TERRA FIRMA CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS
AND FINANCIAL CONDITION

FOR THE YEAR ENDED DECEMBER 31, 2013

APRIL 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial results of Terra Firma Capital Corporation (the "Company") dated April 14, 2014 should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the Company or the real estate industry and may include statements regarding the financial position, business strategy, financial results, real estate values, interest rates, loan to cost, plans and objectives of or involving the Company. In some cases, forward-looking information can be identified by such terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "project", "predict", "forecast", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements necessarily involve known and unknown risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Company's control, affect the lending operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, the risks discussed in the Company's materials filed with Canadian securities regulatory authorities from time to time, including the risks discussed herein (See "Risks and Uncertainties"). The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance that actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain stable; conditions within the real estate industry will be consistent with the current climate; and the referenced above, collectively, will not have a material impact on the Company. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

BASIS OF PRESENTATION

The Company's audited consolidated financial statements for the years ended December 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's presentation currency is the Canadian dollar.

BUSINESS OVERVIEW AND STRATEGY

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: 5000 Yonge Street, Suite 1502, Toronto, Ontario, M2N 7E9. The principal business of the Company is the arrangement of and participation in real property financings secured by investment properties and commercial and residential real estate developments, throughout Canada.

These financings generally take the form of:

(i) Land loans registered in first position at the earlier stages of real property development and either subsequently postponing to construction financing or being discharged upon the funding of construction financing, as the project progresses through the development cycle,

(ii) Term mortgages for the purpose of acquiring or re-financing income producing property. This may include demand loans and term loans that are secured by income-producing property.

(iii) Mezzanine / equity type financings on real property developments that have either progressed to the construction phase or are near to that juncture, or

(iv) Mezzanine financings on income property.

These financings generally represent loan to cost ratios of not more than 90% and loan to end value ratios of not more than 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases the loan to value ratio could increase to 85%.

The Company's primary investment objective is to provide attractive risk-adjusted returns to shareholders over the long-term, through capital appreciation. Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Through management's relationships with mortgage lenders, brokers, local sponsors and other market participants, the Company is able to identify real estate opportunities where it can provide financing solutions to borrowers while achieving equity type returns at reduced risk levels as compared to straight equity ownership. The Company differentiates itself by serving these niches with an experienced financing team which generally can provide more flexible terms and creative structure. Management believes its experience with real estate investments and industry contacts will provide the Company with a consistent flow of quality investment opportunities.

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

Following the termination of the Agreement, the Company's overall strategy remains unchanged.

On January 1, 2013, Counsel distributed its entire holding of 6,168,333 Shares of the Company as a dividend to its shareholders.

INVESTMENTS

LOANS AND MORTGAGE INVESTMENTS

The Company's loan and mortgage investments (the "Investment Portfolio") as at December 31, 2013 consist of (a) loans relating to 14 residential housing developments, comprising 1,738 high rise units in Toronto, Ontario, 469 low rise single family condominium and freehold units in Toronto and Kitchener, Ontario, representing 72.6% of the Investment Portfolio, (b) a portfolio of ten student housing income properties consisting of 5,352 student beds in several states in USA, representing 23.1% of the Investment Portfolio, (c) two residential income properties consisting of 301 rental units in Toronto and Ottawa, Ontario, representing 3.2% of the Investment Portfolio, and (d) a commercial retail development consisting of 5 units in Kitchener, Ontario, representing the remaining 1.1% of the Investment Portfolio.

The Company's Investment Portfolio as at December 31, 2012 consist of (a) loans relating to 12 residential housing developments, comprising 1,110 high rise units in Toronto, Ontario, 1,258 low rise single family condominium and freehold units in Toronto, Vaughan and Ajax, Ontario and a 205-bed student residence in Waterloo, Ontario, representing 94.4% of the Investment Portfolio, and (b) two residential income properties consisting of 300 rental units in Toronto and Ottawa, Ontario, representing the remaining 5.6% of the Investment Portfolio.

The following table presents details of the Investment Portfolio as at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
	Weighted Average Effective Interest Rate	Amount	% of Investments	Weighted Average Effective Interest Rate	Amount	% of Investments
Residential housing developments	19.9%	$ 40,121,019	72.6%	20.0%	$ 30,200,563	94.4%
Residential income properties	17.7%	1,794,084	3.2%	17.7%	1,796,168	5.6%
Commercial retail development	17.0%	600,000	1.1%	0.0%	-	0.0%
Student housing	14.6%	12,763,200	23.1%	0.0%	-	0.0%
Investment Portfolio	18.6%	$ 55,278,303	100.0%	19.9%	$ 31,996,731	100.0%

As at December 31, 2013 and 2012, the principal balance of the Investment Portfolio was $55,278,303 and $31,996,731, respectively. The Investment Portfolio experienced substantial growth during the year ended December 31, 2013, an increase of $23,281,572 or 73% from the balance at December 31, 2012.This growth resulted from the net effect of funding 15 loan investments totaling $39,576,867, capitalized interest of $2,296,953, a subsequent contractual advance based on achievement of pre-established conditions on an existing loan of $700,000, the repayment of 11 loans totaling $19,290,164 and contractual principal repayments of $2,084.

The following table summarizes the change in the Investment Portfolio for the year ended December 31, 2013.

