Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Years ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 27, 2018
Toronto, Canada

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position
(In Canadian dollars)

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 2,691,049	$ 12,315,242
Funds held in trust	3,014,606	982,353
Deposits (note 4)	–	3,256,074
Amounts receivable and prepaid expenses (note 5)	1,463,310	4,865,280
Loan and mortgage investments (note 6)	117,166,221	93,408,444
Investment property held in joint operations (note 7(b))	2,208,694	2,208,694
Land under development held in joint operations (note 7(c))	–	23,808,574
Portfolio investments (notes 7(a) and 8)	13,575,623	3,212,084
Investment in associates (note 9)	2,927,842	2,315,414
Income taxes recoverable (note 21)	300,667	–
Deferred income tax asset (note 21)	126,283	328,324
	$ 143,474,295	$ 146,700,483
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 6,236,233	$ 10,647,966
Unearned income	1,505,576	329,340
Income taxes payable (note 21)	–	22,942
Revolving operating facility (note 12)	18,965,205	7,467,586
Loan and mortgage syndications (note 6)	63,299,522	56,180,448
Due to joint operations partner (note (note 7(d))	–	11,163,640
Mortgages payable (note 7(f))	1,469,844	1,509,503
Convertible debentures (note 13)	–	10,754,259
	91,476,380	98,075,684
Equity:		
Share capital (note 15(a))	32,864,287	31,789,819
Equity component of convertible debentures (note 13)	–	284,490
Contributed surplus (note 16)	3,573,406	2,514,073
Retained earnings	15,305,581	13,781,776
	51,743,274	48,370,158
Non-controlling interest	254,641	254,641
	51,997,915	48,624,799
Commitments and contingencies (note 14)		
Subsequent events (notes 15(b) and 26)		
	$ 143,474,295	$ 146,700,483

See accompanying notes to consolidated financial statements.

The consolidated financial statements were approved
by the Board on March 27, 2018 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, 2017 and 2016

	2017	2016
Revenue:		
Interest and fees	$ 14,528,778	$ 14,701,947
Rental (note 7(a))	201,775	199,711
	14,730,553	14,901,658
Expenses (income):		
Property operating (note 7(a))	68,802	71,892
General and administrative	3,328,175	3,027,678
Share-based compensation (note 15(c))	456,749	819,714
Interest and financing costs (note 19)	8,570,815	7,774,172
Provision for loan and mortgage investments loss (note 6)	931,478	423,219
Provision for uncollectible receivables (note 5)	1,591,883	–
Gain on conversion of interest in joint operation (note 7(a)(ii))	(2,402,996)	–
Realized and unrealized foreign exchange loss (note 20)	1,097,925	858,660
Fair value adjustment - investment property (note 7(b))	–	(61,950)
Fair value adjustment - portfolio investments (note 8)	(412,616)	(72,529)
Share of income from investment in associates (note 9)	(612,428)	–
	12,617,787	12,840,856
Income from operations before income taxes	2,112,766	2,060,802
Income taxes (note 21)	588,961	653,907
Net income and comprehensive income	$ 1,523,805	$ 1,406,895
Net income and comprehensive income attributable to:		
Common shareholders	$ 1,523,805	$ 1,406,895
Non-controlling interest	–	–
	$ 1,523,805	$ 1,406,895
Earnings per share (note 17):		
Basic	$ 0.02	$ 0.02
Diluted	0.02	0.02

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Changes in Equity
(In Canadian dollars)

Years ended December 31, 2017 and 2016

	Share capital		Equity component of convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares	Amount						
	(note 15(a) and (b))		(note 13)	(note 16)				
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
Issuance of shares pursuant to private placement	5,000,000	2,661,223	–	536,881	–	3,198,104	–	3,198,104
Transfer of equity component of convertible debentures	–	–	(284,490)	284,490	–	–	–	–
Issuance of shares pursuant to share options plan	32,000	14,714	–	(5,114)	–	9,600	–	9,600
Repurchase of shares pursuant normal course issuer bid	(2,391,400)	(1,601,469)	–	–	–	(1,601,469)	–	(1,601,469)
Share-based compensation	–	–	–	243,076	–	243,076	–	243,076
Net income and comprehensive income	–	–	–	–	1,523,805	1,523,805	–	1,523,805
Balance, December 31, 2017	63,775,850	$ 32,864,287	$ –	$ 3,573,406	$ 15,305,581	$ 51,743,274	$ 254,641	$ 51,997,915

