TERRA FIRMA

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and six months ended June 30, 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 August 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		June 30, 2014		December 31, 2013
Assets					
Cash and cash equivalents		$	5,285,223	$	7,721,115
Funds held in trust			199,059		383,526
Amounts receivable and prepaid expenses	3		2,256,149		1,661,352
Loan and mortgage investments	4		61,266,320		55,278,303
Investment properties held in joint operations	5		1,915,336		7,671,452
Portfolio investments	6		3,148,234		954,073
Deferred income tax asset			31,818		-
		$	74,102,139	$	73,669,821
Liabilities and Shareholders' Equity					
Liabilities					
Accounts payable and accrued liabilities	7	$	2,168,940	$	1,366,708
Provision for discontinued operations	8		27,500		321,490
Unearned income			298,077		472,924
Income taxes payable			274,494		82,375
Deferred income tax liability			-		6,348
Loans and mortgages payable	9		44,907,558		46,569,921
Convertible debentures	10		10,141,697		10,125,074
			57,818,266		58,944,840
Commitments and contingencies	11				
Shareholders' Equity					
Share capital	12 (a)	$	10,834,175	$	10,795,790
Contributed surplus	12 (b) and 13		720,477		603,962
Retained earnings			4,529,221		3,125,229
			16,083,873		14,524,981
Non-controlling interest			200,000		200,000
		$	74,102,139	$	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 June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue					
Interest and fees		$ 2,841,816	$ 1,840,180	$ 5,462,356	$ 3,426,395
Rental	5	47,319	115,558	162,756	222,654
		2,889,135	1,955,738	5,625,112	3,649,049
Expenses					
Property operating costs	5	15,225	21,238	57,301	68,853
General and administrative		529,678	372,923	884,195	740,086
Share based compensation	12	423,994	32,345	436,602	32,345
Interest	16	1,451,536	1,157,172	2,930,455	2,094,584
Gain on conversion of interest in joint operation	5	(487,000)	-	(487,000)	-
		1,933,433	1,583,678	3,821,553	2,935,868
Income from operations before income taxes		955,702	372,060	1,803,559	713,181
Income taxes	17	321,563	108,503	551,211	184,279
Income from continuing operations		634,139	263,557	1,252,348	528,902
Income from discontinued operations	9	151,644	-	151,644	-
Net income and comprehensive income		785,783	263,557	1,403,992	528,902
Earnings per share	14				
Continuing operations					
Basic		$ 0.03	$ 0.01	$ 0.05	$ 0.02
Diluted		0.02	0.01	0.04	0.02
Discontinued operations					
Basic		-	-	-	-
Diluted		-	-	-	-

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 and six months ended June 30, 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:					
Share based compensation	-	-	32,345	-	32,345
Net income and comprehensive income	-	-	-	528,902	528,902
Shareholders Equity, June 30, 2013	30,695,000	10,757,405	605,484	1,954,304	13,317,193
Changes during the period:					
Issuance of common shares under share option plan	150,000	38,385	(8,385)	-	30,000
Share based compensation	-	-	6,863	-	6,863
Net income and comprehensive income	-	-	-	1,170,925	1,170,925
Shareholders Equity, December 31, 2013	30,845,000	$ 10,795,790	$ 603,962	$ 3,125,229	$ 14,524,981
Changes during the period:					
Issuance of common shares under share option plan	150,000	38,385	(8,385)	-	30,000
Share based compensation	-	-	124,900	-	124,900
Net income and comprehensive income	-	-	-	1,403,992	1,403,992
Shareholders Equity, June 30, 2014	30,995,000	10,834,175	720,477	4,529,221	16,083,873

