TERRA FIRMA CAPITAL CORPORATION

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

FOR THE YEAR ENDED DECEMBER 31, 2016

MARCH 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis of the financial performance, financial condition, and cash flows ("MD&A") of Terra Firma Capital Corporation (the "Company") dated March 29, 2017 for the year ended December 31, 2016 should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015. These documents are available under the Company's profile 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 condition 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 in this MD&A includes statements with respect to market opportunities for the identification and funding of loans, the provision to the Company of a consistent flow of quality investment opportunities, as well as other statements under the heading "Future Outlook", and 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 at "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 considerations 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, 2016 and 2015 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 "TSX.V") under the symbol TII. The registered office of the Company is: 22 St. Clair Avenue East, Suite 200, Toronto, Ontario, M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments on a project by project basis throughout Canada and the United States. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment of a property. These loans are typically repaid with lower cost, longer-term debt obtained from other Canadian financial institutions once the applicable transitional period is over or the redevelopment is complete, or from proceeds generated from the sale of the real estate assets.

The types of real estate assets for which the Company arranges financings include residential buildings, mixed-use properties, and land for residential and commercial development and construction projects.

These loan and mortgage financings generally take the form of:

(i) Land loans registered in first position or second 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 purposes of acquiring or re-financing income producing properties, or

(iii) Mezzanine / subordinated debt financings of real property developments that have either progressed to the construction phase or are in the process of approaching construction phase.

These financings generally represent loan-to-value ratio of 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases the loan-to-value ratio could increase to 90%. The "loan-to-value" ratio means the ratio, expressed as a percentage, determined by A/B x 100, where: (A) is the principal amount of the mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the real estate; and (B) is the appraised value of the real estate securing the mortgage at the time of funding the mortgage or in a more recent appraisal, if available.

In addition, the Company participates in the development of real estate in Canada and in the United States by providing equity-type financing to developers. These financings provide a minimum return and/or a share of remaining net cash flow from projects, and may be undertaken as a strategic partnership with established developers to pursue the development of real properties ("Joint Arrangements" or "Joint Operations") or an equity investment by the Company in an entity that carries on the business of real estate development ("Portfolio Investments"). The Company generally provides these financings in the form of equity in the entity that holds the real estate asset. When making an equity investment, the Company prefers to invest in the form of preferred equity which ranks ahead of the developers' or owners' common equity in the project or the entity that carries on the business of real estate development, thereby, providing the Company with the capital protection through subordination.

The objectives of the Company are to originate, create and maintain a diversified portfolio of real estate loans and mortgage investments (the "Loan Portfolio"), to preserve the Company's capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation, and payment of dividends (from time to time as the Board of Directors considers appropriate).

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-like 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 structuring. Management believes its experience with real estate investments and industry contacts will provide the Company with a consistent flow of quality investment opportunities.

Investment in real estate comprises a variety of "tranches" with highly differentiated risk/return characteristics based on their position in the capital structure and subordination levels. The Company strives to achieve "equity-like" returns on the Loan Portfolio while bearing lower risk than equity investments, by structuring its financings in a "debt-like" structure.

INVESTMENTS

LOAN AND MORTGAGE INVESTMENTS

The Company's Loan Portfolio as at December 31, 2016 consisted of (a) loans relating to 25 residential housing developments, comprising 3,051 high rise condominium units, 886 mixed use developments consisting of retail and low and high rise condominium units, and 1,734 low rise houses and condominium units, representing 71.2% of the Loan Portfolio (by investment amount), (b) a loan relating to a residential income property consisting of 57 rental units in Toronto, Ontario, representing 2.7% of the Loan Portfolio (by investment amount), (c) land and lot inventory of real estate assets to be developed, located in Ottawa-Ontario; Markham-Ontario; Charlotte-North Carolina; Orlando-Florida; Tampa Bay-Florida and Sarasota-Florida, representing 25.6% of the Loan Portfolio (by investment amount) and (d) a commercial retail development located in Mississauga, Ontario, representing the remaining 0.5% of the Loan Portfolio (by investment amount).

The Company's Loan Portfolio as at December 31, 2015 consisted of (a) loans relating to 21 residential housing developments, comprising 1,647 high rise condominium units, mixed use developments consisting of 886 retail and low and high rise condominium units, and 1,525 low rise houses and condominium units, representing 68.5% of the Loan Portfolio (by investment amount), (b) two residential income properties consisting of 198 rental units in Toronto and Ottawa, Ontario, representing 3.6% of the Loan Portfolio (by investment amount), (c) land and lot inventory of real estate assets to be developed, located in Ottawa, Ontario; Markham, Ontario; Charlotte, North Carolina; and Tampa Bay, Florida, representing 26.6% of the Loan Portfolio (by investment amount) and (d) a commercial retail development located in Mississauga, Ontario, representing the remaining 1.3% of the Loan Portfolio (by investment amount).

The following table presents details of the Loan Portfolio as at December 31, 2016 and December 31, 2015:

	December 31, 2016			December 31, 2015		
	Weighted Average Effective Interest Rate	Amount	% of Investments	Weighted Average Effective Interest Rate	Amount	% of Investments
Residential housing developments	15.7%	$ 67,057,768	71.2%	16.3%	$ 65,417,141	68.5%
Land and lot inventory	14.1%	24,159,165	25.6%	14.5%	25,465,047	26.6%
Commercial retail development	15.1%	500,000	0.5%	15.8%	1,270,000	1.3%
Residential income properties	16.2%	2,592,796	2.7%	15.9%	3,461,079	3.6%
Loan Portfolio	15.3%	$ 94,309,729	100.0%	15.8%	$ 95,613,267	100.0%
Allowance for loan and mortgage investment loss		(901,285)			(478,066)	
Net Loan Portfolio		$ 93,408,444			$ 95,135,201	

As at December 31, 2016 and December 31, 2015, the principal balance of the Loan Portfolio was $94,309,729 and $95,613,267, respectively. The increase in Loan Portfolio during the year ended December 31, 2016 resulted from the net effect of funding of loan investments of $41,302,152, advances against existing loan commitments of $5,529,590, capitalized interest of $5,136,628 and advanced to interest reserve of $1,284,300, which aggregate amount was offset by the repayment of loans totaling $40,440,519, conversion of a loan investment of $7,000,000 into an interest in joint operations, repayment of previously capitalized interest of $2,061,533, elimination of the Company's share of loan investment in the joint operation of $870,389 and unrealized foreign exchange loss of $927,693.

The following table summarizes the change in the principal balance of Loan Portfolio for the year ended December 31, 2016:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 95,613,267	$ 78,635,796
Loan Portfolio activity during the year		
Funding of new loan investments	38,046,078	76,815,369
Advances against existing loan	5,529,590	8,883,679
Repayments of principal balance of loans	(40,440,519)	(60,582,239)
Converted to investment in associates	-	(14,821,313)
Converted to interest in joint operations	(7,000,000)	-
Advanced to interest reserve	1,284,300	933,080
Interest capitalized	5,136,628	3,348,951
Repayment of capitalized interest	(2,061,533)	(532,960)
Company's share of loan investment in joint operations	(870,389)	-
Unrealized foreign exchange (loss) gain	(927,693)	2,932,904
Balance, end of year	$ 94,309,729	$ 95,613,267

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

On March 9, 2016, the Company advanced a loan of $10,000,000 to an entity controlled by a Canadian borrower (the "Borrower"), secured by two properties (the "Secured Properties") and the Borrower's 50% interest in a development project (the "Valermo Homes JV"). The loan agreement provided the Company an option to purchase the 50% interest in the Valermo Homes JV for $7,000,000. On April 15, 2016, the Company exercised its option and acquired the 50% interest in the Valermo Homes JV for $7,000,000 which approximates the fair value of the project. The Company has a registered security on the Secured Properties for $5,000,000. In the event that the Company doesn't recover the $7,000,000 from the Valermo Homes JV, the Company is entitled to receive up to $5,000,000 from the Secured Properties.