See accompanying notes to consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended December 31, 2017 and 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 1,523,805	$ 1,406,895
Interest and fees earned	(14,528,778)	(14,701,947)
Unrealized foreign exchange loss	212,327	803,220
Interest expense and financing costs	8,570,815	7,774,172
Unrealized gain on conversion of interest in joint operation	(2,402,996)	–
Non-cash items:		
Share-based compensation (note 15(c))	456,749	819,714
Provision for loan and mortgage investments loss	931,478	423,219
Provision for uncollectible receivables	1,591,883	–
Fair value adjustment - investment property	–	(61,950)
Fair value adjustment - portfolio investments	(412,616)	(72,529)
Share of income from investment in associates	(612,428)	–
Income tax provision	588,961	653,907
Change in non-cash operating items:		
Increase in other receivables	(918,933)	(402,585)
Decrease (increase) in prepaid expenses and deposits	163,348	(411,409)
Increase in accounts payable and accrued liabilities	2,342,396	1,983,900
Interest and fees received	18,167,754	9,063,564
Interest paid	(10,185,042)	(6,407,135)
Income taxes paid	(691,818)	(1,300,000)
	4,796,905	(428,964)
Financing activities:		
Proceeds from loan and mortgage syndications	67,985,402	36,628,012
Repayments of loan and mortgage syndications	(58,175,630)	(33,279,519)
Repayments of convertible debentures	(10,850,000)	–
Proceeds from mortgages payable	–	435,850
Repayments of mortgages payable	(42,508)	(34,933)
Proceeds from short-term notes payable	–	200,000
Repayment of short-term notes payable	–	(2,741,700)
Proceeds from revolving operating facility	25,500,000	5,000,000
Repayments of revolving operating facility	(14,000,000)	(7,500,000)
Repayment to joint operations partner (net)	(10,120,091)	(1,414,770)
Proceeds from construction loan payable	15,070,000	–
Proceeds from issuance of shares pursuant to the private placement, net of issue costs (note 15(a))	3,179,393	–
Proceeds from issuance of shares pursuant to share options plan	9,600	305,834
Repurchase of shares pursuant to normal course issuer bid	(1,601,469)	(55,631)
	16,954,697	(2,456,857)
Investing activities:		
Funding of loan and mortgage investments	(98,287,103)	(43,575,668)
Deposits made for loan and mortgage investment	–	(3,256,074)
Repayment of deposits made for loan and mortgage investment	–	11,747,370
Repayments of loan and mortgage investments	76,096,502	40,440,519
Capital additions to land under development (note 7(c))	(6,976,602)	(1,532,807)
Increase (decrease) in funds held in trust	(2,060,669)	1,078,854
Proceeds from sale of interest in portfolio investment	101,823	–
Proceeds from conversion of interest in joint operation (note 7)	(4,286)	–
Funding of investment in joint operations	–	(624,681)
Funding of portfolio investment	(245,460)	(800,000)
	(31,375,795)	3,477,513
Increase (decrease) in cash and cash equivalents	(9,624,193)	591,692
Cash and cash equivalents, beginning of year	12,315,242	11,723,550
Cash and cash equivalents, end of year	$ 2,691,049	$ 12,315,242

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 (the "IFRIC").

(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 (the "TFVC") (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 an 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 ("FVTPL") 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 years. 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 "EIR"). Under the EIR, 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 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 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 year 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, revenue 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) Investment 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 dates of the consolidated statements 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 FVTPL, 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 EIR, less any impairment. Directly attributable transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the EIR.

3. Significant accounting policies (continued):

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
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
Construction loan payable	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 EIR. 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 EIR. The EIR discounts the estimated contractual 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 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 Board of Directors of the Company (the "Board") 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 expense required to settle the obligation at the end of the reporting years, 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 years, using tax rates enacted, or substantively enacted, at the end of the reporting years.

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 years 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 warrants (a "Warrant").

(u) Recent accounting pronouncements:

Certain new standards, amendments and interpretations have been published that that will be effective for future accounting periods, most of which do not apply to the company. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future years:

(i) *Financial Instruments: Classification and Measurement ("IFRS 9"):*

IFRS 9 was issued to replace International Accounting Standard ("IAS") 39, *Financial Instruments - Recognition and Measurement*. 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 FVTPL .

3. Significant accounting policies (continued):

IFRS 9 also introduces an expected credit loss ("ECL") model of impairment. Under the ECL model, debt instruments other than those measured at FVTPL must measure impairment losses based on the following "stages":

- Stage 1 - for new loans recognized and for existing loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;

- Stage 2 - for those loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the loan; and

- Stage 3 - for loans that are considered credit-impaired, a loss allowance equal to the lifetime ECL is recognized.

The measurement of ECL for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will also require judgment.

This standard is effective for years beginning on or after January 1, 2018. The Company plans to adopt the standard when it becomes effective, retrospectively, but without restatement of prior periods.

The Company does not expect any of its financial assets or financial liabilities to be reclassified upon adoption of IFRS 9. The Company is currently refining its ECL model, and has estimated the adoption will not result in a material change to the Company's shareholders' equity.

3. Significant accounting policies (continued):

(ii) *Revenue from Contracts with Customers ("IFRS 15"):*

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue - Barter Transactions Involving Advertising Services*. The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently evaluating the applicability of the standard to various revenue streams, including an assessment of the new leases standard (see below). The Company expects to complete their assessment of the potential impact of adopting IFRS 15 during the first quarter of 2018. The Company does not expect the new standard to have a material impact on the financial statements.

(iii) *Leases ("IFRS 16"):*

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.

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 on January 4, 2017.

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.

(In Canadian dollars)

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2017 and 2016:

	2017	2016
Interest receivable	$ 1,583,105	$ 3,660,177
Other receivables	1,353,266	873,395
Prepaid expenses	118,822	331,708
	3,055,193	4,865,280
Allowance for uncollectible receivables	(1,591,883)	–
Amounts receivable and prepaid expenses	$ 1,463,310	$ 4,865,280

As at December 31, 2017 and 2016, interest receivable from loan investments to entities controlled by the Borrower that are in arrears are $1,330,833 and $187,756, respectively. As at December 31, 2017 and 2016, other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by the Borrower are $1,056,970 and $241,319, respectively. As at December 31, 2017, the Company has provided an allowance for uncollectible interest receivable and other receivables from entities controlled by the Borrower of $1,591,883 (2016 - nil).

