TERRA FIRMA

Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Years ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Terra Firma Capital Corporation

We have audited the accompanying consolidated financial statements of Terra Firma Capital Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Terra Firma Capital Corporation as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 27, 2017
Toronto, Canada

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position
(In Canadian dollars)

December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents	$ 12,315,242	$ 11,723,550
Funds held in trust	982,353	2,061,207
Deposits (note 4)	3,256,074	11,747,370
Amounts receivable and prepaid expenses (note 5)	4,865,280	2,279,977
Loan and mortgage investments (note 6)	93,408,444	95,135,201
Investment property held in joint operations (note 7(b))	2,208,694	2,143,794
Land under development held in joint operations (note 7(c))	23,808,574	–
Portfolio investments (note 8)	3,212,084	2,339,555
Investment in associates (note 9)	2,315,414	2,315,414
Deferred income tax asset (note 21)	328,324	–
	$ 146,700,483	$ 129,746,068
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 10,647,966	$ 5,980,560
Unearned income	329,340	301,099
Income taxes payable (note 21)	22,942	322,046
Deferred income tax liability	–	18,665
Short-term unsecured notes payable (note 11)	–	9,286,000
Revolving operating facility (note 12)	7,467,586	9,865,144
Loan and mortgage syndications (note 6)	56,180,448	45,691,948
Due to joint operations partner (note (note 7(d))	11,163,640	–
Mortgages payable (note 7(e))	1,509,503	1,120,314
Convertible debentures (note 13)	10,754,259	10,628,301
	98,075,684	83,214,077
Equity:		
Share capital (note 15(a))	31,789,819	31,257,404
Equity component of convertible debentures (note 13)	284,490	284,490
Contributed surplus (note 16)	2,514,073	2,360,575
Retained earnings	13,781,776	12,374,881
	48,370,158	46,277,350
Non-controlling interest	254,641	254,641
	48,624,799	46,531,991
Commitments and contingencies (note 14)		
Subsequent events (notes 15(b) and 26)		
Related party transactions (note 15 and 18)		
	$ 146,700,483	$ 129,746,068

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on March 27, 2017 and signed on its behalf by:

"Seymour Temkin" Director

"John Kaplan" Director

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Income and Comprehensive Income
(In Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Revenue:		
Interest and fees	$ 14,701,947	$ 17,162,141
Rental (note 7(a))	199,711	189,434
	14,901,658	17,351,575
Expenses (income):		
Property operating (note 7(a))	71,892	61,059
General and administrative	3,027,678	3,226,499
Share-based compensation (note 15(c))	819,714	1,782,722
Interest and financing costs (note 19)	7,774,172	5,928,475
Provision for loan and mortgage investments loss (note 6)	423,219	478,066
Realized and unrealized foreign exchange loss (gain) (note 20)	858,660	(2,078,788)
Fair value adjustment - investment property (note 7(b))	(61,950)	(82,500)
Fair value adjustment - portfolio investments (note 8)	(72,529)	(394,170)
Share of income from investment in associates (note 9)	–	(91,949)
	12,840,856	8,829,414
Income from operations before income taxes	2,060,802	8,522,161
Income taxes (note 21)	653,907	2,456,251
Net income and comprehensive income	$ 1,406,895	$ 6,065,910
Net income and comprehensive income attributable to:		
Common shareholders	$ 1,406,895	$ 6,021,924
Non-controlling interest	–	43,986
	$ 1,406,895	$ 6,065,910
Earnings per share (note 17):		
Continuing operations:		
Basic	$ 0.02	$ 0.11
Diluted	0.02	0.10

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Changes in Equity
(In Canadian dollars)

Years ended December 31, 2016 and 2015

	Share capital: Number of shares	Share capital: Amount	Equity component of convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	(note 15(a) and (b))		(note 13)	(note 16)				
Balance, December 31, 2014	41,582,300	$ 16,654,718	$ 284,490	$ 1,049,585	$ 6,352,957	$ 24,341,750	$ 210,655	$ 24,552,405
Issuance of shares pursuant to Offering, net of share issue costs and taxes	18,117,783	14,143,652	–	347,824	–	14,491,476	–	14,491,476
Issuance of shares pursuant to broker warrants	560,000	459,034	–	(106,235)	–	352,799	–	352,799
Share-based compensation	–	–	–	1,069,401	–	1,069,401	–	1,069,401
Net income and comprehensive income	–	–	–	–	6,021,924	6,021,924	43,986	6,065,910
Balance, December 31, 2015	60,260,083	31,257,404	284,490	2,360,575	12,374,881	46,277,350	254,641	46,531,991
Issuance of shares pursuant to share options plan	969,667	588,046	–	(282,212)	–	305,834	–	305,834
Repurchase of shares pursuant normal course issuer bid	(94,500)	(55,631)	–	–	–	(55,631)	–	(55,631)
Share-based compensation	–	–	–	435,710	–	435,710	–	435,710
Net income and comprehensive income	–	–	–	–	1,406,895	1,406,895	–	1,406,895
Balance, December 31, 2016	61,135,250	$ 31,789,819	$ 284,490	$ 2,514,073	$ 13,781,776	$ 48,370,158	$ 254,641	$ 48,624,799

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended December 31, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 1,406,895	$ 6,065,910
Interest and fees earned	(14,701,947)	(17,162,141)
Unrealized foreign exchange loss (gain)	803,220	(2,041,443)
Interest expense and financing costs	7,774,172	5,928,475
Non-cash items:		
Share-based compensation (note 15(c))	819,714	1,782,722
Provision for loan and mortgage investments loss	423,219	478,066
Fair value adjustment - investment property	(61,950)	(82,500)
Fair value adjustment - portfolio investments	(72,529)	(394,170)
Share of income from investment in associates	–	(91,949)
Income tax provision	653,907	2,456,251
Change in non-cash operating items:		
Decrease (increase) in other receivables	(402,585)	191,682
Increase in prepaid expenses and deposits	(411,409)	(65,677)
Increase in accounts payable and accrued liabilities	1,983,900	1,572,662
Interest and fees received	9,063,564	16,484,168
Interest paid	(6,407,135)	(8,455,327)
Income taxes paid	(1,300,000)	(2,103,591)
Cash (used in) provided by operating activities - continuing operations	(428,964)	4,563,138
Cash used in operating activities - discontinued operations	–	(27,500)
	(428,964)	4,535,638
Financing activities:		
Proceeds from loan and mortgage syndications	36,628,012	30,484,556
Repayments of loan and mortgage syndications	(33,279,519)	(20,251,327)
Proceeds from mortgages payable	435,850	–
Repayments of mortgages payable	(34,933)	(30,804)
Proceeds from short-term notes payable	200,000	9,755,497
Repayment of short-term notes payable	(2,741,700)	(7,450,000)
Proceeds from revolving operating facility	5,000,000	19,500,000
Repayments of revolving operating facility	(7,500,000)	(9,500,000)
Repayment to joint operations partner (net)	(1,414,770)	–
Proceeds from issuance of shares pursuant to the Offering, net of issue costs (note 15(a))	–	14,186,476
Proceeds from issuance of shares pursuant to share options plan	305,834	–
Proceeds from issuance of shares pursuant to broker warrants (note 15(a))	–	352,799
Repurchase of shares pursuant to normal course issuer bid	(55,631)	–
	(2,456,857)	37,047,197
Investing activities:		
Funding of loan and mortgage investments	(43,575,668)	(85,699,048)
Deposits made for loan and mortgage investment	(3,256,074)	(11,747,370)
Repayment of deposits made for loan and mortgage investment	11,747,370	–
Repayments of loan and mortgage investments	40,440,519	60,582,239
Capital additions to land under development (note 7(c))	(1,532,807)	–
Increase (decrease) in funds held in trust	1,078,854	(1,227,142)
Proceeds from sale of interest in portfolio investment	–	8,845,500
Funding of investment in joint operations	(624,681)	–
Funding of investment in associates	–	(1,372,652)
Funding of portfolio investment	(800,000)	(324,557)
	3,477,513	(30,943,030)
Increase in cash and cash equivalents	591,692	10,639,805
Cash and cash equivalents, beginning of year	11,723,550	1,083,745
Cash and cash equivalents, end of year	$ 12,315,242	$ 11,723,550

See accompanying notes to consolidated financial statements.