The following table presents details of the Company's loan categories in the Loan Portfolio as at December 31, 2016 and December 31, 2015:

	December 31, 2016	% of Investments	December 31, 2015	% of Investments
Mortgages	$ 87,351,822	92.6%	$ 91,691,123	95.9%
Unregistered loans	6,957,907	7.4%	3,922,144	4.1%
	$ 94,309,729	100.0%	$ 95,613,267	100.0%

The weighted average effective interest rate of the Loan Portfolio at December 31, 2016 and December 31, 2015, including loans in default was 15.3% and 15.8%, respectively. The Company continues to focus on the quality of security through placing its capital in more senior positions in the capital structure and reducing its exposure to unregistered loans.

The higher level of security and lower weighted average interest rates have not had significant impact on the Company's overall profitability given the Company's focus on the spreads. See – "Financial Performance" and "Capital Structure and Debt Profile – Loan And Mortgage Syndications".

The weighted average effective interest rates of the loans and mortgage investments of residential housing developments at December 31, 2016 and December 31, 2015 were 15.7% and 16.3%, respectively. The weighted average effective interest rates of the residential income properties at December 31, 2016 and December 31, 2015 were 16.2% and 15.9%, respectively. The weighted average effective interest rates of the loans and mortgage investments of lot inventory at December 31, 2016 and December 31, 2015 were 14.1% and 14.5%, respectively. The weighted average effective interest rates of the commercial retail development and land at December 31, 2016 and December 31, 2015 were 15.1% and 15.8%, respectively. The weighted average term to maturity at December 31, 2016 and December 31, 2015 was 1.05 years and 1.43 years, respectively.

The following table presents details of the Company's principal balances of the Loan Portfolio segmented by geography as at December 31, 2016 and December 31, 2015:

	December 31, 2016	% of Investments	December 31, 2015	% of Investments
Canada	$ 52,412,874	55.6%	$ 57,551,220	60.2%
United States	41,896,855	44.4%	38,062,047	39.8%
	$ 94,309,729	100.0%	$ 95,613,267	100.0%

Scheduled principal repayments of the Loan Portfolio maturing in the next five years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2017	$ -	$ 54,166,779	$ 54,166,779
2018	-	32,342,558	32,342,558
2019	-	-	-
2020	-	5,662,267	5,662,267
2021	-	2,138,125	2,138,125
	$ -	$ 94,309,729	$ 94,309,729

Certain of the loans have early repayment rights which, 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 Portfolio at December 31, 2016 amounted to $11,619,581, including $9,051,743 of capitalization of future interest relating to the existing Loan Portfolio compared to $18,455,100, including $11,733,451 of capitalization of future interest relating to the Loan Portfolio at December 31, 2015.

On February 20, 2015, the Company exercised its option to convert a loan and mortgage investment in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, into a partnership interest (the "Lan Partnership") in the development project. The carrying balance of loan and mortgage investment at the time of conversion was $14,821,313 of which $11,675,000 was syndicated. Certain of the syndicate investors in the amount of $5,125,000 elected not to convert their share of interest in the loan investment into a LP interest in the Lan Partnership and syndicate investors in the amount of $6,550,000 converted their share of interest in the loan investment into a short-term unsecured notes payable. See – "Investments – Portfolio Investments" and "Capital Structure and Debt Profile – Short-term unsecured notes payable".

The investments comprising the Loan 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.

The Company assesses individually all investments at each reporting date to determine whether there is objective evidence of impairment. The Company uses judgement, taking into account the loan to value of the security, credit quality, payments in arrears, financial difficulty of the underlying asset, as applicable, financial difficulty of the borrower and/or guarantor, and general economic and real estate market conditions for reasonable assurance of timely collection of the full amount of principal and interest and to determine whether any future losses are expected to occur in order to recognize a specific loan provision. As at December 31, 2016, based on the most recent valuations of the underlying assets and managements estimates, the Company has recognized a specific impairment provision of $310,493 (2015 - $nil).

The Company also assesses collectively for impairment to identify potential future losses by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at December 31, 2016, the Company has recognized a collective impairment provision of $590,792 (December 31, 2015 - $478,066).

The changes in the allowance for mortgage investments loss during the nine months ended December 31, 2016 and year ended December 31, 2015 was as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ 478,066	$ -
Provision for loan and mortgage investment loss	423,219	478,066
Balance, end of year	$ 901,285	$ 478,066

At December 31, 2016, four loan investments totalling $11,717,468 including interest receivable and fees paid on these loans totalling $655,669, to projects owned by entities controlled by the Borrower are in default, of which $248,333 of loan investment including interest payable have been syndicated for a net receivable of $11,469,135. At December 31, 2015, the loan investments to projects owned by entities controlled by the Borrower amounted to $11,931,439, of which $4,092,155 have been repaid and were replaced by $48,116,502 of other loans funded during the year to projects not owned by entities controlled by the Borrower. The weighted average effective interest rate of the loans in default at December 31, 2016 and December 31, 2015 was 19.4% and 23.9%, respectively. The foreclosure process has commenced and is proceeding on these loans to enforce the securities and liquidate the loans.

JOINT ARRANGEMENTS

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 Montreal Street JV is subject to joint control and the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method. The Company's ownership interest in the Montreal Street JV is 55.0%.

Valermo Homes JV:

One of the loan and mortgage investments provided the Company with an option to purchase the 50% interest in Valermo Homes JV owned by affiliate of the Company's borrower. On April 15, 2016, the Company, through its wholly owned subsidiary, Terra Firma (Valermo) Corporation exercised its option and acquired the 50% interest in Valermo Homes JV for $7,000,000. The Company incurred $624,681 in closing costs.

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

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

The financial information in respect of the Company's investment in jointly controlled operations is as follows:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 413,420	$ 4,028
Amounts receivable and prepaid expenses	415,616	11,644
Investment property	2,208,694	2,143,794
Land under development	23,808,574	-
Total assets	26,846,304	2,159,466
Accounts payable and accrued liabilities	5,151,860	41,828
Loan and mortgage syndications	870,389	-
Mortgages payable	1,509,503	1,120,314
Due to joint operations partner	11,163,640	-
Total liabilities	18,695,392	1,162,142
Net assets	$ 8,150,912	$ 997,324

The table below details the results of operations for the three months and years ended December 31, 2016 and 2015, attributable to the Company from its joint operations activities:

	Three months ended		Years ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Revenue				
Rental	$ 50,445	$ 47,362	$ 199,711	$ 189,434
Expenses				
Property operating costs	17,307	15,269	71,892	61,059
General and administrative expenses	149,395	46	267,811	921
Interest expense	10,829	11,432	40,779	46,258
Fair value adjustment - investment properties	(61,950)	(82,500)	(61,950)	(82,500)
	115,581	(55,753)	318,532	25,738
Net (loss) income	$ (65,136)	$ 103,115	$ (118,821)	$ 163,696

INVESTMENT PROPERTY

The Company's investment property consist of an income-producing property held in joint operations.

The following table summarizes the changes in the Company's proportionate share of the investment property for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 2,143,794	$ 2,062,661
Change in amount receivable from joint operations partners	2,950	(1,367)
Fair value adjustment	61,950	82,500
Balance, end of year	$ 2,208,694	$ 2,143,794

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 carrying value of the Company's proportionate share of investment property in the Montreal Street JV is $2,208,694. At December 31, 2016 and December 31, 2015, the fair value of the investment was determined by an external appraiser and management, respectively. The capitalization rate used in the valuation of the investment property was 6.25%.

As at December 31, 2016 and December 31, 2015, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by $92,400 and $89,600, respectively and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by $85,250 and $82,500, respectively.

LAND UNDER DEVELOPMENT

The Company's land under development is held in joint operations.

The following table summarizes the changes in the Company's proportionate share of the land under development for the year ended December 31, 2016:

	December 31, 2016
Balance, beginning of year	-
Acquisition of land under development	22,275,767
Additions, capital expenditures	1,532,807
Balance, end of year	$ 23,808,574

PORTFOLIO INVESTMENTS

The Company has invested, through its subsidiary Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned by the Company), 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. As at December 31, 2016, the Company contributed $954,630 (2015 - $954,630) to the partnership and $254,641 of the investment is owned by an outside party and included in non-controlling interest. At December 31, 2016 and December 31, 2015, the fair values were determined using the direct comparison method. The fair value of the investment at each of December 31, 2016 and December 31, 2015 was $1,174,212 and $254,641 of the investment is owned by an outside party and included in non-controlling interest.

