TERRA FIRMA

Consolidated Financial Statements of

TERRA FIRMA CAPITAL CORPORATION

Years Ended December 31, 2012 and 2011

Deloitte.

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Independent Auditor's 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 statements of consolidated financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of income and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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, 2012 and December 31, 2011, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 30, 2013

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Financial Position

As at December 31, 2012 and 2011
(In Canadian dollars)

	Notes		2012		2011
Assets					
Cash and cash equivalents		$	3,223,291	$	8,771,557
Amounts receivable and prepaid expenses	4		2,396,180		805,412
Loan and mortgage investments	5		31,996,731		16,724,774
Investment properties	6 and 7		7,834,576		3,234,658
Portfolio investment	8		950,000		-
Total assets		$	46,400,778	$	29,536,401
Liabilities					
Accounts payable and accrued liabilities	9	$	1,192,616	$	1,052,582
Provision for discontinued operations	10		445,957		251,864
Unearned income			16,965		52,624
Income taxes payable			474,297		82,169
Deferred income taxes			15,602		10,260
Loans and mortgages payable	11		21,406,070		6,777,907
Convertible debentures	12		10,093,325		10,061,869
Total liabilities			33,644,832		18,289,275
Commitments and contingencies	13				
Shareholders' Equity					
Share capital	14 (a)	$	10,757,405	$	10,687,105
Contributed surplus	14 (b) and 15		573,139		386,599
Retained earnings			1,425,402		173,422
Total shareholders' equity			12,755,946		11,247,126
Total liabilities and Shareholders' Equity		$	46,400,778	$	29,536,401

The accompanying notes are an integral part of these consolidated financial statements.

The financial statements were approved by the Board on April 30, 2013 and signed on its behalf by:

Allan C. Silber, Director

Seymour Temkin, Director

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Income and Comprehensive Income

Years ended December 31, 2012 and 2011
(In Canadian dollars)

	Notes		2012		2011
Revenue					
Interest and fees earned		$	5,156,665	$	1,352,124
Rental income	6		343,958		174,195
			5,500,623		1,526,319
Expenses					
Property operating costs	6		129,186		55,901
General and administrative expenses			538,978		245,327
Share based compensation	15		216,840		284,998
Interest expense	18		2,569,006		457,719
			3,454,010		1,043,945
Fair value adjustment of investment properties	6		-		195,000
Income from continuing operations before income taxes			2,046,613		677,374
Income tax provision	19		562,320		197,210
Income from continuing operations			1,484,293		480,164
Loss from discontinued operations (net of income tax recovery of $82,687 (2011- $75,928))	10		(232,313)		(192,842)
Net income and comprehensive income		$	1,251,980	$	287,322
Basic and diluted earnings (loss) per share	16				
Continuing operations		$	0.05	$	0.03
Discontinued operations			(0.01)		0.01
		$	0.04	$	0.04

The accompanying notes are an integral part of these financial consolidated statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Changes in Shareholders' Equity
(In Canadian dollars)

Years ended December 31, 2012 and 2011

	Share capital (note 13 (a)		Contributed surplus		
	Number of shares	Amount	(notes 13 (b) & 14)	Retained earnings	Total
Shareholders Equity, December 31, 2010	17,900,000	$ 4,571,246	$ 101,601	$ (113,900)	$ 4,558,947
Changes during the year:					
Private placement of common shares, net of issue costs	12,595,000	6,115,859	-	-	6,115,859
Share based compensation	-	-	284,998	-	284,998
Net income and comprehensive income				287,322	287,322
Shareholders Equity, December 31, 2011	30,495,000	10,687,105	386,599	173,422	11,247,126
Changes during the year:					
Issuance of common shares under share option plan	200,000	70,300	(30,300)	-	40,000
Share based compensation	-	-	216,840	-	216,840
Net income and comprehensive income	-	-	-	1,251,980	1,251,980
Shareholders Equity, December 31, 2012	30,695,000	$ 10,757,405	$ 573,139	$ 1,425,402	$ 12,755,946

The accompanying notes are an integral part of these consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011
(In Canadian dollars)

