TERRA FIRMA

Interim Condensed Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2019 and 2018
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	March 31, 2019	December 31, 2018 (As restated - note 3(a))	January 1, 2018 (As restated - note 3(a))
Assets			
Cash and cash equivalents	$ 10,079,078	$ 7,731,379	$ 2,141,966
Funds held in trust	1,261,205	1,095,669	2,401,781
Amounts receivable and prepaid expenses (note 4)	1,148,326	1,013,935	1,164,074
Loan and mortgage investments (note 5)	120,796,089	121,675,979	93,203,582
Investment in finance lease (note 6)	3,293,665	2,819,915	–
Investment property held in joint operations (note 7(b))	1,654,576	1,619,633	1,756,976
Right-of-use asset	295,142	–	–
Portfolio investments (note 8)	1,935,042	1,911,574	10,804,898
Investment in associates (note 9)	2,193,304	2,146,984	2,329,045
Convertible note receivable (note 10)	749,120	–	–
Income taxes recoverable (note 21)	236,936	195,225	239,175
Deferred income tax asset (note 21)	60,960	–	100,456
	$ 143,703,443	$ 140,210,293	$ 114,141,953
Liabilities and Equity			
Liabilities:			
Accounts payable and accrued liabilities (note 11)	$ 4,163,035	$ 3,618,067	$ 4,965,980
Unearned income	985,870	1,303,162	1,197,647
Deferred income taxes payable (note 21)	–	33,376	–
Credit facilities (note 12)	19,320,653	19,464,106	15,086,472
Lease obligations (note 13)	295,436	–	–
Loan and mortgage syndications (note 5)	78,979,830	75,906,550	50,353,652
Mortgages payable (note 7(c))	1,062,057	1,047,809	1,169,234
	104,806,881	101,373,070	72,772,985
Equity:			
Share capital (note 15(a))	26,238,648	26,533,950	28,887,862
Contributed surplus (note 16)	3,321,863	3,264,388	3,017,555
Cumulative translation adjustment (note 3(a))	(3,663,314)	(3,663,314)	(3,663,314)
Retained earnings	12,999,365	12,702,199	12,924,303
Shareholders' equity	38,896,562	38,837,223	41,166,406
Non-controlling interest	–	–	202,562
	38,896,562	38,837,223	41,368,968
Commitments and contingencies (note 14)			
Subsequent events (note 26)			
	$ 143,703,443	$ 140,210,293	$ 114,141,953

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

Approved by the Board of Directors on May 14, 2019 and signed on behalf by:

"Seymour Temkin" Director

"John Kaplan" Director

TERRA FIRMA CAPITAL CORPORATION

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
		(As restated - note 3(a))
Revenue:		
Interest and fees	$ 3,868,489	$ 2,764,354
Rental (note 7(a))	37,950	39,882
	3,906,439	2,804,236
Expenses:		
Property operating costs (note 7(a))	13,053	13,651
General and administrative	781,238	565,668
Share-based compensation (note 15(c))	327,832	21,329
Interest and financing costs (note 19)	2,306,753	1,615,007
Realized and unrealized foreign exchange loss (note 20)	56,534	248,481
	3,485,410	2,464,136
Income from operations before income taxes	421,029	340,100
Income tax expense (note 21)	123,863	138,335
Net income and comprehensive income	$ 297,166	$ 201,765
Earnings per share (note 17):		
Basic	$ 0.01	$ 0.00
Diluted	0.01	0.00

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2019 and 2018
(Unaudited)

	Share capital: Number of shares	Share capital: Amount	Cumulative translation adjustment	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	(note 15(a) and (b))		(note 3)	(note 16)				
Balance, December 31, 2017 (as restated - note 3(a))	63,775,850	$ 28,887,862	$ (3,663,314)	$ 3,017,555	$ 12,924,303	$ 41,166,406	$ 202,562	$ 41,368,968
Changes during the period:								
Repurchase of shares pursuant normal course issuer bid	(1,127,000)	(593,479)	–	–	–	(593,479)	–	(593,479)
Share-based compensation	–	–	–	61,115	–	61,115	–	61,115
Net income and comprehensive income	–	–	–	–	201,765	201,765	–	201,765
Balance, March 31, 2018 (as restated - note 3(a))	62,648,850	28,294,383	(3,663,314)	3,078,670	13,126,068	40,835,807	202,562	41,038,369
Changes during the period:								
Issuance of shares pursuant to share option plan	96,000	36,530	–	(13,986)	–	22,544		22,544
Repurchase of shares pursuant to normal course issuer bid	(4,109,014)	(1,796,963)	–	–	–	(1,796,963)	–	(1,796,963)
Share-based compensation	–	–	–	199,704	–	199,704	–	199,704
Disposition of non-controlling interest	–	–	–	–		–	(153,233)	(153,233)
Loss for the period	–	–	–	–	(423,869)	(423,869)	(49,329)	(473,198)
Balance, December 31, 2018 (as restated - note 3(a))	58,635,836	26,533,950	(3,663,314)	3,264,388	12,702,199	38,837,223	–	38,837,223
Changes during the period:								
Repurchase of shares pursuant to normal course issuer bid	(738,000)	(295,302)	–	–	–	(295,302)	–	(295,302)
Share-based compensation	–	–	–	57,475		57,475	–	57,475
Net income and comprehensive income	–	–	–	–	297,166	297,166	–	297,166
Balance, March 31, 2019	57,897,836	$ 26,238,648	$ (3,663,314)	$ 3,321,863	$ 12,999,365	$ 38,896,562	$ –	$ 38,896,562

