# TERRA FIRMA CAPITAL CORPORATION

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

**FOR THE YEAR ENDED DECEMBER 31, 2017**

**MARCH 28, 2018**

## INTERPRETATION

The current and prior-period comparative results for the Terra Firma Capital Corporation (the "Company") reflect the consolidation of the Company and its interests in certain joint operations and portfolio investments in its wholly owned subsidiaries which are controlled by the Company. Unless the context otherwise requires, all references in this Management's Discussion and Analysis ("MD&A") to the "Company" refer to Terra Firma Capital Corporation and its subsidiaries.

The Company's consolidated financial statements for the years ended December 31, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company's presentation currency is the Canadian dollar.

The following Management's Discussion and Analysis of the financial performance, financial condition, and cash flows ("MD&A") of the "Company dated March 27, 2018 for the year ended December 31, 2017 should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the years ended December 31, 2017 and 2016. These documents are available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("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"). 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, plans, estimates, projections, beliefs and opinions relating to the future and readers are cautioned that the assumptions related to these plans, estimates, projections, beliefs and opinions may change and such statements may not be appropriate for other purposes. Forward-looking statements in this document include, but are not limited to, 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, future returns on investments by the Company, 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 statements 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 under the Company's profile at www.sedar.com, including the risks discussed herein at "Risks and Uncertainties" and risks discussed in the Company's Annual Information Form (the "AIF") dated March 28, 2018. 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 risks 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. This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's AIF. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements.

The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. While the Company anticipates that subsequent events and developments may cause the Company's views to change, 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, except to the extent required by applicable Canadian securities laws.

## NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted net income and comprehensive income, adjusted net income and comprehensive income attributable to common shareholders, adjusted net diluted income and comprehensive income attributable to common shareholders and adjusted earnings per share, that are not measures defined under IFRS as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to profit/loss or other measures of financial performance calculated in accordance with IFRS. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the operational and financial performance of the Company. Non-IFRS measures are also commonly used by the financial community to analyze and compare the performance of companies engaged in the same industries.

Adjusted net income and comprehensive income is the term the Company uses to describe net income and comprehensive income before non-cash foreign exchange loss related to the Company's net U.S. dollar denominated net assets. For a reconciliation of adjusted net income and comprehensive income to net income and comprehensive income, see "Financial Performance".

Adjusted net income and comprehensive income attributable to common shareholders and adjusted net diluted income and comprehensive income attributable to common shareholders are the terms the Company uses to describe net income and comprehensive income attributable to common shareholders before non-cash foreign exchange loss related to the Company's U.S. dollar denominated net assets. For reconciliations of adjusted net income and comprehensive income attributable to common shareholders to net income and comprehensive income attributable to common shareholders and adjusted net diluted income and comprehensive income attributable to common shareholders to net diluted income and comprehensive income attributable to common shareholders, see "Selected Annual and Quarterly Financial Information".

Adjusted earnings per share for the period is the term the Company uses to describe adjusted net income, as defined above, divided by the basic and fully diluted number of shares. For a reconciliation of adjusted earnings per share to earnings per share, see "Selected Annual and Quarterly Financial Information".

The foreign exchange loss related to the Company's U.S. dollar denominated net assets are excluded from these the non-IFRS measures noted above because it affects the comparability of our financial results, period-over-period, and could potentially distort the analysis of trends in business performance. This exclusion does not imply that this item is non-recurring due to ongoing currency fluctuations between the Canadian and U.S. 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 2S3.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the United States. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment of a property. These loans are typically repaid with lower cost, longer-term debt obtained from other 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 cost and loan-to-value ratios 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 calculating (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” or “Investment in Associates”). 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 objective of the Company is 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 (the “Board”) considers appropriate). In order to achieve this objective, the Company originates, creates and maintains a diversified Investment Portfolio on Real Property situated in Canada and the United States.

Management believes that there is currently a limited market opportunity in Canada and a significant market opportunity in the U.S., 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 may be made by way of 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 primarily in debt or priority structures.

The Company syndicates certain of its loan and mortgage investments to both private investors and to financial institutions, each participating in a prescribed manner per an agreement and on an investment-by-investment basis. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment.

## FOURTH QUARTER HIGHLIGHTS

The principal balance of the Company's loan and mortgage investments increased to $119.0 million at December 31, 2017, as compared to $96.0 million at September 30, 2017, representing an increase of 23.9%, primarily due to fundings of new loan and mortgage investments.

The principal balance of the Company's loan and mortgage syndications increased to $63.3 million at December 31, 2017, as compared to $52.5 million at September 30, 2017, representing an increase of 20.6%, primarily due to fundings received from investors to participate in the loan and mortgage investments.

The Company reported revenue of $3.0 million in the fourth quarter of 2017, compared to $3.4 million for the same period last year.

Interest and fee income for the fourth quarter of 2017 aggregated to $3.0 million, compared to $3.4 million for the same period last year, and 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, 2017 was $50,444, the same compared to the same period last year.

Interest and financing costs for the fourth quarter of 2017 aggregated to $1.9 million, approximately the same compared to the same period last year.

For the quarter ended December 31, 2017, the Company recognized a foreign exchange gain of $191,422 compared to a foreign exchange gain of $357,375 for the same period last year.

Net income and comprehensive income attributable to common shareholders for the fourth quarter of 2017 was $888,971 or $0.01 per basic and diluted share, as compared to $252,143 or $0.00 per basic and diluted share in the same period in the prior year, representing an increase in net income and comprehensive income attributable to common shareholders of $636,828.

On December 28, 2017, the Company converted its interest in joint operations in a development project into a limited partnership interest and recognized a gain on conversion of $2,402,996.

During the quarter ended December 31, 2017, the Company has provided a specific impairment loss provision of $931,478 and an allowance for uncollectible interest and other receivables of $1,591,883, relating to certain loan and mortgage investments that are in arrears.

## INVESTMENTS

### LOAN AND MORTGAGE INVESTMENTS

The Company's Loan Portfolio as at December 31, 2017 consisted of loans relating to the following: (a) 11 residential housing developments (comprising 2,216 high rise condominium units; 798 mixed use developments consisting of retail and low and high rise condominium units; and 407 low rise houses and condominium units), representing 27.4% of the Loan Portfolio (by investment amount), (b) land and lot inventory of real estate assets to be developed, located in Markham-Ontario; Orlando-Florida; Jacksonville-Florida, Phoenix-Arizona, Charlotte-North Carolina, Washington-District of Columbia, Sarasota-Florida, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing 72.6% of the Loan Portfolio (by investment amount).

The Company's Loan Portfolio as at December 31, 2016 consisted of loans relating to the following: (a) 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 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).

For the year ended December 31, 2017, the Company has two loans and mortgage investments in the U.S, before syndication, that accounts for 12.9% and 11.7% of the Company's total interest and fees revenue, respectively. At December 31, 2017, there are three loans in the U.S., before syndication, that account for 10.9%, 12.4% and 13.2% of the principal balance of loan and mortgage investments. For the year ended December 31, 2016, the Company has one loan and mortgage investment, before syndication, accounts for 14% the Company's total interest and fee revenue and accounts for 16% of the principal balance of loan and mortgage investments at December 31, 2016.

The following table presents details of the Loan Portfolio as at December 31, 2017 and 2016:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | Amount | % of Investments | Weighted Average Effective Interest Rate | Amount | % of Investments |
| Residential housing developments | 15.6% | 32,586,793 | 27.4% | 15.7% | $ 67,057,768 | 71.2% |
| Land and lot inventory | 13.6% | 86,412,191 | 72.6% | 14.1% | 24,159,165 | 25.6% |
| Commercial retail development | - | - | - | 15.1% | 500,000 | 0.5% |
| Residential income properties | - | - | - | 16.2% | 2,592,796 | 2.7% |
| Loan Portfolio | 14.1% | $118,998,984 | 100.0% | 15.3% | $ 94,309,729 | 100.0% |
| Allowance for loan and mortgage investment loss | | (1,832,763) | | | (901,285) | |
| Net Loan Portfolio | | $117,166,221 | | | $ 93,408,444 | |

As at December 31, 2017 and 2016, the principal balance of the Loan Portfolio was $118,998,984 and $94,309,729, respectively. The increase in Loan Portfolio during the year ended December 31, 2017 resulted from the net effect of funding of loan investments of $96,236,309; advances against existing loan commitments of $5,193,069; deposit converted to loan investments of $3,256,074; capitalized interest of $7,083,485 and the Company's share of loan investments in Valermo JV (defined below) of $870,389, which aggregate amount was offset by the repayment of loan investments totalling $76,096,502; repayment of previously capitalized interest of $8,262,647 and unrealized foreign exchange loss of $3,590,922.

The following table summarizes the change in the principal balance of the Loan Portfolio for the three months and years ended December 31, 2017 and 2016:

| | Three months ended | | Years ended | |
|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Balance, beginning of period | $ 95,978,719 | $ 102,039,653 | $ 94,309,729 | $ 95,613,267 |
| Loan portfolio activity during the period | | | | |
| Funding of new loan investments | 33,882,941 | 2,717,456 | 96,236,309 | 39,330,378 |
| Advances against existing loans | 2,148,126 | 148,600 | 5,193,069 | 5,529,590 |
| Deposits converted to loan investments | - | - | 3,256,074 | - |
| Repayments of loans | (13,799,851) | (11,155,509) | (76,096,502) | (40,440,519) |
| Interest capitalized | 1,023,958 | 1,301,902 | 7,083,485 | 5,136,628 |
| Converted to interest in joint operations | - | - | - | (7,000,000) |
| Company's share of loan investment in joint operations | 870,389 | - | 870,389 | (870,389) |
| Capitalized interest received | (1,011,825) | (1,561,533) | (8,262,647) | (2,061,533) |
| Unrealized foreign exchange gain (loss) | (93,473) | 819,160 | (3,590,922) | (927,693) |
| Balance, end of period | $ 118,998,984 | $ 94,309,729 | $ 118,998,984 | $ 94,309,729 |

On March 9, 2016, the Company advanced a loan of $10,000,000 to a project owned by 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 Borrower has subsequently defaulted on the loan. The Company has a registered security on the Secured Properties for $5,000,000 and 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 loan agreement also provided the Company an option to purchase the Borrower's 50% interest in the Valermo Homes JV for $7,000,000 (which approximates the fair value of the project). On April 15, 2016, the Company exercised its option and acquired the 50% interest in the Valermo Homes JV for $7,000,000. See "– Joint Arrangements – Valermo Homes JV" and "– Portfolio Investments".