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") under the symbol TII. The registered office of the Company is located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario M4T 2S5. The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the United States. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment properties, for such development or redevelopment, properties repairs or the purchase of investment properties.

2. Basis of presentation:

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, as well as Interpretations of the International Financial Reporting Interpretations Committee.

(b) Basis of presentation:

The Company holds its interests in certain joint operations and portfolio investments in its wholly owned subsidiaries which are controlled by the Company. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's principal subsidiaries are TFCC International Ltd. (100% owned), Terra Firma MA Ltd. (100% owned), Terra Firma Queen Developments Inc. (100% owned), Terra Firma Capital (Hill) Corporation (the "Hill") (79.1% owned), TFCC LanQueen Ltd. (100% owned) and Terra Firma (Valermo) Corporation (100% owned). The financial statements of these subsidiaries and the Company's proportionate share in joint operations are consolidated with those of the Company and all intercompany transactions and balances between the Company and its subsidiary entities and joint operations have been eliminated upon consolidation.

2. Basis of presentation (continued):

Non-controlling interest represents equity interest in the Hill owned by an outside party. The share of net assets of the Hill attributable to non-controlling interest is presented as a component of equity.

(c) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for investment property held in joint operations, portfolio investments, investment in associates, financial instruments classified at fair value through profit or loss and non-controlling interest, which are stated at their fair values.

(d) Functional and presentation currency:

These consolidated financial statements have been presented in Canadian dollars, which is the Company's functional currency.

(e) Critical judgments and estimates:

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results may differ from these estimates.

In making estimates, the Company relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately in notes 3(c), 6, 7, 8, 9 and 15.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these consolidated financial statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

2. Basis of presentation (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

3. Significant accounting policies:

The Company's accounting policies and its standards of financial disclosure set out below are in accordance with IFRS and have been applied consistently to all years presented in these consolidated financial statements, unless otherwise stated.

(a) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and short-term investments. Short-term investments, comprising money market instruments, have a maturity of 90 days or less at their date of purchase and are stated at cost, which approximates net realizable value.

(b) Funds held in trust:

Funds held in trust comprise cash balances that are deposited and held in trust within a wholly owned subsidiary of the Company that administers loan and mortgage investments. The restricted deposits are subject to future loan and mortgage contractual obligations and are, therefore, restricted in access until all the contractual payout conditions are met. Funds held in trust are carried at amortized cost, which approximates their fair value. The corresponding liability is included in accounts payable and accrued liabilities.

(c) Loan and mortgage investments:

The loan and mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the loan and mortgage investments are measured at amortized cost using the effective interest rate method (the "EIM"). The loan and mortgage investments are derecognized when the contractual rights to receive cash flows and benefits expire, or where they have been transferred and the Company also transfers the control or substantially all the risks and rewards of ownership.

3. Significant accounting policies (continued):

The loan and mortgage investments are assessed each reporting year to determine whether there is any objective evidence of impairment at both a specific asset and collective level. All individually significant loan and mortgage investments are assessed for specific impairment and are considered to be impaired if one or more loss events that have occurred after its initial recognition have a negative effect on the estimated future cash flows of the financial asset and the loss can be reliably measured.

Loan and mortgage investments that have been assessed individually and found not to be impaired and all individually insignificant loan and mortgage investments are then assessed collectively, in a group of loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account (i) data from the loan and mortgage investments (such as composition of the loan and mortgage investments, borrower's ability to repay, loan defaults and arrears, the estimated value of the underlying collateral (loan to value ratios), average term to maturity, etc.), (ii) general economic and real estate market conditions (including current real estate prices for various real estate types, any near-term real estate development fundamentals), and (iii) actual historical loan losses and other relevant factors.

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

(d) Investment in associates:

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are entities with no control or joint control, over the financial and operating policies. The Company's investments in associates are accounted for using the equity method of accounting. Investments in associates are recognized initially at cost. The cost of the investment includes transaction costs. Subsequent to initial recognition, investment in associates are carried at fair value.

3. Significant accounting policies (continued):

The consolidated financial statements include the Company's share of the income or loss and other comprehensive income from the date that significant influence commences until the date that significant influence ceases. Accounting policies of the Company's associates are consistent with the policies adopted by the Company.

The Company assesses at each reporting period whether there is any objective evidence that the interest in the associates is impaired. If impaired, the carrying value of the Company's share of the underlying assets in the associates are written down to its estimated recoverable amount.

(e) Joint arrangements:

A joint arrangement is a contractual arrangement pursuant to which the Company and other parties undertake an economic activity that is subject to joint control, whereby the strategic financial and operating policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control. Joint arrangements are of two types - joint ventures and joint operations.

The Company's significant joint arrangements consist of joint operations, which are structured through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity; the arrangement is referred to as joint operations and the Company's proportionate share of joint venture assets, liabilities, revenues and expenses are recognized in the consolidated financial statements and classified according to their nature. When the Company transacts with its joint operations, unrealized profits and losses are eliminated to the extent of the Company's interest in the joint operations. Balances outstanding between the Company and joint operations in which it has an interest are eliminated in the consolidated statements of financial position.

(f) Investments properties:

Investment properties include properties held to earn rental income or for capital appreciation, or for both, and properties that are being constructed or developed for future use as investment properties. On acquisition, investment properties are initially recorded at cost. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair values are recognized in the consolidated statements of income and comprehensive income during the year in which they arise.

3. Significant accounting policies (continued):

(g) Land under development:

Land under development is inventory and is measured at the lower of cost and estimated net realizable value ("NRV"). NRV is the estimated selling price in the ordinary course of the business at the date of the statement of financial position, less costs to complete and estimated selling costs. Cost includes land acquisition costs, other direct costs of development and construction, borrowing costs, property taxes and legal costs. These costs are allocated to each phase of the project in proportion to saleable acreage.

(h) Financial instruments:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows and benefits related to the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset or transfers the significant risks and rewards, along with the unconditional ability to sell or pledge the asset to another party. Financial liabilities are derecognized when obligations under the contract are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Upon initial recognition, financial instruments are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale assets, loans and receivables, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge.

Financial instruments are included on the consolidated statements of financial position and measured at fair value, except for loans and receivables, held-to-maturity financial assets and other financial liabilities, which are measured at amortized cost using the EIM, less any impairment. Directly attributable transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the EIM.

3. Significant accounting policies (continued):

Under the EIM, interest income and expense are calculated and recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument to the fair value at initial recognition.

The following table summarizes the accounting treatment of each of the financial assets and financial liabilities:

	Classification	Measurement
Loan and mortgage investments	Loans and receivables	Amortized cost
Funds held in trust	Loans and receivables	Amortized cost
Amounts receivable and prepaid expenses	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost
Portfolio investments	Fair value through profit or loss	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Income taxes payable	Other financial liabilities	Amortized cost
Short-term unsecured notes payable	Other financial liabilities	Amortized cost
Revolving operating facility	Other financial liabilities	Amortized cost
Loan and mortgage syndications	Other financial liabilities	Amortized cost
Due to joint operations partner	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost

(i) Compound financial instruments:

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to Shares of the Company at the option of the holder, and the number of Shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. All transaction costs directly attributable to the issuance of the compound financial instrument are allocated to the liability and equity components in proportion to their initial carrying amounts.

3. Significant accounting policies (continued):

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the EIM. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest, losses and gains relating to the financial liability are recognized in the consolidated statements of income and comprehensive income.

(j) Impairment of financial instruments:

An assessment of whether there is objective evidence that a financial asset or a group of financial assets is/are impaired is performed at each reporting year. A financial asset is considered to be impaired if one or more loss events have occurred that have a negative impact on the future cash flows of the financial asset after initial recognition of the financial asset and the loss can be reliably measured. These assumptions are limited by the availability of reliable comparable market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has occurred, the loss is based on the difference between the carrying amount of the financial asset, and the respective estimated future cash flows discounted at the financial instrument's original effective interest rate and is recorded as an allowance for losses and recognized in the consolidated statements of income and comprehensive income. If, in a subsequent year, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment is reversed up to the extent of the original impairment amount.