	Amount
Balance of Investment Portfolio, beginning of year	$ 31,996,731
Investment Portfolio activity during the year	
Funding of new loan investments	39,576,867
Advances against existing loan	700,000
Repayments of loans	(19,290,164)
Interest capitalized	2,296,953
Principal repayment of loans	(2,084)
Balance of Investment Portfolio, end of year	$ 55,278,303

The weighted average effective interest rate of the Investment Portfolio at December 31, 2013 and 2012 was 18.6% and 19.9%, respectively. The weighted average effective interest rates of the loans and mortgage investments of residential housing developments at December 31, 2013 and 2012 were 19.9% and 20.0%, respectively and the weighted average effective interest rates of the residential income properties at December 31, 2013 and 2012 were 17.7%. The weighted average effective interest rates of the loans and mortgage investments of commercial retail development and income producing student housing portfolio at December 31, 2013 were 17.0% and 14.6%, respectively. There were no loans and mortgage investments in commercial retail development or income producing student housing properties at December 31, 2012.

The weighted average term to maturity of the Investment Portfolio at December 31, 2013 and 2012 was 1.21 years and 0.65 years, respectively. The relatively short term to maturity of the Investment Portfolio allows for reinvestment of the portfolio in response to changing market conditions.

Principal repayments and the Investment Portfolio maturing in the next five years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2014	2,364	16,841,438	16,843,802
2015	1,750	38,432,751	38,434,501
	$ 4,114	$ 55,274,189	$ 55,278,303

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

The Investment Portfolio is secured by mortgages registered on title and/or other forms of security including but not limited to floating charge unsecured subordinated debentures, general security agreements, postponement of specific claims and joint and several guarantees.

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2013 amounted to $1,529,552, including $866,202 of capitalization of future interest relating to the existing loan and mortgage investments. At December 31, 2012, the unfunded loan commitments amounted to $3,032,425, including $693,900 of capitalization of future interest relating to the existing loan and mortgage investments.

The investments comprising the Investment Portfolio are classified as financial assets and categorized as loans and receivables. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less any provision for impairment. The Loan Portfolio is reviewed on a quarterly basis to determine any such impairment. As at December 31, 2013 and 2012, all contractual principal and interest payments have been made on a portfolio wide basis and management believes there was no material change in the condition of the underlying properties/projects or general economic conditions that would warrant the recognition of any impairment.

INTERESTS IN JOINT OPERATIONS

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

Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and subsequently developed a retail property 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 52.5%. The Montreal Street JV carries a loan of $2,146,449 bearing interest at 4.2% per annum, is amortized over 25 years and matures June 1, 2016.

Queen Street West JV:

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

Salem Road JV:

The Company entered into a co-owners' agreement (the "Salem Road JV") with a development partner and financial partner, to acquire and develop a single family residential housing project in Ajax, Ontario. Upon the completion of the residential project and transfer of all units to purchasers in December 2012, the Company received its investment of $465,500 in cash and its share of fees was $400,000**.**

The financial information in respect of the company's investment in joint operations is as follows:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	$ 5,465	$ 31,588
Amounts receivable and prepaid expenses	101,669	41,642
Investment properties	7,671,452	7,834,576
Total assets	7,778,586	7,907,806
Accounts payable and accrued liabilities	24,134	217,343
Loans and mortgages payable	4,680,547	4,368,854
Total liabilities	4,704,681	4,586,197
Net assets	$ 3,073,905	$ 3,321,609

The table below details the results of operations for the years ended December 31, 2013 and 2012, attributable to the Company from its joint operations activities.

	Three months ended		Year ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Rental revenue	$ 115,419	$ 195,113	$ 451,335	$ 343,958
Interest income	58,310	375,000	58,310	375,000
	173,729	570,113	509,645	718,958
Property operating costs	35,441	76,623	287,078	129,186
General and administrative expenses	878	48	2,732	210
Interest expense	84,824	131,934	400,835	169,554
Fair value adjustment - investment properties	78,287	-	78,287	-
	199,430	208,605	768,932	298,950
Net income (loss)	$ (25,701)	$ 361,508	$ (259,287)	$ 420,008

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 rental properties for the years ended December 31, 2013 and 2012:

	Amount
Balance, December 31, 2011	$ 3,234,658
Acquisition of properties	4,994,892
Additions - capital expenditures	4,391,533
Sale of investment properties	(4,786,507)
Balance, December 31, 2012	$ 7,834,576
Additions - capital expenditures	119,087
Change in amount receivable from joint operations partners	(203,924)
Fair value adjustment	(78,287)
Balance, December 31, 2013	$ 7,671,452

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. The capitalization rate used in the valuation of the property was 7.0%.

As at December 31, 2013, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property by $71,159. A 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property by $66,251.

The Company determined the fair value of investment property in the Queen Street West JV using the direct comparison method. The direct comparison method involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject property and adjusting for any significant differences between them.

As at December 31, 2013, a $5.0 increase or decrease in the rate per square floor would increase or decrease the Company's proportionate share of the value of investment property by $256,048, respectively.

The proportionate share of investment property in the Queen Street West JV with an aggregate fair value of $5,755,492 at December 31, 2013 was estimated by an external real estate appraiser and the proportionate share of investment property in Montreal Street JV with aggregate value of $1,915,960 was valued internally by management.

PORTFOLIO INVESTMENT

The Company has invested, through its subsidiary Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned), 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 its investment as a financial asset at fair value through profit and loss. The carrying value of the investment is $954,073 (2012 – 950,000) and the investment of the other partner in the Hill of $200,000 in included in non-controlling interest. At December 31, 2013 and 2012, the fair values were determined using direct comparison method. The carrying value of this investment approximates its fair value.

