1,753	2,088
Allowance for credit losses:								
Remeasurement	38	—	(392)	(354)	8	(4)	655	659
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	452	—	6,966	7,418	291	48	2,408	2,747
Fundings	20	—	—	20	53	—	—	53
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(35)	—	—	(35)	(25)	—	—	(25)
Balance at end of period	\$ 437	\$ —	\$ 6,966	\$ 7,403	\$ 319	\$ 48	\$ 2,408	\$ 2,775
Other loan Investments								
Balance at beginning of period	\$ 745	\$ —	\$ —	\$ 745	898	—	—	898
Allowance for credit losses:								
Remeasurement	(204)	—	—	(204)	(25)	—	—	(25)
Transfer to/(from)								
Stage 1	—	—	—	—	—	—	—	—
Stage 2	—	—	—	—	—	—	—	—
Stage 3	—	—	—	—	—	—	—	—
Total allowance for credit losses	541	—	—	541	873	—	—	873
Fundings	—	—	—	—	8	—	—	8
Gross Write-Offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Discharges	(44)	—	—	(44)	(64)	—	—	(64)
Balance at end of period	\$ 497	\$ —	\$ —	\$ 497	\$ 817	\$ —	\$ —	\$ 817

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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.

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	As at June 30, 2023				As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Multi-residential Mortgage Investments								
Low risk	\$ 133,126	\$ —	\$ —	\$ 133,126	\$ 117,051	\$ —	\$ —	\$ 117,051
Medium-Low risk	220,389	—	—	220,389	324,592	—	—	324,592
Medium-High risk	56,686	16,524	—	73,210	194,748	—	—	194,748
High risk	2,426	—	—	2,426	2,425	—	—	2,425
Default	—	—	219,328	219,328	—	—	72,406	72,406
Net	412,627	16,524	219,328	648,479	638,816	—	72,406	711,222
Allowance for credit losses	501	107	4,018	4,626	1,424	—	1,409	2,833
Mortgage investments¹	412,126	16,417	215,310	643,853	637,392	—	70,997	708,389
Other Mortgage Investments								
Low risk	56,693	—	—	56,693	107,417	—	—	107,417
Medium-Low risk	277,820	—	—	277,820	233,874	—	—	233,874
Medium-High risk	92,709	—	—	92,709	116,329	—	—	116,329
High risk	26,890	—	—	26,890	—	—	—	—
Default	—	—	29,122	29,122	—	—	32,227	32,227
Net	454,112	—	29,122	483,234	457,620	—	32,227	489,847
Allowance for credit losses	437	—	6,966	7,403	414	—	7,358	7,772
Mortgage investments¹	453,675	—	22,156	475,831	457,206	—	24,869	482,075
Other loan Investments								
Low risk	—	—	—	—	—	—	—	—
Medium-Low risk	—	—	—	—	—	—	—	—
Medium-High risk	—	—	—	—	—	—	—	—
High risk	47,080	—	—	47,080	60,742	—	—	60,742
Default	—	—	—	—	—	—	—	—
Net	47,080	—	—	47,080	60,742	—	—	60,742
Allowance for credit losses	497	—	—	497	745	—	—	745
Other loan Investments¹	\$ 46,583	\$ —	\$ —	\$ 46,583	\$ 59,997	\$ —	\$ —	\$ 59,997

¹ Net of allowance and mortgage syndications.

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Enhanced return portfolio

As at	June 30, 2023	December 31, 2022
Other loan investments, net of allowance for credit loss	\$ 46,425	\$ 59,956
Finance lease receivable, measured at amortized cost	6,020	6,020
Investment, measured at FVTPL	4,026	4,744
Joint venture investment in indirect real estate development	2,225	2,225
Total Enhanced Return Portfolio	\$ 58,696	\$ 72,945

As at June 30, 2023, the Company held \$46.4 million in other loan investments, net of allowance for credit loss (December 31, 2022 – \$60.0 million).