	Notes	2012	2011
Cash provided by (used in)			
Operating activities			
Income from continuing operations		$ 1,484,293	$ 480,164
Non-cash items			
Interest and fees earned		(4,781,665)	(1,352,124)
Fair value adjustment of investment properties		-	(195,000)
Interest expense		2,569,006	457,719
Share based compensation	15	216,840	284,998
Income tax provision		562,320	197,210
Changes in working capital			
Decrease (increase) in other receivables		(1,115,033)	174,876
Increase in prepaid expenses and deposits		(19,182)	(4,665)
Increase (decrease) in accounts payable and accrued liabilities		1,169,356	(38,565)
Interest and fees received		3,159,570	660,898
Interest paid		(2,249,749)	(287,998)
Income taxes paid		(82,163)	-
Cash provided by operating activities - continuing operations		913,593	377,513
Cash provided by (used in) operating activities - discontinued operations		(120,907)	38,263
Cash provided by operating activities		792,686	415,776
Investing activities			
Funding of loan and mortgage investments		(17,712,826)	(14,476,768)
Repayments of loan and mortgage investments		3,215,618	251,492
Capital additions to investment properties	7	(4,391,533)	(926,105)
Acquisition of investment property	7	(2,757,495)	-
Proceeds from sale of investment property, net	7	311,568	-
Portfolio investment	8	(950,000)	-
Cash used in investing activities		(22,284,668)	(15,151,381)
Financing activities			
Proceeds from loans and mortgages payable		18,064,746	5,609,367
Repayments of loans and mortgages payable		(2,161,030)	(1,005,246)
Proceeds from issuance of convertible debentures, net of issue costs		-	10,054,495
Proceeds from issuance of shares, net of issue costs		-	6,088,785
Proceeds from issuance of shares under share options plan	14 (a)	40,000	-
Cash provided by financing activities		15,943,716	20,747,401
Increase (decrease) in cash and cash equivalents		(5,548,266)	6,011,796
Cash and cash equivalents, beginning of year		8,771,557	2,759,761
Cash and cash equivalents, end of year		3,223,291	8,771,557

The accompanying notes are an integral part of these consolidated financial statements.

TERRA FIRMA CAPITAL CORPORATION

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended December 31, 2012 and 2011

Terra Firma Capital Corporation (the "Company") was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "Exchange") under the symbol TII. The registered office of the Company is: 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6. The principal business of the Company is the arrangement of and participation in real property financings secured by investment properties and commercial and residential real estate developments, throughout Canada.

1. 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").

(b) Basis of presentation:

The Company holds its interests in certain joint ventures and portfolio investment in its wholly owned subsidiaries which are controlled by the Company. The financial statements of these subsidiaries and the company's proportionate share in joint ventures are consolidated with those of the Company and all intercompany transactions and balances between the Company and its subsidiary entities and joint ventures have been eliminated upon consolidation.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit, which are stated at their fair values.

(c) Functional and presentation currency:

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

(d) Critical judgements and estimates:

The preparation of the consolidated financial statements in conformity with IFRS 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 date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

1. Basis of presentation (continued):

The most significant estimates that the Company is required to make relate to, but are not limited to: revenue recognition using the effective interest rate method (the "EIM"); assessment of the recoverability and valuation of loan and mortgage investments; interests in joint ventures, portfolio investment, accrued liabilities; valuation of share options; and accounting for income taxes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

2. 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 periods presented in these consolidated financial statements.

(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) 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 costs using the EIM. The loans and mortgage investments are derecognized when the contractual rights to receive cash flows and benefits expire, or if the Company transfers the control or substantially all the risks and rewards of ownership the loan and mortgage investments or significant risks and rewards, along with the unconditional ability to sell or pledge the loans and investments to another party

2. Significant accounting policies (continued):

The loan and mortgage investments are assessed each reporting period to determine whether there is any objective evidence of impairment and are considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset after initial recognition of the financial asset and the loss can be reliably measured.

If there is objective evidence of an impairment loss, the loss based on the difference between the carrying amount of the loan and mortgage investment, and the respective estimated future cash flows discounted at the loan and mortgage investment'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 period, 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 to the extent of the impairment.

(c) Interests in joint ventures:

A joint venture 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 venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Company reports its interest in joint ventures using the equity method of accounting. Under the equity method, investments in joint ventures are carried in the consolidated statements of financial position at cost as adjusted for the Company's proportionate share of post-acquisition changes in the net assets of the joint ventures, less any identified impairment. The consolidated statements of operations reflect the Company's share of the results of operations of the joint ventures. Where there has been a change recognized directly in the joint venture's equity, the Company recognizes its share of any changes and discloses this, when applicable, in the consolidated financial statements. When the Company's share of losses of the joint venture equals its interest in that joint venture, the Company discontinues recognizing its share of further losses. Any additional share of losses is provided for and a liability is recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of that joint venture.

2. Significant accounting policies (continued):

Where the company undertakes its activities under joint venture arrangements through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity, the company's proportionate share of joint venture assets, liabilities, revenues and expenses are recognized in the consolidated financial statements and classified according to their nature.

When the Company transacts with its joint ventures, unrealized profits and losses are eliminated to the extent of the Company's interest in the joint venture. Balances outstanding between the Company and joint ventures in which it has an interest are eliminated in the consolidated statements of financial position.

(d) Investments properties:

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

(e) 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 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 expire, are discharged or cancelled.

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

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

2. Significant accounting policies (continued):

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

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

The Company's financial assets include the cash and cash equivalents, amounts receivable, portfolio investment and loan and mortgage investments. All of the Company's financial assets other than the portfolio investment which is classified as fair value through profit or loss, are classified as loans and receivables.

