



Interim Condensed Consolidated Financial Statements  
(In United States dollars)

## **TERRA FIRMA CAPITAL CORPORATION**

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

# TERRA FIRMA CAPITAL CORPORATION

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

	September 30, 2019	December 31, 2018
		(As restated - note 3(a), recast note 27))
<b>Assets</b>		
Cash and cash equivalents	\$ 3,945,129	\$ 7,731,379
Funds held in trust	3,528,492	1,095,669
Amounts receivable and prepaid expenses (note 4)	782,434	1,013,935
Loan and mortgage investments (note 5)	113,156,857	121,675,979
Investment in finance leases (note 6)	17,967,041	2,819,915
Portfolio investments (note 7)	5,818,296	1,911,574
Investment in associates (note 8)	2,146,984	2,146,984
Investment property held in joint operations (note 9(b))	1,619,633	1,619,633
Convertible note receivable (note 10)	786,366	–
Right-of-use asset (notes (3(c) and 14)	211,480	–
Income taxes recoverable (note 22)	121,834	130,741
	<b>\$ 150,084,546</b>	<b>\$ 140,145,809</b>

## Liabilities and Equity

Liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 5,883,628	\$ 3,618,067
Unearned income	891,092	1,303,162
Deferred income taxes payable (note 22)	753,174	753,089
Unsecured note payable (note 12)	3,000,000	–
Credit facilities (note 13)	16,549,944	19,464,106
Lease obligations (notes (3(c) and 14)	212,112	–
Loan and mortgage syndications (note 5)	82,902,486	75,906,550
Mortgages payable (note 9(c))	1,024,025	1,047,809
	<b>111,216,461</b>	<b>102,092,783</b>
Equity:		
Share capital (note 16(b))	25,283,343	26,533,950
Contributed surplus (note 17)	3,414,824	3,264,388
Foreign currency translation reserve (note 3(a))	(6,885,398)	(6,885,398)
Retained earnings	17,055,316	15,140,086
Shareholders' equity	<b>38,868,085</b>	<b>38,053,026</b>
Commitments and contingencies (note 15)		
Subsequent event (note 28)		
	<b>\$ 150,084,546</b>	<b>\$ 140,145,809</b>

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

Approved by the Board on November 13, 2019 and signed on its behalf by:

"Seymour Temkin" \_\_\_\_\_ Director

"John Kaplan" \_\_\_\_\_ Director

# TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)  
(In United States dollars)  
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		(As restated note 3(a))		(As restated note 3(a))
<b>Revenue:</b>				
Interest and fees (note 6)	\$ 4,125,476	\$ 3,619,761	\$ 11,912,842	\$ 9,576,938
Rental (note 9(a))	38,211	38,597	113,876	117,546
	4,163,687	3,658,358	12,026,718	9,694,484
<b>Expenses (income):</b>				
Property operating costs (note 9(a))	13,156	13,253	39,192	40,319
General and administrative	670,802	585,571	2,246,161	1,824,729
Share-based compensation (note 16(e))	(61,292)	40,320	353,574	218,474
Interest and financing costs (note 20)	2,384,399	2,083,914	6,738,648	5,617,560
Allowance for uncollectible receivable (note 4)	–	(123,767)	–	(123,767)
Allowance for loan and mortgage investment loss (note 5)	–	2,301,143	(151,900)	2,301,143
Loss on sale of portfolio investment (note 7)	–	–	–	173,646
Realized and unrealized foreign exchange loss (gain) (note 21)	(88,171)	675,783	(42,016)	(796,204)
	2,918,894	5,576,217	9,183,659	9,255,900
Income (loss) from operations before income taxes	1,244,793	(1,917,859)	2,843,059	438,584
Income tax expense (recovery) (note 22)	215,934	(467,396)	649,581	195,499
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 1,028,859</b>	<b>\$ (1,450,463)</b>	<b>\$ 2,193,478</b>	<b>\$ 243,085</b>
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>				
Common shareholders	\$ 1,028,859	\$ (1,450,463)	\$ 2,193,478	\$ 292,414
Non-controlling interest	–	–	–	(49,329)
	\$ 1,028,859	\$ (1,450,463)	\$ 2,193,478	\$ 243,085
<b>Earnings (loss) per share (note 18):</b>				
Basic	\$ 0.18	\$ (0.24)	\$ 0.38	\$ 0.05
Diluted	0.18	(0.24)	0.38	0.05

*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)

Nine months ended September 30, 2019 and 2018  
(Unaudited)

	Share capital		Foreign Currency translation reserve (note 3)	Contributed surplus (note 16)	Retained earnings	Total shareholders' equity	Non- controlling interest	Total equity
	Number of shares (note 16(b) and (c))	Amount						
Balance, December 31, 2017 (as restated - note 3(a))	6,377,585	\$ 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	9,600	36,530	—	(13,986)	—	22,544	—	22,544
Repurchase of shares pursuant normal course issuer bid	(245,930)	(1,244,208)	—	—	—	(1,244,208)	—	(1,244,208)
Share-based compensation	—	—	—	222,394	—	222,394	—	222,394
Disposition of non-controlling interest	—	—	—	—	—	—	(153,233)	(153,233)
Foreign currency translation	—	—	(1,089,987)	—	—	(1,089,987)	—	(1,089,987)
Net income (loss) and comprehensive income (loss)	—	—	—	—	292,414	292,414	(49,329)	243,085
Balance, September 30, 2018 (as restated - note 3(a))	6,141,255	27,680,184	(4,753,301)	3,225,963	13,216,717	39,369,563	—	39,369,563
Changes during the period:								
Repurchase of shares pursuant to normal course issuer bid	(277,671)	(1,146,234)	—	—	—	(1,146,234)	—	(1,146,234)
Share-based compensation	—	—	—	38,425	—	38,425	—	38,425
Foreign currency translation	—	—	(2,132,097)	—	—	(2,132,097)	—	(2,132,097)
Net income and comprehensive income	—	—	—	—	1,923,369	1,923,369	—	1,923,369
Balance, December 31, 2018 (as restated - note 3(a))	5,863,584	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	(298,550)	(1,250,607)	—	—	—	(1,250,607)	—	(1,250,607)
Share-based compensation	—	—	—	150,436	—	150,436	—	150,436
Net income and comprehensive income	—	—	—	—	2,193,478	2,193,478	—	2,193,478
Dividends on common shares	—	—	—	—	(278,248)	(278,248)	—	(278,248)
Common share consolidation	(66)	—	—	—	—	—	—	—
Balance, September 30, 2019	5,564,968	\$ 25,283,343	\$ (6,885,398)	\$ 3,414,824	\$ 17,055,316	\$ 38,868,085	\$ —	\$ 38,868,085