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

TERRA FIRMA CAPITAL CORPORATION

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

	Three months ended March 31, 2019	Three months ended March 31, 2018 (As restated - note 3(a))
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	$ 297,166	$ 201,765
Interest and fees earned	(3,868,489)	(2,764,354)
Interest expense and financing costs	2,306,753	1,615,007
Unrealized foreign exchange gain	56,534	64,205
Non-cash items:		
Share-based compensation (note 15(c))	327,832	21,329
Amortization of right of use asset	42,343	–
Income tax provision	123,863	138,335
Changes in working capital:		
Decrease (increase) in other receivables	(65,929)	83,302
Decrease in prepaid expenses and deposits	17,448	4,246
Increase in accounts payable and accrued liabilities	569,580	727,318
Interest and fees received	1,793,164	1,677,363
Interest paid	(1,801,650)	(1,446,857)
Income taxes paid	(255,799)	(174,845)
Cash provided by (used in) operating activities	(457,184)	146,814
Financing activities:		
Proceeds from loan and mortgage syndications	4,094,378	3,139,907
Repayments of loan and mortgage syndications	(1,514,636)	(2,350,623)
Repayments of mortgages payable	(8,395)	(8,400)
Payments on lease obligations	(42,280)	–
Proceeds from credit facilities	1,062,128	–
Repayments of credit facilities	(1,536,754)	–
Repurchase of shares pursuant to normal course issuer bid	(295,302)	(593,479)
Cash provided by financing activities	1,759,139	187,405
Investing activities:		
Funding of loan and mortgage investments	(2,968,861)	(7,147,498)
Repayments of loan and mortgage investments	5,388,171	4,034,194
Funding of investment in finance lease	(472,181)	–
Funding of investment in convertible note receivable	(752,349)	–
Increase in funds held in trust	(165,536)	(798,045)
Proceeds from sale of interest in portfolio investment	16,500	–
Return of capital of portfolio investment	–	4,880,826
Cash provided by investing activities	1,045,744	969,477
Increase in cash and cash equivalents	2,347,699	1,303,696
Cash and cash equivalents, beginning of period	7,731,379	2,141,966
Cash and cash equivalents, end of period	$ 10,079,078	$ 3,445,662

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

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") under the symbol TII. The registered office of the Company is located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the United States. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment properties, for such development or redevelopment, properties repairs or the purchase of investment properties.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited interim condensed 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 interim condensed 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 as well as Interpretation of International Financial Reporting Interpretations Committee. These interim condensed 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, 2018.

(b) Functional and presentation currency:

The functional currency of the Company is the Canadian dollar ("CAD"). These consolidated financial statements are presented in United States dollars ("USD").

(In United States dollars unless otherwise stated)

3. Significant accounting policies:

The interim condensed consolidated financial statements for the three months ended March 31, 2019 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, 2018, except for the following changes in accounting policies and disclosures and new standards adopted during the three months ended March 31, 2019, as described below:

(a) Change in presentation currency:

Effective January 1, 2019, the Company changed its presentation currency from CAD to USD to better reflect the Company's business activities. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21, The Effects of Changes in Foreign Exchange Rates, and have applied the change retrospectively, as if the USD had always been the Company's presentation currency, as follows:

- assets and liabilities have been translated into the USD at the rate of exchange prevailing at the respective reporting dates;
- the consolidated statements of income and comprehensive income were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- exchange differences arising on translation were recorded in "cumulative translation adjustment" in shareholders' equity.

The exchange rates used in translation were as follows:

USD/CAD exchange rate	March 31, 2018	December 31, 2018	January 1, 2018
As at the reporting date	$ 0.7758	$ 0.7332	$ 0.7955
Average rate for the period	$ 0.7906	$ 0.7716	$ 0.7704

3. Significant accounting policies (continued):

(b) IFRS 16, Leases ("IFRS 16"):

Effective January 1, 2019, the Company adopted IFRS 16. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease obligation representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method, and is subsequently adjusted for interest and lease payments.

(In United States dollars unless otherwise stated)

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2019:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 269,821	$ –	$ 269,821
Other receivables	1,034,867	(197,234)	837,633
Prepaid expenses and deposits	40,872	–	40,872
Amounts receivable and prepaid expenses	$ 1,345,560	$ (197,234)	$ 1,148,326

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2018:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	$ 179,745	$ –	$ 179,745
Other receivables	968,938	(193,068)	775,870
Prepaid expenses and deposits	58,320	–	58,320
Amounts receivable and prepaid expenses	$ 1,207,003	$ (193,068)	$ 1,013,935

As at March 31, 2019 and December 31, 2018, other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by a Canadian borrower (the "Borrower") are $364,829 and $357,124, respectively.

Included in interest receivable at March 31, 2019 are non-current balances of $147,510 (December 31, 2018 - $36,377). The remaining interest and other receivables are current and due in the next 12 months in accordance with contract terms.

(In United States dollars unless otherwise stated)

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

As at March 31, 2019 and December 31, 2018, the Company had principal balances of loan and mortgage investments of $121,341,337 and $122,209,711, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 13.7% (December 31, 2018 - 13.7%) and a weighted average term to maturity of 1.43 years (December 31, 2018 - 1.67 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. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income.

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage loan investments at March 31, 2019 and December 31, 2018 were $78,979,830 and $75,906,550, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.2% (December 31, 2018 - 10.2%) and a weighted average term to maturity of 1.35 years (December 31, 2018 - 1.53 years).

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at March 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 28,744,369	$ (91,673)	$ 28,652,696	$ 8,280,456	$ 20,372,240	48.7
Land and lot inventory	85,296,536	(452,517)	84,844,019	66,649,374	18,194,645	43.5
Commercial retail development	4,755,000	(1,058)	4,753,942	4,050,000	703,942	1.7
	118,795,905	(545,248)	118,250,657	78,979,830	39,270,827	93.9
Impaired loans:						
Residential housing developments	2,545,432	–	2,545,432	–	2,545,432	6.1
	$ 121,341,337	$ (545,248)	$ 120,796,089	$ 78,979,830	$ 41,816,259	100.0

(In United States dollars unless otherwise stated)

5. 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, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	$ 29,760,683	$ (107,819)	$ 29,652,864	$ 7,715,756	$ 21,937,108	47.9
Land and lot inventory	84,964,030	(422,258)	84,541,772	64,140,794	20,400,978	44.6
Commercial retail development	4,755,000	(3,655)	4,751,345	4,050,000	701,345	1.5
	119,479,713	(533,732)	118,945,981	75,906,550	43,039,431	94.0
Impaired loans:						
Residential housing developments	2,729,998	–	2,729,998	–	2,729,998	6.0
	$ 122,209,711	$ (533,732)	$ 121,675,979	$ 75,906,550	$ 45,769,429	100.0

As at March 31, 2019, there are three loan and mortgage investments in the U.S., before syndication, that account for 15.5%, 13.3% and 10.3% of the principal balance of loan and mortgage investments. For the three months ended March 31, 2019, the Company has three loan and mortgage investments in the U.S, before syndication, that accounts for 13.7%, 12.4% and 11.6% of the Company's total interest and fees revenue. As at December 31, 2018, there are three loan and mortgage investments in the U.S., before syndication, that account for 14.7%, 13.2% and 10.2% of the principal balance of loan and mortgage investments. For the three months ended March 31, 2018, the Company has three loan and mortgage investments in the U.S, before syndication, that accounts for 16.0%, 12.3% and 10.6% of the Company's total interest and fees revenue.