The Company, through TFCC LanQueen Ltd. ("TFCC LanQueen") entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen is committed to invest in a redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded monthly on the amount of its investment in the partnership. TFCC LanQueen does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at December 31, 2016, TFCC LanQueen contributed $1,724,000 (December 31, 2015 - $924,000) to the partnership. At December 31, 2016 and December 31, 2015, the fair value was determined by the management, using the direct comparison method. The fair value of investment at December 31, 2016 and December 31, 2015 was $2,037,872 and $1,165,343, respectively.

The following table summarizes the changes in the Portfolio Investments for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 2,339,555	$ 1,620,828
Investment made	800,000	324,557
Fair value adjustment	72,529	394,170
Balance, end of year	$ 3,212,084	$ 2,339,555

INVESTMENT IN ASSOCIATES

On February 20, 2015, the Company, together with certain existing syndicate investors, exercised their option to convert the loan and mortgage investment into equity investment in the Lan Project into an equity investment through equity in the Lan Partnership. The subject loan was funded in February 2013 and the conversion was subject to the project achieving a level of presales, zoning and construction financing. As the Lan Project achieved these conditions to the Company's satisfaction, the Company elected to convert. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest of 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% per annum hurdle rate. The Company exerts significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

As at December 31, 2016 and December 31, 2015, the Lan Partnership has $13,333,333 invested in the Lan Project and the Company's share of investment in the Lan Partnership was $2,315,414. At December 31, 2016 and December 31, 2015, the fair value of the investment in the Lan Partnership was determined by the management, using the direct comparison method**.** The fair value of the investment at December 31, 2016 and December 31, 2015 approximates the carrying value.

The following table summarizes the changes to the carrying value of investment in associates for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 2,315,414	$ -
Loan and mortgage investment converted	-	14,821,313
Loan syndications converted in to equity interest in partnership	-	(5,125,000)
Sale of interest in Lan partnership to investors	-	(8,845,500)
Contribution to Lan Partnership	-	1,372,652
Share of income from Lan Partnership	-	91,949
Balance, end of year	$ 2,315,414	$ 2,315,414

FINANCIAL PERFORMANCE

The Company's financial performance for the three months and year ended December 31, 2016 and 2015 is summarized below:

	Three months ended			Years ended		
	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)
Revenue						
Interest and fees earned	$ 3,384,576	$ 5,104,378	$ (1,719,802)	$ 14,701,947	$ 17,162,141	$ (2,460,194)
Rental income	50,445	47,362	3,083	199,711	189,434	10,277
Total revenue	3,435,021	5,151,740	(1,716,719)	14,901,658	17,351,575	(2,449,917)
Expenses						
Property operating costs	17,307	15,269	2,038	71,892	61,059	10,833
General and administrative expenses	854,683	1,303,935	(449,252)	3,027,678	3,226,499	(198,821)
Share based compensation	430,360	321,389	108,971	819,714	1,782,722	(963,008)
Interest expense	1,957,033	1,613,844	343,189	7,774,172	5,928,475	1,845,697
Provision for loan and mortgage investment loss	310,493	478,066	(167,573)	423,219	478,066	(54,847)
Realized and unrealized foreign exchange (gain) loss	(357,375)	(1,090,208)	732,833	858,660	(2,078,788)	2,937,448
Fair value adjustment - investment properties	(61,950)	(82,500)	20,550	(61,950)	(82,500)	20,550
Fair value adjustment - portfolio investment	(72,529)	(394,170)	321,641	(72,529)	(394,170)	321,641
Share of income from investment in associates	-	(91,949)	91,949	-	(91,949)	91,949
	3,078,022	2,073,676	1,004,346	12,840,856	8,829,414	4,011,442
Income from operations before income taxes	356,999	3,078,064	(2,721,065)	2,060,802	8,522,161	(6,461,359)
Income taxes	104,856	1,138,177	(1,033,321)	653,907	2,456,251	(1,802,344)
Net income and comprehensive income	$ 252,143	$ 1,939,887	$ (1,687,744)	$ 1,406,895	$ 6,065,910	$ (4,659,015)

Total revenue for the three months and year ended December 31, 2016 experienced a decrease compared to the same period last year, primarily due to the factors discussed under "Interest and Fees Earned". The Company's principal balance of the Loan Portfolio increased from $95.6 million at December 31, 2015 to $94.3 million at December 31, 2016.

Income from operations before income taxes for the three months ended December 31, 2016 was $356,999 compared to $3,078,064 for the three months ended December 31, 2015, primarily impacted by a reduction in interest income as discussed below, the Company not recognizing revenue on the loan investment of $7 million converted into interest in joint operations and lower foreign exchange gains on translation of the Company's U.S dollar-denominated monetary assets and liabilities.

Net income and comprehensive income for the three months ended December 31, 2016 was $252,143, compared to $1,939,887 for the corresponding period in 2015. The lower net income and comprehensive income was primarily a result of factors discussed below.

INTEREST AND FEES EARNED

For the year ended December 31, 2016, interest and fees earned aggregated $14.7 million, compared to $17.2 million in the comparative period, representing a decrease of $2.5 million or 14% primarily due to the Company not recognizing income on certain loans that are currently in arrears resulting in a decrease of $1.3 million; the Company not recognizing revenue on the loan investment of $7.0 million converted into an interest in land under development held in joint operations for the period from March 9, 2016 to December 31, 2016 resulting in a decrease of $392,000; and a decrease in the Company's principal balance of the Loan Portfolio from $95.6 million at December 31, 2015 to $94.3 million at December 31, 2016, resulting in a decrease of $808,000.

For the year ended December 31, 2016, interest and fees earned from the loan investments to projects owned by entities controlled by the Borrower amounted to $1.6 million, as compared to $9.3 million for the year ended December 31, 2015. Interest and fees earned in the amount of $6.4 million for the year ended December 31, 2016 was from new loan investments funded since December 31, 2015 on projects not owned by entities controlled by the Borrower.

The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments".

For the three months ended December 31, 2016, interest and fees earned aggregated $3.5 million, compared to $5.1 million in the comparative period, representing a decrease of $1.6 million or 34%, primarily due to the Company not recognizing income on certain loans that are currently in arrears resulting in a decrease of $524,000; the Company not recognizing income on the loan investment of $7.0 million converted into an interest in joint operations resulting in a decrease of $282,000; and decrease in the Company's principal balance of the Loan Portfolio from $102.0 million at September 30, 2016 to $94.3 million at December 31, 2016, along with the decrease in weighted average interest rate on the Loan Portfolio from 15.8% at December 31, 2015 to 15.3% at December 31, 2016 resulting in a decrease of $794, 000.

For the three months ended December 31, 2016, interest and fees earned from the loan investments to projects owned by entities controlled by the Borrower amounted to $526,000, as compared to $2.6 million for the three months ended December 31, 2015Interest and fees earned in the amount of $2.9 million for the three months ended December 31, 2016 was from new loan investments and additional funding on existing loan and mortgage investments funded since December 31, 2015 on projects not owned by entities controlled by the Borrower.

The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments".

RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended December 31, 2016 was $50,445 compared to $47,362 for the same period last year. The Company's proportionate share of the property operating costs in investment property in operations jointly controlled by the Company for the three months ended December 31, 2016 was $17,307 compared to $15,269 for the same period last year. The Company's share of rental income and property operating costs for the three months ended September 30, 2016 were $50,444 and $21,186, respectively.

The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the year ended December 31, 2016 was $199,711 compared to $189,434 for the same period last year. The Company's proportionate share of the property operating costs in investment properties in operations jointly controlled by the Company for the year ended December 31, 2016 was $71,892 compared to $61,059 for the same period last year.