The weighted average effective interest rate of the Loan Portfolio at December 31, 2017 and 2016, including loans in default, was 14.1% and 15.3%, 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 loan and mortgage investments of residential housing developments at December 31, 2017 and 2016 were 15.6% and 15.7%, respectively. The weighted average effective interest rates of the loans and mortgage investments of lot inventory at December 31, 2017 and 2016 were 13.6% and 14.1%, respectively. The weighted average effective interest rates of the commercial retail development and land at December 31, 2016 was 15.1%. The weighted average effective interest rates of the residential income properties at December 31, 2016 was 16.2%. At December 31, 2017, the Company had no outstanding loans to nor mortgage investments in any commercial retail development or residential income properties. The weighted average term to maturity at December 31, 2017 and 2016 was 1.85 years and 1.05 years, respectively.

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.

The following table presents details of the Company's loan categories in the Loan Portfolio as at December 31, 2017 and 2016:

| | December 31, 2017 | % of Investments | December 31, 2016 | % of Investments |
|---|---|---|---|---|
| Mortgages | $118,998,984 | 100.0% | $ 87,351,822 | 92.6% |
| Unregistered loans | - | 0.0% | 6,957,907 | 7.4% |
| | $118,998,984 | 100.0% | $ 94,309,729 | 100.0% |

The following table presents details of the Company's principal balances of the Loan Portfolio segmented by geography as at December 31, 2017 and 2016:

| | December 31, 2017 | % of Investments | December 31, 2016 | % of Investments |
|---|---|---|---|---|
| Canada | $ 34,586,791 | 29.1% | $ 52,412,874 | 55.6% |
| United States | 84,412,193 | 70.9% | 41,896,855 | 44.4% |
| | $118,998,984 | 100.0% | $ 94,309,729 | 100.0% |

Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets following the same prudent lending standards it has historically employed in Canada. At present, as the U.S. market continues to offer good quality lending opportunities while the price competition among lenders in the Canadian market remains quite strong. On a comparative basis, the Loan and Mortgage Investment opportunities in the U.S market have generally offered risk/return profiles as good as or better than those available in the Canadian market. The yields on the land and lot inventory loans in U.S. are high on a risk adjusted basis, ranging between 11% and 12% for LTVs up to 75%. As such, the Company will continue to focus primarily on providing higher leveraged loans (up to 80% LTV) on development lands in the U.S. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts rather than taking a proactive approach to generating a greater pipeline of potential transaction. It is anticipated that this trend will continue in the near term.

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 |
|---|---|---|---|
| 2018 | $ - | $ 47,337,029 | $ 47,337,029 |
| 2019 | - | 21,000,956 | 21,000,956 |
| 2020 | - | 26,776,095 | 26,776,095 |
| 2021 | - | 9,177,219 | 9,177,219 |
| 2022 | - | 14,707,685 | 14,707,685 |
| | $ - | $118,998,984 | $118,998,984 |

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 investments. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2017 were $46,714,363, including $13,988,176 of capitalization of future interest relating to the existing Loan Portfolio compared to $11,619,581, including $9,051,743 of capitalization of future interest relating to the Loan Portfolio at December 31, 2016. 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 and (iv) issuance of shares and debentures, or any combination thereof.

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, 2017 and 2016, based on the most recent valuations of the underlying net assets and management's estimates, the Company carries a specific impairment loss provision balance of $1,241,971 and $310,493, respectively.

The Company also assesses collectively for impairment to identify potential future losses by grouping the loan and mortgage investments with similar risk characteristics, excluding loans that are in arrears, 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. Based on the analysis, no additional collective loan loss provision was recorded for the years ended December31, 2017 and 2106. As at December 31, 2017 and 2016, the Company carries a collective impairment loss provision balance of $590,792.

The changes in the allowance for mortgage investments loss during the years ended December 31, 2017 and 2016 were as follows:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 901,285 | $ 478,066 |
| Provision for loan and mortgage investment loss | 931,478 | 423,219 |
| Balance, end of year | $ 1,832,763 | $ 901,285 |

At December 31, 2017, four project loan investments to entities controlled by the Borrower totalling $14,182,918 (including interest receivable and fees incurred on these loans totalling $2,387,802) are in arrears. At December 31, 2016, four loan investments to entities controlled by the Borrower totalling $11,717,468 including interest receivable and fees paid on these loans totalling $655,669 were in default, of which $248,333 of loan investment including interest payable had been syndicated for a net receivable of $11,469,135. The weighted average effective interest rate of the loan and mortgage investments in arrears at December 31, 2017 and 2016 was 19.7% and 19.4%, respectively. The foreclosure process has commenced and is proceeding on these loans to enforce on the security and liquidate the loans. During the years ended December 31, 2017 and 2016, based on the most recent valuations of the underlying assets and management's estimates, the Company recognized a specific impairment provision of $931,478 and $310,493, respectively, relating to certain loan investments in arrears. As at December 31, 2017, the Company has also provided an allowance for uncollectible interest receivable and other receivable of $1,591,883, relating to certain loan and mortgage investments in arrears.

On May 2, 2017, an order by the Ontario Superior Court of Justice (Commercial List) approved the settlement agreement of the creditors (including the Company) of a development project relating to the loan and mortgage investments of the Company totalling $7,903,156, including interest receivable and fees incurred that are currently in default with the Borrower. Such settlement allows for the completion of the project by a development company and the ultimate sale of the residential units to existing purchasers of units who elected to become part of the agreement. Pursuant to the agreement, purchasers who have elected to close on their homes will pay an additional amount towards completion of their units and creditors will fund the additional cash required to complete the development. The homes of purchasers not electing to participate in the agreement will be completed and sold on the open market. All proceeds of sale of units will be directed to repay all creditors (including the Company) and the development company on a pre-agreed upon formula.

## 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%. At December 31, 2017 and 2016, the Company’s share of net assets in Montreal Street JV was $863,457 and $792,910, respectively.

**Valermo Homes JV:**

One of the Company’s loan and mortgage investments provided the Company with an option to purchase the 50% interest in Valermo Homes JV owned by an entity controlled by the Borrower. Valermo Homes JV is a residential real estate development consisting of approximately 98 residential dwelling units. On April 15, 2016, the Company, through its wholly owned subsidiary, Terra Firma (Valermo) Corporation (the “TFVC”), 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 paid by the Company for its interests in the Valermo Homes JV 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: | |
| Investment property | $ 22,275,767 |
| Amounts receivable and prepaid expenses | 221,971 |
| Due to joint operations partner | (13,448,799) |
| Accounts payable and accrued liabilities | (1,424,258) |
| Value of assets transferred on conversion | $ 7,624,681 |
| Considereation paid, funded by: | |
| Loan and mortgage investments | $ 7,000,000 |
| Amounts receivable and prepaid expenses | 624,681 |
| Value of assets transferred on conversion | $ 7,624,681 |

On December 28, 2017, the co-owners of the Valermo Homes JV entered into a limited partnership (the “Valermo Partnership”) agreement (the “Valermo LP Agreement”) and agreed to transfer their respective interest in the Valermo Homes JV into the Valermo Partnership and hold their respective interests as limited partners of the Valermo Partnership. On conversion of interest made on December 31, 2017, TFVC relinquished control of the project and TFVC now accounts for its interest in the Valermo Partnership as portfolio investment. See – “Portfolio Investments”.

The fair value of the TFVC's interest in the identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of transfer of interest to Valermo Partnership is, as follows:

| | Total |
|---|---|
| Net assets transferred: | |
| Land under development | $ 33,188,172 |
| Amounts receivable and prepaid expenses | 488,601 |
| Cash and cash equivalents | 4,286 |
| Loan and mortgage investments | (870,389) |
| Due to joint operations partner | (1,043,549) |
| Construction loan payable | (15,070,000) |
| Accounts payable and accrued liabilities | (6,889,835) |
| Value of assets transferred on conversion | $ 9,807,286 |
| Considereation paid, funded by: | |
| Portfolio investments | 9,807,286 |
| Value of assets transferred on conversion | $ 9,807,286 |

The carrying value of TFVC's interest in identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of conversion of interest in joint operations to limited partnership interest in Valermo Partnership was $7,404,290. The company recognized a gain on conversion of interest in joint operations to limited partnership interest in the Valermo Partnership of $2,402,996.

