



Interim Condensed Consolidated Financial Statements
(In United States dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Financial Position

(In United States dollars)

(Unaudited)

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 12,990,854 | \$ 18,107,159 |
| Funds held in trust | 5,307,234 | 3,971,799 |
| Amounts receivable and prepaid expenses (note 3) | 951,094 | 817,558 |
| Loan and mortgage investments (note 4) | 45,664,618 | 47,007,834 |
| Investment in finance leases (note 5) | 63,645,970 | 55,728,869 |
| Portfolio investments (note 6) | 894,528 | 676,421 |
| Investment in associates (note 7) | 9,007,533 | 8,364,711 |
| Investment property held in joint operations (note 8(b)) | 1,597,147 | 1,747,799 |
| Convertible note receivable (note 9) | 1,550,131 | 1,572,510 |
| Right-of-use asset (note 14) | 632,834 | 851,833 |
| Income taxes recoverable (note 21) | 361,955 | 459,474 |
| | <u>\$ 142,603,898</u> | <u>\$ 139,305,967</u> |

Liabilities and Shareholders' Equity

Liabilities:

| | | |
|--|-------------------|-------------------|
| Unearned income | \$ 679,390 | \$ 373,622 |
| Loan and mortgage syndications (note 4) | 18,654,147 | 22,043,144 |
| Loans payable (note 11) | 69,052,090 | 63,053,210 |
| Mortgages payable (note 8(c)) | 890,865 | 1,018,183 |
| Accounts payable and accrued liabilities (note 10) | 7,966,023 | 7,793,961 |
| Credit facilities (note 12) | (75,000) | (115,321) |
| Unsecured note payable (note 13) | – | 289,744 |
| Lease obligations (note 14) | 666,652 | 881,314 |
| Deferred income taxes payable (note 21) | 603,762 | 388,890 |
| | <u>98,437,929</u> | <u>95,726,747</u> |

Shareholders' equity:

| | | |
|--------------------------------------|-------------------|-------------------|
| Share capital (note 16(a)) | 25,364,104 | 25,293,007 |
| Contributed surplus (note 17) | 3,603,085 | 3,617,372 |
| Foreign currency translation reserve | (6,885,398) | (6,885,398) |
| Retained earnings | 22,084,178 | 21,554,239 |
| Shareholders' equity | <u>44,165,969</u> | <u>43,579,220</u> |

Commitments and contingencies (note 15)
Related party transactions (notes 16 and 19)

\$ 142,603,898 \$ 139,305,967

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

The interim condensed consolidated financial statements were approved by the Board on November 29, 2022 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, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Revenue: | | | | |
| Interest and fees | \$ 1,542,767 | \$ 2,803,709 | \$ 5,203,305 | \$ 8,449,687 |
| Finance income (note 5) | 2,152,133 | 1,363,762 | 6,042,046 | 3,342,444 |
| Rental (note 8(a)) | 41,580 | 45,355 | 127,611 | 129,261 |
| | <u>3,736,480</u> | <u>4,212,826</u> | <u>11,372,962</u> | <u>11,921,392</u> |
| Expenses (income): | | | | |
| Property operating costs (note 8(a)) | 13,901 | 15,014 | 43,525 | 44,900 |
| General and administrative | 979,663 | 959,694 | 3,041,391 | 2,830,233 |
| Severance cost (note 19) | — | — | 524,577 | — |
| Share-based compensation (recovery) (note 16(c)) | (265,675) | (122,853) | (257,177) | 239,880 |
| Interest and financing costs (note 20) | 2,384,102 | 2,309,715 | 6,910,412 | 6,408,460 |
| Allowance for uncollectible receivable (note 3) | — | — | — | 9,776 |
| Allowance for (recovery of) loan and mortgage investment loss (note 4) | 3,214 | — | (34,844) | (155,322) |
| Allowance for (recovery of) investment in finance lease loss | 1,852 | 52,494 | (20,241) | 310,604 |
| Realized and unrealized foreign exchange loss (gain) | 116,329 | 76,963 | (86,131) | (126,906) |
| Fair value adjustment - portfolio investments (note 6) | (590,000) | — | (776,065) | — |
| Share of income from investment in associates | (248,672) | (118,060) | (666,808) | (285,115) |
| | <u>2,394,714</u> | <u>3,172,967</u> | <u>8,678,639</u> | <u>9,276,510</u> |
| Income from operations before income taxes | 1,341,766 | 1,039,859 | 2,694,323 | 2,644,882 |
| Income tax expense (note 21) | 878,408 | 507,851 | 1,395,286 | 674,837 |
| Net income and comprehensive income | \$ 463,358 | \$ 532,008 | \$ 1,299,037 | \$ 1,970,045 |
| Earnings per share (note 18): | | | | |
| Basic | \$ 0.08 | \$ 0.10 | \$ 0.23 | \$ 0.35 |
| Diluted | 0.08 | 0.10 | 0.23 | 0.35 |

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, 2022 and 2021
(Unaudited)

| | Share capital | | Foreign currency translation reserve | Contributed surplus | Retained earnings | Total shareholders' equity |
|---|---------------------|---------------|---|------------------------|----------------------|----------------------------------|
| | Number of Shares | Amount | | | | |
| | (note 16(a)) | | | (note 17) | | |
| 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 16(b)) | – | – | – | – | (664,162) | (664,162) |
| Net income and comprehensive income | – | – | – | – | 1,970,045 | 1,970,045 |
| Balance, September 30, 2021 | 5,564,968 | 25,283,343 | (6,885,398) | 3,618,440 | 20,452,151 | 42,468,536 |
| Changes during the period: | | | | | | |
| Proceeds from issuance of Shares | 2,500 | 9,664 | – | (1,068) | – | 8,596 |
| Dividends on common Shares (note 16(b)) | – | – | – | – | (268,419) | (268,419) |
| Net income and comprehensive income | – | – | – | – | 1,370,507 | 1,370,507 |
| Balance, December 31, 2021 | 5,567,468 | 25,293,007 | (6,885,398) | 3,617,372 | 21,554,239 | 43,579,220 |
| Changes during the period: | | | | | | |
| Proceeds from issuance of Shares | 16,666 | 71,097 | – | (14,287) | – | 56,810 |
| Dividends on common Shares (note 16(b)) | – | – | – | – | (769,098) | (769,098) |
| Net income and comprehensive income | – | – | – | – | 1,299,037 | 1,299,037 |
| Balance, September 30, 2022 | 5,584,134 | \$ 25,364,104 | \$ (6,885,398) | \$ 3,603,085 | \$ 22,084,178 | \$ 44,165,969 |

