Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2014 and 2013
(Unaudited)

NOTICE TO READER

These condensed consolidated interim financial statements have been prepared by management, reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors of the Company on May 20, 2014. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Terra Firma Capital Corporation discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the condensed consolidated interim financial statements and the related quarterly Management Discussion and Analysis.

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	March 31, 2014	December 31, 2013
Assets			
Cash and cash equivalents		$ 5,684,469	$ 7,721,115
Funds held in trust		486,336	383,526
Amounts receivable and prepaid expenses	3	1,844,161	1,661,352
Loan and mortgage investments	4	56,338,050	55,278,303
Investment properties held in joint operations	5	7,686,666	7,671,452
Portfolio investment	6	954,073	954,073
		$ 72,993,755	$ 73,669,821
Liabilities and Shareholders' Equity			
Liabilities			
Accounts payable and accrued liabilities	7	$ 1,678,788	$ 1,366,708
Provision for discontinued operations	8	290,155	321,490
Unearned income		372,145	472,924
Income taxes payable		182,576	82,375
Deferred income taxes		12,786	6,348
Loans and mortgages payable	9	44,968,242	46,569,921
Convertible debentures	10	10,133,265	10,125,074
		57,637,957	58,944,840
Commitments and contingencies	11		
Shareholders' Equity			
Share capital	12 (a)	$ 10,795,790	$ 10,795,790
Contributed surplus	12 (b) and 13	616,570	603,962
Retained earnings		3,743,438	3,125,229
		15,155,798	14,524,981
Non-controlling interest		200,000	200,000
		$ 72,993,755	$ 73,669,821

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

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	Three months ended March 31, 2014	March 31, 2013
Revenue			
Interest and fees		$ 2,620,540	$ 1,586,215
Rental	5	115,437	107,096
		2,735,977	1,693,311
Expenses			
Property operating costs	5	42,076	47,615
General and administrative		354,517	367,163
Share based compensation	15	12,608	-
Interest	16	1,478,919	937,412
		1,888,120	1,352,190
Income from operations before income taxes		847,857	341,121
Income taxes	17	229,648	75,776
Net income and comprehensive income		$ 618,209	$ 265,345
Earnings per share	14		
Basic		$ 0.02	$ 0.01
Diluted		0.02	0.01

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2014 and 2013
(Unaudited)

	Share capital (note 12 (a))		Contributed surplus		
	Number of shares	**Amount**	**(notes 12 (b) & 13)**	**Retained earnings**	**Total**
Shareholders Equity, December 31, 2012	30,695,000	10,757,405	573,139	1,425,402	12,755,946
Changes during the period:					
Net income and comprehensive income	-	-	-	265,345	265,345
Shareholders Equity, March 31, 2013	30,695,000	10,757,405	573,139	1,690,747	13,021,291
Changes during the period:					
Issuance of common shares under share option plan	150,000	38,385	(8,385)	-	30,000
Share based compensation	-	-	39,208	-	39,208
Net income and comprehensive income	-	-	-	1,434,482	1,434,482
Shareholders Equity, December 31, 2013	30,845,000	$ 10,795,790	$ 603,962	$ 3,125,229	$ 14,524,981
Changes during the period:					
Share based compensation	-	-	12,608	-	12,608
Net income and comprehensive income	-	-	-	618,209	618,209
Shareholders Equity, March 31, 2014	30,845,000	10,795,790	616,570	3,743,438	15,155,798

