



Interim Condensed Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and six months ended June 30, 2019 and 2018
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

| | June 30, 2019 | December 31, 2018 |
|--|-----------------------|---|
| | | (As restated - note 3(a), recast note 26)) |
| Assets | | |
| Cash and cash equivalents | \$ 3,999,233 | \$ 7,731,379 |
| Funds held in trust | 4,600,394 | 1,095,669 |
| Amounts receivable and prepaid expenses (note 4) | 900,721 | 1,013,935 |
| Loan and mortgage investments (note 5) | 101,425,751 | 121,675,979 |
| Investment in finance leases (note 6) | 15,640,964 | 2,819,915 |
| Portfolio investments (note 7) | 4,054,230 | 1,911,574 |
| Investment in associates (note 8) | 2,235,762 | 2,146,984 |
| Investment property held in joint operations (note 9(b)) | 1,686,670 | 1,619,633 |
| Convertible note receivable (note 10) | 763,621 | - |
| Right-of-use asset | 259,508 | - |
| Income taxes recoverable (note 21) | - | 130,741 |
| | \$ 135,566,854 | \$ 140,145,809 |

Liabilities and Equity

| | | |
|--|-----------------------|-----------------------|
| Liabilities: | | |
| Accounts payable and accrued liabilities (note 11) | \$ 7,033,284 | \$ 3,618,067 |
| Unearned income | 825,195 | 1,303,162 |
| Deferred income taxes payable (note 21) | 780,016 | 753,089 |
| Income taxes payable | 20,132 | - |
| Credit facilities (note 12) | 18,126,660 | 19,464,106 |
| Lease obligations (note 13) | 258,391 | - |
| Loan and mortgage syndications (note 5) | 69,222,905 | 75,906,550 |
| Mortgages payable (note 9(c)) | 1,075,160 | 1,047,809 |
| | 97,341,743 | 102,092,783 |
| Equity: | | |
| Share capital (note 15(a)) | 25,435,184 | 26,533,950 |
| Contributed surplus (note 16) | 3,370,620 | 3,264,388 |
| Cumulative translation adjustment (note 3(a)) | (6,885,398) | (6,885,398) |
| Retained earnings | 16,304,705 | 15,140,086 |
| Shareholders' equity | 38,225,111 | 38,053,026 |
| Commitments and contingencies (note 14) | | |
| Subsequent events (note 27) | | |
| | \$ 135,566,854 | \$ 140,145,809 |

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

Approved by the Board of Directors on August 23, 2019 and signed on behalf by:

"Seymour Temkin" _____ Director

"John Kaplan" _____ Director

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(In United States dollars)

(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|----------------------------|------------------|----------------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| | | (As restated note 3(a)) | | (As restated note 3(a)) |
| Revenue: | | | | |
| Interest and fees | \$ 3,918,877 | \$ 3,192,823 | \$ 7,787,366 | \$ 5,957,177 |
| Rental (note 9(a)) | 37,715 | 39,067 | 75,665 | 78,949 |
| | 3,956,592 | 3,231,890 | 7,863,031 | 6,036,126 |
| Expenses (income): | | | | |
| Property operating costs (note 9(a)) | 12,983 | 13,415 | 26,036 | 27,066 |
| General and administrative | 794,121 | 673,490 | 1,575,359 | 1,239,158 |
| Share-based compensation (note 15(c)) | 87,034 | 156,825 | 414,866 | 178,154 |
| Interest and financing costs (note 19) | 2,047,496 | 1,918,639 | 4,354,249 | 3,533,646 |
| Provision for loan and mortgage investments loss (note 5) | (151,900) | – | (151,900) | – |
| Loss on sale of portfolio investment (note 7) | – | 173,646 | – | 173,646 |
| Realized and unrealized foreign exchange loss (gain) (note 20) | (10,379) | (1,720,468) | 46,155 | (1,471,987) |
| | 2,779,355 | 1,215,547 | 6,264,765 | 3,679,683 |
| Income from operations before income taxes | 1,177,237 | 2,016,343 | 1,598,266 | 2,356,443 |
| Income tax expense (note 21) | 309,784 | 524,560 | 433,647 | 662,895 |
| Net income and comprehensive income | \$ 867,453 | \$ 1,491,783 | \$ 1,164,619 | \$ 1,693,548 |
| Net income (loss) and comprehensive income (loss) attributable to: | | | | |
| Common shareholders | \$ 867,453 | \$ 1,541,112 | \$ 1,164,619 | \$ 1,742,877 |
| Non-controlling interest | – | (49,329) | – | (49,329) |
| | \$ 867,453 | \$ 1,491,783 | \$ 1,164,619 | \$ 1,693,548 |
| Earnings per share (note 17): | | | | |
| Basic | \$ 0.01 | \$ 0.02 | \$ 0.02 | \$ 0.03 |
| Diluted | 0.01 | 0.02 | 0.02 | 0.03 |

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

TERRA FIRMA CAPITAL CORPORATION

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

Six months ended June 30, 2019 and 2018
(Unaudited)

| | Share capital | | Cumulative translation adjustment | Contributed surplus | Retained earnings | Total shareholders' equity | Non-controlling interest | Total equity |
|---|----------------------|---------------|-----------------------------------|---------------------|-------------------|----------------------------|--------------------------|---------------|
| | Number of shares | Amount | | | | | | |
| | (note 15(a) and (b)) | | (note 3) | (note 16) | | | | |
| Balance, December 31, 2017 (as restated - note 3(a)) | 63,775,850 | \$ 28,887,862 | \$ (3,663,314) | \$ 3,017,555 | \$ 12,924,303 | \$ 41,166,406 | \$ 202,562 | \$ 41,368,968 |
| Changes during the period: | | | | | | | | |
| Issuance of shares pursuant to share option plan | 96,000 | 36,530 | – | (13,986) | | 22,544 | – | 22,544 |
| Repurchase of shares pursuant to normal course issuer bid | (1,596,000) | (823,812) | – | – | – | (823,812) | – | (823,812) |
| Share-based compensation | – | – | – | 102,913 | – | 102,913 | – | 102,913 |
| Disposition of non-controlling interest | – | – | – | – | – | – | (153,233) | (153,233) |
| Foreign currency translation | – | – | (1,785,812) | – | – | (1,785,812) | – | (1,785,812) |
| Net income (loss) and comprehensive income (loss) | – | – | – | – | 1,742,877 | 1,742,877 | (49,329) | 1,693,548 |
| Balance, June 30, 2018 (as restated - note 3(a)) | 62,275,850 | 28,100,580 | (5,449,126) | 3,106,482 | 14,667,180 | 40,425,116 | – | 40,425,116 |
| Changes during the period: | | | | | | | | |
| Repurchase of shares pursuant to normal course issuer bid | (3,640,014) | (1,566,630) | – | – | – | (1,566,630) | – | (1,566,630) |
| Share-based compensation | – | – | – | 157,906 | – | 157,906 | – | 157,906 |
| Foreign currency translation | – | – | (1,436,272) | – | – | (1,436,272) | – | (1,436,272) |
| Net income and comprehensive income | – | – | – | – | 472,906 | 472,906 | – | 472,906 |
| Balance, December 31, 2018 (as restated - note 3(a)) | 58,635,836 | 26,533,950 | (6,885,398) | 3,264,388 | 15,140,086 | 38,053,026 | – | 38,053,026 |
| Changes during the period: | | | | | | | | |
| Repurchase of shares pursuant to normal course issuer bid | (2,651,000) | (1,098,766) | – | – | – | (1,098,766) | – | (1,098,766) |
| Share-based compensation | – | – | – | 106,232 | – | 106,232 | – | 106,232 |
| Net income and comprehensive loss | – | – | – | – | 1,164,619 | 1,164,619 | – | 1,164,619 |
| Balance, June 30, 2019 | 55,984,836 | \$ 25,435,184 | \$ (6,885,398) | \$ 3,370,620 | \$ 16,304,705 | \$ 38,225,111 | \$ – | \$ 38,225,111 |

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

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Cash Flows

(In United States dollars)