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 June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash provided by (used in)					
Operating activities					
Net income from continuing operations		$ 634,139	$ 263,557	$ 1,252,348	$ 528,902
Non-cash items					
Interest and fees earned		(2,841,816)	(1,840,180)	(5,462,356)	(3,426,395)
Interest expense		1,451,536	1,157,172	2,930,455	2,094,584
Share based compensation	13	423,994	32,345	436,602	32,345
Gain on conversion of interest in joint operation		(487,000)	-	(487,000)	-
Income tax provision		321,563	108,503	551,211	184,279
Changes in working capital					
Decrease (increase) in other receivables		(2,253)	18,966	55,406	1,147,006
Increase in prepaid expenses and deposits		(127,511)	(144,000)	(133,736)	(192,774)
Increase (decrease) in accounts payable and accrued liabilities		(125,645)	(571,889)	229,404	(189,274)
Interest and fees received		2,338,758	999,110	4,239,993	2,224,167
Interest paid		(1,753,364)	(890,524)	(3,443,943)	(1,628,822)
Income taxes paid		(328,924)	(297,709)	(451,933)	(738,072)
Cash (used in) provided by operating activities - continuing operations		(496,523)	(1,164,649)	(283,549)	35,946
Cash used in operating activities - discontinued operations	8	(56,336)	(30,856)	(87,671)	(61,712)
Cash used in operating activities		(552,859)	(1,195,505)	(371,220)	(25,766)
Financing activities					
Proceeds from loans and mortgages payable		5,006,521	1,500,000	6,881,521	15,850,000
Repayments of loans and mortgages payable		(1,107,606)	(10,896)	(5,084,685)	(4,578,903)
Proceeds from issuance od shares under share options plan		30,000	-	30,000	-
Cash provided by financing activities		3,928,915	1,489,104	1,826,836	11,271,097
Investing activities					
Funding of loan and mortgage investments		(3,169,000)	(2,138,833)	(12,814,934)	(15,897,166)
Repayments of loan and mortgage investments		1,300,582	2,750,281	11,009,745	6,136,996
Capital additions to investment properties	5	-	90,929	(76,625)	(13,911)
Increase in funds held in trust		287,277	-	184,467	-
Portfolio investment		(2,194,161)	-	(2,194,161)	-
Cash (used in) provided by investing activities		(3,775,302)	702,377	(3,891,508)	(9,774,081)
Increase (decrease) in cash and cash equivalents		(399,246)	995,976	(2,435,892)	1,471,250
Cash and cash equivalents, beginning of period		5,684,469	3,698,565	7,721,115	3,223,291
Cash and cash equivalents, end of period		$ 5,285,223	$ 4,694,541	$ 5,285,223	$ 4,694,541

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: 5000 Yonge Street, Suite 1502, Toronto, Ontario, M2N 7E9. The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments, throughout Canada and the United States.

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), Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned and TFCC Cornell Ltd. (100% 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 June 30, 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, except for the following:

(a) Deferred share unit plan:

In May 2014, the Company established and adopted a cash-settled Deferred Share Unit Plan (the "DSU Plan") for employees and directors whereby the Company's Board of Directors may award Deferred Share Units (the "DSUs") as compensation for services rendered.

2. Significant accounting policies (continued):

The fair value of DSUs granted, is measured at the grant date based on the five day volume weighted average trading price of the Company's Shares, and compensation expense is recognized on a proportionate basis consistent with the vesting features over the vesting period with the recognition of a corresponding liability is recorded as accounts payable and accrued liabilities. The liability is re-measured at each reporting date at fair value with changes in fair value recognized in net income.

(b) 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.

(c) New standards and interpretations not yet adopted:

There were no new standards issued during the three months period ended June 30, 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 June 30, 2014 and December 31, 2013.

		June 30, 2014		December 31, 2013
Interest receivable	$	2,137,485	$	1,498,359
Other receivables		20,520		61,116
Prepaid expenses and deposits		98,144		101,877
Amounts receivable and prepaid expenses	$	2,256,149	$	1,661,352

Included in interest receivable at June 30, 2014 are non-current balances of $299,041 (December 31, 2013 - $74,961).

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 June 30, 2014 and December 31, 2013, the Company had principal balance of loan and mortgage investments of $61,266,320 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 1.02 years (December 31, 2013 – 1.21 years).

The following table presents details of the loan and mortgage investments as at June 30, 2014 and December 31, 2013.