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		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
		(As restated note 3(a))		(As restated note 3(a))
Cash provided by (used in):				
Operating activities:				
Net income (loss) and comprehensive income (loss)	\$ 1,028,859	\$ (1,450,463)	\$ 2,193,478	\$ 243,085
Interest and fees earned	(4,125,476)	(3,619,761)	(11,912,842)	(9,576,938)
Interest expense and financing costs	2,384,399	2,083,914	6,738,648	5,617,560
Unrealized foreign exchange loss (gain)	(116,064)	876,889	(42,016)	(753,346)
Non-cash items:				
Share-based compensation (note 16(e))	(61,292)	40,320	353,574	218,474
Amortization of right-of-use asset	42,943	–	127,279	–
Allowance for uncollectible receivable	–	(123,767)	–	(123,767)
Allowance for loan and mortgage investment loss	–	2,301,143	(151,900)	2,301,143
Loss on sale of portfolio investment	–	–	–	173,646
Income tax provision (recovery)	215,934	(467,396)	649,581	195,499
Changes in working capital:				
Decrease (increase) in other receivables	159,072	(276,024)	312,937	(244,329)
Decrease (increase) in prepaid expenses and deposits	35,709	1,117	(11,033)	(6,933)
Increase (decrease) in accounts payable and accrued liabilities	(2,633,529)	2,666,140	365,866	2,689,037
Interest and fees received	4,113,016	2,332,190	9,209,642	6,099,523
Interest paid	(1,569,452)	(2,271,297)	(5,031,158)	(5,334,893)
Income taxes refunded (paid)	(389,600)	444,788	(645,399)	78,367
Cash provided by (used in) operating activities	(915,481)	2,537,793	2,156,657	1,576,128
Financing activities:				
Proceeds from loan and mortgage syndications	29,814,500	14,578,698	42,758,437	37,292,928
Repayments of loan and mortgage syndications	(16,244,921)	(2,998,845)	(36,949,837)	(8,689,055)
Repayments of mortgages payable	(8,453)	(8,364)	(25,397)	(25,585)
Payments on lease obligations	(41,493)	–	(126,647)	–
Proceeds from unsecured note payable	3,000,000	–	3,000,000	–
Proceeds from credit facilities	4,728,639	883,951	10,576,668	883,951
Repayment of credit facilities	(6,046,608)	–	(13,906,152)	–
Disposition of non-controlling interest	–	–	–	(153,233)
Repurchase of shares pursuant to normal course issuer bid	(151,841)	(420,396)	(1,250,607)	(1,244,208)
Proceeds from issuance of shares pursuant to share option plan	–	–	–	22,544
Cash provided by financing activities	15,049,823	12,035,044	4,076,465	28,087,342
Investing activities:				
Funding of loan and mortgage investments	(30,267,880)	(19,715,607)	(40,210,186)	(49,374,369)
Repayments of loan and mortgage investments	19,163,086	5,605,273	52,516,439	16,901,280
Funding of investment in finance leases	(6,260,141)	–	(20,020,588)	(1,992,096)
Proceeds from sale of finance leases	3,908,012	–	4,725,945	–
Funding of investment in convertible note receivable	–	–	(752,349)	–
Funding of portfolio investment	(1,782,814)	–	(3,866,866)	–
Return of capital on portfolio investment	–	–	–	7,821,268
Proceeds from redemption of portfolio investment	–	–	–	727,858
Decrease (increase) in funds held in trust	1,051,291	(2,278,222)	(2,429,767)	(2,294,894)
Proceeds from sale of interest in portfolio investment	–	61,000	18,000	61,000
Cash used in investing activities	(14,188,446)	(16,327,556)	(10,019,372)	(28,149,953)
Increase (decrease) in cash and cash equivalents	(54,104)	(1,754,719)	(3,786,250)	1,513,517
Cash and cash equivalents, beginning of period	3,999,233	5,410,202	7,731,379	2,141,966
Cash and cash equivalents, end of period	\$ 3,945,129	\$ 3,655,483	\$ 3,945,129	\$ 3,655,483

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

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 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.

Effective September 20, 2019, the Company completed a share consolidation of its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. As a result of the share consolidation, the Company's 55,650,336 Shares issued and outstanding were consolidated to 5,565,033 Shares. The number of shares, warrants, options, deferred share units (the "DSUs") and earnings per share data presented in these unaudited interim condensed consolidated financial statements have all been adjusted retroactively to reflect the impact of this share consolidation.

## 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

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### 3. Significant accounting policies:

The interim condensed consolidated financial statements for the three and nine months ended September 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 nine months ended September 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

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### 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 the USD, the Company followed the guidance in IAS 21 and has 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 "foreign currency translation reserve" as a separate component of equity.

The exchange rates used in translation were as follows:

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	December 31, 2018	September 30 2018	January 1, 2018
USD/CAD exchange rate			
As at the reporting date	\$ 0.7332	\$ 0.7677	\$ 0.7955
Average rate for the period	0.7716	0.7766	0.7704

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# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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### 3. Significant accounting policies (continued):

#### (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 nine months ended September 30, 2019 and 2018  
(Unaudited)

## 4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable, allowance for credit loss (the "ACL") and prepaid expenses as at September 30, 2019:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 250,148	\$ –	\$ 250,148
Other receivables	656,001	(193,068)	462,933
Prepaid expenses and deposits	69,353	–	69,353
Amounts receivable and prepaid expenses	\$ 975,502	\$ (193,068)	\$ 782,434

The following table presents details of the amounts receivable, ACL 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 September 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 \$357,124 and \$357,124, respectively.

Interest and other receivable balance at September 30, 2019 and December 31, 2018 include non-current balance of \$8,755 and \$36,377, respectively. The current interest and other receivables are due in the next 12 months in accordance with contract terms.

During the three months ended September 30, 2019 and 2018, the Company recorded no allowance for uncollectible receivables (three months ended September 30, 2018 - allowance for uncollectible receivables of \$123,767). During the three months ended September 30, 2019, the Company wrote off interest and other receivables relating to loan and mortgage investments in arrears of nil (three months ended September 30, 2018 - wrote off of interest and other receivables relating to loan and mortgage investments in arrears of \$602,853).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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

As at September 30, 2019 and December 31, 2018, the Company had principal balances of loan and mortgage investments of \$113,538,689 and \$122,209,711, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 13.2% (December 31, 2018 - 13.7%) and a weighted average term to maturity of 1.50 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 consolidated statements of income (loss) and comprehensive income (loss).