The financial information in respect of the Company's investment in jointly controlled operations being the Montreal Street JV, at December 31, 2017 and the Company's investment in jointly controlled operations being the Montreal Street JV and the Valermo Homes JV, at December 31, 2016 is as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 63,090 | $ 413,420 |
| Amounts receivable and prepaid expenses | 108,142 | 415,616 |
| Investment property | 2,208,694 | 2,208,694 |
| Land under development | - | 23,808,574 |
| Total assets | 2,379,926 | 26,846,304 |
| Accounts payable and accrued liabilities | 46,625 | 5,151,860 |
| Loan and mortgage syndications | - | 870,389 |
| Mortgages payable | 1,469,844 | 1,509,503 |
| Due to joint operations partner | - | 11,163,640 |
| Total liabilities | 1,516,469 | 18,695,392 |
| Net assets | $ 863,457 | $ 8,150,912 |

The table below details the results of operations for the three months and years ended December 31, 2017 and 2016, attributable to the Company from its joint operations activities:

| | Three months ended | | Years ended | |
|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Revenue | | | | |
| Rental | $ 50,443 | $ 50,445 | $ 201,775 | $ 199,711 |
| Expenses | | | | |
| Property operating costs | 17,157 | 17,307 | 68,802 | 71,892 |
| General and administrative expenses | (26,307) | 149,395 | (45,872) | 267,811 |
| Interest expense | 11,069 | 10,829 | 45,841 | 40,779 |
| Fair value adjustment - investment property | - | (61,950) | - | (61,950) |
| | 1,919 | 115,581 | 68,771 | 318,532 |
| Net income (loss) | $ 48,524 | $ (65,136) | $ 133,004 | $ (118,821) |

### INVESTMENT PROPERTY

The Company's investment property consists of an income-producing property held in joint operations through the Montreal Street JV.

The following table summarizes the changes in the Company's proportionate share of the investment property for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 2,208,694 | $ 2,143,794 |
| Change in amount receivable from joint operations partners | - | 2,950 |
| Change in unrealized appreciation | - | 61,950 |
| Balance, end of year | $ 2,208,694 | $ 2,208,694 |

At December 31, 2017 and 2016, the Company's management 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 normalized operating income at the market capitalization rates. The aggregate value of the Company's proportionate share of investment property in the Montreal Street JV at December 31, 2017 and 2016 is $2,208,694. The capitalization rate used in the valuation property at December 31, 2017 and 2016 was 6.25%.

As at December 31, 2017 and 2016, 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 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.

### LAND UNDER DEVELOPMENT

The Company's land under development was held in joint operations through the Valermo Homes JV, until December 31, 2017, when the Company converted its interest in Valermo Homes JV into limited partnership units. See - "– Joint Arrangements – Valermo Homes JV".

The following table summarizes the changes in the Company's proportionate share of the land under development for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 23,808,574 | $ - |
| Acquisition of property | - | 22,275,767 |
| Additions, capital expenditures | 6,976,602 | 1,532,807 |
| Conversion to portfolio investment | (30,785,176) | - |
| Balance, end of year | $ - | $ 23,808,574 |

## PORTFOLIO INVESTMENTS

The Company has invested, through its wholly owned subsidiary Terra Firma Capital (Hill) Corporation (the "Hill"), 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 this investment as a financial asset at fair value through profit or loss. As at December 31, 2017 and 2016, the cost of the investment in the Hill is $954,630, and the cost of the investment in the Hill owned by an outside party is $200,000. At December 31, 2017 and 2016, the fair value of the investment as determined by management, using the direct comparison method was $1,174,212. The investment owned by an outside party of $254,641 at December 31, 2017 and 2016 is included in non-controlling interest.

The Company, through TFCC LanQueen Ltd., entered into a limited partnership (the "LanQueen Partnership") agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment to the partnership. TFCC LanQueen Ltd. is accounting for this investment as a financial asset at fair value through profit or loss. As at December 31, 2017 and 2016, TFCC LanQueen Ltd. contributed $1,724,000 in the LanQueen Partnership. The remainder of the commitment to the LanQueen Partnership will be funded in the future upon the development meeting certain funding conditions related to the project. At December 31, 2017 and 2016, the fair value of the investment in the LanQueen Partnership as determined by management, using the direct comparison method was $2,450,488 and $2,037,872, respectively.

The Company, through TFCC International Ltd. ("TFCC International") entered into a limited partnership (the "Savannah Partnership") agreement (the "Savannah Agreement"), whereby TFCC International is committed to invest U.S. $2,000,000 through a partnership interest in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. The Savannah Agreement also provides TFCC International the right to receive 50% of the remaining profit, after the Savannah Partnership has distributed a preferred return to all limited and general partners at the rate of 11% per annum calculated and compounded monthly on the amount of their investment in the Savannah Partnership. TFCC International does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at fair value through profit or loss. On September 20, 2017, TFCC International contributed $245,460 (U.S. $200,000) in the Savannah Partnership. On December 1, 2017, TFCC International sold part of its interest in the Savannah Partnership to investors for $101,823 (U.S. $80,000). At December 31, 2017, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2017 and 2016 was $143,638 and $nil, respectively. TFCC International also committed to provide a first mortgage loan up to U.S. $18,000,000, including capitalization of interest, to Savannah Project at the rate of 11% per annum calculated and compounded monthly and received a commitment fee of U.S. $400,000 on funding the loan. The remainder of the commitment to the Savannah Project will be funded in the future upon the Savannah Project meeting certain funding conditions. At December 31, 2017 and 2016, TFCC International had a loan investment balance of $14,707,685 (U.S. $11,699,964) and $nil (U.S. $nil), respectively to the Savannah Project. At December 31, 2017 and 2016, TFCC International syndicated $5,875,990 (U.S. $4,674,242), and $nil (U.S. $nil), respectively, of the loan investment in Savannah Project to investors.

On December 28, 2017, TFVC entered into a Valermo LP Agreement and transferred its interest in the Valermo Homes JV in exchange for a 50% limited partnership interest in the Valermo Partnership. The fair value of TFVC's interest in identifiable assets and liabilities transferred at the date of conversion of interest in the Valermo Homes JV to limited partnership interest in Valermo Partnership was $9,807,286. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at fair value through profit or loss. The fair value of the investment was determined by management, using the direct comparison method. At December 31, 2017, the fair value of the investment was $9,807,286. Subsequent to year end, the Company received $6,000,000 of distribution from Valermo Partnership. See "Subsequent Events".

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 3,212,084 | $ 2,339,555 |
| Investment made | 245,460 | 800,000 |
| Conversion of interest in joint operations to LP units | 9,807,286 | - |
| Sale of investment to investors | (101,822) | - |
| Fair value adjustment | 412,615 | 72,529 |
| Balance, end of year | $ 13,575,623 | $ 3,212,084 |

An increase or decrease of the sale price by 10% in the market comparison approach will increase or decrease the fair value of portfolio investments by approximately $1,357,562.

### INVESTMENT IN ASSOCIATES

On February 20, 2015, the Company, together with certain syndicate investors, has invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). At December 31, 2017, the Company's share of investment in the Lan Partnership, was $2,315,414 (December 31, 2016 - $2,315,414).

At December 31, 2017 and 2016, the Company's share of investment in the Lan Partnership, after taking into account the sale of some of its interest in the Lan Partnership to syndicate investors, was $2,315,414.

At December 31, 2017, the Lan Partnership has $13,333,333 invested in the Lan Project (December 31, 2016 - $13,333,333).

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.

The share of income from the Lan Partnership for the years ended December 31, 2017 and 2016, was $612,428 and $91,949, respectively. At December 31, 2017 and 2016, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at December 31, 2017 and 2016 was $2,927,842 and $2,315,414, respectively.

The following table summarizes the changes to the carrying value of investment in associate for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 2,315,414 | $ 2,315,414 |
| Share of income from Lan Partnership | 612,428 | - |
| Balance, end of year | $ 2,927,842 | $ 2,315,414 |

## FINANCIAL PERFORMANCE

The Company's financial performance for the three months and years ended December 31, 2017 and 2016 is summarized below:

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Revenue | | | | | | |
| Interest and fees earned | $2,990,889 | $3,384,576 | $ (393,687) | $14,528,778 | $14,701,947 | $ (173,169) |
| Rental income | 50,443 | 50,445 | (2) | 201,775 | 199,711 | 2,064 |
| Total revenue | 3,041,332 | 3,435,021 | (393,689) | 14,730,553 | 14,901,658 | (171,105) |
| Expenses | | | | | | |
| Property operating costs | 17,157 | 17,307 | (150) | 68,802 | 71,892 | (3,090) |
| General and administrative expenses | 1,067,353 | 854,683 | 212,670 | 3,328,175 | 3,027,678 | 300,497 |
| Share based compensation | (103,952) | 430,360 | (534,312) | 456,749 | 819,714 | (362,965) |
| Interest expense | 1,927,763 | 1,957,033 | (29,270) | 8,570,815 | 7,774,172 | 796,643 |
| Provision for loan and mortgage investment loss | 931,478 | 310,493 | 620,985 | 931,478 | 423,219 | 508,259 |
| Provision for uncollectible receivables | 1,591,883 | - | 1,591,883 | 1,591,883 | - | 1,591,883 |
| Realized and unrealized foreign exchange loss | (191,422) | (357,375) | 165,953 | 1,097,925 | 858,660 | 239,265 |
| Gain on conversion of interest in joint operation | (2,402,996) | - | (2,402,996) | (2,402,996) | - | (2,402,996) |
| Fair value adjustment - investment properties | - | (61,950) | 61,950 | - | (61,950) | 61,950 |
| Fair value adjustment - portfolio investment | (412,616) | (72,529) | (340,087) | (412,616) | (72,529) | (340,087) |
| Share of income from investment in associates | (612,428) | - | (612,428) | (612,428) | - | (612,428) |
| | 1,812,220 | 3,078,022 | (1,265,802) | 12,617,787 | 12,840,856 | (223,069) |
| Income from operations before income taxes | 1,229,112 | 356,999 | 872,113 | 2,112,766 | 2,060,802 | 51,964 |
| Income taxes | 340,141 | 104,856 | 235,285 | 588,961 | 653,907 | (64,946) |
| Net income and comprehensive income | $ 888,971 | $ 252,143 | $ 636,828 | $ 1,523,805 | $ 1,406,895 | $ 116,910 |

Total revenue for the three months and year ended December 31, 2017 was approximately $3.0 million and $14.7 million, respectively, compared to $3.4 million and $14.9 million, respectively, for the same period last year, primarily due to the factors discussed below under "Interest and Fees Earned".