	June 30, 2014			December 31, 2013		
		Amount	% of Investments		Amount	% of Investments
Residential housing developments	$	43,700,380	71.3%	$	40,121,019	72.6%
Commercial retail development		600,000	1.0%		600,000	1.1%
Residential income properties		2,842,940	4.6%		1,794,084	3.2%
Student housing		12,804,000	20.9%		12,763,200	23.1%
Land		1,319,000	2.2%		-	0.0%
Loan and mortgage investments	$	61,266,320	100.0%	$	55,278,303	100.0%

4. Loan and mortgage investments (continued):

The Company's loan and mortgage investments generally take the form of:

(a) Land loans registered in first or second position at the earlier stages of real estate development,
(b) Term mortgages for the purposes of acquiring or re-financing income-producing properties, or,
(c) Mezzanine or subordinated debt financings or real estate developments that have either progressed to the construction phase or are in the process of approaching the construction phase.

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. Eleven 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 221 units, located in Ottawa, Ontario.

(d) 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.

(e) Land:

The loan secured by a 14.6 acre parcel of land located in the Kanata area of Ottawa.

(In Canadian dollars)

4. Loan and mortgage investments (continued):

The following table presents details of the Company's loan categories as at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Mortgages	$ 56,266,320	$ 44,078,303
Unregistered loans	5,000,000	11,200,000
	$ 61,266,320	$ 55,278,303

Mortgages are loans that are secured by real estate asset and may include other forms of securities. Unregistered loans are not secured by real estate asset, but are secured by other forms of securities, such as personal guarantees, or pledge of shares of the borrowing entity.

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	1,219	9,936,651	9,937,870
2015	1,750	42,723,548	42,725,298
2016	-	5,785,152	5,785,152
2017	-	2,818,000	2,818,000
	$ 2,969	$ 61,263,351	$ 61,266,320

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 June 30, 2014 was $2,378,825 including $1,715,475 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 and six months ended June 30, 2014, the Company capitalized interest income of $701,452 and $1,324,028, respectively, and included in the loan and mortgage investments. During the three and six months ended June 30, 2013, the Company capitalized interest income of $444,195 and $874,928, respectively, and included in the loan and mortgage investments.

4. Loan and mortgage investments (continued):

Subsequent to June 30, 2014, the Company received a prepayment of a $12,000,000 USD loan, and subsequently repaid $12,000,000 USD of loan payable to syndicate investors. As a result, the Company will recognize the full gain on the loan in the third quarter (note 21).

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 $2,120,002 as at June 30, 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.

On April 1, 2014, the Company and the co-owner of the joint operation entered into an agreement whereby the Company converted its interest in the joint operation into a loan receivable of $2,818,000 (the Company’s original investment in joint operations), secured by the property. The carrying value of the Company’s interest in joint operations at the time of conversion was $2,331,000 (after recognizing operating losses from joint operations during prior periods), resulting in a gain on conversion of joint operations of $487,000.

(In Canadian dollars)

5. Joint arrangements (continued):

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

	June 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	2,687	5,465
Amounts receivable and prepaid expenses	14,416	101,669
Investment properties	1,915,336	7,671,452
	1,932,439	7,778,586
Liabilities		
Accounts payable and accrued liabilities	39,945	24,134
Loans and mortgages payable	1,166,001	4,680,547
	1,205,946	4,704,681
Net assets	$ 726,493	$ 3,073,905

The table below details the results of operations for the three and six months ended June 30, 2014 and 2013, attributable to the Company from its joint operations activities:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Rental revenue	47,319	115,558	162,756	222,654
Property operating costs	15,225	21,238	57,301	68,853
General and administrative expenses	1,358	85	1,358	1,553
Interest expense	11,803	84,174	95,153	231,080
	28,386	105,497	153,812	301,486
Net income (loss)	$ 18,933	$ 10,061	$ 8,944	$ (78,832)

(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.

(In Canadian dollars)

5. Joint arrangements (continued):

The following table summarizes the changes in the Company's proportionate share of the investment properties for the six months ended June 30, 2013 and 2014:

Balance, December 31, 2012	$	7,834,576
Additions - capital expenditures		13,911
Balance, June 30, 2013		7,848,487
Change in amount receivable from joint venture partners		(203,924)
Additions - capital expenditures		105,176
Fair value adjustment		(78,287)
Balance, December 31, 2013	$	7,671,452
Change in amount receivable from joint venture partners		(61,700)
Additions - capital expenditures		76,625
Sale of investment property		(5,771,041)
Balance, June 30, 2014	$	1,915,336

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 June 30, 2014 approximates its fair value.