The Company's financial liabilities include the accounts payable and accrued liabilities, provision for discontinued operations, income taxes payable, loans and mortgages payable and liability component of convertible debentures. All of the Company's financial liabilities are classified as other liabilities.

The Company had neither available-for-sale, nor held-to-maturity instruments as at December 31, 2012 and 2011.

(f) 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.

2. Significant accounting policies (continued):

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the EIM. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(g) Impairment of financial instruments:

An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each reporting period. A financial asset is considered to be impaired if one or more loss events that have an impact on the future cash flows of the financial asset after initial recognition of the financial asset and the loss can be reliably measured.

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 period, 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.

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 concession favorable to the borrower and observable data that there is a measurable decrease in the estimated future cash flows.

(h) 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.

2. Significant accounting policies (continued):

(i) Revenue recognition:

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

(j) Share-based compensation:

The company has a share option plan for grants to eligible directors, officers, senior management and consultants under its share option plan. No awards have been issued to consultants. The expense of equity-settled incentive option plan is measured based on fair value of the options granted of each tranche at the grant date. The expense is recognized on a proportionate basis consistent with 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.

(k) Provisions:

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

2. Significant accounting policies (continued):

(l) Income taxes:

Income tax comprises current and deferred tax. 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 period, using tax rates enacted, or substantively enacted, at the end of the reporting period.

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 substantially enacted tax rates and laws which are expected to apply to the Company's taxable income for the period 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.

(m) 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 period.

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.

(n) Future accounting changes:

The International Accounting Standards Board ("IASB") has issued the following new standards and amendments to existing standards that will be relevant to the Company in preparing its consolidated financial statements in future periods.

2. Significant accounting policies (continued):

(i) IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Instruments*, as amended requires an entity to disclose information about rights to set-off and related arrangements. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will affect disclosure only and the Company intends to adopt in its consolidated financial statements for the annual period beginning on January 1, 2013.

(ii) IFRS 9 *Financial Instruments* was issued to replace IAS 39, "Financial Instruments: Recognition and Measurement". This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 was the first phase of the project, which provided guidance on the classification and measurement of financial assets and financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. In December 2011, the effective date of adoption of this standard was amended to January 1, 2015 from January 1, 2013. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

(iii) IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities' as they are now referred to in the new standards). The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This principle applies to all investees, including structured entities. IFRS 10 is effective for annual periods commencing on or after January 1, 2013. The Company does not anticipate any changes to its financial results as a result of IFRS 10.

2. Significant accounting policies (continued):

(iv) IFRS 11 *Joint Arrangements* addresses two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. Because the new standard uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations, an entity recognizes its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, the previous standard focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement. IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Company currently accounts for its interest in joint ventures using the equity method and therefore does not expect any implications as a result of this new standard.

(v) IFRS 12 *Disclosure of Interests in Other Entities* includes a number of new disclosures that are required. One of the most significant changes is that an entity is now required to disclose the judgments made to determine whether it controls another entity. IFRS 12 is effective for annual periods commencing on or after January 1, 2013. The Company does not anticipate any changes in disclosure requirements for the consolidated financial statements.

(vi) IFRS 13 *Fair Value Measurement* does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. Many of the concepts in this new standard are consistent with current practice; however, the disclosure requirements are substantial and could present additional challenges. IFRS 13 is effective for annual periods commencing on or after January 1, 2013 and will be applied prospectively. The Company is not anticipating any significant changes to its financial results or disclosures as a result of adopting IFRS 13 on January 1, 2013.

3. Financial Statement Restatement:

During the year, the Company identified and corrected an error and reclassified its joint venture interests on a property located on Montreal Street, Ottawa, Ontario and a housing project in Ajax, Ontario from jointly controlled entities to jointly controlled assets. Prior to this correction, these joint ventures were accounted for using the equity method, subsequently; the Company has recorded its share of the joint ventures using the proportionate consolidation. This resulted in the reclassification of certain prior year balances to reflect the effects of the proportionate consolidation of these two joint ventures. This error had no effect on net income or equity. The effect of the correction is presented below.

The effects of the restatement on the consolidated statement of financial position at December 31, 2011, are as follows:

	As reported	Restatement	Restated
Assets:			
Cash and cash equivalents	8,662,505	109,052	8,771,557
Amounts receivable and prepaid expenses	759,767	45,645	805,412
Interests in joint ventures	1,073,319	(1,073,319)	-
Investment properties	-	3,234,658	3,234,658
Liabilities:			
Accounts payable and accrued liabilities	682,186	370,396	1,052,582
Loans and mortgages payable	4,832,267	1,945,640	6,777,907
Shareholders' equity:	11,247,126	-	11,247,126

The effects of the restatement on the consolidated statement of income and comprehensive income for the year ended December 31, 2011, are as follows:

	As reported	Restatement	Restated
Revenue:			
Earnings from joint ventures	268,840	(268,840)	-
Rental revenue	-	174,195	174,195
Expenses			
Property operating costs	-	55,901	55,901
Interest expense	413,265	44,454	457,719
Fair value adjustment to investment property	-	(195,000)	(195,000)
Net income and comprehensive income	287,322	-	287,322

3. Financial Statement Restatement (continued):

The effects of the restatement on the consolidated statement of cash flows for the year ended December 31, 2011, are as follows:

	As reported	Restatement	Restated
Operating activities:			
Earnings from joint ventures	(268,840)	268,840	-
Fair value adjustment of investment properties	-	(195,000)	(195,000)
Changes in working capital			
Other receivables	(20,818)	195,694	174,876
Accounts payable and accrued liabilities	(237,010)	198,445	(38,565)
Interest paid	(243,544)	(44,454)	(287,998)
Investing activities:			
Capital distributed from joint ventures	28,250	(28,250)	-
Capital additions to investment properties	-	(926,105)	(926,105)
Investing activities:			
Proceeds from loand and mortgages payable	3,983,264	1,626,103	5,609,367
Repayments of loans and mortgages payable	(746)	(1,004,500)	(1,005,246)

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2012 and 2011.

		2012		2011
Interest receivable	$	1,182,179	$	740,718
Other receivables		1,200,802		57,329
Prepaid expenses and deposits		13,199		7,365
Amounts receivable and prepaid expenses	$	2,396,180	$	805,412

5. Loan and mortgage investments:

As at December 31, 2012 and 2011, the Company had principal balance of loan and mortgage investments of $31,996,731 and $16,724,774, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 19.9% (December 31, 2011 – 19.3%) and a weighted average term to maturity of 0.65 years (December 31, 2011 – 1.07 years).

In August 2012, a borrower of a residential housing development elected to repay the loan ahead of its maturity date with a reduced repayment fee on the loan. As a result, the Company wrote-down the carrying amount of the loan by $347,914, recognized a loss which was included in interest income in the consolidated statements of income and comprehensive income.

The following table presents details of the loan and mortgage investments as at December 31, 2012 and 2011.

	December 31, 2012		December 31, 2011	
	Amount	% of Investments	Amount	% of Investments
Residential housing developments	$ 30,200,563	94.4%	$ 15,150,768	90.6%
Residential income properties	1,796,168	5.6%	498,006	3.0%
Commercial retail development	-	0.0%	1,076,000	6.4%
Loan and mortgage investments	$ 31,996,731	100.0%	$ 16,724,774	100.0%

The Company's investment activities include:

(a) land loans generally in first priority position and
(b) mezzanine loans on development projects and income properties generally subordinated to first mortgages

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

5. Loan and mortgage investments (continued):

Residential housing developments:

These loans pertain to eight projects at various stages of development, seven in Toronto, Ontario and one in Waterloo, Ontario. In the aggregate, seven of the projects are slated for 669 high rise condominium units, 153 low rise condominium and freehold single family units and a 205-bed student housing residence. The last project is currently seeking municipal approval for approximately 328 high rise condominium units. Three of the loans have been syndicated to private investors (note 9).

Commercial retail development:

The land and construction loan relating to the development of a food store in southern Ontario was repaid in full in July 2012.

Residential income property:

The loan represents a second mortgage secured by a 250 unit apartment building located in Toronto, Ontario.

The following table presents details of the Company's loan categories as at December 31, 2012 and 2011:

	2012	2011
Conventional first mortgages	$ -	$ 1,076,000
Non-conventional mortgages	18,032,335	6,448,774
Unsecured loans investments	13,964,396	9,200,000
	$ 31,996,731	$ 16,724,774

Conventional first mortgages are loans secured by a first priority mortgage charge with loan to values not exceeding 75%. Non-conventional mortgages are loans that may or may not exceed 75% of loan to value and earn profit participation. Unsecured investments are loans that may not necessarily be secured by mortgage charge security.

5. Loan and mortgage investments (continued):

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

	Scheduled principal payments	Loan and mortgage investments maturing during the year	Total loan and mortgage investments
2013	$ 2,084	$ 25,751,174	$ 25,753,258
2014	2,364	5,749,389	5,751,753
2015	1,750	489,970	491,720
	$ 6,198	$ 31,990,533	$ 31,996,731

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2012 was $3,032,425 including $693,900 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2011 - $nil).

6. Interests in joint ventures:

The company's interests in the following properties are subject to joint control and, accordingly, the company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties following 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 development was completed in the first quarter of 2011 and the tenant has assumed tenancy. The Company provided 80% of the capital required during the development stage, and earned interest at 15% per annum on its capital advance in excess of its 55% ownership interest. In May 2011, the Company's capital contribution was reduced to its ownership interest of 55% when the placement of permanent financing was completed and the construction loan facility discharged. The project's loan of $2,300,000, bears interest at 4.152% per annum, is amortized over 25 years and matures June 1, 2016.