(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|----------------------------|------------------|----------------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| | | (As restated note 3(a)) | | (As restated note 3(a)) |
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Net income and comprehensive income | \$ 867,453 | \$ 1,491,783 | \$ 1,164,619 | \$ 1,693,548 |
| Interest and fees earned | (3,918,877) | (3,192,823) | (7,787,366) | (5,957,177) |
| Interest expense and financing costs | 2,047,496 | 1,918,639 | 4,354,249 | 3,533,646 |
| Unrealized foreign exchange loss (gain) | 17,514 | (1,694,440) | 74,048 | (1,630,235) |
| Non-cash items: | | | | |
| Share-based compensation (note 15(c)) | 87,034 | 156,825 | 414,866 | 178,154 |
| Amortization of right of use asset | 41,993 | – | 84,336 | – |
| Allowance for loan and mortgage investment loss | (151,900) | – | (151,900) | – |
| Loss on sale of portfolio investment | – | 173,646 | – | 173,646 |
| Income tax provision | 309,784 | 524,560 | 433,647 | 662,895 |
| Changes in working capital: | | | | |
| Decrease (increase) in other receivables | 219,794 | (51,607) | 153,865 | 31,695 |
| Increase in prepaid expenses and deposits | (64,190) | (12,296) | (46,742) | (8,050) |
| Increase (decrease) in accounts payable and accrued liabilities | 2,429,815 | (704,422) | 2,999,395 | 22,896 |
| Interest and fees received | 3,303,462 | 2,089,970 | 5,096,626 | 3,767,333 |
| Interest paid | (1,660,056) | (1,616,739) | (3,461,706) | (3,063,596) |
| Income taxes paid | – | (191,576) | (255,799) | (366,421) |
| Cash provided by (used in) operating activities | 3,529,322 | (1,108,480) | 3,072,138 | (961,666) |
| Financing activities: | | | | |
| Proceeds from loan and mortgage syndications | 8,849,559 | 19,574,323 | 12,943,937 | 22,714,230 |
| Repayments of loan and mortgage syndications | (19,190,280) | (3,339,587) | (20,704,916) | (5,690,210) |
| Repayments of mortgages payable | (8,549) | (8,821) | (16,944) | (17,221) |
| Payments on lease obligations | (42,874) | – | (85,154) | – |
| Proceeds from credit facilities | 4,785,901 | – | 5,848,029 | – |
| Repayments of credit facilities | (6,322,790) | – | (7,859,544) | – |
| Disposition of non-controlling interest | – | (153,233) | – | (153,233) |
| Repurchase of shares pursuant to normal course issuer bid | (803,464) | (230,333) | (1,098,766) | (823,812) |
| Proceeds from issuance of shares pursuant to share options plan | – | 22,544 | – | 22,544 |
| Cash provided by (used in) financing activities | (12,732,497) | 15,864,893 | (10,973,358) | 16,052,298 |
| Investing activities: | | | | |
| Funding of loan and mortgage investments | (6,973,445) | (22,511,264) | (9,942,306) | (29,658,762) |
| Repayments of loan and mortgage investments | 27,965,182 | 7,261,813 | 33,353,353 | 11,296,007 |
| Funding of investment in finance leases | (13,288,266) | (1,992,096) | (13,760,447) | (1,992,096) |
| Proceeds from sale of finance leases | 817,933 | – | 817,933 | – |
| Funding of investment in convertible note receivable | – | – | (752,349) | – |
| Funding of portfolio investments | (2,084,052) | – | (2,084,052) | – |
| Decrease (increase) in funds held in trust | (3,315,522) | 781,373 | (3,481,058) | (16,672) |
| Proceeds from sale of interest in portfolio investment | 1,500 | – | 18,000 | – |
| Return of capital on portfolio investment | – | 2,940,443 | – | 7,821,269 |
| Proceeds from redemption of portfolio investment | – | 727,858 | – | 727,858 |
| Cash provided by (used in) investing activities | 3,123,330 | (12,791,873) | 4,169,074 | (11,822,396) |
| Increase (decrease) in cash and cash equivalents | (6,079,845) | 1,964,540 | (3,732,146) | 3,268,236 |
| Cash and cash equivalents, beginning of period | 10,079,078 | 3,445,662 | 7,731,379 | 2,141,966 |
| Cash and cash equivalents, end of period | \$ 3,999,233 | \$ 5,410,202 | \$ 3,999,233 | \$ 5,410,202 |

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

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act 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 located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments 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 properties, for such development or redevelopment, properties repairs or the purchase of investment properties.

2. Basis of presentation:

(a) Statement of compliance:

These unaudited interim condensed consolidated financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. The preparation of these interim condensed consolidated 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 as well as Interpretation of International Financial Reporting Interpretations Committee. These interim condensed consolidated 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, 2018.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

2. Basis of presentation (continued):

(b) Basis of consolidation:

The Company holds its interests in certain joint operations and portfolio investments in its wholly owned subsidiaries which are controlled by the Company. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's principal subsidiaries are TFCC International Ltd. (100% owned), Terra Firma MA Ltd. (100% owned), TFCC USA LLC (100% owned), TFCC Kempston Place LLC (100% owned), SRL Georgia Holdings LLC (100% owned), TFCC USA II Corporation (100% owned), TFCC Saul's Ranch LLC (100% owned), TFCC Wilson Trace LLC (100% owned), Royal Palm Beach Preferred Investment LLC (the "TF Royal Palm") (100% owned), TFCC Delray Inc. (the "TF Delray") (100% owned), TFCC San Pablo LLC (100% owned), Terra Firma Queen Developments Inc. (100% owned), Terra Firma Capital (Hill) Corporation (the "Hill") (100% owned), TFCC LanQueen Ltd. (100% owned) and Terra Firma (Valermo) Corporation (the "TFVC") (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.

(c) Functional and presentation currency:

These interim condensed consolidated financial statements are presented in United States dollars ("USD"), which is also the Company's functional currency.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

3. Significant accounting policies:

The interim condensed consolidated financial statements for the three and six months ended June 30, 2019 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, 2018, except for the following changes in accounting policies and disclosures and new standards adopted during the six months ended June 30, 2019, as described below:

(a) Change in functional and presentation currency:

Functional currency

Prior to January 1, 2019, the functional currency of the Company, was the Canadian dollar ("CAD"). Per *IAS 21 - The Effects of Changes in Foreign Exchange Rates* ("IAS 21"), an entity's functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency including the currency that influences sales prices, labour, purchases and other costs. Other indicators including the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets and the Company's economic and currency exposure has shifted from Canada to U.S. At December 31, 2018, over 80.0% of the Company's investments are fully exposed to the USD, as well, the Company earns significant amount of its revenue in USD.

Based on these factors, management concluded that effective January 1, 2019, the parent company's functional currency should be the USD. The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information other than in conjunction with the change in presentation currency as discussed below.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

3. Significant accounting policies (continued):

Presentation currency

Concurrent with the change in functional currency, on January 1, 2019, the Company changed its presentation currency from the CAD to the USD. The change in presentation currency is to better reflect the Company's business activities and to improve comparability of the Company's financial results with other publicly traded businesses in the real estate finance industry. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21, The Effects of Changes in Foreign Exchange Rates, and have applied the change retrospectively, as if the USD had always been the Company's presentation currency, as follows:

- for periods prior to January 1, 2019, the statements of financial position for each period presented have been translated from the CAD functional currency to the USD presentation currency at the rate of exchange prevailing at the respective financial position date with the exception of equity items which have been translated at accumulated historical rates from the Company's date of incorporation in 2007;
- for periods prior to January 1, 2019, the statements of income and comprehensive income were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of the transactions;
- for periods prior to January 1, 2019, equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- exchange differences arising in 2018 on translation from the CAD functional currency to the USD presentation currency have been recognized in "cumulative translation adjustment" as a separate component of equity.

The exchange rates used in translation were as follows:

| | December 31, 2018 | January 1, 2018 |
|-----------------------------|----------------------|--------------------|
| USD/CAD exchange rate | | |
| As at the reporting date | \$ 0.7332 | \$ 0.7955 |
| Average rate for the period | 0.7716 | 0.7704 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

3. Significant accounting policies (continued):

In addition to the comparative financial statements, the Company has presented a third statement of financial position as at January 1, 2018 as required by IFRS.

(b) Critical judgments and estimates:

In preparing these interim condensed consolidated financial statements, management has made judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018, except as disclosed in note 3(a).

(c) IFRS 16, Leases ("IFRS 16"):

Effective January 1, 2019, the Company adopted IFRS 16. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease obligation representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate (the "EIR") method, and is subsequently adjusted for interest and lease payments.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at June 30, 2019:

| | Gross carrying amount | ACL | Net carrying amount |
|--|-----------------------------|--------------|---------------------------|
| Interest receivable | \$ 168,182 | \$ – | \$ 168,182 |
| Other receivables | 825,754 | (201,052) | 624,702 |
| Prepaid expenses and deposits | 107,837 | – | 107,837 |
| Amounts receivable and prepaid expenses | \$ 1,101,773 | \$ (201,052) | \$ 900,721 |

The following table presents details of the amounts receivable and prepaid expenses as at December 31, 2018:

| | Gross carrying amount | ACL | Net carrying amount |
|--|-----------------------------|--------------|---------------------------|
| Interest receivable | \$ 179,745 | \$ – | \$ 179,745 |
| Other receivables | 968,938 | (193,068) | 775,870 |
| Prepaid expenses and deposits | 58,320 | – | 58,320 |
| Amounts receivable and prepaid expenses | \$ 1,207,003 | \$ (193,068) | \$ 1,013,935 |

As at June 30, 2019 and December 31, 2018, other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by a Canadian borrower (the "Borrower") are \$364,828 and \$357,124, respectively.

The non-current balances in interest receivable at June 30, 2019 and December 31, 2018 are \$6,371 and \$36,377, respectively. The current interest and other receivables are due in the next 12 months in accordance with contract terms.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications:

As at June 30, 2019 and December 31, 2018, the Company had principal balances of loan and mortgage investments of \$101,807,583 and \$122,209,711, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 13.4% (December 31, 2018 - 13.7%) and a weighted average term to maturity of 1.44 years (December 31, 2018 - 1.67 years).