Finance lease receivable – In October 2017, the Company entered into a 20-year emphyteutic lease under which the lessee has the obligation to purchase the property at \$9.9 million at the end of the lease term on September 2038 and the option to purchase the property earlier based on a prescribed purchase price schedule. Refer to note 4(e) of the Interim Condensed Consolidated Financial Statements for the three months and six months ended June 30, 2023 and 2022.

As at June 30, 2023, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$4.0 million or €2.8 million (December 31, 2022 – \$4.7 million or €3.3 million). During Q2 2023 and YTD 2023, investment measured at FVTPL received total cash distribution of \$0.9 million and \$1.0 million (Q2 2022 – \$167; YTD 2022 – \$0.6 million), out of which return of capital distribution was \$0.7 million and \$0.7 million (Q2 2022 – \$62; YTD 2022 – \$174).

As at June 30, 2023, the Company held \$2.2 million (December 31, 2022 – \$2.2 million) in indirect real estate developments through joint venture and associate, using the equity method.

Land Inventory

On April 12, 2022 the Company obtained title to parcels of land, which it intends to sell, in exchange for the discharge of certain mortgage investments at FVTPL. On exchange the Company recognized a \$95 fair value loss on real estate properties.

As at June 30, 2023, the Company has land inventory of \$30.3 million (December 31, 2022 – \$30.2 million), which is recorded at the lower of cost and net realizable value.

Net working capital

Net working capital increased by \$9.3 million to \$18.2 million at June 30, 2023 from \$8.9 million at December 31, 2022.

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Credit facility

As of June 30, 2023, the Company has an aggregate credit limit of \$600.0 million and an accordion option of \$35.0 million on its credit facility. The facility is secured by a general security agreement over the Company's assets and its subsidiaries. The current credit facility agreement matures February 2024.

The rates of interest and fees of the Eighth Amending Credit Agreement are either at the prime rate of interest plus 1.00% per annum (December 31, 2022 – prime rate of interest plus 1.00% per annum) or bankers' acceptances with a stamping fee of 2.00% (December 31, 2022 – 2.00%) and standby fee of 0.40% per annum (December 31, 2022 – 0.40%) on the unutilized credit facility balance. As at June 30, 2023, the Company's qualified credit facility limit, which is subject to a borrowing base as defined in the Eighth Amending Credit Agreement is \$427.3 million.

During Q2 2023 and YTD 2023, the Company incurred financing costs of nil and \$36 (Q2 2022 – \$5; YTD 2022 – \$0.7 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.

Convertible debentures

As at June 30, 2023, and December 31, 2022, 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, 2023	December 31, 2022
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						(5,869)	(6,580)
Debentures, end of period						\$ 140,131	\$ 139,420

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,	
	2023	2022
Interest on the convertible debentures	\$ 3,786	\$ 3,776
Amortization of issue costs and accretion of the convertible debentures	713	730
Total	\$ 4,499	\$ 4,506

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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 \$42.3 million (the "June 2017 Debentures").

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 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 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.

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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. The base shelf prospectus expired on July 10, 2023 subsequent to period end.

(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 ATM Program was active between June 2021 and August 2022 and expired on July 10, 2023 subsequent to period end.

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 2023, the Company did not issue any common shares under the ATM program. During Q2 2022, the Company issued 256,000 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.

During YTD 2023, the Company did not issue any common shares under the ATM program. During 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.

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During Q2 2023, the Company purchased from the open market 190,762 common shares for a total amount of \$1.5 million at an average price of \$7.82 per common share. During YTD 2023, the Company purchased from the open market 372,472 common shares for a total amount of \$2.9 million at an average price of \$7.90 per common share. No open market purchases were made during Q2 2022 and YTD 2022.

During Q2 2023 and YTD 2023, the company did not issue common shares from treasury. During Q2 2022 and YTD 2022, the Company issued from treasury 147,661 and 281,114 common shares and retained \$1.3 million and \$2.6 million in dividends.

(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 2023 and YTD 2023, the Company declared dividends of \$14.4 million or \$0.1725 per share and \$28.9 million or \$0.3450 per share (Q2 2022 – \$14.5 million or \$0.1725 per share and YTD 2022 – \$28.8 million or \$0.3450 per share).