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 months ended March 31, 2019 and 2018, the Company capitalized interest income of $1,296,529 and $1,103,054, respectively, which is included in loan and mortgage investments.

(In United States dollars unless otherwise stated)

5. 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 March 31, 2019 were $18,973,145, including $7,777,213 of capitalization of future interest relating to existing loan and mortgage investments (December 31, 2018 - $23,791,223, including $4,436,971 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 and mortgage investments segmented by geography as at March 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 12,440,723	$ (53,522)	$ 12,387,201	$ 6,900,669	$ 5,486,532	13.1
United States	108,900,614	(491,726)	108,408,888	72,079,161	36,329,727	86.9
	$ 121,341,337	$ (545,248)	$ 120,796,089	$ 78,979,830	$ 41,816,259	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, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	$ 12,191,327	$ (35,475)	$ 12,155,852	$ 6,715,756	$ 5,440,096	11.9
United States	110,018,384	(498,257)	109,520,127	69,190,794	40,329,333	88.1
	$ 122,209,711	$ (533,732)	$ 121,675,979	$ 75,906,550	$ 45,769,429	100.0

(In United States dollars unless otherwise stated)

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

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ACL allowance is recognized as at March 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 20,463,913	$ –	$ 2,545,432	$ 23,009,345
Land and lot inventory	18,647,162	–	–	18,647,162
Commercial retail development	705,000	–	–	705,000
	$ 39,816,075	$ –	$ 2,545,432	$ 42,361,507

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications segmented by geography, for which ACL allowance is recognized as at March 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 2,994,622	$ –	$ 2,545,432	$ 5,540,054
United States	36,821,453	–	–	36,821,453
	$ 39,816,075	$ –	$ 2,545,432	$ 42,361,507

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
Remainder of year	$ –	$ 34,007,540	$ 34,007,540
2020	–	49,343,347	49,343,347
2021	–	19,235,659	19,235,659
2022	–	18,754,791	18,754,791
	$ –	$ 121,341,337	$ 121,341,337

(In United States dollars unless otherwise stated)

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

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

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
Remainder of year	$ –	$ 26,172,139	$ 26,172,139
2020	–	31,788,768	31,788,768
2021	–	6,456,904	6,456,904
2022	–	14,562,019	14,562,019
	$ –	$ 78,979,830	$ 78,979,830

Allowance for loan and mortgage investments loss:

During the year ended December 31, 2018, due to the uncertainty and timing related to a recovery of a loan and mortgage investments in arrears, the Company recorded an allowance for loan and mortgage investments loss of $2,403,182 and, subsequently a write-off of two loan and mortgage investments totaling $3,108,435.

On March 24, 2019, the courts approved a settlement between the Company and the Israeli Functionary (the "Functionary"), pursuant to which the lawsuit filed by the Functionary against the Company in Israel has been withdrawn in exchange for the assignment of the Company's rights in connection with a claim brought in the Defaulting Borrower's insolvency, which had previously been denied, and certain other rights of the Company. The agreement did not include any cash payment or other consideration by the Company.

At March 31, 2019, one project loan investment totaling $2,910,253 (December 31, 2018 - $3,087,122), including interest receivable on this loan and fees incurred relating to collection of this loan totaling $364,821 (December 31, 2018 - $357,124), to a project owned by an entity controlled by the Borrower is in arrears. As at March 31, 2019 and December 31, 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an allowance for credit loss (the "ACL") balance of $197,234 (December 31, 2018 - $193,068), relating to this loan and mortgage investment.

In April 2019, the Company received a repayment of loan investment from a U.S borrower of $5,635,144 that was in arrears during the three months ended March 31, 2019 (note 26).

(In United States dollars unless otherwise stated)

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

The changes in the ACL on loan and mortgage investments during the three months ended March 31, 2019 were as follows:

	IFRS 9				
	Balance at January 1, 2019	Provision for credit losses	Net write offs	Other adjustments	Balance at March 31, 2019
Residential housing developments	$ 107,819	$ (18,472)	$ –	$ 2,326	$ 91,673
Land and lot inventory	422,258	21,148	–	9,111	452,517
Commercial retail development	3,655	(2,676)	–	79	1,058
	$ 533,732	$ –	$ –	$ 11,516	$ 545,248

The following table presents the changes in the Company's ACL between the beginning and the end of the period:

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	$ 533,732	$ –	$ –	$ 533,732
Provision for credit losses:				
Remeasurement	11,516	–	–	11,516
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Balance, end of period	$ 545,248	$ –	$ –	$ 545,248

The following table presents details the Company's ACL on loan and mortgage investments as at March 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	$ 91,673	$ –	$ –	$ 91,673
Land and lot inventory	452,517	–	–	452,517
Commercial retail development	1,058	–	–	1,058
	$ 545,248	$ –	$ –	$ 545,248

(In United States dollars unless otherwise stated)

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

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at March 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	$ 53,522	$ –	$ –	$ 53,522
United States	491,726	–	–	491,726
	$ 545,248	$ –	$ –	$ 545,248

6. Investment in finance lease:

The Company has a fixed term contractual arrangement with a builder whereby the Company acquired land for residential housing development from a third party for a total cash consideration of $2,920,000 and provided the builder with the exclusive right to use and develop the land. The Company also has a fixed price contract with the builder to complete all required development based upon a fixed construction budget. The Company is committed to make additional investments of $3,266,029 for development of the land, subject to the builder meeting certain funding conditions. Under this arrangement, the builder has an option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. The builder provided the Company a non-refundable deposit of $927,904 at the time of the closing of the acquisition. The builder's deposit will be applied on a lot-by-lot basis, upon acquisition of the lots by the builder. At the inception, the Company determined that the arrangement contains a lease and that all of the risks or rewards of ownership of the asset have been transferred and accounts for the arrangement as a finance lease.