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, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Cash provided by (used in): | | | | |
| Operating activities: | | | | |
| Net income and comprehensive income | \$ 463,358 | \$ 532,008 | \$ 1,299,037 | \$ 1,970,045 |
| Interest and fees earned | (1,542,767) | (2,803,709) | (5,203,305) | (8,449,687) |
| Finance income earned | (2,152,133) | (1,363,762) | (6,042,046) | (3,342,444) |
| Interest expense and financing costs | 2,384,102 | 2,309,715 | 6,910,412 | 6,408,460 |
| Unrealized foreign exchange loss (gain) | 119,906 | 51,782 | (83,812) | (93,555) |
| Share of income from investment in associates | (248,672) | (118,060) | (666,808) | (285,115) |
| Non-cash items: | | | | |
| Share-based compensation (recovery) (note 16(c)) | (265,675) | (122,853) | (257,177) | 239,880 |
| Amortization of right-of-use asset | 50,620 | 55,807 | 156,205 | 160,896 |
| Amortization (recovery) of deferred financing costs | 8,330 | — | (34,058) | — |
| Allowance for (recovery of) loan and mortgage investment loss | 3,214 | — | (34,844) | (155,322) |
| Allowance for uncollectible receivable | — | — | — | 9,776 |
| Allowance for (recovery of) investment in finance lease loss | 1,852 | 52,494 | (20,241) | 310,604 |
| Fair value adjustment - portfolio investment | (590,000) | — | (776,065) | — |
| Income tax provision | 878,408 | 507,851 | 1,395,286 | 674,837 |
| Changes in working capital: | | | | |
| Decrease (increase) in other receivables | 55,631 | (67,987) | 65,261 | (91,966) |
| Decrease (increase) in prepaid expenses and deposits | (71,662) | 49,412 | (47,106) | 29,267 |
| Increase (decrease) in accounts payable and accrued liabilities | (682,209) | 202,748 | (770,049) | 120,982 |
| Interest and fees and finance income received | 2,921,085 | 3,110,274 | 9,699,482 | 9,169,448 |
| Distribution from investment in associates | 255,010 | 63,798 | 656,338 | 126,719 |
| Interest paid | (2,053,382) | (1,642,441) | (6,029,917) | (4,810,321) |
| Income taxes refunded (paid) | (660,667) | 3,962 | (1,082,895) | (1,463,660) |
| Cash provided by (used in) operating activities | (1,125,651) | 821,039 | (866,302) | 528,844 |
| Financing activities: | | | | |
| Proceeds from loan and mortgage syndications | 1,628,718 | 1,028,520 | 6,877,328 | 3,834,481 |
| Repayments of loan and mortgage syndications | (3,585,027) | (9,568,345) | (11,147,452) | (22,679,133) |
| Proceeds from loans payable | 8,364,846 | 2,795,275 | 31,220,037 | 24,662,603 |
| Repayment of loans payable | (9,597,040) | — | (25,221,157) | — |
| Repayments of mortgages payable | (13,195) | (12,735) | (41,915) | (31,810) |
| Proceeds from unsecured note payable | — | 1,966,988 | — | 1,966,988 |
| Repayment of unsecured note payable | — | (249,408) | (289,744) | (1,504,406) |
| Proceeds from credit facilities | — | 10,000,000 | — | 33,000,000 |
| Repayment of credit facilities | — | (3,500,000) | — | (26,750,000) |
| Dividends paid | (256,609) | (223,117) | (788,274) | (663,811) |
| Proceeds from issuance of Shares pursuant to share options plan | 56,810 | — | 56,810 | — |
| Cash provided by (used in) financing activities | (3,401,497) | 2,237,178 | 665,633 | 11,834,912 |
| Investing activities: | | | | |
| Funding of loan and mortgage investments | (3,475,123) | (5,918,988) | (21,227,458) | (18,360,183) |
| Repayments of loan and mortgage investments | 5,287,653 | 10,107,504 | 24,201,707 | 28,315,711 |
| Funding of investment in finance leases | (8,364,594) | (9,872,729) | (29,560,408) | (34,849,086) |
| Proceeds from sale of finance leases | 8,751,968 | 3,694,003 | 21,793,312 | 11,401,889 |
| Funding of investment in convertible note receivable | — | (399,425) | — | (399,425) |
| Funding (repayment) of investment in associates | — | 20,000 | (808,750) | (2,154,500) |
| Return of capital of portfolio investment | — | 792,581 | 556,789 | 1,270,326 |
| Return of capital of investment in associates | — | — | 129,172 | 992,082 |
| Cash provided by (used in) investing activities | 2,199,904 | (1,577,054) | (4,915,636) | (13,783,186) |
| Increase (decrease) in cash and cash equivalents | (2,327,244) | 1,481,163 | (5,116,305) | (1,419,430) |
| Cash and cash equivalents, beginning of period | 15,318,098 | 880,231 | 18,107,159 | 3,780,824 |
| Cash and cash equivalents, end of period | \$ 12,990,854 | \$ 2,361,394 | \$ 12,990,854 | \$ 2,361,394 |

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, 2022 and 2021
(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.

2. Basis of presentation:

(a) Statement of compliance:

The unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2022 (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, 2021 (the "2021 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, 2022 and 2021
(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 interim condensed consolidated financial statements include the financial statements of the Company and the following significant entities as at September 30, 2022:

| | Country of incorporation | Interest % 2022 |
|--|-----------------------------|--------------------|
| 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 |
| TFCC Windrose LLC | U.S.A. | 100 |
| TFCC Ellington LLC | U.S.A. | 100 |
| TFCC Scotland Heights LLC | U.S.A. | 100 |
| TFCC Cambridge Angier LLC | U.S.A. | 100 |
| TFCC USA IV Corporation | U.S.A. | 100 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

3. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable, allowance for credit loss ("ACL") and prepaid expenses as at September 30, 2022:

| | Gross carrying amount | ACL | Net carrying amount |
|--|-----------------------------|-------------|---------------------------|
| Interest receivable | \$ 369,596 | \$ – | \$ 369,596 |
| Other receivables and deposits | 479,244 | – | 479,244 |
| Prepaid expenses | 102,254 | – | 102,254 |
| Amounts receivable and prepaid expenses | \$ 951,094 | \$ – | \$ 951,094 |

The following table presents details of the amounts receivable, ACL and prepaid expenses as at December 31, 2021:

| | Gross carrying amount | ACL | Net carrying amount |
|--|-----------------------------|-------------|---------------------------|
| Interest receivable | \$ 492,875 | \$ – | \$ 492,875 |
| Other receivables and deposits | 243,669 | – | 243,669 |
| Prepaid expenses | 81,014 | – | 81,014 |
| Amounts receivable and prepaid expenses | \$ 817,558 | \$ – | \$ 817,558 |

Interest and other receivable balance as at September 30, 2022, include a non-current balance of \$323,310 (December 31, 2021 - \$216,381). The current interest and other receivables and deposits are due in the next 12 months in accordance with contract terms.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

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

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at September 30, 2022:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|----------------------------------|-------------------------------|-------------|-----------------------------------|--------------------------------|-----------------|----------------------|
| Performing loans: | | | | | | |
| Residential housing developments | \$ 13,764,700 | \$ (13,261) | \$ 13,751,439 | \$ 6,254,440 | \$ 7,496,999 | 27.8 |
| Land and lot inventory | 31,946,434 | (33,255) | 31,913,179 | 12,399,707 | 19,513,472 | 72.2 |
| | \$ 45,711,134 | \$ (46,516) | \$ 45,664,618 | \$ 18,654,147 | \$ 27,010,471 | 100.0 |

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at December 31, 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 | \$ 6,285,220 | \$ (13,342) | \$ 6,271,878 | \$ 2,502,485 | \$ 3,769,393 | 15.1 |
| Land and lot inventory | 40,803,974 | (68,018) | 40,735,956 | 19,540,659 | 21,195,297 | 84.9 |
| | \$ 47,089,194 | \$ (81,360) | \$ 47,007,834 | \$ 22,043,144 | \$ 24,964,690 | 100.0 |

The loan and mortgage investments carry a weighted average effective interest rate of 13.2% (December 31, 2021 - 13.7%) and a weighted average term to maturity of 1.34 years (December 31, 2021 - 1.10 years).

