



Interim Condensed Consolidated Financial Statements  
(In U.S. dollars)

# **TERRA FIRMA CAPITAL CORPORATION**

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

# TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Financial Position  
(In U.S. dollars)  
(Unaudited)

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Cash and cash equivalents	\$ 880,231	\$ 3,780,824
Funds held in trust	2,882,409	5,862,799
Amounts receivable and prepaid expenses (note 4)	658,170	596,864
Loan and mortgage investments (note 5)	88,988,492	93,043,813
Investment in finance leases (note 6)	37,541,038	20,489,655
Portfolio investments (note 7)	1,875,139	2,292,991
Investment in associates (note 8)	4,478,434	3,112,395
Investment property held in joint operations (note 9(b))	1,781,492	1,735,712
Convertible note receivable (note 10)	1,153,682	1,080,536
Right-of-use asset (note 15)	979,100	1,056,879
Income taxes recoverable (note 22)	381,940	–
Deferred income tax asset (note 22)	89,860	–
	<b>\$ 141,689,987</b>	<b>\$ 133,052,468</b>

## Liabilities and Shareholders' Equity

<b>Liabilities:</b>		
Unearned income	\$ 398,546	\$ 391,112
Loan and mortgage syndications (note 5)	62,113,577	71,374,100
Loan payable to Debt Fund I (notes 6, 8, 12)	21,867,328	–
Mortgages payable (note 9(c))	1,065,410	1,055,379
Accounts payable and accrued liabilities (note 11)	6,083,636	8,670,756
Credit facilities (note 13)	6,461,410	6,700,964
Unsecured note payable (note 14)	539,152	1,794,150
Lease obligations (note 15)	1,006,012	1,074,518
Deferred income taxes payable (note 22)	–	219,337
Income taxes payable (note 22)	–	609,499
	<b>99,535,071</b>	<b>91,889,815</b>
<b>Shareholders' equity:</b>		
Share capital (note 17(a))	25,283,343	25,283,343
Contributed surplus (note 18)	3,618,440	3,618,440
Foreign currency translation reserve	(6,885,398)	(6,885,398)
Retained earnings	20,138,531	19,146,268
Shareholders' equity	<b>42,154,916</b>	<b>41,162,653</b>
Commitments and contingencies (note 16)		
	<b>\$ 141,689,987</b>	<b>\$ 133,052,468</b>

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

Approved by the Board on August 17, 2021 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 U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
<b>Revenue:</b>				
Interest and fees	\$ 2,849,254	\$ 2,967,009	\$ 5,645,978	\$ 6,323,414
Finance income (note 6)	1,192,719	737,218	1,978,682	1,368,425
Rental (note 9(a))	43,347	35,768	83,906	73,294
	<u>4,085,320</u>	<u>3,739,995</u>	<u>7,708,566</u>	<u>7,765,133</u>
<b>Expenses (income):</b>				
Property operating costs (note 9(a))	15,049	13,051	29,886	26,476
General and administrative	1,132,855	731,795	1,870,539	1,470,854
Share-based compensation (recovery) (note 17(c))	302,662	113,965	362,733	(95,589)
Interest and financing costs (note 21)	2,112,967	2,086,628	4,098,745	4,365,058
Allowance for uncollectible receivables (note 4)	9,776	161,428	9,776	161,428
Allowance for (recovery of) loan and mortgage investments loss (note 5)	(109,187)	811,234	(155,322)	916,971
Allowance for investment in finance lease loss	154,327	–	258,110	–
Realized and unrealized foreign exchange loss (gain)	(126,171)	(359,638)	(203,869)	436,252
Share of income from investment in associates (note 8)	(87,428)	(39,876)	(167,055)	(85,337)
	<u>3,404,850</u>	<u>3,518,587</u>	<u>6,103,543</u>	<u>7,196,113</u>
Income from operations before income taxes	680,470	221,408	1,605,023	569,020
Income tax expense (recovery) (note 22)	61,189	(102,501)	166,986	371,422
<b>Net income and comprehensive income</b>	<b>\$ 619,281</b>	<b>\$ 323,909</b>	<b>\$ 1,438,037</b>	<b>\$ 197,598</b>
<b>Earnings per share (note 19):</b>				
Basic	\$ 0.11	\$ 0.06	\$ 0.26	\$ 0.04
Diluted	0.11	0.06	0.25	0.04

*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 U.S. dollars)

Six months ended June 30, 2021 and 2020  
(Unaudited)

	Share capital		Foreign currency translation reserve	Contributed surplus (note 18)	Retained earnings	Total shareholders' equity
	Number of shares (note 17(a))	Amount				
Balance, December 31, 2019	5,564,968	\$ 25,283,343	\$ (6,885,398)	\$ 3,440,695	\$ 17,796,732	\$ 39,635,372
Changes during the period:						
Share-based compensation	–	–	–	177,745	–	177,745
Dividends on common shares	–	–	–	–	(400,189)	(400,189)
Net income and comprehensive income	–	–	–	–	197,598	197,598
Balance, June 30, 2020	5,564,968	25,283,343	(6,885,398)	3,618,440	17,594,141	39,610,526
Changes during the period:						
Dividends on common shares	–	–	–	–	(419,513)	(419,513)
Net income and comprehensive income	–	–	–	–	1,971,640	1,971,640
Balance, December 31, 2020	5,564,968	25,283,343	(6,885,398)	3,618,440	19,146,268	41,162,653
Changes during the period:						
Dividends on common shares (note 17(b))	–	–	–	–	(445,774)	(445,774)
Net income and comprehensive income	–	–	–	–	1,438,037	1,438,037
Balance, June 30, 2021	5,564,968	\$ 25,283,343	\$ (6,885,398)	\$ 3,618,440	\$ 20,138,531	\$ 42,154,916

