TERRA FIRMA

Condensed Interim Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and six months ended June 30, 2017 and 2016
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

Condensed Interim Consolidated Statements of Financial Position
(In Canadian dollars)
(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 10,501,028	$ 12,315,242
Funds held in trust	956,852	982,353
Deposits (note 4)	–	3,256,074
Amounts receivable and prepaid expenses (note 5)	4,836,579	4,865,280
Loan and mortgage investments (note 6)	105,818,522	93,408,444
Investment property held in joint operations (notes 7(b))	2,208,694	2,208,694
Land under development held in joint operations (note 7(c))	25,032,469	23,808,574
Portfolio investments (note 8)	3,212,084	3,212,084
Investment in associates (note 9)	2,315,414	2,315,414
Income taxes recoverable (note 21)	79,238	–
Deferred income tax asset (note 21)	375,383	328,324
Total assets	$ 155,336,263	$ 146,700,483
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities (note 10)	$ 12,506,996	$ 10,647,966
Unearned income	496,531	329,340
Income taxes payable (note 21)	–	22,942
Revolving operating facility (note 12)	–	7,467,586
Loan and mortgage syndications (note 6)	70,713,975	56,180,448
Due to joint operations partner (note 7(d))	5,180,759	11,163,640
Construction loan payable (note 7(e))	5,220,000	–
Mortgages payable (note 7(f))	1,490,117	1,509,503
Convertible debentures (note 13)	10,819,395	10,754,259
Total liabilities	106,427,773	98,075,684
Equity:		
Share capital (note 15(a))	$ 31,327,496	$ 31,789,819
Equity component of convertible debentures (note 13)	284,490	284,490
Contributed surplus (note 16)	2,661,591	2,514,073
Retained earnings	14,380,272	13,781,776
Shareholders' equity	48,653,849	48,370,158
Non-controlling interest (note 8)	254,641	254,641
Total equity	48,908,490	48,624,799
Commitments and contingencies (note 14)		
Subsequent events (notes 15(d) and 25)		
Total liabilities and equity	$ 155,336,263	$ 146,700,483

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

Approved by the Board on August 14, 2017 and signed on its behalf by:

"Seymour Temkin" Director

"John Kaplan" Director

TERRA FIRMA CAPITAL CORPORATION

Condensed Interim Consolidated Statements of Income and Comprehensive Income
(In Canadian dollars)
(Unaudited)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue:				
Interest and fees	$ 4,016,705	$ 3,527,298	$ 7,982,949	$ 7,748,454
Rental (note 7(a))	50,444	50,444	100,888	98,822
	4,067,149	3,577,742	8,083,837	7,847,276
Expenses:				
Property operating costs (note 7(a))	17,157	17,307	34,488	33,399
General and administrative	667,038	608,484	1,563,774	1,266,629
Share-based compensation (note 15(c))	(72,833)	58,818	207,888	269,204
Interest and financing costs (note 19)	2,447,873	2,008,734	4,774,934	3,835,975
Provision for loan and mortgage investment loss (note 6)	–	–	–	112,726
Realized and unrealized foreign exchange loss (note 20)	830,787	299,680	633,496	1,529,642
	3,890,022	2,993,023	7,214,580	7,047,575
Income from operations before income taxes	177,127	584,719	869,257	799,701
Income taxes (note 21)	63,443	189,278	270,761	289,436
Net income and comprehensive income	$ 113,684	$ 395,441	$ 598,496	$ 510,265
Earnings per share (note 17):				
Basic	$ 0.00	$ 0.01	$ 0.01	$ 0.01
Diluted	$ 0.00	$ 0.01	$ 0.01	$ 0.01

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

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2017 and 2016
(Unaudited)

	Share capital							
	Number of shares	Amount	Convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	(note 15(a) and (b))		(note 13)	(note 16)				
Balance, December 31, 2015	60,260,083	$ 31,257,404	$ 284,490	$ 2,360,575	$ 12,374,881	$ 46,277,350	$ 254,641	$ 46,531,991
Changes during the period:								
Issuance of shares pursuant to share option plan	895,000	520,890	–	(252,390)	–	268,500	–	268,500
Share-based compensation	–	–	–	295,631	–	295,631	–	295,631
Net income and comprehensive income	–	–	–	–	510,265	510,265	–	510,265
Balance, June 30, 2016	61,155,083	$ 31,778,294	$ 284,490	$ 2,403,816	$ 12,885,146	$ 47,351,746	$ 254,641	$ 47,606,387
Changes during the period:								
Issuance of shares pursuant to share option plan	74,667	67,156	–	(29,822)	–	37,334	–	37,334
Repurchase of shares pursuant to normal course issuer bid	(94,500)	(55,631)	–	–	–	(55,631)	–	(55,631)
Share-based compensation	–	–	–	140,079	–	140,079	–	140,079
Net income and comprehensive income	–	–	–	–	896,630	896,630	–	896,630
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
Changes during the period:								
Repurchase of shares pursuant to normal course issuer bid	(703,000)	(462,323)	–	–	–	(462,323)	–	(462,323)
Share-based compensation	–	–	–	147,518	–	147,518	–	147,518
Net income and comprehensive income	–	–	–	–	598,496	598,496	–	598,496
Balance, June 30, 2017	60,432,250	$ 31,327,496	$ 284,490	$ 2,661,591	$ 14,380,272	$ 48,653,849	$ 254,641	$ 48,908,490

