



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

# **TERRA FIRMA CAPITAL CORPORATION**

Three months ended March 31, 2023 and 2022  
(Unaudited)

The accompanying unaudited interim condensed consolidated financial statements of Terra Firma Capital Corporation for the three months ended March 31, 2023 have been prepared by and are the responsibility of management. These unaudited interim condensed consolidated financial statements, together with the accompanying notes, have been reviewed and approved by members of Terra Firma Capital Corporation's audit committee. In accordance with National Instrument 51 – 102, Terra Firma Capital Corporation discloses that these unaudited condensed consolidated interim financial statements have not been reviewed by Terra Firma Capital Corporation's auditors.

# TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Financial Position

(In U.S. dollars)

(Unaudited)

	March 31, 2023	December 31, 2022
<b>Assets</b>		
Cash and cash equivalents	\$ 23,111,456	\$ 16,636,083
Funds held in trust	5,236,502	5,960,395
Amounts receivable and prepaid expenses (note 3)	1,063,064	916,225
Loan and mortgage investments (note 4)	39,461,949	46,111,079
Investment in finance leases (note 5)	58,052,750	67,779,627
Portfolio investments (note 6)	932,093	932,093
Investment in associates (note 7)	9,615,729	9,228,257
Investment property held in joint operations	1,639,908	1,636,518
Convertible note receivable (note 8)	1,514,231	1,511,101
Right-of-use asset	548,191	596,603
Income taxes recoverable	—	67,571
Deferred income tax asset	183,874	21,085
	<b>\$ 141,359,747</b>	<b>\$ 151,396,637</b>

## Liabilities and Shareholders' Equity

<b>Liabilities:</b>		
Unearned income	\$ 249,568	\$ 669,950
Loan and mortgage syndications (note 4)	13,127,328	16,034,041
Loans payable (note 10)	73,447,393	79,847,824
Mortgages payable	883,530	895,492
Accounts payable and accrued liabilities (note 9)	8,302,406	9,221,168
Credit facilities (note 11)	(25,000)	(50,000)
Lease obligations	587,110	633,326
Income taxes payable	307,988	—
	<b>96,880,323</b>	<b>107,251,801</b>
<b>Shareholders' equity:</b>		
Share capital (note 13(a))	25,364,104	25,364,104
Contributed surplus (note 14)	3,609,432	3,607,129
Foreign currency translation reserve	(6,885,398)	(6,885,398)
Retained earnings	22,391,286	22,059,001
Shareholders' equity	<b>44,479,424</b>	<b>44,144,836</b>
Commitments and contingencies (note 12)		
Related party transactions (notes 16)		
	<b>\$ 141,359,747</b>	<b>\$ 151,396,637</b>

*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 May 29, 2023 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	
	March 31, 2023	March 31, 2022
<b>Revenue:</b>		
Interest and fees	\$ 1,616,876	\$ 1,760,406
Finance income (note 5)	2,203,544	2,026,538
Rental	40,135	43,413
	<u>3,860,555</u>	<u>3,830,357</u>
<b>Expenses (income):</b>		
Property operating costs	13,511	15,071
General and administrative	870,897	1,103,536
Share-based compensation (recovery) (note 13(c))	211,803	(134,187)
Interest and financing costs (note 17)	2,260,495	2,515,709
Recovery of loan and mortgage investment loss (note 4)	(19,388)	(25,766)
Recovery of investment in finance lease loss (note 5)	(20,016)	(17,346)
Realized and unrealized foreign exchange loss (gain)	10,220	(22,763)
Fair value adjustment – convertible note receivable (note 8)	31,995	–
Share of income from investment in associates (note 7)	(291,132)	(235,070)
	<u>3,068,385</u>	<u>3,199,184</u>
Income from operations before income taxes	792,170	631,173
Income tax expense (note 18)	211,995	53,597
<b>Net income and comprehensive income</b>	<b>\$ 580,175</b>	<b>\$ 577,576</b>
<b>Earnings per share (note 15):</b>		
Basic	\$ 0.10	\$ 0.10
Diluted	0.10	0.10

*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)

Three months ended March 31, 2023 and 2022  
(Unaudited)