In the determination of impairment, the Company assesses the existence of certain factors, including; non-payment of interest and or principal or other material default by the borrower, financial difficulty of the underlying secured asset, financial difficulty of the borrower and or guarantor, the Company granting certain concessions favorable to the borrower and observable data that there is a measurable decrease in the estimated future cash flows.

3. Significant accounting policies (continued):

(k) Derecognition of financial instruments:

A financial asset is derecognized if substantially all risks and rewards of ownership and, in certain circumstances, control of the financial asset are transferred. A financial liability is derecognized when it is extinguished, with any gain or loss on extinguishment to be recognized in other items in the consolidated statements of income and comprehensive income.

(l) Unearned income:

Unearned income includes commitment fees received from borrowers, which are amortized over the contractual terms of the respective loan and mortgage investments.

(m) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(n) Revenue recognition:

(i) Interest and fees earned:

Interest and fees earned is recognized in the consolidated statements of income and comprehensive income using the EIM. The EIM discounts the estimated future cash receipts through the expected life of the loan and mortgage to its carrying amount. When estimating future cash flows, the contractual terms of the mortgage are considered, including origination revenue, interest receipts, principal receipts and contractual end-of-term participation receipts, where applicable. Participation receipts that are contingent upon future events, such as the profitability of the underlying security, are not included in the estimated cash flows. Such amounts are recorded in income when management is reasonably assured of their collection.

3. Significant accounting policies (continued):

(ii) Rental income:

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases. Rental income from these leases is recognized in the consolidated statements of income and comprehensive income on a straight-line basis over the term of the relevant leases.

(o) Share-based compensation:

The Company has a share option plan (the "Plan") for grants to eligible directors, officers, senior management and consultants under its share option plan. The expense of the equity-settled incentive option plan is measured based on the fair value of the options granted of each tranche at the grant date. The expense is recognized in proportion to the vesting features of each tranche of the grant and is reflected in equity. When share options are exercised, any consideration paid, together with the amount recorded in equity, are recorded in share capital.

(p) Deferred share unit plan:

The Company has a cash-settled Deferred Share Unit Plan (the "DSU Plan") for employees and directors, whereby the Company's Board of Directors may award Deferred Share Units (the "DSUs") as compensation for services rendered.

The fair value of DSUs granted is measured at the grant date based on the five-day volume weighted average trading price of the Company's Shares, and compensation expense is recognized in proportion to the vesting features over the vesting period with the recognition of a corresponding liability that is included in accounts payable and accrued liabilities. The liability is remeasured at each reporting date at fair value with changes in fair value recognized in the consolidated statements of income and comprehensive income.

3. Significant accounting policies (continued):

(q) Provisions:

Provisions for legal claims, where applicable, are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting year, and are discounted to present value where the effect is material.

(r) Income taxes:

Income tax comprises current and deferred taxes. Income tax is recognized in the consolidated statements of income and comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the reporting year, using tax rates enacted, or substantively enacted, at the end of the reporting year.

Deferred tax is determined based on the temporary differences between the carrying value and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in income. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to the Company's taxable income for the year in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable that there will be sufficient taxable income against which to utilize the benefits of the temporary differences.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(s) Foreign currency translation:

Transaction amounts denominated in foreign currencies are translated into Canadian dollar equivalents at the rates of exchange prevailing at the time of the transactions. Carrying values of monetary assets and liabilities are translated at exchange rates prevailing at the dates of the consolidated statements of financial position. Foreign exchange gains and losses on the receipts of payments from translations are included in realized gain/loss on foreign exchange in the consolidated statements of income and comprehensive income. All unrealized foreign exchange gains and losses on monetary assets and liabilities are included in unrealized foreign exchange gain/loss in the consolidated statements of income and comprehensive income.

(t) Earnings per share:

Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Company by the weighted average number of Shares outstanding during the year.

Diluted earnings per share is calculated using the "if converted method" and is determined by adjusting the net income attributable to shareholders and the weighted average number of Shares outstanding, adjusted for the dilutive effects of all convertible debentures and granted share options and broker warrants.

(u) New standard adopted in the year:

(i) Amendments to IAS 1, Presentation of Financial Statements ("IAS 1") was issued as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not result in any changes to the consolidated financial statements.

3. Significant accounting policies (continued):

(v) New standards not yet adopted:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2017 that the Company has decided not to early adopt. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future years:

(i) IFRS 9, Financial Instruments ("IFRS 9"), was issued to replace International Accounting Standard ("IAS") 39. IFRS 9 has two measurement categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is measured at fair value through profit or loss. This standard is effective for years beginning on or after January 1, 2018. The extent of impact of adoption of IFRS 9 has not been determined.

(ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The extent of the impact of adoption of the standard has not been determined.

(iii) IFRS 16, Leases ("IFRS 16"), will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed and is effective for years beginning on or after January 1, 2019. Early adoption will be permitted only if the Company has adopted IFRS 15. The extent of the impact of adoption of the standard has not been determined.

(In Canadian dollars)

4. Deposits:

On December 30, 2016, the Company advanced $3,256,074 to be held in escrow with the Company's legal counsel for funding of a loan and mortgage investment. The transaction was closed subsequent to year end.

On December 31, 2015, the Company deposited $11,747,370 into a joint account established by the Company and a subsidiary of a Canadian borrower (the "Borrower"), requiring joint signatures, pending release for mortgage investments purposes. These mortgage investments were to be assigned to the Company over which the Company was to have full control. In January 2016, the loan transaction was cancelled, as funding and investment conditions were not met, and the funds were therefore returned to the Company.

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2016 and 2015:

	2016	2015
Interest receivable	$ 3,660,177	$ 2,107,889
Other receivables	873,395	5,847
Prepaid expenses	331,708	166,241
Amounts receivable and prepaid expenses	$ 4,865,280	$ 2,279,977

Included in interest receivable are non-current balances of $3,001,186 (2015 - $1,358,935). The remaining interest and other receivables are current and due in the current fiscal year in accordance with contract terms.

6. Loan and mortgage investments and loan and mortgage syndications:

As at December 31, 2016 and 2015, the Company had principal balance of loan and mortgage investments of $94,309,729 and $95,613,267, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 15.3% (2015 - 15.8%) and a weighted average term to maturity of 1.05 years (2015 - 1.43 years).

The loans are on most major real estate property types, but predominantly within the residential and commercial asset groups. In some cases, land loans will subsequently be subordinated to construction financing as the project progresses through its development period. The loan and mortgage investments are secured by mortgages registered on title and/or other forms of security, including, but not limited to, floating charge debentures, general security agreements, postponement of specific claims and joint and several guarantees.

(a) Residential housing developments:

These loans pertain to projects at various stages of development in Toronto, Ontario, Kitchener, Ontario, Markham, Ontario and London, Ontario. Seventeen of the loans have been syndicated to private investors.

(b) Residential income property:

The loan represent second mortgages secured by an apartment building located in Toronto, Ontario.

(c) Commercial retail development:

The loan represents a first mortgage secured by a retail development located in Mississauga, Ontario.

(d) Land and lot inventory:

The loans represent first and second mortgages secured by real estate assets to be developed and are located in Markham, Ontario, Ottawa, Ontario, Tampa Bay, Florida, Orlando, Florida, Sarasota, Florida and Charlotte, North Carolina.

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

The Company syndicates certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement and on an investment-by-investment basis. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment.

The principal balance of loan and mortgage syndications at December 31, 2016 and 2015 were $56,180,448 and $45,691,948, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.8% (2015 - 10.5%) and a weighted average term to maturity of 1.27 years (2015 - 1.40 years).