*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 U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ 619,281	\$ 323,909	\$ 1,438,037	\$ 197,598
Interest and fees earned	(2,849,254)	(2,967,009)	(5,645,978)	(6,323,414)
Finance income earned	(1,192,719)	(737,218)	(1,978,682)	(1,368,425)
Interest expense and financing costs	2,112,967	2,086,628	4,098,745	4,365,058
Unrealized foreign exchange loss (gain)	(83,360)	(335,034)	(145,337)	390,451
Income from investments in associates	(87,428)	(39,876)	(167,055)	(85,337)
Non-cash items:				
Share-based compensation (recovery)	302,662	113,965	362,733	(95,589)
Amortization of right-of-use asset	54,650	25,267	105,089	84,288
Allowance for (recovery of) loan and mortgage investment loss	(109,187)	811,234	(155,322)	916,971
Allowance for investment in finance lease loss	154,327	–	258,110	–
Allowance for uncollectible receivables	9,776	161,428	9,776	161,428
Income tax provision (recovery)	61,189	(102,501)	166,986	371,422
Changes in working capital:				
Decrease (increase) in other receivables	(65,777)	81,090	(23,979)	96,538
Decrease (Increase) in prepaid expenses and deposits	38,741	(9,881)	(20,145)	(12,716)
Increase (decrease) in accounts payable and accrued liabilities	42,672	784,902	(81,766)	1,088,014
Interest and fees received	3,298,483	3,048,064	6,059,174	6,602,677
Distributions from investment in associates	35,739	8,751	62,921	17,502
Interest paid	(1,591,386)	(1,550,027)	(3,167,880)	(3,456,921)
Income taxes (paid) refunded	(1,467,622)	(687,052)	(1,467,622)	144,856
Cash provided by (used in) operating activities	(716,246)	1,016,640	(292,195)	3,094,401
Financing activities:				
Proceeds from loan and mortgage syndications	747,557	–	2,805,961	136,096
Proceeds from loan payable to Debt Fund I	12,814,967	–	21,867,328	–
Repayments of loan and mortgage syndications	(9,824,305)	(5,013,529)	(13,110,788)	(15,126,265)
Repayments of mortgages payable	(9,722)	(8,358)	(19,075)	(16,913)
Payments on lease obligations	–	(33,300)	–	(84,438)
Repayment of short-term unsecured loans payable	(1,028,205)	–	(1,254,998)	–
Proceeds from credit facilities	14,000,000	–	23,000,000	6,270,423
Repayments of credit facilities	(14,250,000)	(5,500,006)	(23,250,000)	(10,284,341)
Dividends paid	(222,066)	(197,929)	(440,694)	(410,543)
Cash provided by (used in) financing activities	2,228,226	(10,753,122)	9,597,734	(19,515,981)
Investing activities:				
Funding of loan and mortgage investments	(9,198,583)	(1,107,831)	(12,441,195)	(1,132,523)
Repayments of loan and mortgage investments	12,935,264	8,548,766	18,208,207	26,500,465
Funding of investment in finance leases	(12,983,101)	(3,056,217)	(24,976,357)	(14,122,131)
Proceeds from sale of finance leases	6,460,721	8,485,396	7,707,886	12,855,587
Funding of portfolio investments	–	–	–	(59,243)
Funding of associates investment	(1,330,750)	–	(2,174,500)	(136,647)
Return of capital of portfolio investment	477,745	–	477,745	–
Return of capital of associate investment	992,082	–	992,082	–
Increase in funds held in trust	–	(910,311)	–	(921,682)
Cash provided by (used in) investing activities	(2,646,622)	11,959,803	(12,206,132)	22,983,826
Increase (decrease) in cash and cash equivalents	(1,134,642)	2,223,321	(2,900,593)	6,562,246
Cash and cash equivalents, beginning of period	2,014,873	6,270,376	3,780,824	1,931,451
Cash and cash equivalents, end of period	\$ 880,231	\$ 8,493,697	\$ 880,231	\$ 8,493,697

*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 U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 1. Reporting entity:

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

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the 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.

## 2. Basis of presentation:

### (a) Statement of compliance:

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2021 (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, 2020 (the "2020 Annual Financial Statements").

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 2. Basis of presentation (continued):

### (b) Basis of consolidation:

The Company holds interests in certain loan and mortgage investments, investment in finance leases, investment in associates, and portfolio investments in its wholly-owned subsidiaries, which the Company controls. Control is achieved when the Company is exposed 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 financial statements of these subsidiaries and the Company's proportionate share in joint operations are consolidated with those of the Company, and all intercompany transactions and balances between the Company and its subsidiary entities and joint operations have been eliminated upon consolidation.

The Financial Statements include the financial statements of the Company and the following significant entities as at June 30, 2021:

	Country of incorporation	Interest % 2021
TFCC International Ltd.	Canada	100
Terra Firma MA Ltd.	Canada	100
Terra Firma Queen Developments Inc.	Canada	100
TFCC LanQueen Ltd.	Canada	100
Terra Firma (Valermo) Corporation (the "TFVC")	Canada	100
TFCC USA III Holdings Corporation	Canada	100
Terra Firma Senior Debt Fund Corporation	Canada	100
TFCC USA LLC	U.S.A.	100
TFCC Kempston Place LLC	U.S.A.	100
TFCC USA II Corporation	U.S.A.	100
TFCC Saul's Ranch LLC	U.S.A.	100
TFCC Wilson Trace LLC	U.S.A.	100
TFCC Delray Inc.	U.S.A.	100
TFCC San Pablo LLC	U.S.A.	100
TFCC USA III Corporation	U.S.A.	100
TFCC Stafford LLC	U.S.A.	100
TFCC Sterling 5A LLC	U.S.A.	100
TFCC Sterling LLC	U.S.A.	100
TFCC Coburn LLC	U.S.A.	100
TFCC Dunn's Crossing LLC	U.S.A.	100
TFCC Jacksonville LLC	U.S.A.	100
TFCC Trailmark LLC	U.S.A.	100
TFCC Allen Farm LLC	U.S.A.	100
TFCC Arroyo LLC	U.S.A.	100

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(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 2020 Annual Financial Statements, except as noted below:

Changes in accounting policies:

Application of Interest Rate Benchmark Reform ("IBOR"):

In August 2020, the IASB issued IBOR Reform and the Effects on Financial Reporting - Phase II (amendments to IFRS 9, IFRS 7, IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), IFRS 4, Insurance Contracts ("IFRS 4"), and IFRS 16, Leases ("IFRS 16")). The objective of the second phase of the IASB's project was to assist entities in providing useful information about the effects of the transition to alternative benchmark rates and support preparers in applying the requirements of the IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments affect the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures.

The Company has adopted the IBOR in its financial statements for the period beginning January 1, 2021. The implementation of the amendments did not have a material impact on the Company's Financial Statements.

### 4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable, allowance for credit loss ("ACL") and prepaid expenses as at June 30, 2021:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 286,294	\$ (3,386)	\$ 282,908
Other receivables	284,281	(6,390)	277,891
Prepaid expenses and deposits	97,371	–	97,371
Amounts receivable and prepaid expenses	\$ 667,946	\$ (9,776)	\$ 658,170



# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 4. Amounts receivable and prepaid expenses (continued):

At June 30, 2021, a first mortgage loan investment to a project located in the U.S. (the "U.S. Project") is in arrears. Interest receivable and other receivables relating to legal fees incurred on collecting the loan totaling \$135,140 (December 31, 2020 - \$99,290) is in arrears, of which the syndicated investors' share is \$108,502 (December 31, 2020 - \$77,968). As at June 30, 2021, the Company carries an ACL balance of \$9,776 (December 31, 2020 - nil) relating to these receivables.

