Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

NOTICE TO READER

These condensed consolidated interim financial statements have been prepared by management, reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors of the Company on November 24, 2014. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Terra Firma Capital Corporation discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the condensed consolidated interim financial statements and the related quarterly Management Discussion and Analysis.

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	September 30, 2014	December 31, 2013
Assets			
Cash and cash equivalents		$ 415,069	$ 7,721,115
Funds held in trust		766,499	383,526
Amounts receivable and prepaid expenses	3	1,675,915	1,661,352
Loan and mortgage investments	4	70,842,612	55,278,303
Investment properties held in joint operations	5	1,915,336	7,671,452
Portfolio investments	6	3,868,234	954,073
Deferred income tax asset		34,740	-
		$ 79,518,405	$ 73,669,821
Liabilities and Shareholders' Equity			
Liabilities			
Accounts payable and accrued liabilities	7	$ 3,014,868	$ 1,366,708
Provision for discontinued operations	8	27,500	321,490
Unearned income		700,116	472,924
Income taxes payable		270,957	82,375
Deferred income tax liability		-	6,348
Short-term loans payable	9	4,120,000	-
Loans and mortgages payable	10	43,384,960	46,569,921
Convertible debentures	11	10,486,731	10,125,074
		62,005,132	58,944,840
Commitments and contingencies	12		
Shareholders' Equity			
Share capital	13 (a)	$ 10,834,175	$ 10,795,790
Equity component of convertible debentures	11	284,490	-
Contributed surplus	13 (b) and 14	750,743	603,962
Retained earnings		5,443,865	3,125,229
		17,313,273	14,524,981
Non-controlling interest		200,000	200,000
		$ 79,518,405	$ 73,669,821

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

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	Three months ended Sept 30, 2014	Three months ended Sept 30, 2013	Nine months ended Sept 30, 2014	Nine months ended Sept 30, 2013
Revenue					
Interest and fees		$ 3,206,862	$ 2,063,541	$ 8,669,218	$ 5,489,936
Rental	5	47,520	113,262	210,276	335,916
		3,254,382	2,176,803	8,879,494	5,825,852
Expenses					
Property operating costs	5	15,225	182,784	72,526	251,637
General and administrative		417,792	353,130	1,301,987	1,093,216
Share based compensation	13 (b)	116,044	9,512	552,646	41,857
Interest	17	1,520,434	1,061,686	4,450,889	3,156,270
Gain on conversion of interest in joint operation	5	-	-	(487,000)	-
		2,069,495	1,607,112	5,891,048	4,542,980
Income from operations before income taxes		1,184,887	569,691	2,988,446	1,282,872
Income taxes	18	270,243	146,792	821,454	331,071
Income from continuing operations		914,644	422,899	2,166,992	951,801
Income from discontinued operations	8	-	-	151,644	-
Net income and comprehensive income		914,644	422,899	2,318,636	951,801
Earnings per share	15				
Continuing operations					
Basic		$ 0.03	$ 0.01	$ 0.08	$ 0.03
Diluted		0.02	0.01	0.06	0.03
Discontinued operations					
Basic		-	-	-	-
Diluted		-	-	-	-

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

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

	Share capital (note 13 (a))		Convertible debentures (note 11)	Contributed surplus (notes 13 (b) & 14)	Retained earnings	Total
	Number of shares	Amount				
Shareholders Equity, December 31, 2012	30,695,000	$ 10,757,405	$ -	$ 573,139	$ 1,425,402	$ 12,755,946
Changes during the period:						
Issuance of common shares under share option plan	100,000	25,590	-	(5,590)	-	20,000
Share based compensation	-	-	-	41,857	-	41,857
Net income and comprehensive income	-	-	-	-	951,801	951,801
Shareholders Equity, September 30, 2013	30,795,000	$ 10,782,995	$ -	$ 609,406	$ 2,377,203	$ 13,769,604
Changes during the period:						
Issuance of common shares under share option plan	50,000	12,795	-	(2,795)	-	10,000
Share based compensation	-	-	-	(2,649)	-	(2,649)
Net income and comprehensive income	-	-	-	-	748,026	748,026
Shareholders Equity, December 31, 2013	30,845,000	$ 10,795,790	$ -	$ 603,962	$ 3,125,229	$ 14,524,981
Changes during the period:						
Issuance of common shares under share option plan	150,000	38,385	-	(8,385)	-	30,000
Share based compensation	-	-	-	155,166	-	155,166
Issuance of convertible debentures	-	-	284,490	-	-	284,490
Net income and comprehensive income	-	-	-	-	2,318,636	2,318,636
Shareholders Equity, September 30, 2014	30,995,000	$ 10,834,175	$ 284,490	$ 750,743	$ 5,443,865	$ 17,313,273