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

TERRA FIRMA CAPITAL CORPORATION

Condensed Interim Consolidated Statements of Cash Flows
(In Canadian dollars)
(Unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	$ 113,684	$ 395,441	$ 598,496	$ 510,265
Interest and fees earned	(4,016,705)	(3,527,298)	(7,982,949)	(7,748,454)
Interest expense and financing costs	2,447,873	2,008,734	4,774,934	3,835,975
Unrealized foreign exchange loss (gain)	385,692	(373,569)	273,256	898,027
Non-cash items:				
Share-based compensation (note 15(c))	(72,833)	58,818	207,888	269,204
Provision for loan and mortgage investment loss	–	–	–	112,726
Income tax provision	63,443	189,278	270,761	289,436
Changes in working capital:				
Increase in other receivables	(175,025)	(317,325)	(409,622)	(317,613)
Decrease (increase) in prepaid expenses and deposits	(23,154)	185,199	151,672	236,600
Increase (decrease) in accounts payable and accrued liabilities	(75,521)	(216,642)	1,147,338	(1,757,231)
Interest and fees received	1,043,011	1,923,097	3,908,691	4,366,591
Interest paid	(1,435,394)	(1,646,908)	(2,874,504)	(3,268,700)
Income taxes paid	–	–	(420,000)	(1,300,000)
Cash used in operating activities	(1,744,929)	(1,321,175)	(354,039)	(3,873,174)
Financing activities:				
Proceeds from loan and mortgage syndications	1,344,433	13,934,197	28,801,641	22,941,912
Repayments of loan and mortgage syndications	(11,074,392)	(15,580,010)	(14,533,114)	(18,833,901)
Proceeds from mortgages payable	–	417,736	–	417,736
Repayments of mortgages payable	(8,983)	(5,302)	(19,386)	(13,224)
Proceeds from short-term unsecured loans payable	–	–	–	200,000
Repayment of short-term unsecured loans payable	–	(502,500)	–	(502,500)
Proceeds from revolving operating facility	–	–	2,500,000	–
Repayment of revolving operating facility	(10,000,000)	–	(10,000,000)	–
Proceeds from construction loan payable	155,000	–	5,220,000	–
Advance from joint operations partner	–	729,731	–	729,731
Repayment to joint operations partner	(113,132)	–	(5,982,881)	–
Repurchase of shares pursuant to normal course issuer bid	(238,098)	–	(462,323)	–
Proceeds from issuance of shares pursuant to share options plan	–	–	–	268,500
Cash provided by (used in) financing activities	(19,935,172)	(1,006,148)	5,523,937	5,208,254
Investing activities:				
Funding of loan and mortgage investments	(529,444)	(14,717,592)	(28,681,685)	(41,548,621)
Repayments of loan and mortgage investments	13,758,000	19,832,923	22,895,967	22,375,814
Repayment of deposits	–	–	–	11,747,370
Capital additions to land under development	(405,465)	(578,330)	(1,223,895)	(578,330)
Decrease in funds held in trust	424,637	126,589	25,501	1,291,362
Funding of interest in joint operations	–	(624,681)	–	(624,681)
Funding of portfolio investment	–	(400,000)	–	(400,000)
Cash provided by (used in) investing activities	13,247,728	3,638,909	(6,984,112)	(7,737,086)
Increase (decrease) in cash and cash equivalents	(8,432,373)	1,311,586	(1,814,214)	(6,402,006)
Cash and cash equivalents, beginning of period	18,933,401	4,009,958	12,315,242	11,723,550
Cash and cash equivalents, end of period	$ 10,501,028	$ 5,321,544	$ 10,501,028	$ 5,321,544

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

1. Reporting entity:

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 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 property, for such development or redevelopment, property repairs or the purchase of investment property.

2. Basis of presentation:

Statement of compliance:

These unaudited condensed interim consolidated financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The preparation of these condensed interim consolidated financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as well as Interpretation of International Financial Reporting Interpretations Committee ("IFRIC"). These condensed interim consolidated financial statements do not contain all disclosures required by IFRS for annual financial statements and, therefore, should be read in conjunction with the notes to the Company's audited consolidated financial statements as at and for the year ended December 31, 2016.