The following table presents details of the amounts receivable, ACL and prepaid expenses as at December 31, 2020:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 246,784	\$ —	\$ 246,784
Other receivables	275,088	—	275,088
Prepaid expenses and deposits	74,992	—	74,992
Amounts receivable and prepaid expenses	\$ 596,864	\$ —	\$ 596,864

Interest and other receivable balance at June 30, 2021 and December 31, 2020, include a non-current balance of \$168,289 and \$194,186, 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 June 30, 2021 and December 31, 2020, the Company had principal balances of loan and mortgage investments of \$89,597,689 and \$93,808,332, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 13.3% (December 31, 2020 - 13.0%) and a weighted average term to maturity of 1.30 years (December 31, 2020 - 1.64 years).

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

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.

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage loan investments at June 30, 2021 and December 31, 2020 were \$62,113,577 and \$71,374,100, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.0% (December 31, 2020 - 10.1%) and a weighted average term to maturity of 1.35 years (December 31, 2020 - 1.72 years).

At June 30, 2021, the Company has a loan and mortgage investment totaling \$21,592,524 (December 31, 2020 - \$18,382,915) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$11,882,996 (December 31, 2020 - \$10,289,536) and the remainder of the investment is in a subordinated position of \$9,709,528 (December 31, 2020 - \$8,093,379). The Company syndicated its position on a pari-passu basis with certain syndicate investors for \$7,837,500 (December 31, 2020 - \$6,625,000) and retains a residual portion of \$1,872,028 (December 31, 2020 - \$1,468,379).

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at June 30, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	\$ 26,809,051	\$ (21,158)	\$ 26,787,893	\$ 20,769,052	\$ 6,018,841	22.4
Land and lot inventory	58,033,638	(244,052)	57,789,586	37,294,525	20,495,061	76.3
	84,842,689	(265,210)	84,577,479	58,063,577	26,513,902	98.7
Impaired loans:						
Commercial retail developments	4,755,000	(343,987)	4,411,013	4,050,000	361,013	1.3
	\$ 89,597,689	\$ (609,197)	\$ 88,988,492	\$ 62,113,577	\$ 26,874,915	100.0

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 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	\$ 29,391,302	\$ (12,999)	\$ 29,378,303	\$ 20,590,945	\$ 8,787,358	40.6
Land and lot inventory	59,662,030	(397,757)	59,264,273	46,733,155	12,531,118	57.8
	89,053,332	(410,756)	88,642,576	67,324,100	21,318,476	98.4
Impaired loans:						
Commercial retail development	4,755,000	(353,763)	4,401,237	4,050,000	351,237	1.6
	\$ 93,808,332	\$ (764,519)	\$ 93,043,813	\$ 71,374,100	\$ 21,669,713	100.0

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

As at June 30, 2021, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 29.2%, 24.1% and 15.1% of the principal balance of loan and mortgage investments. For the six months ended June 30, 2021, the Company has loan and mortgage investments in three separate projects in the U.S., before syndication, that account for 27.5%, 20.2% and 18.8% of the Company's interest and fees revenue. As at June 30, 2020, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 25.9%, 13.6% and 13.1% of the principal balance of loan and mortgage investments. For the six months ended June 30, 2020, the Company has loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 21.6% and 14.9% of the Company's interest and fees revenue. As at December 31, 2020, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 26.4%, 20.1% and 19.6% 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 six months ended June 30, 2021, the Company capitalized interest income of \$808,668 and \$1,560,869, respectively, (2020 - \$1,035,897 and \$2,247,343, respectively), which is included in loan and mortgage investments.

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 June 30, 2021 were \$13,758,614, including no capitalization of future interest relating to existing loan and mortgage investments (December 31, 2020 - \$7,204,207, including \$651,602 of capitalization of future interest relating to existing loan and mortgage investments). As at June 30, 2021, the unfunded commitments relating to loan and mortgage investments in three separate projects in the U.S., before syndication, that account for 20.0%, 30.9% and 40.8% of the total unfunded commitments. As at December 31, 2020, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, that account for 82.8% and 15.8% 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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(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 risk as at June 30, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	\$ 86,673,640	\$ (601,372)	\$ 86,072,268	\$ 61,065,021	\$ 25,007,247	93.0
2nd mortgage loans	1,330,860	(44)	1,330,816	1,048,556	282,260	1.1
Unregistered loans	1,593,189	(7,781)	1,585,408	–	1,585,408	5.9
	<b>\$ 89,597,689</b>	<b>\$ (609,197)</b>	<b>\$ 88,988,492</b>	<b>\$ 62,113,577</b>	<b>\$ 26,874,915</b>	<b>100.0</b>

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at June 30, 2021:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 1,330,847	\$ (44)	\$ 1,330,803	\$ 1,048,556	\$ 282,247	1.1
U.S.	88,266,842	(609,153)	87,657,689	61,065,021	26,592,668	98.9
	<b>\$ 89,597,689</b>	<b>\$ (609,197)</b>	<b>\$ 88,988,492</b>	<b>\$ 62,113,577</b>	<b>\$ 26,874,915</b>	<b>100.0</b>

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2020:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1 <sup>st</sup> mortgage loans	\$ 88,208,729	\$ (753,210)	\$ 87,455,519	\$ 67,697,691	\$ 19,757,828	91.2
2 <sup>nd</sup> mortgage loans	4,108,367	(501)	4,107,866	3,676,409	431,457	2.0
Unregistered loans	1,491,236	(10,808)	1,480,428	–	1,480,428	6.8
	<b>\$ 93,808,332</b>	<b>\$ (764,519)</b>	<b>\$ 93,043,813</b>	<b>\$ 71,374,100</b>	<b>\$ 21,669,713</b>	<b>100.0</b>

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(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 December 31, 2020:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 4,108,369	\$ (501)	\$ 4,107,868	\$ 3,676,409	\$ 431,459	2.0
United States	89,699,963	(764,018)	88,935,945	67,697,691	21,238,254	98.0
	<u>\$ 93,808,332</u>	<u>\$ (764,519)</u>	<u>\$ 93,043,813</u>	<u>\$ 71,374,100</u>	<u>\$ 21,669,713</u>	<u>100.0</u>

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 June 30, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 26,809,051	\$ –	\$ –	\$ 26,809,051
Land and lot inventory	58,033,638	–	–	58,033,638
Commercial retail - development	–	–	4,755,000	4,755,000
	<u>\$ 84,842,689</u>	<u>\$ –</u>	<u>\$ 4,755,000</u>	<u>\$ 89,597,689</u>