6. Interests in joint ventures (continued):

(ii) Salem Road JV

In December 2009, the Company entered into a co-owners' agreement (the "Salem Road JV") with a development partner and financial partner, to acquire and develop a single family residential housing project in Ajax, Ontario, comprised of five acres of land on three separate parcels. A portion of the units are complete and subsequent to September 30, 2012, the co-tenancy commenced the transfer of units to purchasers. Upon completion of the residential project and the transfer of all the units to purchasers in December 2012, the Company received its investment of $465,500 in cash. The Company's share of fees of $375,000 was recorded for the year ended December 31, 2012 and this amount remained in the amounts receivable on the consolidated statements of financial position at December 31, 2012.

(iii) Queen Street West JV

In April 2012, the Company entered into a co-owners' agreement ("Queen West JV") and acquired a land parcel with a development partner to develop a mid-rise residential condominium building in Toronto, Ontario, having a development potential of approximately 100,000 square feet of gross floor area. Under the terms of the co-owners agreement, the Company has agreed to contribute 75% of the capital required during the course of the development, for a 50% ownership interest.

The financial information in respect of the company's proportionate share of investments in jointly controlled assets is as follows:

	December 31, 2012	December 31, 2011
Cash and cash equivalents	$ 31,588	$ 109,052
Amounts receivable and prepaid expenses	41,642	45,645
Investment properties	7,834,576	3,234,658
Total assets	7,907,806	3,389,355
Accounts payable and accrued liabilities	217,343	370,396
Loans and mortgages payable	4,368,854	1,945,640
Total liabilities	4,586,197	2,316,036
Net assets	$ 3,321,609	$ 1,073,319

6. Interests in joint ventures (continued):

The table below details the results of operations for the years ended December 31, 2012 and 2011, attributable to the Company from its joint ventures activities:

		December 31, 2012		December 31, 2011
Rental revenue	$	343,958	$	174,195
Property operating costs		129,186		55,901
		214,772		118,294
General and administrative expenses		210		-
Interest expense		169,554		44,454
Gain on sale of investment property		(375,000)		-
Fair value adjustment of investment property		-		(195,000)
Net earnings	$	420,008	$	268,840

7. Investment properties:

The Company has interests in investment properties that are subject to joint control and accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties.

The following table summarizes the changes in the Company's proportionate share of the investment properties for the years ended December 31, 2012 and 2011:

		2012		2011
Balance, beginning of year	$	3,234,658	$	2,113,553
Acquisition of properties		4,994,892		-
Capital expenditures		4,391,533		926,105
Sale of investment properties		(4,786,507)		-
Fair value adjustment on investment properties		-		195,000
Balance, end of year	$	7,834,576	$	3,234,658

8. Portfolio investment:

The Company has invested $950,000, for a partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit and loss. At December 31, 2012, the carrying value of investment approximates its fair value.

9. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at December 31, 2012 and 2011:

		December 31, 2012		December 31, 2011
Interest payable	$	453,346	$	165,545
Interest reserve		-		370,226
Accounts payable, accrued liabilities and provisions		739,270		516,811
Accounts payable and accrued liabilities	$	1,192,616	$	1,052,582

10. Discontinued operations:

The Company's discontinued operations consist of the assets, liabilities and operations of a sold property located at 870 Red River Road, Thunder Bay, Ontario. The Company has agreed to indemnify rents with respect to a tenant's lease of a unit in the property from the date of sale until its lease expiry of July 2016, to the extent that the tenant fails to make rent payments (the "indemnified tenancy"). In May 2011, the tenant had entered into a court appointed receivership process. The receiver was unable to sell the underlying business and as a result in October, 2011, the receiver disclaimed the lease subject to the indemnified tenancy.

A provision of $232,313 and $192,842, net of income tax recovery of $82,687 and $87,158, respectively, were recorded relating to this obligation during the years ended December 31, 2012 and 2011, respectively. The balance of the provision as at December 31, 2012 and 2011 were $445,957 and $251,864, respectively.

10. Discontinued operations (continued):

Following table summarizes the changes in the provision for discontinued operations for the year ended December 31, 2012:

Opening Balance - January 1, 2012	$	251,864
Lease payments made during 2012		(120,907)
Additional provision made for remainder of the term		315,000
Ending balance, December 31, 2012	$	445,957

11. Loans and mortgages payable:

The Company sources its loans and mortgages payable through the syndication of certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement on an investment by investment basis and conventional construction or permanent financing secured by the project or investment property.

The principal balance of loans and mortgage payable at December 31, 2012 and 2011 were $21,406,070 and $6,777,907, respectively. The loans and mortgages carry a weighted average effective interest rate of 13.87% (December 31, 2011 – 11.2%) and a weighted average term to maturity of 0.84 years (December 31, 2011 – 1.81 years).