FINANCIAL PERFORMANCE

The Company's financial performance for the three months and years ended December 31, 2013 and 2012, respectively, is summarized below.

	Three months ended,			Years ended,		
	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)
Revenue						
Interest and fees earned	$ 2,964,227	$ 1,897,945	$ 1,066,282	$ 8,454,163	$ 5,156,665	$ 3,297,498
Rental income	115,419	195,113	(79,694)	451,335	343,958	107,377
Total revenue	3,079,646	2,093,058	986,588	8,905,498	5,500,623	3,404,875
Expenses						
Property operating costs	35,441	76,623	(41,182)	287,078	129,186	157,892
General and administrative expenses	382,940	134,629	248,311	1,476,156	538,978	937,178
Share based compensation	(2,649)	15,369	(18,018)	39,208	216,840	(177,632)
Interest expense	1,585,753	888,303	697,450	4,742,023	2,569,006	2,173,017
Fair value adjustment - investment properties	78,287	-	78,287	78,287	-	78,287
	2,079,772	1,114,924	964,848	6,622,752	3,454,010	3,168,742
Income from operations before income taxes	999,874	978,134	21,740	2,282,746	2,046,613	236,133
Income taxes	251,848	249,445	2,403	582,919	562,320	20,599
Income from continuing operations	748,026	728,689	19,337	1,699,827	1,484,293	215,534
Loss from discontinued operations	-	(232,313)	232,313	-	(232,313)	232,313
Net income and comprehensive income	748,026	496,376	251,650	1,699,827	1,251,980	447,847

Total revenue for the three months and year ended December 31, 2013 experienced significant increases compared to the same periods last year.

Income from operations before income taxes for the year ended December 31, 2013 was $2,282,746, an increase of $236,133 or 12% compared to the year ended December 31, 2012. Income from continuing operations before income taxes for the three months ended December 31, 2013 was $999,874, an increase of $21,740 or 2% compared to the same period last year.

Income from continuing operations for the year ended December 31, 2013 was $1,699,827, an increase of $215,534 or 15% compared to income from continuing operations for the year ended December 31, 2012. Income from continuing operations for the three months ended December 31, 2013 was $748,026, an increase of $19,337 or 3% compared to the three months ended December 31, 2012.

Increase in income from continuing operations was primarily due to the increase in size of the Company's loan and mortgage investments together with the related financial leverage created through its syndication activities.

INTEREST AND FEES EARNED

Interest and fees earned for the year ended December 31, 2013 was $8,454,163 compared to $5,156,665 for the year ended December 31, 2012. Interest and fees earned for the three months ended December 31, 2013 was $2,964,227 compared to $1,897,945 for the comparable period last year. The increase in interest and fees earned was primarily due to the increase in the size of the Company's Loan Portfolio with higher weighted average effective interest rate over the comparable periods.

RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company's proportionate share of the rental income from investment properties jointly controlled by the Company for the year ended December 31, 2013 was $451,335 compared to $343,958 for the same period last year. The rental income for the three months ended December 31, 2013 was $115,419 compared to $195,113 for comparable period last year. The Company's proportionate share of the property operating costs in investment properties jointly controlled by the Company for the year ended December 31, 2013 was $287,078 compared to $129,186 for the same period last year. The property operating costs for the three months ended December 31, 2013 was $35,441 compared to $76,623 for comparable period last year.

INTEREST EXPENSE

Interest expense for the three months and years ended December 31, 2013 and 2012 were as follows:

	Three months ended,			Years ended,		
	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)
Interest on loans and mortgages payable	$ 1,351,934	$ 569,649	$ 782,285	$ 3,717,266	$ 1,657,495	$ 2,059,771
Interest on Debentures	187,307	186,720	587	742,249	741,957	292
Montreal Street JV	12,062	12,397	(335)	48,830	50,017	(1,187)
Queen Street West JV	34,450	119,537	(85,087)	233,678	119,537	114,141
	$ 1,585,753	$ 888,303	$ 697,450	$ 4,742,023	$ 2,569,006	$ 2,173,017

Interest expense for the year ended December 31, 2013 was $4,742,023 compared to $2,569,006 for the year ended December 31, 2012. Interest expense for the three months ended December 31, 2013 was $1,585, 753 compared to $888,303 for the comparable period last year. The increase in interest expense is attributable primarily to additional loans and mortgages payable syndicated to fund the loan and mortgage investments. See – "Capital Structure and Debt Portfolio – Convertible Debentures".

GENERAL AND ADMINISTRATIVE EXPENSES

During the three months and year ended December 31, 2013, the Company incurred the following general and administrative expenses:

	Three months ended,			Years ended,		
	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)	Dec 31, 2013	Dec 31, 2012	Change Increase/ (decrease)
Asset management fee	$ -	$ 84,000	$ (84,000)	$ 150	$ 328,902	$ (328,752)
Professional fees	31,310	21,160	10,150	148,725	93,656	55,069
Advertising and promotion	12,063	5,837	6,226	19,182	41,690	(22,508)
Salary and benefits	260,216	-	260,216	1,073,946	-	1,073,946
Rent	23,421	-	23,421	76,288	-	76,288
Other	55,930	23,632	32,298	157,865	74,730	83,135
	$ 382,940	$ 134,629	$ 248,311	$ 1,476,156	$ 538,978	$ 937,178

General and administrative expenses for the year and three months ended December 31, 2012, include asset management fees paid to the Manager in respect of the administration of the day-to-day operations of the Company. Prior to September 30, 2012, asset management fee was calculated as a percentage of the Company's shareholders' equity and subsequent to September 30, 2012, the asset management fee calculation included the Debentures issued by the Company. See "Related Party Transactions – Management Agreement with Counsel Asset Management LP".