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 June 30, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 6,039,999	\$ –	\$ –	\$ 6,039,999
Land and lot inventory	20,739,113	–	–	20,739,113
Commercial retail development	–	–	705,000	705,000
	<u>\$ 26,779,112</u>	<u>\$ –</u>	<u>\$ 705,000</u>	<u>\$ 27,484,112</u>

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(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 December 31, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 29,391,302	\$ –	\$ –	\$ 29,391,302
Land and lot inventory	59,662,030	–	–	59,662,030
Commercial retail development	–	–	4,755,000	4,755,000
	\$ 89,053,332	\$ –	\$ 4,755,000	\$ 93,808,332

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 December 31, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 8,800,357	\$ –	\$ –	\$ 8,800,357
Land and lot inventory	12,928,875	–	–	12,928,875
Commercial retail development	–	–	705,000	705,000
	\$ 21,729,232	\$ –	\$ 705,000	\$ 22,434,232

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 June 30, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 1,330,847	\$ –	\$ –	\$ 1,330,847
U.S.	83,511,842	–	4,755,000	88,266,842
	\$ 84,842,689	\$ –	\$ 4,755,000	\$ 89,597,689

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(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 carrying amount of loan and mortgage investments net of syndication, segmented by geography, for which ACL is recognized as at June 30, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 282,291	\$ –	\$ –	\$ 282,291
U.S.	26,496,821	–	705,000	27,201,821
	\$ 26,779,112	\$ –	\$ 705,000	\$ 27,484,112

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, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 4,108,369	\$ –	\$ –	\$ 4,108,369
U.S.	84,944,963	–	4,755,000	89,699,963
	\$ 89,053,332	\$ –	\$ 4,755,000	\$ 93,808,332

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 December 31, 2020:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 431,960	\$ –	\$ –	\$ 431,960
U.S.	21,297,272	–	705,000	22,002,272
	\$ 21,729,232	\$ –	\$ 705,000	\$ 22,434,232



# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2021, remainder of year	\$ —	\$ 6,792,477	\$ 6,792,477
2022	—	63,394,394	63,394,394
2023	—	17,817,629	17,817,629
2024	—	1,593,189	1,593,189
	\$ —	\$ 89,597,689	\$ 89,597,689

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

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
2021, remainder of year	\$ —	\$ 1,128,008	\$ 1,128,008
2022	—	47,799,597	47,799,597
2023	—	13,185,972	13,185,972
	\$ —	\$ 62,113,577	\$ 62,113,577

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

Allowance for loan and mortgage investments loss:

At June 30, 2021, a first mortgage loan investment to the U.S. Project, totaling \$4,890,140 (December 31, 2020 - \$4,854,290), including interest receivable of \$46,808 (December 31, 2020 - \$46,808) on this loan and mortgage investment and fees incurred relating to collecting this loan and mortgage investment of \$88,332 (December 31, 2020 - \$52,482), are in arrears. The syndicate investors' share of this loan investment and interest and other receivable is \$4,158,502 (December 31, 2020 - \$4,127,968). The Company's share of loan investment and interest and other receivables, net of syndication, is \$731,638 (December 31, 2020 - \$726,322). The Company has commenced the foreclosure process to enforce the security and liquidate this loan investment and related receivables. During the year ended December 31, 2020, the Company recorded a provision for loan losses of \$349,142 relating to this loan investment. During the three months ended June 30, 2021, the Company has not recorded a further provision for loan losses relating to this loan investment. As at June 30, 2021 and December 31, 2020, based on the most recent valuations of the underlying assets and management's estimates, the Company carries a net ACL balance of \$343,987 relating to this loan investment.

The changes in the ACL on loan and mortgage investments during the six months ended June 30, 2021 were as follows:

	IFRS 9			
	Balance at January 1, 2021	Provision for credit losses	Net write offs	Balance at June 30, 2021
Residential housing developments	\$ 12,999	\$ 8,159	\$ -	\$ 21,158
Land and lot inventory	397,757	(153,705)	-	244,052
Commercial retail development	353,763	(9,776)	-	343,987
	\$ 764,519	\$ (155,322)	\$ -	\$ 609,197

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

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	\$ 410,756	\$ –	\$ 353,763	\$ 764,519
Provision for credit losses:				
Remeasurement	(145,546)	–	(9,776)	(155,322)
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	–	–
<b>Balance, end of period</b>	<b>\$ 265,210</b>	<b>\$ –</b>	<b>\$ 343,987</b>	<b>\$ 609,197</b>

The following table presents details of the Company's ACL on loan and mortgage investments as at June 30, 2021:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 21,158	\$ –	\$ –	\$ 21,158
Land and lot inventory	244,052	–	–	244,052
Commercial retail development	–	–	343,987	343,987
<b>Total</b>	<b>\$ 265,210</b>	<b>\$ –</b>	<b>\$ 343,987</b>	<b>\$ 609,197</b>

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at June 30, 2021:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 44	\$ –	\$ –	\$ 44
U.S.	265,166	–	343,987	609,153
<b>Total</b>	<b>\$ 265,210</b>	<b>\$ –</b>	<b>\$ 343,987</b>	<b>\$ 609,197</b>

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 6. Investment in finance leases:

At June 30, 2021, the Company had eleven such arrangements with builders (December 31, 2020 - nine).

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 14.3% per annum. The unearned finance income at June 30, 2021 was \$40,780 (December 31, 2020 - \$345,725).

The finance income recognized from finance leases for the six months ended June 30, 2021 and 2020 of \$1,978,682 and \$1,368,425, respectively, is included in the finance income in the interim condensed consolidated statements of income and comprehensive income.

The following table summarizes the changes in the investment in finance leases for the six months ended June 30, 2021 and 2020:

Balance, December 31, 2019	\$ 17,959,374
Investment made	14,122,131
Investments sold	(12,855,587)
Lease payments received	(1,508,141)
Finance income recognized	1,368,425
Balance, June 30, 2020	19,086,202
Investment made	13,761,331
Investments sold	(12,110,835)
Lease payments received	(1,483,773)
Finance income recognized	1,277,791
Allowance for credit losses	(41,061)
Balance, December 31, 2020	20,489,655
Investment made	24,976,357
Investments sold	(7,707,886)
Lease payments received	(1,937,660)
Finance income recognized	1,978,682
Allowance for credit losses	(258,110)
Balance, June 30, 2021	\$ 37,541,038

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

As at June 30, 2021, the Company's certain investment in finance leases totalling \$21,867,328 were financed by the limited partnership (the "Debt Fund I"); the Company has 10.69% ownership interest in the Debt Fund I (notes 8 and 12).