The details of loans and mortgages payable at December 21, 2012 and December 31, 2011 are as follows:

	December 31, 2012		December 31, 2011	
	Amount	% of loans and mortgages payable	Amount	% of loans and mortgages payable
Residential housing developments	$ 15,689,132	73.3%	$ 3,907,264	57.6%
Residential income properties	1,348,084	6.3%	249,003	3.7%
Commercial retail development	-	0.0%	676,000	10.0%
Montreal Street JV	1,205,676	5.6%	1,239,787	18.3%
Salem Road JV	-	0.0%	705,853	10.4%
Queen Street West JV	3,163,178	14.8%	-	0.0%
	$ 21,406,070	100.0%	$ 6,777,907	100.0%

11. Loans and mortgages payable (continued):

Scheduled principal repayments and maturity amounts loans and mortgages payable at December 31, 2012 are as follows:

	Scheduled principal payments	Maturing during the year	Total loans and mortgages payable
2013	$ 1,042	$ 17,352,310	$ 17,353,352
2014	1,182	2,600,000	2,601,182
2015	875	244,985	245,860
2016	-	1,205,676	1,205,676
	$ 3,099	$ 21,402,971	$ 21,406,070

12. Convertible debentures:

On September 27, 2011 the Company completed a private placement of 10,150, 7.0% unsecured subordinated debentures (the "Debentures") at a price of $1,000 per debenture for gross proceeds of $10,150,000. The Debentures mature on September 27, 2014. Interest is paid on the last business day of each calendar quarter commencing December 31, 2011. The Debentures are convertible at the option of the holder at any time up to maturity at a conversion price of $0.70 per common share. The Debentures are not redeemable or convertible at the option of the Company prior to maturity.

550 of the Debentures, having a face value of $550,000, were placed with directors and officers of the Company.

As of the date of issuance the fair value of the liability component of the Debentures was determined to be the fair value of the Debenture as a whole.

Issue costs directly attributable to the issuance of the Debentures are deducted from the liability component of the Debenture resulting in an effective interest rate of 7.35%. The Debentures, net of the equity component and issue costs are accreted using the effective interest rate method over the term to maturity of the Debentures, such that the carrying amount will equal the total face value of the Debenture at maturity.

12. Convertible debentures (continued):

The following table summarizes the changes in the Debentures for the years ended December 31, 2011 and 2012.

Debentures issued, September 27, 2011	$	10,150,000
Issue costs		(95,505)
Interest expensed at EIR of 7.35%		194,245
Interest paid		(186,871)
Liability component of Debentures, December 31, 2011	$	10,061,869
Interest expensed at EIR of 7.35%		741,956
Interest paid		(710,500)
Liability component of Debentures, December 31, 2012	$	10,093,325

Upon initial recognition, the fair value of the liability component of the Debentures was determined to be the fair value of the Debenture as a whole.

13. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2012 was $ 3,032,425 (December 31, 2011 - $nil).

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.

14. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the years ended December 31, 2012 and 2011:

	Shares	Amount
Outstanding as at December 31, 2010	17,900,000	$ 4,571,246
Issuance of shares, January 25, 2011	895,000	268,500
Issuance of shares, December 20, 2011, net of issue costs of $31,494 and income tax recovery of $28,853	11,700,000	5,847,359
Outstanding as at December 31, 2011	30,495,000	$ 10,687,105
Issuance of shares under share Option Plan	200,000	40,000
Transferred from contributed surplus upon exercise of options	-	30,300
Outstanding as at December 31, 2012	30,695,000	$ 10,757,405

Details of shares issued to related parties for the years ended December 31, 2011 and 2012 are as follows:

		# of shares Issued to related parties			
Issue date	# of shares issued	Counsel Corporation	Chairman of the Board	Chief Executive Office	Total
December 25, 2011	11,700,000	2,300,000	200,000	200,000	2,700,000
January 25, 2011	895,000	-	-	895,000	895,000
Total	12,595,000	2,300,000	200,000	1,095,000	3,595,000

As at December 31, 2012, Counsel Corporation, controlled by the Chairman of the Board of the Company, beneficially owns 20.2% of the common shares of the Company and therefore is considered a related party (note 17).

14. Shareholders' equity (continued):

(b) Share based payments:

The Company has adopted a share option plan (the "Plan") to grant eligible directors, officers, senior management and consultants to grant options to purchase Shares. The exercise price of an option each option shall be determined by the board of directors and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the Exchange, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no Option shall be exercisable after five years from the date on which it is granted.

On April 17, 2012, the Company granted share options to Directors and Officers of the Company and employees of the Manager to purchase 910,000 common shares at $0.50 per share. Except for 20,000 share options granted to the former Chairman of the Company's Audit Committee which vested immediately upon grant, 25% of the remaining share options vested immediately, with an additional 25% vesting each 90 day period thereafter.

On December 20, 2011, the Company granted share options to Directors of the Company to purchase 202,667 common shares at $0.50 per share. 25% of the share options vested immediately, with an additional 25% having vested on March 31, 2012, June 30, 2012 and September 30, 2012.

