



Interim Condensed Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 3,827,770	\$ 1,931,451
Funds held in trust (note 11)	8,784,056	1,805,229
Amounts receivable and prepaid expenses (note 4)	554,868	1,520,698
Loan and mortgage investments (note 5)	98,346,037	116,212,642
Investment in finance leases (note 6)	16,967,029	17,959,374
Portfolio investments (note 7)	2,052,729	2,042,937
Investment in associates (note 8)	2,980,175	3,097,947
Investment property held in joint operations (note 9(b))	1,658,303	1,700,303
Convertible note receivable (note 10)	938,496	800,531
Right-of-use asset (note 14)	1,066,297	912,436
Income taxes recoverable	—	247,719
	\$ 137,175,760	\$ 148,231,267

Liabilities and Shareholders' Equity

Liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 10,478,362	\$ 5,344,792
Unearned income	657,327	692,264
Income taxes payable (note 21)	603,947	—
Deferred income taxes payable (note 21)	448,773	450,017
Unsecured note payable (note 12)	2,733,173	3,000,000
Credit facilities (note 13)	10,128,881	8,878,839
Lease obligations (note 14)	1,079,271	913,129
Loan and mortgage syndications (note 5)	69,502,067	88,249,414
Mortgages payable (note 9(c))	1,016,794	1,067,440
	96,648,595	108,595,895
Shareholders' equity:		
Share capital (note 16(b))	25,283,343	25,283,343
Contributed surplus (note 17)	3,618,440	3,440,695
Foreign currency translation reserve	(6,885,398)	(6,885,398)
Retained earnings	18,510,780	17,796,732
Shareholders' equity	40,527,165	39,635,372
Commitments and contingencies (note 15)		
	\$ 137,175,760	\$ 148,231,267

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

Approved by the Board on November 17, 2020 and signed on its behalf by:

"Seymour Temkin" _____ Director

"Dov Meyer" _____ Director

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(In United States dollars)

(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue:				
Interest and fees	\$ 3,435,583	\$ 3,588,715	\$ 9,758,997	\$ 10,956,383
Finance income (note 6)	635,267	536,761	2,003,692	956,459
Rental (note 9(a))	38,384	38,211	111,678	113,876
	4,109,234	4,163,687	11,874,367	12,026,718
Expenses (income):				
Property operating costs (note 9(a))	13,538	13,156	40,014	39,192
General and administrative	617,904	670,802	2,088,758	2,246,161
Share-based compensation (recovery) (note 16(e))	69,541	(61,292)	(26,048)	353,574
Interest and financing costs (note 20)	1,990,122	2,384,399	6,355,180	6,738,648
Provision for uncollectible receivable (note 4)	–	–	161,428	–
Provision for (recovery of) loan and mortgage investment loss (note 5)	(17,767)	–	899,204	(151,900)
Share of loss from investment in associates	257,929	–	172,592	–
Realized and unrealized foreign exchange loss (gain)	(189,833)	(88,171)	246,419	(42,016)
	2,741,434	2,918,894	9,937,547	9,183,659
Income from operations before income taxes	1,367,800	1,244,793	1,936,820	2,843,059
Income tax expense (note 21)	242,203	215,934	613,625	649,581
Net income and comprehensive income	\$ 1,125,597	\$ 1,028,859	\$ 1,323,195	\$ 2,193,478
Earnings per share (note 18):				
Basic	\$ 0.20	\$ 0.18	\$ 0.24	\$ 0.38
Diluted	0.20	0.18	0.24	0.38

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, 2020 and 2019
(Unaudited)

	Share capital		Foreign Currency translation reserve	Contributed surplus	Retained earnings	Total shareholders' equity	Non- controlling interest	Total equity
	Number of shares	Amount						
	(note 16(a) and (b))			(note 17)				
Balance, December 31, 2018 (as restated - note 2(c))	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
Changes during the period:								
Share-based compensation	-	-	-	25,871	-	25,871	-	25,871
Net income and comprehensive income	-	-	-	-	884,279	884,279	-	884,279
Dividends on common shares	-	-	-	-	(142,863)	(142,863)	-	(142,863)
Balance, December 31, 2019	5,564,968	25,283,343	(6,885,398)	3,440,695	17,796,732	39,635,372	-	39,635,372
Changes during the period:								
Share-based compensation	-	-	-	177,745	-	177,745	-	177,745
Net income and comprehensive income	-	-	-	-	1,323,195	1,323,195	-	1,323,195
Dividends on common shares	-	-	-	-	(609,147)	(609,147)	-	(609,147)
Balance, September 30, 2020	5,564,968	\$ 25,283,343	\$ (6,885,398)	\$ 3,618,440	\$ 18,510,780	\$ 40,527,165	\$ -	\$ 40,527,165

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ 1,125,597	\$ 1,028,859	\$ 1,323,195	\$ 2,193,478
Interest and fees earned	(3,435,583)	(3,588,715)	(9,758,997)	(10,956,383)
Finance income earned	(635,267)	(536,761)	(2,003,692)	(956,459)
Interest expense and financing costs	1,990,122	2,384,399	6,355,180	6,738,648
Unrealized foreign exchange loss (gain)	(162,386)	(116,064)	228,065	(42,016)
Share of loss from investment in associates	257,929	–	172,592	–
Non-cash items:				
Share-based compensation (note 16(e))	69,541	(61,292)	(26,048)	353,574
Amortization of right-of-use asset	43,191	42,943	127,479	127,279
Provision for uncollectible receivable	–	–	161,428	–
Provision for (recovery of) loan and mortgage investment loss	(17,767)	–	899,204	(151,900)
Income tax provision	242,203	215,934	613,625	649,581
Changes in working capital:				
Decrease (increase) in other receivables	(195,631)	159,072	(99,093)	312,937
Decrease (increase) in prepaid expenses and deposits	(4,244)	35,709	(16,960)	(11,033)
Increase (decrease) in accounts payable and accrued liabilities	6,594,460	(2,633,529)	7,682,474	365,866
Interest and fees and finance income received	6,248,549	4,113,016	12,851,226	9,209,642
Distribution from associates	8,751	–	26,253	–
Interest paid	(1,819,495)	(1,569,452)	(5,276,416)	(5,031,158)
Income taxes refunded (paid)	91,941	(389,600)	236,797	(645,399)
Cash provided by (used in) operating activities	10,401,911	(915,481)	13,496,312	2,156,657
Financing activities:				
Proceeds from loan and mortgage syndications	15,215,534	29,814,500	15,351,630	42,758,437
Repayments of loan and mortgage syndications	(20,181,133)	(16,244,921)	(35,307,398)	(36,949,837)
Repayments of mortgages payable	(8,750)	(8,453)	(25,663)	(25,397)
Payments on lease obligations	(43,400)	(41,493)	(127,838)	(126,647)
Proceeds from unsecured note payable	–	3,000,000	–	3,000,000
Repayment of unsecured note payable	(266,827)	–	(266,827)	–
Proceeds from credit facilities	14,000,000	4,728,639	20,270,423	10,576,668
Repayment of credit facilities	(8,756,762)	(6,046,608)	(19,041,103)	(13,906,152)
Dividends paid	(206,125)	–	(616,668)	–
Repurchase of shares pursuant to normal course issuer bid	–	(151,841)	–	(1,250,607)
Cash provided by (used in) financing activities	(247,463)	15,049,823	(19,763,444)	4,076,465
Investing activities:				
Funding of loan and mortgage investments	(28,368,296)	(30,267,880)	(29,500,819)	(40,210,186)
Repayments of loan and mortgage investments	17,373,312	19,163,086	43,873,777	52,516,439
Funding of investment in finance leases	(5,552,675)	(6,260,141)	(19,674,806)	(20,020,588)
Proceeds from sale of finance leases	7,657,258	3,908,012	20,512,845	4,725,945
Funding of investment in convertible note receivable	(94,402)	–	(94,402)	(752,349)
Recovery of loan and mortgage investments previously written-off	238,824	–	238,824	–
Funding of portfolio investment	–	(1,782,814)	(59,243)	(3,866,866)
Funding of investment in associates	–	–	(136,647)	–
Decrease (increase) in funds held in trust	(6,074,396)	1,051,291	(6,996,078)	(2,429,767)
Proceeds from sale of interest in portfolio investment	–	–	–	18,000
Cash provided by (used in) investing activities	(14,820,375)	(14,188,446)	8,163,451	(10,019,372)
Increase (decrease) in cash and cash equivalents	(4,665,927)	(54,104)	1,896,319	(3,786,250)
Cash and cash equivalents, beginning of period	8,493,697	3,999,233	1,931,451	7,731,379
Cash and cash equivalents, end of period	\$ 3,827,770	\$ 3,945,129	\$ 3,827,770	\$ 3,945,129