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 September 30, 2019 and December 31, 2018 were \$82,902,486 and \$75,906,550, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 9.6% (December 31, 2018 - 10.2%) and a weighted average term to maturity of 1.50 years (December 31, 2018 - 1.53 years).

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at September 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	\$ 36,961,611	\$ (68,571)	\$ 36,893,040	\$ 17,732,751	\$ 19,160,289	63.3
Land and lot inventory	69,830,573	(313,261)	69,517,312	61,119,735	8,397,577	27.8
Commercial retail development	4,755,000	–	4,755,000	4,050,000	705,000	2.3
	111,547,184	(381,832)	111,165,352	82,902,486	28,262,866	93.4
Impaired loans:						
Residential housing developments	1,991,505	–	1,991,505	–	1,991,505	6.6
	\$ 113,538,689	\$ (381,832)	\$ 113,156,857	\$ 82,902,486	\$ 30,254,371	100.0

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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, ACL 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 September 30, 2019, there are three loan and mortgage investments in the U.S., before syndication, that account for 19.1%, 14.3% and 10.4% of the principal balance of loan and mortgage investments. For the nine months ended September 30, 2019, the Company has two loan and mortgage investments in the U.S, before syndication, that account for 15.3% and 12.5% 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 nine months ended September 30, 2018, the Company has three loan and mortgage investments in the U.S, before syndication, that accounts for 14.3%, 10.7% and 10.4% 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 nine months ended September 30, 2019, the Company capitalized interest income of \$1,216,808 and \$3,772,167, respectively, (three and nine months ended September 30, 2018, the Company capitalized interest income of \$934,551 and \$2,727,283, respectively), which is included in the loan and mortgage investments.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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 September 30, 2019 were \$25,380,131, including \$4,437,511 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 September 30, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 13,292,909	\$ (49,839)	\$ 13,243,070	\$ 8,536,469	\$ 4,706,601	15.6
United States	100,245,780	(331,993)	99,913,787	74,366,017	25,547,770	84.4
	\$ 113,538,689	\$ (381,832)	\$ 113,156,857	\$ 82,902,486	\$ 30,254,371	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 nine months ended September 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 September 30, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 19,228,860	\$ –	\$ 1,991,505	\$ 21,220,365
Land and lot inventory	8,710,838	–	–	8,710,838
Commercial retail development	705,000	–	–	705,000
	\$ 28,644,698	\$ –	\$ 1,991,505	\$ 30,636,203

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 September 30, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 2,764,935	\$ –	\$ 1,991,505	\$ 4,756,440
United States	25,879,763	–	–	25,879,763
	\$ 28,644,698	\$ –	\$ 1,991,505	\$ 30,636,203

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	\$ –	\$ 9,302,191	\$ 9,302,191
2020	–	39,476,494	39,476,494
2021	–	43,054,182	43,054,182
2022	–	21,705,822	21,705,822
	\$ –	\$ 113,538,689	\$ 113,538,689

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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	\$ –	\$ 6,020,011	\$ 6,020,011
2020	–	30,020,799	30,020,799
2021	–	30,023,372	30,023,372
2022	–	16,838,304	16,838,304
	\$ –	\$ 82,902,486	\$ 82,902,486

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 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 September 30, 2019, one project loan investment totaling \$2,348,629 (December 31, 2018 - \$3,087,122), including interest receivable on this loan and fees incurred relating to collection of this loan totaling \$357,124 (December 31, 2018 - \$357,124), to a project owned by an entity controlled by the Borrower is in arrears. As at September 30, 2019 and December 31, 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an ACL balance of \$193,068 (December 31, 2018 - \$193,068), against the other receivables relating to this loan and mortgage investment (note 4).



# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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 nine months ended September 30, 2019 were as follows:

	IFRS 9				Balance at September 30, 2019
	Balance at January 1, 2019	Provision for credit losses	Net write offs	Other adjustments	
Residential housing developments	\$ 107,819	\$ (13,485)	\$ –	\$ (25,763)	\$ 68,571
Land and lot inventory	422,258	(134,760)	–	25,763	313,261
Commercial retail development	3,655	(3,655)	–	–	–
	<u>\$ 533,732</u>	<u>\$ (151,900)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 381,832</u>

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 533,732	\$ –	\$ –	\$ 533,732
Provision for credit losses:				
Remeasurement	(151,900)	–	–	(151,900)
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Balance, end of period	<u>\$ 381,832</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 381,832</u>

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

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 68,571	\$ –	\$ –	\$ 68,571
Land and lot inventory	313,261	–	–	313,261
Commercial retail development	–	–	–	–
	<u>\$ 381,832</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 381,832</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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 September 30, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 49,839	\$ –	\$ –	\$ 49,839
United States	331,993	–	–	331,993
	\$ 381,832	\$ –	\$ –	\$ 381,832

## 6. Investment in finance leases:

The Company entered into fixed term contractual arrangements with builders whereby the Company acquired land for residential housing development from a third party and provided builders with the exclusive right to use and develop the land. The Company also entered 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 the 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 with a non-refundable deposit at each time of the closing of each acquisition. The builders' deposits are applied on a lot-by-lot basis, on acquisition of the lots by the builders.

At September 30, 2019, the Company had four such arrangements with builders. The Company determined that the arrangements contain a lease and that all 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 13.3% per annum. The unearned finance income at September 30, 2019 was \$147,517 (September 30, 2018 - \$35,325).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 6. Investment in finance leases (continued):

The finance income recognized from finance leases for the three and nine months ended September 30, 2019 of \$536,607 and \$956,459, respectively (three and nine months ended September 30, 2018 of \$92,368 and 141,474, respectively), were included in the interest and fees revenue.

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

Balance, December 31, 2017	\$	–
Investments made		1,992,096
Lease payments received		(144,034)
Finance income recognized		108,709
Balance, September 30, 2018		1,956,771
Investment made		873,903
Lease payments received		(54,783)
Finance income recognized		44,024
Balance, December 31, 2018		2,819,915
Investment made		20,020,588
Investments sold		(4,725,945)
Lease payments received		(1,103,976)
Finance income recognized		956,459
Balance, September 30, 2019	\$	17,967,041

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 6. Investment in finance leases (continued):

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	\$ 2,132,500	\$ 2,253,197	\$ (120,697)
Greater than one year but less than 5 years	20,881,874	2,794,136	18,087,738
	<u>\$ 23,014,374</u>	<u>\$ 5,047,333</u>	<u>\$ 17,967,041</u>

The Company is committed to make additional investments of \$12,772,220 for the development of these lands, subject to builders meeting certain funding conditions.