3. Significant accounting policies:

The condensed interim consolidated financial statements for the period ended June 30, 2017 follow the same accounting policies and methods of their application as those used in the Company's consolidated financial statements for the year ended December 31, 2016.

New standards not yet adopted:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2018 that the Company has decided not to early adopt. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future years:

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

The Company will adopt IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date.

The Company have commenced their evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at June 30, 2017, the principal areas impacted are: classification of financial assets, impairment of financial assets, and presentation of fair value changes for certain financial liabilities designated at fair value through profit or loss ("FVTPL"). IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

3. Significant accounting policies (continued):

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company do not currently apply hedge accounting in their consolidated financial statements.

The Company expect to complete the assessment of the impact of adopting IFRS 9 during the second half of 2017 and are not able at this time to estimate reasonably the impact that the standard will have on the consolidated financial statements.

(b) *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15, *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, International Financial Reporting Interpretations Committee ("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 expect to complete their assessment of the potential impact of adopting IFRS 15 during the second half of 2017.

(In Canadian dollars)

3. Significant accounting policies (continued):

(c) *Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the current standard. However, the Company is evaluating the identification of leases and non-lease components in accordance with the new requirements. IFRS 16 is only applicable to leases components and therefore other standards, such as IFRS 15, will apply to non-leases components of contracts. The new standard is effective for years beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet 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.

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at June 30, 2017 and December 31, 2016.

	June 30, 2017	December 31, 2016
Interest and fees receivable	$ 3,373,526	$ 3,660,177
Other receivables	1,332,556	873,395
Prepaid expenses and deposits	130,497	331,708
Amounts receivable and prepaid expenses	$ 4,836,579	$ 4,865,280

Included in interest receivable at June 30, 2017 is a non-current balance of $2,015,109 (December 31, 2016 - $3,001,186). The remaining interest and other receivables are current and due in the next 12 months in accordance with contract terms.

(In Canadian dollars)

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

As at June 30, 2017 and December 31, 2016, the Company had a principal balance of loan and mortgage investments of $106,719,807 and $94,309,729, respectively. The loan and mortgage investments carry a weighted average effective interest rate ("EIR") of 15.0% (December 31, 2016 - 15.3%) and a weighted average term to maturity of 1.16 years (December 31, 2016 - 1.05 years).

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and is governed by loan servicing agreements and administered by Terra Firma MA Ltd, the wholly owned subsidiary of the Company. The interest income earned and related interest expense on the syndicate investors are recognized in the condensed interim consolidated statements of income and comprehensive income.

The principal balance of loan and mortgage syndications included in the loan and mortgage loan investments at June 30, 2017 and December 31, 2016 was $70,713,975 and $56,180,448, respectively. The loan and mortgage syndications carry an EIR of 11.1% (December 31, 2016 - 10.8%) and a weighted average term to maturity of 1.31 years (December 31, 2016 - 1.27 years).

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at June 30, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	$ 63,100,318	$ 36,627,214	$ 26,473,104	73.5
Land and lot inventory	43,119,489	34,086,761	9,032,728	25.1
Commercial retail development	500,000	–	500,000	1.4
	106,719,807	70,713,975	36,005,832	100.0
Allowance for loan and mortgage investments loss	(901,285)	–	(901,285)	
	$ 105,818,522	$ 70,713,975	$ 35,104,547	

(In Canadian dollars)

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

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

The Company has two loans to separate and unrelated residential housing development projects that account for 15.2% and 11.5% of the Company's total interest and fees revenue for the six months ended June 30, 2017 and 15.7% and 18.0% of the principal balance of loan and mortgage investments at June 30, 2017. One loan to a residential housing development project accounted for 10.6% of the Company's total interest and fees revenue for the six months ended June 30, 2016 and 15.4% 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 three and six months ended June 30, 2017, the Company capitalized interest income of $4,198,144 and $4,690,743, respectively, (three and six months ended June 30, 2016, the Company capitalized interest income of $2,445,245 and $3,078,576, respectively), which is included in the loan and mortgage investments.

(In Canadian dollars)

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

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 June 30, 2017 were $23,966,797, including $14,003,501 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2016 - $11,619,581, including $9,051,743 of capitalization of future interest relating to existing loan and mortgage investments).

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.