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and is governed by loan servicing agreements and administered by Terra Firma MA Ltd., the wholly owned subsidiary of the Company. 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. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income.

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage loan investments at June 30, 2019 and December 31, 2018 were \$69,222,905 and \$75,906,550, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 9.9% (December 31, 2018 - 10.2%) and a weighted average term to maturity of 1.40 years (December 31, 2018 - 1.53 years).

The following table presents details of the loan and mortgage investments, allowance for credit loss (the "ACL") and loan and mortgage syndications as at June 30, 2019:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|----------------------------------|-------------------------------|--------------|-----------------------------------|--------------------------------|-----------------|----------------------|
| Performing loans: | | | | | | |
| Residential housing developments | \$ 28,102,720 | \$ (94,334) | \$ 28,008,386 | \$ 12,653,370 | \$ 15,355,016 | 47.7 |
| Land and lot inventory | 66,860,733 | (287,498) | 66,573,235 | 52,519,535 | 14,053,700 | 43.6 |
| Commercial retail development | 4,755,000 | – | 4,755,000 | 4,050,000 | 705,000 | 2.2 |
| | 99,718,453 | (381,832) | 99,336,621 | 69,222,905 | 30,113,716 | 93.5 |
| Impaired loans: | | | | | | |
| Residential housing developments | 2,089,130 | – | 2,089,130 | – | 2,089,130 | 6.5 |
| | \$ 101,807,583 | \$ (381,832) | \$ 101,425,751 | \$ 69,222,905 | \$ 32,202,846 | 100.0 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2018:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|----------------------------------|-------------------------------|--------------|-----------------------------------|--------------------------------|-----------------|----------------------|
| Performing loans: | | | | | | |
| Residential housing developments | \$ 29,760,683 | \$ (107,819) | \$ 29,652,864 | \$ 7,715,756 | \$ 21,937,108 | 47.9 |
| Land and lot inventory | 84,964,030 | (422,258) | 84,541,772 | 64,140,794 | 20,400,978 | 44.6 |
| Commercial retail development | 4,755,000 | (3,655) | 4,751,345 | 4,050,000 | 701,345 | 1.5 |
| | 119,479,713 | (533,732) | 118,945,981 | 75,906,550 | 43,039,431 | 94.0 |
| Impaired loans: | | | | | | |
| Residential housing developments | 2,729,998 | – | 2,729,998 | – | 2,729,998 | 6.0 |
| | \$ 122,209,711 | \$ (533,732) | \$ 121,675,979 | \$ 75,906,550 | \$ 45,769,429 | 100.0 |

As at June 30, 2019, there are three loan and mortgage investments in the U.S., before syndication, that account for 20.7%, 15.9% and 10.2% of the principal balance of loan and mortgage investments. For the six months ended June 30, 2019, the Company has two loan and mortgage investments in the U.S, before syndication, that accounts for 13.6% and 12.4% of the Company's total interest and fees revenue. As at December 31, 2018, there are three loan and mortgage investments in the U.S., before syndication, that account for 14.7%, 13.2% and 10.2% of the principal balance of loan and mortgage investments. For the six months ended June 30, 2018, the Company has three loan and mortgage investments in the U.S, before syndication, that accounts for 15.0%, 11.5% and 10.7% of the Company's total interest and fees revenue.

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

During the three and six months ended June 30, 2019, the Company capitalized interest income of \$1,258,830 and \$2,555,359, respectively, (three and six months ended June 30, 2018, the Company capitalized interest income of \$914,142 and \$1,792,732, respectively), which is included in loan and mortgage investments.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at June 30, 2019 were \$14,904,125, including \$6,417,685 of capitalization of future interest relating to existing loan and mortgage investments (December 31, 2018 - \$23,791,223, including \$4,436,971 of capitalization of future interest relating to existing loan and mortgage investments).

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

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at June 30, 2019:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|---------------|-------------------------------|--------------|-----------------------------------|--------------------------------|-----------------|----------------------|
| Canada | \$ 13,544,463 | \$ (68,416) | \$ 13,476,047 | \$ 8,806,577 | \$ 4,669,470 | 14.5 |
| United States | 88,263,120 | (313,416) | 87,949,704 | 60,416,328 | 27,533,376 | 85.5 |
| | \$ 101,807,583 | \$ (381,832) | \$ 101,425,751 | \$ 69,222,905 | \$ 32,202,846 | 100.0 |

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2018:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|---------------|-------------------------------|--------------|-----------------------------------|--------------------------------|-----------------|----------------------|
| Canada | \$ 12,191,327 | \$ (35,475) | \$ 12,155,852 | \$ 6,715,756 | \$ 5,440,096 | 11.9 |
| United States | 110,018,384 | (498,257) | 109,520,127 | 69,190,794 | 40,329,333 | 88.1 |
| | \$ 122,209,711 | \$ (533,732) | \$ 121,675,979 | \$ 75,906,550 | \$ 45,769,429 | 100.0 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ACL allowance is recognized as at June 30, 2019:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|---------------|---------|--------------|---------------|
| Residential housing developments | \$ 15,449,350 | \$ – | \$ 2,089,130 | \$ 17,538,480 |
| Land and lot inventory | 14,341,198 | – | – | 14,341,198 |
| Commercial retail development | 705,000 | – | – | 705,000 |
| | \$ 30,495,548 | \$ – | \$ 2,089,130 | \$ 32,584,678 |

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications segmented by geography, for which ACL allowance is recognized as at June 30, 2019:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------|---------------|---------|--------------|---------------|
| Canada | \$ 2,648,756 | \$ – | \$ 2,089,130 | \$ 4,737,886 |
| United States | 27,846,792 | – | – | 27,846,792 |
| | \$ 30,495,548 | \$ – | \$ 2,089,130 | \$ 32,584,678 |

Scheduled principal repayments and loan and mortgage investments maturing in the next four years are as follows:

| | Scheduled principal payments | Investments maturing during the year | Total loan and mortgage investments |
|-------------------|------------------------------|--------------------------------------|-------------------------------------|
| Remainder of year | \$ – | \$ 18,269,737 | \$ 18,269,737 |
| 2020 | – | 41,880,212 | 41,880,212 |
| 2021 | – | 20,568,883 | 20,568,883 |
| 2022 | – | 21,088,751 | 21,088,751 |
| | \$ – | \$ 101,807,583 | \$ 101,807,583 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

Scheduled principal repayments and maturity amounts of loan and mortgage syndications maturing in the next four years are as follows:

| | Scheduled principal payments | Loans maturing during the year | Total loan and mortgage syndications |
|-------------------|------------------------------|--------------------------------|--------------------------------------|
| Remainder of year | \$ – | \$ 13,651,971 | \$ 13,651,971 |
| 2020 | – | 30,788,973 | 30,788,973 |
| 2021 | – | 8,363,975 | 8,363,975 |
| 2022 | – | 16,417,986 | 16,417,986 |
| | \$ – | \$ 69,222,905 | \$ 69,222,905 |

Allowance for loan and mortgage investments loss:

During the year ended December 31, 2018, due to the uncertainty and timing related to a recovery of a loan and mortgage investments in arrears, the Company recorded an allowance for loan and mortgage investments loss of \$2,403,182 and, subsequently a write-off of two loan and mortgage investments totaling \$3,108,435.

On March 24, 2019, the courts approved a settlement between the Company and the Israeli Functionary (the "Functionary"), pursuant to which the lawsuit filed by the Functionary against the Company in Israel has been withdrawn in exchange for the assignment of the Company's rights in connection with a claim brought in the Defaulting Borrower's insolvency, which had previously been denied, and certain other rights of the Company. The agreement did not include any cash payment or other consideration by the Company.

At June 30, 2019, one project loan investment totaling \$2,089,130 (December 31, 2018 - \$3,087,122), including interest receivable on this loan and fees incurred relating to collection of this loan totaling \$364,828 (December 31, 2018 - \$357,124), to a project owned by an entity controlled by the Borrower is in arrears. As at June 30, 2019 and December 31, 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an allowance for credit loss (the "ACL") balance of \$201,051 (December 31, 2018 - \$193,068), relating to this loan and mortgage investment.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The changes in the ACL on loan and mortgage investments during the six months ended June 30, 2019 were as follows:

| | IFRS 9 | | | | Balance at June 30, 2019 |
|-------------------------------------|----------------------------------|-----------------------------------|-------------------|----------------------|--------------------------------|
| | Balance at January 1, 2019 | Provision for credit losses | Net write offs | Other adjustments | |
| Residential housing developments | \$ 107,819 | \$ (13,485) | \$ — | \$ — | \$ 94,334 |
| Land and lot inventory | 422,258 | (134,760) | — | — | 287,498 |
| Commercial retail development | 3,655 | (3,655) | — | — | — |
| | \$ 533,732 | \$ (151,900) | \$ — | \$ — | \$ 381,832 |

The following table presents the changes in the Company's ACL between the beginning and the end of the period: S

| | Stage 1 | Stage 2 | Stage 3 | Total |
|------------------------------|------------|---------|---------|------------|
| Balance, beginning of period | \$ 533,732 | \$ — | \$ — | \$ 533,732 |
| Provision for credit losses: | | | | |
| Remeasurement | — | — | — | — |
| Transfer to (from): | | | | |
| Stage 1 | — | — | — | — |
| Stage 2 | — | — | — | — |
| Stage 3 | — | — | — | — |
| Balance, end of period | \$ 533,732 | \$ — | \$ — | \$ 533,732 |