	Share capital		Foreign currency translation reserve	Contributed surplus	Retained earnings	Total shareholders' equity
	Number of shares	Amount				
	(note 13 (a))			(note 14)		
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						
Dividends on common shares (note 13(b))	–	–	–	–	(267,324)	(267,324)
Net income and comprehensive income	–	–	–	–	577,576	577,576
Balance, March 31, 2022	5,567,468	25,293,007	(6,885,398)	3,617,372	21,864,491	43,889,472
Changes during the period:						
Issuance of shares	16,666	71,097	–	(10,243)	–	60,854
Dividends on common shares (note 13(b))	–	–	–	–	(749,151)	(749,151)
Net income and comprehensive income	–	–	–	–	943,661	943,661
Balance, December 31, 2022	5,584,134	25,364,104	(6,885,398)	3,607,129	22,059,001	44,144,836
Changes during the period						
Share-based compensation	–	–	–	2,303	–	2,303
Dividends on common shares (note 13(b))	–	–	–	–	(247,890)	(247,890)
Net income and comprehensive income	–	–	–	–	580,175	580,175
Balance, March 31, 2023	5,584,134	\$ 25,364,104	\$ (6,885,398)	\$ 3,609,432	\$ 22,391,286	\$ 44,479,424

*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	
	March 31, 2023	March 31, 2022
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 580,175	\$ 577,576
Interest and fees earned	(1,616,876)	(1,760,406)
Finance income earned	(2,203,544)	(2,026,538)
Interest expense and financing costs	2,260,495	2,515,709
Unrealized foreign exchange loss (gain)	224,835	(14,238)
Income from investments in associates	(291,132)	(235,070)
Non-cash items:		
Share-based compensation (recovery) (note 13(c))	211,803	(134,187)
Amortization of right-of-use asset	49,637	52,999
Amortization of deferred financing costs	25,000	-
Fair value adjustment – convertible note receivable	31,995	-
Recovery of loan and mortgage investment loss	(19,388)	(25,766)
Recovery of investment in finance lease loss	(20,016)	(17,346)
Income tax provision	211,995	53,597
Changes in working capital:		
Increase in other receivables	(252,277)	(84,425)
Decrease in prepaid expenses and deposits	19,802	11,520
Decrease in accounts payable and accrued liabilities	(213,723)	(42,921)
Interest and fees received	3,641,488	3,107,684
Distributions from investment in associates	196,407	166,182
Interest paid	(2,194,009)	(1,937,171)
Cash provided by operating activities	642,667	207,199
Financing activities:		
Proceeds from loan and mortgage syndications	489,583	3,483,692
Proceeds from loans payable	8,724,755	9,500,247
Repayments of loan and mortgage syndications	(3,721,070)	(5,352,978)
Repayment of loans payable	(15,125,186)	(8,246,884)
Repayments of mortgages payable	(13,818)	(14,396)
Repayment of short-term unsecured loans payable	-	(289,744)
Dividends paid	(247,377)	(264,781)
Cash used in financing activities	(9,893,113)	(1,184,844)
Investing activities:		
Funding of loan and mortgage investments	(3,783,311)	(7,500,332)
Repayments of loan and mortgage investments	11,031,258	14,919,082
Funding of investment in finance leases	(6,030,053)	((8,790,053)
Proceeds from sale of finance leases	14,800,425	4,987,384
Return of capital of portfolio investment	-	376,621
Funding of investment in associates	(292,500)	-
Cash provided by investing activities	15,725,819	3,992,702
Increase in cash and cash equivalents	6,475,373	3,015,057
Cash and cash equivalents, beginning of period	16,636,083	18,107,159
Cash and cash equivalents, end of period	\$ 23,111,456	\$ 21,122,216

*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 months ended March 31, 2023 and 2022  
(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 months ended March 31, 2023 (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, 2022 (the "2022 Annual Financial Statements").

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 March 31, 2023:

	Country of incorporation	Interest % 2023
TFCC International Ltd.	Canada	100
Terra Firma MA Ltd.	Canada	100
Terra Firma Queen Developments Inc.	Canada	100
TFCC LanQueen Ltd.	Canada	100
TFCC USA III Holdings Corporation	Canada	100
Terra Firma Senior Debt Fund Corporation	Canada	100
Terra Firma (Crowdfund) 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 Coyote 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 months ended March 31, 2023 and 2022  
(Unaudited)

### 3. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable, allowance for credit loss (the "ACL") and prepaid expenses as at March 31, 2023:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 604,701	\$ –	\$ 604,701
Other receivables	352,034	–	352,034
Prepaid expenses	106,329	–	106,329
Amounts receivable and prepaid expenses	\$1,063,064	\$ –	\$1,063,064