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

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") under the symbol TII. The registered office of the Company is located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the U.S. 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 5,564,968 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:

The unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 (the "Financial Statements") of the Company have been prepared by management in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The preparation of the Financial Statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as well as Interpretations of International Financial Reporting Interpretations Committee. The 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, 2019 (the "2019 Annual Financial Statements").

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

2. Basis of presentation (continued):

(b) Basis of consolidation:

The Company holds certain of its loan and mortgage investments, interest in joint operations, and portfolio investments in its wholly-owned subsidiaries 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 USA III Corporation (100% owned), TFCC Saul's Ranch LLC (100% owned), TFCC Wilson Trace LLC (100% owned), TFCC Delray Inc. (the "TF Delray") (100% owned), TFCC San Pablo LLC (100% owned), TFCC Stafford LLC (100% owned), TFCC Dunn's Crossing LLC (100% owned), TFCC Jacksonville LLC (100% owned), Terra Firma Queen Developments Inc. (100% owned), Terra Firma Capital (Hill) Corporation (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:

The Financial Statements are presented in U.S. dollars ("USD"), which is also the Company's functional currency.

Prior to January 1, 2019, the functional and presentation currency of the Company, was the Canadian dollar ("CAD"). The exchange rates used in translation as at December 31, 2018 was \$0.7332, and the average rate for the year ended December 31, 2018 was \$0.7716.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

3. Significant accounting policies:

The Financial Statements have been prepared using the same accounting policies and methods as were used for the Company's 2019 Annual Financial Statements, except as noted below:

Changes in accounting policies:

Amendments to References to the Conceptual Framework in IFRS Standards:

On March 29, 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the "Framework") that underpins IFRS standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards to update references in IFRS standards to previous versions of the Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

The Company has adopted the amendments in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's Financial Statements.

Definition of Material (Amendments to IAS 1 and IAS 8):

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

The definition of material has been aligned across IFRS Standards and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Company has adopted the amendments to IAS 1 and IAS 8 in its financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's Financial Statements.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(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, 2020:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 190,078	\$ –	\$ 190,078
Other receivables	296,084	–	296,084
Prepaid expenses and deposits	68,706	–	68,706
Amounts receivable and prepaid expenses	\$ 554,868	\$ –	\$ 554,868

During the nine months ended September 30, 2020 and 2019, the Company recorded an additional provision for credit losses of \$161,428 and nil, respectively and wrote-off \$351,403 and nil, respectively, relating to legal fees incurred on the collection of loan investment to a project located in Canada that was in arrears.

The following table presents details of the amount receivable, ACL and prepaid expenses as at December 31, 2019:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 608,049	\$ –	\$ 608,049
Other receivables	1,064,556	(202,684)	861,872
Prepaid expenses and deposits	50,777	–	50,777
Amounts receivable and prepaid expenses	\$ 1,723,382	\$ (202,684)	\$ 1,520,698

At June 30, 2020, a first mortgage loan investment to a project located in the U.S. (the "U.S. Project") is in arrears. As at September 30, 2020, interest receivable and other receivables relating to legal fees incurred on collecting the loan totaling \$68,496 relating to this loan investment is in arrears.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

4. Amounts receivable and prepaid expenses (continued):

The changes in the ACL on amounts receivable during the nine months ended September 30, 2020 were as follows:

	Balance at December 31, 2019	Provision for credit losses/ recovery	Net write offs	Foreign exchange	Balance at September 30, 2020
Other receivables	\$ 202,684	\$ 161,428	\$ (351,403)	\$ (12,709)	\$ -

At December 31, 2019, a second mortgage loan investment to a project located in Canada (the "Canada Project") was in arrears. During the nine months ended September 30, 2020, the Company determined that the other receivables relating to this loan investment to be uncollectible and recorded an additional provision for uncollectible receivable of \$161,428 and after recognizing a foreign exchange loss of \$10,799, wrote-off \$351,403 of other receivables.

Interest and other receivable balance at September 30, 2020 and December 31, 2019, include a non-current balance of \$156,234 and \$28,552, respectively. The current interest and other receivables are due in the next 12 months in accordance with contract terms.

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

As at September 30, 2020 and December 31, 2019, the Company had principal balances of loan and mortgage investments of \$99,110,556 and \$116,820,582, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 12.9% (December 31, 2019 - 13.2%) and a weighted average term to maturity of 1.73 years (December 31, 2019 - 1.37 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 and comprehensive income.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

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 investments at September 30, 2020 and December 31, 2019 were \$69,502,067 and \$88,249,414, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.0% (December 31, 2019 - 9.6%) and a weighted average term to maturity of 1.71 years (December 31, 2019 - 1.46 years).

At September 30, 2020, the Company has a loan and mortgage investment totaling \$15,926,870 (December 31, 2019 - \$11,757,000) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$8,401,301 (December 31, 2019 - \$7,000,000) and the remainder of the investment is in a subordinated position of \$7,525,569 (December 31, 2019 - \$4,757,000). The Company syndicated its position on a pari-passu basis with certain syndicate investors for \$4,350,000 (December 31, 2019 - \$4,350,000) and retains a residual portion of \$3,175,569 (December 31, 2019 - \$407,000).