The loan and mortgage syndications carry a weighted average effective interest rate of 10.2% (December 31, 2021 - 10.3%) and a weighted average term to maturity of 1.20 years (December 31, 2021 - 0.98 years).

At September 30, 2022, the Company has a loan and mortgage investment totaling \$10,703,727 (December 31, 2021 - \$2,014,805) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$5,314,388 (December 31, 2021 - \$1,473,760) and the remainder of the investment is in a subordinated position of \$5,389,339 (December 31, 2021 - \$541,045). The Company retains 100% of the subordinated position of \$5,389,339 (December 31, 2021 - \$541,045).

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

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

As at September 30, 2022, there are loan and mortgage investments to two separate projects in the U.S., before syndication, that account for 37.8% and 23.4% of the principal balance of loan and mortgage investments. As at December 31, 2021, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 34.9%, 13.5% and 13.4% of the principal balance of loan and mortgage investments. For the nine months ended September 30, 2022, the Company has loan and mortgage investments in three separate projects in the U.S. before syndication, that account for 26.5%, 15.7% and 12.6% of the Company's interest and fees revenue. For the nine months ended September 30, 2021, the Company has loan and mortgage investments in three separate projects in the U.S., before syndication, that account for 28.2%, 20.5% and 17.5% of the Company's interest and fees revenue.

During the three and nine months ended September 30, 2022, the Company capitalized interest income of \$550,546 and \$1,708,735, respectively, (2021 - \$811,417 and \$2,372,286, respectively), which is included in loan and mortgage investments.

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances, subject to borrowers meeting certain funding conditions. The future funding commitments under the existing loan and mortgage investments at September 30, 2022, were \$56,964,683 (December 31, 2021 - \$46,038,263). As at September 30, 2022, the future funding commitments relating to loan and mortgage investments in three separate projects in the U.S. before syndication that account for 41.1%, 29.1%, and 19.5% of the total future funding commitments. As at December 31, 2021, the future funding commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, account for 52.7% and 40.0% of the total future funding commitments.

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at September 30, 2022:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|--------------------|-------------------------------|--------------------|-----------------------------------|--------------------------------|----------------------|----------------------|
| 1st mortgage loans | \$ 42,650,243 | \$ (36,768) | \$ 42,613,475 | \$ 17,714,093 | \$ 24,899,382 | 92.2 |
| 2nd mortgage loans | 1,193,145 | (42) | 1,193,103 | 940,054 | 253,049 | 0.9 |
| Unregistered loans | 1,867,746 | (9,706) | 1,858,040 | – | 1,858,040 | 6.9 |
| | <u>\$ 45,711,134</u> | <u>\$ (46,516)</u> | <u>\$ 45,664,618</u> | <u>\$ 18,654,147</u> | <u>\$ 27,010,471</u> | <u>100.0</u> |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

4. 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, 2022:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|--------|-------------------------------|--------------------|-----------------------------------|--------------------------------|----------------------|----------------------|
| Canada | \$ 1,193,145 | \$ (42) | \$ 1,193,103 | \$ 940,054 | \$ 253,049 | 0.9 |
| U.S. | 44,517,989 | (46,474) | 44,471,515 | 17,714,093 | 26,757,422 | 99.1 |
| | <u>\$ 45,711,134</u> | <u>\$ (46,516)</u> | <u>\$ 45,664,618</u> | <u>\$ 18,654,147</u> | <u>\$ 27,010,471</u> | <u>100.0</u> |

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2021:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|--------------------|-------------------------------|--------------------|-----------------------------------|--------------------------------|----------------------|----------------------|
| 1st mortgage loans | \$ 44,081,171 | \$ (73,003) | \$ 44,008,168 | \$ 21,014,419 | \$ 22,993,749 | 92.1 |
| 2nd mortgage loans | 1,305,690 | (43) | 1,305,647 | 1,028,725 | 276,922 | 1.1 |
| Unregistered loans | 1,702,333 | (8,314) | 1,694,019 | – | 1,694,019 | 6.8 |
| | <u>\$ 47,089,194</u> | <u>\$ (81,360)</u> | <u>\$ 47,007,834</u> | <u>\$ 22,043,144</u> | <u>\$ 24,964,690</u> | <u>100.0</u> |

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2021:

| | Loan and mortgage investments | ACL | Net loan and mortgage investments | Loan and mortgage syndications | Net investments | % of net investments |
|--------|-------------------------------|--------------------|-----------------------------------|--------------------------------|----------------------|----------------------|
| Canada | \$ 1,305,690 | \$ (43) | \$ 1,305,647 | \$ 1,028,725 | \$ 276,922 | 1.1 |
| U.S. | 45,783,504 | (81,317) | 45,702,187 | 21,014,419 | 24,687,768 | 98.9 |
| | <u>\$ 47,089,194</u> | <u>\$ (81,360)</u> | <u>\$ 47,007,834</u> | <u>\$ 22,043,144</u> | <u>\$ 24,964,690</u> | <u>100.0</u> |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

4. 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, 2022:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|---------------|---------|---------|---------------|
| Residential housing developments | \$ 13,764,700 | \$ – | \$ – | \$ 13,764,700 |
| Land and lot inventory | 31,946,434 | – | – | 31,946,434 |
| | \$ 45,711,134 | \$ – | \$ – | \$ 45,711,134 |

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, 2022:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|---------------|---------|---------|---------------|
| Residential housing developments | \$ 7,510,260 | \$ – | \$ – | \$ 7,510,260 |
| Land and lot inventory | 19,546,727 | – | – | 19,546,727 |
| | \$ 27,056,987 | \$ – | \$ – | \$ 27,056,987 |

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, 2022:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|--------|---------------|---------|---------|---------------|
| Canada | \$ 1,193,145 | \$ – | \$ – | \$ 1,193,145 |
| U.S. | 44,517,989 | – | – | 44,517,989 |
| | \$ 45,711,134 | \$ – | \$ – | \$ 45,711,134 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

4. 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 loan and mortgage syndications, segmented by geography, for which ACL is recognized as at September 30, 2022:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|--------|---------------|---------|---------|---------------|
| Canada | \$ 253,091 | \$ – | \$ – | \$ 253,091 |
| U.S. | 26,803,896 | – | – | 26,803,896 |
| | \$ 27,056,987 | \$ – | \$ – | \$ 27,056,987 |