Income from operations before income taxes for the three months ended December 31, 2017 was $1,229,112 compared to $356,999 for the three months ended December 31, 2016, primarily due to a gain on conversion of interest in joint operations of $2,402,996, increase in fair value adjustment of portfolio investments of $340,087, income from investment in associates of $612,428 and a reduction in share based compensation of $534,312. These increases were partially offset by a decrease in interest and fees earned of $393,687 and provision for loan and mortgage investments loss and uncollectible receivables of $2,523,361.

Income from operations before income taxes for the year ended December 31, 2017 was $2,112,766 compared to $2,060,802 for the year ended December 31, 2016, primarily impacted by a gain on conversion of interest in joint operations to portfolio investments of $2,402,996, a fair value adjustment of portfolio investments of $340,087 and income from investment in associates of $612,428. These increases were partially offset by an increase in foreign exchange loss by $239,265; an increase in interest expense attributable to increase in loan and mortgage syndications to fund the Loan

Portfolio of $796,643, an increase in provision for loan and mortgage investment loss of $508,259, and a provision for uncollectible receivables recorded in 2017 of $1,591,883.

Net income and comprehensive income for the three months ended December 31, 2017 was $888,971, compared to $252,143 for the corresponding period in 2016. The increase in net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the three months ended December 31, 2017 and 2016.

Net income and comprehensive income for the year ended December 31, 2017 was $1,523,805, compared to $1,406,895 for the corresponding period in 2016. The increase in net income and comprehensive income compared to the same period last year was primarily due to the factors discussed in the paragraph regarding income from operations before income taxes for the years ended December 31, 2017 and 2016.

The Company's adjusted net income (non-IFRS measurement) for the three months and years ended December 31, 2017 and 2016 is summarized below:

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Net income and comprehensive income | $ 888,971 | $ 252,143 | $ 636,828 | $ 1,523,805 | $ 1,406,895 | $ 116,910 |
| Foreign exchange loss (gain) (tax adjusted) | (140,695) | (262,671) | 121,976 | 806,975 | 631,115 | 175,860 |
| Adjusted net income (loss) and comprehensive income (loss) [(1)] | $ 748,276 | $ (10,528) | $ 758,804 | $ 2,330,780 | $ 2,038,010 | $ 292,770 |

(1) Adjusted net income (loss) and comprehensive income (loss) is a non-IFRS measure. See "Non-IFRS Measures".

Adjusted net income and comprehensive income, which eliminates the after tax impact related to foreign exchange loss or gain on US dollar denominated net assets, for the three months ended December 31, 2017 was $748,276, an increase of $758,804 from adjusted net loss and comprehensive loss of $10,528 for the corresponding period in 2016. The increase in adjusted net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the three months ended December 31, 2017 and 2016.

Adjusted net income and comprehensive income, which eliminates the after tax impact related to the foreign exchange loss or gain on the US dollar denominated net assets, for the year ended December 31, 2017 was $2,330,780, an increase of $292,770 from $2,038,010 for the corresponding period in 2016, was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the years ended December 31, 2017 and 2016.

### INTEREST AND FEES EARNED

For the three months ended December 31, 2017, interest and fees earned was $3.0 million, compared to $3.4 million for the corresponding period in 2016. The interest and fees earned for the three months ended December 31, 2017 includes interest and fees earned of $1.8 million from the Company's principal balance of the Loan Portfolio funded subsequent to December 31, 2016. This was partially offset by a decrease in interest and fees earned of $1.4 million due to repayments of loans subsequent to December 31, 2016. The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments".

For the year ended December 31, 2017, interest and fees earned was $14.5 million, compared to $14.7 million in the comparative period in 2016, representing a decrease of $0.2 million or 1.4% primarily due to the decrease in interest and fees earned of $5.3 million resulting from full or partial repayments of loan and mortgage investments subsequent to December 31, 2016. The decrease was partially offset by an increase in interest and fees earned in the amount of $5.2 million from the Company's principal balance of the Loan Portfolio funded subsequent to December 31, 2016. 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, 2017 and 2016 was $50,443 and $50,444, respectively. 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, 2017 was $17,157 compared to $17,307 for the same period last year.

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, 2017 was $201,775 compared to $199,711 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, 2017 was $68,802 compared to $71,892 for the same period last year.

### INTEREST EXPENSE

Interest expense for the three months and years ended December 31, 2017 and 2016 were as follows:

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Interest on loans and mortgage syndications | $1,436,860 | $1,558,110 | $ (121,250) | $6,804,733 | $5,898,874 | $ 905,859 |
| Interest on revolving operating facility | 479,834 | 164,529 | 315,305 | 1,093,890 | 949,061 | 144,829 |
| Interest on debentures | - | 223,565 | (223,565) | 626,351 | 885,458 | (259,107) |
| Montreal Street JV | 11,069 | 10,829 | 240 | 45,841 | 40,779 | 5,062 |
| | $1,927,763 | $1,957,033 | $ (29,270) | $8,570,815 | $7,774,172 | $ 796,643 |

Interest expense for the three months ended December 31, 2017 was $1,927,763 compared to $1,957,033 for the same period last year. Interest expense for the year ended December 31, 2017 was $8,570,815 compared to $7,774,172 for the same period last year. The increase in interest expense for the year ended December 31, 2017 was primarily due to increase in loan and mortgage syndications and the decrease in interest expense three months ended December 31, 2017 were primarily due to decrease in weighted average interest rate. 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, 2017 and 2016, the Company incurred the following general and administrative expenses:

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Salary and benefits | $ 748,873 | $ 501,359 | $ 247,514 | $2,015,529 | $1,565,400 | $ 450,129 |
| Professional fees | 178,284 | 133,855 | 44,429 | 607,206 | 593,711 | 13,495 |
| Public company expenses | 14,751 | 12,902 | 1,849 | 86,466 | 83,329 | 3,137 |
| Directors' fees | 25,000 | 23,333 | 1,667 | 128,333 | 95,833 | 32,500 |
| Rent | 45,940 | 12,860 | 33,080 | 140,658 | 132,689 | 7,969 |
| Selling and marketing expenses | (26,587) | 148,419 | (175,006) | (46,287) | 266,679 | (312,966) |
| Other expenses | 81,092 | 21,955 | 59,137 | 396,270 | 290,037 | 106,233 |
| | $1,067,353 | $ 854,683 | $ 212,670 | $3,328,175 | $3,027,678 | $ 300,497 |

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, 2017 were $1,067,353, compared to $854,683 for the same period last year, primarily due to increase in salaries and benefits $247,514 and professional fees of $44,429, increased rent expenses of $33,080 and other expenses of $59,137. These increases were partially offset by adjustments relating to realtor fees included in the selling and administrative costs to prepaid expenses by the Valermo Homes JV of $175,006.

General and administrative expenses for the year ended December 31, 2017 was $3,328,175, compared to $3,027,678 for the corresponding period in 2016. The increase in general and administrative expenses compared to the same period last year was primarily due to increase in salary and benefits, and other expenses in 2017 which increases were partially offset by adjustments relating to realtor fees included in the selling and administrative costs to prepaid expenses by the Valermo Homes JV. Other expenses for the year ended December 31, 2017 include expenses relating to due diligence work on unfunded loans amounting to $157,307. No similar expense relating to due diligence work were incurred during the same period last year.

### SHARE BASED COMPENSATION

The share-based payments that have been recognized for the three months and years ended December 31, 2017 and 2016 were as follows:

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Share option Plan | $ 51,468 | $ 67,063 | $ (15,595) | $ 243,076 | $ 435,710 | $ (192,634) |
| DSU Plan | (155,420) | 363,297 | (518,717) | 213,673 | 384,004 | (170,331) |
| | $ (103,952) | $ 430,360 | $ (534,312) | $ 456,749 | $ 819,714 | $ (362,965) |

Share-based payments associated with the Company's share option plan (the "Plan") were $51,468 for the three months ended December 31, 2017, compared to $67,063 for the same period last year. 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, 2017 was $243,076, compared to $435,710 for the same period last year, due to amortization of value attributable to the stock options granted in March 31, 2016, September 26, 2016 and 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, 2017 were ($155,420), compared to $363,297 for the same period last year. The decrease in share-based payments associated with the DSU Plan for the three months ended December 31, 2017 was primarily due to decrease in the Share price which decrease was partially offset by the vesting of additional DSUs during the period. Share-based payments associated with the DSU Plan for the year ended December 31, 2017 were $213,673, compared to $384,004 for the year ended December 31, 2016, which decrease primarily due to the decrease in the Share price over the course of the year which increase was partially offset by vesting of additional DSUs during the year. See "Shareholders Equity – Share-Based Payments".

### FOREIGN EXCHANGE GAIN/LOSS

| | Three months ended | | | Years ended | | |
|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) | Dec 31, 2017 | Dec 31, 2016 | Change Increase / (decrease) |
| Realized and unrealized foreign exchange (gain) loss | $ (191,422) | $ (357,375) | $ 165,953 | $1,097,925 | $ 858,660 | $ 239,265 |
| | $ (191,422) | $ (357,375) | $ 165,953 | $1,097,925 | $ 858,660 | $ 239,265 |

For the three months ended December 31, 2017, the Company recognized a foreign exchange gain of $191,422 compared to a foreign exchange gain of $357,375 for the same period last year. For the year ended December 31, 2017, the Company recognized a foreign exchange loss of $1,097,925 compared to a foreign exchange loss of $858,660 for the comparative period in 2016.