On January 25, 2011, the Company granted share options to the Chief Executive Officer of the Company to purchase 895,000 common shares at $0.30 per share. The share options vested immediately and will expire five years from the date the options were granted.

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:

	Options grant dates		
	April 17, 2012	December 20, 2011	January 25, 2011
Average expected life	5.00 years	5.00 years	5.00 years
Average risk-free interest rate	1.47%	1.31%	1.31%
Average expected volatility	103.00%	287.00%	165.00%
Average dividend yield	0.00%	0.00%	0.00%

14. Shareholders' equity (continued):

The following is the summary of changes in share options for the year ended December 31, 2012 and 2011:

	December 31, 2012			December 31, 2011		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding - beginning of year	1,917,667	$	0.28	820,000	$	0.20
Granted	910,000		0.50	1,097,667		0.34
Exercised	(200,000)		0.20	-		-
Cancelled	(185,000)		0.20	-		-
Outstanding - end of year	2,442,667	$	0.37	1,917,667	$	0.28
Number of options exercisable	2,270,167	$	0.36	1,765,667	$	0.26

The following summarizes the Company's outstanding share options as at December 31, 2012:

Number of options outstanding	Expiry date	Number of options exercisable		Exercise price		Market price at date of grant
435,000	22-Jun-2014	435,000	$	0.20	$	0.09
895,000	24-Jan-2016	895,000		0.30		0.28
202,667	19-Dec-2016	202,667		0.50		0.40
910,000	16-Apr-2017	687,500		0.50		0.30
2,442,667		2,220,167				

15. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2012 and 2011:

		Amount
Balance at January 1, 2011	$	101,601
Fair value of share-based compensation		284,998
Balance at December 31, 2011		386,599
Fair value of share-based compensation		216,840
Transferred to share capital - exercise of options		(30,300)
Balance at December 31, 2012	$	573,139

16. Earnings per share:

The calculation of earnings per share of the years ended December 31, 2012 and 2011 is as follows:

		December 31, 2012		December 31, 2011
Numerator for basic and diluted earnings (loss) per share:				
Income from continuing operations	$	1,484,293	$	480,164
Loss from discontinued operations		(232,313)		(192,842)
Net income and comprehensive income	$	1,251,980	$	287,322
Denominator basic and diluted earnings (loss) per share:				
Weighted average number of shares outstanding		30,585,860		19,120,808
Basic and diluted earnings per share from continuing operations	$	0.05	$	0.03
Basic and diluted loss per share from discontinued operations		(0.01)		(0.01)
Basic and diluted earnings per share	$	0.04	$	0.02

17. Transactions with related parties:

At December 30, 2012 and 2011, Counsel Corporation owned approximately 20.2% of the outstanding Shares of the Company, and therefore is considered a related party. On January 1, 2013, Counsel distributed its entire holding of Shares as a dividend to its shareholders.

(a) Management Agreement

On December 31, 2012, Counsel Asset Management L.P. (the "Manager"), an entity wholly-owned by Counsel Corporation, terminated the Management Agreement with the Company.

Prior to December 31, 2012, pursuant to the term of the Management Agreement, the Manager provided the administration of the day-to-day operations of the Company including providing other general management services to the Company including accounting, reporting, financial statement preparation assistance, and the provision of office space, equipment and personnel and advising on strategic matters including assisting the Company in structuring, sourcing, evaluating, and negotiating investments; the financing of such investments; and dispositions.

Prior to December 31, 2012, pursuant to the terms of the Management Agreement, for the services provided by the Manager, the Company paid the Manager an annual management fee, quarterly in arrears, equal to the sum of (i) 1.5% of the first $200 million of the Company's shareholder's equity, (ii) 1.25% of the Company's shareholders' equity in excess of $200 million and up to $300 million, and (iii) 1.00% of the Company's shareholders' equity in excess of $300 million, in each case calculated in accordance with Canadian generally accepted accounting principles. Subsequent to September 30, 2011 and pursuant to the amended Management Agreement, the management fee calculation included the debt securities issued by the Company; excluding syndication of loan or other investments by the company was included in calculating the management fee. For the years ended December 31, 2012 and 2011, the management fee amount to $328,900 and $115,528, respectively, and are included in general and administrative expenses. Of this amount, $84,000 (December 31, 2011 - $60,500) is included in accounts payable and accrued liabilities.

In addition, pursuant to the Management Agreement, the Company paid the Manager, 50% of all fees attributable to lending activities earned by the Company and certain fees or profit earned by the Company in connection with equity participations in commercial and residential developments and investment property acquisitions. The fees paid to the Manager are deducted from the fees used in the determination of the effective interest rate on each of the Company's loan and mortgage investments. During the year ended December 31, 2012, the Company paid $480,100 (2011 - $134,240) in such fees to the Manager. At December 31, 2012, the fees payable to the Manager amounts to $125,000 (December 31, 2011 - $nil) and is included in accounts payable and accrued liabilities.