As at June 30, 2023, \$4.8 million in aggregate dividends (December 31, 2022 – \$4.8 million) were payable to the holders of common shares by the Company. Subsequent to June 30, 2023, the Board of Directors of the Company declared dividends of \$0.0575 per share to be paid on July 14, 2023 to the common shareholders of record on June 30, 2023.

(d) Normal course offering bid

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 expired on May 25, 2023.

On May 24, 2023, the Company announced that the TSX approved the Company's renewal of the NCIB to repurchase for cancellation up to 8,305,467 common shares over a 12-month period. Repurchases under the NCIB were permitted to commence on May 26, 2023 and continue until May 25, 2024 upon expiry.

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

During Q2 2023 and YTD 2023, the Company repurchased 324,600 and 437,100 common shares (for a total amount of \$2.4 million and \$3.2 million). The average price per common share repurchased was \$7.40 for Q2 2023 and \$7.43 for YTD 2023. There were no share repurchases made under NCIB in Q2 2023 and YTD 2023. Subsequent to June 30, 2023, 51,700 common shares were settled and cancelled.

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.

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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 2023 and YTD 2023, 10,287 and 20,099 units were issued (Q2 2022 and YTD 2022 – 9,262 and 18,702 units) and as at June 30, 2023, 119,136 units were outstanding (December 31, 2022 – 99,037 units). During Q2 2023 and YTD 2023, nil and nil DSUs were exercised (Q2 2022 and YTD 2022 – 34,454).

DSU expense for Q2 2023 and YTD 2023 was \$99 and \$195 (Q2 2022 and YTD 2022 – \$90 and \$205). The units related to Q2 Director's compensation will be issued subsequent to June 30, 2023.

STATEMENT OF CASH FLOWS**Cash from operating activities**

Cash from operating activities for Q2 2023 and YTD 2023 was \$22.9 million and \$47.8 million (Q2 2022 – \$16.7 million; YTD 2022 – \$33.7 million).

Cash (used in) from financing activities

Cash used in financing activities for Q2 2023 and YTD 2023 consisted of the Company's net repayments on the operating credit facility of \$26.1 million and \$90.1 million (Q2 2022 – \$24.0 million net repayments, YTD 2022 – \$72.0 million net advances). The Company paid interest on the debentures and credit facilities of \$9.6 million and \$18.5 million (Q2 2022 – \$7.1 million; YTD 2022 – \$13.0 million), and paid common share dividends of \$13.0 million and \$26.0 million (Q2 2022 – \$13.1 million; YTD 2022 – \$26.1 million). During Q2 2023 and YTD 2023, the Company repurchased shares on the open market under the NCIB and DRIP programs of \$3.5 million and \$5.8 million (Q2 2022 – nil; YTD 2022 – nil).

The net cash used in financing activities for Q2 2023 and YTD 2023 were \$52.1 million and \$140.4 million (net cash used Q2 2022 – \$37.1 million and net cash received YTD 2022 – \$47.2 million).

Cash from (used in) investing activities

Cash from investing activities for Q2 2023 and YTD 2023 consisted of the Company's funding of net mortgage investments \$116.0 million and \$188.9 million (Q2 2022 – \$202.4 million; YTD 2022 – \$496.5 million). The Company received cash from discharge of net mortgage investments \$143.0 million and \$264.5 million (Q2 2022 – \$213.7 million; YTD 2022 – \$400.5 million). The Company funded other investments of nil and \$0.8 million (Q2 2022 – \$5.8 million; YTD 2022 – \$6.4 million). The Company received cash from repayments of other investments \$29 and \$14.6 million (Q2 2022 – \$6.4 million; YTD 2022 – \$10.6 million). For Q2 2023 and YTD 2023, the Company received cash of \$0.9 million and \$1.0 million relating to distribution from financial assets measured at FVTPL (Q2 2022 – nil; YTD 2022 – nil). The company received cash on maturity of currency forward hedging contracts of \$45 and paid \$0.6 million (Q2 2022 – nil and YTD 2022 – nil). The net cash from investing activities for Q2 2023 was \$28.0 million and YTD 2023 was \$89.9 million (Q2 2022 – received \$19.5 million; YTD 2022 – used \$84.4 million).