## 7. Portfolio investments:

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

	September 30, 2019	December 31, 2018
Investment in the LanQueen Partnership	\$ 1,910,429	\$ 1,852,573
Investment in the Savannah Partnership	41,000	59,000
Investment in the Royal Palm LLC	3,816,259	—
Investment in the Delray LLC	50,607	—
Investment in the Valermo Partnership	1	1
Investment in the Hill Partnership	—	—
	<u>\$ 5,818,296</u>	<u>\$ 1,911,574</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 7. Portfolio investments (continued):

- (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 September 30, 2019, TFCC LanQueen Ltd. contributed \$1,387,065 (December 31, 2018 - \$1,387,065) to the partnership. At September 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 September 30, 2019 and December 31, 2018 was \$1,910,429 and \$1,852,573, respectively.
- (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 Savannah Partnership makes 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 nine months ended September 30, 2019, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$18,000. At September 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 September 30, 2019 and December 31, 2018 was \$41,000 and \$59,000, respectively.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 7. Portfolio investments (continued):

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 September 30, 2019, the loan and mortgage investments, including capitalized interest was \$21,705,822 (December 31, 2018 - \$16,177,172) and at September 30, 2019, the Company syndicated \$16,838,304 of the loan and mortgage investment to investors (December 31, 2018 - \$10,940,146).

- (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 September 30, 2019, TF Royal Palm contributed \$3,816,259 (December 31, 2018 - nil) in the limited liability company and received \$140,000 in fees. At September 30, 2019, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at September 30, 2019 was \$3,816,259 (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 September 30, 2019, TF Delray made \$50,607 in capital contributions to the limited liability company and received \$80,000 in fees. The fair value of investment at September 30, 2019 was \$50,607 (December 31, 2018 - nil).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 7. Portfolio investments (continued):

- (e) The Company, through TFVC has a 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 \$7,821,269. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at September 30, 2019 was \$1 (December 31, 2018 - \$1).
- (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 nine months ended September 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)
Sale of investment to investors	(61,000)
Foreign exchange	(63,699)
Balance, September 30, 2018	1,957,426
Fair value adjustment	57,415
Foreign exchange	(103,267)
Balance, December 31, 2018	1,911,574
Investment made	3,866,866
Sale of investment	(18,000)
Foreign exchange	57,856
Balance, September 30, 2019	\$ 5,818,296

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 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 September 30, 2019 and December 31, 2018, the Company's share of the investment in the Lan Partnership, was \$1,851,443.

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

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

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Balance, December 31, 2017	\$ 2,329,045
Foreign exchange	598,797
<hr/>	
Balance, September 30, 2018	2,927,842
Foreign exchange	(780,858)
<hr/>	
Balance, December 31, 2018	2,146,984
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Balance, September 30, 2019	\$ 2,146,984

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# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 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:

	September 30, 2019	December 31, 2018
<b>Assets</b>		
Cash and cash equivalents	\$ 43,954	\$ 16,061
Amounts receivable and prepaid expenses	79,242	81,121
Investment property	1,619,633	1,619,633
	<u>1,742,829</u>	<u>1,716,815</u>
<b>Liabilities</b>		
Accounts payable and prepaid expenses	32,533	34,230
Mortgages payable	1,024,025	1,047,809
	<u>1,056,558</u>	<u>1,082,039</u>
<b>Net assets</b>	<u>\$ 686,271</u>	<u>\$ 634,776</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 9. Joint arrangements (continued):

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue:				
Rental revenue	\$ 38,211	\$ 38,597	\$ 113,876	\$ 117,546
Expenses (income):				
Property operating costs	13,156	13,253	39,192	40,319
General and administrative	3,484	(1,209)	2,863	2,412
Interest	3,958	9,571	20,326	26,084
	20,598	21,615	62,381	68,815
Net income	\$ 17,613	\$ 16,982	\$ 51,495	\$ 48,731

### (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 property.

At September 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 September 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 September 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 nine months ended September 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 September 30, 2019 and December 31, 2018 was \$1,027,877 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 September 30, 2019 and December 31, 2018 are as follows:

	September 30, 2019	December 31, 2018
Mortgage principal	\$ 1,027,877	\$ 1,053,274
Unamortized financing costs	(3,852)	(5,465)
	<u>\$ 1,024,025</u>	<u>\$ 1,047,809</u>

The following table summarizes the changes in the principal balance of mortgages payable for the nine months ended September 30, 2019 and 2018:

Balance, December 31, 2017	\$ 1,177,435
Repayments made	(25,223)
Foreign exchange	(30,873)
Balance, September 30, 2018	1,121,339
Repayments made	(8,121)
Foreign exchange	(59,944)
Balance, December 31, 2018	1,053,274
Repayments made	(25,397)
Balance, September 30, 2019	<u>\$ 1,027,877</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 9. Joint arrangements (continued):

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

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year	\$ 8,363	\$ –	\$ 8,363
2020	34,086	–	34,086
2021	17,430	967,998	985,428
	<u>\$ 59,879</u>	<u>\$ 967,998</u>	<u>\$ 1,027,877</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. During the nine months ended September 30, 2019, the Company capitalized interest income of \$30,388. The fair value of the Convertible Note at September 30, 2019 was \$786,366 (December 31, 2018 - nil).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 10. Convertible note receivable (continued):

The following table summarizes the changes in the Convertible Note receivable for the nine months ended September 30, 2019:

Balance, December 31, 2018	\$	–
Funding of investment		752,349
Interest capitalized		30,388
Foreign exchange		3,629
<b>Balance, September 30, 2019</b>	<b>\$</b>	<b>786,366</b>

## 11. Accounts payable and accrued liabilities:

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

	September 30, 2019	December 31, 2018
Interest payable	\$ 671,373	\$ 564,497
Interest reserve	1,901,096	604,322
Accounts payable, accrued liabilities and provisions	488,123	1,008,670
Funds held in trust	1,402,102	493,172
Share-based compensation payable (note 16(e)(ii))	1,142,686	947,406
Dividends payable	278,248	–
<b>Accounts payable and accrued liabilities</b>	<b>\$ 5,883,628</b>	<b>\$ 3,618,067</b>

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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 12. Unsecured note payable:

During the three months ended September 30, 2019, the Company issued an unsecured promissory note payable to a syndicate investor for \$3,000,000. The note provides the holder to receive a percentage of return on the Company's certain investments, up to a return equivalent to interest of 15% per annum compounded annually, payable monthly. The note matures on December 31, 2022. Proceeds from the note were used to fund certain loan and mortgage investments.