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

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	Three months ended Sept 30, 2014	Three months ended Sept 30, 2013	Nine months ended Sept 30, 2014	Nine months ended Sept 30, 2013
Cash provided by (used in)					
Operating activities					
Net income from continuing operations		$ 914,644	$ 422,899	$ 2,166,992	$ 951,801
Non-cash items					
Interest and fees earned		(3,206,862)	(2,063,541)	(8,669,218)	(5,489,936)
Interest expense		1,520,434	1,061,686	4,450,889	3,156,270
Share based compensation	13	116,044	9,512	552,646	41,857
Gain on conversion of interest in joint operation		-	-	(487,000)	-
Income tax provision		270,243	146,792	821,454	331,071
Changes in working capital					
Decrease (increase) in other receivables		(218,860)	(29,846)	(163,454)	1,117,160
Decrease (increase) in prepaid expenses and deposits		(67,693)	13,661	(201,429)	(179,113)
Increase (decrease) in accounts payable and accrued liabilities		904,831	(698,586)	1,134,235	(587,445)
Interest and fees received		4,066,460	2,705,062	8,306,453	4,929,229
Interest paid		(1,944,615)	(1,672,014)	(5,388,558)	(3,300,836)
Income taxes paid		(276,702)	(123,012)	(728,635)	(861,084)
Cash provided by (used in) operating activities - continuing operations		2,077,924	(227,387)	1,794,375	108,974
Cash used in operating activities - discontinued operations	8	-	(31,273)	(87,671)	(92,985)
Cash provided by (used in) operating activities		2,077,924	(258,660)	1,706,704	15,989
Financing activities					
Proceeds from loans and mortgages payable		13,658,668	575,000	20,540,189	16,425,000
Repayments of loans and mortgages payable		(15,264,065)	(967,010)	(20,348,750)	(5,545,913)
Proceeds from short-term loans payable		5,120,000	-	5,120,000	-
Repayment of short-term loans payable		(1,000,000)	-	(1,000,000)	-
Proceeds from issuance of convertible debentures, net of issue costs		4,545,950	-	4,545,950	-
Repayment of convertible debentures		(3,925,000)	-	(3,925,000)	-
Proceeds from issuance od shares under share options plan		-	20,000	30,000	20,000
Advance deposits from investors		-	9,790,593	-	9,790,593
Cash provided by financing activities		3,135,553	9,418,583	4,962,389	20,689,680
Investing activities					
Funding of loan and mortgage investments		(21,683,591)	(10,440,501)	(34,498,525)	(26,337,667)
Repayments of loan and mortgage investments		12,887,400	8,772,706	23,897,145	14,909,702
Capital additions to investment properties	5	-	225,557	(76,625)	211,646
Increase in funds held in trust		(567,440)	(10,096,293)	(382,973)	(10,396,708)
Portfolio investment		(720,000)	-	(2,914,161)	-
Cash used in investing activities		(10,083,631)	(11,538,531)	(13,975,139)	(21,613,027)
Decrease in cash and cash equivalents		(4,870,154)	(2,378,608)	(7,306,046)	(907,358)
Cash and cash equivalents, beginning of period		5,285,223	4,694,541	7,721,115	3,223,291
Cash and cash equivalents, end of period		$ 415,069	$ 2,315,933	$ 415,069	$ 2,315,933

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

Terra Firma Capital Corporation (the “Company”) was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company (“Shares”) trade on the TSX Venture Exchange (the “Exchange”) under the symbol TII. The registered office of the Company is: 5000 Yonge Street, Suite 1502, Toronto, Ontario, M2N 7E9. The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments, throughout Canada and the United States.

1. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS") 34, “Interim Financial Reporting”. The preparation of these unaudited condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”) as well as Interpretation of International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed consolidated interim financial statements do not contain all disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the notes to the Company's audited consolidated financial statements as at and for the year ended December 31, 2013.

(b) Basis of presentation:

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

(b) Basis of measurement:

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

1. Basis of presentation (continued):

(c) Functional and presentation currency:

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

(d) Critical judgements and estimates:

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

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

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

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

2. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the period ended September 30, 2014 follow the same accounting policies and methods of their application as those used in the Company's consolidated financial statements for the year ended December 31, 2013, except for the following:

(a) Deferred share unit plan:

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

2. Significant accounting policies (continued):

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

(b) Adoption of Recent Accounting Pronouncements:

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

(i) IFRIC 21 - *Levies*, addresses accounting for a liability to pay a levy within the scope of IAS 37, Provisions, Contingent liabilities and Contingent Assets. A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, Income Taxes, and fines or other penalties imposed for breaches of the legislation. The interpretations are effective for annual periods beginning on or after January 1, 2014. The adoption of this interpretation did not result in any changes to the unaudited condensed consolidated interim financial statements.

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

(c) New standards and interpretations not yet adopted:

There were no new standards issued during the three months period ended September 30, 2014 that are applicable to the Company in future periods. A Description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

(In Canadian dollars)

3. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at September 30, 2014 and December 31, 2013.

	September 30, 2014	December 31, 2013
Interest receivable	$ 1,270,698	$ 1,498,359
Other receivables	239,380	61,116
Prepaid expenses and deposits	165,837	101,877
Amounts receivable and prepaid expenses	$ 1,675,915	$ 1,661,352

Included in interest receivable at September 30, 2014 are non-current balances of $500,495 (December 31, 2013 - $74,969).

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

4. Loan and mortgage investments:

As at September 30, 2014 and December 31, 2013, the Company had principal balance of loan and mortgage investments of $70,842,612 and $55,278,303, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 20.0% (December 31, 2013 – 18.6%) and a weighted average term to maturity of 0.97 years (December 31, 2013 – 1.21 years).

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

	September 30, 2014		December 31, 2013	
	Amount	% of Investments	Amount	% of Investments
Residential housing developments	$ 66,081,273	93.3%	$ 40,121,019	72.6%
Commercial retail development	600,000	0.8%	600,000	1.1%
Residential income properties	2,842,339	4.0%	1,794,084	3.2%
Student housing	-	0.0%	12,763,200	23.1%
Land	1,319,000	1.9%	-	0.0%
Loan and mortgage investments	$ 70,842,612	100.0%	$ 55,278,303	100.0%

4. Loan and mortgage investments (continued):

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

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

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

(a) Residential housing developments:

These loans pertain to 20 projects at various stages of development, 19 in Toronto, Ontario and one in Kitchener, Ontario. In the aggregate, 11 of the projects are slated for 1,933 high rise condominium units and 15 of the projects are slated for 725 mixtures of low and high rise condominium units. 12 of the loans have been syndicated to private investors (note 10).

(b) Commercial retail development:

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

(c) Residential income properties:

The loans represent, second mortgages secured by a 251 unit apartment building located in Toronto, Ontario and two apartment buildings with 221 units, located in Ottawa, Ontario.

(d) Land:

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

(In Canadian dollars)

4. Loan and mortgage investments (continued):

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

	September 30, 2014	December 31, 2013
Mortgages	$ 64,642,612	$ 44,078,303
Unregistered loans	6,200,000	11,200,000
	$ 70,842,612	$ 55,278,303

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

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

	Scheduled principal payments	Investments maturing	Total loan and mortgage investments
Reminder of year 2014	619	3,923,438	3,924,057
2015	1,750	49,124,715	49,126,465
2016	-	14,866,162	14,866,162
2017	-	2,925,928	2,925,928
	$ 2,369	$ 70,840,243	$ 70,842,612

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at September 30, 2014 was $5,080,885 including $2,975,200 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2013 - $1,529,552, including $866,202 of capitalization of future interest).