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

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	Three months ended March 31, 2014	March 31, 2013
Cash provided by (used in)			
Operating activities			
Net income and comprehensive income		$ 618,209	$ 265,345
Non-cash items			
Interest and fees earned		(2,620,540)	(1,586,215)
Interest expense		1,478,919	937,412
Share based compensation	13	12,608	-
Income tax provision		229,648	75,776
Changes in w orking capital			
Decrease in other receivables		57,659	1,128,040
Increase in prepaid expenses and deposits		(6,225)	(48,774)
Increase in accounts payable and accrued liabilities		355,049	382,615
Interest and fees received		1,901,235	1,225,057
Interest paid		(1,690,579)	(738,298)
Income taxes paid		(123,009)	(440,363)
Cash provided by operating activities - continuing operations		212,974	1,200,595
Cash used in operating activities - discontinued operations	8	(31,335)	(30,856)
Cash provided by operating activities		181,639	1,169,739
Investing activities			
Funding of loan and mortgage investments		(9,645,934)	(13,758,333)
Repayments of loan and mortgage investments		9,709,163	3,386,715
Capital additions to investment properties	5	(76,625)	(104,840)
Increase in funds held in trust		(102,810)	-
Cash used in investing activities		(116,206)	(10,476,458)
Financing activities			
Proceeds from loans and mortgages payable		1,875,000	14,350,000
Repayments of loans and mortgages payable		(3,977,079)	(4,568,007)
Cash provided by (used in) financing activities		(2,102,079)	9,781,993
Increase (decrease) in cash and cash equivalents		(2,036,646)	475,274
Cash and cash equivalents, beginning of period		7,721,115	3,223,291
Cash and cash equivalents, end of period		$ 5,684,469	$ 3,698,565

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

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

1. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The preparation of these unaudited condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as well as Interpretation of International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim 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, 2013.

(b) Basis of presentation:

The Company holds its interests in certain joint operations and portfolio investment in its subsidiaries which are controlled by the Company. The Company's principal subsidiaries and ownership are Terra Firma MA Ltd. (100% owned), Terra Firma Queen Developments Inc. (100% owned), and Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned. The financial statements of these subsidiaries and the company's proportionate share in joint operations are consolidated with those of the Company and all intercompany transactions and balances between the Company and its subsidiary entities and joint operations have been eliminated upon consolidation. The non-controlling interest in the Hill is recorded in the consolidated statements of financial position to reflect the non-controlling interest's share of the Hill.

(b) Basis of measurement:

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties held in joint operation, portfolio investments, financial instruments classified at fair value through profit or loss and non-controlling interests, which are stated at their fair values.

1. Basis of presentation (continued):

(c) Functional and presentation currency:

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

(d) Critical judgements and estimates:

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed separately.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these consolidated financial statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

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

2. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the period ended March 31, 2014 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, 2013.

2. Significant accounting policies (continued):

(a) Adoption of Recent Accounting Pronouncements:

The following standards and amendments to existing standards have been adopted for the period beginning January 1, 2014.

(i) IFRIC 21 - *Levies*, 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. The interpretations are effective for annual periods beginning on or after January 1, 2014. The adoption of this interpretation did not result in any changes to the unaudited condensed consolidated interim financial statements.

(ii) *IAS 32, Financial Instruments: Presentation* ("IAS 32") updates the application guidance in IAS 32, to clarify that the right to offset financial assets and financial liabilities must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for fiscal periods beginning on or after January 1, 2014.The adoption of these amendments did not result in any changes to the unaudited condensed consolidated interim financial statements.

(b) New standards and interpretations not yet adopted:

There were no new standards issued during the three months period ended March 31, 2014 that are applicable to the Company in future periods. A Description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

(In Canadian dollars)

3. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2014 and December 31, 2013.

	March 31, 2014	December 31, 2013
Interest receivable	$ 1,671,191	$ 1,498,359
Other receivables	64,868	61,116
Prepaid expenses and deposits	108,102	101,877
Amounts receivable and prepaid expenses	$ 1,844,161	$ 1,661,352

Included in interest receivable are non-current balances of $136,893.

The remaining interest and other receivables are current and due in the next twelve months in accordance with contract terms.

4. Loan and mortgage investments:

As at March 31, 2014 and December 31, 2013, the Company had principal balance of loan and mortgage investments of $56,338,050 and $55,278,303, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 18.8% (December 31, 2013 – 18.6%) and a weighted average term to maturity of 1.09 years (December 31, 2013 – 1.21 years).