General and administrative expenses for the year ended December 31, 2013 were $1,476,156, compared to $538,978 for the year ended December 31, 2012. General and administrative expenses for the three months ended December 31, 2013 were $382,940, compared to $134,629 for the three months ended December 31, 2012. General and administrative expenses for the year and three months ended December 31, 2013 consist mainly salaries and benefits, professional fees, office rent and other operating costs associated with the operation of the Company. The increase in general and administrative expenses of $937,178 and $248,311 for the year and three months ended December 31, 2013, respectively, is primarily due to increased payroll and other costs due to the termination of the Agreement by the Manager and addition of employees to support the operations and the growth of the Company. The increase in general and administrative costs was partially offset by savings of incentive fee, which is reflected in interest and fee income and the reduction in asset management fee expense.

SHARE BASED COMPENSATION

Share-based compensation expenses, which are costs associated with the Company's share option plan (the "Plan") amounted to $39,208 and ($2,649) for the year and three months ended December 31, 2013, respectively, compared to $216,840 and $15,369 for the year and three months ended December 31, 2012, respectively. The decrease in share-based compensation expenses was primarily due to the granting of 245,334 options on April 17, 2013 compared to, 910,000 options on April 17, 2012. (See "Shareholders Equity - Share Based Compensation").

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The return on the Loan Portfolio is an important component of the Company's financial results. The Company's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital. The Company's continued focus is to manage risks and returns and to position its Loan Portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. Material changes in market conditions may adversely affect the Company's net cash flow from operating activities and liquidity. A more detailed discussion of these risks is found under the "Risks and Uncertainties" section.

The Company expects to be able to meet all of its obligations as they become due and to provide for the future growth of the business. The Company has a number of financing sources to fulfill its commitments including (i) cash flow from its operating activities, (ii) issuance of loans and mortgages payable, (iii) issuance of shares and debentures, or any combination thereof.

CASH FLOWS

The following table details the changes in cash for the years and three months ended December 31, 2013 and 2012:

	Three months ended,		Years ended,	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Cash provided by (used in) operating activities	$ 520,629	$ (44,349)	$ 795,278	$ 792,686
Cash used in investing activities	(11,416,809)	(5,673,959)	(21,491,305)	(22,284,668)
Cash provided by financing activities	13,922,754	7,331,617	25,193,851	15,943,716
Increase (decrease) in cash and cash equivalents	$ 3,026,574	$ 1,613,309	$ 4,497,824	$ (5,548,266)
Cash and cash equivalents, beginning of period	4,694,541	1,609,982	3,223,291	8,771,557
Cash and cash equivalents, end of period	$ 7,721,115	$ 3,223,291	$ 7,721,115	$ 3,223,291

Cash on hand at December 31, 2013 was $7,721,115 compared to $3,223,291 at December 31, 2012.

Cash provided or (used in) by operating activities for the years ended December 31, 2013 and 2012 of $795,278 and $792,686, respectively and for the three months ended December 31, 2013 and 2012 of $520,629 and ($44,349), respectively are related primarily to the net cash provided by or (used in) lending activities.

The cash used in investing activities during the year ended December 31, 2013 of $21,491,305 primarily reflects the funding of Loan Portfolio of $40,276,867, increase in funds held in trust of $383,526, and capital additions to investment properties of $119,087, which aggregate amount was offset by repayments received from Loan Portfolio of $19,292,248.

The cash used in investing activities during the year ended December 31, 2012 of $22,284,668 primarily reflects the funding of Loan Portfolio of $17,712,826 and capital additions to investment properties of $4,391,533, acquisition of investment property of $2,757,495 and investment in the Portfolio Investment of $950,000, which aggregate amount was offset by repayments received from Loan Portfolio of $3,215,618 and proceeds from sale of investment property of $686,568.

Cash provided by financing activities for the year ended December 31, 2013 of $25,193,851 relates primarily to the net proceeds from the Loan Portfolio of $35,493,200 and proceeds from issuance of Shares of $30,000, which aggregate amount was offset by repayments of the Loan Portfolio of $10,329,349.

Cash provided by financing activities during the year ended December 31, 2012 of $15,943,716 relates to the net proceeds from the Loan Portfolio of $18,064,746, proceeds from the issuance of Shares of $40,000, which aggregate amount was offset by repayments of the Loan Portfolio of $2,161,030.

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, Debentures and loans and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the shareholders.

As at December 31, 2013 and December 31, 2012, respectively, the total capital of the Company was as follows:

	December 31, 2013	December 31, 2012
Loans and mortgages payable	$ 46,569,921	$ 21,406,070
Convertible debentures	10,125,074	10,093,325
Shareholders' Equity	14,524,981	12,755,946
Total capital	$ 71,219,976	$ 44,255,341

LOANS AND MORTGAGES PAYABLE

The Company leverages its Mortgage Portfolio through the issuance of the loans and mortgages payable (the "Loan Portfolio") and the Debentures. These financial liabilities are designed to increase the Company's overall returns through the issuance of specific debt instruments bearing lower effective interest rates than those being realized on the Loan Portfolio itself, while lowering the Company's overall risk profile.