The following table presents details the Company's ACL on loan and mortgage investments as at June 30, 2019:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|-------------------------------------|-------------------|-------------|-------------|-------------------|
| Residential housing developments | \$ 94,334 | \$ — | \$ — | \$ 94,334 |
| Land and lot inventory | 287,498 | — | — | 287,498 |
| Commercial retail development | — | — | — | — |
| | \$ 381,832 | \$ — | \$ — | \$ 381,832 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

5. Loan and mortgage investments and loan and mortgage syndications (continued):

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at June 30, 2019:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|---------------|------------|---------|---------|------------|
| Canada | \$ 68,416 | \$ – | \$ – | \$ 68,416 |
| United States | 313,416 | – | – | 313,416 |
| | \$ 381,832 | \$ – | \$ – | \$ 381,832 |

6. Investment in finance leases:

The Company entered into fixed term contractual arrangements with builders whereby the Company acquire land for residential housing development from a third party and provide builders with the exclusive right to use and develop the land. The Company also enter into a fixed price contract with builders to complete all required development of the land based upon a fixed construction budget. The Company is committed to make additional investments for development of the land, subject to builders meeting certain funding conditions. Under this arrangement, builders have option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. Builders provide the Company a non-refundable deposit at each time of the closing of each acquisition. The builder's deposits are applied on a lot-by-lot basis, on acquisition of the lots by the builders.

At June 30, 2019, the Company had four such arrangements with builders (at June 30, 2018 - one such arrangement). The Company determined that the arrangements contain a lease and that all of the risks or rewards of ownership of the asset have been transferred to the builders and accounts for these arrangements as finance leases.

The investment in finance leases is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the leases. The weighted average rate implicit in the leases is 13.4% per annum. The unearned finance income at June 30, 2019 was \$121,465.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

6. Investment in finance leases (continued):

The following table summarizes the changes in the investment in finance leases for the six months ended June 30, 2019 and 2018:

| | | |
|----------------------------|----|------------|
| Balance, December 31, 2017 | \$ | – |
| Investment made | | 1,992,096 |
| Lease payments received | | (89,251) |
| Finance income recognized | | 49,106 |
| Balance, June 30, 2018 | | 1,951,951 |
| Investment made | | 873,903 |
| Lease payments received | | (109,566) |
| Finance income recognized | | 103,627 |
| Balance, December 31, 2018 | | 2,819,915 |
| Investment made | | 13,760,447 |
| Investments sold | | (817,933) |
| Lease payments received | | (541,317) |
| Finance income recognized | | 419,852 |
| Balance, June 30, 2019 | \$ | 15,640,964 |

The following is a reconciliation of the undiscounted future minimum lease payments receivable and the present value of minimum lease payments receivable thereof:

| | Future minimum lease receipts | Finance income | Present value of minimum lease receipts |
|---|--|-------------------|---|
| Less than one year | \$ 2,032,511 | \$ 2,208,356 | \$ (175,845) |
| Greater than one year but less than 5 years | 19,008,474 | 3,191,665 | 15,816,809 |
| | \$ 21,040,985 | \$ 5,400,021 | \$ 15,640,964 |

The Company is committed to make additional investments of \$19,032,554 for the development of these lands, subject to builders meeting certain funding conditions.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

7. Portfolio investments:

The following table presents details of the portfolio investments as at June 30, 2019 and December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|--|---------------------|----------------------|
| Investment in the LanQueen Partnership | \$ 1,929,177 | \$ 1,852,573 |
| Investment in the Savannah Partnership | 41,000 | 59,000 |
| Investment in the Royal Palm LLC | 2,084,052 | — |
| Investment in the Delray LLC | — | — |
| Investment in the Valermo Partnership | 1 | 1 |
| | <u>\$ 4,054,230</u> | <u>\$ 1,911,574</u> |

- (a) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The 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 in the partnership. TFCC LanQueen Ltd. 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 ("FVTPL"). As at June 30, 2019, TFCC LanQueen Ltd. contributed \$1,387,065 (December 31, 2018 - \$1,387,065) in the partnership. At June 30, 2019 and December 31, 2018, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at June 30, 2019 and December 31, 2018 was \$1,929,177 and \$1,852,573, respectively.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

7. Portfolio investments (continued):

(b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest \$2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after partnership making Savannah Partnership making distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed \$200,000 to the Savannah Partnership. During the years ended December 31, 2017 and 2018, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$141,000. As at December 31, 2018, the cost of the investment in the Savannah Partnership is \$59,000. During the six months ended June 30, 2019, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$18,000. At June 30, 2019 and December 31, 2018, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the remaining investment in the Savannah Partnership at June 30, 2019 and December 31, 2018 was \$41,000 and \$59,000, respectively.

TFCC International Ltd. also committed to advance a principal amount of first mortgage loan up to \$18,000,000 to the Savannah Project, subject to the Savannah Project meeting certain funding conditions. The loan carries interest at 11.0% per annum calculated and compounded monthly. As at June 30, 2019, the loan and mortgage investments, including capitalized interest was \$21,088,751 (December 31, 2018 - \$16,177,172) and at June 30, 2019, the Company syndicated \$16,417,986 of the loan and mortgage investment to investors (December 31, 2018 - \$10,940,146).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

7. Portfolio investments (continued):

- (c) The Company, through TF Royal Palm entered into a limited liability company agreement (the "Royal Palm Agreement"), whereby TF Royal Palm is committed to invest up to \$7,000,000 in an assisted living development project located in Royal Palm Beach, Florida. The Royal Palm Agreement allows TF Royal Palm to receive a 2% fee at the time of commitment and an amount by way of a preferred return equal to 13.5% per annum calculated and compounded semi-annually on the amount of its investment in the limited liability company. TF Royal Palm does not have significant influence in the limited liability company and is accounting for this investment as a financial asset at FVTPL. As at June 30, 2019, TF Royal Palm contributed \$2,084,052 (December 31, 2018 - nil) in the limited liability company and received \$140,000 in fees. At June 30, 2019, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at June 30, 2019 was \$2,083,952 (December 31, 2018 - nil).
- (d) The Company, through TF Delray entered into a limited liability company agreement (the "Delray Agreement"), whereby TF Delray is committed to invest up to \$1,400,000 in an assisted living development project located in Delray Beach, Florida. The Delray Agreement allows TF Delray to receive a \$140,000 fee at the time of commitment, annual project management fee of \$70,000, and an amount by way of a preferred return equal to an EIR of 13.5% on the amount of its investment in the limited liability company. TF Delray does not have significant influence in the operations of the limited liability company and will account for this investment as a financial asset at FVTPL. As at June 30, 2019, TF Delray made no capital contributions to the limited liability company and received \$80,000 in fees.
- (e) The Company, through TFVC has limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of \$9,807,285. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at June 30, 2019 was \$1 (December 31, 2018 - \$1).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

7. Portfolio investments (continued):

- (f) The Company, through the Hill, had a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company did not have significant influence in the partnership and accounted for this investment as a financial asset at FVTPL. On June 14, 2018, the Company sold its interest in the partnership for \$727,858 and recorded a loss of \$173,646, including the outside party's share of loss of \$49,329. The Company disposed of the non-controlling interest of \$153,233.

The following table summarizes the changes in the portfolio investments for the six months ended June 30, 2019 and 2018:

| | |
|----------------------------|---------------|
| Balance, December 31, 2017 | \$ 10,804,898 |
| Return of investment | (7,821,269) |
| Redemption of investment | (727,858) |
| Loss on sale of investment | (173,646) |
| Foreign exchange | (96,223) |
| <hr/> | |
| Balance, June 30, 2018 | 1,985,902 |
| Sale of investment | (61,000) |
| Fair value adjustment | 57,415 |
| Foreign exchange | (70,743) |
| <hr/> | |
| Balance, December 31, 2018 | 1,911,574 |
| Investment made | 2,084,052 |
| Sale of investment | (18,000) |
| Foreign exchange | 76,604 |
| <hr/> | |
| Balance, June 30, 2019 | \$ 4,054,230 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

8. Investment in associates:

The Company, together with certain syndicate investors had 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 June 30, 2019 and December 31, 2018, the Company's share of the investment in the Lan Partnership, was \$1,851,443.

At June 30, 2019 and December 31, 2018, the Lan Partnership has invested \$11,785,382 in the Lan Project. 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% hurdle rate. The Company exerts significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

At June 30, 2019 and December 31, 2018, 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 June 30, 2019 and December 31, 2018 was \$2,235,762 and \$2,146,984, respectively.