INTEREST EXPENSE

Interest expense for the three months and years ended December 31, 2016 and 2015 were as follows:

	Three months ended			Years ended		
	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)
Interest on loans and mortgage syndications	$1,558,110	$1,335,508	$ 222,602	$5,898,874	$4,690,861	$1,208,013
Interest on revolving operating facility	164,529	45,920	118,609	949,061	317,986	631,075
Interest on debentures	223,565	220,984	2,581	885,458	873,370	12,088
Montreal Street JV	10,829	11,432	(603)	40,779	46,258	(5,479)
	$1,957,033	$1,613,844	$ 343,189	$7,774,172	$5,928,475	$1,845,697

Interest expense for the three months ended December 31, 2016 was $1,957,033 compared to $1,613,844 for the same period last year. Interest expense for the three months ended September 30, 2016 was $1,981,164. The increase in interest expense is attributable primarily to additional loan and mortgage syndications and drawing from the Company's revolving operating facility to fund the Loan Portfolio. See – "Capital Structure and Debt Profile – Loan and Mortgage Syndications" and "Revolving Operating Facility".

GENERAL AND ADMINISTRATIVE EXPENSES

During the three months and years ended December 31, 2016 and 2015, the Company incurred the following general and administrative expenses:

	Three months ended			Years ended		
	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)
Salary and benefits	$ 501,359	$1,004,145	$ (502,786)	$1,565,400	$2,300,409	$ (735,009)
Professional fees	133,855	94,256	39,599	593,711	313,848	279,863
Public Company expenses	12,902	16,185	(3,283)	83,329	63,636	19,693
Directors fees and expenses	9,250	-	9,250	23,333	56,972	(33,639)
Chairman's fees	-	25,000	(25,000)	72,500	100,000	(27,500)
Rent	12,860	101,780	(88,920)	132,689	172,043	(39,354)
Selling and marketing expenses	148,419	-	148,419	266,679	-	266,679
Other expenses	36,038	62,569	(26,531)	290,037	219,591	70,446
	$ 854,683	$1,303,935	$ (449,252)	$3,027,678	$3,226,499	$ (198,821)

General and administrative expenses consist mainly of salaries and other personnel costs, professional fees, occupancy costs and other expenses associated with the operation of the Company. General and administrative expenses for the three months ended December 31, 2016 were $854,683, compared to $1,303,935 for the three months ended December 31, 2015 and $906,366 for the three months ended September 30, 2016. Salary and benefits for the three months ended December 31, 2015 include performance bonuses paid to the Chief Executive Officer and Executive Vice Chairman, whereas salary and benefits for the three months ended December 31, 2016 doesn't include any bonus paid to them. Selling and marketing expenses for the three months ended December 31, 2016, include selling and administrative costs incurred by the Valermo Street JV (December 31, 2015 - $nil). Other expenses which include employee travel related expenses, office expenses, depreciation and other miscellaneous expenses increased to $290,037 for the year ended December 31, 2016 from $219,591 for the year ended December 31, 2015, due to the growth in operations of the Company.

General and administrative expenses for the year ended December 31, 2016 totalled $3,027,678 versus $3,226,709 for the year ended December 31, 2015. Salary and benefits for the year ended December 31, 2015 include performance bonuses paid to the Chief Executive Officer and Executive Vice Chairman, whereas salary and benefits for the year ended December 31, 2016 doesn't include no bonus paid to them. Selling and marketing expenses for the year ended December 31, 2016, include selling and administrative costs incurred by the Valermo Street JV (2015-$nil).

SHARE BASED COMPENSATION

The share-based payments that have been recognized for the three months and years ended December 31, 2016 and 2015 were as follows:

	Three months ended			Years ended		
	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)	Dec 31, 2016	Dec 31, 2015	Change Increase/ (decrease)
Share option Plan	$ 67,063	$ 123,452	$ (56,389)	$ 435,710	$1,069,401	$ (633,691)
DSU Plan	363,297	197,937	165,360	384,004	713,321	(329,317)
	$ 430,360	$ 321,389	$ 108,971	$ 819,714	$1,782,722	$ (963,008)

Share-based payments associated with the Company's share option plan (the "Plan") amounted to $67,063 for the three months ended December 31, 2016, compared to $123,452 for the three months ended December 31, 2015. The decrease in share-based payments associated with the Plan was primarily due the determination of the compensation expense using the graded-vesting accounting method. Share-based payments associated with the Plan for the year ended December 31, 2016 amounted to $435,710, compared to $1,069,401 for the year ended December 31, 2015, due to amortization of value attributable to the stock options granted in November 2014. See "Shareholders Equity – Share-Based Payments".

The Company has a Deferred Share Unit Plan (the "DSU Plan") to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares by awarding Deferred Share Units (the "DSUs") as compensation for services rendered.

Share-based payments associated with the DSU Plan for the three months ended December 31, 2016 amounted to $363,297, compared to $197,937 for the three months ended December 31, 2015. Expense for DSUs is higher for the current quarter as a result of the increased number of DSU's being accrued and increase in the number of units vested during the year and increase in the Share price over the course of fourth quarter 2016. Share-based payments associated with the DSU Plan for the year ended December 31, 2016 amounted to $384,004, compared to $713,321 for the year ended December 31, 2015.The reduction in Share-based payments associated with the DSU Plan for the year ended December 31, 2016 is primarily due to a decrease in the Share price which is partially offset by the granting and vesting of DSUs during the year. See "Shareholders Equity – Share-Based Payments".

FOREIGN EXCHANGE GAIN (LOSS)

For the three months ended December 31, 2016, the Company recognized a foreign exchange gain of $357,375 compared to a foreign exchange gain of $1,090,208 for the comparative period in 2015. For the year ended December 31, 2016, the Company recognized a foreign exchange loss of $858,660 compared to a foreign exchange gain of $2,078,788 for the comparative period in 2015.

For the year ended December 31, 2016, the U.S. dollar weakened by approximately 3% against the Canadian dollar from C$1.384 to C$1.3427. For the three months ended December 31, 2016, the US. Dollar strengthened by approximately 2% against the Canadian dollar from $1.3117 to $1.3427. As at December 31, 2016, U.S. dollar denominated net monetary assets were US$11,729,109 compared to US$19,937,083 as at December 31, 2015, primarily due to syndications of U.S. denominated loan and mortgage investments in 2016.

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) loan and mortgage syndications, (iii) mortgages payable (iv) revolving operating facility (iv) issuance of shares and debentures, or any combination thereof.

CASH FLOWS

The following table details the changes in cash for the three months and years ended December 31, 2016 and 2015:

	Three months ended		Years ended	
	Dec 31, 2016	Dec 31, 2015	Dec 31, 2016	Dec 31, 2015
Cash provided by (used in) operating activities	$ 2,587,928	$ 3,113,247	$ (428,964)	$ 4,535,638
Cash (used in) provided by financing activities	(3,244,371)	27,441,397	(2,456,857)	37,047,197
Cash (used in) provided by investing activities	5,113,059	(23,820,820)	3,477,513	(30,943,030)
Increase in cash and cash equivalents	$ 4,456,616	$ 6,733,824	$ 591,692	$ 10,639,805
Cash and cash equivalents, beginning of year	7,858,626	4,989,726	11,723,550	1,083,745
Cash and cash equivalents, end of year	$ 12,315,242	$ 11,723,550	$ 12,315,242	$ 11,723,550

Cash (used in) provided by operating activities for the three months ended December 31, 2016 and 2015 of $2,475,202 and $3,113,247, respectively and cash provided by operating activities for the years ended December 31, 2016 and 2015 of $(428,964) and $4,535,638, respectively, are related primarily to the net cash provided by or used in lending operations.

Cash used by financing activities for the three months ended December 31, 2016 of $3,244,371 related primarily to repayments of the loan and mortgage syndications of $8,694,722; repayments to joint operations partner of $3,720,272; repayments of revolving credit facility of $2,500,000; repayments of mortgage payable of $2,764; and repurchase of Shares for cancellation of $55,631. The aggregate of these amounts was offset, in part by net proceeds from the loan and mortgage syndications of $6,686,156; proceeds from revolving credit facility of $5,000,000; and proceeds from issuance of Shares pursuant to the Plan of $37,334. The cash provided by financing activities for the three months ended December 31, 2015 of $27,441,397 relates primarily to the net proceeds from the Loan Syndications of $17,101,128; proceeds from issuance of Shares pursuant to exercise of broker warrants of $88,199; proceeds from revolving operating facility of $8,100,000; and proceeds from short-term unsecured notes payable of $3,868,494. The aggregate of these amounts was offset by repayments of the Loan Syndications of $1,708,580 and repayment of mortgages payable of $7,844.