Loans Payable is sourced through the following initiatives:

(i) The syndication of certain loan and mortgage investments to private investors each participating in a prescribed manner on an investment by investment basis. In these cases, the investors assume the same risks associated with the specific investment transaction as the Company.

(ii) Conventional construction or permanent financing secured by the project or investment property. In these cases, the Company is generally in second position to the conventional construction lenders.

At December 31, 2013 the weighted average effective interest rate of Loans Payable was 12.0%, consisting of the syndication of loans pertaining to thirteen residential housing developments having weighted average effective interest rate of 12.9%, two residential income properties, having weighted average effective interest rate of 10.9%, one commercial retail development, having weighted average effective interest rate of 10.5% and one equity loan secured by a limited partnership interest in an entity that has ownership interest in a portfolio of 10 student housing buildings with 5,352 student beds in USA, having weighted average effective interest rate of 12.1% and mortgages on Montreal Street JV and Queen Street JV of 4.2% and 4.8%, respectively.

At December 31, 2012 the weighted average effective interest rate of Loans Payable was 13.9%, consisting of the syndication of loans pertaining to six residential housing developments and two residential income properties, having weighted average effective interest rates of 16.2% and 10.9%, respectively and mortgages on Montreal Street JV and Queen Street JV of 4.2% and 5.4%, respectively.

The following table presents details of the Loans Payable as at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	12.9%	$ 28,279,132	60.7%	16.2%	$ 15,689,132	73.3%
Residential income properties	10.9%	1,347,042	2.9%	10.9%	1,348,084	6.3%
Commercial retail development	10.5%	500,000	1.1%	0.0%	-	0.0%
Student housing	12.1%	12,763,200	27.4%	0.0%	-	0.0%
Montreal Street JV	4.2%	1,180,547	2.5%	4.2%	1,205,676	5.6%
Queen Street West JV	4.8%	2,500,000	5.4%	5.4%	3,163,178	14.8%
	12.0%	$ 46,569,921	100.0%	13.9%	$ 21,406,070	100.0%

At December 31, 2013 the Company's syndication activities resulted in $46,569,921 or 84.2% of the Loan Portfolio being syndicated by investors, yielding a net effective return of 53.8%, thereby increasing its overall return by 35.2% from its non-leveraged 18.6% return compared to $21,406,070 or 66.9% of the Loan Portfolio being syndicated by investors, yielding a net effective return of 32.1%, thereby increasing its overall return by 12.2% from its non-leveraged 19.9% return, at December 31, 2012. Overall return may fluctuate significantly due to changes in the relative dollar amounts and the relative change in the weighted average effective interest rates within the Loan Portfolio.

The following table summarizes the changes in the principal balance of Loans Payable for the year ended December 31, 2013:

	December 31, 2013	December 31, 2012
Balance of Loan Portfolio, beginning of year	$ 21,406,070	$ 6,777,907
Loans and Mortgages Payable activity during the period		
Proceeds to participate in new loan and mortgage investments	34,368,200	10,367,411
Additional advances to existing loans	1,125,000	4,781,868
Assumed on acquisition and sale of investment properties, net	-	1,639,914
Repayments of loan and mortgages payable	(10,249,517)	(2,126,000)
Principal repayment of loans	(79,832)	(35,030)
Balance of Loan Portfolio, end of year	$ 46,569,921	$ 21,406,070

At December 31, 2013, scheduled principal repayments, and maturity amounts on the loans to be paid over each of the next five fiscal years, are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loans and mortgages payable
2014	30,611	10,864,132	10,894,743
2015	31,679	34,523,185	34,554,864
2016	13,224	1,107,090	1,120,314
	$ 75,514	$ 46,494,407	$ 46,569,921

Convertible Debentures

On September 27, 2011, the Company issued 10,150 unsecured subordinated debentures (the "Debentures") at par value of $10,150,000. The Debentures bear interest at 7.0% per annum, payable on a last business day of each calendar quarter and mature on September 27, 2014. The Debentures are convertible at the option of the holder at any time up to maturity at a conversion price of $0.70 per common share. The Debentures are not redeemable or convertible at the option of the Company prior to maturity.

800 of the Debentures, having a face value of $800,000, were issued to directors and officers of the Company.

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

The following table summarizes the changes in the Debentures for the years ended December 31, 2013 and 2012:

		December 31, 2013		December 31, 2012
Liability component of Debentures, beginning of year	$	10,093,325	$	10,061,869
Interest expensed at EIR of 7.35%		742,249		741,956
Interest paid		(710,500)		(710,500)
Liability component of Debentures, end of year	$	10,125,074	$	10,093,325

The Company is confident that it can replace or extend the terms of the maturing Debentures while maintaining the Company's flexible capital structure to optimize the costs of capital.

COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2013 was $1,529,552 including $866,202 of capitalization of future interest relating to the existing loan and mortgage investments. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2012 was $3,032,425 including $693,900 of capitalization of future interest relating to the existing loan and mortgage investments.

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 5000 Yonge Street, Toronto, Ontario. The minimum rental amount is $30,693 per annum extending to March 31, 2017. Additional maintenance and utility costs and realty taxes are payable as incurred.

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.

SHAREHOLDERS' EQUITY

SHARES

The following table summarizes the changes in Shares for the years ended December 31, 2012 and December 31, 2013.