Included in interest receivable are non-current balances of $33,040 (2016 - $3,001,186). 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, 2017 and 2016, the Company had a principal balance of loan and mortgage investments of $118,998,984 and $94,309,729, respectively. The loan and mortgage investments carry an EIR of 14.1% (2016 - 15.3%) and a weighted average term to maturity of 1.85 years (2016 - 1.05 years).

The loans are on most types of real estate properties, 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.

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

(a) Land and lot inventory:

The loans represent first and second mortgages secured by real estate assets to be developed and are located in Canada (Markham-Ontario) and the U.S. (Orlando-Florida; Phoenix-Arizona, Charlotte-North Carolina, Washington-District of Columbia, Sarasota-Florida, Atlanta-Georgia, Jacksonville-Florida, Santa Barbara County-California and Savannah-Georgia).

(b) Residential housing developments:

These loans pertain to projects at various stages of development in Canada (Toronto-Ontario and Cambridge-Ontario).

(c) Residential income property:

The loan represent second mortgages secured by an apartment building located in Canada (Toronto-Ontario).

(d) Commercial retail development:

The loan represents a first mortgage secured by a retail development located in Canada (Mississauga-Ontario).

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.

Since the loan and mortgage investments are initially advanced by the company and syndicated at a later date, the company accounts for the loan and mortgage investments on a gross basis. The principal balance of loan and mortgage syndications at December 31, 2017 and 2016 was \$63,299,522 and \$56,180,448, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.2% (2016 - 10.8%) and a weighted average term to maturity of 1.74 years (2016 - 1.27 years).

(In Canadian dollars)

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

The following tables present details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2017 and 2016:

2017	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	$ 32,586,793	$ 12,916,020	$ 19,670,773	35.3
Land and lot inventory	86,412,191	50,383,502	36,028,689	64.7
	118,998,984	63,299,522	55,699,462	100.0
Allowance for loan and mortgage investments loss	(1,832,763)	–	(1,832,763)	
	$ 117,166,221	$ 63,299,522	$ 53,866,699	

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	

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

For the year ended December 31, 2017, the Company has two loans and mortgage investments in the U.S, before syndication, that accounts for 12.9% and 11.7% of the Company's total interest and fees revenue, respectively. As at December 31, 2017, there are three loans in the U.S., before syndication, that account for 10.9%, 12.4% and 13.2% of the principal balance of loan and mortgage investments. For the year ended December 31, 2016, the Company has one loan and mortgage investment in the U.S., before syndication, accounts for 14% the Company's total interest and fee revenue and accounts for 16% of the principal balance of loan and mortgage investments at December 31, 2016.

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.

During the years ended December 31, 2017 and 2016, the Company capitalized interest income of $7,083,485 and $4,484,628, 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, 2017 and 2016:

2017	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	$ 118,998,984	$ 63,299,522	$ 55,699,462	100.0

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan investments. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2017 were $46,714,363, including $13,988,176 of capitalization of future interest relating to the existing loan and mortgage investments (2016 - $11,619,581, including $9,051,743 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, 2017 and 2016:

2017	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 34,586,791	$ 14,416,021	$ 20,170,770	36.2
Unites States	84,412,193	48,883,501	35,528,692	63.8
	$ 118,998,984	$ 63,299,522	$ 55,699,462	100.0

(In Canadian dollars)

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

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

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.

(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
2018	$ –	$ 47,337,029	$ 47,337,029
2019	–	21,000,956	21,000,956
2020	–	26,776,095	26,776,095
2021	–	9,177,219	9,177,219
2022	–	14,707,685	14,707,685
	$ –	$ 118,998,984	$ 118,998,984

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
2018	$ –	$ 25,632,369	$ 25,632,369
2019	–	19,177,550	19,177,550
2020	–	5,187,714	5,187,714
2021	–	7,425,899	7,425,899
2022	–	5,875,990	5,875,990
	$ –	$ 63,299,522	$ 63,299,522

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

Allowance for loan and mortgage investments loss:

At December 31, 2017, four project loan investments totaling $14,182,918, including interest receivable on these loans and fees incurred relating to collection of these loans totaling $2,387,802, to entities controlled by the Borrower are in arrears. 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. The foreclosure process has commenced and is proceeding on these project loans to enforce the security.

During the year ended December 31, 2017, based on the most recent valuations of the underlying net assets, the Company recognized a specific impairment loss provision on loan and mortgage investments of $931,478 (2016 - $310,493) relating to the loan investments in arrears. As at December 31, 2017, the Company carries a specific impairment provision balance of $1,241,971 (2016 - $310,493) relating to certain loan and mortgage investments in arrears. As at December 31, 2017, the Company has provided an allowance for uncollectible interest receivable and other receivables of $1,591,883 relating to certain loan and mortgage investments in arrears (2016 - nil) (note 5).

The Company also assessed collectively for impairment to identify potential future losses, by grouping the loan and mortgage investments with similar risk characteristics, excluding loans with a specific impairment loss provision, 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. Based on the analysis no additional collective loan loss provision was recorded for the years ended December 31, 2017 and 2016. As at December 31, 2017, the Company carries a collective impairment provision balance of $590,792 (2016 - $590,792).