Cash used in financing activities for the year ended December 31, 2016 of $2,456,857 related primarily to repayments of the loan and mortgage syndications of $33,279,519; repayment of short-term unsecured loans payable of $2,741,700; repayment of revolving operating facility of $7,500,000; repayments of mortgage payable of $34,933; repayment to joint operations partner of $1,414,770; and repurchase of Shares for cancellation of $55,631. The aggregate of these amounts was offset, in part by the net proceeds from the loan and mortgage syndications of $36,628,012; proceeds from short-term unsecured notes payable of $200,000; proceeds from mortgage payable of $435,850; proceeds from revolving credit facility of $5,000,000; and proceeds from issuance of Shares pursuant to the Plan of $305,834. The cash provided by financing activities for the year ended December 31, 2015 of $37,047,197 relates primarily to the net proceeds from the Loan Syndications of $30,484,556; net proceeds from issuance of Shares pursuant to the offering of $13,161,476; proceeds from issuance of Shares pursuant to private placement of $1,025,000; proceeds from issuance of Shares pursuant to exercise of broker warrants of $352,799; proceeds from revolving operating facility of $19,500,000; and proceeds from short-term unsecured notes payable of $9,755,497. The aggregate of these amounts was offset by repayments of the Loan Syndications of $20,251,327; repayment of mortgages payable of $30,804; repayment of short-term unsecured notes payable of $7,450,000; and repayment of revolving operating facility of $9,500,000.

The cash provided by investing activities during the three months ended December 31, 2016 of $5,113,059 primarily reflects the repayment of loan and mortgage investments of $11,155,509. The aggregate of this amount was offset by funding of loans and mortgage investments of $1,581,756; funding of deposits of $3,256,704; funding of portfolio investments of $400,000; an increase in funds held in trust of $393,044; and capital additions to investment properties of $411,576. The cash used in investing activities during the three months ended December 31, 2015 of $23,820,820, primarily reflects the funding of the Loan Portfolio of $42,763,401; a deposit made for a loan and mortgage investment of $11,747,370; an increase in funds held in trust of $1,541,969; and funding of portfolio investment of $200,556. The aggregate of these amounts was offset by repayment of loan and mortgage investments of $32,432,476.

The cash provided by investing activities during the year ended December 31, 2016 of $3,477,513 primarily reflected repayments received from the Loan Portfolio of $40,440,519; repayment of deposits of $11,747,370; and a decrease in funds held in trust of $1,078,854. The aggregate of these amounts was offset, in part by funding of the Loan Portfolio of $43,575,668; funding of interest in joint operations of $624,681; funding of deposits of $3,256,704; capital additions to investment properties of $1,532,807, and funding of portfolio investments of $800,000. The cash used in investing activities during the year ended December 31, 2015 of $30,943,030, primarily reflects the funding of the Loan Portfolio of $85,699,048; the funding of investment in associates of $1,372,652; the funding of portfolio investments of $324,557; a deposit made for a loan and mortgage investment of $11,747,370; and an increase in funds held in trust of $1,227,142. The aggregate of these amounts was offset by repayment of loan and mortgage investments of $60,582,239, and proceeds from the sale of interest in a portfolio investment of $8,845,500.

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, convertible debentures, short-term unsecured notes payable, revolving operating facility, mortgage payable and loan and mortgage syndications. 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, 2016 and 2015, respectively, the total capital of the Company was as follows:

	December 31, 2016	December 31, 2015
Loan and mortgage syndications	$ 56,180,448	$ 45,691,948
Revolving operating facility	7,467,586	9,865,144
Short-term unsecured notes payable	-	9,286,000
Due to joint operations partner	11,163,640	-
Mortgages payable	1,509,503	1,120,314
Convertible debentures	10,754,259	10,628,301
Non-controlling interest	254,641	254,641
Shareholders' Equity	48,370,158	46,277,350
Total capital	$ 135,700,235	$ 123,123,698

LOAN AND MORTGAGE SYNDICATIONS

The Company enhances the Loan Portfolio through Loan Syndications, short-term unsecured notes payable, a revolving operating facility and convertible 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 and mortgages payable are funded through the following initiatives:

(i) The syndication of certain loan investments to private investors each participating in a prescribed manner on an investment by investment basis. In these cases, the investors rank on a pari-passu basis with the Company's share of Loan and Mortgage Investments.

(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.

The Loan Portfolio that may initially be funded by the Company may then be syndicated to other lenders sourced by the Company on a pari passu basis. The syndicated portion of the investments are owned by the investors in a prescribed manner and are governed by loan servicing agreements. The terms of the syndication would mirror the terms of the loan with the exception of the interest rate paid to syndicated investors. In addition the Company would retain any commitment fee and certain other fees earned from the borrower. Management of the mortgage origination, funding, payouts and delinquency (if applicable) are all administered by Terra Firma MA Ltd. (the "TFMA"), the subsidiary of the Company on behalf of the syndicate investors. The security documents are typically registered in the name of the Company and held in trust on behalf of the syndicated investors.

The loan servicing agreement stipulates the ownership interest of the syndicate investors in the loan investments and segregates the ownership of the syndicate investors from the Company. Each syndicated Loan and Mortgage Investment has a designated rate of return that the syndicated investors expect to earn from that Loan and Mortgage Investment. This specific rate will vary from mortgage to mortgage depending on the loan-to-value, mortgage position, location, term, and exit strategy.

Under IFRS the Company recognizes the loan and mortgage investments and the loan syndications on a gross basis. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income. From a legal perspective, syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has a beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans.

TFMA administers the Loan Syndications and all funding from and to syndicate investors are funded to and from the trust account held by this entity. The Loan Syndications have no recourse to the Company and there is no obligation of the Company to fund any principal or interest shortfalls.

The following table presents details of the loan and mortgage syndications as at December 31, 2016 and 2015:

	December 31, 2016			December 31, 2015		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	11.0%	$ 35,109,509	62.5%	10.9%	$ 37,678,182	82.5%
Land and lot inventory	10.5%	20,270,939	36.1%	8.8%	7,813,766	17.1%
Residential income properties	10.4%	800,000	1.4%	10.4%	200,000	0.4%
	10.8%	$ 56,180,448	100.0%	10.5%	$ 45,691,948	100.0%

At December 31, 2016, the weighted average effective interest rate of Loan Syndications was 10.8%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 11.0%, residential income properties, having a weighted average effective interest rate of 10.4%, and land and lot inventory, having a weighted average effective interest rate of 10.5%.

At December 31, 2015, the weighted average effective interest rate of Loan Syndications was 10.5%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of

10.9%, residential income properties, having a weighted average effective interest rate of 10.4%, and land and lot inventory, having a weighted average effective interest rate of 8.8%.

At December 31, 2016, the Company's syndication activities resulted in $56,180,448 or 57.6% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 21.4%, thereby increasing its overall return by 6.1% from its non-leveraged 15.3% return compared to $45,691,948 or 47.8% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 20.7%, thereby increasing its overall return by 4.9% from its non-leveraged 15.8% return, at December 31, 2015. 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 and Loan Syndications.

The following table summarizes the changes in the principal balance of Loan Syndications for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 45,691,948	$ 45,390,821
Loan and mortgage syndication activities during the year		
Proceeds to participate in new loan and mortgage investments	30,327,537	30,234,556
Additional advances to existing loan and mortgage investments	6,300,475	250,000
Interest capitalized	652,905	-
Repayment of capitalized interest	(86,768)	-
Repayments of loan and mortgage syndications	(33,279,519)	(20,251,327)
Transferred from short-term unsecured notes payable	6,794,300	6,820,000
Transferred to short-term unsecured notes payable	(50,000)	(12,144,753)
Loan and mortgage syndication converted to interest in limited partnership	-	(5,125,000)
Reduction in loand and mortgage syndication due to early repayment	-	(226,439)
Foreign exchange (gain) loss	(170,430)	744,090
Balance, end of year	$ 56,180,448	$ 45,691,948

The following table sets out, as at December 31, 2016, scheduled principal repayments, and amounts maturing on the Loan Syndications to be paid over each of the next four years and thereafter, are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
2017	$ -	$ 28,444,768	$ 28,444,768
2018	-	20,751,001	20,751,001
2019	-	-	-
2020	-	4,984,679	4,984,679
Thereafter	-	2,000,000	2,000,000
	$ -	$ 56,180,448	$ 56,180,448

MORTGAGES PAYABLE

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

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2016 and 2015 is as follows.