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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 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Net Investment Income on financial assets measured at amortized cost	\$31,471	\$32,709	\$31,342	\$29,982	\$25,802	\$22,677	\$22,378	\$22,042
Fair value gain (loss) and other income on financial assets measured at FVTPL	306	282	736	403	352	(103)	(7,404)	(3,577)
Fair value gain / (loss) on real estate properties	—	63	82	—	(378)	—	(4,374)	—
Net rental (loss) income	(293)	(359)	(278)	(291)	36	382	389	386
Expenses	(5,139)	(4,443)	(6,671)	(7,530)	(4,150)	(4,241)	(3,761)	(3,404)
Income from operations	26,345	28,252	25,211	22,564	21,662	18,715	7,228	15,447
Financing costs:								
Financing cost on credit facilities	(7,208)	(7,898)	(8,137)	(6,788)	(4,749)	(3,560)	(4,045)	(4,040)
Financing cost on debentures	(2,249)	(2,250)	(2,260)	(2,256)	(2,233)	(2,273)	(1,767)	(1,981)
Fair value gain on derivative contract	—	—	—	—	—	—	994	995
Net income and comprehensive income	16,888	\$18,104	\$14,814	\$13,520	\$14,680	\$12,882	\$ 2,410	\$10,421
ADJUSTED NET INCOME AND COMPREHENSIVE INCOME								
Net income and comprehensive income	\$16,888	\$18,104	\$14,814	\$13,520	\$14,680	\$12,882	\$ 2,410	\$10,421
Add: fair value gain on derivative contract	—	—	—	—	—	—	(994)	(995)
Add: net unrealized loss (gain) on financial assets measured at FVTPL	68	(57)	(122)	369	377	946	8,237	4,295
Add: net unrealized loss on real estate properties	—	—	—	—	95	—	4,374	—
Adjusted net income and comprehensive income¹	\$16,956	\$18,047	\$14,692	\$13,889	\$15,152	\$13,828	\$14,027	\$13,721
PER SHARE INFORMATION								
Dividends per share	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17
Earnings per share (basic)	\$ 0.20	\$ 0.22	\$ 0.18	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.03	\$ 0.13
Earnings per share (diluted)	\$ 0.20	\$ 0.21	\$ 0.18	\$ 0.16	\$ 0.17	\$ 0.16	\$ 0.03	\$ 0.13
Adjusted earnings per share (basic) ¹	\$ 0.20	\$ 0.21	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17
Adjusted earnings per share (diluted) ¹	\$ 0.20	\$ 0.21	\$ 0.17	\$ 0.17	\$ 0.18	\$ 0.17	\$ 0.17	\$ 0.17
Distributable income per share ¹	\$ 0.21	\$ 0.22	\$ 0.22	\$ 0.20	\$ 0.19	\$ 0.18	\$ 0.20	\$ 0.17
Adjusted distributable income per share ¹	\$ 0.21	\$ 0.22	\$ 0.22	\$ 0.20	\$ 0.19	\$ 0.18	\$ 0.20	\$ 0.17

¹ Refer to non-IFRS measures section.

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

- 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.

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RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere, related party transactions include the following:

As at June 30, 2023, Due to Manager consists of management and servicing fees payable of \$1.1 million (December 31, 2022 – \$1.1 million).

During Q2 2023 and YTD 2023, Arrangement Fees of nil and \$0.2 million paid by borrower were retained by the Manager (Q2 2022 – \$130 and YTD 2022 – \$0.6 million).

As at June 30, 2023, included in other assets is \$2.7 million (December 31, 2022 – \$6.1 million) of cash held in trust by Timbercreek Mortgage Servicing Inc. ("TMSI"), the Company's mortgage servicing and administration provider, a company controlled by the Manager. The balance relates to mortgage and other loan funding holdbacks, repayments and prepaid mortgage interest received from various borrowers.