As at June 30, 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.

On April 1, 2014, the Company converted its interest in the investment property in the Queen Street West. The carrying value of investment property in the Queen Street West JV approximates its fair value on that date.

(In Canadian dollars)

6. Portfolio investments:

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 June 30, 2014 and December 31, 2013, the fair values were determined using direct comparison method. The carrying value of investment approximates its fair value.

On May 21, 2014, the Company entered into a partnership agreement (the "Agreement") to invest in a 244 unit stacked townhouse condominium development project located in Markham, Ontario. The Agreement allows the Company to receive 3% fee at the time of funding and an amount by way of a preferred return equal to 14% per annum calculated and compounded annually on the amount of its investment in the partnership. In June 2014, the Company contributed $2,194,161 to the partnership and received $65,825 in fees and accrued $23,285 of preferred return. The fees and preferred return are recognized as interest and fees in the Condensed Consolidated Interim Statements of Income and Comprehensive Income.

7. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Interest payable	$ 905,894	$ 772,735
Interest reserve	556,668	353,705
Accounts payable, accrued liabilities and provisions	394,676	240,268
Accrued share-based compensation	311,702	-
Accounts payable and accrued liabilities	$ 2,168,940	$ 1,366,708

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

(In Canadian dollars)

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.

During the quarter, the unit was leased on subsidised basis to a third party tenant for the remainder of the term, effective July 1, 2014. Consequently the rent provision of $206,319, before applicable taxes was reversed. The balance of the provision as at June 30, 2014 and December 31, 2013 was $27,500 and $321,490, respectively. The current portion of the provision is $27,500.

Following table summarizes the changes in the provision for discontinued operations for the six months ended June 30, 2013 and 2014:

Balance, December 31, 2012	445,957
Lease payments made during the period	(61,712)
Balance, June 30, 2013	384,245
Lease payments made during the year	(62,755)
Balance, December 31, 2013	321,490
Lease payments made during the year	(87,671)
Rent provision reversal	(206,319)
Balance, June 30, 2014	27,500

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 June 30, 2014 and December 31, 2013 were $44,907,558 and $46,569,921, respectively. The loans and mortgages carry a weighted average effective interest rate of 11.9% (December 31, 2013 – 12.0%) and a weighted average term to maturity of 0.95 years (December 31, 2013 – 1.31 years).

(In Canadian dollars)

9. Loans and mortgages payable (continued):

The details of loans and mortgages payable at June 30, 2014 and December 31, 2013 are as follows:

	June 30, 2014		December 31, 2013	
	Amount	% of Loans Payable	Amount	% of Loans Payable
Residential housing developments	$ 27,961,087	62.3%	$ 28,279,132	60.7%
Commercial retail development	1,446,470	3.2%	1,347,042	2.9%
Residential income properties	500,000	1.1%	500,000	1.1%
Student housing	12,804,000	28.5%	12,763,200	27.4%
Land	1,030,000	2.3%	-	0.0%
Montreal Street JV	1,166,001	2.6%	1,180,547	2.5%
Queen Street West JV	-	0.0%	2,500,000	5.4%
	$ 44,907,558	100.0%	$ 46,569,921	100.0%

Scheduled principal repayments and maturity amounts loans and mortgages payable at June 30, 2014 are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loans and mortgages payable
Remainder of year	$ 15,492	$ 8,419,567	$ 8,435,059
2015	31,679	32,170,506	32,202,185
2016	13,224	4,257,090	4,270,314
	$ 60,395	$ 44,847,163	$ 44,907,558

On August 18, 2014, upon receipt of repayment of loan investment, the Company repaid $12,000,000 USD of loans and mortgages payable to investors (note 21).

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.