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, 2021:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|---------------|---------|---------|---------------|
| Residential housing developments | \$ 6,285,220 | \$ – | \$ – | \$ 6,285,220 |
| Land and lot inventory | 40,803,974 | – | – | 40,803,974 |
| | \$ 47,089,194 | \$ – | \$ – | \$ 47,089,194 |

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, 2021:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|---------------|---------|---------|---------------|
| Residential housing developments | \$ 3,782,735 | \$ – | \$ – | \$ 3,782,735 |
| Land and lot inventory | 21,263,315 | – | – | 21,263,315 |
| | \$ 25,046,050 | \$ – | \$ – | \$ 25,046,050 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

4. 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, segmented by geography, as at December 31, 2021:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|--------|---------------|---------|---------|---------------|
| Canada | \$ 1,305,771 | \$ – | \$ – | \$ 1,305,771 |
| U.S. | 45,783,423 | – | – | 45,783,423 |
| | \$ 47,089,194 | \$ – | \$ – | \$ 47,089,194 |

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, 2021:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|--------|---------------|---------|---------|---------------|
| Canada | \$ 277,046 | \$ – | \$ – | \$ 277,046 |
| U.S. | 24,769,004 | – | – | 24,769,004 |
| | \$ 25,046,050 | \$ – | \$ – | \$ 25,046,050 |

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 |
|-------------------------|------------------------------|--------------------------------------|-------------------------------------|
| 2022, remainder of year | \$ – | \$ – | \$ – |
| 2023 | – | 25,578,207 | 25,578,207 |
| 2024 | – | 16,275,218 | 16,275,218 |
| 2025 | – | 3,857,709 | 3,857,709 |
| | \$ – | \$ 45,711,134 | \$ 45,711,134 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

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

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

| | Scheduled principal payments | Loans maturing during the year | Total loan and mortgage syndications |
|-------------------------|------------------------------|--------------------------------|--------------------------------------|
| 2022, remainder of year | \$ – | \$ – | \$ – |
| 2023 | – | 13,339,759 | 13,339,759 |
| 2024 | – | 5,314,388 | 5,314,388 |
| | \$ – | \$ 18,654,147 | \$ 18,654,147 |

Allowance for loan and mortgage investments loss:

The changes in the ACL on loan and mortgage investments during the nine months ended September 30, 2022 were as follows:

| | IFRS 9 | | | Balance at September 30, 2022 |
|----------------------------------|----------------------------|---------------------------|----------------|-------------------------------|
| | Balance at January 1, 2022 | Recovery of credit losses | Net write offs | |
| Residential housing developments | \$ 13,342 | \$ (81) | \$ – | \$ 13,261 |
| Land and lot inventory | 68,018 | (34,763) | – | 33,255 |
| | \$ 81,360 | \$ (34,844) | \$ – | \$ 46,516 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

4. 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 | \$ 81,360 | \$ – | \$ – | \$ 81,360 |
| Recovery of credit losses: | | | | |
| Remeasurement | (34,844) | – | – | (34,844) |
| Transfer to (from): | | | | |
| Stage 1 | – | – | – | – |
| Stage 2 | – | – | – | – |
| Stage 3 | – | – | – | – |
| Gross write-offs | – | – | – | – |
| Recoveries | – | – | – | – |
| Balance, end of period | \$ 46,516 | \$ – | \$ – | \$ 46,516 |

As at December 31, 2021, the Company received an unsecured note receivable of \$1,000,000 plus interest. The unsecured note receivable related to a first mortgage loan investment from a project located in the U.S. (the "U.S. Project") and was in consideration of unpaid interest. As at December 31, 2021, the Company determined that the collectability of the unsecured note receivable was remote and ascribed nil value and the amounts were written off.

On June 28, 2022, the Company received the cash payment towards the unsecured note receivable. During the nine months ended September 30, 2022, the Company recorded a recovery related to the unsecured note receivable of \$213,239 which represented the Company's share of the unsecured note receivable, net of syndication of \$865,687. The recovery was included within interest and fees earned in the interim condensed consolidated statements of income and comprehensive income.

The following table presents details of the Company's ACL on loan and mortgage investments as at September 30, 2022:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|----------------------------------|-----------|---------|---------|-----------|
| Residential housing developments | \$ 13,261 | \$ – | \$ – | \$ 13,261 |
| Land and lot inventory | 33,255 | – | – | 33,255 |
| | \$ 46,516 | \$ – | \$ – | \$ 46,516 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

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

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at September 30, 2022:

| IFRS 9 | Stage 1 | Stage 2 | Stage 3 | Total |
|--------|-----------|---------|---------|-----------|
| Canada | \$ 42 | \$ – | \$ – | \$ 42 |
| U.S. | 46,474 | – | – | 46,474 |
| | \$ 46,516 | \$ – | \$ – | \$ 46,516 |

5. Investment in finance leases:

As at September 30, 2022, the Company had 16 investment in finance leases (December 31, 2021 - 15). The following table represents details of the investment in finance leases and ACL as at September 30, 2022:

| | September 30, 2022 | December 31, 2021 |
|------------------------------|-----------------------|----------------------|
| Investment in finance leases | \$ 63,746,172 | \$ 55,849,312 |
| Allowance for credit losses | (100,202) | (120,443) |
| Balance, at period end | \$ 63,645,970 | \$ 55,728,869 |

Investment in finance leases of \$60,633,277 are financed through loans payable (note 11) (December 31, 2021 - \$51,003,555).

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 13.6% per annum and the weighted average term of the leases is 2.09 years. The unearned finance income at September 30, 2022 was nil (December 31, 2021 - \$139,376).

The income recognized from finance leases for the nine months ended September 30, 2022, of \$6,042,046 (nine months ended September 30, 2021 - \$3,342,444) was included within finance income in the interim condensed 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, 2022 and 2021
(Unaudited)

5. Investment in finance leases (continued):

The following table summarizes the changes in the investment in finance leases for the nine months ended September 30, 2022 and 2021:

| | |
|-----------------------------|---------------|
| Balance, December 31, 2020 | \$ 20,489,655 |
| Investment made | 34,849,086 |
| Investments sold | (11,401,889) |
| Lease payments received | (3,254,245) |
| Finance income recognized | 3,342,444 |
| Allowance for credit losses | (310,604) |
| Balance, September 30, 2021 | 43,714,447 |
| Investment made | 19,048,246 |
| Investments sold | (7,037,638) |
| Lease payments received | (1,774,850) |
| Finance income recognized | 1,547,442 |
| Recovery of credit losses | 231,222 |
| Balance, December 31, 2021 | 55,728,869 |
| Investment made | 29,560,408 |
| Investments sold | (21,793,312) |
| Lease payments received | (5,912,282) |
| Finance income recognized | 6,042,046 |
| Recovery of credit losses | 20,241 |
| Balance, September 30, 2022 | \$ 63,645,970 |

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 | \$ 24,075,995 | \$ 10,550,606 | \$ 13,525,389 |
| Greater than one year but less than 5 years | 61,986,518 | 11,765,735 | 50,220,783 |
| | \$ 86,062,513 | \$ 22,316,341 | \$ 63,746,172 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