As at June 30, 2023, the Company has a first mortgage investment which a director of the Manager is also an officer and part-owner of an entity which holds a subordinate loan position.

- A mortgage investment with a total gross commitment of \$48.8 million (December 31, 2022 – \$48.8 million). The Company's share of the commitment is \$4.4 million (December 31, 2022 – \$4.4 million). During Q2 2023 and YTD 2023, the Company has recognized net interest income of \$195 and \$379 (Q2 2022 and YTD 2022 – \$107 and \$181).

As at June 30, 2023, 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 other loan investments (December 31, 2022 – 2) totaling \$34.7 million (December 31, 2022 – \$35.5 million). The Company's share in these mortgage investments is \$10.3 million (December 31, 2022 – \$10.5 million).

As at June 30, 2023, the Company is invested in junior debentures of Timbercreek Real Estate Finance Ireland Fund 1 ("TREF Ireland 1") Private Debt Designated Activity Company totaling \$4.0 million or €2.8 million (December 31, 2022 – \$4.7 million or €3.3 million), which is included in loan investments within other investments. TREF Ireland 1 is managed by a wholly-owned subsidiary of the Manager.

As at June 30, 2023, the Company and Timbercreek North American Mortgage Fund are related parties as they are managed by the Manager, and they have co-invested in 1 mortgage (December 31, 2022 – 1) totaling \$21.3 million (December 31, 2022 – \$20.0 million). The Company's share in this mortgage investment is \$10.6 million (December 31, 2022 – \$10.0 million).

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.

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On April 28, 2022, the Company disposed of its interest in the investment properties in Saskatchewan Portfolio. The investment properties were pledged as security for the credit facility where the Company remains a guarantor as of June 30, 2023 for its share of the outstanding principal which is \$6.0 million at June 30, 2023 of which the Company's share is \$1.2 million.

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 the global market volatility noted below, 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.

Global financial markets continued to be volatile during Q2 2023, in part due to instability in the global markets due to banking concerns, economic fallout as well as continued high levels of inflation, globally high interest rates and Russia's military invasion of Ukraine and the related sanctions. There remains uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the consolidated financial statements. Given the current geopolitical landscape and the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of allowance for credit losses 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.

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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, and
- Note 17 – Fair value measurements.

Measurement of expected credit loss

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

Net realizable value of land inventory

Land inventory is stated at the lower of cost and net realizable value. In determining the net realizable value of land inventory, the Company estimates the selling prices of land parcels based on assumptions surrounding zoning and density approvals on those lands, prevailing market prices, and selling costs. The determination of net realizable value for the measurement of land inventory includes management estimates of the ultimate disposal values of various plots of land when in consideration with different sales strategies. Management applies judgement with respect to the potential scenarios for which the land can be disposed of under including assumptions around zoning and permitting of said lands.

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, 2022, which were prepared in accordance with IFRS.

OUTSTANDING SHARE DATA

As at August 2, 2023, the Company's authorized capital consists of an unlimited number of common shares, of which 83,342,116 are issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to provide reasonable assurance that information that is publicly disclosed is complete, reliable and timely. The Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO") of Timbercreek Financial, along with the assistance of senior Management of the Manager with their supervision, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made in the design of internal controls over financial reporting during the period ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including whether instances of fraud, if any, have been detected. These inherent limitations include, among other items:

- i. that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances;
- ii. the impact of any undetected errors; and
- iii. that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override.

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.