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at September 30, 2020:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	\$ 27,607,893	\$ (10,317)	\$ 27,597,576	\$ 15,845,519	\$ 11,752,057	40.8
Land and lot inventory	66,747,663	(400,439)	66,347,224	49,606,548	16,740,676	58.0
	94,355,556	(410,756)	93,944,800	65,452,067	28,492,733	98.8
Impaired loans:						
Commercial retail developments	4,755,000	(353,763)	4,401,237	4,050,000	351,237	1.2
	\$ 99,110,556	\$ (764,519)	\$ 98,346,037	\$ 69,502,067	\$ 28,843,970	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, 2020 and 2019
(Unaudited)

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

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 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	\$ 37,965,218	\$ (117,776)	\$ 37,847,442	\$ 21,238,552	\$ 16,608,890	59.4
Land and lot inventory	71,996,517	(259,435)	71,737,082	62,960,862	8,776,220	31.4
Commercial retail development	4,755,000	(4,621)	4,750,379	4,050,000	700,379	2.5
	114,716,735	(381,832)	114,334,903	88,249,414	26,085,489	93.3
Impaired loans:						
Residential housing developments	2,103,847	(226,108)	1,877,739	–	1,877,739	6.7
	\$ 116,820,582	\$ (607,940)	\$ 116,212,642	\$ 88,249,414	\$ 27,963,228	100.0

As at September 30, 2020, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 24.2%, 19.4% and 16.1% of the principal balance of loan and mortgage investments. For the nine months ended September 30, 2020, the Company has loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 22.0% and 12.6% of the Company's interest and fees revenue. 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, 2019, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 19.1%, 13.9% and 10.1% of the principal balance of loan and mortgage investments.

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, 2020, the Company capitalized interest income of \$1,030,804 and \$3,278,147, respectively, (2019 - \$1,216,808 and \$3,772,167, respectively), which is included in loan and mortgage investments.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(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, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at September 30, 2020 were \$9,781,907, including no capitalization of future interest relating to existing loan and mortgage investments (December 31, 2019 - \$34,355,724, including \$651,602 of capitalization of future interest relating to existing loan and mortgage investments). As at September 30, 2020, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 86.1% and 12.9% of the total unfunded commitments. As at December 31, 2019, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 39.3% and 36.6% of the total unfunded commitments.

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 risk as at September 30, 2020:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	\$ 94,622,492	\$ (758,094)	\$ 93,864,398	\$ 66,707,743	\$ 27,156,655	94.1
2nd mortgage loans	3,054,813	(5,759)	3,049,054	2,794,324	254,730	0.9
Unregistered loans	1,433,251	(666)	1,432,585	–	1,432,585	5.0
	\$ 99,110,556	\$ (764,519)	\$ 98,346,037	\$ 69,502,067	\$ 28,843,970	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, 2020 and 2019
(Unaudited)

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

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at September 30, 2020:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 3,054,813	\$ (5,759)	\$ 3,049,054	\$ 2,794,324	\$ 254,730	0.9
U.S.	96,055,743	(758,760)	95,296,983	66,707,743	28,589,240	99.1
	\$ 99,110,556	\$ (764,519)	\$ 98,346,037	\$ 69,502,067	\$ 28,843,970	100.0

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	\$ 102,493,573	\$ (325,450)	\$ 102,168,123	\$ 79,285,569	\$ 22,882,554	81.8
2nd mortgage loans	12,083,100	(56,382)	12,026,718	8,963,845	3,062,873	11.0
Unregistered loans	2,243,909	(226,108)	2,017,801	–	2,017,801	7.2
	\$ 116,820,582	\$ (607,940)	\$ 116,212,642	\$ 88,249,414	\$ 27,963,228	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, 2019:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 14,186,947	\$ (282,490)	\$ 13,904,457	\$ 8,963,845	\$ 4,940,612	17.7
U.S.	102,633,635	(325,450)	102,308,185	79,285,569	23,022,616	82.3
	\$ 116,820,582	\$ (607,940)	\$ 116,212,642	\$ 88,249,414	\$ 27,963,228	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, 2020 and 2019
(Unaudited)

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

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments by staging as at September 30, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 27,607,893	\$ -	\$ -	\$ 27,607,893
Land and lot inventory	66,747,663	-	-	66,747,663
Commercial retail development	-	-	4,755,000	4,755,000
	\$ 94,355,556	\$ -	\$ 4,755,000	\$ 99,110,556

The following table presents details of the Company's credit exposure on the carrying amount of loan and mortgage investments, net of loan syndication, for which ACL is recognized as at September 30, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 11,762,374	\$ -	\$ -	\$ 11,762,374
Land and lot inventory	17,141,115	-	-	17,141,115
Commercial retail development	-	-	705,000	705,000
	\$ 28,903,489	\$ -	\$ 705,000	\$ 29,608,489

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments by staging as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 37,965,218	\$ -	\$ 2,103,847	\$ 40,069,065
Land and lot inventory	71,996,517	-	-	71,996,517
Commercial retail development	4,755,000	-	-	4,755,000
	\$ 114,716,735	\$ -	\$ 2,103,847	\$ 116,820,582

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments segmented by geography, for which ACL is recognized as at September 30, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 3,054,813	\$ –	\$ –	\$ 3,054,813
U.S.	91,300,743	–	4,755,000	96,055,743
	\$ 94,355,556	\$ –	\$ 4,755,000	\$ 99,110,556

The following table presents details of the Company's credit exposure on the carrying amount of loan and mortgage investments net of syndication, segmented by geography, for which ACL is recognized as at September 30, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 260,489	\$ –	\$ –	\$ 260,489
U.S.	28,643,000	–	705,000	29,348,000
	\$ 28,903,489	\$ –	\$ 705,000	\$ 29,608,489

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments by staging, segmented by geography, as at December 31, 2019:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 12,083,100	\$ –	\$ 2,103,847	\$ 14,186,947
U.S.	102,633,635	–	–	102,633,635
	\$ 114,716,735	\$ –	\$ 2,103,847	\$ 116,820,582

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2020, remainder of year	\$ –	\$ 7,968,429	\$ 7,968,429
2021	–	23,747,772	23,747,772
2022	–	44,716,106	44,716,106
2023	–	21,245,000	21,245,000
2024	–	1,433,249	1,433,249
	\$ –	\$ 99,110,556	\$ 99,110,556

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
2020, remainder of year	\$ –	\$ 7,131,819	\$ 7,131,819
2021	–	12,096,112	12,096,112
2022	–	35,586,197	35,586,197
2023	–	14,687,939	14,687,939
	\$ –	\$ 69,502,067	\$ 69,502,067

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

Allowance for loan and mortgage investments loss:

At September 30, 2020, a first mortgage loan investment to the U.S. Project, totaling \$4,823,496, including interest receivable on this loan and mortgage investment and fees incurred relating to collecting this loan and mortgage investment totaling \$68,496, is in arrears. The syndicate investors' share of this loan investment and interest and other receivable is \$4,101,739. The Company's share of loan investment and interest and other receivables, net of syndication, is \$721,757. The Company has commenced the foreclosure process to enforce the security and liquidate this loan investment and related receivables. During the nine months ended September 30, 2020, the Company recorded a net provision for loan losses of \$349,141 relating to this loan investment. As at September 30, 2020, based on the most recent valuations of the underlying assets and management's estimates, the Company carries a net ACL balance of \$353,762 relating to this loan investment.