5. Investment in finance leases (continued):

As at September 30, 2022, there are four net investments in finance leases that account for 14.3%, 10.4%, 10.2%, and 10.1% of the net investments in finance leases. For the nine months ended September 30, 2022, the Company has two net investments in finance leases that account for 11.6% and 11.3% 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 nine months ended September 30, 2022 were as follows:

| | IFRS 9 | | | Balance at September 30, 2022 |
|-------------------------------------|----------------------------------|---------------------------------|-------------------|-------------------------------------|
| | Balance at January 1, 2022 | Recovery of credit losses | Net write offs | |
| Residential housing developments | \$ 120,443 | \$ (20,241) | \$ – | \$ 100,202 |

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 | \$ 120,443 | \$ – | \$ – | \$ 120,443 |
| Recovery of credit losses: | | | | |
| Remeasurement | (20,241) | – | – | (20,241) |
| Transfer to (from): | | | | |
| Stage 1 | – | – | – | – |
| Stage 2 | – | – | – | – |
| Stage 3 | – | – | – | – |
| Gross write-offs | – | – | – | – |
| Recoveries | – | – | – | – |
| Balance, end of period | \$ 100,202 | \$ – | \$ – | \$ 100,202 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

6. Portfolio investments:

The following table presents details of the portfolio investments as at September 30, 2022 and December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|----------------------|
| Investment in the LanQueen Partnership | \$ – | \$ 521,892 |
| Investment in the Savannah Partnership | 894,528 | 154,528 |
| Investment in the Valermo Partnership | – | 1 |
| | <u>\$ 894,528</u> | <u>\$ 676,421</u> |

- (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. During the nine months ended the Company received distributions and return of capital of \$556,789. As at September 30, 2022, a fair value gain of \$36,065 (December 31, 2021 - \$205,556) was recorded on the investment. As at September 30, 2022, the Company received its full return of capital on this investment and final distributions. The fair value of investment at September 30, 2022 was nil (December 31, 2021 - \$521,892).
- (b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International committed to investing \$2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. 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. As at September 30, 2022, the principal balance outstanding to be repaid on the above noted loan and mortgage investment was \$17,286,539 (December 31, 2021 - \$16,451,611). The syndicated principal loan and mortgage investment balance outstanding to be repaid was \$12,399,706 (December 31, 2021 - \$11,993,074). As at September 30, 2022, an independent third party appraisal was obtained related to the residual lands which resulted in a fair value gain of \$740,000 (December 31, 2021 - nil) recorded on the investment. The fair value of the residual land was determined through a combination of the sales comparison and income approach. The fair value of the investment in the Savannah Partnership at September 30, 2022 was \$894,528 (December 31, 2021 - \$154,528).

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
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6. Portfolio investments (continued):

(c) The Company, through TFVC, had a limited partnership interest in a partnership in Toronto. As at September 30, 2022, the Company disposed of its interest in the partnership.

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2022 and December 31, 2021:

| | |
|-----------------------------|--------------|
| Balance, December 31, 2020 | \$ 2,292,991 |
| Return of capital | (1,270,326) |
| Foreign exchange | 24,358 |
| Balance, September 30, 2021 | 1,047,023 |
| Fair value adjustment | 259,841 |
| Return of capital | (642,468) |
| Foreign exchange | 12,025 |
| Balance, December 31, 2021 | 676,421 |
| Fair value adjustment | 776,065 |
| Return of capital | (556,789) |
| Foreign exchange | (1,169) |
| Balance, September 30, 2022 | \$ 894,528 |

7. Investment in associates:

The following table presents details of the investment in associates as at September 30, 2022 and December 31, 2021:

| | September 30, 2022 | December 31 2021 |
|--|-----------------------|---------------------|
| Investment in the Lan Partnership | \$ 428,568 | \$ 791,181 |
| Investment in the TFCC Royal Palm Beach Inc. | 1,575,770 | 1,383,346 |
| Investment in Debt Fund I | 2,694,790 | 2,174,053 |
| Investment in Debt Fund II | 4,308,405 | 4,016,131 |
| | \$ 9,007,533 | \$ 8,364,711 |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

7. Investment in associates (continued):

- (a) The Company has a partnership interest in a high-rise condominium development project located in Toronto, Ontario through a partnership interest (the "Lan Partnership"). During the nine months ended September 30, 2022, the project was considered substantially complete, and the Company received distributions of \$123,816 and a return of capital of \$129,172. During the nine months ended September 30, 2022, the Company recorded a fair value loss of \$60,327. The fair value of the investment in the Lan Partnership was determined by management, using the residual method. The fair value of the investment at September 30, 2022 was \$428,568 (December 31, 2021 - \$791,181).
- (b) The Company, through TFCC International Ltd., invested in TFCC Royal Palm Beach Inc. During the nine months ended September 30, 2022, the Company recorded income of \$219,523 (for the nine months ended September 30, 2021 - \$184,339) and received distributions of \$29,170 (for the nine months ended September 30, 2021 - \$26,253), from TFCC Royal Palm Beach Inc. The fair value of the investment at September 30, 2022 was \$1,575,770 (December 31, 2021 - \$1,383,346).
- (c) On February 5, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding Corporation (the "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. Debt Fund I entered into a loan agreement with the wholly-owned subsidiary of the Company TFCC USA III Corporation (the "TFCC USA III"). Debt Fund I also secured a \$10,000,000 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 Debt Fund I. The Company exerts influence in Debt Fund I and accounts for this investment using the equity method of accounting.

As at September 30, 2022, Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling \$22,334,250 and \$2,675,750, respectively. As at September 30, 2022, the Company through TFCC USA III Holding owns 10.69% partnership interest in Debt Fund I.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

7. Investment in associates (continued):

As at September 30, 2022, Debt Fund I had an outstanding balance of \$2,879,592 against the credit facility and a loan payable balance of \$27,606,352 to TFCC USA III (note 11). For the nine months ended September 30, 2022, the Company recognized its share of income of \$188,345 (nine months ended September 30, 2021 - \$100,777) and received distributions of \$188,859 (nine months ended September 30, 2021 - \$100,466) from Debt Fund I.

- (d) On December 7, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding and third-party investors, entered into a limited partnership agreement ("Debt Fund II"). As at September 30, 2022, the investors and TFCC USA III Holding committed to advance total capital of \$53,139,000 and \$5,950,000, respectively. Debt Fund II entered into a loan agreement with TFCC USA IV Corporation (the "TFCC USA IV"). During the nine months ended September 30, 2022, Debt Fund II increased its line of credit (the "LOC") from \$12,000,000 to \$20,000,000 with a U.S. bank. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of Debt Fund II. The Company exerts influence in Debt Fund II and accounts for this investment using the equity method of accounting. As at September 30, 2022, the Company through TFCC USA III Holding owns 10.0% partnership interest in Debt Fund II.