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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 an aggregate borrowing ability of \$600.0 million through its credit facility and it intends to utilize the credit facility to fund mortgage investments, and other working capital needs. As at June 30, 2023, the Company's qualified credit facility limit is subject to a borrowing base as defined in the Eighth Amending Credit Agreement, which is \$427.3 million. As at June 30, 2023, the Company is in compliance with its credit facility's 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, 2023, including expected interest payments:

	Carrying value	Contractual cash flow	Within a year	Following year	3 – 5 years	5 + Years
Accounts payable and accrued expenses	\$ 3,644	\$ 3,644	\$ 3,644	\$ —	\$ —	\$ —
Dividends payable	4,770	4,770	4,770	—	—	—
Due to Manager	1,115	1,115	1,115	—	—	—
Mortgage and other loans funding holdbacks	838	838	838	—	—	—
Prepaid mortgage and other loans interest	1,846	1,846	1,846	—	—	—
Credit facility ¹	360,672	377,067	377,067	—	—	—
Convertible debentures ²	140,131	175,715	52,573	5,188	15,563	102,391
	\$ 513,016	\$ 564,995	\$ 441,853	\$ 5,188	\$ 15,563	\$ 102,391
Unadvanced mortgage commitments ³	—	234,889	234,889	—	—	—
Total contractual liabilities, excluding mortgage syndication liabilities ⁴	\$ 513,016	\$ 799,884	\$ 676,742	\$ 5,188	\$ 15,563	\$ 102,391

¹ Credit facility includes interest based upon June 2023 interest rate on the credit facility assuming the outstanding balance is not repaid until its maturity on February 10, 2024. The Company intends to renew its credit facility prior to maturity.

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 \$125.3 million belong to the Company's syndicated partners.

⁴ The principal repayments of \$571.5 million mortgage syndication liabilities by contractual maturity date is shown net with mortgage investments.

As at June 30, 2023, the Company had a cash position of \$132 (December 31, 2022 – \$2.8 million) and an unutilized credit facility balance of \$66.4 million (December 31, 2022 – \$103.5 million). Management believes it will be able to finance its operations using the cash flow generated from operations, investing activities and the credit facility. The Company has commenced preliminary discussions with the lenders on the renewal of the credit facility.

As at June 30, 2023, unadvanced mortgage commitments under the existing mortgage investments, including mortgage syndications, amounted to \$234.9 million (December 31, 2022 – \$293.4 million) of which \$125.3 million (December 31, 2022 – \$144.6 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, 2023, \$1,101.1 million of net mortgage investments and \$5.0 million of other investments bear interest at variable rates (December 31, 2022 – \$1,173.7 million and \$5.0 million, respectively). As of June 30, 2023, \$1,029.6 million of net mortgage investments have a "floor rate" (December 31, 2022 – \$1,105.7 million).

If there were a decrease or increase of 0.50% in interest rates, with all other variables constant, the impact from variable rate mortgage investments and other investments to net income and comprehensive income would be a decrease in net income of \$5.2 million (December 31, 2022 – 0.50% and \$5.7 million) or an increase in net income of \$5.4 million (December 31, 2022 – 0.50% and \$5.9 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 facility, which has a balance of \$360.9 million as at June 30, 2023 (December 31, 2022 – \$451.0 million). As at June 30, 2023, net exposure to interest rate risk was \$360.9 million (December 31, 2022 – \$451.0 million), and assuming it was outstanding for the entire period, a 0.50% decrease or increase in interest rates, with all other variables constant, will increase or decrease net income by \$1.8 million (December 31, 2022 – \$2.3 million per 0.50% decrease or increase in interest rates).

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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 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, 2023, the Company has US\$7.3 million and €2.8 million in other investments denominated in foreign currencies (December 31, 2022 – US\$7.1 million and €3.3 million). The Company has entered into a series of foreign currency contracts to reduce its exposure to foreign currency risk. As at June 30, 2023, the Company has one U.S. dollars currency contract with an aggregate notional value of US\$7.0 million, at a forward contract rate of 1.3351, that matured in July 2023. The Company also has one Euro currency contract with an aggregate notional value of €2.7 million at a contract rate of 1.4420, that matures in September 2023.

The fair value of the foreign currency forward contracts as at June 30, 2023 is an asset of \$61 which is included in other assets. The valuation of the foreign currency forward contracts was computed using Level 2 inputs which include spot and forward foreign exchange rates.

Credit risk

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

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

The exposure to credit risk at June 30, 2023 relating to net mortgages and other investments amount to \$1,185.5 million (December 31, 2022 – \$1,276.7 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 I 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.

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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
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