During the three and nine months ended September 30, 2014, the Company capitalized interest income of $697,301 and $2,021,329, respectively, and included in the loan and mortgage investments. During the three and nine months ended September 30, 2013, the Company capitalized interest income of $824,157 and $1,699,083, respectively, and included in the loan and mortgage investments.

5. Joint arrangements:

(a) Interests in joint operations:

Where the Company's interests in properties are subject to joint control, the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method.

(i) **Montreal Street JV**:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner to develop a store for a national pharmacy chain in Ottawa, Ontario. The land on which the store was developed is subject to a 20 year land lease, with five renewal options of five years each. The Montreal Street JV carries a loan of $2,106,550 as at September 30, 2014, bearing interest at 4.2% per annum, is amortized over 25 years and matures September 1, 2016. The Company's ownership interest in the Montreal Street JV is 52.5%.

(ii) **Queen Street West JV**

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

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

(In Canadian dollars)

5. Joint arrangements (continued):

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

	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	3,006	5,465
Amounts receivable and prepaid expenses	11,355	101,669
Investment properties	1,915,336	7,671,452
	1,929,697	7,778,586
Liabilities		
Accounts payable and accrued liabilities	40,958	24,134
Loans and mortgages payable	1,158,602	4,680,547
	1,199,560	4,704,681
Net assets	$ 730,137	$ 3,073,905

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

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Rental revenue	47,520	113,262	210,276	335,916
Property operating costs	15,225	182,784	72,526	251,637
General and administrative expense	61	301	1,419	1,854
Interest expense	11,847	84,931	107,000	316,011
	27,133	268,016	180,945	569,502
Net income (loss)	$ 20,387	$ (154,754)	$ 29,331	$ (233,586)

(b) Interests in properties:

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

(In Canadian dollars)

5. Joint arrangements (continued):

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

Balance, December 31, 2012	$	7,834,576
Additions - capital expenditures		(211,646)
Balance, September 30, 2013		7,622,930
Change in amount receivable from joint venture partners		(203,924)
Additions - capital expenditures		330,733
Fair value adjustment		(78,287)
Balance, December 31, 2013	$	7,671,452
Change in amount receivable from joint venture partners		(61,700)
Additions - capital expenditures		76,625
Sale of investment property		(5,771,041)
Balance, September 30, 2014	$	1,915,336

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. The capitalization rate used in the valuation property was 7.0%. The carrying value of investment property in the Montreal Street JV at September 30, 2014 approximates its fair value.

As at September 30, 2014, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property by $71,159. A 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property by $66,251.

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

(In Canadian dollars)

6. Portfolio investments:

The Company has invested through the Hill, a partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit and loss. The carrying value of the investment is $954,073 (December 31, 2013 - $954,073) and the investment of the other partner in the Hill of $200,000 is included in non-controlling interest. At September 30, 2014 and December 31, 2013, the fair values were determined using direct comparison method. The carrying value of investment approximates its fair value.

On May 21, 2014, the Company entered into a partnership agreement (the “Agreement”) to invest in a 244 unit stacked townhouse condominium development project located in Markham, Ontario. The Agreement allows the Company to receive 3% fee at the time of funding and an amount by way of a preferred return equal to 14% per annum calculated and compounded annually on the amount of its investment in the partnership. As at September 2014, the Company contributed $2,914,161 to the partnership and received $87,425 in fees and accrued $108,444 of preferred return. The fees and preferred return are recognized as interest and fees in the Condensed Consolidated Interim Statements of Income and Comprehensive Income.