	Shares		Amount
Outstanding as at December 31, 2011	30,495,000	$	10,687,105
Issuance of shares under Share Option Plan	200,000		40,000
Transferred from Contributed surplus upon exercise of options	-		30,300
Outstanding as at December 31, 2012	30,695,000	$	10,757,405
Issuance of shares under Share Option Plan	150,000		30,000
Transferred from Contributed surplus upon exercise of options	-		8,385
Outstanding as at December 31, 2013	30,845,000	$	10,795,790

As at April 14, 2014, there were 30,845,000 shares issued and outstanding.

SHARE BASED COMPENSATION

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

On April 17, 2013, the Company granted share options to Directors and Officers to purchase 245,334 common shares at $0.30 per share. 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90 day period thereafter.

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

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:

	April 17, 2013	April 17, 2012
Average expected life	5.00 years	5.00 years
Average risk-free interest rate	1.21%	1.47%
Average expected volatility	104.00%	103.00%
Average dividend yield	0.00%	0.00%

The fair value of options granted during the years ended December 31, 2013 and 2012 were $39,209 and $188,581, respectively.

The following is the summary of changes in the Company's share options for the years ended December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding - beginning of year	2,442,667	$	0.37	1,917,667	$	0.28
Granted	245,334		0.30	910,000		0.50
Exercised	(150,000)		0.20	(200,000)		0.20
Cancelled	(605,667)		0.42	(185,000)		0.20
Outstanding - end of year	1,932,334	$	0.37	2,442,667	$	0.37
Number of options exercisable	1,897,667	$	0.38	2,270,167	$	0.36

The following summarizes the Company's share options as at December 31, 2013:

Number of options outstanding	Expiry date	Number of options exercisable		Exercise price		Market price at date of grant
150,000	22-Jun-2014	150,000	$	0.20	$	0.09
895,000	24-Jan-2016	895,000		0.30		0.28
138,667	19-Dec-2016	138,667		0.50		0.40
610,000	16-Apr-2017	610,000		0.50		0.30
138,667	17-Apr-2018	104,000		0.30		0.25
1,932,334		1,897,667				

For the years ended December 31, 2013 and 2012, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $39,208 and $216,840, respectively.

In 2013, 150,000 Options to purchase the Company's shares at $0.20 with the expiry date of June 22, 2014, granted to directors and officers were exercised. The consideration received on the exercise of Options of $30,000 was recorded as share capital and the related contributed surplus of $8,385 was transferred to share capital.

In 2012, 200,000 Options to purchase the Company's shares at $0.20 with the expiry date of December 19, 2012, granted to directors and officers were exercised. The consideration received on the exercise of Options of $40,000 was recorded as share capital and the related contributed surplus of $30,300 was transferred to share capital.

The following table presents the details of the contributed surplus balances as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
Balance, beginning of year	$ 573,139	$ 386,599
Fair value of share based compensation	39,208	216,840
Transferred to share capital - exercise of shares	(8,385)	(30,300)
Balance, end of year	$ 603,962	$ 573,139

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At December 31, 2012, Counsel, controlled by the then Chairman of the Board of the Company, owned approximately 20.2% of the outstanding shares of the Company, and therefore is considered a related party. On January 1, 2013, Counsel distributed its entire holding of Shares as dividend to its shareholders.

MANAGEMENT AGREEMENT WITH COUNSEL ASSET MANAGEMENT LP

On December 31, 2012, the Manager terminated the Agreement with the Company.

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

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

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

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

At December 31, 2013, the Chairman of the Board of the Company, indirectly through a wholly owned subsidiary, owned approximately 20% of the issued and outstanding Shares of the Company.

Loans And Mortgages Payable and Debentures

Several of the Company's loans and mortgage investments are shared with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of each applicable syndicate as to payment of principal and interest.

At December 31, 2013, the loan and mortgage investments and Debentures syndicated by officers and directors were $2,840,280 (December 31, 2012 - $2,276,088). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company. No loans or investments are issued to borrowers controlled by or related to officers or directors of the Company.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements.

USE OF ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are disclosed separately. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

Financial Instruments

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 investment, accounts payable and accrued liabilities, provision for discontinued operations, loans and mortgages payable and liability component of Debentures.

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

The fair value of loans and mortgage investments, loans and mortgage payable and Debentures approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, loans and mortgages payable or Debentures. The Company makes the determinations of fair value based on its assessment of the current lending market for loan and mortgage investments of same of 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 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 and non-controlling interest are determined by using Level 3 inputs at December 31, 2013 and 2012 and no amounts were transferred between fair value levels during 2013 or 2012. The key assumptions used by the Company in determining fair values of its investment properties and portfolio investment were discussed separately.

OFF BALANCE SHEET ITEMS

As of December 31, 2013 and 2012, the Company did not have any off-balance sheet (statement of financial position) arrangements.

FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IASB has issued the following new standards and amendments to existing standards that will be relevant to the Company in preparing its consolidated financial statements in future periods.

IFRS 9 *FINANCIAL INSTRUMENTS* ("IFRS 9")

IFRS 9 was issued to replace IAS 39, *"Financial Instruments: Recognition and Measurement"*. This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The current issuance of IFRS 9 includes the first and third phases of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities and hedge accounting. The mandatory effective date of the standard has not been determined due to the incomplete status of the second phase of the project, impairment. The effective date of the entire standard will be determined closer to the completion of the remaining phase. The extent of impact of adoption of IRFS 9 has not been determined.