At December 31, 2019, a second mortgage loan investment to the Canada Project totaling \$2,478,759, including interest receivable on this loan and mortgage investment and fees incurred relating to collecting this loan and mortgage investment totaling \$374,911, was in arrears. As at December 31, 2019, based on the most recent valuations of the underlying assets and management's estimates, the Company carried an ACL balance totaling \$226,108 against this loan investment and \$202,684 against the other receivables relating to this loan and mortgage investment. During the six months ended June 30, 2020, the Company received repayment of \$1,030,397 of loan and mortgage investment, determined that the remainder of the loan and mortgage investment be uncollectible and recorded an additional provision for loan losses of \$755,698, recognized a foreign exchange loss of \$92,441 and wrote-off the loan investment balance of \$981,806.

On September 30, 2020, the Company received proceeds of \$238,824 relating to loan and mortgage investment from the Canada Project that was previously written-off.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

The following table presents the changes to the loan and mortgage investment to the Canada Project, during the nine months ended September 30, 2020:

	Loan and mortgage investments	Other receivables	Total amount in arrears	ACL - loan and mortgage investments	ACL - other receivables	ACL total	Net amounts in arrears
Balance, December 31, 2019	\$ 2,103,848	\$ 374,911	\$ 2,478,759	\$ 226,108	\$ 202,684	\$ 428,792	\$ 2,049,967
Foreign exchange loss recognized	(91,645)	(23,508)	(115,153)	—	(12,709)	(12,709)	(102,444)
Repayment of loan investment	(1,030,397)	—	(1,030,397)	—	—	—	(1,030,397)
Provision for losses	—	—	—	755,698	161,428	917,126	(917,126)
Amount written off	(981,806)	(351,403)	(1,333,209)	(981,806)	(351,403)	(1,333,209)	—
Balance, June 30, 2020	—	—	—	—	—	—	—
Repayment of loan investment	—	—	—	238,824	—	238,824	(238,824)
Provision for (recovery of) loan investment loss	—	—	—	(238,824)	—	(238,824)	238,824
Balance, September 30, 2020	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

During the three and nine months ended September 30, 2020, the Company recorded a recovery of collective credit losses of \$70,349 and provision for collective credit losses of \$33,546, respectively, relating to loan and mortgage investments. During the three months ended September 30, 2019, the Company recorded no collective credit losses. During the nine months ended September 30, 2019, the Company recorded a recovery of collective credit losses of \$151,900, relating to 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, 2020 and 2019
(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, 2020 were as follows:

	Balance at January 1, 2020	IFRS 9		Balance at September 30, 2020
		Provision for credit losses	Net write offs	
Residential housing developments	\$ 343,884	\$ 409,059	\$ (742,625)	\$ 10,318
Land and lot inventory	259,435	141,004	–	400,439
Commercial retail development	4,621	349,141	–	353,762
	\$ 607,940	\$ 899,204	\$ (742,625)	\$ 764,519

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	\$ 381,832	\$ –	\$ 226,108	\$ 607,940
Provision for credit losses:	33,546	–	865,658	899,204
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	(4,621)	–	4,621	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	(981,449)	(981,449)
Recoveries	–	–	238,824	238,824
Balance, end of period	\$ 410,757	\$ –	\$ 353,762	\$ 764,519

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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

The following table presents details of the Company's ACL on loan and mortgage investments as at September 30, 2020:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 10,318	\$ –	\$ –	\$ 10,318
Land and lot inventory	400,439	–	–	400,439
Commercial retail development	–	–	353,762	353,762
	\$ 410,757	\$ –	\$ 353,762	\$ 764,519

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at September 30, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 5,759	\$ –	\$ –	\$ 5,759
U.S.	404,998	–	353,762	758,760
	\$ 410,757	\$ –	\$ 353,762	\$ 764,519

6. Investment in finance leases:

The Company is a party to fixed term contractual arrangements with builders whereby the Company acquires land for residential housing development from a third party and provides builders with the exclusive right to use and develop the land. The Company is also a party to 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 making 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.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

6. Investment in finance leases (continued):

As at September 30, 2020, the Company had seven such arrangements with builders (December 31, 2019 - four). 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 13.8% per annum and the weighted average term of the leases is 2.1 years. The unearned finance income at September 30, 2020 was \$154,343 (December 31, 2019 - \$96,454).

The finance income recognized from finance leases for three and the nine months ended September 30, 2020 of \$635,267 and \$2,003,692, respectively, is included in the finance income in the interim condensed consolidated statements of income and comprehensive income (2019 - \$536,607 and \$956,459).

The following table summarizes the changes in the investment in finance leases for the nine months ended September 30, 2020 and 2019:

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
<hr/>	
Balance, September 30, 2019	17,967,041
Investment made	3,497,674
Investments sold	(3,556,204)
Lease payments received	(489,972)
Finance income recognized	540,835
<hr/>	
Balance, December 31, 2019	17,959,374
Investment made	19,674,806
Investments sold	(20,512,845)
Lease payments received	(2,157,998)
Finance income recognized	2,003,692
<hr/>	
Balance, September 30, 2020	\$ 16,967,029

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(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	\$ 2,526,525	\$ 2,190,764	\$ 335,761
Greater than one year but less than 5 years	19,200,921	2,569,653	16,631,268
	<u>\$ 21,727,446</u>	<u>\$ 4,760,417</u>	<u>\$ 16,967,029</u>

7. Portfolio investments:

The following table presents details of the portfolio investments as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Investment in the LanQueen Partnership	\$ 1,952,485	\$ 2,001,936
Investment in the Savannah Partnership	100,243	41,000
Investment in the Valermo Partnership	1	1
	<u>\$ 2,052,729</u>	<u>\$ 2,042,937</u>

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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(Unaudited)

7. Portfolio investments (continued):

- (a) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment 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, 2020, TFCC LanQueen Ltd. contributed \$1,264,208 (December 31, 2019 - \$1,264,208) to the partnership. At September 30, 2020 and December 31, 2019, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at September 30, 2020 and December 31, 2019 was \$1,952,485 and \$2,001,936, 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. As at December 31, 2019, the cost of the investment in the Savannah Partnership is \$41,000. During the nine months ended September 30, 2020, TFCC International Ltd. contributed \$59,243 to the Savannah Partnership. At September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 was \$100,243 and \$41,000, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

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, 2020, TFCC International Ltd. funded a loan and mortgage investment of \$18,000,000 (December 31, 2019 - \$18,000,000) and at September 30, 2020, the Company syndicated \$14,309,761 of the loan and mortgage investment to investors (December 31, 2019 - \$14,296,084).