7. Accounts payable and accrued liabilities:

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

	September 30, 2014	December 31, 2013
Interest payable	$ 908,428	$ 772,735
Interest reserve	372,165	353,705
Accounts payable, accrued liabilities and provisions	1,336,795	240,268
Accrued share-based compensation	397,480	-
Accounts payable and accrued liabilities	$ 3,014,868	$ 1,366,708

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

(In Canadian dollars)

8. Discontinued operations:

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

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

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

Balance, December 31, 2012	$	445,957
Lease payments made during the period		(92,985)
Balance, September 30, 2013		352,972
Lease payments made during the year		(31,482)
Balance, December 31, 2013		321,490
Lease payments made during the year		(87,671)
Rent provision reversal		(206,319)
Balance, September 30, 2014	$	27,500

9. Short-term loans payable:

In August 2014, the Company entered into formal short-term loan agreements with three lenders to borrow $5,120,000, of which $1,000,000 is with the Chairman of the Board of the Company. The interest rate is 10% annum, payable monthly. These loans are repayable by the Company anytime, without penalty. For the three and nine months ended September 30, 2014, an interest expense of $81,096 was recorded (for the three and nine months ended September 30, 2013 - $nil). Proceeds from these loans were used to fund certain loans and mortgage investments.

In September 2014, the Company repaid $1,000,000 of the loan received from the Chairman of the Board of the Company with the interest of $6,849 (see Note 16).

(In Canadian dollars)

10. Loans and mortgages payable:

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

The principal balance of loans and mortgage payable at September 30, 2014 and December 31, 2013 were $43,384,960 and $46,569,921, respectively. The loans and mortgages carry a weighted average effective interest rate of 11.8% (December 31, 2013 – 12.0%) and a weighted average term to maturity of 0.75 years (December 31, 2013 – 1.31 years).

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

	September 30, 2014		December 31, 2013	
	Amount	% of Loans Payable	Amount	% of Loans Payable
Residential housing developments	$ 39,250,188	90.4%	$ 28,279,132	60.7%
Commercial retail development	500,000	1.2%	500,000	1.1%
Residential income properties	1,446,170	3.3%	1,347,042	2.9%
Student housing	-	0.0%	12,763,200	27.4%
Land	1,030,000	2.4%	-	0.0%
Montreal Street JV	1,158,602	2.7%	1,180,547	2.5%
Queen Street West JV	-	0.0%	2,500,000	5.4%
	$ 43,384,960	100.0%	$ 46,569,921	100.0%

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

	Scheduled principal payments	Loans and mortgages payable maturing	Total loans and mortgages payable
Remainder of year 2014	$ 7,794	$ 2,424,999	$ 2,432,793
2015	31,679	33,786,872	33,818,551
2016	13,224	7,120,392	7,133,616
	$ 52,697	$ 43,332,263	$ 43,384,960

11. Convertible debentures:

On September 29, 2014 the Company, refinanced by way of a private placement, the unsecured subordinated convertible debentures in the principal amount of $10,150,000 with an original maturity date of September 27, 2014 (the “2011 Debentures”), with the issuance of new unsecured subordinated convertible debentures (the “2014 Debentures”) in the principal amount of $$10,850,000.

The 2014 Debentures bear interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter commencing December 31, 2014, and mature on September 27, 2017. The 2014 Debentures are convertible into Shares of the Company in whole or in part, at the option of the holder at any time up to maturity at a conversion price of $0.72 per Share. The Company may, at any time prior to the maturity date and upon giving notice, prepay the 2014 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 2011 Debentures bore interest at an annual rate of, 7.0%, paid on the last business day of each calendar quarter and were convertible into Shares of the Company in whole or in part, at the option of the holder at any time up to maturity at a conversion price of $0.70 per Share. The 2011 Debentures were not redeemable or convertible at the option of the Company prior to maturity.

The fair value of the liability component of the 2014 Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of $10,486,460 (net of transaction costs of $76,962) and the equity component was assigned a value of $284,490 (net of transaction costs of $2,088). The effective interest rate of the 2014 Debentures is 8.53%.

The fair value of the liability component of the 2011 Debentures was determined to be the fair value of the Debenture as a whole. Issue costs directly attributable to the issuance of the 2011 Debentures were deducted from the liability component of the 2011 Debentures resulting in an effective interest rate of 7.35%.