During the three months ended December 31, 2017, the U.S. dollar strengthened against the Canadian dollar from $1.2480 to $1.2571. During the year ended December 31, 2017, the U.S. dollar weakened against the Canadian dollar from $1.3427 to $1.2571. At December 31, 2017, U.S. dollar denominated net monetary assets were US$27,476,532 compared to US$11,729,109 as at December 31, 2016, primarily due to increase in U.S. dollar-denominated loan and mortgage investments, which is partially offset by. U.S. dollar-denominated loan syndications.

## 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 and (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, 2017 and 2016:

| | Three months ended | | Years ended | |
|---|---|---|---|---|
| | Dec 31, 2017 | Dec 31, 2016 | Dec 31, 2017 | Dec 31, 2016 |
| Cash provided by (used in) operating activities | $ (3,257,833) | $ 2,587,928 | $ 4,796,905 | $ (428,964) |
| Cash (used in) provided by financing activities | 18,903,540 | (3,244,371) | 16,954,697 | (2,456,857) |
| Cash (used in) provided by investing activities | (22,212,552) | 5,113,059 | (31,375,795) | 3,477,513 |
| Increase (decrease) in cash and cash equivalents | $ (6,566,845) | $ 4,456,616 | $ (9,624,193) | $ 591,692 |
| Cash and cash equivalents, beginning of period | 9,257,894 | 7,858,626 | 12,315,242 | 11,723,550 |
| Cash and cash equivalents, end of period | $ 2,691,049 | $ 12,315,242 | $ 2,691,049 | $ 12,315,242 |

Cash used in operating activities for the three months ended December 31, 2017 of $3,257,833 and cash provided by in operating activities for the three months ended December 31, 2016 of $2,587,928, and cash provided by operating activities for the year ended December 31, 2017 of $4,796,905 and cash used in operating activities for the year ended December 31, 2016 of $428,964, are related primarily to the net cash provided by or used in lending operations.

Cash provided by financing activities for the three months ended December 31, 2017 of $7,472,780 related primarily to: proceeds from the loan and mortgage syndications of $22,801,744; proceeds from a revolving credit facility of $3,000,000; proceeds from construction loan payable of $4,575,000; advance from joint operations partner of $1,023,301; and proceeds from the issuance of Shares pursuant to the Plan of $9,600. The aggregate of these amounts was partially offset by: repayments of the loan and mortgage syndications of $12,106,173; the repurchase of Shares for cancellation under the Company's NCIB (as defined below) of $388,896; and repayments of a mortgage payable of $11,036. Cash used in 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; repurchase of Shares for cancellation of $55,631; and repayments of mortgage payable of $2,764. The aggregate of these amounts was partially offset 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.

Cash provided by financing activities for the year ended December 31, 2017 of $16,954,697 related primarily to: proceeds from loan and mortgage syndications of $67,985,402; proceeds from a revolving credit facility of $25,500,000; proceeds from a construction loan payable of $15,070,000; proceeds from issuance of Shares pursuant to private placement of $3,179,393; and proceeds from the issuance of Shares pursuant to the Plan of $9,600. The aggregate of these amounts was partially offset by: repayments of the loan and mortgage syndications of $58,175,630; repayments to a joint operations partner of $10,120,091; repayment of the Debentures of $10,850,000; repayment of revolving credit facility of $14,000,000; the repurchase of Shares for cancellation under the Company's NCIB of $1,601,469; and repayments of mortgage payable of $42,508. 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 revolving operating facility of $7,500,000; repayment of short-term unsecured loans payable of $2,741,700; repayment to joint operations partner of $1,414,770; repayments of mortgage payable of $34,933; and repurchase of Shares for cancellation of $55,631. The aggregate of these amounts was partially offset by: the net proceeds from the loan and mortgage syndications of $36,628,012; proceeds from revolving credit facility of $5,000,000; proceeds from mortgage payable of $435,850; proceeds from issuance of Shares pursuant to the Plan of $305,834; and proceeds from short-term unsecured notes payable of $200,000.

The cash used in investing activities during the three months ended December 31, 2017 of $22,239,528 primarily reflects: the funding of loan and mortgage investments of $33,263,792; capital additions to investment properties of $5,198,389; and cash transferred on conversion of interest in Valermo JV to Valermo Partnership of $4,286. The aggregate of this amount was partially offset by: repayments received from loan and mortgage investments of $13,799,851; increase in funds held in trust of $2,352,241; and proceeds from sale of portfolio investment of $101,823. 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. This amount was partially 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; a decrease 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 year ended December 31, 2017 of $31,375,795 primarily reflects: the funding of loan and mortgage investments of $98,287,103; capital additions to investment properties of $6,976,602; an increase in funds held in trust of $2,060,669; funding of a portfolio investment of $245,460; and cash transferred on conversion of interest in Valermo JV to Valermo Partnership of $4,286. The aggregate of this amount was partially offset by repayments received from loan and mortgage investments of $76,096,502 and proceeds from sale of portfolio investment of $101,823. 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 partially offset 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.

## CAPITAL STRUCTURE AND DEBT PROFILE

### CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, loan and mortgage syndications, convertible debentures, short-term unsecured notes payable, revolving operating facility, mortgage payable, due to joint operations partner and construction loan payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the shareholders.

At December 31, 2017 and 2016, respectively, the total capital of the Company was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Loan and mortgage syndications | $ 63,299,522 | $ 56,180,448 |
| Revolving operating facility | 18,965,205 | 7,467,586 |
| Mortgages payable | 1,469,844 | 1,509,503 |
| Convertible debentures | - | 10,754,259 |
| Due to joint operations partner | - | 11,163,640 |
| Non-controlling interest | 254,641 | 254,641 |
| Shareholders' equity | 51,743,274 | 48,370,158 |
| Total capital | $ 135,732,486 | $ 135,700,235 |

### 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 sold to investors and owned by the investors in a prescribed manner and are governed by loan servicing agreements. The terms of the syndication would typically 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, the 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 at December 31, 2017 and 2016:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | Amount | % of Loans Payable | Weighted Average Effective Interest Rate | Amount | % of Loans Payable |
| Residential housing developments | 10.3% | $12,916,020 | 20.4% | 11.0% | $35,109,509 | 62.5% |
| Land and lot inventory | 10.2% | $50,383,502 | 79.6% | 10.5% | $20,270,939 | 36.1% |
| Residential income properties | - | - | - | 10.4% | 800,000 | 1.4% |
| | 10.2% | $63,299,522 | 100.0% | 10.8% | $56,180,448 | 100.0% |

At December 31, 2017, the weighted average effective interest rate of Loan Syndications was 10.2%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 10.3% and land and lot inventory, having a weighted average effective interest rate of 10.2%. At December 31, 2017, the weighted average term to maturity of Loan Syndications was 1.74 years.

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, 2016, the weighted average term to maturity of Loan Syndications was 1.27 years.

At December 31, 2017, the Company’s syndication activities resulted in $63,299,522 or 53.2% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 18.3%, and increasing its overall return by 4.2% from its non-leveraged 14.1% return. At December 31, 2016. the Company’s syndication activities resulted in $56,180,448 or 59.6% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 21.4%, and increasing its overall return by 6.6% from its non-leveraged 15.3% return. Overall, returns 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 three months and years ended December 31, 2017 and 2016:

| | Three months ended | | Years ended | |
|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Balance, beginning of period | $ 52,525,811 | $ 56,256,821 | $ 56,180,448 | $ 45,691,948 |
| Loan and mortgage syndication activity during the period | | | | |
| Proceeds to participate in new Loan Portfolio | 22,801,744 | 1,985,681 | 59,934,178 | 30,327,537 |
| Additional advances to existing Loan Portfolio | - | 4,700,475 | 8,051,224 | 6,300,475 |
| Interest capitalized | 174,073 | 322,474 | 2,470,436 | 652,905 |
| Repayments of loan and mortgage syndications | (12,106,173) | (8,694,722) | (58,175,630) | (33,279,519) |
| Transferred from short-term unsecured loans payable (net) | - | - | - | 6,744,300 |
| Repayments of capitalized interest | (75,813) | (86,768) | (2,284,515) | (86,768) |
| Unrealized foreign exchange gain | (20,120) | 1,696,487 | (2,876,619) | (170,430) |
| Balance, end of period | $ 63,299,522 | $ 56,180,448 | $ 63,299,522 | $ 56,180,448 |

The following table sets out, as at December 31, 2017, scheduled principal repayments, and amounts maturing on the Loan Syndications to be paid over each of the next five years, are as follows:

| | Scheduled principal payments | Loan and mortgage syndications maturing during the | Total loan and mortgage syndications |
|---|---|---|---|
| 2018 | $ - | $25,632,369 | $25,632,369 |
| 2019 | - | 19,177,550 | 19,177,550 |
| 2020 | - | 5,187,714 | 5,187,714 |
| 2021 | - | 7,425,899 | 7,425,899 |
| 2022 | - | 5,875,990 | 5,875,990 |
| | $ - | $63,299,522 | $63,299,522 |

### DUE TO JOINT OPERATIONS PARTNER

The co-ownership agreement on Valermo Homes JV provided that the Company was not required to make any other contributions in respect of expenses or development costs and the development partner would 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. On December 31, 2017, TFVC's share of interest in due to joint operations partners assumed by the Valermo Partnership on the conversion of interest in the Valermo Homes JV to limited partnership interest in the Valermo Partnership was $1,043,549. At December 31, 2017 and 2016, the amount due to the joint operations partner is $nil and $11,163,640, respectively.