The following tables present details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2016 and 2015:

2016	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	$ 67,057,768	$ 35,109,509	$ 31,948,259	83.8
Land and lot inventory	24,159,165	20,270,939	3,888,226	10.2
Commercial retail development	500,000	–	500,000	1.3
Residential income properties	2,592,796	800,000	1,792,796	4.7
	94,309,729	56,180,448	38,129,281	100.0
Allowance for loan and mortgage investments loss	(901,285)	–	(901,285)	
	$ 93,408,444	$ 56,180,448	$ 37,227,996	

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

2015	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	$ 65,417,141	$ 37,678,182	$ 27,738,959	55.6
Land and lot inventory	25,465,047	7,813,766	17,651,281	35.4
Commercial retail development	1,270,000	–	1,270,000	2.5
Residential income properties	3,461,079	200,000	3,261,079	6.5
	95,613,267	45,691,948	49,921,319	100.0
Allowance for loan and mortgage investments loss	(478,066)	–	(478,066)	
	$ 95,135,201	$ 45,691,948	$ 49,443,253	

One loan to a residential housing development project accounts for 14% the Company's total revenue for the year ended December 31, 2016 and 16% of the principal balance of loan and mortgage investments at December 31, 2016.

The Company is committed to fund a loan investment of $1,756,550 to a company controlled by the Chairman of the Board of the Company (the "Chairman") at the interest rate of 12% per annum. During the year ended December 31, 2016, the Company advanced $1,756,381 and recognized interest and fees revenue of $136,265 (note 18).

On June 18, 2015, the Company advanced a loan investment of $3,000,000 to a company controlled by the Chairman at the interest rate of an investment with a similar risk profile. The loan was repaid in full in September 2015 (note 18).

On February 20, 2015, the Company exercised its option to convert its loan and mortgage investment in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). The carrying balance of the loan and mortgage investment at the time of conversion was $14,821,313, of which $11,675,000 was syndicated. Syndicate investors in the amount of $5,125,000 elected to convert their share of interest in the loan investment into units of the Lan Partnership and syndicate investors in the amount of $6,550,000 converted their share of interest in the loan investment in short-term unsecured notes payable. The Company received $8,845,500 from new and existing investors to invest in units of the Lan Partnership (note 9).

6. Loan and mortgage investments and loan and mortgage syndications (continued):

Certain of the loan and mortgage investments have early repayment rights and, if exercised, would result in repayments in advance of their contractual maturity dates.

In August 2015, a borrower of a residential housing development renegotiated the participation fee on the loan and elected to repay ahead of its due date. As a result, the Company recognized a gain of $316,408 and included it in interest income in the consolidated statements of income and comprehensive income.

In March 2015, a borrower of a residential income property renegotiated the exit fee on the loan and elected to repay ahead of its due date. As a result, the Company recognized a gain of $544,212 and included it in interest income in the consolidated statements of income and comprehensive income.

During the years ended December 31, 2016 and 2015, the Company capitalized interest income of $4,484,628 and $2,692,201, respectively, which is included in the loan and mortgage investments.

The Company's loan and mortgage investments generally take the form of:

- land loans registered in first or second position at the earlier stages of real estate development;

- term mortgages for the purposes of acquiring or refinancing income-producing properties; or

- mezzanine or subordinated debt financings or real estate developments that have either progressed to the construction phase or are in the process of approaching the construction phase.

Mortgages are loans that are secured by real estate assets and may include other forms of securities. Unregistered loans are not secured by real estate assets, but are secured by other forms of securities, such as personal guarantees, or pledge of shares of the borrowing entity.

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

The following tables present details of the Company's principal balances of loan categories as at December 31, 2016 and 2015:

2016	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	$ 87,351,822	$ 52,797,323	$ 34,554,499	90.6
Unregistered loans	6,957,907	3,383,125	3,574,782	9.4
	$ 94,309,729	$ 56,180,448	$ 38,129,281	100.0

2015	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	$ 91,691,123	$ 44,191,948	$ 47,499,175	95.1
Unregistered loans	3,922,144	1,500,000	2,422,144	4.9
	$ 95,613,267	$ 45,691,948	$ 49,921,319	100.0

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2016 were $11,619,581, including $9,051,743 of capitalization of future interest relating to the existing loan and mortgage investments (2015 - $18,455,100, including $11,733,451 of capitalization of future interest relating to the existing loan and mortgage investments).

The following tables present details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2016 and 2015:

2016	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 52,412,874	$ 40,396,919	$ 12,015,955	31.5
Unites States	41,896,855	15,783,529	26,113,326	68.5
	$ 94,309,729	$ 56,180,448	$ 38,129,281	100.0

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

2015	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 57,551,220	$ 31,488,302	$ 26,062,918	52.2
Unites States	38,062,047	14,203,646	23,858,401	47.8
	$ 95,613,267	$ 45,691,948	$ 49,921,319	100.0

On March 9, 2016, the Company advanced a loan of $10,000,000 to the Borrower, secured by two properties (the "Secured Properties") and the Borrower's 50% interest in a development project (the "Valermo Homes JV"). The loan agreement provided the Company an option to purchase the 50% interest in the Valermo Homes JV for $7,000,000. On April 15, 2016, the Company exercised its option and acquired the 50% interest in the Valermo Homes JV for $7,000,000 which approximates the fair value of the project (note 7(a)). The Company has a registered security on the Secured Properties and in the event the Company does not recover the $7,000,000 from the Valermo Homes JV, the Company is entitled to receive up to $5,000,000 from the Secured Properties.

At December 31, 2016, four project loan investments totaling $11,717,468, including interest receivable and fees incurred on these loans totaling $655,669, to entities controlled by the Borrower are in arrears, of which $248,333 of project loans including interest payable have been syndicated. As at December 31, 2015, five project loans outstanding from the Borrower totaling $11,931,439, which includes interest receivable of $705,037. The foreclosure process has commenced and is proceeding on these project loans to enforce the security. As at December 31, 2016, based on the most recent valuations of the underlying assets and managements estimates, the Company has recognized a specific impairment provision of $310,493 (2015 - $nil).

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

Scheduled principal repayments and loan and mortgage investments maturing in the next five years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2017	$ –	$ 54,166,779	$ 54,166,779
2018	–	32,342,558	32,342,558
2019	–	–	–
2020	–	5,662,267	5,662,267
2021	–	2,138,125	2,138,125
	$ –	$ 94,309,729	$ 94,309,729

Scheduled principal repayments and maturity amounts of loan and mortgage syndications maturing in the next five years are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
2017	$ –	$ 28,444,768	$ 28,444,768
2018	–	20,751,001	20,751,001
2019	–	–	–
2020	–	4,984,679	4,984,679
2021	–	2,000,000	2,000,000
	$ –	$ 56,180,448	$ 56,180,448

(In Canadian dollars)

6. Loan and mortgage investments and loan and mortgage syndications (continued):

Allowance for loan and mortgage investments loss:

The Company also assessed collectively for impairment to identify potential future losses, by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at December 31, 2016, the Company has recognized a collective impairment provision of $590,792 (2015 - $478,066).

As at December 31, 2016, the Company has recognized a specific impairment of $310,493 (2015 - $nil).

The changes in the allowance for mortgage investments loss during the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Balance, beginning of year	$ 478,066	$ –
Provision for loan and mortgage investments loss	423,219	478,066
Balance, end of year	$ 901,285	$ 478,066

7. Joint arrangements:

(a) Interests in joint operations:

The Company's interests in the following properties are subject to joint control and, accordingly, the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method.

(i) Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner to develop a store for a national pharmacy chain in Ottawa, Ontario. The land on which the store was developed is subject to a 20-year land lease, with five renewal options of five years each. The Company's ownership interest in the Montreal Street JV is 55.0%.