## 13. 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.

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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 13. Credit facilities (continued):

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 nine months ended September 30, 2019 and 2018, the Company borrowed an aggregate of \$1,871,678 and nil, respectively, and repaid \$6,390,985 and nil, respectively, against the Facility.

On October 1, 2019, the Company repaid \$2,265,300 of the Facility. The unpaid balance on the Facility at November 1, 2019 was \$4,214,880. The lending institution extended the repayment date of the unpaid balance of the Facility to December 15, 2019. The Company has signed a term sheet with a lending institution in the U.S. to replace 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 nine months ended September 30, 2019 and 2018, the Company borrowed an aggregate of \$8,704,990 and \$883,951, respectively, and repaid \$7,515,167 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

## 13. Credit facilities (continued):

For the three and nine months ended September 30, 2019, amortization of deferred financing costs reported as interest expense and financing costs relating to the credit facilities totaled \$53,241 and \$196,490 (three and nine months ended September 30, 2018, \$57,893 and \$137,364), 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 September 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 September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Revolving operating facility:		
Face value	\$ 6,480,180	\$ 10,999,487
Unamortized financing costs	–	(33,439)
	6,480,180	10,966,048
Master credit facility:		
Face value	10,287,601	8,804,480
Unamortized financing costs	(217,837)	(306,422)
	10,069,764	8,498,058
	\$ 16,549,944	\$ 19,464,106

## 14. Lease obligations:

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario, with a lease term greater than twelve months resulted in the recognition of a right-of-use asset and a corresponding lease liability.



# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 14. Lease obligations (continued):

The right-of-use asset represents the Company's right to control the use of the head office premises for the lease term. The right-of-use asset at September 30, 2019 and December 31, 2018 was \$211,480 and nil, respectively. The lease obligations represent the present value of the Company's future lease payments on its head office premises over the expected lease term. The lease obligations at September 30, 2019 and December 31, 2018 was \$212,112 and nil, respectively.

The future minimum lease payments, which includes estimated operating costs of the office space as at September 30, 2019, are as follows:

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Remainder of year	\$	42,917
2020		171,670
		<hr/>
	\$	214,587

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## 15. 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 September 30, 2019 were \$25,380,131 (December 31, 2018 - \$23,791,223).

At September 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 \$12,772,220 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

## 16. Shareholders' equity:

### (a) Share consolidation:

On September 20, 2019, the Company consolidated its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. All references to the number of shares and per share amounts have been retroactively restated to reflect the consolidation.

### (b) Shares issued and outstanding:

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

	Shares	Amount
Outstanding, January 1, 2018	6,377,585	\$ 28,887,862
Issuance of shares pursuant to share option plan	9,600	22,544
Repurchase of shares pursuant to normal course issuer bid	(245,930)	(1,244,208)
Transferred from contributed surplus upon exercise of options	–	13,986
Outstanding, September 30, 2018	6,141,255	27,680,184
Repurchase of shares pursuant to normal course issuer bid	(277,671)	(1,146,234)
Outstanding, December 31, 2018	5,863,584	26,533,950
Repurchase of shares pursuant to normal course issuer bid	(298,550)	(1,250,607)
Share consolidation adjustment	(66)	–
Outstanding, September 30, 2019	5,564,968	\$ 25,283,343

On May 14, 2018, directors of the Company exercised 9,600 options that had been granted to purchase the shares at CAD \$3.00 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 17).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 16. Shareholders' equity (continued):

### (c) 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 418,631 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, permitting the Company to purchase up to an aggregate maximum of 425,576 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 nine months ended September 30, 2019 and 2018, the Company purchased 298,550 and 245,930 Shares, respectively, on the TSX-V for \$1,250,607 and \$1,244,208, respectively.

### (d) Dividends:

On June 12, 2019, the Board of Directors (the "Board") declared a quarterly dividend of CAD \$0.05 per Share, payable on October 15, 2019, to shareholders of record as of the close of business on September 30, 2019. Dividends are recognized in the period in which they are formally declared by the Board. For the three months ended September 30, 2019, the Company recorded dividends of \$278,248.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 16. Shareholders' equity (continued):

### (e) Share-based payments:

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Share option plan	\$ 44,204	\$ 119,481	\$ 150,436	\$ 222,394
Deferred share unit plan	(105,496)	(79,161)	203,138	(3,920)
	<u>\$ (61,292)</u>	<u>\$ 40,320</u>	<u>\$ 353,574</u>	<u>\$ 218,474</u>

### (i) Share option plan:

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

On June 12, 2019, the Company granted options to its Chairman of the Board (the "Chairman") to purchase up to 20,000 common shares of the Company at a price of CAD \$5.60 per share with the expiry date of June 11, 2026. 10,000 options vested immediately, and the remaining 10,000 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 24,000 common shares of the Company at a price of CAD \$5.60 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)  
(In United States dollars)

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 16. Shareholders' equity (continued):

On August 23, 2018, the Company granted options to the Chairman to purchase up to 40,000 common shares of the Company at a price of CAD \$6.40 per share with the expiry date of August 24, 2025. 20,000 options vested immediately, and the remaining 20,000 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 nine months ended September 30, 2019 and year ended December 31, 2018:

	September 30, 2019		December 31, 2018	
	Number of options	Weighted average exercise price in USD	Number of options	Weighted average exercise price in USD
Outstanding, beginning of period	528,500	\$ 7.00	500,166	\$ 7.00
Granted	44,000	5.60	40,000	6.40
Exercised	—	—	(9,600)	3.00
Cancelled	—	—	(1,000)	8.50
Expired	(56,500)	5.00	(1,066)	3.00
<b>Outstanding, end of period</b>	<b>516,000</b>	<b>7.10</b>	<b>528,500</b>	<b>7.00</b>
Number of options exercisable	455,071	\$ 7.23	467,838	\$ 7.10

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 16. Shareholders' equity (continued):

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

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price CAD	Market price at date of grant CAD
59,911	November 28, 2019	59,911	\$ 6.80	\$ 8.50
105,000	November 28, 2019	105,000	7.90	8.50
97,089	May 11, 2020	97,089	8.50	8.50
10,000	September 25, 2020	10,000	6.90	6.90
20,000	March 31, 2023	20,000	7.70	7.70
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	46,670	6.50	6.50
34,000	December 21, 2024	19,401	6.70	6.70
40,000	August 24, 2025	30,000	6.40	6.70
44,000	June 11, 2026	17,000	5.60	5.60
<b>516,000</b>		<b>455,071</b>		

### (ii) Deferred share unit plan:

The Company has a cash-settled deferred share unit plan (the "DSU Plan") to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to the future value of the shares.