The following table presents details of the loan and mortgage investments as at March 31, 2014 and December 31, 2013.

	March 31, 2014		December 31, 2013	
	Amount	% of Investments	Amount	% of Investments
Residential housing developments	$39,180,929	69.6%	$40,121,019	72.6%
Residential income properties	600,000	1.1%	600,000	3.2%
Commercial retail development	3,293,521	5.8%	1,794,084	1.1%
Student housing	13,263,600	23.5%	12,763,200	23.1%
Loan and mortgage investments	$56,338,050	100.0%	$55,278,303	100.0%

4. Loan and mortgage investments (continued):

The Company's investment activities include:

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

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

(a) Residential housing developments:

These loans pertain to 16 projects at various stages of development, 15 in Toronto, Ontario and one in Kitchener, Ontario. In the aggregate, eight of the projects are slated for 1,690 high rise condominium units and eight of the projects are slated for 622 low rise condominium units. Ten of the loans have been syndicated to private investors (note 9).

(b) Commercial retail development:

The loan represents, first mortgage secured by a five unit retail development located in Kitchener, Ontario.

(c) Residential income properties:

The loans represent, second mortgages secured by a 251 unit apartment building located in Toronto, Ontario and two apartment buildings with 130 units, located in Ottawa, Ontario.

(c) Student housing:

The equity loan secured by a limited partnership interest in an entity that has interest in a portfolio of student housing buildings located in the USA, with 5,352 beds.

(In Canadian dollars)

4. Loan and mortgage investments (continued):

The following table presents details of the Company's loan categories as at March 31, 2014 and December 31, 2013:

	March 31, 2014	December 31, 2013
Non-conventional mortgages	$ 50,138,050	$ 44,078,303
Unsecured loans investments	6,200,000	11,200,000
	$ 56,338,050	$ 55,278,303

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

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

	Scheduled principal payments	Investments maturing during the year	Total loans and mortgage investments
Reminder of year	1,801	16,086,935	16,088,736
2015	1,750	35,380,465	35,382,215
2016	-	4,867,099	4,867,099
	$ 3,551	$56,334,499	$56,338,050

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at March 31, 2014 was $826,475 including $163,125 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2013 - $1,529,552, including $866,202 of capitalization of future interest).

During the three months ended March 31, 2014 and 2013, the Company capitalized interest income of $622,576 and $430,733, respectively, and included in the loan and mortgage investments.

(In Canadian dollars)

5. Joint arrangements:

(a) 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.

(i) **Montreal Street JV**:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner to develop a store for a national pharmacy chain in Ottawa, Ontario. The land on which the store was developed is subject to a 20 year land lease, with five renewal options of five years each. The Montreal Street JV carries a loan of $2,133,302 as at March 31, 2014, bearing interest at 4.2% per annum, is amortized over 25 years and matures June 1, 2016. The Company's ownership interest in the Montreal Street JV is 52.5%.

(ii) **Queen Street West JV**

In April 2012, the Company entered into a co-owners' agreement (the "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.

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

	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	2,551	5,465
Amounts receivable and prepaid expenses	198,651	101,669
Investment properties	7,686,666	7,671,452
	7,887,868	7,778,586
Liabilities		
Accounts payable and accrued liabilities	163,585	24,134
Loans and mortgages payable	4,673,316	4,680,547
	4,836,901	4,704,681
Net assets	$ 3,050,967	$ 3,073,905

(In Canadian dollars)

5. Joint arrangements (continued):

The table below details the results of operations for the three months ended March 31, 2014 and 2013, attributable to the Company from its joint operations activities:

	Three months ended March 31, 2014	Three months ended March 31, 2013
Revenue		
Rental	115,437	107,096
Expenses		
Property operating costs	42,076	47,615
General and administrative	131	1,468
Interest	83,219	146,906
	125,426	195,989
Net loss	$ (9,989)	$ (88,893)

b) Interests in properties:

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

The following table summarizes the changes in the Company's proportionate share of the investment properties for the three months ended March 31, 2014 and 2013:

Balance, December 31, 2012	$ 7,834,576
Additions - capital expenditures	104,840
Balance, March 31, 2013	7,939,416
Change in amount receivable from joint venture partners	(203,924)
Additions - capital expenditures	14,247
Fair value adjustment	(78,287)
Balance, December 31, 2013	$ 7,671,452
Change in amount receivable from joint venture partners	(61,411)
Additions - capital expenditures	76,625
Balance, March 31, 2014	$ 7,686,666

5. Joint arrangements (continued):

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 property was 7.0%. The carrying value of investment property in the Montreal Street JV at March 31, 2014 approximates its fair value.

As at March 31, 2014, 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. The carrying value of investment property in the Queen Street West JV at March 31, 2014 approximates its fair value.

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.

6. Portfolio investment:

The Company has invested through the Hill, a partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit and loss. The carrying value of the investment is $954,073 (December 31, 2013 - $954,073) and the investment of the other partner in the Hill of $200,000 is included in non-controlling interest. At March 31, 2014 and December 31, 2013, the fair values were determined using direct comparison method. The carrying value of investment approximates its fair value.

(In Canadian dollars)

7. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2013 and December 31, 2012:

		March 31, 2014		December 31, 2013
Interest payable	$	809,492	$	772,735
Interest reserve		273,979		353,705
Accounts payable, accrued liabilities and provisions		595,317		240,268
Accounts payable and accrued liabilities	$	1,678,788	$	1,366,708

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

8. Discontinued operations:

The Company's discontinued operations consist of the assets, liabilities and operations of a sold property for which the Company has agreed to indemnify rents with respect to a tenant's lease of a unit in the property from the date of sale until its lease expiry of July 2016, to the extent that the tenant fails to make rent payments (the "indemnified tenancy"). The tenant entered into a court appointed receivership process and the receiver was unable to sell the underlying business and as a result, the receiver disclaimed the lease subject to the indemnified tenancy.

The balance of the provision as at March 31, 2014 and December 31, 2013 were $290,155 and $321,490, respectively. The current portion of the provision is $124,266.

Following table summarizes the changes in the provision for discontinued operations for the three months ended March 31, 2013 and 2014:

		Amount
Balance, December 31, 2012	$	445,957
Lease payments during the period		(30,856)
Balance, March 31, 2013		415,101
Lease payments during the period		(93,611)
Balance, December 31, 2013		321,490
Lease payments during the period		(31,335)
Balance, March 31, 2014	$	290,155

(In Canadian dollars)

9. Loans and mortgages payable:

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

The principal balance of loans and mortgage payable at March 31, 2014 and December 31, 2013 were $44,968,242 and $46,569,921, respectively. The loans and mortgages carry a weighted average effective interest rate of 11.6% (December 31, 2013 – 12.0%) and a weighted average term to maturity of 0.98 years (December 31, 2012 – 1.31 years).

The details of loans and mortgages payable at March 31, 2014 and December 21, 2013 are as follows:

	March 31, 2014		December 31, 2013	
	Amount	% of Loans Payable	Amount	% of Loans Payable
Residential housing developments	$ 26,184,566	58.2%	$ 28,279,132	60.7%
Commercial retail development	500,000	1.1%	500,000	1.1%
Residential income properties	1,346,760	3.0%	1,347,042	2.9%
Student housing	13,263,600	29.5%	12,763,200	27.4%
Montreal Street JV	1,173,316	2.6%	1,180,547	2.5%
Queen Street West JV	2,500,000	5.6%	2,500,000	5.4%
	$ 44,968,242	100.0%	$ 46,569,921	100.0%

Scheduled principal repayments and maturity amounts loans and mortgages payable at March 31, 2014 are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loans and mortgages payable
2014 - remainder of year	$ 23,098	$ 6,894,566	$ 6,917,664
2015	31,679	35,298,585	35,330,264
2016	13,224	2,707,090	2,720,314
	$ 68,001	$ 44,900,241	$ 44,968,242

(In Canadian dollars)

10. Convertible debentures:

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

800 of the Debentures, having a face value of $800,000, were placed with certain directors and officers of the Company.