As at September 30, 2022, Debt Fund II received capital contributions from investors and TFCC USA III Holding totaling \$36,705,000 and \$4,287,500, respectively. As at September 30, 2022, Debt Fund II had an outstanding balance of \$794,000 against the credit facility and advanced a loan payable of \$41,445,738 to TFCC USA IV (note 11). For the nine months ended September 30, 2022, the Company recognized its share of income of \$319,267 (nine months ended September 30, 2021 - nil) and received distributions of \$314,493 (nine months September 30, 2021 - nil) from Debt Fund II.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

7. Investment in associates (continued):

| | |
|-----------------------------|--------------|
| Balance, December 31, 2020 | \$ 3,112,395 |
| Investment funded | 2,154,500 |
| Income earned | 285,115 |
| Repayment | (992,082) |
| Distributions received | (126,719) |
| Foreign exchange | 55,337 |
| Balance, September 30, 2021 | 4,488,546 |
| Investment funded | 4,000,000 |
| Income earned | 159,085 |
| Fair value adjustment | (222,222) |
| Distributions received | (64,884) |
| Foreign exchange | 4,186 |
| Balance, December 31, 2021 | 8,364,711 |
| Investment funded | 808,750 |
| Income earned | 727,135 |
| Repayment | (129,172) |
| Distributions received | (656,338) |
| Foreign exchange | (47,226) |
| Fair value adjustment | (60,327) |
| Balance, September 30, 2022 | \$ 9,007,533 |

During the nine months ended September 30, 2022, the Company recognized net income from investments in associates of \$727,135 (nine months ended September 30, 2021 - \$285,115) and received distributions of \$656,338 (nine months ended September 30, 2021 - \$126,719).

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

8. 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:

| | September 30, 2022 | December 31, 2021 |
|---|-----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 22,530 | \$ 133,582 |
| Amounts receivable and prepaid expenses | 188,197 | 84,775 |
| Investment property | 1,597,147 | 1,747,799 |
| Right-of-use asset | 549,673 | 643,815 |
| | <u>2,357,547</u> | <u>2,609,971</u> |
| Liabilities | | |
| Accounts payable and prepaid expenses | 27,985 | 37,533 |
| Mortgages payable | 890,865 | 1,018,183 |
| Lease obligations | 592,047 | 678,166 |
| | <u>1,510,897</u> | <u>1,733,882</u> |
| Net assets | <u>\$ 846,650</u> | <u>\$ 876,089</u> |

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

8. Joint arrangements (continued):

The table below details the results of operations for the three and nine months ended September 30, 2022 and 2021, attributable to the Company from the Montreal Street JV:

| | Three months ended | | Nine months ended | |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Revenue: | | | | |
| Rental revenue | \$ 41,580 | \$ 45,355 | \$ 127,611 | \$ 129,261 |
| Expenses: | | | | |
| Property operating costs | 13,901 | 15,014 | 43,525 | 44,900 |
| General and administrative | 1,246 | 1,008 | 2,330 | 2,018 |
| Interest | 10,728 | 12,238 | 32,952 | 38,037 |
| | 25,875 | 28,260 | 78,807 | 84,955 |
| Net income | \$ 15,705 | \$ 17,095 | \$ 48,804 | \$ 44,306 |

(b) Investment property:

At September 30, 2022, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$1,597,147 (CAD \$2,208,694) (December 31, 2021 - \$1,747,799 (CAD \$2,208,694)). The capitalization rate used in the valuation of the property was 6.25% (December 31, 2021 - 6.25%).

As at September 30, 2022, 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 (December 31, 2021 - 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 (December 31, 2021 - CAD \$85,250).

(c) Mortgages payable:

The Company's share of the principal balance of mortgages payable held in the Montreal Street JV, at September 30, 2022 was \$890,865 (December 31, 2021 - \$1,018,183). The mortgages bear interest at 3.0% per annum and are amortized over 25 years and matures on July 1, 2026.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

8. Joint arrangements (continued):

The details of the mortgages payable in respect of the Company's proportionate share of the Montreal Street JV at September 30, 2022 and December 31, 2021 are as follows:

| | September 30, 2022 | December 31, 2021 |
|--------------------|-----------------------|----------------------|
| Mortgage principal | \$ 890,865 | \$ 1,018,183 |

The following table summarizes the changes in the principal balance of mortgages payable for the nine months ended September 30, 2022 and 2021:

| | |
|-----------------------------|--------------|
| Balance, December 31, 2020 | \$ 1,056,723 |
| Repayments made | (31,810) |
| Foreign exchange | 4,146 |
| Balance, September 30, 2021 | 1,029,059 |
| Repayments made | (14,420) |
| Foreign exchange | 3,544 |
| Balance, December 31, 2021 | 1,018,183 |
| Repayments made | (41,915) |
| Foreign exchange | (85,403) |
| Balance, September 30, 2022 | \$ 890,865 |

Scheduled principal repayments and maturity amounts of mortgages payable at September 30, 2022 are as follows:

| | Loans scheduled principal payments | Total maturing during the period | Loans and mortgages payable |
|-----------------------------|---|---|-----------------------------------|
| Remainder of year | \$ 13,828 | \$ — | \$ 13,828 |
| 2023 | 54,768 | — | 54,768 |
| 2024 | 56,176 | — | 56,176 |
| 2025 and thereafter | 91,913 | 674,180 | 766,093 |
| Balance, September 30, 2022 | \$ 216,685 | \$ 674,180 | \$ 890,865 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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9. Convertible note receivable:

The following table summarizes the changes in the Convertible Note receivable for the nine months ended September 30, 2022:

| | |
|------------------------------------|---------------------|
| Balance, December 31, 2021 | \$ 1,572,510 |
| Interest capitalized | 122,253 |
| Foreign exchange | (144,632) |
| Balance, September 30, 2022 | \$ 1,550,131 |

During the nine months ended September 30, 2022, the maturity of the Convertible Note was extended to January 29, 2023. During the nine months ended September 30, 2022, the Company capitalized interest income of \$122,253. The fair value of the investment was determined by management. The fair value of the Convertible Note as at September 30, 2022 was \$1,550,131 (December 31, 2021 - \$1,572,510), being the principal amount advanced and capitalized interest.

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at September 30, 2022 and December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|--|-----------------------|----------------------|
| Interest payable | \$ 682,723 | \$ 686,596 |
| Interest reserve | 3,328,520 | 750,842 |
| Accounts payable, accrued liabilities and provisions | 878,094 | 1,655,560 |
| Funds held in trust | 1,978,714 | 3,220,957 |
| Share-based compensation payable (note 16(c)(ii)) | 1,097,972 | 1,480,006 |
| Accounts payable and accrued liabilities | \$ 7,966,023 | \$ 7,793,961 |

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

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11. Loans payable:

- (a) On February 5, 2021, the Company, through TFCC USA III, entered into a loan agreement with Debt Fund I. Debt Fund I agreed to advance up to 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 investments in finance leases.

As at September 30, 2022, Debt Fund I advanced \$27,606,352 to TFCC USA III and during the nine months ended September 30, 2022 incurred interest expense of \$1,918,446 on this loan. The interest and principal on this loan are payable from the proceeds from these investments.

- (b) On December 6, 2021, the Company, through TFCC USA IV, entered into a loan agreement with Debt Fund II. Debt Fund II agreed to advance up to a total of \$150,000,000 in a loan payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10% per annum, paid monthly in arrears and matures on December 6, 2024. The interest and principal on this loan are payable from the proceeds from these investments and has limited recourse from these investments in finance leases and loan and mortgage investments.