(In Canadian dollars)

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

The changes in the allowance for mortgage investments loss during the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Balance, beginning of year	$ 901,285	$ 478,066
Provision for loan and mortgage investments loss	931,478	423,219
Balance, end of year	$ 1,832,763	$ 901,285

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. Valermo Homes JV is a residential real estate development consisting of approximately 98 residential dwelling units. On April 15, 2016, the Company through TFVC, 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 was allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of purchase, 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

On December 28, 2017, the co-owners of the Valermo Homes JV entered into a limited partnership (the "Valermo Partnership") agreement (the "Valermo LP Agreement") and agreed to transfer their respective interest in the Valermo Homes JV into the Valermo Partnership and hold their respective interests as limited partners of the Valermo Partnership. On the transfer of interest made as of December 31, 2017, TFVC relinquished control of the project and TFVC now accounts for its interest in the Valermo Partnership as a portfolio investment (note 8).

(In Canadian dollars)

7. Joint arrangements (continued):

The fair value of the TFVC's interest in the identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of transfer of interest to Valermo Partnership is, as follows:

	Total
Net assets of Valermo Homes JV transferred:	
Land under development	$ 33,188,172
Amounts receivable and prepaid expenses	488,601
Cash and cash equivalents	4,286
Loan and mortgage investments	(870,389)
Due to joint operations partner (note 7(d))	(1,043,549)
Construction loan payable (note 7(e))	(15,070,000)
Accounts payable and accrued liabilities	(6,889,835)
Value of assets transferred on conversion to partnership interest	$ 9,807,286
Partnership interest in Valermo Partnership received:	
Investment in Valermo Partnership	$ 9,807,286
Value of investment received on conversion	$ 9,807,286

The carrying value of TFVC's interest in identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of conversion of interest in joint operations to limited partnership interest in Valermo Partnership was $7,404,290. The Company recognized a gain on conversion of interest in joint operations to limited partnership interest in Valermo Partnership of $2,402,996 (note 26).

(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:

	2017	2016
Assets		
Cash and cash equivalents	$ 63,090	$ 413,420
Amounts receivable and prepaid expenses	108,142	415,616
Investment property	2,208,694	2,208,694
Land under development	–	23,808,574
	2,379,926	26,846,304
Liabilities		
Accounts payable and prepaid expenses	46,625	5,151,860
Loan and mortgage syndications	–	870,389
Mortgages payable	1,469,844	1,509,503
Due to joint operations partner	–	11,163,640
	1,516,469	18,695,392
Net assets	$ 863,457	$ 8,150,912

The table below details the results of operations for the years ended December 31, 2017 and 2016, attributable to the Company from its joint operations activities:

	2017	2016
Rental revenue	$ 201,775	$ 199,711
Property operating costs	68,802	71,892
General and administrative expenses (recovery)	(45,872)	267,811
Interest expense	45,841	40,779
Fair value adjustment - investment property	–	(61,950)
	68,771	318,532
Net income (loss)	$ 133,004	$ (118,821)

(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, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 2,208,694	$ 2,143,794
Change in amount receivable from joint operations partners	–	2,950
Fair value adjustment	–	61,950
Balance, end of year	$ 2,208,694	$ 2,208,694

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 were determined by management. At December 31, 2017 and 2016, the aggregate value of the Company's proportionate share of investment property was $2,208,694. The capitalization rate used in the valuation of investment property was 6.25% (2016 - 6.25%).

As at December 31, 2017, 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 (2016 - $92,400) 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 (2016 - $85,250).

(In Canadian dollars)

7. Joint arrangements (continued):

(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, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 23,808,574	$ –
Acquisition of property	–	22,275,767
Additions, capital expenditures	6,976,602	1,532,807
Conversion to portfolio investments	(30,785,176)	–
Balance, end of year	$ –	$ 23,808,574

(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.

On December 31, 2017, TFVC's share of due to joint operations partners assumed by the Valermo Partnership at the date of conversion of interest in the Valermo Homes JV to limited partnership interest in the Valermo Partnership was $1,043,549. At December 31, 2017 and 2016, the amount due to the joint operations partner is nil and $11,163,640, respectively.

(e) Construction loan payable:

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Facilities") with a lending institution for $65.6 million to finance the construction of homes. Interest on advanced funds under the Facilities carries an interest rate at prime plus 0.75% per annum.

(In Canadian dollars)

7. Joint arrangements (continued):

On December 31, 2017, upon conversion of Valermo Homes JV into the Valermo Partnership, the Valermo Partnership assumed the Company's share of the construction loan payable of $15,070,000.

(f) 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 July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2017 and 2016 are as follows:

	2017	2016
Mortgage principal	$ 1,480,153	$ 1,522,661
Unamortized financing costs	(10,309)	(13,158)
	$ 1,469,844	$ 1,509,503

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

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
2018	$ 43,803	$ –	$ 43,803
2019	45,138	–	45,138
2020	46,513	–	46,513
2021	23,785	1,320,914	1,344,699
	$ 159,239	$ 1,320,914	$ 1,480,153

8. Portfolio investments:

(a) 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 FVTPL. As at December 31, 2017, the cost of the investment is $954,630 (2016 - $954,630), and the cost of the investment in the Hill owned by an outside party is $200,000 (2016 - $200,000). At December 31, 2017 and 2016, the fair values were determined by management, using the direct comparison method. The fair value of the investment at December 31, 2017 was $1,174,212 (2016 - $1,174,212) and the investment owned by an outside party of $254,641 (2016 - $254,641) is included in non-controlling interest.