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

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 (the "EIR") 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 three months ended March 31, 2013 and 2014:

		Amount
Liability component of Debentures, December 31, 2012	$	10,093,325
Interest expensed at EIR of 7.35%		182,808
Interest paid		(175,192)
Liability component of Debentures, March 31, 2013		10,100,941
Interest expensed at EIR of 7.35%		559,441
Interest paid		(535,308)
Liability component of Debentures, December 31, 2013		10,125,074
Interest expensed at EIR of 7.35%		183,383
Interest paid		(175,192)
Liability component of Debentures, March 31, 2014	$	10,133,265

(In Canadian dollars)

11. 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 March 31, 2014 was $826,475 (2013 - $1,529,552).

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.

12. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2013 and 2014:

	Shares	Amount
Outstanding as at December 31, 2012	30,695,000	$ 10,757,405
Outstanding as at March 31, 2013	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
Outstanding as at March 31, 2014	30,845,000	$ 10,795,790

(In Canadian dollars)

12. Shareholders' equity (continued):

(b) Share based payments:

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

On February 24, 2014, the Company granted share options to consultants of the Company to purchase 100,000 common shares at $0.50 per share. 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

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.

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:

	February 24, 2014	April 17, 2013
Average expected life	5.00 years	5.00 years
Average risk-free interest rate	0.98%	1.21%
Average expected volatility	98.29%	104.00%
Average dividend yield	0.00%	0.00%

(In Canadian dollars)

12. Shareholders' equity (continued):

The following is the summary of changes in share options for the three months ended March 31, 2014 and year ended December 31, 2013:

	March 31,2014			December 31, 2013		
	Number of options		**Weighted average exercise price**	**Number of options**		**Weighted average exercise price**
Outstanding - beginning of year	1,932,334	$	0.37	2,442,667	$	0.37
Granted	100,000		0.50	245,334		0.30
Exercised	-		-	(150,000)		0.20
Cancelled	-		-	(605,667)		0.42
Outstanding - end of period	2,032,334	$	0.38	1,932,334	$	0.37
Number of options exercisable	1,957,334	$	0.38	1,897,667	$	0.38

The following summarizes the Company's outstanding share options as at March 31, 2014:

Number of options outstanding	Expiry date	Number of options exercisable		Exercise price		Market price at date of grant
150,000	June 22, 2014	150,000	$	0.20	$	0.09
895,000	January 24, 2016	895,000		0.30		0.28
138,667	December 19, 2016	138,667		0.50		0.40
610,000	April 16, 2017	610,000		0.50		0.30
138,667	April 17, 2018	138,667		0.30		0.25
100,000	February 23, 2019	25,000		0.50		0.42
2,032,334		1,957,334				

(In Canadian dollars)

13. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2013 and March 31, 2014:

		Amount
Balance, December 31, 2012	$	573,139
Fair value of share-based compensation		-
Balance, March 31, 2013	$	573,139
Fair value of share-based compensation		39,208
Transferred to share capital - exercise of options		(8,385)
Balance, December 31, 2013		603,962
Fair value of share-based compensation		12,608
Balance, March 31, 2014	$	616,570

14. Earnings per share:

The calculation of earnings per share of the three months ended March 31, 2014 and 2013 is as follows:

		March 31, 2014		March 31, 2013
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	$	618,209	$	265,345
Interest savings on Debentures, net of taxes		134,787		134,364
Diluted income attributable to common shareholders	$	752,996	$	399,709
Denominator basic and diluted earnings per share:				
Weighted average number of shares outstanding		30,845,000		30,695,000
Dilutive effect of share based payments		430,469		52,008
Assumed conversion of Debentures		14,500,000		14,500,000
Weighted average number of diluted common shares outstanding		45,775,469		45,247,008
Earnings per share				
Basic	$	0.02	$	0.01
Diluted	$	0.02	$	0.01

(In Canadian dollars)

15. Transactions with related parties:

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the following are the related party transactions.