The following table summarizes the changes in the portfolio investments for the three months ended June 30, 2019 and 2018:

| | |
|----------------------------|--------------|
| Balance, December 31, 2017 | \$ 2,329,045 |
| Foreign exchange | (99,667) |
| <hr/> | |
| Balance, June 30, 2018 | 2,229,378 |
| Foreign exchange | (82,394) |
| <hr/> | |
| Balance, December 31, 2018 | 2,146,984 |
| Foreign exchange | 88,778 |
| <hr/> | |
| Balance, June 30, 2019 | \$ 2,235,762 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

9. Joint arrangements:

(a) Interests in joint operations:

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

The financial information in respect of the Company's proportionate share of investments in joint operations is as follows:

| | June 30, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 35,774 | \$ 16,061 |
| Amounts receivable and prepaid expenses | 83,865 | 81,121 |
| Investment property | 1,686,670 | 1,619,633 |
| | <u>1,806,309</u> | <u>1,716,815</u> |
| Liabilities | | |
| Accounts payable and prepaid expenses | 35,631 | 34,230 |
| Mortgages payable | 1,075,160 | 1,047,809 |
| | <u>1,110,791</u> | <u>1,082,039</u> |
| Net assets | <u>\$ 695,518</u> | <u>\$ 634,776</u> |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

9. Joint arrangements (continued):

The table below details the results of operations for the three and six months ended June 30, 2019 and 2018, attributable to the Company from its joint operations:

| | Three months ended | | Six months ended | |
|----------------------------|--------------------|------------------|------------------|------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Revenue: | | | | |
| Rental revenue | \$ 37,715 | \$ 39,067 | \$ 75,665 | \$ 78,949 |
| Expenses (income): | | | | |
| Property operating costs | 12,983 | 13,415 | 26,036 | 27,066 |
| General and administrative | 641 | 3,817 | (621) | 3,621 |
| Interest | 8,639 | 7,610 | 16,368 | 16,513 |
| | 22,263 | 24,842 | 41,783 | 47,200 |
| Net income | \$ 15,452 | \$ 14,225 | \$ 33,882 | \$ 31,749 |

(b) Investment property:

The Company has interests in investment property 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.

At June 30, 2019 and December 31, 2018, the fair value was determined by the Company's management. 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 normalized net operating income at the market capitalization rates. The capitalization rate used in the valuation of property was 6.25% (December 31, 2018 - 6.25%). At June 30, 2019 and December 31, 2018, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is CAD \$2,208,694.

As at June 30, 2019 and December 31, 2018, 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 CAD \$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 CAD \$85,250.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

9. Joint arrangements (continued):

(c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV, at June 30, 2019 and December 31, 2018 was \$1,079,763 and \$1,053,274, respectively. The mortgages bear interest at 3.0% per annum, and are amortized over 25 years and mature on July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at June 30, 2019 and December 31, 2018 are as follows:

| | June 30, 2019 | December 31, 2018 |
|-----------------------------|---------------------|----------------------|
| Mortgage principal | \$ 1,079,763 | \$ 1,053,274 |
| Unamortized financing costs | (4,603) | (5,465) |
| | <u>\$ 1,075,160</u> | <u>\$ 1,047,809</u> |

The following table summarizes the changes in the mortgages payable for the six months ended June 30, 2019 and 2018:

| | |
|----------------------------|---------------------|
| Balance, December 31, 2017 | \$ 1,177,435 |
| Repayments made | (17,221) |
| Foreign exchange | (49,717) |
| Balance, June 30, 2018 | 1,110,497 |
| Repayments made | (16,744) |
| Foreign exchange | (40,479) |
| Balance, December 31, 2018 | 1,053,274 |
| Repayments made | (16,944) |
| Foreign exchange | 43,433 |
| Balance, June 30, 2019 | <u>\$ 1,079,763</u> |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

9. Joint arrangements (continued):

Scheduled principal repayments and maturity amounts of mortgages payable at June 30, 2019 are as follows:

| | Loans scheduled principal payments | Total maturing during the period | Loans and mortgages payable |
|-------------------|---|---|-----------------------------------|
| Remainder of year | \$ 17,404 | \$ – | \$ 17,404 |
| 2020 | 35,518 | – | 35,518 |
| 2021 | 18,163 | 1,008,678 | 1,026,841 |
| | <u>\$ 71,085</u> | <u>\$ 1,008,678</u> | <u>\$ 1,079,763</u> |

10. Convertible note receivable:

On January 29, 2019, the Company entered into a loan agreement with an Ontario corporation that provides web-based crowdfunding services and holds an Exempt Market Dealer license. The loan was provided to assist in expanding its operations. The loan was made in exchange for a convertible promissory note receivable (the "Convertible Note") with a face value of CAD \$2,000,000. At signing, the Company advanced \$752,349 (CAD \$1,000,000) of the CAD \$2,000,000 commitment. The remaining CAD \$1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. The Company has the option to convert the principal and accrued interest into an equity interest. Unless the note is converted pursuant to the terms, the Convertible Note becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety is classified as a financial asset at FVTPL. The fair value of the Convertible Note at June 30, 2019 was \$763,621 (December 31, 2018 - nil).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

11. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2019 and December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|--|---------------------|----------------------|
| Interest payable | \$ 470,666 | \$ 564,497 |
| Interest reserve | 733,959 | 604,322 |
| Accounts payable, accrued liabilities and provisions | 4,536,546 | 1,501,842 |
| Share-based compensation payable (note 15(c)(ii)) | 1,292,113 | 947,406 |
| Accounts payable and accrued liabilities | \$ 7,033,284 | \$ 3,618,067 |

Accounts payable and accrued liabilities are current and payable in the next 12-month period.

Interest reserve and accounts payable and accrued liabilities include amounts for funds held in trust, payable to syndicate investors.

12. Credit facilities:

(a) Revolving operating facility:

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a CAD \$20,000,000 secured revolving loan facility (the "Facility") that matured on March 1, 2018. 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 and paid the Facility extension fee of \$100,000. The extension fee was deferred and amortized over the six-month extension term of the Facility. The Facility carried an interest rate of 9.5% per annum. 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.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

12. Credit facilities (continued):

On September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend the maturity date to April 1, 2019. The Amendment provides the Company an option for two extensions of the Facility, each for a further term of seven months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until one month prior to the maturity date. Any unpaid balance one month prior to the maturity date will carry an interest rate of 12% per annum, until repaid. In connection with the Amendment, the Company incurred lender and other third-party costs of CAD \$100,000. The costs associated with the Amendment have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

On April 1, 2019, the Company extended the term of the Facility for another seven months for a maturity date to November 1, 2019. In connection with the extension, the Company incurred lender and other third-party costs of CAD \$100,000. The costs associated with the extension have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

During the six months ended June 30, 2019 and 2018, the Company borrowed \$1,871,678 and nil, respectively and repaid \$4,509,304 and nil, respectively, against the Facility.

(b) Master credit facility:

On August 20, 2018, the Company entered into a Revolving Guidance Facility Agreement with a lending institution in the U.S. for a \$20,000,000 master credit facility (the "Master Facility") to finance the loan and mortgage investments made by the Company. The Master Facility is available on a project by project basis as a project loan. The Master Facility carries an interest rate of three month LIBOR plus three percent (3.00%) per annum, with a floor rate of five percent (5.00%) per annum. The Master Facility will expire thirty-six months from after the date of the applicable project loan is advanced, unless otherwise approved by lender.

During the six months ended June 30, 2019 and 2018, the Company borrowed an aggregate of \$3,976,351 and nil, respectively, and repaid \$3,350,240 and nil, respectively, against the Master Facility.

In connection with the Master Facility, the Company incurred lender and other third-party costs of \$355,504. The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

12. Credit facilities (continued):

For the three and six months ended June 30, 2019, amortization of deferred financing costs reported as interest and financing costs totaled \$66,901 and \$143,249, respectively (three and six months ended June 30, 2018 - \$38,717 and \$79,471, respectively).

The terms of the credit facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At June 30, 2019 and December 31, 2018, the Company was in compliance with these covenants.

The following table presents details of the revolving operating facility as at June 30, 2019 and December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|-------------------------------|----------------------|----------------------|
| Revolving operating facility: | | |
| Face value | \$ 8,781,642 | \$ 10,999,487 |
| Unamortized financing costs | (25,488) | (33,439) |
| | <u>8,756,154</u> | <u>10,966,048</u> |
| Master credit facility: | | |
| Face value | 9,617,905 | 8,804,480 |
| Unamortized financing costs | (247,399) | (306,422) |
| | <u>9,370,506</u> | <u>8,498,058</u> |
| | <u>\$ 18,126,660</u> | <u>\$ 19,464,106</u> |

13. Lease obligations:

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 includes estimated operating costs of the office space as at June 30, 2019, are as follows:

| | |
|-------------------|-------------------|
| Remainder of year | \$ 86,677 |
| 2020 | 173,354 |
| | <u>\$ 260,031</u> |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at June 30, 2019 were \$14,904,125 (December 31, 2018 - \$23,791,223).

At June 30, 2019 and December 31, 2018, the unfunded commitments to make additional investments, for development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions were \$19,032,554 and \$2,392,126, respectively.