The following table presents details of the amounts receivable, allowance for credit loss (the "ACL") and prepaid expenses as at December 31, 2022:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 477,663	\$ –	\$ 477,663
Other receivables	286,565	–	286,565
Prepaid expenses	151,997	–	151,997
Amounts receivable and prepaid expenses	\$ 916,225	\$ –	\$ 916,225

Interest and other receivable balance as at March 31, 2023, include a non-current balance of \$272,138 (December 31, 2022 - \$316,942). The current interest and other receivables are due in the next 12 months in accordance with contract terms.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 March 31, 2023:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	\$ 1,996,154	\$ (8,119)	\$ 1,988,035	\$ —	\$ 1,988,035	7.50
Land and lot inventory	37,497,355	(23,441)	37,473,914	13,127,328	24,346,586	92.50
	<u>\$ 39,493,509</u>	<u>\$ (31,560)</u>	<u>\$ 39,461,949</u>	<u>\$ 13,127,328</u>	<u>\$ 26,334,621</u>	<u>100.00</u>

The following table presents details of the loan and mortgage investments, ACL and loan and mortgage syndications as at December 31, 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	\$ 7,732,984	\$ (8,863)	\$ 7,724,121	\$ 3,229,497	\$ 4,494,624	14.9
Land and lot inventory	38,429,043	(42,085)	38,386,958	12,804,544	25,582,414	85.1
	<u>\$ 46,162,027</u>	<u>\$ (50,948)</u>	<u>\$ 46,111,079</u>	<u>\$ 16,034,041</u>	<u>\$ 30,077,038</u>	<u>100.0</u>

The loan and mortgage investments carry a weighted average effective interest rate of 13.5% (December 31, 2022 - 13.5%) and a weighted average term to maturity of 0.95 years (December 31, 2022 - 1.19 years).

During the three months ended March 31, 2023, the Company capitalized interest income of \$576,906 (three months ended March 31, 2022 - \$600,414) which is included in loan and mortgage investments.

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., a wholly-owned subsidiary of the Company. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense on the syndicate investors are recognized in the consolidated statements of income and comprehensive income.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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

The Company accounts for its syndicated loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage investments at March 31, 2023 is \$13,127,328 (December 31, 2022 was \$16,034,041). The loan and mortgage syndications carry a weighted average effective interest rate of 10.7% (December 31, 2022 – 10.5%) and a weighted average term to maturity of 0.5 years (December 31, 2022 – 0.84 years).

At March 31, 2023, the Company received full repayment of its loan and mortgage investment totaling \$5,557,445 (December 31, 2022 - \$4,571,377) with a participation arrangement with a priority syndicate investor. Additionally, the priority syndicate investor was fully repaid its senior position of \$2,759,247 and the Company retained the residual portion of \$2,798,198.

As at March 31, 2023, there are loan and mortgage investments to two separate projects in the U.S. before syndication, that account for 46.8% and 23.6% of the principal balance of loan and mortgage investments. As at December 31, 2022, there are loan and mortgage investments to two separate projects in the U.S., before syndication, that account for 38.9% and 14.7% of the principal balance of loan and mortgage investments. For the three months ended March 31, 2023, the Company has loan and mortgage investments in two separate projects in the U.S. before syndication, that account for 43.0% and 17.8% of the Company's interest and fees revenue. For the three months ended March 31, 2022, the Company had four loan and mortgage investments in the U.S. before syndication, that account for 29.3%, 21.9%, 11.0% and 10.2% of the Company's total interest and fees revenue.

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at March 31, 2023, were \$26,197,893 (December 31, 2022 - \$48,597,094). As at March 31, 2023, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S. before syndication that account for 57.4% and 42.5% of the total unfunded commitments. As at December 31, 2022, the unfunded commitments relating to loan and mortgage investments in three separate projects in the U.S., before syndication, account for 38.3%, 32.0% and 22.9% 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 United States dollars)