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	\$ 17,114,565	\$ 4,400,946	\$ 12,713,619
Greater than one year but less than 5 years	28,180,149	3,053,559	25,126,590
	<u>\$ 45,294,714</u>	<u>\$ 7,454,505</u>	<u>\$ 37,840,209</u>

As at June 30, 2021, there are five net investments in finance leases that account for 15.7%, 14.1%, 14.0%, 11.1% and 10.5% of the net investments in finance leases. For the six months ended June 30, 2021, the Company has three net investments in finance leases that account for 18.3%, 18.0%, and 13.4% of the Company's finance income.

Allowance for investment in finance leases loss:

The changes in the ACL on investment in finance leases during the six months ended June 30, 2021 were as follows:

	IFRS 9			Balance at June 30, 2021
	Balance at January 1, 2021	Provision for credit losses	Net write offs	
Residential housing developments	\$ 41,061	\$ 258,110	\$ -	\$ 299,171

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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

The following table presents the changes in the ACL on investment in finance leases between the beginning and the end of the period:

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 41,061	\$ –	\$ –	\$ 41,061
Provision for credit losses:				
Remeasurement	258,110	–	–	258,110
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	–	–
Recoveries	–	–	–	–
Balance, end of period	\$ 299,171	\$ –	\$ –	\$ 299,171

## 7. Portfolio investments:

The following table presents details of the portfolio investments as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Investment in the LanQueen Partnership	\$ 1,774,895	\$ 2,192,747
Investment in the Savannah Partnership	100,243	100,243
Investment in the Valermo Partnership	1	1
	\$ 1,875,139	\$ 2,292,991

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 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 investing in a redevelopment project located in Toronto, Ontario. The fair value of investment at June 30, 2021 and December 31, 2020 was \$1,774,895 and \$2,192,747, respectively.
- (b) The Company, through TFCC International Ltd. invested \$100,243 in the Savannah Partnership. The fair value of the remaining investment in the Savannah Partnership at June 30, 2021 and December 31, 2020 was \$100,243 and 100,243, respectively. Additionally, TFCC International Ltd. funded a loan and mortgage investment of \$18,000,000 (December 31, 2020 - \$18,000,000) and at June 30, 2021, the Company syndicated \$14,309,755 of the loan and mortgage investment to investors (December 31, 2020 - \$14,309,755).
- (c) The Company, through TFVC, has a limited partnership interest in a partnership in Toronto. The fair value of the investment at June 30, 2021 was \$1 (December 31, 2020 - \$1).

The following table summarizes the changes in the portfolio investments for the six months ended June 30, 2021 and December 31, 2020:

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Balance, December 31, 2019	\$ 2,042,937
Investment funded	59,243
Foreign exchange	(86,412)
<hr/>	
Balance, June 30, 2020	2,015,768
Fair value adjustment	149,120
Foreign exchange	128,103
<hr/>	
Balance, December 31, 2020	2,292,991
Return of capital	(477,745)
Foreign exchange	59,893
<hr/>	
Balance, June 30, 2021	\$ 1,875,139

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 8. Investment in associates:

The following table presents details of the investment in associates as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
(a) Investment in the Lan Partnership	\$ 1,032,176	\$ 1,945,963
(b) Investment in the TF Royal Palm	1,271,448	1,166,432
(c) Investment in the TFCC Senior Debt Fund I LP	2,174,810	–
	<u>\$ 4,478,434</u>	<u>\$ 3,112,395</u>

(a) The Company has a partnership interest in a high-rise condominium development project located in Toronto, Ontario. At June 30, 2021 and December 31, 2020, the Company's share of the investment in the Lan Partnership was Canadian dollar ("CAD") \$2,315,514.

The fair value of the investment in the Lan Partnership at June 30, 2021 and December 31, 2020 was \$1,032,176 and \$1,945,963, respectively.

(b) The Company, through TFCC International Ltd., invested in TFCC Royal Palm Beach Inc. During the six months ended June 30, 2021 and 2020, the Company recorded income of \$119,600 and \$39,877, respectively, and received distributions of \$14,585 and \$8,751, respectively, from TFCC Royal Palm Beach Inc. The fair value of the investment at June 30, 2021 was \$1,271,448 (December 31, 2020 - \$1,166,432).

(c) The Company, through its wholly owned subsidiary TFCC USA III Holding Corporation ("TFCC USA III Holding") and third-party investors, entered into a limited partnership agreement (the "Debt Fund I") whereby the investors and TFCC USA III Holding committed to advance total capital of \$29,025,000 and \$3,475,000, respectively. The Debt Fund I entered into a loan agreement with the wholly-owned subsidiary of the Company, TFCC USA III Corporation (the "TFCC USA III"). The Debt Fund I also secured a \$5,000,000 credit facility with a U.S. bank. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of the Debt Fund I. The Company exerts influence in Debt Fund I and accounts for this investment using the equity method of accounting.



# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 8. Investment in associates (continued):

During the period ended June 30, 2021, the Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling \$17,995,500 and \$2,154,500, respectively, borrowed \$2,119,315 against the credit facility and advanced a loan payable of \$21,867,328 to TFCC USA III (note 12). As at June, 2021, the Company through TFCC USA III Holding owns 10.69% partnership interest in the Debt Fund I. For the six months ended June 30, 2021, the Company recognized its share of income of \$47,454 and received distributions of \$47,144 from the Debt Fund I.

During the six months ended June 30, 2021 and 2020, the Company recognized a net income from investments associates of \$167,055 and \$85,337, respectively and received distributions of \$61,729 and \$17,502, respectively.