The following table presents details of the Company's principal balances of loan categories as at June 30, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	$ 98,920,319	$ 65,628,972	$ 33,291,347	92.5
Unregistered loans	7,799,488	5,085,003	2,714,485	7.5
	$ 106,719,807	$ 70,713,975	$ 36,005,832	100.0

The following table presents details of the Company's principal balances of loan categories as at December 31, 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

(In Canadian dollars)

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

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at June 30, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 44,343,992	$ 22,883,217	$ 21,460,775	59.6
United States	62,375,815	47,830,758	14,545,057	40.4
	$ 106,719,807	$ 70,713,975	$ 36,005,832	100.0

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

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 52,412,874	$ 25,936,137	$ 26,476,737	69.4
Unites States	41,896,855	30,244,311	11,652,544	30.6
	$ 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 a project owned by an entity controlled by a borrower (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):

At June 30 2017, four project loan investments totaling $13,715,768 (December 31, 2016 - $12,185,468), including interest and fees receivable and legal fees incurred on these loans totaling $2,182,418 (December 31, 2016 - $1,123,669), to projects owned by entities controlled by the Borrower are in arrears, of which $248,333 (December 31, 2016 - $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. As at June 30, 2017, based on the most recent valuations of the underlying assets and management's estimates, the Company carries a specific impairment loss provision balance of $310,493 (December 31, 2016 - $310,493) relating to the loans in arrears.

On May 1, 2017, companies related to an entity that owns two projects that the Company has two U.S. loan and mortgage investments in filed for protection under Canada Companies' Arrangement Act in Canada (the "Filing"). At June 30, 2017, these project loan investments totaled $8,913,059 (U.S. $6,868,351), of which $7,445,763 (U.S. $5,737,661) have been syndicated for a net loan investments of the Company of $1,467,296 (U.S. $1,130,690). These loans, secured by first mortgages on the projects, have a loan to value of less than 40% and are performing in accordance with their loan agreements.

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

	Scheduled principal payments	Loan and mortgage investments maturing	Total loan and mortgage investments
Remainder of year	$ –	$ 26,526,283	$ 26,526,283
2018	–	44,509,287	44,509,287
2019	–	27,391,947	27,391,947
2020	–	6,039,180	6,039,180
2021	–	2,253,110	2,253,110
	$ –	$ 106,719,807	$ 106,719,807

(In Canadian dollars)

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

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

	Scheduled principal payments	Loan and mortgage syndications maturing	Total loan and mortgage syndications
Remainder of year	$ –	$ 14,577,452	$ 14,577,452
2018	–	27,660,270	27,660,270
2019	–	21,391,371	21,391,371
2020	–	5,084,882	5,084,882
2021	–	2,000,000	2,000,000
	$ –	$ 70,713,975	$ 70,713,975

Allowance for loan and mortgage investments loss:

The Company also assessed collectively for impairment to identify potential future losses, by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at June 30, 2017, the Company carries a collective impairment loss provision balance of $590,792 (December 31, 2016 - $590,792).

As at June 30, 2017, the Company has recognized a specific impairment of $310,493 (December 31, 2016 - $310,493).

(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 six months ended June 30, 2017 and 2016 were as follows:

Balance, December 31, 2015	$ 478,066
Provision for loan and mortgage investment loss	112,726
Balance, June 30, 2016	$ 590,792
Provision for loan and mortgage investment loss	310,493
Balance, December 31, 2016	$ 901,285
Balance, June 30, 2017	$ 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%.

(ii) Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company with the option to purchase 50% interest in the Valermo Homes JV, owned by an entity controlled by the Borrower.

(In Canadian dollars)

7. Joint arrangements (continued):

On April 15, 2016, the Company through its wholly owned subsidiary, Terra Firma (Valermo) Corporation, exercised its option and acquired a 50% interest in the Valermo Homes JV for $7,000,000. The Company incurred $624,681 in closing costs.

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

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

(In Canadian dollars)

7. Joint arrangements (continued):

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

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 61,410	$ 413,420
Amounts receivable and prepaid expenses	401,130	415,616
Investment properties (note 7(b))	2,208,694	2,208,694
Land under development (note 7(c))	25,032,469	23,808,574
	27,703,703	26,846,304
Liabilities		
Accounts payable and prepaid expenses	6,735,418	5,151,860
Loan and mortgage syndications	870,389	870,389
Mortgages payable (note 7(f))	1,490,117	1,509,503
Construction loan payable (note 7(e))	5,220,000	–
Due to joint operations partner (note 7(d))	5,180,759	11,163,640
	19,496,683	18,695,392
Net assets	$ 8,207,020	$ 8,150,912

The table below details the results of operations for the three and six months ended June 30, 2017 and 2016, attributable to the Company from its joint operations activities:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenue:				
Rental revenue	$ 50,444	$ 50,444	$ 100,888	$ 98,822
Expenses				
Property operating costs	17,157	17,307	34,488	33,399
General and administrative	(71,737)	85	(21,136)	1,008
Interest	12,349	10,475	23,343	21,813
	(42,231)	27,867	36,695	56,220
Net income	$ 92,675	$ 22,577	$ 64,193	$ 42,602

(In Canadian dollars)

7. Joint arrangements (continued):

(b) 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 six months ended June 30, 2017 and 2016:

Balance, December 31, 2015	$ 2,143,794
Balance, June 30, 2016	$ 2,143,794
Change in amount receivable from joint venture partner	2,950
Fair value adjustment	61,950
Balance, December 31, 2016	$ 2,208,694
Balance, June 30, 2017	$ 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 normalized net operating income at the market capitalization rates. The carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $2,208,694. At June 30, 2017 and December 31, 2016, the fair value was determined by the Company's management. The capitalization rate used in the valuation property was 6.25% (December 31, 2016 - 6.25%).