The investment in finance lease is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the lease. The rate implicit in the lease is 12.9% per annum. The unearned finance income at March 31, 2019, was $35,325.

(In United States dollars unless otherwise stated)

6. Investment in finance lease (continued):

The following table summarizes the changes in the investment in finance lease for the three months ended March 31, 2019 and 2018:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Balance, beginning of period	$ 2,819,915	$ –
Investments made	472,181	–
Lease payments received	(82,904)	–
Finance income recognized	84,473	–
Balance, end of period	$ 3,293,665	$ –

The following is a reconciliation of the undiscounted future minimum lease payments receivable and the present value of minimum lease payments receivable thereof:

	Future minimum lease receipts	Finance income	Present value of minimum lease receipts
Less than one year	$ 1,023,933	$ 367,465	$ 656,468
Greater than one year but less than 5 years	3,109,846	472,649	2,637,197
	$ 4,133,779	$ 840,114	$ 3,293,665

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.

(In United States dollars unless otherwise stated)

7. Joint arrangements (continued):

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%.

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

	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 25,735	$ 16,061
Amounts receivable and prepaid expenses	82,547	81,121
Investment property	1,654,576	1,619,633
	1,762,858	1,716,815
Liabilities		
Accounts payable and prepaid expenses	34,953	34,230
Mortgages payable	1,062,057	1,047,809
	1,097,010	1,082,039
Net assets	$ 665,848	$ 634,776

(In United States dollars unless otherwise stated)

7. Joint arrangements (continued):

The table below details the results of operations for the three months ended March 31, 2019 and 2018, attributable to the Company from its joint operations:

	Three months ended	
	March 31, 2019	March 31, 2018
Revenue:		
Rental revenue	$ 37,950	$ 39,882
Expenses (income):		
Property operating costs	13,053	13,651
General and administrative expenses	(1,262)	(196)
Interest expense	7,729	8,903
	19,520	22,358
Net income	$ 18,430	$ 17,524

(b) Investment property:

The Company has interests in investment property 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.

At March 31, 2019 and December 31, 2018, the fair value was determined by the Company's management. 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 capitalization rate used in the valuation of property was 6.25% (December 31, 2018 - 6.25%). At March 31, 2019 and December 31, 2018, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is CAD $2,208,694.

As at March 31, 2019 and December 31, 2018, 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 CAD $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 CAD $85,250.

(In United States dollars unless otherwise stated)

7. Joint arrangements (continued):

(c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV, at March 31, 2019 and December 31, 2018 was $1,067,650 and $1,053,274, respectively. The mortgages bear interest at 3.0% per annum, and are amortized over 25 years and mature on July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at March 31, 2019 and December 31, 2018 are as follows:

	March 31, 2019	December 31, 2018
Mortgage principal	$ 1,067,650	$ 1,053,274
Unamortized financing costs	(5,583)	(5,465)
	$ 1,062,067	$ 1,047,809

Scheduled principal repayments and maturity amounts of mortgages payable at March 31, 2019 are as follows:

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year	$ 25,465	$ –	$ 25,465
2020	34,844	–	34,844
2021	17,818	989,523	1,007,341
	$ 78,127	$ 989,523	$ 1,067,650

8. Portfolio investments:

(a) 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 ("FVTPL"). As at March 31, 2019, TFCC LanQueen Ltd. contributed $1,387,065 (December 31, 2018 - $1,387,065) in the partnership. At March 31, 2019 and December 31, 2018, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at March 31, 2019 and December 31, 2018 was $1,892,541 and $1,852,573, respectively.

(b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest $2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after partnership making Savannah Partnership making distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed $200,000 to the Savannah Partnership. During the years ended December 31, 2017 and 2018, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $141,000. As at December 31, 2018, the cost of the investment in the Savannah Partnership is $59,000. During the quarter ended March 31, 2019, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for $16,500. At March 31, 2019 and December 31, 2018, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the remaining investment in the Savannah Partnership at March 31, 2019 and December 31, 2018 was $42,500 and $59,000, respectively.

8. Portfolio investments (continued):

TFCC International Ltd. also committed to advance a first mortgage loan up to $18,000,000 to the Savannah Project. The loan carries interest at 11.0% per annum calculated and compounded monthly. As at March 31, 2019, TFCC International Ltd. had advanced a loan investment of $16,495,328 (December 31, 2018 - $16,177,172) and syndicated $12,963,586 of the principal balance of loan investment to investors (December 31, 2018 - $10,940,146).

(c) The Company, through Terra Firma Valermo Corporation (the "TFVC") has limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of $9,807,285. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at March 31, 2019 was $1 (December 31, 2018 - $1).

(d) The Company, through Terra Firma Capital (Hill) Corporation, had a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company did not have significant influence in the partnership and accounted for this investment as a financial asset at FVTPL. On June 14, 2018, the Company sold its interest in the partnership for $727,858 and recorded a loss of $173,646, including the outside party's share of loss of $49,329. The Company disposed the non-controlling interest of $153,233.

(In United States dollars unless otherwise stated)

8. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2019 and 2018:

Outstanding, December 31, 2017	$ 10,804,898
Return of investment	(4,880,826)
Foreign exchange	(38,373)
Balance, March 31, 2018	5,885,699
Return of investment	(2,940,443)
Redemption of investment	(727,858)
Loss on redemption of investment	(173,646)
Sale of investment	(61,000)
Fair value adjustment	57,413
Foreign exchange	(128,591)
Balance, December 31, 2018	1,911,574
Sale of investment	(16,500)
Foreign exchange	39,968
Balance, March 31, 2019	$ 1,935,042

The following table presents details of the portfolio investments as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Investment in the LanQueen Partnership	$ 1,892,541	$ 1,852,573
Investment in the Valermo Partnership	1	1
Investment in the Savannah Partnership	42,500	59,000
	$ 1,935,042	$ 1,911,574

(In United States dollars unless otherwise stated)

9. Investment in associates:

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

At March 31, 2019 and December 31, 2018, the Company's share of the investment in the Lan Partnership, was $1,851,443.