	December 31, 2016	December 31, 2015
Mortgage principal	$ 1,522,661	$ 1,121,744
Unamortized financing costs	(13,158)	(1,430)
Total	$ 1,509,503	$ 1,120,314

The following table sets out, as at December 31, 2016, scheduled principal and interest repayments and amounts maturing on the mortgages over each of the next five years:

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
2017	$ 42,508	$ -	$ 42,508
2018	43,803	-	43,803
2019	45,138	-	45,138
2020	46,513	-	46,513
2021	23,785	1,320,914	1,344,699
	$ 201,747	$ 1,320,914	$ 1,522,661

DUE TO JOINT OPERATIONS PARTNER

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

SHORT-TERM UNSECURED NOTES PAYABLE

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

During the year ended December 31, 2016, holders of short-term unsecured notes payable totaling $6,794,300 elected to convert their notes into syndication in the loan and mortgage investment. During the year ended December 31, 2016, the Company repaid $2,741,700 of short-term unsecured notes payable. As at December 31, 2016, the Company had no outstanding short-term unsecured notes payable.

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

The following table summarizes the changes in the short-term unsecured notes payable for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 9,286,000	$ 1,500,000
Proceeds from issuance of short-term unsecured notes payable	200,000	9,755,497
Transferred from loan and mortgage syndications	50,000	12,144,753
Transferred to loan and mortgage investments	(6,794,300)	(6,820,000)
Repayments of short-term unsecured notes payable	(2,741,700)	(7,450,000)
Unrealized foreign exchange loss	-	155,750
Balance, end of year	$ -	$ 9,286,000

REVOLVING OPERATING FACILITY

On April 23, 2015, the Company entered into a Revolving Operating Facility Credit Agreement with a lending institution for a $10 million secured revolving loan facility (the "Facility") with a 24-month term, maturing on May 1, 2017. The lender has agreed to consider providing the Company with two, 6-month extension options. Interest on advanced funds under the Facility is 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility is subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company has entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allows the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

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

For the three months and year ended December 31, 2016, amortization of deferred financing costs reported as interest expense and financing costs totaled $25,687 and $102,442 (three months and year ended December 31, 2015, $25,499 and $69,861), respectively.

The following table presents details of the revolving operating facility as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Face value	$ 7,500,000	$ 10,000,000
Unamortized financing costs	(32,414)	(134,856)
	$ 7,467,586	$ 9,865,144

The lender has agreed to consider providing the Company with two, 6-month extension options and the Company is evaluating whether to extend the Facility with the current lender or replace the Facility with another facility with another lender while maintaining the Company’s flexible capital structure to optimize the costs of capital.

CONVERTIBLE DEBENTURES

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

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

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

The following table summarizes the changes in the Debentures for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 10,628,301	$ 10,514,431
Interest expensed at effective interest rate of 7.35%	885,458	873,370
Interest paid	(759,500)	(759,500)
Balance, end of year	$ 10,754,259	$ 10,628,301

The Company is reviewing its options to either replace or extend the terms of the maturing Debentures to another term 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 Portfolio at December 31, 2016 was $11,619,581 including $9,051,743 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2015 was $18,455,110 including $11,733,451 of capitalization of future interest relating to the existing Loan Portfolio.

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

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and its previous head office premises located at 5000 Yonge Street, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at December 31, 2016, are as follows:

	Amount
2017	208,217
2018	221,785
2019	221,785
2020	221,785
	$ 873,572

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, 2016 and 2015:

	Shares	Amount
Outstanding, December 31, 2014	41,582,300	$16,654,718
Issurance of shares pursuant to the Offering	16,911,900	13,118,652
Isurrance of shares pursuant to Private Placement	1,205,883	1,025,000
Issuance of shares pursuant to broker warrants	560,000	352,800
Transferred from contributed surplus upon exercise of broker warrants	-	106,234
Outstanding, December 31, 2015	60,260,083	$31,257,404
Issuance of shares pursuant to share option plan	969,667	305,834
Transferred from contributed surplus upon exercise of options	-	282,212
Repurchase of shares pursuant to normal course issuer bid	(94,500)	(55,631)
Outstanding, December 31, 2016	61,135,250	$31,789,819

On December 19, 2016, certain directors of the Company exercised 74,667 options that had been granted to purchase the Shares at $0.50 per Share. The consideration of $37,334, received on exercising the options was recorded as share capital and the related contributed surplus of $29,822 was transferred to share capital.

On March 31, 2016, 895,000 options to purchase Shares at $0.30 per share with an expiry date of January 24, 2016, granted to the Company's executive vice chairman (previous chief executive officer) (the "Executive Vice Chairman") were exercised. The consideration of $268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of $252,390 was transferred to share capital.

On October 14, 2015, 140,000 broker warrants to purchase the Shares at $0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was $88,200.

On July 29, 2015, 420,000 broker warrants to purchase the Shares at $0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The consideration received on the exercise of broker warrants of $264,600 was recorded as share capital and the related contributed surplus of $79,676 was transferred to share capital.

On May 5, 2015, the Company completed a bought deal prospectus offering (the "Offering") of 16,911,900 Shares, including fully exercised over-allotment Shares, at a price of $0.85 per Share, for gross proceeds of $14,375,115. As part of the Offering, the Company issued 1,014,714 broker warrants as additional compensation. Each broker warrant entitles the holder to purchase one Share at an exercise price of $0.85 until May 4, 2017. Share issuance costs amounted to $1,256,463, consisting of cash costs of $1,213,639 and non-cash costs of $347,824 relating to the value attributable to broker warrants issued to underwriters, offset by a deferred tax benefit of $305,000.

Concurrent with the closing of the Offering, the Company also completed a non-brokered private placement of 1,205,883 Shares, at the same price as the Shares issued pursuant to the Offering, for aggregate gross proceeds of $1,025,000. Certain officers and directors participated in the private placement and the Company issued 811,765 Shares to those officers and directors for gross proceeds of $690,000.

As at March 29, 2017, there were 60,795,250 Shares issued and outstanding.

NORMAL COURSE ISSUER BID

On October 31, 2016, the Company obtained the approval of the TSX-V of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase its Shares through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V) up to an aggregate maximum of 1,907,413 Shares. Purchases commenced on November

4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V. During the three months and year ended December 31, 2016, the Company purchased 94,500 Shares on TSX-V for $55,631 (2015 – nil).

Subsequent to year end, the Company purchased 340,000 Shares for total cash consideration of $224,225.

SHARE-BASED PAYMENTS

(a) Share Option Plan

Pursuant to the Plan, the Company may 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 TSX.V. 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. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods.

Pursuant to the employment agreement between the Company and the Executive Vice Chairman, the Executive Vice Chairman was eligible to receive options equal to 5% of the Shares (the “Option Right”) issued outstanding through to December 31, 2015, at the price determined by the Board. The Option Right expired on December 31, 2015.

On December 28, 2016, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 560,000 Shares at $0.65 per Share, with the expiry date of December 27, 2023. Each of the option grants vest in equal instalments on a quarterly basis over the three-year period.

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

On March 31, 2016, the Company granted options to the Chairman of the Board of the Company to purchase an aggregate of 200,000 Shares at $0.77 per Share, with the expiry date of March 31, 2023. These share options vested immediately upon grant.

On May 11, 2015, the Company granted options to officers and employees of the Company to purchase an aggregate of 980,889 Shares at $0.85 per Share. 25% of the share options vested immediately upon grant, with an additional 25% vesting at the end of 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:

	Options grant dates			
	December 28, 2016	June 27, 2016	March 31, 2016	May 11, 2015
Average expected life	7.00 years	7.00 years	7.00 years	5.00 years
Average risk-free interest rate	1.40%	1.04%	0.89%	0.80%
Average expected volatility	87.74%	79.94%	81.61%	89.45%
Average dividend yield	0.00%	0.00%	0.00%	0.00%

The fair value of options granted on December 28, 2016, June 28, 2016, March 31, 2016 and May 11, 2015 were $278,957, $187,007, $108,853 and $574,801, respectively.