Effective September 30, 2019, the Board modified the DSU Plan. Employees or the directors no longer can elect to receive their annual bonus or retainer, respectively, in DSUs. The Company will no longer grant additional DSUs to employees or the directors. At the beginning of the year, the Board will determine which board members or employees will be eligible to participate in the DSU Plan and the dollar amount that can be contributed to the DSU Plan. Unless authorized by the Board, the directors and employees will continue to receive their annual retainer and bonus, respectively, in cash.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 16. Shareholders' equity (continued):

Prior to the amendment, the Board determined the amount, timing, and vesting conditions associated with each award of DSUs. Except for the Chairman, directors were 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 were elect to receive up to 25% of their annual bonus in DSUs. DSUs granted pursuant to such an election were 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 granted additional DSUs equal to 50% of the value of the DSUs that were over the 50% minimum received by them. When the employees elected to receive their bonus in DSUs, the Company granted 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% vested in six months from the date of grant and 50% of the additional DSUs vested in 12 months from the date of grant. The additional DSUs granted to the employees vested 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 nine months ended September 30, 2019 and year ended December 31, 2018:

	September 30, 2019	December 31, 2018
DSUs outstanding, beginning of period	286,220	251,556
Granted	18,115	34,664
Settled	(1,964)	—
<b>DSUs outstanding, end of period</b>	<b>302,371</b>	<b>286,220</b>
Number of DSUs vested	298,616	280,865

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# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 16. Shareholders' equity (continued):

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2019 were (\$105,496) and \$203,138 (three and nine months ended September 30, 2018 - (\$79,161) and (\$3,920)), respectively.

Each DSU has the same value as one Share (based on the five day volume weighted average trading price) and, in the event dividends are paid on the Shares, accrues dividend equivalents in the form of additional DSUs based on the amount of the dividend paid on a Share. The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at September 30, 2019 is \$1,142,686 (December 31, 2018 - \$947,406).

### (f) Warrants:

At September 30, 2019 and December 31, 2018, the Company has 500,000 warrants outstanding. Each warrant is exercisable for one share at a price of \$8.50 per share, with an expiry date of August 15, 2020.

## 17. Contributed surplus:

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

	Amount
Balance, December 31, 2017	\$ 3,017,555
Fair value of share-based compensation	222,394
Transfer to share capital on exercise of options	(13,986)
Balance, September 30, 2018	3,225,963
Fair value of share-based compensation	38,425
Balance, December 31, 2018	3,264,388
Fair value of share-based compensation	150,436
Balance, September 30, 2019	\$ 3,414,824



# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 18. Earnings (loss) per share:

The calculation of earnings (loss) per share of the three and nine months ended September 30, 2019 and 2018 is as follows:

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Numerator for basic and diluted earnings (loss) per share:				
Income (loss) attributable to common shareholders	\$ 1,028,859	\$ (1,450,463)	\$ 2,193,478	\$ 292,414
Diluted income (loss) attributable to common shareholders				
	\$ 1,028,859	\$ (1,450,463)	\$ 2,193,478	\$ 292,414
Denominator basic and diluted earnings per share:				
Weighted average number of shares outstanding	5,598,484	6,171,426	5,720,413	6,232,701
Dilutive effect of share-based payments	970	10,888	307	15,464
Weighted average number of diluted shares outstanding				
	5,599,454	6,182,314	5,720,720	6,248,165
Earnings (loss) per share:				
Basic	\$ 0.18	\$ (0.24)	\$ 0.38	\$ 0.05
Diluted	0.18	(0.24)	0.38	0.05

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 19. 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 September 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 three and nine months ended September 30, 2019, the Company recognized interest and fees revenue of nil and nil (three and nine months ended September 30, 2018 - 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 September 30, 2019 and December 31, 2018, the loan and mortgage investments and the debentures syndicated by officers and directors was \$667,601 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 three and nine months ended September 30, 2019, the Company received occupancy and office costs of \$11,314 and \$40,343 (three and nine months ended September 30, 2018 - \$13,823 and \$45,490), respectively.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 20. Interest and financing costs:

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Interest on loan and mortgage syndications	\$ 2,005,187	\$ 1,665,235	\$ 5,404,591	\$ 4,396,485
Interest on credit facilities	374,772	409,108	1,312,036	1,194,991
Montreal Street JV	3,958	9,571	20,326	26,084
Interest on lease obligations	482	—	1,695	—
	<u>\$ 2,384,399</u>	<u>\$ 2,083,914</u>	<u>\$ 6,738,648</u>	<u>\$ 5,617,560</u>

## 21. Foreign exchange gain/loss:

For the three and nine months ended September 30, 2019, the Company recorded a realized and unrealized foreign exchange gain of \$88,171 and \$42,016, respectively (realized and unrealized foreign exchange gain (loss) for the three and nine months ended September 30, 2018, (\$675,783) and \$796,204, respectively).

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
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## 22. 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 (loss) and comprehensive income (loss):

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Current income tax provision (recovery)	\$ 245,006	\$ (894,631)	\$ 654,352	\$ (80,508)
Deferred income tax provision (recovery)	(29,072)	427,235	(4,771)	276,007
<b>Total tax provision (recovery)</b>	<b>\$ 215,934</b>	<b>\$ (467,396)</b>	<b>\$ 649,581</b>	<b>\$ 195,499</b>

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

	Three months ended		Nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Income (loss) from operations before taxes	\$ 1,244,793	\$ (1,917,859)	\$ 2,843,059	\$ 438,584
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision (recovery) based on statutory income taxes	329,870	(508,233)	753,411	116,225
Increase (decrease) in income tax due to:				
Non-taxable items	54,393	(10,817)	2,155	849
Non-deductible stock-based compensation	(19,893)	27,300	39,865	54,560
Change in deferred tax asset not previously recognized	(148,436)	24,354	(145,850)	23,865
<b>Total tax provision (recovery)</b>	<b>\$ 215,934</b>	<b>\$ (467,396)</b>	<b>\$ 649,581</b>	<b>\$ 195,499</b>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 22. Income taxes (continued):

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

	Opening balance	Recognized in income	Closing balance
Investment property	\$ 178,684	\$ (10,026)	\$ 168,658
Portfolio investments	262,668	–	262,668
Incorporation costs	(358)	(19)	(377)
DSUs	(273,282)	53,831	(219,451)
Allowance for loan and mortgage investment loss	(192,603)	(40,253)	(232,856)
Unrealized foreign exchange gain	892,106	11,134	903,240
Debentures, Shares and revolving operating facility issue costs	(114,126)	(19,438)	(133,564)
Foreign exchange	–	4,856	4,856
	<u>\$ 753,089</u>	<u>\$ 85</u>	<u>\$ 753,174</u>