As at June 30, 2017 and December 31, 2016, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by $92,400 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.

(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 periods ended June 30, 2017 and 2016:

Balance, December 31, 2015	$ –
Acquisition of property	22,275,767
Additions, capital expenditures	578,330
Balance, June 30, 2016	$ 22,854,097
Additions, capital expenditures	954,477
Balance, December 31, 2016	$ 23,808,574
Additions, capital expenditures	1,223,895
Balance, June 30, 2017	$ 25,032,469

(d) Due to joint operations partner:

The co-ownership agreement on Valermo Homes JV provides that the Company will not be required to make any other contributions in respect of expenses or development costs and the development partner will loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest is calculated using the formula specified in the co-ownership agreement. At June 30, 2017, the amount due to joint operations partner is $5,180,759 (December 31, 2016 - $11,163,640).

(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 will be prime plus 0.75% per annum. The Company's share of the loan drawn against the Facilities at June 30, 2017 is $5,220,000 (December 31, 2016 - nil).

(In Canadian dollars)

7. Joint arrangements (continued):

(f) Mortgages payable:

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

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at June 30, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Mortgage principal	$ 1,503,275	$ 1,522,661
Unamortized financing costs	(13,158)	(13,158)
	$ 1,490,117	$ 1,509,503

Scheduled principal repayments and maturity amounts of mortgages payable at June 30, 2017 are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
Remainder of year	$ 9,964	$ –	$ 9,964
2018	43,803	–	43,803
2019	45,138	–	45,138
2020	46,513	–	46,513
2021	23,785	1,320,914	1,344,699
	$ 169,203	$ 1,320,914	$ 1,490,117

(In Canadian dollars)

8. Portfolio investments:

The Company has invested through the Hill, in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at June 30, 2017, the cost of the investment is $954,630 (December 31, 2016 - $954,630), and the cost of the investment in the Hill owned by an outside party is $200,000 (December 31, 2016 - $200,000). At June 30, 2017 and December 31, 2016, the fair values were determined by management, using the direct comparison method. The fair value of the investment at June 30, 2017 and December 31, 2016 was $1,174,212 and the investment owned by an outside party of $254,641 is included in non-controlling interest.

The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at June 30, 2017, TFCC LanQueen Ltd. contributed $1,724,000 (December 31, 2016 - $1,724,000) in the partnership. At June 30, 2017 and December 31, 2016, the fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at June 30, 2017 and December 31, 2016 was $2,037,872.

The following table summarizes the changes in the portfolio investments for the six months ended June 30, 2017 and 2016:

Balance, December 31, 2015	$ 2,339,555
Balance, June 30, 2016	$ 2,339,555
Investment made	800,000
Fair value adjustment	72,529
Balance, December 31, 2016	$ 3,212,084
Balance, June 30, 2017	$ 3,212,084

(In Canadian dollars)

9. Investment in associates:

During the year ended December 31, 2015, the Company, together with certain syndicate investors has invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership").

At June 30, 2017 and December 31, 2016, the Company's share of the investment in the Lan Partnership, was $2,315,414.

At June 30, 2017 and December 31, 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 of 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.

At June 30, 2017 and December 31, 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 June 30, 2017 was $2,315,414 (December 31, 2016 - $2,315,414).

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Interest payable	$ 2,582,630	$ 2,106,632
Interest reserve	688,736	513,295
Accounts payable, accrued liabilities and provisions	7,616,599	6,469,378
Share-based compensation payable (note 15(c)(ii))	1,619,031	1,558,661
Accounts payable and accrued liabilities	$ 12,506,996	$ 10,647,966

Accounts payable and accrued liabilities are current and payable in the next 12-month period.

(In Canadian dollars)

11. Short-term unsecured notes payable:

The following table summarizes the changes in the short-term unsecured notes payable for the six months ended June 30, 2017 and 2016:

Balance, December 31, 2015	$	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		(1,574,990)
Unrealized foreign exchange gain		(175,000)
Balance, June 30, 2016	$	7,786,010
Transferred to loan and mortgage syndications		(5,219,310)
Repayments of short-term unsecured notes payable		(2,741,700)
Unrealized foreign exchange loss		175,000
Balance, December 31, 2016	$	–
Balance, June 30, 2017	$	–

As at June 30, 2017 and December 31, 2016, the Company had no outstanding short-term unsecured notes payable.