On December 19, 2016, certain directors of the Company exercised 74,667 options that had been granted to purchase the Shares at $0.50 per Share. The consideration of $37,334, received on exercising the options was recorded as share capital and the related contributed surplus of $29,822 was transferred to share capital.

On March 31, 2016, the Executive Vice Chairman exercised 895,000 options that had been formally to purchase the Shares at $0.30 per Share. The consideration of $268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of $252,390 was transferred to share capital.

For the three months ended December 31, 2016 and 2015, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $67,063 and $123,452, respectively. For the year ended December 31, 2016 and 2015, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $435,710 and $1,069,401, respectively.

The following is the summary of changes in the Company's share options for the year ended December 31, 2016 and year ended December 31, 2015:

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of year	5,052,338	$ 0.61	4,071,449	$ 0.55
Granted	1,260,000	0.63	980,889	0.85
Exercised	(969,667)	0.32	-	-
Expired	(64,000)	0.50	-	-
Outstanding - end of year	5,278,671	$ 0.67	5,052,338	$ 0.61
Number of options exercisable	4,260,335	$ 0.67	4,140,447	$ 0.56

The following summarizes the Company's share options as at December 31, 2016:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
585,000	April 16, 2017	585,000	0.50	0.30
138,667	April 17, 2018	138,667	0.30	0.25
100,000	February 23, 2019	100,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	716,664	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 30, 2023	200,000	0.77	0.77
500,000	June 27, 2023	375,000	0.57	0.57
560,000	December 28, 2023	-	0.65	0.65
5,278,671		4,260,335		

(b) Deferred Share Unit Plan

The Company has 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 Shares by awarding DSUs as compensation for services rendered.

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

Each DSU has the same value as one Share (based on the five day volume weighted average trading price). Directors must retain DSUs until they leave the Board of Directors, or in the case of officers or employees, until their employment is terminated, 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 table presents the changes in DSUs for the years ended December 31, 2016 and 2015:

	Number of DSUs	
	December 31, 2016	December 31, 2015
DSUs outstanding, beginning of year	1,757,001	747,705
Granted	637,065	1,009,296
DSUs outstanding, end of year	2,394,066	1,757,001
Number of DSUs vested	2,292,150	1,525,530

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months and year ended December 31, 2016 were $363,297 and $384,004, respectively and the three months and year ended December 31, 2015 were $197,937 and $713,321, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at December 31, 2016 and 2015 are $1,558,661 and $1,174,657, respectively.

(c) Broker warrants

On October 14, 2015, 140,000 broker warrants to purchase the Shares at $0.63 per share with the expiry date of October 6, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was $88,200.

On July 29, 2015, 420,000 broker warrants to purchase the Shares at $0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was $264,600.

As part of the Offering completed on May 5, 2015, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitles the holder to acquire one Share of the Company at an exercise price of $0.85 per Share, with an expiry date of May 5, 2017.

The following is the summary of changes in broker warrants for years ended December 31, 2015 and 2016:

	Number of broker warrants outstanding		Fair value		Exercise price
Outstanding, December 31, 2014	560,000	$	106,235	$	0.63
Granted	1,014,713		347,824		0.85
Exercised	(560,000)		(106,235)		0.63
Outstanding, December 31, 2015	1,014,713	$	347,824	$	0.85
Outstanding, December 31, 2016	1,014,713	$	347,824	$	0.85

The fair value of broker warrants was estimated as at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	May 5, 2015
Average expected life	2.00 years
Average risk-free interest rate	0.67%
Average expected volatility	73.96%
Average dividend yield	0.00%

CONTRIBUTED SURPLUS

The following table presents the details of the contributed surplus balances as at December 31, 2016 and 2015:

		December 31, 2016		December 31, 2015
Balance, beginning of year	$	2,360,575	$	1,049,585
Fair value of share-based compensation		435,710		1,069,401
Fair value of broker warrants		-		347,824
Transferred to share capital - exercise of broker warrants		-		(106,235)
Transferred to share capital - exercise of options		(282,212)		-
Balance, end of year	$	2,514,073	$	2,360,575

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At December 31, 2016 and December 31, 2015, the Chairman of the Board of the Company (the "Chairman"), indirectly through a wholly owned subsidiary, owned approximately 10% and 11%, respectively, of the issued and outstanding Shares.

Related party transactions are measured at the exchange amount, which is the amount of consideration established and offered by related parties.

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Company include the President and Chief Executive Officer, Executive Vice Chairman, Chief Financial Officer, Managing Director and the Board of Directors.

During the years ended December 31, 2016 and 2015, no key management personnel were personally indebted to the Company.

Aggregate compensation for key management personnel for years ended December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Short-term employee benefits	$ 2,090,317	$ 2,308,277
Share-based compensation	804,521	1,712,423
	$ 2,894,838	$ 4,020,700

LOAN AND MORTGAGE INVESTMENTS

The Company is committed to fund a loan investment of $1,756,550 to a company controlled by the Chairman at the interest rate of 12% per annum. During the year ended December 31, 2016, the Company advanced $1,756,381 and recognized interest and fees revenue of $136,265 during the same period. At December 31, 2016, the loan remained unpaid.

On June 18, 2015, the Company advanced a loan investment of $3,000,000 to a company controlled by the Chairman at the interest rate of 12% per annum for the first month and 15% per annum thereafter. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. The loan was repaid in full in September 2015.

LOAN AND MORTGAGE SYNDICATIONS, SHORT-TERM UNSECURED LOANS PAYABLE AND CONVERTIBLE DEBENTURES

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

At December 31, 2016 and December 31, 2015, the Loan Portfolio and convertible debentures syndicated by officers and directors were $1,997,135 and $1,745,000, respectively.

OFFICE PREMISES

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. The costs are divided in accordance with actual use. During the year ended December 31, 2016, the Company received $79,028 for the occupancy and office costs (year ended December 31, 2015 - $nil).

SHAREHOLDERS' EQUITY

On December 19, 2016, certain directors of the Company exercised 74,667 options that had been granted to purchase Shares at $0.50 per Share. The consideration of $37,334, received on exercising the options was recorded as share capital and the related contributed surplus of $29,822 was transferred to share capital.

On March 31, 2016, the Executive Vice Chairman exercised 895,000 options that had been previously granted to purchase the Shares at $0.30 with an expiry date of January 24, 2016. The consideration of $268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of $252,390 was transferred to share capital.

On May 5, 2015, concurrent with the closing of the Offering, the Company issued 811,765 Shares through a non-brokered private placement at a price of $0.85 per Share to certain officers and Directors of the Company, for gross proceeds of $690,000.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2016.

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.

In making estimates, the Company relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements.

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.

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.

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, the Loan Portfolio, portfolio investment, accounts payable and accrued liabilities, provision for discontinued operations, loans and mortgages payable, short-term unsecured notes payable and the liability component of convertible 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, Loan Syndications, Due to joint operations partner, mortgages payable, unsecured-notes payable, revolving operating facility and convertible 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, Loan Syndications or convertible debentures. The Company makes the determinations of fair value based on its assessment of the current lending market for Loan Portfolio 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 interest are determined by using Level 3 inputs at December 31, 2016 and December 31, 2015 and no amounts were transferred between fair value levels during 2016 or 2015.

FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2016 or later periods that the Company has decided not to early adopt. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future periods.

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

IFRS 9 was issued to replace IAS 39, *"Financial Instruments: Recognition and Measurement"*. IFRS 9 has two measurement categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest; otherwise, it is measured at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2018. The extent of impact of adoption of IRFS 9 has not been determined.

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS (*"IFRS 15")

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017 and is to be applied retrospectively. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 16 LEASES *(*"IFRS 16")

IFRS 16 will replace existing lease guidance in IFRS and related interpretations, and requires companies to bring most leases on-balance sheet. The financial reporting impact of adopting IFRS 16 is being assessed and is effective for years beginning on or after January 1, 2019. Early adoption will be permitted only if the company has adopted IFRS 15 Revenue from Contracts with Customers. The extent of the impact of adoption of the standard has not been determined.