### CONSTRUCTION LOAN PAYABLE

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Valermo Facilities") with a lending institution for $65.6 million to finance the construction of homes. Interest on advanced funds under the Valermo Facilities carries an interest rate at prime plus 0.75% per annum. On December 31, 2017, TFVC's share of interest construction loan payable assumed by the Valermo Partnership on conversion of the interest in the Valermo Homes JV to limited partnership interest in the Valermo Partnership was $15,070,000. At December 31, 2017 and 2016, the construction loan payable was $nil.

### MORTGAGES PAYABLE

On June 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 June 16, 2016. The refinanced mortgage bears interest at 3.0% per annum, is amortized over 25 years and matures on July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at December 31, 2017 and 2016 is as follows.

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Mortgage principal | $ 1,480,153 | $ 1,522,661 |
| Unamortized financing costs | (10,309) | (13,158) |
| Total | $ 1,469,844 | $ 1,509,503 |

The following table sets out, scheduled principal and interest repayments and amounts maturing on the mortgages over each of the next four years:

| | Scheduled principal payments | Mortgages maturing during the year | Total mortgages payable |
|---|---|---|---|
| 2018 | 43,803 | - | 43,803 |
| 2019 | 45,138 | - | 45,138 |
| 2020 | 46,513 | - | 46,513 |
| 2021 | 23,785 | 1,320,914 | 1,344,699 |
| | $ 159,239 | $ 1,320,914 | $ 1,480,153 |

### SHORT-TERM UNSECURED NOTES PAYABLE

Until September 23, 2016, the Company had short-term unsecured notes payable issued to syndicate investors. These notes 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. At any time prior to the maturity date, the Company had an option to extend these notes by three months.

As at December 31, 2017 and 2016, the Company had no outstanding short-term unsecured notes payable.

The following table summarizes the changes in the short-term unsecured notes payable for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ - | $ 9,286,000 |
| Proceeds from issuance of short-term unsecured notes payable | - | 200,000 |
| Transferred from loan and mortgage syndications | - | 50,000 |
| Transferred to loan and mortgage syndications | - | (6,794,300) |
| Repayments of short-term unsecured notes payable | - | (2,741,700) |
| Balance, end of year | $ - | $ - |

### REVOLVING OPERATING FACILITY

The Company had a Revolving Operating Facility Credit Agreement (the “Facility Agreement”) with a lending institution (the "Lender") for a $10,000,000 secured revolving loan facility (the "Facility") with a 24-month term, maturing on May 1, 2017. Interest on advanced funds under the Facility was 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility was subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allowed the Company to fund and warehouse new investments while raising syndicate on and/or co investment capital.

On April 24, 2017, the Company paid the Facility in full and the Facility matured on May 1, 2017.

On August 15, 2017, the Company amended the Facility Agreement (the “Facility Amendment”), primarily to increase the credit limit to $20,000,000 and to extend the maturity date to March 1, 2018. The Facility Amendment also provides the Company an option to extend the term of the Facility for a subsequent six months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until the expiry of the extension period and will increase to 12% per annum thereafter.

In connection with the Facility Amendment, the Company incurred lender and other third-party costs of $142,138. The costs associated with the Facility Amendment have been deferred and were fully amortized over the term of the Facility as interest expense using the effective-interest amortization method.

During the years ended December 31, 2017 and 2016, the Company borrowed an aggregate of $25,500,000 and $5,000,000, respectively and repaid $14,000,000 and $7,500,000, respectively, against the Facility.

For the three months and year ended December 31, 2017, amortization of deferred financing costs reported as interest expense and financing costs totaled $71,071 and $139,757 (three months and year ended December 31, 2016 - $25,687 and $102,442), respectively.

The following table presents details of the Facility as at December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Face value | $ 19,000,000 | $ 7,500,000 |
| Unamortized financing costs | (34,795) | (32,414) |
| | $ 18,965,205 | $ 7,467,586 |

On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018 at an interest rate of 9.5% per annum.

### CONVERTIBLE DEBENTURES

The Company had unsecured subordinated convertible debentures (the "Debentures") in the principal amount of $10,850,000. The Debentures bore interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and were to mature on September 27, 2017. The Debentures were convertible into Shares 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 had an option, at any time prior to the maturity date and upon giving notice, to 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 represented 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 was 8.53%.

On September 12, 2017, the Company repaid in cash, the outstanding Debentures in the aggregate principal amount of $10,850,000 plus all accrued and unpaid interest owed.

The following table summarizes the changes in the Debentures for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 10,754,259 | $ 10,628,301 |
| Interest expensed at EIR of 7.35% | 626,351 | 885,458 |
| Interest paid | (530,610) | (759,500) |
| Repayment of debentures | (10,850,000) | - |
| | $ - | $ 10,754,259 |

### COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to fund additional loan investments. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2017 were $46,714,363 including $13,988,176 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2016 were $11,619,581 including $9,051,743 of capitalization of future interest relating to the existing Loan Portfolio. The Company's commitments include conditions, such as borrowers reaching certain milestones, before the Company's commitment would become available. The funding commitments may expire without being drawn upon, and commitments do not necessarily represent future cash requirements or future earning assets for the Company.

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

As at December 31, 2017, the Company has a guarantee outstanding on the construction loan payable in the Valermo Partnership to a third party lender.

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario. The future minimum lease payments, which include estimated operating costs of the office spaces as at December 31, 2017, are as follows:

| | Amount |
|---|---|
| 2018 | 221,785 |
| 2019 | 221,785 |
| 2020 | 221,785 |
| | $ 665,355 |

,

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

On August 15, 2017, the Company completed a non-brokered private placement offering of 5,000,000 units (the "Units") at a purchase price of $0.65 per Unit, for gross proceeds of $3,250,000. Each Unit is comprised of one Share and one share purchase warrant (a "Warrant"). Each Warrant is exercisable for one Share at a price of $0.85 per Share for a period of 36 months from August 15, 2017. The Company incurred share issuance costs of $588,777 including cost of Warrants of $536,881 and cash costs of $70,607, which was offset by a deferred tax benefit of $18,711.

On December 19, 2017, a director of the Company exercised 32,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $9,600 received on exercising the options was recorded as share capital and the related contributed surplus of $5,114 was transferred to share capital.

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 Company's executive vice chairman (formerly chief executive officer) exercised 895,000 options that had been formally granted 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.

The following table summarizes the changes in Shares for the years ended December 31, 2017 and 2016:

| | Shares | Amount |
|---|---|---|
| Outstanding, December 31, 2015 | 60,260,083 | $31,257,404 |
| Issuance of Shares pursuant to share option plan | 969,667 | 305,834 |
| Repurchase of Shares pursuant to normal course issuer bid | (94,500) | (55,631) |
| Transferred from contributed surplus upon exercise of options | - | 282,212 |
| Outstanding, December 31, 2016 | 61,135,250 | $31,789,819 |
| Issuance of Shares pursuant to private placement | 5,000,000 | 2,661,223 |
| Issuance of Shares pursuant to share option plan | 32,000 | 9,600 |
| Repurchase of shares pursuant to normal course issuer bid | (2,391,400) | (1,601,469) |
| Transferred from contributed surplus upon exercise of options | - | 5,114 |
| Outstanding, December 31, 2017 | 63,775,850 | $32,864,287 |

As at March 28, 2018, there were 62,648,850 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 were to 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. On June 30, 2017, the TSX-V approved an amendment to the NCIB to increase the number of Shares that the Company may acquire under the NCIB by an additional 2,861,119 Shares. Other than the increase to the maximum number of Shares which may be acquired under the NCIB, no further amendments were made.

During the years ended December 31, 2017 and 2016, the Company purchased and cancelled 2,391,400 and 94,500 Shares, respectively on TSX-V for $1,601,469 and $55,631, respectively.

Subsequent to December 31, 2017, the Company purchased and cancelled 1,127,000 Shares for a total cash consideration of $744,373.

### 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 and in accordance with the Plan and the policies of the TSX.V. Subject to the policies of the TSX-V, the Board may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods.

On December 21, 2017, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 340,000 Shares at $0.67 per Share, with the expiry date of December 21, 2024. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 Shares of the Corporation at a price of $0.69 per Share. Each of the option grants vest in four equal instalments every three months and expire in three years from the date of grant.

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 (the "Chairman") 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.

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 21, 2017 | September 25, 2017 | December 28, 2016 | June 27, 2016 | March 31, 2016 |
| Average expected life | 7.00 years | 3.00 years | 7.00 years | 7.00 years | 7.00 years |
| Average risk-free interest rate | 1.72% | 1.65% | 1.40% | 1.04% | 0.89% |
| Average expected volatility | 59.09% | 48.70% | 87.74% | 79.94% | 81.61% |
| Average dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

The fair value of options granted on December 31, 2017, September 25, 2017, December 28, 2016, June 26, 2016 and March 31, 2016 were $168,103, $37,358, $278,956, $187,007 and $108,854, 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 by the Company upon exercise of 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 granted to purchase the Shares at $0.30 per Share. The consideration of $268,500, received by the Company upon exercise of 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, 2017 and 2016, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $51,468 and $67,063, respectively. For the years ended December 31, 2017 and 2016, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of $243,076 and $435,710, respectively

A total of 585,000 options previously granted to the Executive Vice Chairman, options that had been granted to purchase the Shares at $0.50 per Share, expired during the second quarter of 2017.