During the year ended December 31, 2016, the Company issued short-term unsecured notes payable to syndicate investors totaling $250,000, including those investors of the loan and mortgage investments in the amount of $50,000 who elected to convert their interest into a short-term unsecured note payable. Holders of short-term unsecured notes payable totaling $6,794,300 elected to convert their notes into syndications of the loan and mortgage investment. During the year ended December 31, 2016, the Company repaid $2,741,700 of short-term unsecured notes payable.

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

(In Canadian dollars)

12. Revolving operating facility:

The Company had a Revolving Operating Facility Credit Agreement with a lending institution (the "Lender") 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.

During the periods ended June 30, 2017 and 2016, the Company borrowed an aggregate of $2,500,000 and nil, respectively and repaid $10,000,000 and nil, respectively, against the facility.

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

For the three and six months ended June 30, 2017, amortization of deferred financing costs reported as interest expense and financing costs totaled $6,675 and $32,414 (three and six months ended June 30, 2016, $25,585 and $51,119), respectively.

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

The following table presents details of the Facility as at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Face value	$ –	$ 7,500,000
Unamortized financing costs	–	(32,414)
Revolving operating facility	$ –	$ 7,467,586

12. Revolving operating facility (continued):

On June 29, 2017, the Company signed a letter of intent with the Lender offering the Company to extend the Facility for a six-month term with an increased credit limit of $20,000,000. The offer letter also provides the Company an option to extend the Facility for a subsequent six-month period. The offer is subject to certain conditions being met on closing. The Facility upon renewal, will carry interest at the rate 9.5% per annum during the renewal period.

13. Convertible debentures:

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

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

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

(In Canadian dollars)

13. Convertible debentures (continued):

The following table summarizes the changes in the Debentures for the six months ended June 30, 2017 and 2016:

	Total
Liability component of Debentures, December 31, 2015	$ 10,628,301
Interest expensed at EIR of 8.53%	438,996
Interest paid	(377,675)
Liability component of Debentures, June 30, 2016	$ 10,689,622
Interest expensed at EIR of 8.53%	446,462
Interest paid	(381,825)
Liability component of Debentures, December 31, 2016	$ 10,754,259
Interest expensed at EIR of 8.53%	441,765
Interest paid	(376,629)
Liability component of debentures, June 30, 2017	$ 10,819,395

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at June 30, 2017 were $23,966,797 (December 31, 2016 - $11,619,581).

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

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at June 30, 2017, are as follows:

Remainder of year	$ 94,145
2018	221,785
2019	221,785
2020	221,785
	$ 759,500

(In Canadian dollars)

14. Commitments and contingencies (continued):

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 six months ended June 30, 2017 and 2016:

	Shares	Amount
Outstanding, December 31, 2015	60,260,083	$ 31,257,404
Issuance of shares pursuant to share option plan	895,000	268,500
Transferred from contributed surplus upon exercise of options	–	252,390
Outstanding, June 30, 2016	61,155,083	$ 31,778,294
Repurchase of shares pursuant to normal course issuer bid	(94,500)	(55,631)
Issuance of shares pursuant to share option plan	74,667	37,334
Transferred from contributed surplus upon exercise of options	–	29,822
Outstanding, December 31, 2016	61,135,250	$ 31,789,819
Repurchase of shares pursuant to normal course issuer bid	(703,000)	(462,323)
Outstanding, June 30, 2017	60,432,250	$ 31,327,496

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)).

15. Shareholders' equity (continued):

On March 31, 2016, the Company's executive vice chairman (previous chief executive officer) (the "Executive Vice Chairman") exercised 895,000 options that had been 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 Exchange of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase its Shares through the facilities of the Exchange (or by other means as may be permitted by the Exchange) 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 Exchange.

During the six months ended June 30, 2017 and 2016, the Company purchased 703,000 and nil Shares, respectively on Exchange for $462,323 and nil, respectively.

On June 30, 2017, the Exchange 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.

Subsequent to June 30, 2017, the Company purchased 380,500 Shares for total cash consideration of $259,847.

(In Canadian dollars)

15. Shareholders' equity (continued):

(c) Share-based payments:

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

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Share option Plan	$ 59,583	$ 128,966	$ 147,518	$ 295,631
DSU Plan	(132,416)	(70,148)	60,370	(26,427)
	$ (72,833)	$ 58,818	$ 207,888	$ 269,204

(i) Share option plan:

The Company has a share option plan (the "Plan") to grant options to purchase Shares to eligible directors, officers, senior management and consultants. The exercise price of an option shall be determined by the Board of Directors and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the 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 seven years from the date on which it is granted.