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

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.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the six months ended June 30, 2019 and 2018:

| | Shares | Amount |
|---|-------------|---------------|
| Outstanding, December 31, 2017 | 63,775,850 | \$ 28,887,862 |
| Repurchase of shares pursuant to normal course issuer bid | (1,596,000) | (823,812) |
| Issuance of shares pursuant to share option plan | 96,000 | 22,544 |
| Transferred from contributed surplus upon exercise of options | – | 13,986 |
| Outstanding, June 30, 2018 | 62,275,850 | 28,100,580 |
| Repurchase of shares pursuant to normal course issuer bid | (3,640,014) | (1,566,630) |
| Outstanding, December 31, 2018 | 58,635,836 | 26,533,950 |
| Repurchase of shares pursuant to normal course issuer bid | (2,651,000) | (1,098,766) |
| Outstanding, June 30, 2019 | 55,984,836 | \$ 25,435,184 |

On May 14, 2018, directors of the Company exercised 96,000 options that had been granted to purchase the shares at CAD \$0.30 per share. The consideration of \$24,544 received on exercising the options was recorded as share capital and the related contributed surplus of \$13,986 was transferred to share capital (note 16).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

15. Shareholders' equity (continued):

(b) Normal course issuer bid:

On November 23, 2018, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 6, 2018 (the "Prior NCIB"), the Company renewed the NCIB (the "Renewed NCIB"). Under the terms of the Renewed NCIB, the Company may be permitted to acquire up to 4,186,319 shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 17, 2018 and will conclude on the earlier of: (i) November 26, 2019, (ii) the date on which the Company has purchased the maximum number of shares to be acquired pursuant to the renewed NCIB, or (iii) the Company providing a notice of termination to the TSX-V.

The Prior NCIB commenced on November 14, 2017, permitted the Company to purchase up to an aggregate maximum of 4,255,765 shares. The Prior NCIB concluded on November 6, 2018, being the date on which the Company has purchased the maximum number of shares permitted to be acquired pursuant to the Prior NCIB.

During the six months ended June 30, 2019 and 2018, the Company purchased and cancelled 2,651,000 and 1,596,000 shares, respectively, on TSX-V for \$1,098,766 and \$823,812, respectively.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

15. Shareholders' equity (continued):

(c) Share-based payments:

The share-based payments that have been recognized in these interim condensed consolidated financial statements are as follows:

| | Three months ended | | Six months ended | |
|--------------------------|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Share option plan | \$ 48,757 | \$ 41,798 | \$ 106,232 | \$ 102,913 |
| Deferred share unit plan | 38,277 | 115,027 | 308,634 | 75,241 |
| | <u>\$ 87,034</u> | <u>\$ 156,825</u> | <u>\$ 414,866</u> | <u>\$ 178,154</u> |

(i) Share option plan:

The Company has a share option plan (the "Plan") to grant option to purchase shares to eligible directors, officers, senior management and consultants. The exercise price of an option shall be determined by the Board of Directors (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.

On June 12, 2019, the Company granted options to its Chairman of the Board (the "Chairman") to purchase up to 200,000 common shares of the Company at a price of CAD \$0.56 per share with the expiry date of June 11, 2026. 100,000 options vested immediately and the remaining 100,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

On June 12, 2019, the Company granted options to its President and Chief Executive Officer to purchase up to 240,00 common shares of the Company at a price of CAD \$0.56 per share with the expiry date of June 11, 2026. The options shall vest in equal installments on a quarterly basis over a three-year period.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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15. Shareholders' equity (continued):

On August 23, 2018, the Company granted options to the Chairman to purchase up to 400,000 common shares of the Company at a price of CAD \$0.64 per share with the expiry date of August 24, 2025. 200,000 options vested immediately and the remaining 200,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

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:

| | June 12, 2019 | August 23, 2018 |
|---------------------------------|------------------|--------------------|
| Average expected life | 7.00 years | 7.00 years |
| Average risk-free interest rate | 1.41% | 2.21% |
| Average expected volatility | 74.56% | 81.92% |
| Average dividend yield | 0.00% | 0.00% |

The fair value of options granted on June 12, 2019 and August 23, 2018, was \$128,293 and \$145,564, respectively.

The following is the summary of changes in share options for the three months ended June 30, 2019 and year ended December 31, 2018:

| | March 31, 2019 | | December 31, 2018 | |
|-------------------------------------|----------------------|--|----------------------|--|
| | Number of options | Weighted average exercise price in CAD | Number of options | Weighted average exercise price in CAD |
| Outstanding, beginning of period | 5,285,004 | \$ 0.70 | 5,001,671 | \$ 0.70 |
| Granted | 440,000 | 0.56 | 400,000 | 0.64 |
| Exercised | – | – | (96,000) | 0.30 |
| Cancelled | – | – | (10,000) | 0.85 |
| Expired | (565,000) | 0.50 | (10,667) | 0.30 |
| Outstanding, end of period | 5,160,004 | 0.71 | 5,285,004 | 0.70 |
| Number of options exercisable | 4,270,052 | \$ 0.73 | 4,678,384 | \$ 0.71 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

15. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at June 30, 2019:

| Number of options outstanding | Expiry date | Number of options exercisable | Exercise price CAD | Market price at date of grant CAD |
|-------------------------------|--------------------|-------------------------------|--------------------|-----------------------------------|
| 599,115 | November 28, 2019 | 599,115 | 0.68 | 0.85 |
| 1,050,000 | November 28, 2019 | 1,050,000 | 0.79 | 0.85 |
| 970,889 | May 11, 2020 | 970,889 | 0.85 | 0.85 |
| 100,000 | September 25, 2020 | 100,000 | 0.69 | 0.69 |
| 200,000 | March 31, 2023 | 200,000 | 0.77 | 0.77 |
| 500,000 | June 28, 2023 | 500,000 | 0.57 | 0.57 |
| 560,000 | December 27, 2023 | 280,044 | 0.65 | 0.65 |
| 340,000 | December 21, 2024 | 170,004 | 0.67 | 0.67 |
| 400,000 | August 24, 2025 | 300,000 | 0.64 | 0.64 |
| 440,000 | June 11, 2026 | 100,000 | 0.56 | 0.56 |
| 5,160,004 | | 4,270,052 | | |

(ii) Deferred share unit plan:

The Company has a cash-settled deferred share unit plan 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 the future value of the shares.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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15. Shareholders' equity (continued):

The Board determines the amount, timing, and vesting conditions associated with each award of deferred share units (the "DSUs"). Except for the Chairman, 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. 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 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). DSUs must be retained until the director leaves the Board or until termination of employment of officers or employees, at which time the redemption payment equal to the value of the DSUs, calculated as the volume weighted average closing price of the shares for the last five days preceding the redemption date, net of applicable taxes are paid out.

The following is the summary of changes in DSUs for the six months ended June 30, 2019 and year ended December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|---------------------------------------|------------------|----------------------|
| DSUs outstanding, beginning of period | 2,862,202 | 2,515,561 |
| Granted | 181,123 | 346,641 |
| Settled | (19,636) | — |
| DSUs outstanding, end of period | 3,023,689 | 2,862,202 |
| Number of DSUs vested | 2,968,573 | 2,808,648 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

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15. Shareholders' equity (continued):

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and six months ended June 30, 2019 were \$38,277 and \$308,634 (three and six months ended June 30, 2018 - \$115,027 and \$75,241, respectively).

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at June 30, 2019 is \$1,292,113 (December 31, 2018 - \$947,406).

(d) Warrants:

At June 30, 2019 and December 31, 2018, the Company has 5,000,000 warrants outstanding. Each Warrant is exercisable for one Share at a price of \$0.85 per Share, with an expiry date of August 15, 2020.

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at June 30, 2019 and December 31, 2018:

| | Amount |
|--|--------------|
| Balance, December 31, 2017 | \$ 3,017,555 |
| Fair value of share-based compensation | 102,913 |
| Transfer to share capital on exercise of options | (13,986) |
| Balance, June 30, 2018 | 3,106,482 |
| Fair value of share-based compensation | 157,906 |
| Balance, December 31, 2018 | 3,264,388 |
| Fair value of share-based compensation | 106,232 |
| Balance, June 30, 2019 | \$ 3,370,620 |

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Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

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17. Earnings per share:

The calculation of earnings per share of the three and six months ended June 30, 2019 and 2018 is as follows:

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Numerator for basic and diluted earnings per share: | | | | |
| Income attributable to common shareholders | \$ 867,453 | \$ 1,541,112 | \$ 1,164,619 | \$ 1,742,877 |
| Diluted income attributable to common shareholders | \$ 867,453 | \$ 1,541,112 | \$ 1,164,619 | \$ 1,742,877 |
| Denominator basic and diluted earnings per share: | | | | |
| Weighted average number of shares outstanding | 57,258,561 | 62,474,180 | 57,820,476 | 62,636,762 |
| Dilutive effect of share-based payments | 4,642 | 155,828 | 2,182 | 173,124 |
| Weighted average number of diluted shares outstanding | 57,263,203 | 62,630,008 | 57,822,658 | 62,809,886 |
| Earnings per share: | | | | |
| Basic | \$ 0.01 | \$ 0.02 | \$ 0.02 | \$ 0.03 |
| Diluted | 0.01 | 0.02 | 0.02 | 0.03 |

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Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

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18. Transactions with related parties:

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

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

At June 30, 2019 and December 31, 2018, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.1% of the issued and outstanding shares.