The following is the summary of changes in the Company's options for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Outstanding - beginning of year | 5,278,671 | $ | 0.67 | 5,052,338 | $ | 0.61 |
| Granted | 440,000 | | 0.67 | 1,260,000 | | 0.63 |
| Exercised | (32,000) | | 0.30 | (969,667) | | 0.32 |
| Expired | (585,000) | | 0.50 | (64,000) | | 0.50 |
| Cancelled | (100,000) | | 0.50 | - | | - |
| Outstanding - end of year | 5,001,671 | $ | 0.70 | 5,278,671 | $ | 0.67 |
| Number of options exercisable | 4,295,367 | $ | 0.70 | 4,260,335 | $ | 0.67 |

The following summarizes the Company's outstanding options as at December 31, 2017:

| Number of options outstanding | Expiry date | Number of options exercisable | Exercise price | Market price at date of |
|---|---|---|---|---|
| 106,667 | April 17, 2018 | 138,667 | 0.30 | 0.25 |
| 50,000 | February 23, 2019 | 50,000 | 0.50 | 0.42 |
| 515,000 | 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 | 1,050,000 | 0.79 | 0.85 |
| 980,889 | May 11, 2020 | 980,889 | 0.85 | 0.85 |
| 100,000 | September 25, 2020 | 25,000 | 0.69 | 0.69 |
| 200,000 | March 31, 2023 | 200,000 | 0.77 | 0.77 |
| 500,000 | June 27, 2023 | 500,000 | 0.57 | 0.57 |
| 560,000 | December 27, 2023 | 186,696 | 0.65 | 0.65 |
| 340,000 | December 21, 2024 | - | 0.67 | 0.67 |
| 5,001,671 | | 4,295,367 | | |

### (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, 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, 2017 and 2016:

| | Number of DSUs | |
|---|---|---|
| | December 31, 2017 | December 31, 2016 |
| DSUs outstanding, beginning of year | 2,394,066 | 1,757,001 |
| Granted | 302,254 | 637,065 |
| Settled | (173,925) | - |
| Cancelled | (6,834) | - |
| DSUs outstanding, end of year | 2,515,561 | 2,394,066 |
| Number of DSUs vested | 2,474,051 | 2,292,150 |

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, 2017 were ($155,420) and $213,673, respectively. 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.

On December 19, 2017, a member of the Board settled 173,925 DSUs for $114,720 upon his resignation.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at December 31, 2017 and 2016 was $1,657,614 and $1,558,661, respectively.

### (c) Warrants

The Company completed a non-brokered private placement offering on August 15, 2017 of 5,000,000 Units comprised of 5,000,000 Shares and 5,000,000 Warrants. Each Warrant is exercisable for one Share at a price of $0.85 per Share, with an expiry date of August 15, 2020. The fair value of Warrants granted on August 15, 2017 was $536,881.

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

| | August 15, 2017 |
|---|---|
| Average expected life | 3.00 years |
| Average risk-free interest rate | 1.27% |
| Average expected volatility | 48.73% |
| Average dividend yield | 0.00% |

As part of a bought deal prospectus offering (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 entitled the holder to acquire one Share at an exercise price of $0.85 per Share. The broker warrants expired unexercised on May 5, 2017.

### CONTRIBUTED SURPLUS

The following table presents the changes to contributed surplus for the years ended December 31, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 2,514,073 | $ 2,360,575 |
| Fair value of share-based compensation | 243,076 | 435,710 |
| Transferred to share capital on exercise of shares | (5,114) | (282,212) |
| Fair value of Warrants | 536,881 | - |
| Transfer of equity component of debentures on repayment | 284,490 | - |
| Balance, end of year | $ 3,573,406 | $ 2,514,073 |

## RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At December 31, 2017 and 2016, the Chairman of the Board of the Company (the "Chairman"), indirectly through a wholly owned subsidiary, owned approximately 10.0% 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, Chief Financial Officer, Managing Director and the Board.

During the years ended December 31, 2017 and 2016, no key management personnel were personally indebted to the Company.

Aggregate compensation for key management personnel for years ended December 31, 2017 and 2016 was as follows:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Short-term employee benefits | $ 1,393,846 | $ 2,090,317 |
| Share-based compensation | 339,198 | 804,521 |
| | $ 1,733,044 | $ 2,894,838 |

### 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. At December 31, 2017 and 2016, the Company advanced a loan investment of $1,756,381. During the three months and year ended December 31, 2017, the Company recognized interest and fees revenue of $53,317 and $209,307, respectively (three months and year ended December 31, 2016 - $65,842 and $136,265, respectively).

#### 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, 2017 and 2016, the amount of the Loan Portfolio and Debentures syndicated to officers and directors were $614,690 and $1,997,135, respectively.

#### OFFICE PREMISES

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a sublease agreement corresponding to the terms of the Company's lease. The costs are divided in accordance with actual use. During the three months and year ended December 31, 2017, the Company received occupancy and office costs of $14,431 and $73,643, respectively (three months and year ended December 31, 2016 - $19,816 and $79,028, respectively).

#### SHAREHOLDERS' EQUITY

On December 19, 2017, a director of the Company exercised 32,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $9,600 received on exercising the options was recorded as share capital and the related contributed surplus of $5,114 was transferred to share capital.

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 by the Company upon exercise of 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 Company's executive vice chairman exercised 895,000 options that had been granted to purchase the Shares at $0.30 per Share. The consideration of $268,500 received by the Company upon exercise of the options was recorded as share capital and the related contributed surplus of $252,390 was transferred to share capital.

## 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, 2017 which can be found under the Company's profile at www.sedar.com.

There were no changes in significant accounting policies adopted by the Company in the year ended December 31, 2017.

#### NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2018 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 years:

(i) *Financial Instruments: Classification and Measurement ("IFRS 9")*

IFRS 9, Financial Instruments ("IFRS 9"), was issued to replace International Accounting Standard ("IAS") 39. 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 or loss.

IFRS 9 also introduces an expected loss ("ECL") model of impairment. Under the ECL model, debt instruments other than those measured at fair value through profit or loss must measure impairment losses based on the following "stages":

- Stage 1 – for new loans recognized and for existing loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;
- Stage 2 – for those loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the loan; and
- Stage 3 – for loans that are considered credit-impaired, a loss allowance equal to the lifetime expected credit losses is recognized.

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will also require judgment.

This standard is effective for years beginning on or after January 1, 2018. The Company plans to adopt the standard when it becomes effective, retrospectively, but without restatement of prior periods.

The Company does not expect any of its financial assets or financial liabilities to be reclassified upon adoption of IFRS 9. The Company is currently refining its ECL model, and has estimated the adoption will not result in a material change to the Company's shareholders' equity.

(ii) *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15, *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, International Financial Reporting Interpretations Committee ("IFRIC") 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently evaluating the applicability of the standard to various revenue streams, including an assessment of the new Leases standard (see below). The Company expect to complete their assessment of the potential impact of adopting IFRS 15 during the first quarter of 2018. The Company does not expect the new standard to have a material impact on the financial statements.

(iii) *Leases ("IFRS 16")*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the current standard. However, the Company is evaluating the identification of leases and non-lease components in accordance with the new requirements. IFRS 16 is only applicable to leases components and therefore other standards, such as IFRS 15, will apply to non-leases components of contracts. The new standard is effective for years beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 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, construction loan, 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 loan and mortgage investments and loan and mortgage syndications approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndications, mortgages payable or revolving operating facility. The Company makes its determination of fair value based on its assessment of the current lending market for these instruments of same or similar terms. As a result, the fair values are based on Level 3 of the fair value hierarchy.

The Company uses various methods in estimating the fair values recognized in the 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, 2017 and 2016 and no amounts were transferred between fair value levels during the three months and years ended December 31, 2017 or 2016.

## OFF BALANCE SHEET ITEMS

As of December 31, 2017 and 2016, 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.

### 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, 2017, four project loan investments to entities controlled by the same borrower totalling $14,182,918, including interest receivable and fees incurred on these loans totalling $2,387,802. Certain affiliates of the borrower announced restructuring proceedings under the *Bankruptcy and Insolvency Act (Canada)*. At December 31, 2017, the Company carries impairment loss provision of $1,241,971. At December 31, 2017, the Company has provided an allowance for uncollectible interest receivable and other receivable relating to certain loan and mortgage investments that are in arrears of $1,591,883.

### 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.

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

ii. changes in national or local economic conditions,

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

iv. the inability of developers to sell development land,

v. changes in demand for newly constructed residential units,

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

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

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.

### 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, 2017 and 2016:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Cash and cash equivalents | $ 473,516 | $ 250,033 |
| Amounts receivable and prepaid expenses | 75,036 | 1,695,516 |
| Deposits | - | 3,256,074 |
| Loan and mortgage investments | 67,148,352 | 30,372,383 |
| Portfolio investments | 120,000 | - |
| Accounts payable and accrued liabilities | (261,152) | (1,204,623) |
| Unearned income | (1,193,290) | (115,279) |
| Loan and mortgage syndications | (38,885,930) | (22,524,995) |
| | $ 27,476,532 | $ 11,729,109 |

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.

### 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 and revolving operating facility, 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, 2017 are due as follows:

| | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 6,236,233 | $ - | $ 6,236,233 |
| Revolving operating facility | 19,000,000 | - | 19,000,000 |
| Mortgages payable | 43,803 | 1,436,350 | 1,480,153 |
| | $ 25,280,036 | $ 1,436,350 | $ 26,716,386 |

### 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.

#### REGULATORY RISK

The Ontario government has announced plans to transfer responsibility for syndicated mortgage investments from the Financial Services Commission of Ontario to the Ontario Securities Commission. In relation to the foregoing, the Canadian Securities Administrators has published for comment proposed changes to substantially harmonize the regulatory framework for syndicated mortgages in Canada. Under the proposed amendments, prospectus and registration exemptions that currently apply to syndicated mortgages in certain jurisdictions (including Ontario) would be removed. Additionally, the amendments, if adopted, would introduce revisions to the offering memorandum exemption to provide heightened disclosure for investors and, in certain circumstances, issuers would be required to deliver property appraisals prepared by an independent, qualified appraiser. The proposed amendments would also exclude syndicated mortgages from the private issuer exemption. The Company is assessing the proposed regulatory amendments and cannot predict what the final regime will look like and how it will impact on the Company's business and results.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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.