At March 31, 2019 and December 31, 2018, the Lan Partnership has invested $11,785,382 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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018 was $2,193,304 and $2,146,984, respectively.

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2019 and 2018:

Outstanding, December 31, 2017	$ 2,329,045
Foreign exchange	(57,639)
Balance, March 31, 2018	2,271,406
Foreign exchange	(124,422)
Balance, December 31, 2018	2,146,984
Foreign exchange	46,320
Balance, March 31, 2019	$ 2,193,304

(In United States dollars unless otherwise stated)

10. Convertible note receivable:

On January 29, 2019, the Company entered into a loan agreement with an Ontario corporation that provides web-based crowd funding services and holds an Exempt Market Dealer license. The loan was provided to assist in expanding its operations. The loan was made in exchange for a convertible promissory note receivable (the "Convertible Note") with a face value of CAD $2,000,000. At signing, the Company advanced $752,349 (CAD $1,000,000) of the CAD $2,000,000 commitment. The remaining CAD $1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. The Company has the option to convert the principal and accrued interest into an equity interest. Unless the note is converted pursuant to the terms, the Convertible Note becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety is classified as at FVTPL. The fair value of the Convertible Note at March 31, 2019 was $749,120 (December 31, 2018 - nil).

11. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Interest payable	$ 630,364	$ 564,497
Interest reserve	223,483	604,322
Accounts payable, accrued liabilities and provisions	2,079,969	1,501,842
Share-based compensation payable (note 15(c)(ii))	1,229,219	947,406
Accounts payable and accrued liabilities	$ 4,163,035	$ 3,618,067

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

12. Credit facilities:

(a) Revolving operating facility:

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a CAD $20,000,000 secured revolving loan facility (the "Facility") that matured on March 1, 2018. On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018 and paid the Facility extension fee of $100,000. The extension fee was deferred and amortized over the six-month extension term of the Facility. The Facility carried an interest rate of 9.5% per annum. The Facility was subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allowed the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

On September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend the maturity date to April 1, 2019. The Amendment provides the Company an option for two extensions of the Facility, each for a further term of seven months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until one month prior to the maturity date. Any unpaid balance one month prior to the maturity date will carry an interest rate of 12% per annum, until repaid. In connection with the Amendment, the Company incurred lender and other third-party costs of CAD $100,000. The costs associated with the Amendment have been deferred and are being amortized over the term of the Facility as interest expense using the effective interest rate (the "EIR") method.

On April 1, 2019, the Company extended the term of the Facility for another seven months for a maturity date to November 1, 2019. In connection with the extension, the Company incurred lender and other third-party costs of CAD $100,000. The costs associated with the extension have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

During the three months ended March 31, 2019 and 2018, the Company had no borrowings or repayments, against the Facility.

12. Credit facilities (continued):

(b) Master credit facility:

On August 20, 2018, the Company entered into a Revolving Guidance Facility Agreement with a lending institution in the U.S. for a. $20,000,000 master credit facility (the "Master Facility") to finance the loan and mortgage investments made by the Company. The Master Facility is available on a project by project basis as a project loan. The Master Facility carries an interest rate of three month LIBOR plus three percent (3.00%) per annum, with a floor rate of five percent (5.00%) per annum. The Master Facility will expire thirty-six months from after the date of the applicable project loan is advanced, unless otherwise approved by lender.

During the three months ended March 31, 2019 and 2018, the Company borrowed an aggregate of $1,062,128 and nil, respectively, and repaid $1,536,754 and nil, respectively, against the Master Facility.

In connection with the Master Facility, the Company incurred lender and other third-party costs of $355,504. The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

For the three months ended March 31, 2019 and 2018, amortization of deferred financing costs reported as interest and financing costs totaled $85,435 and $51,434, respectively.

The terms of the credit facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At March 31, 2019 and December 31, 2018, the Company was in compliance with these covenants.

(In United States dollars unless otherwise stated)

12. Credit facilities (continued):

The following table presents details of the revolving operating facility as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Revolving operating facility:		
Face value	$ 11,236,797	$ 10,999,487
Unamortized financing costs	(62,447)	(33,439)
	11,174,350	10,966,048
Master credit facility:		
Face value	8,423,231	8,804,480
Unamortized financing costs	(276,928)	(306,422)
	8,146,303	8,498,058
	$ 19,320,653	$ 19,464,106

13. Lease obligations:

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 space as at March 31, 2019, are as follows:

Remainder of year	$ 127,547
2020	170,062
	$ 297,609

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 March 31, 2019 were $18,973,145 (December 31, 2018 - $23,791,223).

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

(In United States dollars unless otherwise stated)

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 three months ended March 31, 2019 and 2018:

	Shares	Amount
Outstanding, December 31, 2017	63,775,850	$ 28,887,862
Repurchase of shares pursuant to normal course issuer bid	(1,127,000)	(593,479)
Outstanding, March 31, 2018	62,648,850	28,294,383
Issuance of shares pursuant to private placement	96,000	22,544
Repurchase of shares pursuant to normal course issuer bid	(4,109,014)	(1,796,963)
Transferred from contributed surplus upon exercise of options	–	13,986
Outstanding, December 31, 2018	58,635,836	26,533,950
Repurchase of shares pursuant to normal course issuer bid	(738,000)	(295,302)
Outstanding, March 31, 2019	57,897,836	$ 26,238,648

On May 14, 2018, directors of the Company exercised 96,000 options that had been granted to purchase the Shares at CAD $0.30 per share. The consideration of $28,800 received on exercising the options was recorded as share capital and the related contributed surplus of $13,986 was transferred to share capital (note 16).

(In United States dollars unless otherwise stated)

15. Shareholders' equity (continued):

(b) Normal course issuer bid:

On November 23, 2018, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 6, 2018 (the "Prior NCIB"), the Company renewed the NCIB (the "Renewed NCIB"). Under the terms of the Renewed NCIB, the Company may be permitted to acquire up to 4,186,319 Shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 17, 2018 and will conclude on the earlier of: (i) November 26, 2019, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the renewed NCIB, or (iii) the Company providing a notice of termination to the TSX-V.