(b) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen 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 FVTPL. As at December 31, 2017, TFCC LanQueen Ltd. contributed $1,724,000 (2016 - $1,724,000) in the partnership. At December 31, 2017, the fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2017 was $2,450,488 (2016 - $2,037,872).

8. Portfolio investments (continued):

(c) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest U.S. $2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after making distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed $245,460 (U.S. $200,000) in the Savannah Partnership. On December 1, 2017, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $101,823 (U.S. $80,000). As at December 31, 2017, the cost of the investment in Savannah Partnership is $143,638 (U.S. $120,000) (2016 - nil (U.S. nil)). The fair value of the investment in Savannah Partnership was determined by management, using the direct comparison method. The fair value of the investment in Savannah Partnership at December 31, 2017 was $143,638. TFCC International Ltd. also committed to provide a first mortgage loan up to U.S. $18,000,000, including capitalization of interest, to the Savannah Project at the rate of 11% per annum calculated and compounded monthly. As at December 31, 2017, TFCC International Ltd. had a loan investment balance of $14,707,685 (U.S. $11,699,964) (2016 - nil (U.S. nil)) and syndicated $5,875,990 (U.S. $4,674,242) of the loan investment to investors (2016 - nil (U.S. nil).

(d) On December 31, 2017, TFVC transferred its shares of interests in the Valermo Homes JV in exchange for a 50% interest in the limited partnership units in Valermo Partnership (note 7). The fair value of TFVC's interest in identifiable assets and liabilities transferred at the date of conversion of interest in the Valermo Homes JV to limited partnership interest in Valermo Partnership was $9,807,286. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2017 was $9,807,286. Subsequent to year end, the Company received $6,000,000 of distribution from Valermo partnership (note 26).

(In Canadian dollars)

8. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 3,212,084	$ 2,339,555
Investments made	245,460	800,000
Conversion of interest in joint operations to limited partnership units	9,807,286	–
Sale of investment	(101,823)	–
Fair value adjustment	412,616	72,529
Balance, end of year	$ 13,575,623	$ 3,212,084

An increase or decrease of the sale price by 10% in the market comparison approach will increase or decrease the fair value of portfolio investments by approximately $1,357,562.

9. Investment in associates:

The Company, together with certain syndicate investors had invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership") on February 20, 2015.

At December 31, 2017 and 2016, 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 to syndicate investors, was $2,315,414.

At December 31, 2017 and 2016, 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, 2017 and 2016, was $612,428 and $91,949, respectively. At December 31, 2017 and 2016, 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, 2017 was $2,927,842 (2016 - $2,315,414).

(In Canadian dollars)

9. Investment in associates (continued):

The following table summarizes the changes to the carrying value of investment in associates for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 2,315,414	$ 2,315,414
Share of income from Lan Partnership	612,428	–
Balance, end of year	$ 2,927,842	$ 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, 2017 and 2016:

	2017	2016
Interest payable	$ 647,152	$ 2,106,632
Interest reserve	2,356,821	513,295
Accounts payable and accrued liabilities	1,574,646	6,469,378
Share-based compensation payable (note 15(c)(ii))	1,657,614	1,558,661
	$ 6,236,233	$ 10,647,966

Accounts payable and accrued liabilities are current and payable in the 2018 fiscal year.

Interest reserve and accounts payable and accrued liabilities includes amounts for funds held in trust payable to syndicate investors.

11. Short-term unsecured notes payable:

The Company had short-term unsecured notes payable issued to syndicate investors. 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.

(In Canadian dollars)

11. Short-term unsecured notes payable (continued):

As at December 31, 2017 and 2016, the Company had no outstanding short-term unsecured notes payable.

The following table summarizes the changes in the short-term unsecured notes payable for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ –	$ 9,286,000
Proceeds from issuance of short-term unsecured notes payable	–	200,000
Transferred from loan and mortgage syndications	–	50,000
Transferred to loan and mortgage syndications	–	(6,794,300)
Repayments of short-term unsecured notes payable	–	(2,741,700)
Balance, end of year	$ –	$ –

12. Revolving operating facility:

The Company had a Revolving Operating Facility Credit Agreement (the "Facility 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 was 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility was 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 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 allowed the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

On April 24, 2017, the Company paid the Facility in full and the Facility matured on May 1, 2017.

On August 15, 2017, the Company amended the Facility Agreement (the "Amendment"), primarily to increase the credit limit to $20,000,000 and to extend the maturity date to March 1, 2018. The Amendment also provides the Company an option to extend the Facility for a subsequent six-months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until the expiry of the extension period and 12% per annum, thereafter.

(In Canadian dollars)

12. Revolving operating facility (continued):

In connection with the Amendment, the Company incurred lender and other third-party costs of $142,138. The costs associated with the Amendment have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

During the years ended December 31, 2017 and 2016, the Company borrowed an aggregate of $25,500,000 and $5,000,000, respectively and repaid $14,000,000 and $7,500,000, respectively, against the Facility.

For the years ended December 31, 2017 and 2016, amortization of deferred financing costs reported as interest expense and financing costs totaled $139,757 and $102,442, respectively.