- (c) The Company, through Terra Firma Valermo Corporation ("TFVC") has a limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have a significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2019, 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, 2020 was \$1 (December 31, 2019 - \$1).

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2020 and 2019:

Balance, December 31, 2018	\$ 1,911,574
Investment funded	3,866,866
Sale of investment	(18,000)
Foreign exchange	57,856
Balance, September 30, 2019	5,818,296
Transferred to investment in associates	(3,866,866)
Fair value adjustment	56,124
Foreign exchange	35,383
Balance, December 31, 2019	2,042,937
Investment funded	59,243
Fair value adjustment	—
Foreign exchange	(49,451)
Balance, September 30, 2020	\$ 2,052,729

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three and nine months ended September 30, 2020 and 2019
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8. Investment in associates:

The following table presents details of the investment in associates as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Investment in the Lan Partnership	\$ 1,859,173	\$ 2,227,442
Investment in the TF Royal Palm	1,121,002	870,505
Balance, September 30, 2020	\$ 2,980,175	\$ 3,097,947

- (a) The Company and certain syndicate investors invested in a 668-unit high-rise condominium development project located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). At September 30, 2020 and December 31, 2019, the Company's share of the investment in the Lan Partnership, was CAD \$2,315,514.

During the three months ended September 30, 2020, the Lan Partnership reduced the value of its investment in the high-rise condominium development project and the Company recorded a reduction of income earned (loss from investment in associates) of \$312,693 for the three and nine months ended September 30, 2020.

At September 30, 2020 and December 31, 2019, 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, 2020 and December 31, 2019 was \$1,859,173 and \$2,227,442, respectively.

- (b) The Company, through Royal Palm Beach Preferred Investment LLC (the "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, an annual project management fee of \$70,000, and a preferred return on the amount of its investment in the limited liability company. The Company accounts for its investment in TF Royal Palm as an investment in associates using the equity method of accounting. During the three and nine months ended September 30, 2020, the Company recorded income of \$54,764 and \$140,101, respectively, and received distributions of \$8,751 and \$26,253, respectively from TF Royal Palm. The fair value of the investment at September 30, 2020 was \$1,121,002 (December 31, 2019 - \$870,505).

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
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8. Investment in associates (continued):

During the three and nine months ended September 30, 2020, the Company incurred a share of loss from investments associates of \$257,929 and \$172,592, respectively (2019 – nil and nil, respectively).

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2020 and 2019:

Balance, December 31, 2018	\$ 2,146,984
Balance, September 30, 2019	2,146,984
Investment funded	5,143,953
Sale of investment to investors	(4,280,600)
Income earned	356,435
Distributions received	(375,662)
Foreign exchange	106,837
Balance, December 31, 2019	3,097,947
Investment funded	136,647
Loss incurred	(172,592)
Distributions received	(26,253)
Foreign exchange	(55,574)
Balance, September 30, 2020	\$ 2,980,175

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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9. Joint arrangements:

(a) Interests in joint operations:

The Company's interests in the following property is 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 and developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20-year land lease, with five renewal options of five years each. The 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, 2020	December 31, 2019
Assets		
Cash and cash equivalents	\$ 81,054	\$ 54,031
Amounts receivable and prepaid expenses	81,478	83,965
Investment property	1,658,303	1,700,303
Right-of-use asset	677,725	739,123
	<u>2,498,560</u>	<u>2,577,422</u>
Liabilities		
Accounts payable and prepaid expenses	34,853	35,772
Mortgages payable	1,016,794	1,067,440
Lease obligations	690,400	739,123
	<u>1,742,047</u>	<u>1,842,335</u>
Net assets	\$ 756,513	\$ 735,087

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

9. Joint arrangements (continued):

The table below details the results of operations for the three and nine months ended September 30, 2020 and 2019, attributable to the Company from its joint operations:

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2020	2019	2020	2019
Revenue:				
Rental revenue	\$ 38,384	\$ 38,211	\$ 111,678	\$ 113,876
Expenses (income):				
Property operating costs	13,538	13,156	40,014	39,192
General and administrative	163	3,484	(1,277)	2,863
Interest	11,361	3,958	33,988	20,326
	25,062	20,598	72,725	62,381
Net income	\$ 13,322	\$ 17,613	\$ 38,953	\$ 51,495

(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, 2020 and December 31, 2019, 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, 2019 - 6.25%). At September 30, 2020 and December 31, 2019, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$1,658,303 (CAD \$2,208,694) and \$1,700,303 (CAD \$2,208,694), respectively.

As at September 30, 2020 and December 31, 2019, 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, 2020 and 2019
(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, 2020 and December 31, 2019 was \$1,018,439 and \$1,070,973, 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, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
Mortgage principal	\$ 1,018,439	\$ 1,070,973
Unamortized financing costs	(1,645)	(3,533)
	<u>\$ 1,016,794</u>	<u>\$ 1,067,440</u>

The following table summarizes the changes in the principal balance of mortgages payable for the nine months ended September 30, 2020 and 2019:

Balance, December 31, 2018	\$ 1,053,274
Repayments made	(25,397)
Balance, September 30, 2019	1,027,877
Repayments made	(8,778)
Foreign exchange	51,874
Balance, December 31, 2019	1,070,973
Sale of investment to investors	(25,663)
Foreign exchange	(26,871)
Balance, September 30, 2020	<u>\$ 1,018,439</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

9. Joint arrangements (continued):

Scheduled principal repayments and maturity amounts of mortgages payable at September 30, 2020 are as follows:

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year 2021	\$ 8,829 17,858	\$ – 991,752	\$ 8,829 1,009,610
	\$ 26,687	\$ 991,752	\$ 1,018,439

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, 2020, the Company advanced an additional loan of \$94,402 and capitalized interest income of \$63,887. The fair value of the investment was determined by management. The fair value of the Convertible Note at September 30, 2020 was \$938,496 (December 31, 2019 - \$800,531), being the principal amount advanced and capitalized interest.

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

10. Convertible note receivable (continued):

The following table summarizes the changes in the Convertible Note receivable for the nine months ended September 30, 2020:

Balance, December 31, 2019	\$ 800,531
Investment made	94,402
Interest capitalized	63,887
Foreign exchange	(20,324)
Balance, September 30, 2020	\$ 938,496

11. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Interest payable	\$ 346,783	\$ 721,087
Interest reserve	2,515,172	1,590,814
Accounts payable, accrued liabilities and provisions	353,702	1,083,270
Trust liabilities	6,269,840	658,461
Share-based compensation payable (note 16(e)(ii))	992,865	1,291,160
Accounts payable and accrued liabilities	\$ 10,478,362	\$ 5,344,792

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

Interest reserve held for the borrowers and trust liabilities payable to syndicate investors are contractual obligations of the wholly-owned subsidiary of the Company that administers loan and mortgage investments. The subsidiary holds cash balances in trust.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

12. Unsecured note payable:

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

For the nine months ended September 30, 2020 and 2019, interest and financing costs relating to the Unsecured Note, reported as interest expense and financing costs totaled \$301,111 and nil, respectively. During the three months ended September 30, 2020, the Company made a repayment of \$266,827. The fair value of the Unsecured Note at September 30, 2020 was \$2,733,173 (December 31, 2019 - \$3,000,000).