The Prior NCIB commenced on November 14, 2017, permitted the Company to purchase up to an aggregate maximum of 4,255,765 Shares. The Prior NCIB concluded on November 6, 2018, being the date on which the Company has purchased the maximum number of Shares permitted to be acquired pursuant to the Prior NCIB.

During the three months ended March 31, 2019 and 2018, the Company purchased and cancelled 738,000 and 1,127,000 Shares, respectively, on TSX-V for $295,302 and $593,479, respectively.

(c) Share-based payments:

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

	Three months ended	
	March 31, 2019	March 31, 2018
Share option plan	$ 57,475	$ 61,115
Deferred share unit plan	270,357	(39,786)
	$ 327,832	$ 21,329

(In United States dollars unless otherwise stated)

15. Shareholders' equity (continued):

(i) Share option plan:

The Company has a share option plan (the "Plan") to grant option 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 (the "Board") and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the Board may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted.

On August 23, 2018, the Company granted options to its Chairman to purchase up to 400,000 common shares of the Company at a price of CAD $0.64 per share with the expiry date of August 24, 2025. 200,000 options vested immediately and the remaining 200,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

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:

	August 23, 2018
Average expected life	7.00 years
Average risk-free interest rate	2.21%
Average expected volatility	81.92%
Average dividend yield	0.00%

The fair value of options granted on August 23, 2018, was $145,564.

(In United States dollars unless otherwise stated)

15. Shareholders' equity (continued):

The following is the summary of changes in share options for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of period	5,285,004	$ 0.70	5,001,671	$ 0.70
Granted	–	–	400,000	0.64
Exercised	–	–	(96,000)	0.30
Cancelled	–	–	(10,000)	0.85
Expired	(50,000)	0.50	(10,667)	0.30
Outstanding, end of period	5,235,004	$ 0.70	5,285,004	$ 0.70
Number of options exercisable	4,656,718	$ 0.71	4,678,384	$ 0.71

The following summarizes the Company's outstanding share options as at March 31, 2019:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price CAD	Market price at date of grant CAD
515,000	May 20, 2019	515,000	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
970,889	May 11, 2020	970,889	0.85	0.85
100,000	September 25, 2020	100,000	0.69	0.69
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	280,044	0.65	0.65
340,000	December 21, 2024	141,670	0.67	0.67
400,000	August 24, 2025	300,000	0.64	0.64
5,235,004		4,656,718		

15. Shareholders' equity (continued):

(ii) Deferred share unit plan:

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

Each DSU has the same value as one Share (based on the five day volume weighted average trading price). DSUs must be retained until the director leaves the Board or 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.

(In United States dollars unless otherwise stated)

15. Shareholders' equity (continued):

The following is the summary of changes in DSUs for the three months ended March 31, 2019 and year ended December 31, 2018:

	March 31, 2019	December 31, 2018
DSUs outstanding, beginning of period	2,862,202	2,515,561
Granted	91,668	346,641
Settled	(19,636)	–
DSUs outstanding, end of period	2,934,234	2,862,202
Number of DSUs vested	2,878,743	2,808,648

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2019 and 2018, were $270,357 and ($39,786), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2019 is $1,229,219 (December 31, 2018 - $947,406).

(d) Warrants:

At March 31, 2019 and December 31, 2018, the Company has 5,000,000 warrants outstanding. Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020.

(In United States dollars unless otherwise stated)

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at March 31, 2019 and December 31, 2018:

Balance, December 31, 2017	$ 3,017,555
Fair value of share-based compensation	61,115
Balance, March 31, 2018	3,078,670
Fair value of share-based compensation	199,704
Transferred to share capital on exercise of options	(13,986)
Balance, December 31, 2018	3,264,388
Fair value of share-based compensation	57,475
Balance, March 31, 2019	$ 3,321,863

17. Earnings per share:

The calculation of earnings per share for the three months ended March 31, 2019 and 2018 is as follows:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	$ 297,166	$ 201,765
Diluted income attributable to common shareholders	$ 297,166	$ 201,765
Denominator basic and diluted earnings per share:		
Weighted average number of Shares outstanding	58,379,575	62,788,494
Dilutive effect of share-based payments	7,166	252,634
Weighted average number of diluted Shares outstanding	58,386,741	63,041,128
Earnings per share:		
Basic	$ 0.01	$ 0.00
Diluted	0.01	0.00

18. Transactions with related parties:

Except as disclosed elsewhere in the interim condensed 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 March 31, 2019 and December 31, 2018, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.1% of the issued and outstanding Shares.

The Company had a loan investment of $1,362,592 to a company controlled by the Chairman at an interest rate of 12% per annum. On May 2, 2018, the Company received the repayment of the loan investment in full, together with accrued interest. During the three months ended March 31, 2019 and 2018, the Company recognized interest and fees revenue of nil and $43,378, 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 March 31, 2019 and December 31, 2018, the loan and mortgage investments and the debentures syndicated by officers and directors was $469,230 and $467,659, 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 months ended March 31, 2019 and 2018, the Company received $13,019 and $17,359, respectively, for the occupancy and office costs.

(In United States dollars unless otherwise stated)

19. Interest and financing costs:

The following table presents the interest incurred for the three months ended March 31, 2019 and 2018:

	Three months ended March 31, 2019	Three months ended March 31, 2018
Interest on loans and mortgage syndications	$ 2,030,992	$ 1,249,239
Interest on revolving operating facility	268,032	356,865
Montreal Street JV	7,729	8,903
	$ 2,306,753	$ 1,615,007

20. Foreign exchange:

For the three months ended March 31, 2019 and 2018, the Company recorded a realized and unrealized foreign exchange loss of $56,534 and $248,481, respectively. During the three months ended March 31, 2019, the USD weakened by approximately 2.0% against the CAD from $1.3637 to $1.3349.