The following table presents details of the Facility as at December 31, 2017 and 2016:

	2017	2016
Face value	$ 19,000,000	$ 7,500,000
Unamortized financing costs	(34,795)	(32,414)
Balance, end of year	$ 18,965,205	$ 7,467,586

On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018.

13. Convertible debentures:

The Company had unsecured subordinated convertible debentures (the "Debentures") in the principal amount of $10,850,000. The Debentures bore interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and were to mature on September 27, 2017. The Debentures were 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 had an option, at any time prior to the maturity date and upon giving notice, to 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.

(In Canadian dollars)

13. Convertible debentures (continued):

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%.

On September 12, 2017, the Company repaid in cash, all outstanding Debentures in aggregate principal amount of $10,850,000 plus all accrued and unpaid interest owed.

The following table summarizes the changes in the convertible debentures for the years ended December 31, 2017 and 2016:

	2017	2016
Liability component of debentures, beginning of year	$ 10,754,259	$ 10,628,301
Interest expensed	626,351	885,458
Interest paid	(530,610)	(759,500)
Repayment of Debentures	(10,850,000)	–
Liability component of debentures, end of year	$ –	$ 10,754,259

On September 12, 2017, upon repayment of the Debentures, the Company transferred the assigned equity component value of $284,490 to contributed surplus (note 16).

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan investments. The unfunded loan commitments under the existing lending agreements at December 31, 2017 were $46,714,363 (2016 - $11,619,581).

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

As at December 31, 2017, the Company has a guarantee outstanding on the construction loan payable in the Valermo Partnership to the third party lender (note 7).

(In Canadian dollars)

14. Commitments and contingencies (continued):

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, 2017, are as follows:

2018	$ 221,785
2019	221,785
2020	221,785
	$ 665,355

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.

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the years ended December 31, 2017 and 2016:

	Shares	Amount
Outstanding, December 31, 2015	60,260,083	$ 31,257,404
Issuance of Shares pursuant to the 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
Issuance of Shares pursuant to private placement	5,000,000	2,661,223
Issuance of Shares pursuant to the Plan	32,000	9,600
Repurchase of Shares pursuant to normal course issuer bid	(2,391,400)	(1,601,469)
Transferred from contributed surplus upon exercise of share options	–	5,114
Outstanding, December 31, 2017	63,775,850	$ 32,864,287

15. Shareholders' equity (continued):

On August 15, 2017, the Company completed a non-brokered private placement offering consisting of 5,000,000 units (the "Units") at a purchase price of $0.65 per Unit, for gross proceeds of $3,250,000. Each Unit is comprised of one Share and one Warrant (note 15(d)). Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020. The Company incurred share issuance costs of $588,777, consisting of cost of warrants of $536,881 (note 15 (d)), cash costs of $70,607, offset by a deferred tax benefit of $18,711.

On December 19, 2017, a director of the Company exercised 32,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $9,600 received on exercising the options was recorded as share capital and the related contributed surplus of $5,114 was transferred to share capital (note 15(c)(i)).

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) 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)).

(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 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.

(In Canadian dollars)

15. Shareholders' equity (continued):

On June 30, 2017, the TSX-V approved the amendment to the NCIB to increase the number of Shares that the Company may acquire under the NCIB by an additional 2,861,119 Shares. Other than the increase to the maximum number of Shares which may be acquired under the NCIB, no further amendments were made.

During the years ended December 31, 2017 and 2016, the Company purchased 2,391,400 and 94,500 Shares, respectively on the TSX-V for $1,601,469 and $55,631, respectively.

Subsequent to December 31, 2017, the Company purchased 1,127,000 Shares for total cash consideration of $744,373.

(c) Share-based payments:

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

	2017	2016
Share option Plan	$ 243,076	$ 435,710
DSU Plan	213,673	384,004
	$ 456,749	$ 819,714

(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 and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the Board 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.

On December 21, 2017, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 340,000 Shares at $0.67 per Share, with the expiry date of December 21, 2024. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

(In Canadian dollars)

15. Shareholders' equity (continued):

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 common shares of the Company at a price of $0.69 per share with the expiry date of September 25, 2020. Each of the option grants shall vest in four equal instalments every three months.

On June 27, 2016, the Company granted share 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 share options, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On December 28, 2016, the Company granted options to certain officers and 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 March 31, 2016, the Company granted options to the Chairman of the Board (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.

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 21, 2017	September 25, 2017	December 28, 2016	June 27, 2016	March 31, 2016
Average expected life	7.00 years	3.00 years	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	1.72%	1.65%	1.40%	1.04%	0.89%
Average expected volatility	59.09%	48.70%	87.74%	79.94%	81.61%
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

The fair value of options granted during the years ended December 31, 2017 and 2016 were $205,461 and $574,817, respectively.

(In Canadian dollars)

15. Shareholders' equity (continued):

The following is the summary of changes in share options for the year ended December 31, 2017 and 2016:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	5,278,671	$ 0.67	5,052,338	$ 0.61
Granted	440,000	0.67	1,260,000	0.63
Exercised	(32,000)	0.30	(969,667)	0.32
Cancelled	(100,000)	0.50	–	–
Expired	(585,000)	0.50	(64,000)	0.50
Outstanding, end of year	5,001,671	0.70	5,278,671	0.67
Number of options exercisable	4,295,367	$ 0.70	4,260,335	$ 0.67

The following summarizes the Company's outstanding share options as at December 31, 2017:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
106,667	April 17, 2018	138,667	$ 0.30	$ 0.25
50,000	February 23, 2019	50,000	0.50	0.42
515,000	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	1,050,000	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
100,000	September 25, 2020	25,000	0.69	0.69
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	186,696	0.65	0.65
340,000	December 21, 2024	–	0.67	0.67
5,001,671		4,295,367		

15. Shareholders' equity (continued):

(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. 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.