13. Credit facilities:

At September 30, 2020 and December 31, 2019, the Company's credit facilities (the "Credit Facilities") consist of a \$40,000,000 secured line of credit (the "LOC") and \$35,000,000 master credit facility (the "Master Facility"), respectively.

The following table presents details of the Credit Facilities as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Face value	\$ 10,500,000	\$ 9,221,447
Unamortized financing costs	(371,119)	(342,608)
	<u>\$ 10,128,881</u>	<u>\$ 8,878,839</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

13. Credit facilities (continued):

(a) Line of credit:

The Company had a Revolving Guidance Facility Agreement (the "Master Facility Agreement") with a lending institution in the U.S. for a \$35,000,000 Master Facility to finance the loan and mortgage investments funded by the Company. The Master Facility was available on a project by project basis as a project loan. The Master Facility carried 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. On January 14, 2020, the Company entered into a \$40,000,000 secured the LOC with the same lending institution, replacing the Master Facility Agreement. The LOC provides for an increase in the borrowing limit to \$50,000,000 over time, subject to approval by the lending institution. The LOC carries an interest rate of three-month LIBOR plus three and one-quarter of one percent (3.25%) per annum, with a floor rate of five percent (5.00%) per annum and matures on January 9, 2025.

During the nine months ended September 30, 2020 and 2019, the Company borrowed an aggregate of \$20,270,423 and \$1,871,678, respectively, and repaid \$19,041,103 and \$6,390,985, respectively, against the Master Facility and LOC, combined.

In connection with the LOC, the Company incurred lender and other third-party costs of \$244,264. The costs associated with the LOC have been deferred and are being amortized over the term of the LOC as interest expense using the effective-interest amortization method.

(b) 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 operating facility (the "Facility"). The Facility carried an interest rate of 9.5% per annum until one month prior to the maturity date and any unpaid balance one month prior to the maturity date would have carried an interest rate of 12% per annum, until repaid. On December 2, 2019, the Company repaid the Facility plus all accrued and unpaid interest in full and terminated the Facility Agreement.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

13. Credit facilities (continued):

The following table summarizes the changes in the principal balance of Credit Facilities for the nine months ended September 30, 2020 and 2019:

Balance, December 31, 2018	\$ 19,803,967
Proceeds from Credit Facilities	10,576,668
Repayment of Credit Facilities	(13,906,152)
Interest capitalized	293,298
Foreign exchange	—
Balance, September 30, 2019	16,767,781
Proceeds from Credit Facilities	3,525,819
Repayment of Credit Facilities	(11,483,789)
Interest capitalized	112,816
Foreign exchange	298,820
Balance, December 31, 2019	9,221,447
Proceeds from Credit Facilities	20,270,423
Repayment of Credit Facilities	(19,041,103)
Interest capitalized	49,233
Balance, September 30, 2020	\$ 10,500,000

For the three and nine months ended September 30, 2020, amortization of deferred financing costs reported as interest and financing costs totaled \$71,999 and \$215,749, respectively (2019 - \$53,241 and \$196,490, 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, 2020 and 2019, the Company was in compliance with these covenants.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three and nine months ended September 30, 2020 and 2019
(Unaudited)

14. Lease obligations:

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and the land lease on the Montreal Street JV, with a lease term greater than 12 months, resulting in the recognition of a right-of-use asset and a corresponding lease liability.

On September 30, 2020, the Company entered into a new lease agreement (the "New Lease") to lease its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario. The New Lease provides the Company to lease the premises for two years and four months commencing on January 1, 2021, under similar terms as the existing lease.

The right-of-use asset represents the Company's right to control the use of the head office premises and the land lease on the Montreal Street JV for the lease term. The right-of-use asset at September 30, 2020 and December 31, 2019 was \$1,066,297 and \$912,436, respectively. The lease obligations represent the present value of the Company's future lease payments on its head office premises and the land lease on the Montreal Street JV over the expected lease term. The lease obligations at September 30, 2020 and December 31, 2019 was \$1,079,271 and \$913,129, respectively. The New Lease resulted in the Company recognizing an additional right-of-use asset of \$345,394 and a corresponding lease obligation of \$345,394 at September 30, 2020.

The future minimum lease payments, which includes estimated operating costs for the next five years and thereafter, are as follows:

2020 remainder of year	\$	57,984
2021		249,525
2022		253,134
2023		123,821
2024 and thereafter		651,969
		<hr/>
	\$	1,336,433

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

15. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances. The unfunded loan commitments under the existing lending agreements at September 30, 2020 were \$9,781,907 (December 31, 2019 - \$33,095,786).

At September 30, 2020 and December 31, 2019, the unfunded commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were \$12,168,014 and \$9,143,864, respectively.

The Company is also committed to providing 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, 2020 and 2019
(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, 2020 and 2019:

	Shares	Amount
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
Outstanding, December 31, 2019	5,564,968	25,283,343
Outstanding, September 30, 2020	5,564,968	\$ 25,283,343

(c) Normal course issuer bid:

On November 23, 2018, the Company renewed the Normal Course Issuer Bid (the "NCIB") to acquire up to 418,631 Shares, being 10% of the public float of Shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The NCIB expired on November 26, 2019.

During the nine months ended September 30, 2020 and 2019, the Company purchased nil and 298,550 Shares, respectively, on the TSX-V for nil and \$1,250,607, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

(d) Dividends:

The Board of Directors (the "Board") determines the level of dividend payments. Although the Company does not have a formal dividend policy, it started dividend payments, and it plans to maintain regular quarterly dividends. Dividends are recognized in the period in which they are formally declared by the Board.

On September 14, 2020, the Board declared a quarterly dividend of CAD \$0.05 per Share, payable on October 15, 2020, to shareholders of record as of the close of business on September 30, 2020.

On May 13, 2020, the Board declared a quarterly dividend of CAD \$0.05 per Share, payable on July 15, 2020, to shareholders of record as of the close of business on June 30, 2020.

On March 5, 2020, the Board declared a quarterly dividend of CAD \$0.05 per Share, payable on April 15, 2020, to shareholders of record as of the close of business on March 31, 2020.

For the nine months ended September 30, 2020 and 2019, the Company recorded dividends of \$609,147 and 278,248, respectively.