## 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.

Yields in the real estate market in Canada have compressed over the last year to levels that are not only low from a risk adjusted return perspective but also below the cost of capital of the Company. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts versus taking a proactive approach to generating a greater pipeline of potential transaction. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets following the same prudent lending standards it historically had employed in Canada. The U.S. market represented a logical extension of the Partnership's existing lending operations. As such, the Company continues to focus primarily on providing higher leveraged loans (up to 80% LTV) on development projects in the U.S. Management expects to be able to generate interest rates similar to those reflected in the current portfolio.

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.

## SUBSEQUENT EVENTS

On January 29, 2018, the general partner of the Valermo Partnership resolved that TFVC shall not be required to contribute any additional amounts or property to the Valermo Partnership and that Valermo Partnership will make distributions to TFVC in the amount of $6,000,000 on January 31, 2018 and $3,050,000 on June 1, 2018. The general partner of the Valermo Partnership also resolved that the Valermo Partnership will make distributions to the other limited partner of the Valermo Partnership on December 31, 2018 or such other date as the general partner of the Valermo Partnership may determine. Accordingly, on January 31, 2018, TFVC received distribution of $6,000,000 from the Valermo Partnership.

On February 13, 2018, the Company agreed with another claimant under bankruptcy proceeding against the projects owned by entities controlled by the Borrower, to seek approval of the Ontario Court, whereby the Company will receive its principal balance of the loan investment of $3,000,000 in full.

## 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, 2017 and 2016 and the unaudited condensed consolidated interim financial statements and accompanying notes for the three months and years ended December 31, 2017.

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, 2017 | As at December 31, 2016 | As at December 31, 2015 |
|---|---|---|---|
| Total assets | $ 143,474,295 | $ 146,700,483 | $ 129,746,068 |
| Total liabilities | $ 91,476,380 | $ 98,075,684 | $ 83,214,077 |
| Total equity | $ 51,997,915 | $ 48,624,799 | $ 46,531,991 |
| Loan and mortgage investments | $ 118,998,984 | $ 93,408,444 | $ 95,135,201 |
| Loan and mortgage syndications and Debentures | $ 63,299,522 | $ 66,934,707 | $ 56,320,249 |
| Loan and mortgage syndications and Debentures to loan and mortgage investments | 53.2% | 71.7% | 59.2% |

| | Three months ended | | Years ended | | |
|---|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 | December 31, 2015 |
| Total revenue | $ 3,041,332 | $ 3,435,021 | $ 14,730,553 | $ 14,901,658 | $ 17,351,575 |
| Total expenses | $ 1,812,220 | $ 3,078,022 | $ 12,617,787 | $ 12,840,856 | $ 8,829,414 |
| Income from operations before income taxes | $ 1,229,112 | $ 356,999 | $ 2,112,766 | $ 2,060,802 | $ 8,522,161 |
| Net income and comprehensive income attributable to common shareholders | $ 888,971 | $ 252,143 | $ 1,523,805 | $ 1,406,895 | $ 6,021,924 |
| Diluted net income and comprehensive income attributable to common shareholders | $ 888,971 | $ 252,143 | $ 1,523,805 | $ 1,406,895 | $ 6,663,851 |
| Adjusted net income and comprehensive income attributable to common shareholders (1) | $ 748,276 | $ (10,528) | $ 2,330,780 | $ 2,038,010 | $ 1,124,287 |
| Adjusted net diluted income and comprehensive income attributable to common shareholders (1) | $ 748,276 | $ (10,528) | $ 2,330,780 | $ 2,038,010 | $ 1,957,214 |
| Weighted average number of shares outstanding | | | | | |
| Basic | 63,909,035 | 61,163,579 | 61,875,327 | 60,935,292 | 53,721,933 |
| Diluted | 64,369,274 | 61,594,642 | 62,257,369 | 61,438,545 | 69,987,615 |
| Earnings per share | | | | | |
| Basic | $ 0.01 | $ 0.00 | $ 0.02 | $ 0.02 | $ 0.11 |
| Diluted | $ 0.01 | $ 0.00 | $ 0.02 | $ 0.02 | $ 0.10 |
| Adjusted earnings per share (1) | | | | | |
| Basic | $ 0.01 | $ 0.00 | $ 0.04 | $ 0.03 | $ 0.02 |
| Diluted | $ 0.01 | $ 0.00 | $ 0.04 | $ 0.03 | $ 0.02 |

(1) Adjusted net income and diluted net income attributable common shareholders and adjusted earnings per share are non-IFRS Measures.
See "Non-IFRS" Measures.

The following table sets out the Company's quarterly results of operations for the eight quarterly periods ended December 31, 2017:

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31, 2017 | Sep 30, 2017 | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sep 30, 2016 | Jun 30, 2016 | Mar 31, 2016 |
| Revenue | | | | | | | | |
| Interest and fees earned | $ 2,990,889 | $ 3,554,940 | $ 4,016,705 | $ 3,966,244 | $ 3,384,576 | $ 3,568,917 | $ 3,527,298 | $ 4,221,156 |
| Rental income | 50,443 | 50,444 | 50,444 | 50,444 | 50,445 | 50,444 | 50,444 | 48,378 |
| | 3,041,332 | 3,605,384 | 4,067,149 | 4,016,688 | 3,435,021 | 3,619,361 | 3,577,742 | 4,269,534 |
| Expenses | | | | | | | | |
| Property operating expenses | 17,157 | 17,157 | 17,157 | 17,331 | 17,307 | 21,186 | 17,307 | 16,092 |
| General and administrative expenses | 1,067,353 | 697,048 | 667,038 | 896,736 | 854,683 | 906,366 | 608,484 | 658,145 |
| Share based compensation | (103,952) | 352,813 | (72,833) | 280,721 | 430,360 | 120,150 | 58,818 | 210,386 |
| Interest and financing costs | 1,927,763 | 1,868,118 | 2,447,873 | 2,327,061 | 1,957,033 | 1,981,164 | 2,008,734 | 1,827,241 |
| Provision for loan and mortgage investment loss | 931,478 | - | - | - | 310,493 | - | - | 112,726 |
| Provision for uncollectible receivables | 1,591,883 | - | - | - | - | - | - | - |
| Realized and unrealized foreign exchange (gain) lo | (191,422) | 655,851 | 830,787 | (197,291) | (357,375) | (313,607) | 299,680 | 1,229,962 |
| Gain on conversion of interest in joint operation | (2,402,996) | - | - | - | - | - | - | - |
| Fair value adjustment - investment properties | - | - | - | - | (61,950) | - | - | - |
| Fair value adjustment - portfolio investments | (412,616) | - | - | - | (72,529) | - | - | - |
| Share of income from investment in associates | (612,428) | - | - | - | - | - | - | - |
| | 1,812,220 | 3,590,987 | 3,890,022 | 3,324,558 | 3,078,022 | 2,715,259 | 2,993,023 | 4,054,552 |
| Income before income taxes | 1,229,112 | 14,397 | 177,127 | 692,130 | 356,999 | 904,102 | 584,719 | 214,982 |
| Income tax provision | 340,141 | (21,941) | 63,443 | 207,318 | 104,856 | 259,615 | 189,278 | 100,158 |
| Net income and comprehensive income | 888,971 | 36,338 | 113,684 | 484,812 | 252,143 | 644,487 | 395,441 | 114,824 |
| Net income and comprehensive income attributable to: | | | | | | | | |
| Common shareholders | 888,971 | 36,338 | 113,684 | 484,812 | 252,143 | 644,487 | 395,441 | 114,824 |
| Non-controlling interest | - | - | - | - | - | - | - | - |
| | $ 888,971 | $ 36,338 | $ 113,684 | $ 484,812 | $ 252,143 | $ 644,487 | $ 395,441 | $ 114,824 |
| Duluted net income attributable to common shareholders | 888,971 | 36,338 | 277,180 | 646,013 | 252,143 | 808,316 | 556,973 | 275,954 |
| Adjusted net income and comprehensive income attributable to common shareholders (1) | 748,276 | 518,388 | 724,312 | 339,804 | (10,528) | 413,986 | 615,706 | 1,018,846 |
| Adjusted diluted net income and comprehensive income attributable to common shareholders (1) | 748,276 | 518,388 | 887,808 | 501,005 | (10,528) | 577,815 | 777,238 | 1,179,976 |
| Weighted average number of shares outstanding | | | | | | | | |
| - basic | 63,909,035 | 62,029,973 | 60,669,415 | 60,865,878 | 61,163,579 | 61,155,083 | 61,155,083 | 60,260,083 |
| - diluted | 64,369,275 | 62,350,838 | 76,051,064 | 76,651,845 | 76,522,023 | 76,513,207 | 76,656,258 | 76,386,025 |
| Earnings per share | | | | | | | | |
| Basic | $ 0.01 | $ 0.00 | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.01 | $ 0.01 | 0.00 |
| Diluted | $ 0.01 | $ 0.00 | $ 0.00 | $ 0.01 | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.00 |
| Adjusted earnings per share (2) | | | | | | | | |
| Basic | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.02 |
| Diluted | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.01 | $ 0.00 | $ 0.01 | $ 0.01 | $ 0.02 |

(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders, and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented byother publicly traded entities, nor should they be constrrued as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS" Measures.

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

Dated: March 28, 2018
Toronto, Ontario, Canada