21. Income taxes:

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Current income tax provision	$ 218,223	$ 159,126
Deferred income tax recovery	(94,360)	(20,791)
Total tax provision	$ 123,863	$ 138,335

(In United States dollars unless otherwise stated)

21. Income taxes (continued)

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

	Three months ended March 31, 2019	Three months ended March 31, 2018
Income from operations before income taxes	$ 421,029	$ 340,100
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	111,573	90,127
Increase in income tax due to:		
Non-taxable items	471	475
Non-deductible stock-based compensation	15,162	18,424
Other adjustments	(3,343)	29,309
Total tax provision	$ 123,863	$ 138,335

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2019 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (178,684)	$ 8,207	$ (170,477)
Portfolio investments	(262,668)	–	(262,668)
Incorporation costs	358	(6)	352
Deferred share units	273,282	71,643	344,925
Allowance for loan and mortgage investment loss	192,603	–	192,603
Unrealized foreign exchange loss	(172,393)	15,457	(156,936)
Debentures, Shares and revolving operating facility issue costs	114,126	(965)	113,161
	$ (33,376)	$ 94,336	$ 60,960

(In United States dollars unless otherwise stated)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2018 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	$ (178,384)	$ (3,744)	$ (182,128)
Portfolio investments	(811,254)	–	(811,254)
Incorporation costs	418	(7)	411
Deferred share units	373,612	(10,543)	363,069
Allowance for loan and mortgage investment loss	721,925	–	721,925
Unrealized foreign exchange loss	(216,210)	11,518	(204,692)
Debentures, Shares and revolving operating facility issue costs	210,349	(18,015)	192,334
	$ 100,456	$ (20,791)	$ 79,665

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, revolving operating facility, 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 earn a good return for the shareholders.

The following table presents the capital structure of the Company as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Loan and mortgage syndications	$ 78,979,830	$ 75,906,550
Revolving operating facility	19,320,653	19,464,106
Mortgages payable	1,062,057	1,047,809
Equity	38,896,562	38,837,223
Total capital	$ 138,259,102	$ 135,255,688

22. Capital management (continued):

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 months ended March 31, 2019 and 2018.

During the three months ended March 31, 2019 and 2018, 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, Convertible Note, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, lease obligations, loan and mortgage syndications, mortgages payable and revolving operating facility.

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

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

23. Fair value measurement (continued):

- Level 3 - valuation techniques for which significant inputs are not based on observable market data.

The fair value of the Company's investment property, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at March 31, 2019 and December 31, 2018 and no amounts were transferred between fair value levels during the three months ended March 31, 2019 or 2018. Notes 7(b), 8 and 9 outline the key assumptions used by the Company in determining fair value of its investment property, portfolio investments and investment in associates, respectively.

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, 2018.

Credit risk:

As at March 31, 2019, $2,545,432 (December 31, 2018 - $2,792,998) of the loan and mortgage investments and $364,821 (December 31, 2018 - $357,124) of interest receivable and fees paid on these loans are in arrears.

25. Effect of change in presentation currency:

As set out in note 3, the Company elected to change its presentation currency to USD, effective January 1, 2019.

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of financial position as at January 1, 2018 and December 31, 2018 includes adjustments to reflect the change in the accounting policy resulting from the change in presentation to the USD. The amounts previously reported in CAD as shown below have been translated into USD at January 1, 2018 and December 31, 2018 exchange rates (note 3). The effect of the translation is as follows.

As at	December 31, 2018	December 31, 2018	January 1, 2018	January 1, 2018
	USD	CAD	USD	CAD
Assets				
Cash and cash equivalents	$ 7,731,379	$ 10,543,289	$ 2,141,966	$ 2,691,049
Funds held in trust	1,095,669	1,494,940	2,401,781	3,014,606
Amounts receivable and prepaid expenses	1,013,935	1,347,626	1,164,074	1,463,310
Loan and mortgage investments	121,675,979	165,929,535	93,203,582	117,166,221
Investment in finance lease	2,819,915	3,845,519	–	–
Investment properties	1,619,633	2,208,694	1,756,976	2,208,694
Portfolio investment	1,911,574	2,591,586	10,804,898	13,575,623
Interest in associates	2,146,984	2,927,842	2,329,045	2,927,842
Income taxes recoverable	195,225	178,292	239,175	300,667
Deferred income tax asset	–	–	100,456	126,283
	$ 140,210,293	$ 191,067,323	$ 114,141,953	$ 143,474,295
Liabilities and Equity				
Liabilities:				
Accounts payable and accrued liabilities	$ 3,618,067	$ 4,933,963	$ 4,965,980	$ 6,236,233
Unearned income	1,303,162	1,777,129	1,197,647	1,505,576
Deferred income tax liabilities	33,376	1,026,987	–	–
Credit facilities	19,464,106	26,560,237	15,086,472	18,965,205
Loan and mortgage syndication	75,906,550	103,513,760	50,353,652	63,299,522
Mortgages payable	1,047,809	1,428,897	1,169,234	1,469,844
	101,373,070	139,240,973	72,772,985	91,476,380
Equity:				
Share capital	26,533,950	29,801,466	28,887,862	32,864,287
Contributed surplus	3,264,388	3,893,731	3,017,555	3,573,406
Cumulative translation adjustment	(3,663,314)	–	(3,663,314)	–
Retained earnings	12,702,199	18,131,153	12,924,303	15,305,581
Total shareholders' equity	38,837,223	51,826,350	41,166,406	51,743,274
Non-controlling interest	–	–	202,562	254,641
	38,837,223	51,826,350	41,368,968	51,997,915
	$ 140,210,293	$ 191,067,323	$ 114,141,953	$ 143,474,295