(In Canadian dollars)

10. Convertible debentures (continued):

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 June 30, 2013 and 2014:

		Amount
Liability component of Debentures, December 31, 2012	$	10,093,325
Interest expensed at EIR of 7.35%		367,786
Interest paid		(352,330)
Liability component of Debentures, June 30, 2013		10,108,781
Interest expensed at EIR of 7.35%		374,463
Interest paid		(358,170)
Liability component of Debentures, December 31, 2013	$	10,125,074
Interest expensed at EIR of 7.35%		368,953
Interest paid		(352,330)
Liability component of Debentures, June 30, 2014	$	10,141,697

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 June 30, 2014 was $2,378,825 (December 31, 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.

(In Canadian dollars)

11. Commitments and contingencies (continued):

The Company, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Company.

12. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended June 30, 2013 and 2014:

	Shares	Amount
Outstanding, December 31, 2012	30,695,000	$ 10,757,405
Outstanding, June 30, 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, December 31, 2013	30,845,000	10,795,790
Issuance of shares under share Option Plan	150,000	30,000
Transferred from contributed surplus upon exercise of options	-	8,385
Outstanding as at June 30, 2014	30,995,000	$ 10,834,175

(b) Share based payments:

The share based payments that have been recognized in these financial statements were as follows:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Share option Plan	$ 112,292	$ 32,345	$ 124,900	$ 32,345
DSU Plan	311,702	-	311,702	-
	$ 423,994	$ 32,345	$ 436,602	$ 32,345

(In Canadian dollars)

12. Shareholders' equity (continued):

(i) Share option plan

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 May 20, 2014, the Company granted share options to directors, officers and employees of the Company to purchase an aggregate of 565,000 Shares at $0.50 per share. Except for the 210,000 options granted to employees, which vested immediately, the options vest in four instalments, with the first 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On February 24, 2014, the Company granted share options to consultants of the Company to purchase an aggregate of 100,000 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 an aggregate of 245,334 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:

	May 20, 2014	February 24, 2014	April 17, 2013
Average expected life	5.00 years	5.00 years	5.00 years
Average risk-free interest rate	1.05%	98.00%	1.21%
Average expected volatility	94.61%	98.29%	104.00%
Average dividend yield	0.00%	0.00%	0.00%

(In Canadian dollars)

12. Shareholders' equity (continued):

The following is the summary of changes in share options for the six months ended June 30, 2014 and year ended December 31, 2013:

	June 30, 2014			December 31, 2013		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Outstanding, beginning of period	1,932,334	$	0.37	2,442,667	$	0.37
Granted	665,000		0.50	245,334		0.30
Exercised	(150,000)		0.20	(150,000)		0.20
Cancelled	-		-	(605,667)		0.42
Outstanding, end of period	2,447,334	$	0.42	1,932,334	$	0.37
Number of options exercisable	2,131,084	$	0.40	1,897,667	$	0.38

The following summarizes the Company's outstanding share options as at June 30, 2014:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
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	138,667	0.30	0.25
100,000	23-Feb-2019	50,000	0.50	0.42
565,000	20-May-2019	298,750	0.50	0.47
2,447,334		2,131,084		

(ii) Deferred Share Unit Plan

In May 2014, the Company established and adopted a DSU plan to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Company's Shares.

(In Canadian dollars)

12. Shareholders' equity (continued):

The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Directors may elect to receive, on the last day of each quarter, a minimum of 50% and up to 100% of their annual retainer in DSUs and employees may elect to receive up to 100% of their annual bonus in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant. In addition, the Company may, in any one year grant additional DSUs of up to 50% of the value of the DSUs granted to employees and directors. 50% of the additional DSUs granted by the Company vest in 6 months from the date of grant and 50% of the additional DSUs vest in twelve months from the date of grant.

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

The following is the summary of changes in DSUs for the six months ended June 30, 2014 and year ended December 31, 2013:

	June 30, 2014	December 31, 2013
DSUs outstanding, beginning of period	-	-
Granted	607,503	-
Settled	-	-
DSUs outstanding, end of period	607,503	-
Number of DSUs vested	546,846	-

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and six months ended June 30, 2014 and 2013, were $311,702 and $nil, respectively.

The carrying amount of the liability, included in the accounts payable and accrued liabilities relating to the DSUs at June 30, 2014 is $311,702 (December 31, 2013 - $nil).