(In Canadian dollars)

7. Joint arrangements (continued):

(ii) Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company an option to purchase a 50% interest in the Valermo Homes JV owned by affiliates of the Company's borrower. On April 15, 2016, the Company through its wholly owned subsidiary, Terra Firma (Valermo) Corporation, exercised its option and acquired a 50% interest in the Valermo Homes JV for $7,000,000. The Company incurred $624,681 in closing costs.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of conversion, as follows:

		Total
Net assets acquired:		
Land under development	$	22,275,767
Amounts receivable and prepaid expenses		221,971
Due to joint operations partner		(13,448,799)
Accounts payable and accrued liabilities		(1,424,258)
Value of assets transferred on conversion	$	7,624,681
Consideration paid, funded by:		
Loan and mortgage investments	$	7,000,000
Cash		624,681
Value of assets transferred on conversion	$	7,624,681

(In Canadian dollars)

7. Joint arrangements (continued):

The financial information in respect of the Company's proportionate share of investments in joint operations is as follows:

		2016		2015
Assets				
Cash and cash equivalents	$	413,420	$	4,028
Amounts receivable and prepaid expenses		415,616		11,644
Investment property		2,208,694		2,143,794
Land under development		23,808,574		–
		26,846,304		2,159,466
Liabilities				
Accounts payable and prepaid expenses		5,151,860		41,828
Loan and mortgage syndications		870,389		–
Mortgages payable		1,509,503		1,120,314
Due to joint operations partner		11,163,640		–
		18,695,392		1,162,142
Net assets	$	8,150,912	$	997,324

The table below details the results of operations for the years ended December 31, 2016 and 2015, attributable to the Company from its joint operations activities:

		2016		2015
Rental revenue	$	199,711	$	189,434
Property operating costs		71,892		61,059
General and administrative expenses		267,811		921
Interest expense		40,779		46,258
Fair value adjustment - investment property		(61,950)		(82,500)
		318,532		25,738
Net income (loss)	$	(118,821)	$	163,696

(In Canadian dollars)

7. Joint arrangements (continued):

(b) Investment property:

The following table summarizes the changes in the Company's proportionate share of the investment property for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 2,143,794	$ 2,062,661
Change in amount receivable from joint operations partners	2,950	(1,367)
Fair value adjustment	61,950	82,500
Balance, end of year	$ 2,208,694	$ 2,143,794

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. The proportionate share of investment property in the Montreal Street JV with an aggregate value of $2,208,694 was valued by the external appraiser. The capitalization rate used in the valuation of investment property was 6.25% (2015 - 6.25%).

As at December 31, 2016, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by $92,400 (2015 - $89,600) and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by $85,250 (2015 - $82,500).

(c) Land under development:

The following table summarizes the changes in the Company's proportionate share of the land under development for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ –	$ –
Acquisition of property	22,275,767	–
Additions, capital expenditures	1,532,807	–
Balance, end of year	$ 23,808,574	$ –

(In Canadian dollars)

7. Joint arrangements (continued):

(d) Due to joint operations partner:

The co-ownership agreement on Valermo Homes JV provides that the Company will not be required to make any other contributions in respect of expenses or development costs and the development partner will loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest is calculated using the formula specified in the co-ownership agreement. At December 31, 2016, the amount due to the joint operations partner is $11,163,640 (2015 - $nil).

(e) Mortgages payable:

On June 16, 2016, the Montreal Street JV refinanced the mortgage totaling $2,800,000. The Company's share of the mortgage, net of deferred financing costs is $1,524,826. The original mortgage had an interest rate of 4.2% per annum, with a maturity date of June 16, 2016. The refinanced mortgage bears interest at 3.0% per annum, and is amortized over 25 years and matures on June 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2016 and 2015 are as follows:

	2016	2015
Mortgage principal	$ 1,522,661	$ 1,121,744
Unamortized financing costs	(13,158)	(1,430)
	$ 1,509,503	$ 1,120,314

(In Canadian dollars)

7. Joint arrangements (continued):

Scheduled principal repayments and maturity amounts of mortgages payable over the next five years are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
2017	$ 42,508	$ –	$ 42,508
2018	43,803	–	43,803
2019	45,138	–	45,138
2020	46,513	–	46,513
2021	23,785	1,320,914	1,344,699
	$ 201,747	$ 1,320,914	$ 1,522,661

8. Portfolio investments:

The Company has invested through the Hill, in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at December 31, 2016, the cost of the investment is $954,630 (2015 - $954,630), and the cost of the investment in the Hill owned by an outside party is $200,000 (2015 - $200,000). At December 31, 2016, the fair values were determined by management, using the direct comparison method. The fair value of the investment at December 31, 2016 was $1,174,212 (2015 - $1,174,212) and the investment owned by an outside party of $254,641 is included in non-controlling interest.

The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at December 31, 2016, TFCC LanQueen Ltd. contributed $1,724,000 (2015 - $924,000) in the partnership. At December 31, 2016, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at December 31, 2016 was $2,037,872 (2015 - $1,165,343).

(In Canadian dollars)

8. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 2,339,555	$ 1,620,828
Investments made	800,000	324,557
Fair value adjustment	72,529	394,170
Balance, end of year	$ 3,212,084	$ 2,339,555

9. Investment in associates:

On February 20, 2015, the Company, together with certain existing syndicate investors exercised their right to convert a loan and mortgage investment into an equity investment in Lan Project through equity in the Lan Partnership.

At December 31, 2016 and 2015, the Company's share of investment in the Lan Partnership, after taking into account of sale of some of its interest in the Lan Partnership, was $2,315,414.

At December 31, 2016 and 2015, the Lan Partnership has invested $13,333,333 in the Lan Project. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest at 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% hurdle rate. The Company exerts significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

The share of income from the Lan Partnership for the years ended December 31, 2016 and 2015, was $nil and $91,949, respectively. At December 31, 2016 and 2015, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at December 31, 2016 was $2,315,414 (2015 - $2,315,414).

(In Canadian dollars)

9. Investment in associates (continued):

The following table summarizes the changes to the carrying value of investment in associate for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 2,315,414	$ –
Loan and mortgage investment converted into equity interest in Lan Partnership (note 6)	–	14,821,313
Loan syndications converted to equity interest in Lan Partnership (note 6)	–	(5,125,000)
Sale of interest in Lan Partnership to investors (note 6)	–	(8,845,500)
Contribution to Lan Partnership	–	1,372,652
Share of income from Lan Partnership	–	91,949
Balance, end of year	$ 2,315,414	$ 2,315,414

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at December 31, 2016 and 2015:

	2016	2015
Interest payable	$ 2,106,632	$ 1,287,698
Interest reserve	513,295	456,985
Accounts payable and accrued liabilities	6,469,378	3,061,220
Share-based compensation payable (note 15(c)(ii))	1,558,661	1,174,657
	$ 10,647,966	$ 5,980,560

Accounts payable and accrued liabilities are current and payable in the current fiscal year.

(In Canadian dollars)

11. Short-term unsecured notes payable:

During the year, the Company issued short-term unsecured notes payable to syndicate investors totaling $250,000 (2015 - $21,900,250), including those investors of the loan and mortgage investments in the amount of $50,000 (2015 - $12,144,753) who elected to convert their interest in the loan and mortgage investments into a short-term unsecured note payable.

During the year, holders of short-term unsecured notes payable totaling $6,794,300 (2015 - $6,820,000) elected to convert their notes into syndication in the loan and mortgage investment and the Company repaid $2,741,700 (2015 - $7,450,000) of short-term unsecured notes payable. As at December 31, 2016, the Company had no outstanding short-term unsecured notes payable.

These notes bore annual interest in the range of 7% - 9%, had a term of 6 months from issuance, closed for prepayment through the full term, and were convertible, in whole or in part, into loan and mortgage syndications on the terms and conditions to be agreed by the holders and the Company. At any time prior to the maturity date, the Company had an option to extend these notes by three months.

The following table summarizes the changes in the short-term unsecured notes payable for the years ended December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 9,286,000	$ 1,500,000
Proceeds from issuance of short-term unsecured notes payable	200,000	9,755,497
Transferred from loan and mortgage syndications	50,000	12,144,753
Transferred to loan and mortgage syndications	(6,794,300)	(6,820,000)
Repayments of short-term unsecured notes payable	(2,741,700)	(7,450,000)
Unrealized foreign exchange loss	–	155,750
Balance, end of year	$ –	$ 9,286,000

For the year ended December 31, 2016, interest expense of $285,978 (2015 - $233,771) was recorded in relation to short-term unsecured notes payable.