Three months ended March 31, 2023 and 2022  
(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 risk and geography as at March 31, 2023:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	\$ 37,497,355	\$ (23,441)	\$ 37,473,914	\$ 13,127,328	\$ 24,346,586	92.5
Unregistered loans	1,996,154	(8,119)	1,988,035	–	1,988,035	7.5
	<u>\$ 39,493,509</u>	<u>\$ (31,560)</u>	<u>\$ 39,461,949</u>	<u>\$ 13,127,328</u>	<u>\$ 26,334,621</u>	<u>100.0</u>
Canada	\$ –	\$ –	\$ –	\$ –	\$ –	–
U.S.	39,493,509	(31,560)	39,461,949	13,127,328	26,334,621	100.0
	<u>\$ 39,493,509</u>	<u>\$ (31,560)</u>	<u>\$ 39,461,949</u>	<u>\$ 13,127,328</u>	<u>\$ 26,334,621</u>	<u>100.0</u>

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk and geography as of December 31, 2022:

	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	\$ 43,000,462	\$ (42,925)	\$ 42,957,537	\$ 15,074,206	\$ 27,883,331	92.7
2 <sup>nd</sup> mortgage loans	1,218,252	(118)	1,218,134	959,835	258,299	0.9
Unregistered loans	1,943,313	(7,905)	1,935,408	–	1,935,408	6.4
	<u>\$ 46,162,027</u>	<u>\$ (50,948)</u>	<u>\$ 46,111,079</u>	<u>\$ 16,034,041</u>	<u>\$ 30,077,038</u>	<u>100.0</u>
Canada	\$ 1,218,252	\$ (118)	\$ 1,218,134	\$ 959,834	\$ 258,300	0.9
U.S.	44,943,775	(50,830)	44,892,945	15,074,207	29,818,738	99.1
	<u>\$ 46,162,027</u>	<u>\$ (50,948)</u>	<u>\$ 46,111,079</u>	<u>\$ 16,034,041</u>	<u>\$ 30,077,038</u>	<u>100.0</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 March 31, 2023:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 1,996,154	\$ –	\$ –	\$ 1,996,154
Land and lot inventory	37,497,355	–	–	37,497,355
	\$ 39,493,509	\$ –	\$ –	\$ 39,493,509

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, for which ACL is recognized as at March 31, 2023:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 1,996,154	\$ –	\$ –	\$ 1,996,154
Land and lot inventory	24,370,027	–	–	24,370,027
	\$ 26,366,181	\$ –	\$ –	\$ 26,366,181

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 March 31, 2023:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ –	\$ –	\$ –	\$ –
U.S.	39,493,509	–	–	39,493,509
	\$ 39,493,509	\$ –	\$ –	\$ 39,493,509

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 March 31, 2023:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ –	\$ –	\$ –	\$ –
U.S.	26,366,181	–	–	26,366,181
	\$ 26,366,181	\$ –	\$ –	\$ 26,366,181

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, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 7,732,984	\$ –	\$ –	\$ 7,732,984
Land and lot inventory	38,429,043	–	–	38,429,043
	\$ 46,162,027	\$ –	\$ –	\$ 46,162,027

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, for which ACL is recognized as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 4,503,487	\$ –	\$ –	\$ 4,503,487
Land and lot inventory	25,624,499	–	–	25,624,499
	\$ 30,127,986	\$ –	\$ –	\$ 30,127,986

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 segmented by geography, for which ACL is recognized as at December 31, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 1,218,252	\$ –	\$ –	\$ 1,218,252
U.S.	44,943,775	–	–	44,943,775
	\$ 46,162,027	\$ –	\$ –	\$ 46,162,027

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, 2022:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 258,418	\$ –	\$ –	\$ 258,418
U.S.	29,869,568	–	–	29,869,568
	\$ 30,127,986	\$ –	\$ –	\$ 30,127,986

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

	Scheduled principal payments	Investments maturing during the year
2023, remainder of year	\$ –	\$ 24,461,805
2024	–	5,699,896
2025	–	9,331,808
	\$ –	\$ 39,493,509

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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 year is as follows:

	Scheduled principal payments	Loans maturing during the year
2023, remainder of year	\$ –	\$ 13,127,328
	\$ –	\$ 13,127,328

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.