The following table summarizes the changes in the portfolio investments for the six months ended June 30, 2021 and 2020:

Balance, December 31, 2019	\$ 3,097,947
Investment funded	136,647
Income earned	85,337
Distributions received	(17,502)
Foreign exchange	(96,690)
Balance, June 30, 2020	3,205,739
Income earned	(200,831)
Distributions received	(20,419)
Foreign exchange	127,906
Balance, December 31, 2020	3,112,395
Investment funded	2,174,500
Income earned	167,055
Distributions received	(61,729)
Return of capital	(992,082)
Foreign exchange	78,295
Balance, June 30, 2021	\$ 4,478,434

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 9. Joint arrangements:

### (a) Interests in joint operations:

Montreal Street JV:

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:

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	June 30, 2021	December 31, 2020
<b>Assets</b>		
Cash and cash equivalents	\$ 117,847	\$ 96,799
Amounts receivable and prepaid expenses	87,068	85,045
Investment property	1,781,492	1,735,712
Right-of-use asset	684,965	695,363
	<hr/> 2,671,372	<hr/> 2,612,919
<b>Liabilities</b>		
Accounts payable and prepaid expenses	37,645	36,619
Mortgages payable	1,065,410	1,055,379
Lease obligations	711,697	713,001
	<hr/> 1,814,752	<hr/> 1,804,999
Net assets	<hr/> \$ 856,620	<hr/> \$ 807,920

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# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 9. Joint arrangements (continued):

The table below details the results of operations for the three and six months ended June 30, 2021 and 2020, attributable to the Company from its joint operations:

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Revenue:				
Rental revenue	\$ 43,347	\$ 35,768	\$ 83,906	\$ 73,294
Expenses (income):				
Property operating costs	15,049	13,051	29,886	26,476
General and administrative	1,600	(1,060)	1,010	(1,440)
Interest	13,574	11,083	25,799	22,627
	30,223	23,074	56,695	47,663
Net income	\$ 13,124	\$ 12,694	\$ 27,211	\$ 25,631

### (b) Investment property:

At June 30, 2021 and December 31, 2020, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$1,781,492 (CAD \$2,208,694) and \$1,735,712 (CAD \$2,208,694), respectively. The capitalization rate used in the valuation of the property was 6.25% (December 31, 2020 - 6.25%).

As at June 30, 2021 and December 31, 2020, 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.

### (c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV, at June 30, 2021 and December 31, 2020 was \$1,065,633 and \$1,056,723, respectively. The mortgages bear interest at 3.0% per annum and are amortized over 25 years and matured on July 1, 2021.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 9. Joint arrangements (continued):

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at June 30, 2021 and December 31, 2020 are as follows:

	June 30, 2021	December 31, 2020
Mortgage principal	\$ 1,065,633	\$ 1,056,723
Unamortized financing costs	(223)	(1,344)
	<u>\$ 1,065,410</u>	<u>\$ 1,055,379</u>

The following table summarizes the changes in the principal balance of mortgages payable for the six months ended June 30, 2021 and 2020:

Balance, December 31, 2019	\$ 1,070,973
Repayments made	(15,859)
Foreign exchange	(47,372)
Balance, June 30, 2020	1,007,742
Repayments made	(19,061)
Foreign exchange	68,042
Balance, December 31, 2020	1,056,723
Repayments made	(19,075)
Foreign exchange	27,985
Balance, June 30, 2021	<u>\$ 1,065,633</u>

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 9. Joint arrangements (continued):

Scheduled principal repayments and maturity amounts of mortgages payable at June 30, 2021 are as follows:

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year	\$ —	\$ 1,065,633	\$ 1,065,633

On July 1, 2021, the Montreal Street JV renewed the mortgage for another 5 years term at an interest of 2.584% per annum.

## 10. Convertible note receivable:

As at June 30, 2021 and December 31, 2020, the Company advanced \$949,829 (CAD \$1,250,000) of convertible promissory note receivable (the "Convertible Note"). The Convertible Note was receivable by demand any time after January 29, 2021, and was extended for a further 12 months. During the six months ended June 30, 2021, the Company capitalized interest income of \$43,422. The fair value of the investment was determined by management. The fair value of the Convertible Note at June 30, 2021, was \$1,153,682 (December 31, 2020 - \$1,080,536), being the principal amount advanced and capitalized interest.

The following table summarizes the changes in the Convertible Note receivable for the six months ended June 30, 2021:

Balance, December 31, 2020	\$ 1,080,536
Interest capitalized	43,422
Foreign exchange	29,724
Balance, June 30, 2021	\$ 1,153,682

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 11. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Interest payable	\$ 563,019	\$ 513,803
Interest reserve	2,675,041	2,474,686
Accounts payable, accrued liabilities and provisions	890,139	942,876
Trust liabilities	207,368	3,388,113
Share-based compensation payable (note 17(c)(ii))	1,748,069	1,351,278
<b>Accounts payable and accrued liabilities</b>	<b>\$ 6,083,636</b>	<b>\$ 8,670,756</b>

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.

At June 30, 2021, the funds held in trust and offsetting trust liabilities payable to investors of \$1,273,185 are not reflected in the Financial Statements.

## 12. Loan payable to Debt Fund I:

On February 5, 2021, the Company, through TFCC USA III, entered into a loan agreement with the Debt Fund I. The Debt Fund I agreed to advance a total of \$32,500,000 in a loan payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10.25% per annum, paid monthly in arrears and matures on February 5, 2024. The interest and principal on this loan are payable from the proceeds from these investments and has limited recourse from these investment in finance leases.

As at June 30, 2021, the Debt Fund I advanced \$21,867,328 to TFCC USA III. The interest and principal on this loan are payable from the proceeds from these investments. During the three and six months ended June 30, 2021, TFCC USA III incurred an interest expense of \$346,996 and 490,916, respectively, on this loan payable.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 13. Credit facilities:

At June 30, 2021 and December 31, 2020, the Company's credit facilities (the "Credit Facilities") consist of a \$40,000,000 secured line of credit (the "LOC").

The following table presents details of the Credit Facilities as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Face value	\$ 6,750,000	\$ 7,000,000
Unamortized financing costs	(288,590)	(299,036)
	<u>\$ 6,461,410</u>	<u>\$ 6,700,964</u>

On January 14, 2020, the Company entered into a \$40,000,000 secured LOC with the lending institution in the U.S., replacing the \$35,000,000 master credit facility (the "Master Facility") the Company had with the same lending institution to finance the loan and mortgage investments funded by the Company. The LOC provides 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, 2024. At June 30, 2021 and December 31, 2020, the borrowing limit remained at \$40,000,000.

During the six months ended June 30, 2021 and 2020, the Company borrowed an aggregate of \$23,000,000 and \$6,270,423, respectively, and repaid \$23,250,000 and \$4,784,333, respectively, against the LOC and the Master Facility, combined.

In connection with the LOC, the Company incurred lender and 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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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## 13. Credit facilities (continued):

The following table summarizes the changes in the principal balance of Credit Facilities for the six months ended June 30, 2021 and 2020:

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Balance, December 31, 2019	\$ 9,221,447
Proceeds from Credit Facilities	6,270,423
Repayment of Credit Facilities	(10,284,335)
Interest capitalized	49,233
<hr/>	
Balance, June 30, 2020	5,256,768
Proceeds from Credit Facilities	16,500,000
Repayment of Credit Facilities	(14,756,768)
<hr/>	
Balance, December 31, 2020	7,000,000
Proceeds from Credit Facilities	23,000,000
Repayment of Credit Facilities	(23,250,000)
<hr/>	
Balance, June 30, 2021	\$ 6,750,000

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For the six months ended June 30, 2021, amortization of deferred financing costs reported as interest and financing costs totaled \$211,258 (2020 - \$143,750).