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

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (178,384)	\$ (11,228)	\$ (189,612)
Portfolio investments	(811,254)	529,417	(281,837)
Incorporation costs	418	(21)	397
DSUs	373,612	(1,081)	372,531
Allowance for loan and mortgage investment loss	721,925	(522,055)	199,870
Unrealized foreign exchange loss	(216,210)	(199,636)	(415,846)
Debentures, Shares and revolving operating facility issue costs	210,349	(71,403)	138,946
Foreign exchange	–	(2,844)	(2,844)
	<u>\$ 100,456</u>	<u>\$ (278,851)</u>	<u>\$ (178,395)</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 23. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, loan and mortgage syndications, Credit Facilities, unsecured note 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 September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Loan and mortgage syndications	\$ 82,902,486	\$ 75,906,550
Credit facilities	16,549,944	19,464,106
Unsecured note payable	3,000,000	—
Mortgages payable	1,024,025	1,047,809
Equity	38,868,085	38,053,026
<b>Total capital</b>	<b>\$ 142,344,540</b>	<b>\$ 134,471,491</b>

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 remained unchanged during the three and nine months ended September 30, 2019 and 2018.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## 24. 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, unsecured note payable, 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, loan and mortgage syndications and unsecured note payable 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, unsecured note payable, 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
- 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 September 30, 2019 and December 31, 2018 and no amounts were transferred between fair value levels during the nine months ended September 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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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## **25. 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 September 30, 2019, \$2,348,629 (December 31, 2018 - \$2,792,998) of the loan and mortgage investments and \$357,124 (December 31, 2018 - \$357,124) of interest receivable and fees paid on these loans are in arrears.

## **26. 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 nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. 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	September 30 2018 USD	September 30, 2018 CAD	December 31, 2018 USD	December 31, 2018 CAD
<b>Assets</b>				
Cash and cash equivalents	\$ 3,655,483	\$ 4,719,526	\$ 7,731,379	\$ 10,543,289
Funds held in trust	4,573,364	5,903,298	1,095,669	1,494,940
Amounts receivable and prepaid expenses	1,455,424	1,880,471	1,013,935	1,347,626
Loan and mortgage investments	125,714,143	162,272,100	121,675,979	165,929,535
Investment in finance leases	1,956,771	1,525,800	2,819,915	3,845,519
Investment properties	—	—	1,619,633	2,208,694
Portfolio investment	1,957,426	2,515,720	1,911,574	2,591,586
Interest in associates	2,268,238	2,927,842	2,146,984	2,927,842
Investment properties held in joint operations	1,711,105	2,208,694	—	—
Income taxes recoverable	228,630	297,823	130,741	178,292
	\$ 143,520,584	\$ 184,251,274	\$ 140,145,809	\$ 191,067,323
<b>Liabilities and Equity</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,908,716	\$ 8,917,772	\$ 3,618,067	\$ 4,933,963
Unearned income	1,456,477	1,880,029	1,303,162	1,777,129
Deferred income tax liabilities	178,395	229,131	753,089	1,026,987
Credit facilities	15,203,304	19,618,274	19,464,106	26,560,237
Loan and mortgage syndication	79,304,633	102,366,418	75,906,550	103,513,760
Mortgages payable	1,115,026	1,439,275	1,047,809	1,428,897
	104,166,551	134,450,899	102,092,783	139,240,973
Equity:				
Share capital	27,680,184	31,316,570	26,533,950	29,801,466
Contributed surplus	3,225,963	3,842,956	3,264,388	3,893,731
Cumulative translation adjustment	(4,768,831)	—	(6,885,398)	—
Retained earnings	13,216,717	15,640,849	15,140,086	18,131,153
Total shareholders' equity	39,354,033	50,800,375	38,053,026	51,826,350
	\$ 143,520,584	\$ 185,251,274	\$ 140,145,809	\$ 191,067,323

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of income and comprehensive income for the nine months ended September 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:

	Three months ended		Nine months ended	
	September 30, 2018 USD	September 30, 2018 CAD	September 30, 2018 USD	September 30, 2018 CAD
Revenue:				
Interest and fees earned	\$ 3,619,761	\$ 4,730,797	\$ 9,576,938	\$ 12,352,493
Rental income	38,597	50,441	117,546	151,329
	3,658,358	4,781,238	9,694,484	12,503,822
Expenses:				
Property operating costs	13,253	17,321	40,319	51,908
General and administrative	585,571	765,453	1,824,729	2,354,534
Share based compensation	40,320	52,694	218,474	282,163
Interest and financing costs	2,083,914	2,723,596	5,617,560	7,245,260
Loss on sale of portfolio investment	—	—	—	224,212
Fair value adjustment - portfolio investment	—	—	173,646	—
Provision on loan and mortgage investments	2,301,143	3,000,000	2,301,143	3,000,000
Provision for uncollectible receivables	(123,767)	(161,355)	(123,767)	(161,355)
Realized and unrealized foreign exchange gain	675,783	855,929	(796,204)	(1,025,271)
	5,576,217	7,253,638	9,255,900	11,971,451
Income from operations before income taxes	(1,917,859)	(2,472,400)	438,584	532,371
Income tax expense	(467,396)	(594,193)	195,499	251,744
Net income and comprehensive income	\$ (1,450,463)	\$ (1,878,207)	\$ 243,085	\$ 280,627
Net income (loss) and comprehensive income (loss) attributable to:				
Common shareholders	\$ (1,450,463)	\$ (1,878,207)	\$ 292,414	\$ 335,268
Non-controlling interest	—	—	(49,329)	(54,641)
Net income and comprehensive income	\$ (1,450,463)	\$ (1,878,207)	\$ 243,085	\$ 280,627

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

	Year ended	
	December 31, 2018 USD	December 31, 2018 CAD
Revenue:		
Interest and fees earned	\$ 13,292,451	\$ 17,258,558
Rental income	155,720	201,772
	<u>13,448,171</u>	<u>17,460,330</u>
Expenses:		
Property operating costs	53,427	69,228
General and administrative	2,775,430	3,617,616
Share based compensation	(15,828)	(27,444)
Interest and financing costs	7,947,282	10,322,969
Loss on sale of portfolio investment	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 gain	(3,034,987)	(3,933,646)
	<u>10,379,679</u>	<u>13,520,268</u>
Income from operations before income taxes	3,068,492	3,940,062
Income tax expense	902,038	1,169,131
Net income and comprehensive income	<u>\$ 2,166,454</u>	<u>\$ 2,770,931</u>
Net income (loss) and comprehensive income (loss) attributable to:		
Common shareholders	\$ 2,215,783	\$ 2,825,572
Non-controlling interest	(49,329)	(54,641)
Net income and comprehensive income	<u>\$ 2,166,454</u>	<u>\$ 2,770,931</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