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 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.

(In Canadian dollars)

15. Shareholders' equity (continued):

The following is the summary of changes in DSUs for the years ended December 31, 2017 and 2016:

	2017	2016
DSUs outstanding, beginning of year	2,394,066	1,757,001
Granted	302,254	637,065
Settled	(173,925)	–
Cancelled	(6,834)	–
DSUs outstanding, end of year	2,515,561	2,394,066
Number of DSUs vested	2,474,051	2,292,150

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the years ended December 31, 2017 and 2016, were $213,673 and $384,004, respectively.

On December 19, 2017, a member of the Board settled 173,925 DSUs for $114,720 upon his resignation.

The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the DSUs at December 31, 2017 and 2016 is $1,657,614 and $1,558,661, respectively.

(d) Warrants:

The Company completed a non-brokered private placement offering on August 15, 2017 of 5,000,000 Units comprised of 5,000,000 Shares and Warrants. Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020. The fair value of Warrants granted on August 15, 2017 was $536,881.

(In Canadian dollars)

15. Shareholders' equity (continued):

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

	August 15, 2017
Average expected life	3.00 years
Average risk-free interest rate	1.27%
Average expected volatility	48.7%
Average dividend yield	–

As part of the bought deal prospectus (the "Offering") completed on May 5, 2015, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitled the holder to acquire one Share at an exercise price of $0.85 per Share. The broker warrants expired on May 5, 2017.

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	$ 2,514,073	$ 2,360,575
Fair value of share-based compensation	243,076	435,710
Fair value of warrants	536,881	–
Transferred to share capital on- exercise of options	(5,114)	(282,212)
Transferred from equity component of debentures on repayment of debentures	284,490	–
Balance, end of year	$ 3,573,406	$ 2,514,073

(In Canadian dollars)

17. Earnings per share:

The calculation of earnings per share for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	$ 1,523,805	$ 1,406,895
Diluted income attributable to common shareholders	$ 1,523,805	$ 1,406,895
Denominator for basic and diluted earnings per share:		
Weighted average number of Shares outstanding	61,875,327	60,935,292
Dilutive effect of share-based payments	382,042	503,253
Weighted average number of diluted Shares outstanding	62,257,369	61,438,545
Earnings per share:		
Basic	$ 0.02	$ 0.02
Diluted	0.02	0.02

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, 2017 and 2016, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares.

(In Canadian dollars)

18. Transactions with related parties (continued):

(a) Key management personnel compensation:

Aggregate compensation for key management personnel was as follows:

	2017	2016
Short-term employee benefits	$ 1,393,846	$ 2,090,317
Share-based compensation	339,198	804,521
	$ 1,733,044	$ 2,894,838

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

(b) Loan and mortgage investments:

The Company has funded a loan investment of $1,756,381 to a Company controlled by the Chairman at the interest rate of 12% per annum. At December 31, 2017 and 2016, the loan investment balance outstanding is $1,756,381. During the years ended December 31, 2017 and 2016, the Company recognized interest and fees revenue of $209,307 and $136,265, respectively. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties (note 6).

(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, 2017 and 2016, the loan and mortgage investments and Debentures syndicated by officers and directors were $614,690 and $1,997,135, respectively.

(In Canadian dollars)

18. Transactions with related parties (continued):

(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, 2017, the Company received $73,643 for the occupancy and office costs (2016 - $79,028).

19. Interest expense:

The following table presents the interest incurred for the years ended December 31, 2017 and 2016:

	2017	2016
Interest on loan and mortgage syndications	$ 6,804,733	$ 5,898,874
Interest on revolving operating facility	1,093,890	949,061
Interest on debentures	626,351	885,458
Interest on mortgages payable	45,841	40,779
	$ 8,570,815	$ 7,774,172

20. Foreign exchange:

For the years ended December 31, 2017 and 2016, the Company recorded a realized and unrealized foreign exchange loss of $1,097,925 and $858,660, respectively. During the year ended December 31, 2017, the U.S. dollar weakened by approximately 6% against the Canadian dollar from C$1.3427 to C$1.2571. As at December 31, 2017 and 2016, U.S. dollar-denominated net monetary assets were U.S. $27,476,532 and U.S. $11,729,109, respectively.

(In Canadian dollars)

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:

	2017	2016
Current income tax provision	$ 368,209	$ 1,000,896
Deferred income tax (recovery)	220,752	(346,989)
Total tax provision	$ 588,961	$ 653,907
Income taxes paid	$ 691,818	$ 1,300,000

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:

	2017	2016
Income from operations before income taxes	$ 2,112,766	$ 2,060,802
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	$ 559,883	$ 546,113
Increase (decrease) in income tax due to:		
Non-taxable items	2,327	(7,669)
Non-deductible stock-based compensation	64,415	115,463
Other items	(37,664)	–
Total tax provision	$ 588,961	$ 653,907

(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, 2017 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (205,224)	$ (19,023)	$ (224,247)
Fair value adjustments of investments	(111,397)	(908,430)	(1,019,827)
Incorporation costs	564	(39)	525
Deferred share units	413,045	56,623	469,668
Allowance for loan and mortgage investments loss	238,842	668,690	907,532
Unrealized foreign exchange loss	(328,056)	56,258	(271,798)
Debentures, Shares and revolving operating facility issue costs	320,550	(56,120)	264,430
	$ 328,324	$ (202,041)	$ 126,283

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 addition, for the year ended December 31, 2017, the Company recorded a deferred tax benefit of $18,711, relating to share issue costs.