At March 31, 2014 and 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.

Several of the Company’s loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest.

At March 31, 2014, the loan and mortgage investments and Debentures syndicated by officers and directors were $2,845,980 (December 31, 2013 - $2,840,280). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

16. Interest expense:

The following table presents the interest incurred for the three months ended March 31, 2014 and 2013:

	Three months ended	
	March 31, 2014	March 31, 2013
Interest on loans and mortgages payable	$ 1,251,183	$ 630,086
Interest on Debentures	183,383	182,808
Montreal Street JV	12,018	12,330
Queen Street West JV	32,335	112,188
	$ 1,478,919	$ 937,412

(In Canadian dollars)

17. Income taxes:

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

	Three months ended			
		March 31, 2014		**March 31, 2013**
Current income tax provision	$	592,173	$	556,978
Deferred income tax provision		(9,254)		5,342
Total tax provision	$	582,919	$	562,320

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, 2014		**March 31, 2013**
Income from continuing operations before taxes	$	847,857	$	341,121
Combined federal and provincial statutory income taxes		26.50%		26.50%
Income tax provision based on statutory income tax rates		224,682		90,397
Increase (decrease) in income tax due to:				
Non-taxable items		1,014		(6,267)
Non-deductible stock based compensation		10,390		-
Change in deferred tax asset not previously recognized		(6,438)		(8,354)
Total tax provision	$	229,648	$	75,776

The combined federal and provincial statutory income tax rate for the three months ended March 31, 2014 and 2013 is 26.50%.

(In Canadian dollars)

17. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2014 is as follows:

		Opening balance		Recognized in income		Closing balance
Investment property	$	(15,466)	$	(4,255)	$	(19,721)
Incorporation costs		700		(12)		688
Debenture and share issue costs		8,418		(2,171)		6,247
	$	(6,348)	$	(6,438)	$	(12,786)

The composition of the Company's recognized deferred income tax assets and liabilities for the year three months ended March 31, 2013 is as follows:

		Opening balance		Recognized in income		Closing balance
Investment property	$	(25,838)	$	-	$	(25,838)
Incorporation costs		753		(13)		740
Debenture and share issue costs		9,483		(8,341)		1,142
	$	(15,602)	$	(8,354)	$	(23,956)

18. Capital management:

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

The following table presents the capital structure of the Company as at March 31, 2014 and December, 2013:

		March 31, 2014		December 31, 2013
Loans and mortgages payable	$	44,968,242	$	46,569,921
Convertible debentures		10,133,265		10,125,074
Shareholders' Equity		15,155,798		14,524,981
Total capital	$	70,257,305	$	71,219,976

18. 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, 2014 and 2013.

During the three months ended March 31, 2014 and 2013, the Company had no externally imposed capital requirements.

19. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, loan and mortgage investments, portfolio investment, accounts payable and accrued liabilities, loans and mortgages payable and Debentures.

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

The fair value of loan and mortgage investments, loans and mortgages 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, mortgage syndication liabilities or Debentures. The Company makes its determinations of fair value based on its assessment of the current lending market for loan and mortgage investments of same or similar terms. As a result the fair value is based on Level 3 on the fair value hierarchy.

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

---

19. Fair value measurement (Continued):

The fair value of the Company's investment properties, portfolio investments and non-controlling interests are determined using Level 3 inputs at March 31, 2014 and December 31, 2013 and no amounts were transferred between fair value levels during three months ended 2014 or 2013. Notes 5 and 6 outlines the key assumptions used by the Company in determining fair value of its investment properties and portfolio investment.

20. 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, 2013.