None of the new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2017 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

OFF BALANCE SHEET ITEMS

As of December 31, 2016 and December 31, 2015, the Company did not have any off-balance sheet (statement of financial position) arrangements.

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 lending, 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.

MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market price whether the changes are caused by factors specific to the investment or factors affecting all securities in the market.

The Company's objective of managing this risk is to minimize the volatility of earnings. The Company mitigates this risk by charging interest rates which are significantly above normal banking rates.

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 of its financial assets and its exposure is generally limited to the carrying amount on the consolidated statements of financial position.

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

The Company mitigates the risk of credit losses on its Loan Portfolio 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, reviewing and approving new loans and mortgages and continually monitoring change in value of underlying collateral.

The Company regularly reviews the Loan Portfolio and interest receivable listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest and legal and other costs related to attempts at collection. Where the loan investments are collateralized by real property and losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured.

At December 31, 2016, six loan investments totalling $11,178,432, including interest receivable on these loans totalling $116,632, to entities controlled by the same borrower are in arrears, of which $248,333 of loans including interest payable have been syndicated. Certain affiliates of the borrower announced restructuring proceedings under the *Bankruptcy and Insolvency Act (Canada)*. Based on the most recent valuations of the underlying assets, the Company has not identified any loans in arrears for which a loss provision should be made.

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency denominated Loan Portfolio, Loan Syndications and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates.

The following table presents the amounts denominated in U.S. dollars as at December 31, 2016 and December, 2015:

	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 250,033	$ 5,326,400
Amounts receivable and prepaid expenses	1,695,516	750,357
Deposit	3,256,074	-
Loan and mortgage investments	30,372,383	27,501,479
Accounts payable and accrued liabilities	(1,204,623)	(378,403)
Unearned income	(115,279)	-
Short-term unsecured notes payable	-	(3,000,000)
Loan and mortgage syndications	(22,524,995)	(10,262,750)
	$ 11,729,109	$ 19,937,083

Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results. The Company manages its currency risk on Loan Portfolio by syndicating and or borrowing in the same currency.

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, loan and mortgage syndications 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, loan and mortgage syndications, 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.

If the Company is unable to continue to have access to its loans and mortgages syndications, revolving operating facility and convertible debentures, the size of the Company's loan and mortgage investments will decrease and the income historically generated through holding larger investments by utilizing leverage will not be earned.

Contractual obligations as at December 31, 2016 are due as follows:

	Less than 1 year	2 years	Total
Accounts payable and accrued liabilities	$ 10,647,966	$ -	$ 10,647,966
Revolving operating facility	7,500,000	-	7,500,000
Due to joint operations partner	11,163,640	-	11,163,640
Mortgages payable	42,508	1,480,153	1,522,661
Convertible debentures	10,850,000	-	10,850,000
	$ 40,204,114	$ 1,480,153	$ 41,684,267

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 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 legislation.

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 three months ended December 31, 2016.

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 legislation.

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. Management expects to be able to generate interest rates similar to those reflected in the current portfolio in 2016.

The Company's ability to achieve its 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 FINANCIAL 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, 2016, 2015 and 2014.

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, 2016	As at December 31, 2015	As at December 31, 2014
Total assets	$ 146,700,483	$ 129,746,068	$ 73,669,821
Total liabilities	$ 98,075,684	$ 83,214,077	$ 58,944,840
Shareholders' equity	$ 48,624,799	$ 46,531,991	$ 14,524,981
Loan and mortgage investments	$ 93,408,444	$ 95,135,201	$ 55,278,303
Loan and mortgage syndications and Debentures	$ 66,934,707	$ 56,320,249	$ 53,014,448
Loan and mortgage syndications and Debentures to loan and mortgage investments	71.7%	59.2%	95.9%

	Three months ended,		Years ended,		
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2014
Total revenue	$ 3,435,021	$ 5,151,740	$ 14,901,658	$ 17,351,575	$ 12,385,311
Total expenses	$ 3,078,022	$ 2,073,676	$ 12,840,856	$ 8,829,414	$ 8,246,050
Income from operations before income taxes	$ 356,999	$ 3,078,064	$ 2,060,802	$ 8,522,161	$ 4,139,261
Net income and comprehensive income attributable to common shareholders	$ 252,143	$ 1,895,901	$ 1,406,895	$ 6,021,924	$ 3,227,728
Diluted net income and comprehensive income attributable to common shareholders	$ 252,143	$ 2,058,325	$ 1,406,895	$ 6,663,851	$ 3,795,634
Weighted average number of shares outstanding					
Basic	61,163,579	60,237,257	60,935,292	53,721,933	33,072,348
Diluted	61,594,642	76,522,023	61,438,545	69,987,615	48,549,137
Earnings per share					
Basic	$ 0.00	$ 0.03	$ 0.02	$ 0.11	$ 0.10
Diluted	$ 0.00	$ 0.03	$ 0.02	$ 0.10	$ 0.08

The following table sets out the Company's quarterly results of operations for the eight periods ended December 31, 2016:

	Three months ended							
	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015
Revenue								
Interest and fees earned	$ 3,384,576	$ 3,568,917	$ 3,527,298	$ 4,221,156	$ 5,104,378	$ 4,140,615	$ 3,956,736	$ 3,960,412
Rental income	50,445	50,444	50,444	48,378	47,362	47,362	47,362	47,348
	3,435,021	3,619,361	3,577,742	4,269,534	5,151,740	4,187,977	4,004,098	4,007,760
Expenses								
Property operating expenses	17,307	21,186	17,307	16,092	15,269	15,268	15,268	15,254
General and administrative expenses	854,683	906,366	608,484	658,145	1,303,935	555,709	568,831	798,024
Share based compensation	430,360	120,150	58,818	210,386	321,389	345,605	724,689	391,039
Interest and financing costs	1,957,033	1,981,164	2,008,734	1,827,241	1,613,844	1,375,561	1,436,038	1,503,032
Provision for loan and mortgage investment loss	310,493	-	-	112,726	478,066	-	-	-
Realized and unrealized foreign exchange (gain) l	(357,375)	(313,607)	299,680	1,229,962	(1,090,208)	(736,870)	(251,710)	-
Fair value adjustment - investment properties	(61,950)	-	-	-	(82,500)	-	-	-
Fair value adjustment - portfolio investments	(72,529)	-	-	-	(394,170)	-	-	-
Share of income from investment in associates	-	-	-	-	(91,949)	-	-	-
	3,078,022	2,715,259	2,993,023	4,054,552	2,073,676	1,555,273	2,493,116	2,707,349
Income before income taxes	356,999	904,102	584,719	214,982	3,078,064	2,632,704	1,510,982	1,300,411
Income tax provision	104,856	259,615	189,278	100,158	1,138,177	768,797	194,304	354,973
Net income and comprehensive income	252,143	644,487	395,441	114,824	1,939,887	1,863,907	1,316,678	945,438
Net income and comprehensive income attributable to:								
Common shareholders	252,143	644,487	395,441	114,824	1,895,901	1,863,907	1,316,678	945,438
Non-controlling interest	-	-	-	-	43,986	-	-	-
	$ 252,143	$ 644,487	$ 395,441	$ 114,824	$ 1,939,887	$ 1,863,907	$ 1,316,678	$ 945,438
Duluted net income attributable to common shareholders	252,143	808,316	556,973	275,954	2,058,325	2,025,939	1,476,504	1,103,083
Weighted average number of shares outstanding								
- basic	61,163,579	61,155,083	61,155,083	60,260,083	60,237,257	59,996,822	52,930,801	41,582,300
- diluted	61,594,642	76,513,207	76,656,258	76,386,025	76,522,023	76,212,488	69,929,304	57,724,943
Earnings per share								
Basic	$ 0.00	$ 0.01	$ 0.01	$ 0.00	$ 0.03	$ 0.03	$ 0.03	$ 0.02
Diluted	$ 0.00	$ 0.01	$ 0.01	$ 0.00	$ 0.03	$ 0.03	$ 0.02	$ 0.02

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

Dated: March 29, 2017
Toronto, Ontario, Canada