At December 31, 2016, the Company had no U.S. dollar denominated short-term unsecured notes payable (2015 - Canadian $4,152,000, U.S. $3,000,000).

(In Canadian dollars)

12. Revolving operating facility:

On April 23, 2015, the Company entered into a Revolving Operating Facility Credit Agreement with a lending institution for a $10,000,000 secured revolving loan facility (the "Facility") with a 24-month term, maturing on May 1, 2017. Interest on advanced funds under the Facility will be 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility is subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company has entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allows the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

During the year ended December 31, 2016, the Company borrowed an aggregate of $5,000,000 (2015 - $19,500,000) and repaid $7,500,000 (2015 - $9,500,000) against the Facility.

In connection with the Facility, the Company incurred lender and other third-party costs of $204,717. The costs associated with the Facility have been deferred and are being amortized over the term of the Facility as interest expense using the effective-interest amortization method.

For the years ended December 31, 2016 and 2015, amortization of deferred financing costs reported as interest expense and financing costs totaled $102,442 and $69,861, respectively.

The following table presents details of the Facility as at December 31, 2016 and 2015:

	2016	2015
Face value	$ 7,500,000	$ 10,000,000
Unamortized financing costs	(32,414)	(134,856)
Balance, end of year	$ 7,467,586	$ 9,865,144

(In Canadian dollars)

13. Convertible debentures:

On September 29, 2014, the Company issued by way of private placement, unsecured subordinated convertible debentures (the "Debentures") in the principal amount of $10,850,000. The Debentures bear interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and mature on September 27, 2017. The Debentures are convertible into Shares of the Company in whole or in part, at the option of the holder at any time up to maturity at a conversion price of $0.72 per Share. The Company may, at any time prior to the maturity date and upon giving notice, prepay the Debentures in full or in part, by paying the holders thereof the outstanding principal amount plus all accrued and unpaid interest, provided that the market price per Share on the date on which the redemption notice is provided is at least 125% of the conversion price.

The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $10,486,460 (net of transaction costs of $76,962) and the equity component was assigned a value of $284,490 (net of transaction costs of $2,088). The EIR of the Debentures is 8.53%.

Certain directors and officers hold Debentures in an aggregate principal amount of $1,330,000.

The following table summarizes the changes in the convertible debentures for the years ended December 31, 2016 and 2015:

	2016	2015
Liability component of debentures, beginning of year	$ 10,628,301	$ 10,514,431
Interest expensed	885,458	873,370
Interest paid	(759,500)	(759,500)
Liability component of debentures, end of year	$ 10,754,259	$ 10,628,301

(In Canadian dollars)

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at December 31, 2016 were $11,619,581 (2015 - $18,455,100).

The Company is also committed to provide its proportionate share of additional capital to joint operations in accordance with contractual agreements.

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and its previous head office premises located at 5000 Yonge Street, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at December 31, 2016, are as follows:

2017	$ 208,217
2018	221,785
2019	221,785
2020	221,785
	$ 873,572

The Company, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Company.

(In Canadian dollars)

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the years ended December 31, 2016 and 2015:

	Shares	Amount
Outstanding, December 31, 2014	41,582,300	$ 16,654,718
Issuance of Shares pursuant to the Offering	16,911,900	13,118,652
Issuance of Shares pursuant to the Private Placement	1,205,883	1,025,000
Issuance of Shares pursuant to broker warrants	560,000	352,800
Transferred from contributed surplus upon exercise of broker warrants	–	106,234
Outstanding, December 31, 2015	60,260,083	31,257,404
Issuance of Shares pursuant to share option plan	969,667	305,834
Repurchase of Shares pursuant to normal course issuer bid	(94,500)	(55,631)
Transferred from contributed surplus upon exercise of share options	–	282,212
Outstanding, December 31, 2016	61,135,250	$ 31,789,819

On December 19, 2016, certain directors of the Company exercised 74,667 options that had been granted to purchase the Shares at $0.50 per Share. The consideration of $37,334 received on exercising the options was recorded as share capital and the related contributed surplus of $29,822 was transferred to share capital (note 15(c)(i)).

On March 31, 2016, the Company's executive vice chairman (previous chief executive officer) (the "Executive Vice Chairman") exercised 895,000 options that had been formally granted to purchase the Shares at $0.30 per Share. The consideration of $268,500 received on exercising the options was recorded as share capital and the related contributed surplus of $252,390 was transferred to share capital (note 15(c)(i)).

On October 14, 2015, 140,000 broker warrants to purchase the Shares at $0.63 per Share with the expiry date of October 16, 2016 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was $88,200 (note 15(d)).

15. Shareholders' equity (continued):

On July 29, 2015, 420,000 broker warrants to purchase the Shares at $0.63 per Share with the expiry date of October 16, 2015 granted to underwriters were exercised. The consideration received on the exercise of broker warrants of $264,600 was recorded as share capital and the related contributed surplus of $79,676 was transferred to share capital (note 15(d)).

On May 5, 2015, the Company completed a bought deal prospectus offering (the "Offering") of 16,911,900 Shares, including fully exercised over-allotment Shares, at a price of $0.85 per share, for gross proceeds of $14,375,115. As part of the Offering, the Company issued 1,014,714 broker warrants as additional compensation. Each broker warrant entitles the holder to purchase one Share at an exercise price of $0.85 until May 4, 2017. Share issuance costs amounted to $1,256,463, consisting of cash costs of $1,213,639 and non-cash costs of $347,824 relating to the value attributable to broker warrants issued to underwriters, offset by a deferred tax benefit of $305,000.

Concurrent with the closing of the Offering, the Company also completed a non-brokered private placement of 1,205,883 Shares, at the same price as the Shares issued pursuant to the Offering, for aggregate gross proceeds of $1,025,000. Certain officers and directors participated in the private placement and the Company issued 811,765 Shares to those officers and directors for gross proceeds of $690,000 (note 18).

(b) Normal course issuer bid:

On October 31, 2016, the Company obtained the approval of the TSX-V of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase its Shares through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V) up to an aggregate maximum of 1,907,413 Shares. Purchases commenced on November 4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V. During the year ended December 31, 2016, the Company purchased 94,500 (2015 - $nil) Shares on TSX-V for $55,631 (2015 - $nil).

Subsequent to year end, the Company purchased 340,000 Shares for total cash consideration of $224,225.

(In Canadian dollars)

15. Shareholders' equity (continued):

(c) Share-based payments:

The share-based payments that have been recognized in these financial statements are as follows:

	2016	2015
Share option Plan	$ 435,710	$ 1,069,401
DSU Plan	384,004	713,321
	$ 819,714	$ 1,782,722

(i) Share option plan:

The Company has a Plan to grant eligible directors, officers, senior management and consultants to grant options to purchase Shares. The exercise price of an option shall be determined by the Board of Directors and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the TSX-V, the Board of Directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted.

Pursuant to the employment agreement between the Company and the Executive Vice Chairman, the Executive Vice Chairman was eligible to receive options equal to 5% of Shares (the "Option Right") issued and outstanding through to December 31, 2015, at the price determined by the Board. The Option Right expired on December 31, 2015.

On December 28, 2016, the Company granted options to certain officers and a employees of the Company to purchase an aggregate of 560,000 Shares at $0.65 per Share, with the expiry date of December 27, 2023. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

On June 27, 2016, the Company granted options to the current Chief Executive Officer of the Company to purchase an aggregate of 500,000 Shares at $0.57 per Share, with the expiry date of June 28, 2023. Of the options, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

(In Canadian dollars)

15. Shareholders' equity (continued):

On March 31, 2016, the Company granted options to the Chairman to purchase an aggregate of 200,000 Shares at $0.77 per Share, with the expiry date of March 31, 2023. These share options vested immediately upon grant.