The Company had a loan investment of \$1,362,592 to a company controlled by the Chairman at an interest rate of 12% per annum. On May 2, 2018, the Company received the repayment of the loan investment in full, together with accrued interest. During the six months ended June 30, 2019 and 2018, the Company recognized interest and fees revenue of nil and \$58,082, respectively.

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 June 30, 2019 and December 31, 2018, the loan and mortgage investments and the debentures syndicated by officers and directors was \$389,195 and \$467,659, respectively.

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the six months ended June 30, 2019 and 2018, the Company received \$29,029 and \$31,667, respectively, for the occupancy and office costs.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

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(Unaudited)

19. Interest and financing costs:

The following table presents the interest incurred for the three and six months ended June 30, 2019 and 2018:

| | Three months ended | | Six months ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Interest on loan and mortgage syndications | \$ 1,575,038 | \$ 1,522,765 | \$ 3,399,404 | \$ 2,731,250 |
| Interest on revolving operating facility | 463,257 | 388,264 | 937,264 | 785,883 |
| Montreal Street JV | 8,639 | 7,610 | 16,368 | 16,513 |
| Interest on lease obligations | 562 | – | 1,213 | – |
| | <u>\$ 2,047,496</u> | <u>\$ 1,918,639</u> | <u>\$ 4,354,249</u> | <u>\$ 3,533,646</u> |

20. Foreign exchange:

For the six months ended June 30, 2019 and 2018, the Company recorded a realized and unrealized foreign exchange loss (gain) of \$46,155 and (\$1,471,987), respectively. During the six months ended June 30, 2019, the USD weakened by approximately 4.0% against the CAD from \$1.3637 to \$1.3096.

21. Income taxes:

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

| | Three months ended | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Current income tax provision | \$ 191,147 | \$ 654,997 | \$ 409,346 | \$ 814,123 |
| Deferred income tax provision (recovery) | 118,637 | (130,437) | 24,301 | (151,228) |
| Total tax provision | <u>\$ 309,784</u> | <u>\$ 524,560</u> | <u>\$ 433,647</u> | <u>\$ 662,895</u> |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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21. 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 | | Six months ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | June 30, 2019 | June 30, 2018 | June 30, 2019 | June 30, 2018 |
| Income from operations before taxes | \$ 1,177,237 | \$ 2,016,343 | \$ 1,598,266 | \$ 2,356,443 |
| Combined federal and provincial statutory income taxes | 26.50% | 26.50% | 26.50% | 26.50% |
| Income tax provision based on statutory income taxes | 311,968 | 534,331 | 423,540 | 624,457 |
| Increase in income tax due to: | | | | |
| Non-taxable items | (52,709) | 11,191 | (52,238) | 11,666 |
| Non-deductible stock-based compensation | 44,596 | 8,836 | 59,758 | 27,260 |
| Other items | 5,929 | (29,798) | 2,587 | (488) |
| Total tax provision | \$ 309,784 | \$ 524,560 | \$ 433,647 | \$ 662,895 |

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2019 is as follows:

| | Opening balance | Recognized in income | Closing balance |
|---|---------------------|-------------------------|---------------------|
| Investment property | \$ (178,684) | \$ (6,746) | \$ (185,430) |
| Portfolio investments | (262,668) | – | (262,668) |
| Incorporation costs | 358 | (13) | 345 |
| Deferred share units | 273,282 | 46,008 | 319,290 |
| Allowance for loan and mortgage investment loss | 192,603 | (40,253) | 152,350 |
| Unrealized foreign exchange gain | (892,106) | – | (892,106) |
| Debentures, shares and revolving operating facility issue costs | 114,126 | (23,297) | 90,829 |
| Foreign exchange | – | (2,626) | (2,626) |
| | \$ (753,089) | \$ (26,927) | \$ (780,016) |

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2018 is as follows:

| | Opening balance | Recognized in income | Closing balance |
|--|--------------------|-------------------------|--------------------|
| Investment property | \$ (178,384) | \$ (7,467) | \$ (185,851) |
| Portfolio investments | (811,254) | 527,982 | (283,272) |
| Incorporation costs | 418 | (14) | 404 |
| Deferred share units | 373,612 | 19,939 | 393,551 |
| Allowance for loan and mortgage investment loss | 721,925 | – | 721,925 |
| Unrealized foreign exchange gain | (216,210) | (361,874) | (578,084) |
| Debentures, shares and revolving operating facility issue costs | 210,349 | (27,338) | 183,011 |
| Foreign exchange | – | (2,347) | (2,347) |
| | \$ 100,456 | \$ 148,881 | \$ 249,337 |

22. Capital management:

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

The following table presents the capital structure of the Company as at June 30, 2019 and December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|--------------------------------|------------------|----------------------|
| Loan and mortgage syndications | \$ 69,222,905 | \$ 75,906,550 |
| Revolving operating facility | 18,126,660 | 19,464,106 |
| Mortgages payable | 1,075,160 | 1,047,809 |
| Equity | 38,225,111 | 38,053,026 |
| Total capital | \$ 126,649,836 | \$ 134,471,491 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

22. Capital management (continued):

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remains unchanged during the three and six months ended June 30, 2019 and 2018.

During the three and six months ended June 30, 2019 and 2018, the Company had no externally imposed capital requirements.

23. 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, Convertible Note, loan and mortgage investments, portfolio investments, lease obligations, loan and mortgage syndications, mortgages payable and Credit Facilities.

The fair values of interest and other receivables, funds held in trust 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, loan and mortgage syndications, Convertible Note, mortgages payable or Credit Facilities and 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 interim condensed 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

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

23. Fair value measurement (continued):

- Level 3 - valuation techniques for which significant inputs are not based on observable market data.

The fair value of the Company's investment property, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at June 30, 2019 and December 31, 2018 and no amounts were transferred between fair value levels during the six months ended June 30, 2019 or 2018. Notes 7, 8 and 9 outline the key assumptions used by the Company in determining fair value of its investment property, portfolio investments and investment in associates, respectively.

24. 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, 2018.

Credit risk:

As at June 30, 2019, \$2,089,130 (December 31, 2018 - \$2,792,998) of the loan and mortgage investments and \$364,828 (December 31, 2018 - \$357,124) of interest receivable and fees paid on these loans are in arrears.

25. Effect of change in presentation currency:

As set out in note 3, the Company elected to change its presentation currency to USD, effective January 1, 2019.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of financial position as at January 1, 2018 and December 31, 2018 includes adjustments to reflect the change in the accounting policy resulting from the change in presentation to the USD. The amounts previously reported in CAD as shown below have been translated into USD at January 1, 2018 and December 31, 2018 exchange rates (note 3). The effect of the translation is as follows.

| As at | December 31, 2018 USD | December 31, 2018 CAD | January 1, 2018 USD | January 1, 2018 CAD |
|--|-----------------------------|-----------------------------|---------------------------|---------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 7,731,379 | \$ 10,543,289 | \$ 2,141,966 | \$ 2,691,049 |
| Funds held in trust | 1,095,669 | 1,494,940 | 2,401,781 | 3,014,606 |
| Amounts receivable and prepaid expenses | 1,013,935 | 1,347,626 | 1,164,074 | 1,463,310 |
| Loan and mortgage investments | 121,675,979 | 165,929,535 | 93,203,582 | 117,166,221 |
| Investment in finance leases | 2,819,915 | 3,845,519 | – | – |
| Investment properties | 1,619,633 | 2,208,694 | 1,756,976 | 2,208,694 |
| Portfolio investment | 1,911,574 | 2,591,586 | 10,804,898 | 13,575,623 |
| Interest in associates | 2,146,984 | 2,927,842 | 2,329,045 | 2,927,842 |
| Income taxes recoverable | 130,741 | 178,292 | 239,175 | 300,667 |
| Deferred income tax asset | – | – | 100,456 | 126,283 |
| | \$ 140,145,809 | \$ 191,067,323 | \$ 114,141,953 | \$ 143,474,295 |
| Liabilities and Equity | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 3,618,067 | \$ 4,933,963 | \$ 4,965,980 | \$ 6,236,233 |
| Unearned income | 1,303,162 | 1,777,129 | 1,197,647 | 1,505,576 |
| Deferred income tax liabilities | 753,089 | 1,026,987 | – | – |
| Credit facilities | 19,464,106 | 26,560,237 | 15,086,472 | 18,965,205 |
| Loan and mortgage syndication | 75,906,550 | 103,513,760 | 50,353,652 | 63,299,522 |
| Mortgages payable | 1,047,809 | 1,428,897 | 1,169,234 | 1,469,844 |
| | 102,092,783 | 139,240,973 | 72,772,985 | 91,476,380 |
| Equity: | | | | |
| Share capital | 26,533,950 | 29,801,466 | 28,887,862 | 32,864,287 |
| Contributed surplus | 3,264,388 | 3,893,731 | 3,017,555 | 3,573,406 |
| Cumulative translation adjustment | (6,885,398) | – | (3,663,314) | – |
| Retained earnings | 15,140,086 | 18,131,153 | 12,924,303 | 15,305,581 |
| Total shareholders' equity | 38,053,026 | 51,826,350 | 41,166,406 | 51,743,274 |
| Non-controlling interest | – | – | 202,562 | 254,641 |
| | 38,053,026 | 51,826,350 | 41,368,968 | 51,997,915 |
| | \$ 140,145,809 | \$ 191,067,323 | \$ 114,141,953 | \$ 143,474,295 |