(In Canadian dollars)

13. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2013 and June 30, 2014:

		Amount
Balance, December 31, 2012	$	573,139
Fair value of share-based compensation		32,345
Balance, June 30, 2013		605,484
Fair value of sharebased compensation		6,863
Transferred to share capital - exercise of options		(8,385)
Balance, December 31, 2013	$	603,962
Fair value of sharebased compensation		124,900
Transferred to share capital - exercise of options		(8,385)
Balance, June 30, 2014		720,477

14. Earnings per share:

The calculation of earnings per share of the three months ended June 30, 2014 and 2013 is as follows:

	Three months ended		Six months ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	$ 785,783	$ 263,557	$ 1,403,992	$ 528,902
Interest savings on Debentures, net of taxes	136,394	135,959	271,181	270,323
Diluted income attributable to common shareholders	$ 922,177	$ 399,516	$ 1,675,173	$ 799,225
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	30,864,780	30,695,000	30,854,890	30,695,000
Dilutive effect of share based payments	626,667	60,450	603,824	56,253
Assumed conversion of Debentures	14,500,000	14,500,000	14,500,000	14,500,000
Weighted average number of diluted common shares outstanding	45,991,447	45,255,450	45,958,714	45,251,253
Earnings per share				
Basic	$ 0.03	$ 0.01	$ 0.05	$ 0.02
Diluted	$ 0.02	$ 0.01	$ 0.04	$ 0.02

(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 June 30, 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 June 30, 2014, the loan and mortgage investments and Debentures syndicated by officers and directors were $2,895,176 (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 and six months ended June 30, 2014 and 2013:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest on loans and mortgages payable	$ 1,254,032	$ 910,408	$ 2,505,215	$ 1,540,494
Interest on Debentures	185,570	184,978	368,953	367,786
Montreal Street JV	11,934	12,247	23,952	24,577
Queen Street West JV	-	49,539	32,335	161,727
	$ 1,451,536	$ 1,157,172	$ 2,930,455	$ 2,094,584

(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		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current income tax provision	$ 353,291	$ 116,227	$ 589,377	$ 183,649
Deferred income tax provision	(31,728)	(7,724)	(38,166)	630
Total tax provision	$ 321,563	$ 108,503	$ 551,211	$ 184,279

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

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Income from continuing operations before taxes	$ 955,702	$ 372,060	$ 1,803,559	$ 713,181
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	253,261	98,596	477,943	188,993
Increase (decrease) in income tax due to:				
Non-taxable items	(14,480)	(6,388)	(13,466)	(12,655)
Non-deductible stock based compensation	114,510	8,571	124,900	8,571
Change in deferred tax asset not previously recognize	(31,728)	7,724	(38,166)	(630)
Total tax provision	$ 321,563	$ 108,503	$ 551,211	$ 184,279

The combined federal and provincial statutory income tax rate for the three and six months ended June 30, 2014 and 2013 is 26.50%.

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2014 is as follows:

	Opening balance	Recognized in income	Recognized in equity	Closing balance
Investment property	$ (15,466)	$ (44,705)	$ -	$ (60,171)
Deferred Share Units	-	82,602	-	82,602
Incorporation costs	700	(24)	-	676
Debenture and share issue costs	8,418	293	-	8,711
	$ (6,348)	$ 38,166	$ -	$ 31,818

(In Canadian dollars)

17. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2013 is as follows:

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

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 June 30, 2014 and December 31, 2013:

	June 30, 2014	December 31, 2013
Loans and mortgages payable	$ 44,907,558	$ 46,569,921
Convertible debentures	10,141,697	10,125,074
Shareholders' Equity	16,083,873	14,524,981
Total capital	$ 71,133,128	$ 71,219,976

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remains unchanged during the three and six months ended June 30, 2014 and 2013.

During the three and six months ended June 30, 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.

The fair value of the Company's investment properties, portfolio investments and non-controlling interests are determined using Level 3 inputs at June 30, 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.

21. Subsequent event:

On August 18, 2014, the Company the Company received a prepayment of a $12,000,000 USD loan, and subsequently repaid $12,000,000 USD of loan payable to syndicate investors. As a result, the Company will recognize the full gain on the loan in the third quarter.