(In Canadian dollars)

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.

The following table presents the capital of the Company as at December 31, 2017 and 2016:

	2017	2016
Loan and mortgage syndications	$ 63,299,522	$ 56,180,448
Revolving operating facility	18,965,205	7,467,586
Mortgages payable	1,469,844	1,509,503
Convertible debentures	–	10,754,259
Due to joint operations partner	–	11,163,640
Non-controlling interest	254,641	254,641
Equity	51,743,274	48,370,158
Total capital	$ 135,732,486	$ 135,700,235

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, 2017 and 2016.

During the years ended December 31, 2017 and 2016, 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, and revolving operating facility.

23. Fair value measurement (continued):

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.

The fair value of loan and mortgage investments and loan and mortgage syndications 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 or revolving operating facility. The Company makes its determination of fair value based on its assessment of the current lending market for these instruments of same or similar terms. As a result, 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, 2017 and 2016 and no amounts were transferred between fair value levels during 2017 or 2016. 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, 2017, $14,182,918 (2016 - $11,717,468) of the loan and mortgage investments and $2,387,802 (2016 - $655,669) of interest receivable and fees paid on these loans are in arrears over 60 days.

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, 2017 and 2016:

	2017	2016
Cash and cash equivalents	$ 473,516	$ 250,033
Amounts receivable and prepaid expenses	75,036	1,695,516
Deposits	–	3,256,074
Loan and mortgage investments	67,148,352	30,372,383
Portfolio investments	120,000	–
Accounts payable and accrued liabilities	(261,152)	(1,204,623)
Unearned revenue	(1,193,290)	(115,279)
Loan and mortgage syndications	(38,885,930)	(22,524,995)
	$ 27,476,532	$ 11,729,109

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 the 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 $1,723,465.

(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, 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, 2017, 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	$ (1,728,274)	$ 1,728,274

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

(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, 2017 are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	$ 6,236,233	$ –	$ 6,236,233
Revolving operating facility	19,000,000	–	19,000,000
Mortgages payable	43,803	1,436,350	1,480,153
Total liabilities and contractual obligations	$ 25,280,036	$ 1,436,350	$ 26,716,386

(In Canadian dollars)

25. Supplementary information:

The following table reconciles the changes in the statements of cash flows from financing activities for loan and mortgage syndications, convertible debentures, mortgage payable, revolving operating facility, due to joint operations partner and construction loan payable.

	Loan and mortgage syndications	Convertible debentures	Mortgage payable	Revolving operating facility	Due to joint operations partner	Construction loan payable
Balance, beginning of year	$ 56,180,448	$ 10,754,259	$ 1,522,661	$ 7,500,000	$ –	$ 11,163,640
Financing cash flow activities:						
Proceeds from syndicate investors	67,985,402	–	–	–	–	–
Repayments to syndicate investors	(58,175,630)	–	–	–	–	–
Repayment of convertible debentures	–	(10,850,000)	–	–	–	–
Repayment of mortgage payable	–	–	(42,508)	–	–	–
Repayment to joint operations partner	–	–	–	–	–	(10,120,091)
Proceeds from construction loan payable	–	–	–	–	15,070,000	–
Proceeds from revolving operating facility	–	–	–	25,500,000	–	–
Repayments of revolving operating facility	–	–	–	(14,000,000)	–	–
Total cash flow from financing activities	9,809,772	(10,850,000)	(42,508)	11,500,000	15,070,000	(10,120,091)
Financing non-cash activities:						
Foreign exchange loss	(2,876,619)	–	–	–	–	–
Interest capitalized to loan syndication	2,470,436	–	–	–	–	–
Capitalized interest paid	(2,284,515)	–	–	–	–	–
Conversion to limited partnership interest	–	–	–	–	(15,070,000)	(1,043,549)
Accretion on convertible debentures	–	95,741	–	–	–	–
Total non-cash flow from financing activities	(2,690,698)	95,741	–	–	(15,070,000)	(1,043,549)
Balance, end of year	$ 63,299,522	$ –	$ 1,480,153	$ 19,000,000	$ –	$ –

26. Subsequent events:

On January 29, 2018, the general partner of the Valermo Partnership resolved that TFVC shall not be required to contribute any additional amounts or property to the Valermo Partnership and that Valermo Partnership will make distributions to TFVC in the amount of $6,000,000 on January 31, 2018 and $3,050,000 on June 1, 2018. The general partner of the Valermo Partnership also resolved that the Valermo Partnership will make distribution to the other limited partner of the Valermo Partnership on December 31, 2018 or such other date as the general partner of the Valermo Partnership may determine. Accordingly, on January 31, 2018, TFVC received distribution of $6,000,000 from the Valermo Partnership.

On February 13, 2018, the Company agreed with another claimant under bankruptcy proceedings against the Borrower, to obtain approval from the Ontario Court, whereby the Company will receive its principal balance of the loan investment of $3,000,000 in full.