The terms of the Credit Facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants, the lender may declare an event of default. At June 30, 2021, the Company was in compliance with these covenants.

## 14. Unsecured note payable:

For the three and six months ended June 30, 2021 and 2020, interest and financing costs relating to the unsecured note payable (the "Unsecured Note"), reported as interest expense and financing costs totaled \$32,854 and \$79,216, respectively and nil and \$113,750, respectively. During the six months ended June 30, 2021, the Company made a repayment of \$1,254,998. The fair value of the Unsecured Note at June 30, 2021 was \$539,152 (December 31, 2020 - \$1,794,150).



# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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## 15. 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 June 30, 2021 and December 31, 2020 was \$979,100 and \$1,056,879, 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 June 30, 2021 and December 31, 2020 was \$1,006,012 and \$1,074,518, respectively.

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

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2021 remainder of year	\$	165,084
2022		271,938
2023		133,020
2024		68,761
2025 and thereafter		631,641
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	\$	1,270,444

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# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
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## 16. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at June 30, 2021 were \$13,758,614 (December 31, 2020 - \$7,204,207).

At June 30, 2021 and December 31, 2020, 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 \$38,014,255 and \$33,762,912, respectively. The Debt Fund I is committed to lending an additional \$10,632,672 to TFCC USA III to fund certain of these commitments in investments in finance leases.

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

The Company, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Company.

## 17. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the six months ended June 30, 2021 and 2020:

	Shares	Amount
Outstanding, December 31, 2019	5,564,968	\$ 25,283,343
Outstanding, June 30, 2020	5,564,968	25,283,343
Outstanding, December 31, 2020	5,564,968	25,283,343
Outstanding, June 30, 2021	5,564,968	\$ 25,283,343

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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## 17. Shareholders' equity (continued):

### (b) 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. The Company's dividends are eligible dividends for Canada Revenue Agency purposes.

Quarterly dividends declared to common shareholders during the period ended June 30, 2021 and year ended December 31, 2020 were as follows:

	June 30, 2021		December 31, 2020	
	Per Share in CAD	Amount in CAD	Per Share in CAD	Amount in CAD
March	\$ 0.05	\$ 221,271	\$ 0.05	\$ 199,418
June	0.05	224,503	0.05	200,771
September	—	—	0.05	208,958
December	—	—	0.05	210,555
	\$ 0.10	\$ 445,774	\$ 0.20	\$ 819,702

### (c) Share-based payments (recoveries):

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

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Share option plan	\$ —	\$ 164,488	\$ —	\$ 177,745
DSUs plan	302,662	(50,523)	362,733	(273,334)
	\$ 302,662	\$ 113,965	\$ 362,733	\$ (95,589)

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 17. 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. 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.

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:

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

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# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
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## 17. Shareholders' equity (continued):

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

The following is the summary of changes in share options for the six months ended June 30, 2021 and the year ended December 31, 2020:

	June 30, 2021		December 31, 2020	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of period	499,000	\$ 4.96	351,089	\$ 6.95
Granted	–	–	335,000	4.37
Cancelled	–	–	(90,000)	6.70
Expired	–	–	(97,089)	8.50
<b>Outstanding, end of period</b>	<b>499,000</b>	<b>\$ 4.96</b>	<b>499,000</b>	<b>4.96</b>
Number of options exercisable	273,748	\$ 5.44	217,916	\$ 5.71

The following summarizes the Company's outstanding share options as at June 30, 2021:

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	34,000	6.70	6.70
24,000	June 11, 2026	20,000	5.60	5.60
25,000	January 06, 2027	10,415	5.70	5.70
285,000	April 06, 2027	95,000	4.28	4.28
25,000	June 26, 2027	8,333	4.05	4.28
<b>499,000</b>		<b>273,748</b>		

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
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Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 17. Shareholders' equity (continued):

### (ii) Deferred share unit plan:

The Company has a cash-settled deferred share unit plan (the "DSU Plan"). 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.

The following is the summary of changes in DSUs for the six months ended June 30, 2021 and year ended December 31, 2020:

	June 30 2021	December 31, 2020
DSUs outstanding, beginning of period	304,344	302,371
Granted	5,270	14,978
Settled	—	(13,005)
<b>DSUs outstanding, end of period</b>	<b>309,614</b>	<b>304,344</b>
Number of DSUs vested	309,614	304,344

During the six months ended June 30, 2021, the Company granted 5,270 DSUs (year ended December 31, 2020 - 14,978 DSUs) based on the dividend paid on Shares.

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the six months ended June 30, 2021 and 2020 were \$362,733 and (\$273,334), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at June 30, 2021, is \$1,748,069 (December 31, 2020 - \$1,351,278).

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 18. Contributed surplus:

The following table presents the details of the contributed surplus balances as at June 30, 2021 and December 31, 2020:

Balance, December 31, 2019	\$ 3,440,695
Fair value of share-based compensation	177,745
<b>Balance, June 30, 2020</b>	<b>3,618,440</b>
Balance, December 31, 2020	3,618,440
<b>Balance, June 30, 2021</b>	<b>\$ 3,618,440</b>

## 19. Earnings per share:

The calculation of earnings per share of the three and six months ended June 30, 2021 and 2020 is as follows:

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	\$ 619,281	\$ 323,909	\$ 1,438,037	\$ 197,598
Diluted income attributable to common shareholders	\$ 619,281	\$ 323,909	\$ 1,438,037	\$ 197,598
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	5,564,968	5,564,968	5,564,968	5,564,968
Dilutive effect of share-based payments	93,568	-	79,378	-
Weighted average number of diluted Shares outstanding	5,658,536	5,564,968	5,644,346	5,564,968
Earnings per share:				
Basic	\$ 0.11	\$ 0.06	\$ 0.26	\$ 0.04
Diluted	0.11	0.06	0.25	0.04

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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(Unaudited)

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## 20. 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 June 30, 2021 and December 31, 2020, the loan and mortgage investments syndicated by officers and directors was \$520,063 and \$668,752, respectively.