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

	Three months ended		Year ended	
	March 31, 2018	March 31, 2018	December 31, 2018	December 31, 2018
	USD	CAD	USD	CAD
Revenue:				
Interest and fees earned	$ 2,764,354	$ 3,497,072	$ 13,292,451	$ 17,258,558
Rental income	39,882	50,444	155,720	201,772
	2,804,236	3,547,516	13,448,171	17,460,330
Expenses:				
Property operating costs	13,651	17,266	53,427	69,228
General and administrative	565,668	717,937	2,775,430	3,617,616
Share based compensation	21,329	26,976	(15,828)	(27,444)
Interest and financing costs	1,615,007	2,042,587	7,947,282	10,322,969
Loss on sale of portfolio investment	–	–	173,646	224,212
Fair value adjustment - portfolio investment	–	–	(57,413)	(75,866)
Provision on loan and mortgage investments	–	–	2,403,182	3,137,059
Provision for uncollectible receivables	–	–	134,940	186,140
Realized and unrealized foreign exchange loss (gain)	248,481	(996,047)	222,828	(3,933,646)
	2,464,136	1,808,719	13,637,494	13,520,268
Income (loss) from operations before income taxes	340,100	1,738,797	(189,323)	3,940,062
Income tax expense	138,335	481,406	82,110	1,169,131
Net income (loss) and comprehensive income (loss)	$ 201,765	$ 1,257,391	$ (271,433)	$ 2,770,931
Net income (loss) and comprehensive income (loss) attributable to:				
Common shareholders	$ 201,765	$ 1,257,391	$ (222,104)	$ 2,825,572
Non-controlling interest	–	–	(49,329)	(54,641)
Net income (loss) and comprehensive income (loss)	$ 201,765	$ 1,257,391	$ (271,433)	$ 2,770,931

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of cash flows for the three months ended March 31, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

	Three months ended		Year ended	
	March 31, 2018	March 31, 2018	December 31, 2018	December 31, 2018
	USD	CAD	USD	CAD
Cash provided by (used in):				
Operating activities:				
Net income (loss) and comprehensive (loss) income	$ 201,765	$ 1,257,391	$ (271,433)	$ 2,770,931
Interest and fees earned	(2,764,354)	(3,497,072)	(13,292,451)	(17,258,558)
Interest expense and financing costs	1,615,007	2,042,587	7,947,282	10,322,969
Unrealized foreign exchange gain	64,205	(913,376)	26,503	(3,565,531)
Non-cash items:				
Share-based compensation (note 15(c))	21,329	26,976	(15,828)	(27,444)
Loss on sale of portfolio investment	–	–	173,646	224,212
Provision for loan and mortgage investments loss	–	–	2,403,182	3,137,059
Provision for uncollectible receivables	–	–	134,940	186,140
Fair value adjustment - portfolio investments	–	–	(57,415)	(75,866)
Income tax provision	138,335	481,406	82,509	1,169,131
Changes in working capital:				
Decrease (increase) in other receivables	83,302	73,359	(482,855)	(669,494)
Decrease in prepaid expenses and deposits	4,246	(2,032)	41,235	39,292
Increase in accounts payable and accrued liabilities	727,318	1,033,377	223,204	475,715
Interest and fees received	1,677,363	2,064,391	8,862,839	11,484,860
Interest paid	(1,446,857)	(1,818,686)	(7,238,873)	(9,386,967)
Income taxes paid	(174,845)	(226,000)	78,367	106,514
	146,814	522,321	(1,385,148)	(1,067,037)
Financing activities:				
Proceeds from loan and mortgage syndications	3,139,907	3,931,376	40,424,380	52,103,952
Repayments of loan and mortgage syndications	(2,350,623)	(2,958,787)	(15,143,072)	(19,591,954)
Repayments of mortgages payable	(8,400)	(10,828)	(33,965)	(43,803)
Payments on lease obligations	–	–	–	–
Proceeds from credit facilities	–	–	8,804,480	11,773,353
Repayments of credit facilities	–	–	(2,948,548)	(4,000,000)
Disposition of non-controlling interest	–	–	(153,233)	(200,000)
Proceeds from issuance of shares pursuant to share options plan	–	–	22,544	28,800
Repurchase of shares pursuant to normal course issuer bid	(593,479)	(744,373)	(2,390,442)	(3,109,488)
	187,405	217,388	28,582,144	36,960,860

(In United States dollars unless otherwise stated)

25. Effect of change in presentation currency (continued):

	Three months ended		Year ended	
	March 31, 2018	March 31, 2018	December 31, 2018	December 31, 2018
	USD	CAD	USD	CAD
Investing activities:				
Funding of loan and mortgage investments	(7,147,498)	(9,005,753)	(56,851,087)	(73,491,392)
Repayments of loan and mortgage investments	4,034,194	5,056,709	28,237,829	36,661,641
Funding of investment in finance lease			(2,865,999)	(3,675,053)
Funding of investment in convertible note receivable				
Decrease (increase) in funds held in trust	(798,045)	(1,038,256)	1,261,548	1,627,530
Proceeds from redemption of portfolio investment			727,858	950,000
Proceeds from sale of portfolio investment			7,821,268	9,807,285
Proceeds from sale of interest in portfolio investment			61,000	78,406
Return of capital of portfolio investment	4,880,826	6,000,000	–	–
	969,477	1,012,700	(21,607,583)	(28,041,583)
Increase in cash and cash equivalents	1,303,696	1,752,409	5,589,413	7,852,240
Cash and cash equivalents, beginning of period	2,141,966	2,691,049	2,141,966	2,691,049
Cash and cash equivalents, end of period	$ 3,445,662	$ 4,443,458	$ 7,731,379	$ 10,543,289

26. Subsequent events:

In April 2019, the Company closed two preferred equity investments totaling $14,000,000 in two separate assisted living and memory care development projects located in Florida. The Company funded $1,264,478 on closing. The remainder of the investments will be made over the course of the year, in accordance with the equity requirements of the respective projects. The investments will be funded through a Company's cash and funds from syndication.

In April 2019, the Company received full repayment of a loan investment of $5,635,144, from a U.S borrower, that had been in arrears during the three months ended March 31, 2019.

In May 2019, the Company closed two finance lease transactions totaling $24,500,000 in two separate locations in Austin, Texas. The Company funded $4,900,334 on closing and the remainder will be substantially funded over the course of the year, subject to the projects meeting certain funding conditions. The investments will be funded through a combination of Company's cash and credit facilities.

26. Subsequent events (continued):

In May 2019, the Company closed and funded in full, a loan investment of $3,269,917 to a residential development project located in Kitchener, Ontario.

In May 2019, the Company increased its Master Facility with the lending institution in the U.S to $35,000,000 from $20,000,000, under the same terms.