On May 11, 2015, the Company granted share to directors, officers and employees of the Company to purchase an aggregate of 980,889 Shares at $0.85 per Share, with the expiry date of May 11, 2020. Of the share, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

The fair value of the share options granted was estimated on each of the dates of grant, using the Black-Scholes option pricing model, with the following assumptions:

	December 28, 2016	June 27, 2016	March 31, 2016	May 11, 2015
Average expected life	7.00 years	7.00 years	7.00 years	5.00 years
Average risk-free interest rate	1.40%	1.04%	0.89%	0.80%
Average expected volatility	87.74%	79.94%	81.61%	89.45%
Dividend yield	0%	0%	0%	0%

The fair value of options granted during the years ended December 31, 2016 and 2015 were $574,817 and $574,801, respectively.

(In Canadian dollars)

15. Shareholders' equity (continued):

The following is the summary of changes in share options for the year ended December 31, 2016 and 2015:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	5,052,338	$ 0.61	4,071,449	$ 0.55
Granted	1,260,000	0.63	980,889	0.85
Exercised	(969,667)	0.32	–	–
Expired	(64,000)	0.50	–	–
Outstanding, end of year	5,278,671	0.67	5,052,338	0.61
Number of options exercisable	4,260,335	$ 0.67	4,140,447	$ 0.56

(In Canadian dollars)

15. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at December 31, 2016:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
585,000	April 16, 2017	585,000	$ 0.50	$ 0.30
138,667	April 17, 2018	138,667	0.30	0.25
100,000	February 23, 2019	100,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	716,664	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	375,000	0.57	0.57
560,000	December 27, 2023	–	0.65	0.65
5,278,671		4,260,335		

(ii) Deferred Share Unit Plan:

The Company has a DSU Plan to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares.

The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Directors are obligated to contribute, on the last day of each quarter, a minimum of 50% and may elect to receive up to 100% of their annual retainer in DSUs and employees may elect to receive up to 25% of their annual bonus in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant. In addition, when the directors elect to receive more than 50% of their fees in DSUs, the Company will grant additional DSUs equal to 50% of the value of the DSUs that are over the 50% minimum received by them. When the employees elect to receive their bonus in DSUs, the Company will grant additional DSUs of up to 20% of the value of DSUs granted to them. Of the additional DSUs granted by the Company to the directors, 50% vest in six months from the date of grant and 50% of the additional DSUs vest in 12 months from the date of grant. The additional DSUs granted to the employees vest 33.33% annually.

(In Canadian dollars)

15. Shareholders' equity (continued):

Each DSU has the same value as one Share (based on the five-day volume weighted average trading price). DSUs must be retained until the director leaves the Board of Directors or termination of employment of officers or employees, at which time, the redemption payment equal to the value of the DSUs, calculated as the volume weighted average closing price of the Shares for the last five days preceding the redemption date, net of applicable taxes are paid out.

The following is the summary of changes in DSUs for the years ended December 31, 2016 and 2015:

	2016	2015
DSUs outstanding, beginning of year	1,757,001	747,705
Granted	637,065	1,009,296
DSUs outstanding, end of year	2,394,066	1,757,001
Number of DSUs vested	2,292,150	1,525,530

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the years ended December 31, 2016 and 2015, were $384,004 and $713,322, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the DSUs at December 31, 2016 and 2015 is $1,558,661 and $1,174,657, respectively.

(d) Broker warrants:

As part of the May 2015 Offering, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitles the holder to acquire one Share of the Company at an exercise price of $0.85 per Share, with an expiry date of May 5, 2017.

(In Canadian dollars)

15. Shareholders' equity (continued):

The following is the summary of changes in broker warrants for the years ended December 31, 2016 and 2015:

	Number of broker warrants outstanding	Fair value	Exercise price
Outstanding, December 31, 2014	560,000	$ 106,235	$ 0.63
Granted	1,014,713	347,824	0.85
Exercised	(560,000)	(106,235)	0.63
Outstanding, December 31, 2015	1,014,713	$ 347,824	$ 0.85
Outstanding, December 31, 2016	1,014,713	$ 347,824	$ 0.85

The fair value of broker warrants was estimated at the grant date using the Black-Scholes option pricing model with the following assumptions:

	May 15, 2015
Average expected life	2.00 year
Average risk-free interest rate	0.67%
Average expected volatility	73.96%
Dividend yield	0%

(In Canadian dollars)

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2016 and 2015:

	2016	2015
Balance, beginning of year	$ 2,360,575	$ 1,049,585
Fair value of share-based compensation	435,710	1,069,401
Fair value of broker warrants	–	347,824
Transferred to share capital - exercise of options	(282,212)	–
Transferred to share capital - exercise of broker warrants	–	(106,235)
Balance, end of year	$ 2,514,073	$ 2,360,575

17. Earnings per share:

The calculation of earnings per share for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	$ 1,406,895	$ 6,021,924
Interest savings on debentures, net of taxes	–	641,927
Diluted income attributable to common shareholders	$ 1,406,895	$ 6,663,851
Denominator for basic and diluted earnings per share:		
Weighted average number of Shares outstanding	60,935,292	53,721,933
Dilutive effect of share-based payments	503,253	1,196,238
Assumed conversion of debentures	–	15,069,444
Weighted average number of diluted Shares outstanding	61,438,545	69,987,615
Earnings per share:		
Basic	$ 0.02	$ 0.11
Diluted	0.02	0.10

(In Canadian dollars)

18. Transactions with related parties:

Except as disclosed elsewhere in the consolidated financial statements, the following are the related party transactions:

Related party transactions are measured at the exchange amount, which is the amount of consideration established and offered by related parties.

At December 31, 2016, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares (2015 - approximately 11.0%).

(a) Key management personnel compensation:

Aggregate compensation for key management personnel was as follows:

	2016	2015
Short-term employee benefits	$ 2,090,317	$ 2,308,277
Share-based compensation	804,521	1,712,423
	$ 2,894,838	$ 4,020,700

The key management personnel of the Company include the Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer, Managing Director and the Board of Directors.

During the years ended December 31, 2016 and 2015, no key management personnel were personally indebted to the Company.

(b) Loan and mortgage investments:

The Company is committed to fund a loan investment of $1,756,550 to a company controlled by the Chairman at the interest rate of 12% per annum. During the year ended December 31, 2016, the Company advanced a loan investment of $1,756,381, and recognized interest and fees revenue of $136,265. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties (note 6).

18. Transactions with related parties (continued):

On June 18, 2015, the Company advanced a loan investment of $3,000,000 to a company controlled by the Chairman at the interest rate 12% per annum and recognized interest and fees revenue of $89,353 during the year. In September 2015, the loan was repaid in full.

(c) Loan and mortgages syndications, short-term notes payable and convertible debentures:

Certain of the Company's loan and mortgage investments and Debentures are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest.

At December 31, 2016 and 2015, the loan and mortgage investments and Debentures syndicated by officers and directors were $1,997,135 and $1,745,000, respectively.

(d) Occupancy and office costs:

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the year ended December 31, 2016, the Company received $79,028 for the occupancy and office costs (2015 - $nil).

(e) Shareholders' equity:

On May 5, 2015, concurrent with the closing of the Offering, the Company issued 811,765 Shares through private placement at a price of $0.85 per Share to certain officers and directors of the Company, for gross proceeds of $690,000 (note 15).

(In Canadian dollars)

19. Interest expense:

The following table presents the interest incurred for the years ended December, 2016 and 2015:

	2016	2015
Interest on loan and mortgage syndications and short-term unsecured notes payable	$ 5,898,874	$ 4,690,861
Interest on revolving operating facility	949,061	317,986
Interest on debentures	885,458	873,370
Interest on mortgages payable	40,779	46,258
	$ 7,774,172	$ 5,928,475

20. Foreign exchange:

For the years ended December 31, 2016 and 2015, the Company recorded a realized and unrealized foreign exchange (loss) gain of ($858,660) and $2,078,788, respectively. During the year ended December 31, 2016, the U.S. dollar weakened by approximately 3% against the Canadian dollar from C$1.3840 to C$1.3427. As at December 31, 2016 and 2015, U.S. dollar-denominated net monetary assets were U.S. $11,729,109 and U.S. $19,937,083, respectively.