A portion of the 2014 Debentures were issued to related parties (see Note 16). Certain directors and officers held 2011 Debentures in an aggregate principal amount of $800,000.

(In Canadian dollars)

11. Convertible debentures (continued):

The following table summarizes the changes in the convertible debentures for the nine months ended September 30, 2013 and 2014:

	2011 Debentures	2014 Debentures	Total
Liability component of debentures, December 31, 2012	$ 10,093,325	$ -	$ 10,093,325
Interest expensed at EIR of 7.35%	554,943	-	554,943
Interest paid	(531,415)	-	(531,415)
Liability component of debentures, September 30, 2013	$ 10,116,853	$ -	$ 10,116,853
Interest expensed at EIR of 7.35%	187,306	-	187,306
Interest paid	(179,085)	-	(179,085)
Liability component of debentures, December 31, 2013	$ 10,125,074	$ -	$ 10,125,074
Interest expensed at EIR of 7.35% for 2011 Debentures and at 7.79% for 2014 Debentures	549,226	4,394	553,620
Interest paid	(524,300)	(4,123)	(528,423)
Issurance of debentures	-	10,850,000	10,850,000
Repayment of debentures	(10,150,000)	-	(10,150,000)
Transaction costs	-	(79,050)	(79,050)
Amount classified as equity	-	(284,490)	(284,490)
Liability component of Debentures, September 30, 2014	$ -	$ 10,486,731	$ 10,486,731

12. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at September 30, 2014 was $5,080,885 (December 31, 2013 - $1,529,552).

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

The Company has a lease commitment on its head office premises located at 5000 Yonge Street, Toronto, Ontario. The minimum rental amount is $30,693 per annum extending to March 31, 2017. Additional maintenance and utility costs and realty taxes are payable as incurred.

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.

(In Canadian dollars)

13. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the nine months ended September 30, 2013 and 2014:

	Shares		Amount
Outstanding, December 31, 2012	30,695,000	$	10,757,405
Issuance of shares under share option plan	100,000		20,000
Transferred from contributed surplus upon exercise of options	-		5,590
Outstanding, September 30, 2013	30,795,000		10,782,995
Issuance of shares under share option plan	50,000		10,000
Transferred from contributed surplus upon exercise of options	-		2,795
Outstanding, December 31, 2013	30,845,000		10,795,790
Issuance of shares under share option plan	150,000		30,000
Transferred from contributed surplus upon exercise of options	-		8,385
Outstanding as at September 30, 2014	30,995,000	$	10,834,175

On October 15, 2014, the Company completed a public offering of 8,000,000 Shares at a price of $0.63 per Share, for gross proceeds of $5,040,000. As part of the public offering, the Company issued 560,000 broker warrants to underwriters. Each broker warrant entitles the holder to purchase one Share of the Company at an exercise price of $0.63 per Share, until October 15, 2015. Concurrently with the public offering, the Company issued 1,587,300 Shares through private placement at a price of $0.63 per Share to certain insiders of the Company, for gross proceeds of $999,999 (see Note 22).

On November 24, 2014, the Company issued 1,000,000 Shares at $0.63 per Share to the President and Chief Operating Officer of the Company, for gross proceeds of $630,000 (see Note 22).

(In Canadian dollars)

13. Shareholders' equity (continued):

(b) Share based payments:

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

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Share option Plan	$ 30,266	$ 9,512	$ 155,166	$ 41,857
DSU Plan	85,778	-	397,480	-
	$ 116,044	$ 9,512	$ 552,646	$ 41,857

(i) Share option plan

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

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

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

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

(In Canadian dollars)

13. Shareholders' equity (continued):

The fair value of the share options granted was estimated on each of the dates of grant, using the Black-Scholes option pricing model, with the following assumptions:

	May 20, 2014	February 24, 2014	April 17, 2013
Average expected life	5.00 years	5.00 years	5.00 years
Average risk-free interest rate	1.05%	0.98%	1.21%
Average expected volatility	94.61%	98.29%	104.00%
Average dividend yield	0.00%	0.00%	0.00%