(e) Share-based payments:

The share-based payments that have been recognized in these Financial Statements are as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Share option plan	\$ –	\$ 44,204	\$ 177,745	\$ 150,436
Deferred share unit plan	69,541	(105,496)	(203,793)	203,138
	<u>\$ 69,541</u>	<u>\$ (61,292)</u>	<u>\$ (26,048)</u>	<u>\$ 353,574</u>

TERRA FIRMA CAPITAL CORPORATION

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

(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 26, 2020, the Company granted options to one of its employees to purchase up to 25,000 Shares at a price of CAD \$4.05 per Share with the expiry date of June 26, 2027. The options shall vest in equal installments on a quarterly basis over a three-year period.

On April 6, 2020, the Company granted options to its officers and employees to purchase up to 285,000 Shares at a price of CAD \$4.28 per Share with the expiry date of April 6, 2027. The options shall vest in equal installments on a quarterly basis over a three-year period.

On January 6, 2020, the Company granted options to one of its employees to purchase up to 25,000 Shares at a price of CAD \$5.70 per Share with the expiry date of January 6, 2027. The options shall vest in equal installments on a quarterly basis over a three-year period.

On June 12, 2019, the Company granted options to its Ex-Chairman of the Board (the "Ex-Chairman") to purchase up to 20,000 Shares of the Company at a price of CAD \$5.60 per Share with the expiry date of June 11, 2026. Of the 20,000 options granted, 10,000 options vested immediately, and the remaining 10,000 options vested in equal installments on a quarterly basis over the following six-month period.

On June 12, 2019, the Company granted options to its President and Chief Executive Officer to purchase up to 24,000 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)

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(Unaudited)

16. Shareholders' equity (continued):

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

	June 26, 2020	April 6, 2020	January 6, 2020	June 12, 2019
Average expected life	7.00 years	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	0.41%	0.65%	1.58%	1.41%
Average expected volatility	27.54%	25.76%	25.95%	74.56%
Dividend yield	4.94%	4.67%	3.09%	0.00%

The fair value of options granted on June 26, 2020, April 6, 2020, January 6, 2020 and June 12, 2019, was \$12,940, \$151,585, \$26,522 and \$128,293, respectively.

The following is the summary of changes in share options for the nine months ended September 30, 2020 and the year ended December 31, 2019:

	September 30, 2020		December 31, 2019	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of period	351,089	\$ 6.95	528,500	\$ 7.00
Granted	335,000	4.37	44,000	5.60
Cancelled	(90,000)	6.70	—	—
Expired	(97,089)	8.50	(221,411)	6.86
Outstanding, end of period	499,000	4.96	351,089	6.95
Number of options exercisable	177,973	\$ 5.98	315,073	\$ 7.05

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

16. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at September 30, 2020:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price CAD	Market price at date of grant CAD
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	56,000	6.50	6.50
34,000	December 21, 2024	31,141	6.70	6.70
24,000	June 11, 2026	20,000	5.60	5.60
25,000	January 06, 2020	4,166	5.70	5.70
285,000	April 06, 2020	14,583	4.28	4.28
25,000	June 26, 2020	2,083	4.05	4.28
499,000		177,973		

(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 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 directors. At the beginning of each 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)
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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 Ex-Chairman, the directors were obligated to contribute, on the last day of each quarter, a minimum of 50% of their annual retainer in DSUs. The directors had an option to elect to receive up to 100% of their annual retainer in DSUs. Employees were able to 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, 2020 and year ended December 31, 2019:

	September 30, 2020	December 31, 2019
DSUs outstanding, beginning of period	302,371	286,220
Granted	–	18,115
Settled	(13,005)	(1,964)
DSUs outstanding, end of period	289,366	302,371
Number of DSUs vested	289,366	299,511

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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(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, 2020 were \$69,541 and (\$203,793) (2019 - (\$105,496) and \$203,138), 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, 2020 is \$992,865 (December 31, 2019 - \$1,291,160).

(f) Warrants:

The Company had 500,000 warrants outstanding. Each warrant entitled the holder to acquire one Share at an exercise price of \$8.50 per Share. The warrants expired on August 15, 2020.

17. Contributed surplus:

The following table presents the details of the contributed surplus balances as at September 30, 2020 and December 31, 2019:

	Amount
Balance, December 31, 2018	\$ 3,264,388
Fair value of share-based compensation	150,436
Balance, September 30, 2019	3,414,824
Fair value of share-based compensation	25,871
Balance, December 31, 2019	3,440,695
Fair value of share-based compensation	177,745
Balance, September 30, 2020	\$ 3,618,440

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

18. Earnings per share:

The calculation of earnings per Share of the three and nine months ended September 30, 2020 and 2019 is as follows:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Numerator for basic and diluted earnings per Share:				
Income attributable to common shareholders	\$ 1,125,597	\$ 1,028,859	\$ 1,323,195	\$ 2,193,478
Diluted income attributable to common shareholders	\$ 1,125,597	\$ 1,028,859	\$ 1,323,195	\$ 2,193,478
Denominator basic and diluted earnings per Share:				
Weighted average number of shares outstanding	5,564,968	5,598,484	5,564,968	5,720,413
Dilutive effect of Share-based payments	11,889	970	49,896	307
Weighted average number of diluted Shares outstanding	5,576,857	5,599,454	5,614,864	5,720,720
Earnings per Share:				
Basic	\$ 0.20	\$ 0.18	\$ 0.24	\$ 0.38
Diluted	0.20	0.18	0.24	0.38

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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19. Transactions with related parties:

Except as disclosed elsewhere in the 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.

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, 2020 and December 31, 2019, the loan and mortgage investments syndicated by officers and directors were \$300,565 and \$556,466, respectively.

20. Interest and financing costs:

The following table presents the interest incurred for the three and nine months ended September 30, 2020 and 2019:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest on loan and mortgage syndications	\$ 1,837,920	\$ 2,005,187	\$ 5,807,165	\$ 5,404,591
Interest on credit facilities	140,120	374,772	512,252	1,312,036
Montreal Street JV	11,361	3,958	33,988	20,326
Interest on lease obligations	721	482	1,775	1,695
	<u>\$ 1,990,122</u>	<u>\$ 2,384,399</u>	<u>\$ 6,355,180</u>	<u>\$ 6,738,648</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

21. Income taxes:

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

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Current income tax provision	\$ 470,685	\$ 245,006	\$ 614,869	\$ 654,352
Deferred income tax provision (recovery)	(228,482)	(29,072)	(1,244)	(4,771)
Total tax provision	\$ 242,203	\$ 215,934	\$ 613,625	\$ 649,581

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Income from operations before taxes	\$ 1,367,800	\$ 1,244,793	\$ 1,936,820	\$ 2,843,059
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	362,467	329,870	513,257	753,411
Increase (decrease) in income tax due to:				
Non-taxable items	172	54,393	918	2,155
Non-deductible stock-based compensation	–	(19,893)	47,102	39,865
Effect of changes in foreign exchange rates	(120,436)	–	52,348	–
Change in deferred tax asset not previously recognized	–	(148,436)	–	(145,850)
Total tax provision	\$ 242,203	\$ 215,934	\$ 613,625	\$ 649,581