As at September 30, 2022, Debt Fund II advanced \$41,445,738 to TFCC USA IV and during the nine months ended September 30, 2022 incurred interest expense of \$3,144,869. The interest and principal on this loan are payable from the proceeds from these investments.

12. Credit facilities:

The Company has a \$20,000,000 secured credit line (the "LOC") with a U.S. financial lending institution which includes an additional \$20,000,000 accordion feature. The LOC matures on April 25, 2023, and the interest rate is the greater of 5% or prime plus 0.75%. The LOC is subject to a borrowing capacity, calculated monthly as a percentage of eligible loan and mortgage investments and investment in finance leases and subject to certain adjustments. As at September 30, 2022, the Company had drawn nil (December 31, 2021 - nil) on the LOC. As at September 30, 2022, the borrowing capacity with the LOC was \$20,000,000.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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12. Credit facilities (continued):

The following table presents details of the Credit Facilities as at September 30, 2022 and December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|-----------------------------|-----------------------|----------------------|
| Unamortized financing costs | \$ (75,000) | \$ (115,321) |

The following table summarizes the changes in the principal balance of Credit Facilities for the nine months ended September 30, 2022 and 2021:

| | |
|---------------------------------|--------------|
| Balance, December 31, 2020 | \$ 7,000,000 |
| Proceeds from Credit Facilities | 33,000,000 |
| Repayment of Credit Facilities | (26,750,000) |
| Balance, September 30, 2021 | 13,250,000 |
| Proceeds from Credit Facilities | 500,000 |
| Repayment of Credit Facilities | (13,750,000) |
| Balance, December 31, 2021 | — |
| Proceeds from Credit Facilities | — |
| Repayment of Credit Facilities | — |
| Balance, September 30, 2022 | \$ — |

During the nine months ended, in connection with the LOC, the Company incurred lender and third-party costs of \$100,000. 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. The accumulated amortization as at September 30, 2022 was \$25,000 (December 31, 2021 - \$635,018).

For the nine months ended September 30, 2022, amortization of deferred financing costs reported as interest and financing costs totaled \$140,325 (nine months ended September 30, 2021 - \$313,890) which included deferred financing costs of \$115,654 related to the Company's previous facility that were written off and was included within interest expense in the interim condensed consolidated statements of income and comprehensive income.

The terms of the Credit Facilities require the Company to comply with certain covenants. At September 30, 2022, the Company was in compliance with these covenants.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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13. Unsecured note payable:

For the three and nine months ended September 30, 2022, interest and financing costs relating to the unsecured note payable (the "Unsecured Note"), reported as interest expense and financing costs totaled nil and \$3,398 (three and nine months ended September 30, 2021 - \$9,938 and \$89,154), respectively. During the nine months ended September 30, 2022, the Company made a repayment of \$289,744. The Unsecured Note payable was fully repaid as at March 31, 2022 (December 31, 2021 - \$289,744).

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.

The Company's lease commitment related to its head office provides for the Company to lease the premises for two years and four months commencing on January 1, 2021.

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, 2022 was \$632,834 (December 31, 2021 - \$851,833). 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, 2022 was \$666,652 (December 31, 2021 - \$881,314).

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

| | | |
|------------------------|----|---------|
| 2022 remainder of year | \$ | 60,950 |
| 2023 | | 119,255 |
| 2024 | | 55,680 |
| 2025 and thereafter | | 627,926 |
| | \$ | 863,811 |

TERRA FIRMA CAPITAL CORPORATION

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The future funding commitments under the existing lending agreements on loan and mortgage investments at September 30, 2022 were \$56,964,683 (December 31, 2021 - \$46,038,263).

At September 30, 2022, the future funding commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were \$64,306,011 (December 31, 2021 - \$59,239,668).

As at September 30, 2022, the future funding commitments from Debt Fund I and Debt Fund II, through its third-party investors and TFCC USA III Holding, were \$25,586,500 (December 31, 2021 - \$12,350,000).

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.

16. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the nine months ended September 30, 2022 and 2021:

| | Shares | Amount |
|---|-----------|---------------|
| Outstanding, December 31, 2020 | 5,564,968 | \$ 25,283,343 |
| Outstanding, September 30, 2021 | 5,564,968 | 25,283,343 |
| Proceeds from issuance of Shares under share option | 2,500 | 9,664 |
| Outstanding, December 31, 2021 | 5,567,468 | 25,293,007 |
| Proceeds from issuance of Shares under share option | 16,666 | 71,097 |
| Outstanding, September 30, 2022 | 5,584,134 | \$ 25,364,104 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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16. 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 September 30, 2022 and year ended December 31, 2021 were as follows:

| | September 30, 2022 | | December 31, 2021 | |
|-----------|---------------------|------------------|---------------------|------------------|
| | Per Share in CAD | Amount in CAD | Per Share in CAD | Amount in CAD |
| March | \$ 0.06 | \$ 334,048 | \$ 0.05 | \$ 279,620 |
| June | 0.06 | 334,048 | 0.05 | 283,704 |
| September | 0.06 | 334,048 | 0.05 | 275,977 |
| December | – | – | 0.06 | 339,201 |
| | \$ 0.18 | \$ 1,002,144 | \$ 0.21 | \$ 1,178,502 |

(c) Share-based payments:

The share-based payments that have been recognized for the three and nine months ended September 30, 2022 and 2021 are as follows:

| | Three months ended | | Nine months ended | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Share option plan | \$ 4,699 | \$ – | \$ 12,353 | \$ – |
| Deferred share unit plan | (270,374) | (122,853) | (269,530) | 239,880 |
| | \$ (265,675) | \$ (122,853) | \$ (257,177) | \$ 239,880 |

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 Plan to grant eligible directors, officers, senior management and consultants to grant options to purchase Shares. The exercise price of an option shall be determined by the Board and in accordance with the Plan and the policies of the TSXV. 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.

The following is the summary of changes in share options for the nine months ended September 30, 2022 and the year ended December 31, 2021:

| | September 30, 2022 | | December 31, 2021 | |
|----------------------------------|--------------------|--|-------------------|--|
| | Number of options | Weighted average exercise price in CAD | Number of options | Weighted average exercise price in CAD |
| Outstanding, beginning of period | 514,000 | \$ 5.00 | 499,000 | \$ 4.96 |
| Granted | – | – | 20,000 | 5.95 |
| Exercised | (16,666) | – | (2,500) | 4.28 |
| Cancelled | (33,334) | – | (2,500) | 4.28 |
| Outstanding, end of period | 464,000 | \$ 4.96 | 514,000 | \$ 5.00 |
| Number of options exercisable | 393,164 | \$ 5.01 | 316,248 | \$ 5.30 |

TERRA FIRMA CAPITAL CORPORATION

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

The following summarizes the Company's outstanding share options as at September 30, 2022:

| 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 |
| 41,000 | December 27, 2023 | 41,000 | 6.50 | 6.50 |
| 24,000 | December 21, 2024 | 24,000 | 6.70 | 6.70 |
| 24,000 | June 11, 2026 | 24,000 | 5.60 | 5.60 |
| 25,000 | January 06, 2027 | 18,747 | 5.70 | 5.70 |
| 255,000 | April 06, 2027 | 210,000 | 4.28 | 4.28 |
| 25,000 | June 26, 2027 | 18,750 | 4.05 | 4.28 |
| 20,000 | November 28, 2028 | 6,667 | 5.95 | 5.95 |
| 464,000 | | 393,164 | | |

(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 deferred share units ("DSUs") for the nine months ended September 30, 2022 and year ended December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| DSUs outstanding, beginning of period | 314,295 | 304,344 |
| Granted | 7,947 | 9,951 |
| DSUs outstanding, end of period | 322,242 | 314,295 |
| Number of DSUs vested | 322,242 | 314,295 |

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16. Shareholders' equity (continued):

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the nine months ended September 30, 2022 was \$(269,530) (nine months ended September 30, 2021 - \$239,880).