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

	September 30, 2014		December 31, 2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	1,932,334	$ 0.37	2,442,667	$ 0.37
Granted	665,000	0.50	245,334	0.30
Exercised	(150,000)	0.20	(150,000)	0.20
Cancelled	-	-	(605,667)	0.42
Outstanding, end of period	2,447,334	$ 0.42	1,932,334	$ 0.37
Number of options exercisable	2,333,584	$ 0.41	1,897,667	$ 0.38

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

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
895,000	24-Jan-2016	895,000	0.30	0.28
138,667	19-Dec-2016	138,667	0.50	0.40
610,000	16-Apr-2017	585,000	0.50	0.30
138,667	17-Apr-2018	138,667	0.30	0.25
100,000	23-Feb-2019	100,000	0.50	0.42
565,000	20-May-2019	476,250	0.50	0.47
2,447,334		2,333,584		

(In Canadian dollars)

13. Shareholders' equity (continued):

(ii) Deferred Share Unit Plan

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

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

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

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

	September 30, 2014	December 31, 2013
DSUs outstanding, beginning of period	-	-
Granted	679,563	-
Settled	-	-
DSUs outstanding, end of period	679,563	-
Number of DSUs vested	611,508	-

(In Canadian dollars)

13. Shareholders' equity (continued):

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2014, were $85,778 and $397,480, respectively.

The carrying amount of the liability, included in the accounts payable and accrued liabilities relating to the DSUs at September 30, 2014 is $397,480 (December 31, 2013 - $nil).

14. Contributed surplus:

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

		Amount
Balance, December 31, 2012	$	573,139
Fair value of share-based compensation		41,857
Transferred to share capital - exercise of options		(5,590)
Balance, September 30, 2013	$	609,406
Fair value of share-based compensation		(2,649)
Transferred to share capital - exercise of options		(2,795)
Balance, December 31, 2013	$	603,962
Fair value of share-based compensation		155,166
Transferred to share capital - exercise of options		(8,385)
Balance, September 30, 2014	$	750,743

(In Canadian dollars)

15. Earnings per share:

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

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	$ 914,644	$ 422,899	$2,318,636	$ 951,801
Interest savings on Debentures, net of taxes	136,701	137,560	407,882	407,883
Diluted income attributable to common shareholders	$1,051,345	$ 560,459	$2,726,518	$1,359,684
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	30,995,000	30,715,430	30,901,934	30,701,934
Dilutive effect of share based payments	693,708	72,643	633,178	54,189
Assumed conversion of Debentures	15,069,444	14,500,000	14,500,000	14,500,000
Weighted average number of diluted common shares outstanding	46,758,152	45,288,073	46,035,112	45,256,123
Earnings per share				
Basic	$ 0.03	$ 0.01	$ 0.08	$ 0.03
Diluted	$ 0.02	$ 0.01	$ 0.06	$ 0.03

16. Transactions with related parties:

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

At September 30, 2014 and December 31, 2013, the Chairman of the Board of the Company, indirectly through a wholly owned subsidiary, owned approximately 20% of the issued and outstanding shares of the Company.

In August 2014, the Company borrowed $1,000,000 of short-term loan from the Chairman of the Board of the Company. The loan was repaid in September 2014 with the interest of $6,849 (see Note 9).

In connection with the financing of the 2014 Debentures, (see Note 11), certain directors and officers of the Company subscribed for an aggregate principal amount of $1,330,000. The terms offered to related parties for the 2014 Debentures are identical to those offered to non-related 2014 Debenture holders.