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 an expiry date of December 27, 2023. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

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

(In Canadian dollars)

15. Shareholders' equity (continued):

On March 31, 2016, the Company granted options to the Chairman of the Board (the "Chairman") to purchase an aggregate of 200,000 Shares at $0.77 per Share, with an 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 28, 2016	June 26, 2016	March 31, 2016
Average expected life	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	1.40%	1.04%	0.89%
Average expected volatility	87.74%	79.94%	81.61%
Dividend yield	0.00%	0.00%	0.00%

The fair value of options granted on December 28, 2016, June 26, 2016 and March 31, 2016 were $278,956, $187,007 and $108,854, respectively.

A total of 585,000 share options previously granted to the Executive Vice Chairman expired during the second quarter ended June 3, 2017.

The following is the summary of changes in share options for the six months ended June 30, 2017 and year ended December 31, 2016:

	June 30, 2017		December 31, 2016	
	Number of options	Weighted average	Number of options	Weighted average
Outstanding, beginning of period	5,278,671	$ 0.67	5,052,338	$ 0.61
Granted	–	–	1,260,000	0.63
Exercised	–	–	(969,667)	0.32
Cancelled	(50,000)	0.50	–	–
Expired	(585,000)	0.50	(64,000)	0.50
Outstanding, end of period	4,643,671	0.69	5,278,671	0.67
Number of options exercisable	4,270,367	$ 0.70	4,260,335	$ 0.67

(In Canadian dollars)

15. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at June 30, 2017:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
138,667	April 17, 2018	138,667	0.30	0.25
50,000	February 23, 2019	50,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	1,050,000	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	186,696	0.65	0.65
4,643,671		4,270,367		

(ii) Deferred share unit plan:

The Company has a cash-settled Deferred Share Unit Plan (the "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 the future value of the Shares.

The Board of Directors determines the amount, timing, and vesting conditions associated with each award of Deferred Share Units ("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.

(In Canadian dollars)

15. Shareholders' equity (continued):

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

The following is the summary of changes in DSUs for the six months ended June 30, 2017 and year ended December 31, 2016:

	June 30, 2017	December 31, 2016
DSUs outstanding, beginning of period	2,394,066	1,757,001
Granted	145,035	637,065
DSUs outstanding, end of period	2,539,101	2,394,066
Number of DSUs vested	2,490,818	2,292,150

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and six months ended June 30, 2017 were ($132,416) and $60,370 (three and six months ended June 30, 2016 - ($70,148) and ($26,427)), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at June 30, 2017 is $1,619,031 (December 31, 2016 - $1,558,661).

(d) 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 of the Company at an exercise price of $0.85 per Share. The broker warrants expired on May 5, 2017.

(In Canadian dollars)

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at June 30, 2017 and December 31, 2016:

	Amount
Balance, December 31, 2015	$ 2,360,575
Fair value of share-based compensation	295,631
Transfer to share capital - exercise of options	(252,390)
Balance, June 30, 2016	$ 2,403,816
Fair value of share-based compensation	140,079
Transfer to share capital - exercise of options	(29,822)
Balance, December 31, 2016	$ 2,514,073
Fair value of share-based compensation	147,518
Balance, June 30, 2017	$ 2,661,591

(In Canadian dollars)

17. Earnings per share:

The calculation of earnings per share of the three and six months ended June 30, 2017 and 2016 is as follows:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	$ 113,684	$ 395,441	$ 598,496	$ 510,265
Interest savings on debentures, net of taxes	163,496	161,532	324,697	322,662
Diluted income attributable to common shareholders	$ 277,180	$ 556,973	$ 923,193	$ 832,927
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	60,669,415	61,155,083	60,769,126	60,710,028
Dilutive effect of share-based payments	312,205	431,731	440,469	504,581
Assumed conversion of debentures	15,069,444	15,069,444	15,069,444	15,069,444
Weighted average number of diluted Shares outstanding	76,051,064	76,656,258	76,279,039	76,284,053
Earnings per share:				
Basic	$ 0.00	$ 0.01	$ 0.01	$ 0.01
Diluted	$ 0.00	$ 0.01	$ 0.01	$ 0.01

18. Transactions with related parties:

Except as disclosed elsewhere in the condensed interim 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 June 30, 2017 and December 31, 2016, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares.

At June 30, 2017, the Company advanced a loan investment of $1,756,550 to a company controlled by the Chairman at an interest rate of 12% per annum. During the three and six months ended June 30, 2017, the Company recognized interest and fees revenue of $51,996 and $103,435, respectively (three and six months ended June 30, 2016 - $30,220 and $33,648, respectively).

Certain 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 June 30, 2017 and December 31, 2016, the loan and mortgage investments and the Debentures syndicated by officers and directors was $2,293,245 and $1,997,135, respectively.

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 three and six months ended June 30, 2017, the Company received occupancy and office costs of $19,802 and $39,507, respectively (three and six months ended June 30, 2016 - $19,406 and $39,451, respectively).