## 21. Interest and financing costs:

The following table presents the interest incurred for the three and six months ended June 30, 2021 and 2020:

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Interest on loan and mortgage syndications	\$ 1,814,559	\$ 1,890,395	\$ 3,617,993	\$ 3,969,245
Interest on credit facilities	270,692	184,413	428,862	372,132
Montreal Street JV	13,574	11,083	25,799	22,627
Interest on lease obligations	14,142	737	26,091	1,054
	<u>\$ 2,112,967</u>	<u>\$ 2,086,628</u>	<u>\$ 4,098,745</u>	<u>\$ 4,365,058</u>



# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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(Unaudited)

## 22. Income taxes:

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

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Current income tax provision (recovery)	\$ 203,436	\$ (124,710)	\$ 476,183	\$ 144,184
Deferred income tax provision	(142,247)	22,209	(309,197)	227,238
<b>Total tax provision (recovery)</b>	<b>\$ 61,189</b>	<b>\$ (102,501)</b>	<b>\$ 166,986</b>	<b>\$ 371,422</b>

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

	Three months ended		Six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Income from operations before taxes	\$ 680,470	\$ 221,408	\$ 1,605,023	\$ 569,020
Combined statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	180,324	58,673	425,331	150,790
Increase (decrease) in income tax due to:				
Non-taxable items	41	48	615	746
Non-deductible stock-based compensation	–	43,589	–	47,102
Effect of changes in foreign exchange rates	(119,176)	(204,811)	(258,960)	172,784
<b>Total tax provision (recovery)</b>	<b>\$ 61,189</b>	<b>\$ (102,501)</b>	<b>\$ 166,986</b>	<b>\$ 371,422</b>

# TERRA FIRMA CAPITAL CORPORATION

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

## 22. Income taxes (continued):

The following table summarizes the changes to the current income tax recoverable and payable for the six months ended June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Payable (recoverable) balance, beginning of period	\$ 609,499	\$ (247,719)
Current income tax provision	476,183	144,184
Income taxes received (paid)	(1,467,622)	144,856
<b>Payable (recoverable) balance, end of period</b>	<b>\$ (381,940)</b>	<b>\$ 41,321</b>

The composition of the Company's recognized deferred income tax assets and liabilities for the six months ended June 30, 2021 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ 178,766	\$ (872)	\$ 177,894
Portfolio investments	236,836	27,055	263,891
Incorporation costs	(360)	12	(348)
DSUs	(221,241)	(96,124)	(317,365)
ACL	(295,299)	(29,850)	(325,149)
Unrealized foreign exchange gain (loss)	386,772	(207,717)	179,055
Shares and Credit Facilities issue costs	(134,907)	(14,056)	(148,963)
Deferred revenue	68,770	12,355	81,125
	<b>\$ 219,337</b>	<b>\$ (309,197)</b>	<b>\$ (89,860)</b>

# TERRA FIRMA CAPITAL CORPORATION

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

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

	Opening balance	Recognized in income	Closing balance
Investment property	\$ 167,534	\$ 5,391	\$ 172,925
Portfolio investments	286,776	—	286,776
Incorporation costs	(384)	13	(371)
DSUs	(194,349)	72,434	(121,915)
ACL	(293,363)	66,679	(226,684)
Unrealized foreign exchange gain	591,129	67,725	658,854
Debentures, Shares and revolving operating facility issue costs	(152,876)	(8,224)	(161,100)
Shares and Credit Facilities issue costs	45,550	23,220	68,770
	\$ 450,017	\$ 227,238	\$ 677,255

## 23. 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, as well as earn a good return for the shareholders.

The following table presents the capital structure of the Company as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Loan and mortgage syndications	\$ 62,113,577	\$ 71,374,100
Credit facilities	6,461,410	6,700,964
Unsecured note payable	539,152	1,794,150
Mortgages payable	1,065,410	1,055,379
Loan payable to Debt Fund I	21,867,328	—
Equity	42,154,916	41,162,653
Total capital	\$ 134,201,793	\$ 122,087,246

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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## **23. Capital management (continued):**

The Company is not restricted to determining the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remained unchanged during the three and six months ended June 30, 2021 and 2020.

## **24. Fair value measurement:**

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

The fair values of interest and other receivables, funds held in trust and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair 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 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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

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(Unaudited)

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## **24. Fair value measurement (continued):**

The fair value of the Company's investment property, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at June 30, 2021 and December 31, 2020 and no amounts were transferred between fair value levels during the six months ended June 30, 2021 or 2020. 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.

## **25. Risk management:**

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the 2020 Financial Statements.

Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market price, whether the changes are caused by factors specific to the investment or factors affecting all securities in the market. The Company's objective of managing this risk is to minimize the volatility of earnings. The Company mitigates this risk by charging interest rates that are significantly above normal banking rates.

Credit risk:

The Company syndicates its loan and mortgage investments with investors on a pari-passu basis. The syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans. The Company assesses its credit risk and its ACL on loan and mortgage investments, net of syndication.

As at June 30, 2021, 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 \$343,987 against this loan investment.

# TERRA FIRMA CAPITAL CORPORATION

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

If the ACL relating to the loan and mortgage investments are presented on a gross basis, the loan and mortgage investments and the corresponding loan and mortgage syndications balances would be lower by \$3,202,695 on the interim condensed consolidated statement of financial position with no impact to the interim condensed consolidated statements of income and comprehensive income.

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.

On March 5, 2021, the Financial Conduct Authority announced that panel bank submissions for certain LIBOR settings would cease as at December 31, 2021 and the remainder on June 30, 2023, after which representative LIBOR rates will no longer be available. The Company's LOC carries an interest rate based on LIBOR. The Company also holds debt instruments that will be impacted by any potential changes to the June 30, 2023 LIBOR cessation date. The Company plans to amend in-place agreements to a new benchmark or implement appropriate fallback provisions as applicable in response to the IBOR reform prior to or by the June 30, 2023 effective date.

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)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 25. 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,
- (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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(In U.S. dollars)

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 25. Risk management (continued):

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.

The COVID-19 pandemic which resulted in broad challenges globally has contributed to significant volatility in financial markets and continues to adversely impact global activity. Many jurisdictions have re-opened with social distancing measures implemented to curtail the spread of COVID-19, and multiple vaccines have been approved for use. Although the residential development continues to perform well during this time, the Company cannot predict that this will continue. The surges in new cases of COVID-19 and mutated strains of the virus have caused additional quarantines and lockdowns, which could delay any economic recovery. The vaccination program globally is ongoing and its effectiveness remains uncertain. These factors could further materially and adversely affect the Company's results and financial condition. The enhanced risks associated with COVID-19 include, but are not limited to: a reduction in interest income and an increase in credit loss provisions in the event that financial hardship causes an inability of borrowers to make contractual principal and interest payments to the Company on a timely basis; deterioration in the ability of the Company to achieve expected values on a timely basis from asset sales in connection with loan realizations and the ability to access capital markets at a reasonable cost. The Company continues to monitor the COVID-19 pandemic and its impact on its borrowers, lenders, investors and the economy as a whole.