Allowance for loan and mortgage investments loss:

The changes in the ACL on loan and mortgage investments during the three months ended March 31, 2023 were as follows:

	IFRS 9			Balance at March 31, 2023
	Balance at January 1, 2023	Recoveries	Funding	
Residential housing developments	\$ 8,863	\$ (744)	\$ –	\$ 8,119
Land and lot inventory	42,085	(18,644)	–	23,441
	\$ 50,948	\$ (19,388)	\$ –	\$ 31,560



# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(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	\$ 50,948	\$ –	\$ –	\$ 50,948
Recovery of credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	–	–
Recoveries	(19,388)	–	–	(19,388)
<b>Balance, end of period</b>	<b>\$ 31,560</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 31,560</b>

The following table presents details of the Company's ACL on loan and mortgage investments as at March 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 8,119	\$ –	\$ –	\$ 8,119
Land and lot inventory	23,441	–	–	23,441
	\$ 31,560	\$ –	\$ –	\$ 31,560

	Stage 1	Stage 2	Stage 3	Total
Canada	\$ –	\$ –	\$ –	\$ –
U.S.	31,560	–	–	31,560
	\$ 31,560	\$ –	\$ –	\$ 31,560

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 5. Investment in finance leases:

As at March 31, 2023, the Company had 13 investment in finance leases (December 31, 2022 - 15). The following table represents details of the investment in finance leases and ACL as at March 31, 2023:

	March 31, 2023	December 31, 2022
Investment in finance leases	\$ 58,100,600	\$ 67,847,493
Allowance for credit losses	(47,850)	(67,866)
<b>Balance, at period end</b>	<b>\$ 58,052,750</b>	<b>\$ 67,779,627</b>

Investment in finance leases of \$58,100,600 are financed through loans payable (note 10) (December 31, 2022 - \$65,741,383).

The investment in finance leases is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the leases. The weighted average rate implicit in the leases is 13.3% per annum and the weighted average term of the leases is 1.9 years. The unearned finance income at March 31, 2023 was \$976,521 (December 31, 2022 - nil).

The income recognized from finance leases for three months ended March 31, 2023, of \$2,203,544 (three months ended March 31, 2022 - \$2,026,538) 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 months ended March 31, 2023 and 2022  
(Unaudited)

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

The following table summarizes the changes in the investment in finance leases for the three months ended March 31, 2023 and 2022:

Balance, December 31, 2021	\$ 55,728,869
Investment made	8,790,053
Investments sold	(4,987,384)
Lease payments received	(1,943,430)
Finance income recognized	2,026,254
Recovery of credit losses	17,346
Balance, March 31, 2022	59,631,708
Investment made	27,640,289
Investments sold	(19,833,121)
Lease payments received	(5,882,205)
Finance income recognized	6,187,725
Recovery of credit losses	35,231
Balance, December 31, 2022	67,779,627
Investment made	6,030,053
Investments sold	(14,800,425)
Lease payments received	(3,180,065)
Finance income recognized	2,203,544
Recovery of credit losses	20,016
Balance, March 31, 2023	\$ 58,052,750

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	\$ 22,531,966	\$ 7,117,927	\$ 15,414,039
Greater than one year but less than 5 years	48,776,718	6,090,157	42,686,561
	\$ 71,308,684	\$ 13,208,084	\$ 58,100,600

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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

As at March 31, 2023, there are three net investments in finance leases that account for 19.3%, 18.4% and 14.8% of the net investments in finance leases (December 31, 2022 - 14.7%, 14.0%, 11.3%, 11.1%, 11.0% and 10.5%). For the three months ended March 31, 2023, the Company has six net investments in finance leases that account for \$14.9%, \$13.4%, \$10.9%, 10.7%, 10.4% and 10.0% of the Company's finance income (March 31, 2022 – 11.4% and 10.4%).

Allowance for finance lease investments loss:

The changes in the ACL on finance lease investments during the three months ended March 31, 2023 were as follows:

	IFRS 9			Balance at March 31, 2023
	Balance at January 1, 2023	Recoveries	Funding	
Residential housing developments	\$ 67,866	\$ (20,016)	–	\$ 47,850

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 67,866	\$ –	\$ –	\$ 67,866
Provision for credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs	–	–	–	–
Recoveries	(20,016)	–	–	(20,016)
Balance, end of period	\$ 47,850	\$ –	\$ –	\$ 47,850

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 6. Portfolio investments:

The following table presents details of the portfolio investments as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Investment in the Savannah Partnership	932,093	932,093
	<u>\$ 932,093</u>	<u>\$ 932,093</u>

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2023 and December 31, 2022:

Balance, December 31, 2021	\$ 676,421
Return of investment	(376,621)
Foreign exchange	5,510
Balance, March 31, 2022	305,310
Return of investment	(180,168)
Preferred return earned	37,565
Fair value adjustment	776,065
Foreign exchange	(6,679)
Balance, December 31, 2022	932,093
Balance, March 31, 2023	<u>\$ 932,093</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 7. Investment in associates:

The following table presents details of the investment in associates as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31 2022
Investment in the Lan Partnership	\$ 148,366	\$ 102,976
Investment in the TFCC Royal Palm Beach Inc.	1,723,620	1,650,831
Investment in TFCC Senior Debt Fund I LP	2,682,940	2,691,388
Investment in TFCC US Senior Real Estate Fund II Funding LP	5,060,803	4,783,062
	<u>\$ 9,615,729</u>	<u>\$ 9,228,257</u>

(a) 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 March 31, 2023, the Company through TFCC USA III Holding owns 10.70% partnership interest in Debt Fund I (December 31, 2022 - 10.70%).

As at March 31, 2023, Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling \$22,334,250 and \$2,675,750, respectively (December 31, 2022 - \$22,334,250 and \$2,675,750). As at March 31, 2023, Debt Fund I had an outstanding balance of \$2,882,513 (December 31, 2022 - \$3,774,512) against the credit facility and a loans payable balance of \$24,707,126 (December 31, 2022 - \$28,459,840) to TFCC USA III (note 10). For the three months ended March 31, 2023, the Company recognized its share of income of \$59,838 (three months ended March 31, 2022 - \$57,974) and received distributions of \$68,566 (three months ended March 2022 - \$55,209) from Debt Fund I.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 7. Investment in associates (continued):

- (b) 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 March 31, 2023, the investors and TFCC USA III Holding committed to advance total capital of \$52,139,000 and \$5,950,000, respectively. Debt Fund II entered into a loan agreement with TFCC USA IV Corporation (the "TFCC USA IV"). Debt Fund II also secured a \$20,000,000 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 II. The Company exerts influence in Debt Fund II and accounts for this investment using the equity method of accounting. As at March 31, 2023, the Company through TFCC USA III Holding owns 10.38% (December 31, 2022 – 10.49%) partnership interest in Debt Fund II.

As at March 31, 2023, Debt Fund II received capital contributions from investors and TFCC USA III Holding totaling \$43,790,600 and \$5,072,500, respectively (December 31, 2022 - \$40,787,800 and \$4,780,000). As at March 31, 2023, Debt Fund II had an outstanding balance of \$1,009,088 (December 31, 2022 - \$6,485,312) against the credit facility and a loans payable balance of \$48,740,267 (December 31, 2022 - \$51,387,984) to TFCC USA IV (note 10). For the three months ended March 31, 2023, the Company recognized its share of income of \$104,050 (three months ended March 31, 2022 - \$108,102) and received distributions of \$119,090 (three months ended March 31, 2022 - \$102,222) from Debt Fund II.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 7. Investment in associates (continued):

The following table summarizes the changes in the investment in associates for the three months ended March 31, 2023 and 2022:

Balance, December 31, 2021	\$ 8,364,711
Income earned	235,070
Distributions received	(166,182)
Foreign exchange	8,352
Balance, March 31, 2022	8,441,951
Investment funded	1,301,250
Fair value adjustment	(152,063)
Income earned	728,426
Distributions received	(916,411)
Return of capital	(129,172)
Foreign exchange	(45,724)
Balance, December 31, 2022	9,228,257
Investment funded	247,337
Fair value adjustment	45,163
Income earned	291,132
Distributions received	(196,407)
Foreign exchange	247
Balance, March 31, 2023	\$ 9,615,729

During the three months ended March 31, 2023, the Company recognized net income from investments in associates of \$291,132 (three months ended March 31, 2022 - \$235,070) and received distributions of \$196,407 (three months ended March 31, 2022 - \$166,182).

## 8. Convertible note receivable:

The following table summarizes the changes in the Convertible Note for the three months ended March 31, 2023:

Balance, December 31, 2022	\$ 1,511,101
Interest capitalized	31,995
Fair value adjustment	(31,995)
Foreign exchange	3,130
Balance, March 31, 2023	\$ 1,514,231



# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 9. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Interest payable	\$ 781,931	\$ 990,748
Interest reserve	1,405,515	3,975,192
Accounts payable, accrued liabilities and provisions	799,597	998,162
Funds held in trust	3,830,987	1,985,203
Share-based compensation payable (note 13(c)(ii))	1,484,376	1,271,863
<b>Accounts payable and accrued liabilities</b>	<b>\$ 8,302,406</b>	<b>\$ 9,221,168</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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 10. 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 March 31, 2023, Debt Fund I advanced \$24,707,126 (December 31, 2022 - \$28,459,840) to TFCC USA III and during the three months ended March 31, 2023 incurred interest expense of \$716,160 (three months ended March 31, 2022 - \$674,848) 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 March 31, 2023, Debt Fund II advanced \$48,740,267 (December 31, 2022 - \$51,387,984) to TFCC USA IV and during the three months ended March 31, 2023 incurred interest expense of \$1,283,706 (three months ended March 31, 2022 - \$981,652). The interest and principal on this loan are payable from the proceeds from these investments.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 11. Credit facilities:

The Company has a \$20,000,000 secured credit line (the LOC) with a US 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 March 31, 2023, the Company had drawn nil (December 31, 2022 - nil) on the LOC. As at March 31, 2023, the borrowing capacity with the LOC was \$12,037,168. Subsequent to March 31, 2023, the Company is working on the renewal of its LOC.

The following table presents details of the credit facilities as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Unamortized financing costs	\$ (25,000)	\$ (50,000)

The following table summarizes the changes in the principal balance of credit facilities for the three months ended March 31, 2023 and 2022:

Balance, December 31, 2021	\$ 7,000,000
Proceeds from credit facilities	9,000,000
Repayment of credit facilities	(9,000,000)
Balance, March 31, 2022	7,000,000
Proceeds from credit facilities	24,500,000
Repayment of credit facilities	(31,500,000)
Balance, December 31, 2022	—
Balance, March 31, 2023	\$ —

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 March 31, 2023 was \$75,000 (December 31, 2022 - \$50,000). For the three months ended March 31, 2023, amortization of deferred financing costs reported as interest and financing costs totaled \$25,000 (three months ended March 31, 2022 - \$53,941).

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 11. Credit facilities (continued):

The terms of the credit facilities require the Company to comply with certain covenants. At March 31, 2023, the Company was in compliance with these covenants.

## 12. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances. The unfunded loan commitments under the existing lending agreements on loan and mortgage investments at March 31, 2023 were \$26,197,893 (December 31, 2022 - \$48,597,094).

At March 31, 2023, 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 \$52,821,031 (December 31, 2022 - \$57,152,740).

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

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

## 13. Shareholders' equity:

### (a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the three months ended March 31, 2023 and 2022:

	Shares	Amount
Outstanding, December 31, 2021	5,567,468	\$ 25,293,007
Outstanding, March 31, 2022	5,567,468	25,293,007
Proceeds from issuance of shares under share option	16,666	71,097
Outstanding, December 31, 2022	5,584,134	25,364,104
Outstanding, March 31, 2023	5,584,134	25,364,104

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 13. Shareholders' equity (continued):

### (b) Dividends:

Quarterly dividends declared to common shareholders during the period ended March 31, 2023 and year ended December 31, 2022 were as follows:

	March 31, 2023		December 31, 2022	
	Per Share in CAD	Amount in CAD	Per Share in CAD	Amount in CAD
March	\$ 0.06	\$ 335,048	\$ 0.06	\$ 334,048
June	–	–	0.06	334,048
September	–	–	0.06	335,048
December	–	–	0.06	335,048
	\$ 0.06	\$ 335,048	\$ 0.24	\$ 1,338,192

### (c) Share-based payments:

The share-based payments that have been recognized for the three months ended March 31, 2023 and 2022 are as follows:

	Three months ended	
	March 31, 2023	March 31, 2022
Share option plan	\$ 2,080	\$ –
Deferred share unit plan	209,723	(134,187)
	\$ 211,803	\$ (134,187)

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 13. Shareholders' equity (continued):

### (i) Share option plan:

The following is the summary of changes in share options for the three months ended March 31, 2023 and the year ended December 31, 2022:

	March 31, 2023		December 31, 2022	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding, beginning of period	464,000	\$4.96	514,000	\$ 5.00
Exercised	–	–	(16,666)	–
Cancelled	–	–	(33,334)	–
Outstanding, end of period	464,000	\$4.96	464,000	4.96
Number of options exercisable	434,830	\$4.96	413,996	\$ 4.98

The following summarizes the Company's outstanding share options as at March 31, 2023:

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 6, 2027	22,913	5.70	5.70
255,000	April 6, 2027	240,000	4.28	4.28
25,000	June 26, 2027	22,917	4.05	4.28
20,000	November 28, 2028	10,000	5.95	5.95
464,000		434,830		

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 13. Shareholders' equity (continued):

(ii) Deferred share unit plan:

The following is the summary of changes in deferred share units ("DSUs") for the three months ended March 31, 2023 and year ended December 31, 2022:

	March 31, 2023	December 31, 2022
DSUs outstanding, beginning of period	324,878	314,295
Granted	2,269	10,583
<b>DSUs outstanding, end of period</b>	<b>327,147</b>	<b>324,878</b>
Number of DSUs vested	327,147	324,878

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2023 was \$209,723 (three months ended March 31, 2022 - \$(134,187)). The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2023, was \$1,484,376 (December 31, 2022 - \$1,271,863).

## 14. Contributed surplus:

The following table presents the details of the contributed surplus balances as at March 31, 2023 and December 31, 2022:

	Amount
Balance, December 31, 2021	\$ 3,617,372
Balance, March 31, 2022	3,617,372
Issuance of shares	(10,243)
Balance, December 31, 2022	3,607,129
Share-based compensation	2,303
<b>Balance, March 31, 2023</b>	<b>\$ 3,609,432</b>

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 15. Earnings per share:

The calculation of earnings per share of the three months ended March 31, 2023, and 2022 was as follows:

	Three months ended	
	March 31, 2023	March 31, 2022
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	\$ 580,175	\$ 577,576
Diluted income attributable to common shareholders	\$ 580,175	\$ 577,576
Denominator basic and diluted earnings per share:		
Weighted average number of shares outstanding	5,566,381	5,567,468
Dilutive effect of share based payments	48,636	—
Weighted average number of diluted shares outstanding	5,615,017	5,567,468
Earnings per share:		
Basic	\$ 0.10	\$ 0.10
Diluted	0.10	0.10

## 16. 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.

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 March 31, 2023, the loan and mortgage investments syndicated by officers and directors were \$927,249 (December 31, 2022 - \$466,000).



# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 17. Interest and financing costs:

The following table presents the interest incurred for the three months ended March 31, 2023 and 2022:

	Three months ended	
	March 31, 2023	March 31, 2022
Interest on loan and mortgage syndications	\$ 214,673	\$ 783,003
Interest on loans payable	1,999,866	1,656,500
Interest on financing fee	25,000	53,941
Interest on Montreal Street JV	10,052	11,229
Interest on lease obligations	10,904	11,036
	<u>\$ 2,260,495</u>	<u>\$ 2,515,709</u>

## 18. 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	
	March 31, 2023	March 31, 2022
Current income tax provision	\$ 375,634	\$ 110,100
Deferred income tax recovery	(163,639)	(56,503)
Total tax provision	<u>\$ 211,995</u>	<u>\$ 53,597</u>

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

## 18. Income taxes (continued):

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

	Three months ended	
	March 31, 2023	March 31, 2022
Income from operations before taxes	\$ 792,170	\$ 631,173
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	209,925	167,261
Increase (decrease) in income tax due to:		
Non-taxable items	2,731	248
Non-deductible stock-based compensation	551	–
Effect of changes in foreign exchange rates	(14,246)	(113,912)
Non-taxable portion of capital gain	13,034	–
Total tax provision	\$ 211,995	\$ 53,597

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 19. Capital management:

The following table presents the capital structure of the Company as at March 31, 2023 and December 31, 2022:

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	Three months ended	
	March 31, 2022	December 31, 2021
Loan and mortgage syndications	\$ 13,127,328	\$ 16,034,041
Credit Facilities	(25,000)	(50,000)
Mortgages payable	883,530	895,492
Loans payable	73,447,393	79,847,824
Shareholders' equity	44,479,424	44,144,836
	<hr/>	<hr/>
	\$ 131,912,675	\$ 140,872,193

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The Company is free to determine the appropriate capital level in context with the cash flow requirements, overall business risks, and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remained unchanged during the three months ended March 31, 2023.

During the three months ended March 31, 2023 and 2022, except for the covenant requirements under the credit facilities (note 11), the Company had no externally-imposed capital requirements.

## 20. 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.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2023 and 2022  
(Unaudited)

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## 20. 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, 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, 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 March 31, 2023 and no amounts were transferred between fair value levels during the three months ended March 31, 2023.