IFRIC 21 *LEVIES* ("IFRIC 21")

IFRIC 21 addresses accounting for a liability to pay a levy within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes" and fines or other penalties imposed for breaches of the legislation. This interpretation becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company is currently assessing the impact of the new interpretation on its consolidated financial statements.

IAS 32 *FINANCIAL INSTRUMENTS: PRESENTATION* ("IAS 32")

Amendments to IAS 32 were issued in 2011to clarify that an entity currently has a legally enforceable right to offset if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014. These amendments are to be applied retrospectively. The extent of the impact of adoption of the amendments to IAS 32 has not yet been determined.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the Company and in the activities of the Company, including the following, which current and prospective holders of securities of the Company should carefully consider. If any of the following or other risks occurs, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the trading price of the securities of the Company could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

GENERAL BUSINESS RISKS

The Company is subject to general business risks and to risks inherent in the commercial and residential real estate industries, including both the making of loans secured by real estate and the development and ownership of real property. Income and gains from the Company's investments may be adversely affected by:

i. changes in national or local economic conditions,

ii. changes in demand for newly constructed residential units,

iii. the inability of property owners to secure and retain tenants,

iv. the financial inability of tenants to meet their lease obligations,

v. changes in interest rates and in the availability, cost and terms of any mortgage or other financing,

vi. the impact of present or future environmental legislation and compliance with environmental laws,

vii. changes in real estate assessed values and taxes payable on such values and other operating expenses, or

viii. civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses)

Any of the foregoing events could impact the ability of borrowers to timely repay (if at all) loans made by the Company, negatively impact the value or viability of a development project in which the Company has invested or negatively impact the value of portfolio properties of the Company or their ability to generate positive cash flow.

In addition, the Company may be unable to identify and complete investments that fit within its investment criteria. The failure to make a sufficient number of these investments would impair the future growth of the Company.

CREDIT RISK

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

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

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

Cash and cash equivalents are held with financial institutions that management believes are of high credit quality.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency denominated, cash and cash equivalents, loan and mortgage investments and loans and mortgages payable will fluctuate based on changes in foreign currency exchange rates. Approximately $985,907 (2012 – nil) of the Company's cash and cash equivalents and $12,763,200 (2012 - nil), of the loans and mortgage investments and loans and mortgages payable at year end are denominated in United States dollars and secured primarily by charges on real estate located in United States; consequently, the Company is subject to currency fluctuations that may impact its financial position and results. The Company manages its currency risk on loan and mortgage investments by syndicating in the same currency.

A change in exchange rate of the Canadian dollar against the U.S. dollar by 5% would not have a significant impact on the net income and comprehensive income and equity for the year.

INTEREST RATE RISK

Interest rate risk arises due to exposure to the effects of future changes in the prevailing level of interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its loan and mortgage investments, debentures payable and loans and mortgages payable.

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

LIQUIDITY RISK

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

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

OPERATING HISTORY

The Company has a limited history of earnings or operations, it has not paid any dividends and it is unlikely to pay any dividends in the immediate or foreseeable future. The success of the Company depends largely on the expertise, ability, judgment, discretion, and good faith of its management and board of directors.

SUBORDINATED DEBT FINANCING

Subordinated financings that are carried on by the Company would generally be considered riskier than primary financing because the Company will not have a first-ranking charge on the underlying property. When a charge on a property is in a position other than first-ranking, it is possible for the holder of a prior charge on the property to realize on the security given for the loan, in priority to and to the detriment of the Company's security interest in such property or security.

DEVELOPMENT STRATEGY

Any development projects in which the Company invests are subject to a number of risks, including, but not limited to:

(i) construction delays or cost overruns that may increase project costs,
(ii) financing risks,
(iii) the failure to meet anticipated occupancy or rent levels,
(iv) failure to meet anticipated sale levels or prices,
(v) failure to receive required zoning, land use and other governmental permits and authorizations and/or
(vi) changes in applicable zoning and land use laws.

INVESTMENTS IN JOINT OPERATIONS

In any joint operations in which the Company invests, the Company may not be in a position to exercise sole decision-making authority. Investments in joint operations may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint operations partners might become bankrupt or fail to fund their share of required capital contributions. Joint operations partners may have business interests or goals that are inconsistent with the Company's business interests or goals and may be in a position to take actions contrary to the Company's policies or objectives. Any disputes that may arise between the Company and its joint operations partners could result in litigation or arbitration that could increase the Company's expenses and distract its officers and/or directors from focusing their time and effort on the Company's business. In addition, the Company might in certain circumstances be liable for the actions of its joint operations partners.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. As of the end of the period covered by this MD&A, the Company's CEO and CFO evaluated the Company's disclosure controls and procedures and, based upon that review and evaluation, concluded that those disclosure controls and procedures are effective.

The Company is not required to certify the design and evaluation of its disclosure controls and procedures. Inherent limitations on the ability of the certifying officers to design and implement, on a cost effective basis, disclosure controls and procedures for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities regulations.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Given the small size of the Company, and, consequently, limited staff levels, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation deficiencies is likely to result in a misstatement to the consolidated financial statements as the Company relies on certain compensating controls, including the detailed monitoring of operations and transactions by the CEO and CFO. No material changes were made in the Company's internal control over financial reporting during the year ended December 31, 2013.

The Company is not required to certify the design and evaluation of its internal control over financial reporting and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and maintain, on a cost effective basis, internal control over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities regulations.