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at September 30, 2022, is \$1,097,972 (December 31, 2021 - \$1,480,006).

17. Contributed surplus:

The following table presents the details of the contributed surplus balances as at September 30, 2022 and December 31, 2021:

| | |
|--|--------------|
| Balance, December 31, 2020 | \$ 3,618,440 |
| Balance, September 30, 2021 | 3,618,440 |
| Fair value of share-based compensation | (1,068) |
| Balance, December 31, 2021 | 3,617,372 |
| Exercise of options transferred to share capital | (14,287) |
| Balance, September 30, 2022 | \$ 3,603,085 |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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18. Earnings per share:

The calculation of earnings per share of the three and nine months ended September 30, 2022 and 2021 is as follows:

| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Numerator for basic and diluted earnings per share: | | | | |
| Income attributable to common shareholders | \$ 463,358 | \$ 532,008 | \$ 1,299,037 | \$ 1,970,045 |
| Diluted income attributable to common shareholders | \$ 463,358 | \$ 532,008 | \$ 1,299,037 | \$ 1,970,045 |
| Denominator basic and diluted earnings per share: | | | | |
| Weighted average number of Shares outstanding | 5,583,591 | 5,564,968 | 5,572,881 | 5,564,968 |
| Dilutive effect of Share-based payments | 57,556 | 68,646 | 60,721 | 78,366 |
| Weighted average number of diluted Shares outstanding | 5,641,147 | 5,633,614 | 5,633,602 | 5,643,334 |
| Earnings per Share: | | | | |
| Basic | \$ 0.08 | \$ 0.10 | \$ 0.23 | \$ 0.35 |
| Diluted | 0.08 | 0.10 | 0.23 | 0.35 |

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 interim condensed consolidated financial statements, the following are the related party transactions:

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

On July 15, 2022, the Company paid a severance allowance of \$524,577 (\$667,000 CAD) related to the departure of the former Chief Financial Officer & Corporate Secretary. This severance allowance is recorded in severance expenses.

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, 2022, the loan and mortgage investments syndicated by officers and directors was \$1,186,114 (December 31, 2021 - \$1,297,658).

20. Interest and financing costs:

The following table presents the interest incurred for the three and nine months ended September 30, 2022 and 2021:

| | Three months ended | | Nine months ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Interest on loan and mortgage syndications | \$ 562,231 | \$ 1,460,321 | \$ 1,641,984 | \$ 4,587,398 |
| Interest on loans payable | 1,759,337 | 601,600 | 5,063,315 | 1,092,516 |
| Interest on credit facilities | 41,861 | 230,341 | 140,325 | 659,203 |
| Montreal Street JV | 10,728 | 12,238 | 32,952 | 38,037 |
| Interest on lease obligations | 9,945 | 5,215 | 31,836 | 31,306 |
| | <u>\$ 2,384,102</u> | <u>\$ 2,309,715</u> | <u>\$ 6,910,412</u> | <u>\$ 6,408,460</u> |

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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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, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Current income tax provision | \$ 359,130 | \$ 259,802 | \$ 1,187,893 | \$ 735,985 |
| Deferred income tax provision (recovery) | 519,278 | 248,049 | 207,393 | (61,148) |
| Total tax provision | \$ 878,408 | \$ 507,851 | \$ 1,395,286 | \$ 674,837 |

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, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Income from operations before taxes | \$ 1,341,766 | \$ 1,039,859 | \$ 2,694,323 | \$ 2,644,882 |
| Combined statutory income taxes | 26.50% | 26.50% | 26.50% | 26.50% |
| Income tax provision based on statutory income taxes | \$ 355,568 | \$ 275,563 | \$ 713,996 | \$ 700,894 |
| Increase (decrease) in income tax due to: | | | | |
| Non-taxable items | 11,903 | 190 | 12,736 | 805 |
| Non-deductible stock-based compensation | 1,246 | – | 3,274 | – |
| Effect of changes in foreign exchange rates | 509,691 | 232,098 | 665,280 | (26,862) |
| Total tax provision | \$ 878,408 | \$ 507,851 | \$ 1,395,286 | \$ 674,837 |

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

The following table presents the capital structure of the Company as at September 30, 2022 and December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|--------------------------------|-----------------------|-----------------------|
| Loan and mortgage syndications | \$ 18,654,147 | \$ 22,043,144 |
| Credit Facilities | (75,000) | (115,321) |
| Unsecured note payable | – | 289,744 |
| Mortgages payable | 890,865 | 1,018,183 |
| Loans payable | 69,052,090 | 63,053,210 |
| Shareholders' equity | 44,165,969 | 43,579,220 |
| Total capital | \$ 132,688,071 | \$ 129,868,180 |

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 nine months ended September 30, 2022 and 2021.

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 receivable, loan and mortgage investments, investment in finance leases, accounts payable and accrued liabilities, loans payable, portfolio investments, lease obligations, loan and mortgage syndications, mortgages payable, and Credit Facilities.

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23. Fair value measurement (continued):

The fair values of interest and other receivables, convertible note receivable, 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 and loan and mortgage syndications approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, loan and mortgage syndications, convertible note receivable, loans 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.

The fair value of the Company's investment property held in joint operations, portfolio investments, and investment in associates are determined using Level 3 inputs at September 30, 2022 and no amounts were transferred between fair value levels during the three and nine months ended September 30, 2022. Notes 6, 7 and 8 outline the key assumptions used by the Company in determining fair value of its portfolio investments, investment in associates and investment property held in joint operations.

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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 2021 financial statements.

(a) 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.

(b) 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.

(c) Interest rate risk:

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.

TERRA FIRMA CAPITAL CORPORATION

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24. Risk management (continued):

(d) 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.

(e) 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.

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24. Risk management (continued):

(f) 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,
- (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.

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.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2022 and 2021
(Unaudited)

24. Risk management (continued):

(g) Other price risk:

Other price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market.

Unexpected volatility or illiquidity could occur due to legal, political, regulatory, economic or other developments, such as public health emergencies, including an epidemic or pandemic, natural disasters, war and related geopolitical risks, and may impair the Company's ability to carry out the objectives of the Company or cause the Company to incur losses. Neither the duration nor ultimate effect of any such market conditions, nor the degree to which such conditions may worsen can be predicted.