21. Income taxes:

The following table specifies the current and deferred tax components of income taxes in the consolidated statements of income and comprehensive income:

	2016	2015
Current income tax provision	$ 1,000,896	$ 2,084,205
Deferred income tax	(346,989)	372,046
Total tax provision	$ 653,907	$ 2,456,251
Income taxes paid	$ 1,300,000	$ 2,103,591

(In Canadian dollars)

21. Income taxes (continued):

Income tax expense is different from the amount that would result from applying the combined federal and provincial income tax rates to income from operations before income taxes. These differences result from the following items:

	2016	2015
Income from operations before income taxes	$ 2,060,802	$ 8,522,161
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	$ 546,113	$ 2,258,373
Increase (decrease) in income tax due to:		
Non-taxable items	(7,669)	–
Non-deductible stock-based compensation	115,463	283,391
Other	–	(85,513)
Total tax provision	$ 653,907	$ 2,456,251

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2016 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (176,230)	$ (28,994)	$ (205,224)
Portfolio investments	(111,397)	–	(111,397)
Incorporation costs	606	(42)	564
Deferred share units	311,284	101,761	413,045
Allowance for loan and mortgage investments loss	126,689	112,153	238,842
Unrealized foreign exchange loss	(540,982)	212,926	(328,056)
Debentures, Shares and revolving operating facility issue costs	371,365	(50,815)	320,550
	$ (18,665)	$ 346,989	$ 328,324

(In Canadian dollars)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2015 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (138,811)	$ (37,419)	$ (176,230)
Portfolio investment	(8,845)	(102,552)	(111,397)
Incorporation costs	651	(45)	606
Deferred share units	122,254	189,030	311,284
Allowance for loan and mortgage investments loss	–	126,689	126,689
Unrealized foreign exchange loss	–	(540,982)	(540,982)
Debentures, Shares and revolving operating facility issue costs	73,132	298,233	371,365
	$ 48,381	$ (67,046)	$ (18,665)

In addition, for the year ended December 31, 2015, the Company recorded a deferred tax benefit of $305,000, relating to share issue costs.

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, short-term notes payable, revolving operating facility, due to joint operations partner and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, short-term and long-term, and to grow cash flow and solidify the Company's long-term creditworthiness, as well as a good return for the shareholders.

(In Canadian dollars)

22. Capital management (continued):

The following table presents the capital of the Company as at December 31, 2016 and 2015:

	2016	2015
Loan and mortgage syndications	$ 56,180,448	$ 45,691,948
Revolving operating facility	7,467,586	9,865,144
Short-term notes payable	–	9,286,000
Mortgages payable	1,509,503	1,120,314
Convertible debentures	10,754,259	10,628,301
Due to joint operations partner	11,163,640	–
Non-controlling interest	254,641	254,641
Shareholders' equity	48,370,158	46,277,350
Total capital	$ 135,700,235	$ 123,123,698

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remained unchanged during the years ended December 31, 2016 and 2015.

During the years ended December 31, 2016 and 2015, the Company had no externally-imposed capital requirements.

23. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, deposits, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, loan and mortgage syndications, mortgages payable, due to joint operations partner, short-term unsecured notes payable, revolving operating facility and convertible debentures.

The fair value of interest and other receivables, funds held in trust and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

23. Fair value measurement (continued):

The fair value of loan and mortgage investments, loan and mortgage syndications, short-term unsecured notes payable and convertible debentures approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndications, mortgages payable, short-term unsecured notes payable, revolving operating facility or Debentures and the fair values are based on Level 3 of the fair value hierarchy.

The Company uses various methods in estimating the fair values recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation techniques for which significant inputs are not based on observable market data.

The fair value of the Company's investment properties, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at December 31, 2016 and 2015 and no amounts were transferred between fair value levels during 2016 or 2015. Notes 7(b), 8 and 9 outline the key assumptions used by the Company in determining fair value of its investment properties, portfolio investments and investment in associates.

24. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(a) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market price whether the changes are caused by factors specific to the investment or factors affecting all securities in the market.

24. Risk management (continued):

The Company's objective of managing this risk is to minimize the volatility of earnings. The Company mitigates this risk by charging interest rates which are significantly above normal banking rates.

(b) Credit risk:

Credit risk is the risk of financial loss from the failure of a borrower, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's loan and mortgage investment activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

The Company is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statements of financial position.

The Company mitigates the risk of credit losses on its loan and mortgage investments by maintaining strict credit policies and conducting thorough investment due diligence, ensuring loans and mortgages have risk-adjusted loan to value, together with personal guarantees by the borrowers and parties related to the borrowers, review and approval of new loans and mortgages and continued monitoring of change in value of underlying securities.

The Company regularly reviews the loan and mortgage investments and interest receivable listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest and legal and other costs related to attempts at collection. Where loan investments are collateralized by real property, losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured.

As at December 31, 2016, $11,717,468 of the loan and mortgage investments and $655,669 of interest receivable and fees paid on these loans are in arrears over 60 days. As at December 31, 2015, no loan and mortgage investments and interest receivable were in arrears.

24. Risk management (continued):

(c) Currency risk:

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency-denominated loan and mortgage investments, loans and mortgages payable and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates.

The following table presents the amounts denominated in United States dollars as at December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents	$ 250,033	$ 5,326,400
Amounts receivable and prepaid expenses	1,695,516	750,357
Deposits	3,256,074	–
Loan and mortgage investments	30,372,383	27,501,479
Accounts payable and accrued liabilities	(1,204,623)	(378,403)
Unearned revenue	(115,279)	–
Short-term unsecured notes payable	–	(3,000,000)
Loan and mortgage syndications	(22,524,995)	(10,262,750)
	$ 11,729,109	$ 19,937,083

Consequently, the Company is subject to currency fluctuations that may impact its financial position and results of operations. The Company manages its currency risk on loan and mortgage investments by syndicating in the same currency.

A change in exchange rate of the Canadian dollar against the U.S. dollar by 5% will change the net income and comprehensive income and equity for the year by $776,878.

(d) Interest rate risk:

Interest rate risk arises due to exposure to the effects of future changes in the prevailing level of interest rates.

The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its loan and mortgage investments, convertible debentures, short-term unsecured notes payable, loan and mortgage syndications, revolving operating facility and mortgages payable.

(In Canadian dollars)

24. Risk management (continued):

The Company mitigates its exposure to this risk by entering into contracts having either fixed interest rates or interest rates pegged to prime for its loan and mortgage investments and loans and mortgage syndications and asset liability matching. Such risk is further mitigated by the general short-term nature of loan and mortgage investments.

The Company has no floating rate financial liabilities. At December 31, 2016, if interest rates had been 100-basis-points lower or higher, with all other variables held constant, net income and comprehensive income and equity for the year would be affected as follows:

	Lower 100-basis-points	Higher 100-basis-points
Interest and fees	$ (975,663)	$ 975,663

At December 31, 2015, if interest rates had been 100-basis-points lower or higher, with all other variables held constant, net income and comprehensive income and equity for the year would be affected as follows:

	Lower 100-basis-points	Higher 100-basis-points
Interest and fees	$ (956,133)	$ 956,133

(e) Liquidity risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's creditworthiness.

The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities.

(In Canadian dollars)

24. Risk management (continued):

If the Company is unable to continue to have access to its loans and mortgage syndications, revolving operating facility and convertible debentures, the size of the Company's loan and mortgage investments will decrease and the income historically generated through holding larger investments by utilizing leverage will not be earned.

Contractual obligations as at December 31, 2016 are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	$ 10,647,966	$ –	$ 10,647,966
Revolving operating facility	7,500,000	–	7,500,000
Mortgages payable	42,508	1,480,153	1,522,661
Due to joint operations partner	11,163,640	–	11,163,640
Convertible debentures	10,850,000	–	10,850,000
Total liabilities and contractual obligations	$ 40,204,114	$ 1,480,153	$ 41,684,267

25. Comparative information:

Certain 2015 information has been reclassified to conform with the financial statement presentation adopted in 2016.

26. Subsequent event:

Subsequent to year end, the Company closed three loans to separate and unrelated borrowers in the U.S. totaling C$39,872,498 and syndicated a portion of the loan investment of C$22,041,904 to entities controlled by a single investor for C$17,633,523.