Based on their evaluations as of December 31, 2013, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's internal controls over financial reporting were effective as at December 31, 2013.

FUTURE OUTLOOK

The following section includes certain forward looking statements, including in regards of the Company's objectives and priorities. Please refer to the section titled "Caution Regarding Forward Looking Statements" on page 1 of this MD&A.

The objective of the Company is to provide attractive returns to shareholders over the long-term, through appreciation in net book value. Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders**.** Management believes there will be significant opportunities for the Company to expand its presence in the market; however, it continues to be prudent in its approach to selection of new investments and pricing.

The termination of the Agreement by the Manager, allows the Company to have full control over management of its business activities, and to realize stronger than expected growth, improve revenue generation and build shareholder value. Management expects that overtime additional efficiencies will be generated through the internal management structure.

For 2014, the Company's strategic priorities will continue to be careful lending practices and selectively constructing and managing a mortgage portfolio.

The achievement of the Company's objectives is dependent on management's ability to execute on its business strategy as described while also successfully mitigating business risks as discussed in this MD&A.

SELECTED ANNUAL AND QUARTERLY INFORMATION

The following selected financial information should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the years ended December 31, 2013 and 2012 and the unaudited condensed consolidated interim consolidated financial statements and accompanying notes.

The following table shows information for revenues, profit, total assets, total liabilities, shareholders' equity and earnings per share amounts for the periods noted therein.

	As at December 31, 2013	As at December 31, 2012	As at December 31, 2011
Total assets	$ 73,669,821	$ 46,400,778	$ 29,536,401
Total liabilities	$ 58,944,840	$ 33,644,832	$ 18,269,275
Shareholders' equity	$ 14,524,981	$ 12,755,946	$ 11,247,126
Loan and mortgage investments	$ 55,278,303	$ 31,996,731	$ 16,724,774
Loans and mortgages payable and Debentures	$ 56,694,995	$ 31,499,395	$ 16,839,576
Loans and mortgage payable and Debentures to loan and mortgage investments	102.6%	98.4%	100.7%

	Three months ended,		Years ended,		
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2011
Total revenue	$ 3,079,646	$ 2,093,058	$ 8,905,498	$ 5,500,623	$ 1,526,319
Total expenses	$ 2,079,772	$ 1,114,924	$ 6,622,752	$ 3,454,010	$ 1,043,945
Income from operations before income taxes	$ 999,874	$ 978,134	$ 2,282,746	$ 2,046,613	$ 677,374
Net income and comprehensive income	$ 748,026	$ 496,376	$ 1,699,827	$ 1,251,980	$ 287,322
Diluted income and comprehensive income	$ 913,243	$ 634,082	$ 2,245,380	$ 1,799,173	$ 1,799,173
Weighted average number of shares outstanding					
Basic	30,842,849	30,585,860	30,737,486	30,585,860	19,120,808
Diluted	45,517,897	45,203,944	45,279,974	30,517,541	33,620,808
Earnings per share					
Basic	$ 0.03	$ 0.01	$ 0.06	$ 0.04	$ 0.02
Diluted	$ 0.02	$ 0.01	$ 0.05	$ 0.04	$ 0.02

The following table sets out the Company's quarterly results of operations for the eight periods ended December 31, 2013.

	Three months ended							
	Dec 31, 2013	Sep 30, 2013	Jun 30, 2013	Mar 31, 2013	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012
Revenue								
Interest and fees earned	2,964,227	2,063,541	1,840,180	1,586,215	1,897,945	1,234,251	1,058,182	966,287
Rental income	115,419	113,262	115,558	107,096	195,113	49,607	49,606	49,632
	3,079,646	2,176,803	1,955,738	1,693,311	2,093,058	1,283,858	1,107,788	1,015,919
Expenses								
Property operating expenses	35,441	182,784	21,238	47,615	76,623	17,512	17,513	17,538
General and administrative expenses	382,940	353,130	372,923	367,163	134,629	143,385	133,199	127,765
Share based compensation	(2,649)	9,512	32,345	-	15,369	41,803	129,311	30,357
Interest expense	1,585,753	1,061,686	1,157,172	937,412	888,303	681,942	503,070	495,691
Fair value adjustment - investment properties	78,287	-	-	-	-	-	-	-
	2,079,772	1,607,112	1,583,678	1,352,190	1,114,924	884,642	783,093	671,351
Income before income taxes	999,874	569,691	372,060	341,121	978,134	399,216	324,695	344,568
Income tax provision	251,848	146,792	108,503	75,776	249,445	109,061	112,462	91,352
Income from continuing operations	748,026	422,899	263,557	265,345	728,689	290,155	212,233	253,216
Loss from discontinued operations	0	-	-	-	(232,313)	-	-	-
Net income and comprehensive income	748,026	422,899	263,557	265,345	496,376	290,155	212,233	253,216
Duluted net incom attributable to common shareholders	913,243	560,459	399,516	399,709	634,082	290,155	212,233	253,216
Weighted average number of shares outstanding								
- basic	30,842,849	30,715,430	30,695,000	30,695,000	30,585,860	30,495,000	30,518,087	30,518,087
- diluted	45,517,897	45,288,073	45,255,450	45,247,008	45,203,944	30,495,000	30,518,087	30,518,087
Earnings per share								
Basic	$ 0.03	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Diluted	$ 0.02	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01

Additional information relating to the Company, including the Company's management information circular can be found on the SEDAR at www.sedar.com.

Dated: April 14, 2014
Toronto, Ontario, Canada