(In Canadian dollars)

16. Transactions with related parties (continued):

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

At September 30, 2014, the loan and mortgage investments and 2014 Debentures syndicated by officers and directors were $2,074,348 (December 31, 2013 - $2,840,280). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

17. Interest expense:

The following table presents the interest incurred for the three and nine months ended September 30, 2014 and 2013:

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Interest on loans and mortgages payable	$ 1,323,920	$ 824,838	$ 3,829,135	$ 2,365,332
Interest on Debentures	184,667	187,156	553,620	554,942
Montreal Street JV	11,847	12,191	35,799	36,768
Queen Street West JV	-	37,501	32,335	199,228
	$ 1,520,434	$ 1,061,686	$ 4,450,889	$ 3,156,270

18. Income taxes:

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

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Current income tax provision	$ 273,165	$ 146,528	$ 862,542	$ 330,177
Deferred income tax provision	(2,922)	264	(41,088)	894
Total tax provision	$ 270,243	$ 146,792	$ 821,454	$ 331,071

(In Canadian dollars)

18. Income taxes (continued):

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

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Income from continuing operations before taxes	$ 1,184,887	$ 569,691	$ 2,988,446	$ 1,282,872
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	313,995	150,968	791,938	339,961
Increase (decrease) in income tax due to:				
Non-taxable items	42,951	(6,433)	29,485	(19,088)
Non-deductible stock based compensation	(83,781)	2,521	41,119	11,092
Change in deferred tax asset not previously recognized	(2,922)	(264)	(41,088)	(894)
Total tax provision	$ 270,243	$ 146,792	$ 821,454	$ 331,071

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

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

	Opening balance	Recognized in income	Closing balance
Investment property	$ (15,466)	$ (82,532)	$ (97,998)
Deferred Share Units	-	105,332	105,332
Incorporation costs	700	(37)	663
Debenture and share issue costs	8,418	18,325	26,743
	$ (6,348)	$ 41,088	$ 34,740

(In Canadian dollars)

18. Income taxes (continued):

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

	Opening balance	Recognized in income	Closing balance
Investment property	$ (25,838)	$ -	$ (25,838)
Incorporation costs	753	(40)	713
Debenture and share issue costs	9,483	(854)	8,629
	$ (15,602)	$ (894)	$ (16,496)

19. Capital management:

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

The following table presents the capital structure of the Company as at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Short-term loans payable	$ 4,120,000	$ -
Loans and mortgages payable	43,384,960	46,569,921
Convertible debentures	10,486,731	10,125,074
Shareholders' Equity	17,313,273	14,524,981
Total capital	$ 75,304,964	$ 71,219,976

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

During the three and nine months ended September 30, 2014 and 2013, the Company had no externally imposed capital requirements.

20. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, loan and mortgage investments, portfolio investment, accounts payable and accrued liabilities, loans and mortgages payable and 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, loans and mortgages payable and convertible debentures approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndication liabilities or convertible debentures. The Company makes its determinations of fair value based on its assessment of the current lending market for loan and mortgage investments of same or similar terms. As a result the fair value is based on Level 3 on the fair value hierarchy.

The Company uses various methods in estimating the fair values recognized in the consolidated financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and,
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair value of the Company's investment properties, portfolio investments and non-controlling interests are determined using Level 3 inputs at September 30, 2014 and December 31, 2013 and no amounts were transferred between fair value levels during three months ended 2014 or 2013. Notes 5 and 6 outlines the key assumptions used by the Company in determining fair value of its investment properties and portfolio investment.

21. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2013.

22. Subsequent events:

On October 15, 2014, the Company completed a public offering of 8,000,000 Shares at a price of $0.63 per Share, for gross proceeds of $5,040,000. As part of the public offering, the Company issued 560,000 broker warrants to underwriters. Each broker warrant entitles the holder to purchase one Share of the Company at an exercise price of $0.63 per Share, until October 15, 2015.

Concurrently with the public offering, the Company issued 1,587,300 Shares through private placement at a price of $0.63 per Share to certain insiders of the Company, for gross proceeds of $999,999.

On November 24, 2014, the Company issued 1,000,000 Shares at $0.63 per Share to the President and Chief Operating Officer of the Company, for gross proceeds of $630,000.

On November 24, 2014, the Company granted share options to the President and Chief Operating Officer of the Company to purchase an aggregate of 1,000,000 Shares at $0.79 per Share. Each of the options shall vest in equal instalments on a quarterly basis over the three-year period and shall expire in five years from the date of grant.