17. Transactions with related parties (continued):

The Management Agreement transactions were in the normal course of business and were recorded at their exchange amounts agreed to by the related parties, which closely represent the market value of these types of transactions. The terms of the Management Agreement were approved by the independent members of the Company's Board of Directors.

(b) Key management personnel compensation:

Aggregate compensation for key management personnel was as follows:

	Year ended December 31,	
	2012	2011
Short-term employee benefits	$ 842,709	$ 639,963
Share-based compensation	203,171	284,998
	$ 1,045,880	$ 924,961

The key management personnel of the Company during the year ended December 31, 2012 include Chief Executive Officer, Chief Financial Officer, Vice President, Operations and the Board of Directors. The key management personnel of the Company during the year ended December 31, 2011 include Chief Executive Officer, Chief Financial Officer, and the Board of Directors.

The key management personnel, excluding the Board of Directors, provided services to the Company pursuant to the Management Agreement and their compensation included in the above was paid through the annual management fee.

During the years ended and as at December 31, 2012 and 2011, no key management personnel were indebted to the Company.

(c) Loans and mortgages payable and Debentures:

Several of the Company's loan and mortgage investments 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, 2012, the loan and mortgage investments and Debentures syndicated by officers and directors were $2,276,088 (December 31, 2011 - $1,450,000). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

18. Interest expense:

The following table presents the interest incurred for the years ended December, 2012 and 2011:

	Year ended December 31,	
	2012	2011
Loans and mortgages payable	$ 1,657,495	$ 219,020
Debentures	741,957	194,245
Montreal Street JV	50,017	44,454
Queen Street West JV	119,537	-
	$ 2,569,006	$ 457,719

19. Income taxes:

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

	Year ended December 31,	
	2012	2011
Current income tax provision	$ 556,978	$ 159,876
Deferred income tax provision	5,342	37,334
Total tax provision	$ 562,320	$ 197,210

19. Income taxes (continued):

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

	Year ended December 31,	
	2012	2011
Income before income taxes from continuing operations	$ 2,046,613	$ 677,374
Combined federal and provincial statutory income tax rates	26.25%	28.25%
Income tax provision based on statutory income tax rates	537,236	191,358
Increase (decrease) in income tax due to:		
Non-taxable items	(26,741)	(42,282)
Non-deductible stock based compensation	56,921	80,512
Change in deferred tax asset not previously recognized	(5,144)	(29,636)
Tax rate differential on temporary differences	48	(3,451)
Other	-	709
Total tax provision	$ 562,320	$ 197,210

The combined federal and provincial statutory income tax rate of 26.25% for 201 has declined from rate of 28.25% for 2011 due to declining enacted federal and provincial income tax rates.

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2012 is as follows:

	Opening balance	Recognized in of income	Recognized in equity	Closing balance
Investment property	$ (25,350)	$ (488)	$ -	$ (25,838)
Incorporation costs	794	(41)		753
Debenture and share issue costs	14,296	(4,813)	-	9,483
	$ (10,260)	$ (5,342)	$ -	$ (15,602)

19. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year ended December 31, 2011 is as follows:

	Opening balance	Recognized in income	Recognized in equity	Closing balance
Investment property	$ -	$ (25,350)	$ -	$ (25,350)
Incorporation costs	-	794		794
Debenture and share issue costs	-	(12,778)	27,074	14,296
	$ -	$ (37,334)	$ 27,074	$ (10,260)

20. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, Debentures and loans 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 structure of the Company as at December, 2012 and 2011:

	December 31, 2012	December 31, 2011
Loans and mortgages payable	$ 21,406,070	$ 6,777,907
Convertible debentures	10,093,325	10,061,869
Shareholders' Equity	12,755,946	11,247,126
Total capital	$ 44,255,341	$ 28,086,902

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 remains unchanged during the years ended December 31, 2012 and 2011.

During the years ended December 31, 2012 and 2011, the Company had no externally imposed capital requirements.

21. 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, interest and other receivables, loan and mortgage investments, portfolio investment, accounts payable and accrued liabilities, loans and mortgages payable and Debentures.

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

The fair value of loans and mortgage investments, portfolio investment loans, loans and mortgages payable and Debentures approximate their carrying value as the underlying interest rates on these instruments approximate the market interest rates.

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 technique for which significant inputs are not based on observable market data.

All of the Company's financial assets and liabilities are valued using Level 3 inputs at December 31, 2012 and 2011 and no amounts were transferred between fair value levels during 2012 or 2011.

22. 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.

The Company's objective of managing this risk is to minimise 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.

22. Risk management (continued):

(c) 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, debentures payable and loans and mortgages payable.

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 mortgages payable and asset liability matching. Such risk is further mitigated by the general short term nature of loan and mortgage investments.

(d) 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 credit worthiness.

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