For comparative purposes, the consolidated statements of cash flows for the nine months ended September 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:

	Three months ended		Nine months ended	
	September 30, 2018 USD	September 30, 2018 CAD	September 30, 2018 USD	September 30, 2018 CAD
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ (1,450,463)	\$ (1,878,207)	\$ 243,085	\$ 280,627
Interest and fees earned	(3,619,761)	(4,730,797)	(9,576,938)	(12,352,493)
Interest expense and financing costs	2,083,914	2,723,596	5,617,560	7,245,260
Unrealized foreign exchange loss (gain)	876,889	774,062	(753,346)	(970,084)
Non-cash items:				
Share-based compensation (note 16(e))	40,320	52,694	218,474	282,163
Loss on sale of portfolio investment	–	–	173,646	224,212
Provision for loan and mortgage investments loss	2,301,143	3,000,000	2,301,143	3,000,000
Provision for uncollectible receivables	(123,767)	(161,355)	(123,767)	(161,355)
Income tax provision	(467,396)	(594,193)	195,499	251,744
Changes in working capital:				
Decrease (increase) in other receivables	(276,024)	(411,707)	(244,329)	(314,573)
Decrease (increase) in prepaid expenses and deposits	1,117	3,864	(6,933)	(18,634)
Increase in accounts payable and accrued liabilities	2,666,140	3,626,507	2,689,037	3,743,725
Interest and fees received	2,332,190	3,088,184	6,099,523	7,891,826
Interest paid	(2,271,297)	(2,953,711)	(5,334,893)	(6,879,469)
Income taxes paid	444,788	582,522	78,367	106,514
	2,537,793	3,121,459	1,576,128	2,329,463
Financing activities:				
Proceeds from loan and mortgage syndications	14,578,698	19,036,061	37,292,928	48,005,160
Repayments of loan and mortgage syndications	(2,998,845)	(3,912,810)	(8,689,055)	(11,194,943)
Repayments of mortgages payable	(8,364)	(10,992)	(25,585)	(32,729)
Proceeds from credit facilities	883,951	1,156,296	883,951	1,156,296
Disposition of non-controlling interest	–	–	(153,233)	(200,000)
Proceeds from issuance of shares pursuant to share options plan	–	–	22,544	28,800
Repurchase of shares pursuant to normal course issuer bid	(420,396)	(553,019)	(1,244,208)	(1,594,384)
	12,035,044	15,715,536	28,087,342	36,168,200

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2018	2018	2018
	USD	CAD	USD	CAD
Investing activities:				
Funding of loan and mortgage investments	(19,715,607)	(25,774,690)	(49,374,369)	(63,706,360)
Repayments of loan and mortgage investments	5,605,273	7,300,909	16,901,280	21,727,908
Funding of investment in finance leases	–	–	(1,992,096)	(2,505,858)
Increase in funds held in trust	(2,278,222)	(2,826,404)	(2,294,894)	(2,820,567)
Proceeds from redemption of portfolio investment	–	–	727,858	950,000
Proceeds from sale of interest in portfolio investment	61,000	78,406	61,000	78,406
Return of capital of portfolio investment	–	–	7,821,268	9,807,285
	(16,327,556)	(21,221,779)	(28,149,953)	(36,469,186)
Increase in cash and cash equivalents	(1,754,719)	(2,384,784)	1,513,517	2,028,477
Cash and cash equivalents, beginning of period	5,410,202	7,104,310	2,141,966	2,691,049
Cash and cash equivalents, end of period	\$ 3,655,483	\$ 4,719,526	\$ 3,655,483	\$ 4,719,526

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

	Year ended	
	December 31, 2018 USD	December 31, 2018 CAD
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 2,166,454	\$ 2,770,931
Interest and fees earned	(13,292,451)	(17,258,558)
Interest expense and financing costs	7,947,282	10,322,969
Unrealized foreign exchange loss (gain)	(3,230,913)	(3,565,531)
Non-cash items:		
Share-based compensation (note 16(e))	(15,828)	(27,444)
Loss on sale of portfolio investment	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	902,038	1,169,131
Changes in working capital:		
Increase in other receivables	(482,855)	(669,494)
Increase in prepaid expenses and deposits	41,235	39,292
Increase in accounts payable and accrued liabilities	223,204	475,715
Interest and fees received	8,862,839	11,484,860
Interest paid	(7,238,873)	(9,386,967)
Income taxes paid	78,367	106,514
	(1,385,148)	(1,067,037)
Financing activities:		
Proceeds from loan and mortgage syndications	40,424,380	52,103,952
Repayments of loan and mortgage syndications	(15,143,072)	(19,591,954)
Repayments of mortgages payable	(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)
Proceeds from issuance of shares pursuant to share options plan	22,544	28,800
Repurchase of shares pursuant to normal course issuer bid	(2,390,442)	(3,109,488)
	28,582,144	36,960,860

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

## 26. Effect of change in presentation currency (continued):

	Year ended	
	December 31, 2018 USD	December 31, 2018 CAD
Investing activities:		
Funding of loan and mortgage investments	(56,851,087)	(73,491,392)
Repayments of loan and mortgage investments	28,237,829	36,661,641
Funding of investment in finance leases	(2,865,999)	(3,675,053)
Decrease (increase) in funds held in trust	1,261,548	1,627,530
Proceeds from redemption of portfolio investment	727,858	950,000
Proceeds from sale of interest in portfolio investment	61,000	78,406
Return of capital of portfolio investment	7,821,268	9,807,285
	<u>(21,607,583)</u>	<u>(28,041,583)</u>
Increase in cash and cash equivalents	5,589,413	7,852,240
Cash and cash equivalents, beginning of period	2,141,966	2,691,049
Cash and cash equivalents, end of period	\$ 7,731,379	\$ 10,543,289

## 27. Recast of comparative figures:

During the three months ended September 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 September 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 the effect of change in presentation currency described above, 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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2019 and 2018  
(Unaudited)

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**28. Subsequent event:**

On November 13, 2019, the Board declared a quarterly dividend of CAD\$0.05 per common share, payable on January 15, 2020, to shareholders of record as of the close of business on December 31, 2019.