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Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of income and comprehensive income for the six months ended June 30, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

| | Six months ended | | Year ended | |
|---|------------------|------------------|----------------------|----------------------|
| | June 30, 2018 | June 30, 2018 | December 31, 2018 | December 31, 2018 |
| | USD | CAD | USD | CAD |
| Revenue: | | | | |
| Interest and fees earned | \$ 5,957,177 | \$ 7,621,696 | \$ 13,292,451 | \$ 17,258,558 |
| Rental income | 78,949 | 100,888 | 155,720 | 201,772 |
| | 6,036,126 | 7,722,584 | 13,448,171 | 17,460,330 |
| Expenses: | | | | |
| Property operating costs | 27,066 | 34,587 | 53,427 | 69,228 |
| General and administrative | 1,239,158 | 1,589,081 | 2,775,430 | 3,617,616 |
| Share based compensation | 178,154 | 229,469 | (15,828) | (27,444) |
| Interest and financing costs | 3,533,646 | 4,521,664 | 7,947,282 | 10,322,969 |
| Loss on sale of portfolio investment | 173,646 | 224,212 | 173,646 | 224,212 |
| Fair value adjustment - portfolio investment | — | — | (57,413) | (75,866) |
| Provision on loan and mortgage investments | — | — | 2,403,182 | 3,137,059 |
| Provision for uncollectible receivables | — | — | 134,940 | 186,140 |
| Realized and unrealized foreign exchange loss (gain) | (1,471,987) | (1,881,200) | (3,034,987) | (3,933,646) |
| | 3,679,683 | 4,717,813 | 10,379,679 | 13,520,268 |
| Income from operations before income taxes | 2,356,443 | 3,004,771 | 3,068,492 | 3,940,062 |
| Income tax expense | 662,895 | 845,937 | 902,038 | 1,169,131 |
| Net income and comprehensive income | \$ 1,693,548 | \$ 2,158,834 | \$ 2,166,454 | \$ 2,770,931 |
| Net income (loss) and comprehensive income (loss) attributable to: | | | | |
| Common shareholders | \$ 1,742,877 | \$ 2,213,475 | \$ 2,215,783 | \$ 2,825,572 |
| Non-controlling interest | (49,329) | (54,641) | (49,329) | (54,641) |
| Net income and comprehensive income | \$ 1,693,548 | \$ 2,158,834 | \$ 2,166,454 | \$ 2,770,931 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

25. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of cash flows for the six months ended June 30, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates (note 3). The effect of the translation is as follows:

| | Six months ended | | Year ended | |
|---|-------------------------|-------------------------|-----------------------------|-----------------------------|
| | June 30, 2018 USD | June 30, 2018 CAD | December 31, 2018 USD | December 31, 2018 CAD |
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Net income and comprehensive income | \$ 1,693,548 | \$ 2,158,834 | \$ 2,166,454 | \$ 2,770,931 |
| Interest and fees earned | (5,957,177) | (7,621,696) | (13,292,451) | (17,258,558) |
| Interest expense and financing costs | 3,533,646 | 4,521,664 | 7,947,282 | 10,322,969 |
| Unrealized foreign exchange loss (gain) | (1,630,235) | (1,744,146) | (3,230,913) | (3,565,531) |
| Non-cash items: | | | | |
| Share-based compensation (note 15(c)) | 178,154 | 229,469 | (15,828) | (27,444) |
| Loss on sale of portfolio investment | 173,646 | 224,212 | 173,646 | 224,212 |
| Provision for loan and mortgage investments loss | — | — | 2,403,182 | 3,137,059 |
| Provision for uncollectible receivables | — | — | 134,940 | 186,140 |
| Fair value adjustment - portfolio investments | — | — | (57,415) | (75,866) |
| Income tax provision | 662,895 | 845,937 | 902,038 | 1,169,131 |
| Changes in working capital: | | | | |
| Decrease (increase) in other receivables | 31,695 | 97,134 | (482,855) | (669,494) |
| Decrease (increase) in prepaid expenses and deposits | (8,050) | (22,498) | 41,235 | 39,292 |
| Increase in accounts payable and accrued liabilities | 22,896 | 117,218 | 223,204 | 475,715 |
| Interest and fees received | 3,767,333 | 4,753,983 | 8,862,839 | 11,484,860 |
| Interest paid | (3,063,596) | (3,925,758) | (7,238,873) | (9,386,967) |
| Income taxes paid | (366,421) | (476,008) | 78,367 | 106,514 |
| | (961,666) | (841,655) | (1,385,148) | (1,067,037) |
| Financing activities: | | | | |
| Proceeds from loan and mortgage syndications | 22,714,230 | 28,969,099 | 40,424,380 | 52,103,952 |
| Repayments of loan and mortgage syndications | (5,690,210) | (7,282,133) | (15,143,072) | (19,591,954) |
| Repayments of mortgages payable | (17,221) | (21,737) | (33,965) | (43,803) |
| Proceeds from credit facilities | — | — | 8,804,480 | 11,773,353 |
| Repayments of credit facilities | — | — | (2,948,548) | (4,000,000) |
| Disposition of non-controlling interest | (153,233) | (200,000) | (153,233) | (200,000) |
| Proceeds from issuance of shares pursuant to share options plan | 22,544 | 28,800 | 22,544 | 28,800 |
| Repurchase of shares pursuant to normal course issuer bid | (823,812) | (1,041,365) | (2,390,442) | (3,109,488) |
| | 16,052,298 | 20,452,664 | 28,582,144 | 36,960,860 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

25. Effect of change in presentation currency (continued):

| | Six months ended | | Year ended | |
|--|-------------------------|-------------------------|-----------------------------|-----------------------------|
| | June 30, 2018 USD | June 30, 2018 CAD | December 31, 2018 USD | December 31, 2018 CAD |
| Investing activities: | | | | |
| Funding of loan and mortgage investments | (29,658,762) | (37,931,670) | (56,851,087) | (73,491,392) |
| Repayments of loan and mortgage investments | 11,296,007 | 14,426,999 | 28,237,829 | 36,661,641 |
| Funding of investment in finance leases | (1,992,096) | (2,505,858) | (2,865,999) | (3,675,053) |
| Decrease (increase) in funds held in trust | (16,672) | 5,837 | 1,261,548 | 1,627,530 |
| Principal payment of investment in finance leases | — | 49,659 | — | — |
| Proceeds from redemption of portfolio investment | 727,858 | 950,000 | 727,858 | 950,000 |
| Proceeds from sale of interest in portfolio investment | — | — | 61,000 | 78,406 |
| Return of capital of portfolio investment | 7,821,269 | 9,807,285 | 7,821,268 | 9,807,285 |
| | (11,822,396) | (15,197,748) | (21,607,583) | (28,041,583) |
| Increase in cash and cash equivalents | 3,268,236 | 4,413,261 | 5,589,413 | 7,852,240 |
| Cash and cash equivalents, beginning of period | 2,141,966 | 2,691,049 | 2,141,966 | 2,691,049 |
| Cash and cash equivalents, end of period | \$ 5,410,202 | \$ 7,104,310 | \$ 7,731,379 | \$ 10,543,289 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
(In United States dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

26. Recast of comparative figures:

During the three months ended June 30, 2019, the Company determined that adjustments were required to certain amounts reported in the March 31, 2019 financial statements which were restated to USD to reflect the change in functional and presentation currency from CAD to USD. The following amounts previously presented in the financial statements as at and for the three months ended March 31, 2019 have been recast as at June 30, 2019: Cumulative translation adjustment as at March 31, 2019 and December 31, 2018 (as restated to USD) - (\$6,885,398), (previously (\$3,663,314)); retained earnings as at March 31, 2019 and December 31, 2018 (as restated to USD) - \$15,437,252 and \$15,140,086, respectively (previously \$12,999,365 and \$12,702,199, respectively); income taxes recoverable as at March 31, 2019 and December 31, 2018 - \$168,317 and \$130,741, respectively (previously \$236,936 and \$195,225, respectively).; and deferred income taxes payable (recoverable) as at March 31, 2019 and December 31, 2018 (as restated to USD) - \$658,729 and \$753,089, respectively, (previously (\$60,960) and \$33,376, respectively). In addition, the following restated comparative figures included in note 25 have been recast: realized and unrealized foreign exchange gain (loss) (as restated to USD) for the year ended December 31, 2018 - \$3,034,987 (previously (\$222,828)); income tax expense (as restated to USD) for the year ended December 31, 2018 - \$902,038 (previously \$82,110). The Company concluded that these adjustments were not material to these or any previously issued financial statements as a whole.

27. Subsequent events:

On July 22, 2019, the Company closed and fully funded a loan investment of \$9.0 million to residential development lands located in Orlando, Florida and Charlotte, North Carolina.

On June 12, 2019, the Board declared a quarterly dividend totalling \$0.005 per Share on each of its outstanding Shares, such dividend to be paid on October 15, 2019, to shareholders of record as of the close of business on September 30, 2019.