TERRA FIRMA CAPITAL CORPORATION

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

The following table summarizes the changes to the current income tax recoverable and payable for the nine months ended September 30, 2020 and 2019:

	2020	2019
Balance, beginning of period	\$ (247,719)	\$ (130,741)
Current income tax provision	614,869	654,352
Income taxes received (paid)	236,797	(645,399)
Foreign exchange	–	(46)
Balance, end of period	\$ 603,947	\$ (121,834)

The composition of the Company's recognized deferred income tax assets and liabilities for the nine months ended September 30, 2020 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ 167,534	\$ (8,489)	\$ 159,045
Portfolio investments	286,776	–	286,776
Incorporation costs	(384)	(19)	(403)
DSUs	(194,349)	(54,005)	(248,354)
ACL	(293,363)	(8,944)	(302,307)
Unrealized foreign exchange gain	591,129	(5,922)	585,207
Shares and Credit Facilities issue costs	(152,876)	(5,727)	(158,603)
Deferred revenue	45,550	81,862	127,412
	\$ 450,017	\$ (1,244)	\$ 448,773

TERRA FIRMA CAPITAL CORPORATION

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

The composition of the Company's recognized deferred income tax assets and liabilities for the 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 loss	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>

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, 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 and earn a good return for the shareholders.

The following table presents the capital structure of the Company as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Loan and mortgage syndications	\$ 69,502,067	\$ 88,249,414
Credit facilities	10,128,881	8,878,839
Unsecured note payable	2,733,173	3,000,000
Mortgages payable	1,016,794	1,067,440
Equity	40,527,165	39,635,372
Total capital	\$ 123,908,080	\$ 140,831,065

The Company is free to determine the appropriate capital level 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, 2020 and 2019.

23. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, Convertible Note, loan and mortgage investments, portfolio investments, lease obligations, loan and mortgage syndications, unsecured note payable, mortgages payable, and Credit Facilities.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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23. Fair value measurement (continued):

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 values 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, 2020 and December 31, 2019 and no amounts were transferred between fair value levels during the nine months ended September 30, 2020 or 2019. Notes 7, 8 and 9 outline the key assumptions used by the Company in determining fair value of its portfolio investments, investment in associates and investment property, respectively.

24. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the 2019 Financial Statements.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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24. Risk management (continued):

Credit risk:

As at September 30, 2020, a loan investment to the U.S. Project is in arrears since February 29, 2020 (note 5). Based on the most recent valuations of the underlying asset and management's estimates, the Company carries a net ACL balance of \$353,763 against this loan investment.

Interest rate risk:

Interest rate risk arises due to exposure to the effects of future changes in the prevailing level of interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its loan and mortgage investments, debentures payable, loan and mortgage syndications and mortgages payable.

The Company mitigates its exposure to this risk by entering into contracts having either fixed interest rates or interest rates pegged to prime for its loan and mortgage investments, loan and mortgage syndications, mortgages payable and asset liability matching. Such risk is further mitigated by the general short-term nature of loan and mortgage investments.

Currency risk:

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

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

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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24. Risk management (continued):

Liquidity risk:

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's credit worthiness.

The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities.

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

General business risk:

The Company is subject to general business risks and to risks inherent in the commercial and residential real estate lending, including both the making of loans secured by real estate and the development and ownership of real property. Income and gains from the Company's investments may be adversely affected by:

- (i) civil unrest, acts of God, including earthquakes and other natural disasters, acts of terrorism or war and public health crises such as the current outbreak of the novel coronavirus, specifically identified as "COVID-19" (discussed below),
- (ii) changes in national or local economic conditions,
- (iii) changes in real estate assessed values and taxes payable on such values and other operating expenses,
- (iv) the inability of developers to sell development land,

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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24. Risk management (continued):

- (v) changes in demand for newly constructed residential units,
- (vi) changes in real estate assessed values and taxes payable on such values and other operating expenses, or
- (vii) changes in interest rates and in the availability, cost and terms of any mortgage or other development financing.

Any of the foregoing events could impact the ability of borrowers to timely repay (if at all) loans made by the Company, negatively impact the value or viability of a development project in which the Company has invested or negatively impact the value of portfolio properties of the Company or their ability to generate positive cash flow.

In addition, the Company may be unable to identify and complete investments that fit within its investment criteria. The failure to make a sufficient number of these investments would impair the future growth of the Company.

COVID-19 pandemic has further increased the risk factors described above.

COVID-19 risk:

Beginning March 2020, the outbreak of the novel strain of COVID-19 has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. The COVID-19 pandemic introduced unprecedented uncertainty in the economy, including the risk of a significant employment shock and recessionary conditions, with implications for the health and safety of the Company's employees, delinquency rates, origination volumes, the availability of financing, and the Company's overall operations. The Company not originating new loan investments and investment in finance leases during the first half of the year, due to the COVID-19 related disruptions has adversely impacted the Company's operations for the nine months ended September 30, 2020.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three and nine months ended September 30, 2020 and 2019
(Unaudited)

24. Risk management (continued):

As the impact of the pandemic continues to weigh on the U.S. and Canadian economies over the remainder of the year, the Company will continue to monitor the financial and other commitments by the borrowers.

The allowance for credit losses and carrying value for the Company's investments measured at FVTPL at September 30, 2020, reflect its best estimate. Actual results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruptions is longer than initially anticipated. Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Company's future operating assumptions and expectations as compared to prior periods, it is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's estimate of ACL and investments measured at FVTPL, both in the short term and in the long term.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

25. Effect of change in presentation currency:

As set out in note 2(b), the Company elected to change its presentation currency to USD, effective January 1, 2019.

For comparative purposes, the consolidated statements of financial position as at 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 December 31, 2018 exchange rates (note 2(b)). The effect of the translation is as follows:

December 31, 2018	USD	CAD
Assets		
Cash and cash equivalents	\$ 7,731,379	\$ 10,543,289
Funds held in trust	1,095,669	1,494,940
Amounts receivable and prepaid expenses	1,013,935	1,347,626
Loan and mortgage investments	121,675,979	165,929,535
Investment in finance leases	2,819,915	3,845,519
Investment properties	1,619,633	2,208,694
Portfolio investment	1,911,574	2,591,586
Interest in associates	2,146,984	2,927,842
Income taxes recoverable	130,741	178,292
	\$ 140,145,809	\$ 191,067,323
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	\$ 3,618,067	\$ 4,933,963
Unearned income	1,303,162	1,777,129
Deferred income tax liabilities	753,089	1,026,987
Credit facilities	19,464,106	26,560,237
Loan and mortgage syndication	75,906,550	103,513,760
Mortgages payable	1,047,809	1,428,897
	102,092,783	139,240,973
Equity:		
Share capital	26,533,950	29,801,466
Contributed surplus	3,264,388	3,893,731
Cumulative translation adjustment	(6,885,398)	—
Retained earnings	15,140,086	18,131,153
	38,053,026	51,826,350
	\$ 140,145,809	\$ 191,067,323