(In Canadian dollars)

19. Interest:

The following table presents the interest incurred for the three and six months ended June 30, 2017 and 2016:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interest on loans and mortgage syndications	$ 2,138,904	$ 1,502,904	$ 3,974,820	$ 2,824,048
Interest on revolving operating facility	74,176	275,584	335,006	551,118
Interest on debentures	222,444	219,771	441,765	438,996
Montreal Street JV	12,349	10,475	23,343	21,813
	$ 2,447,873	$ 2,008,734	$ 4,774,934	$ 3,835,975

20. Foreign exchange gain/loss:

For the three and six months ended June 30, 2017, the Company recorded a realized and unrealized foreign exchange loss of $830,787 and $633,496, respectively (realized and unrealized foreign exchange loss for the three and six months ended June 30, 2016, $299,680 and $1,529,642, respectively).

For the six months ended June 30, 2017, the U.S. dollar weakened by approximately 3.0% against the Canadian dollar from Cdn. $1.3387 to Cdn. $1.2977. As at June 30, 2017 and December 31, 2016, U.S. dollar-denominated net monetary assets were U.S. $18,016,585 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 on continuing operations in the condensed interim consolidated statements of income and comprehensive income:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Current income tax provision	$ 109,066	$ 62,881	$ 317,820	$ 511,727
Deferred income tax provision (recovery)	(45,623)	126,397	(47,059)	(222,291)
Total tax provision	$ 63,443	$ 189,278	$ 270,761	$ 289,436

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:

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Income from operations before taxes	$ 177,127	$ 584,719	$ 869,257	$ 799,701
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	46,939	154,951	230,353	211,921
Increase (decrease) in income tax due to:				
Non-taxable items	715	151	1,316	(827)
Non-deductible stock-based compensation	15,789	34,176	39,092	78,342
Total tax provision	$ 63,443	$ 189,278	$ 270,761	$ 289,436

(In Canadian dollars)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2017 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (205,224)	$ (8,619)	$ (213,843)
Portfolio investment	(111,397)	–	(111,397)
Incorporation costs	564	(19)	545
DSUs	413,045	15,998	429,043
Allowance for loan and mortgage investment loss	238,842	–	238,842
Unrealized foreign exchange loss	(328,056)	72,413	(255,643)
Debentures, Shares and revolving operating facility issue costs	320,550	(32,714)	287,836
	$ 328,324	$ 47,059	$ 375,383

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2016 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (176,230)	$ (1,275)	$ (177,505)
Portfolio investment	(111,397)	–	(111,397)
Incorporation costs	606	(21)	585
DSUs	311,284	(7,003)	304,281
Allowance for loan and mortgage investment loss	126,689	29,872	156,561
Unrealized foreign exchange loss	(540,982)	237,983	(302,999)
Debentures, Shares and revolving operating facility issue costs	371,365	(37,265)	334,100
	$ (18,665)	$ 222,291	$ 203,626

(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, due to joint operations partner, construction loan payable 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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Loan and mortgage syndications	$ 70,713,975	$ 56,180,448
Revolving operating facility	–	7,467,586
Mortgages payable	1,490,117	1,509,503
Debentures	10,819,395	10,754,259
Construction loan payable	5,220,000	–
Due to joint operations partner	5,180,759	11,163,640
Non-controlling interest	254,641	254,641
Shareholders' equity	48,653,849	48,370,158
Total capital	$ 142,332,736	$ 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 remains unchanged during the three and six months ended June 30, 2017 and 2016.

During the three and six months ended June 30, 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, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, construction loan payable, loan and mortgage syndications, mortgages payable, short-term unsecured notes payable and Debentures.

The fair values 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 values of loan and mortgage investments, loan and mortgage syndications, mortgages payable, short-term loans payable and Debentures approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndication liabilities, construction loan payable, mortgages payable, short-term loans payable or Debentures. The Company makes its determinations 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 value is based on Level 3 on the fair value hierarchy.

The Company uses various methods in estimating the fair values recognized in the condensed interim 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.

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 June 30, 2017 and December 31, 2016 and no amounts were transferred between fair value levels during the six months ended June 30, 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 consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2016.

Credit risk:

As at June 30, 2017, $13,715,768 (December 31, 2016 - $12,185,468) of the loan and mortgage investments and $2,182,418 (December 31, 2016 - $1,123,669) of interest receivable and fees paid on these loans are in arrears over 60 days.

25. Subsequent event:

On August 11, 2017, the Company entered into a subscription agreement for a non-brokered private placement (the "Offering") through the sale 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 in the capital of the Company and one Share purchase warrant. Each warrant is exercisable for one Share at a price of $0.85 per Share for a period of 36 months from the date hereof. All Shares being issued as part of the Offering are subject to a lock-up, so long as the warrants are outstanding and other specified conditions are maintained. The Offering is expected to close no later than August 22, 2017.