



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

TERRA FIRMA CAPITAL CORPORATION

Three and six months ended June 30, 2023 and 2022
(Unaudited)

The accompanying unaudited interim condensed consolidated financial statements of Terra Firma Capital Corporation for the three and six months ended June 30, 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 interim condensed consolidated 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)

	June 30, 2023	December 31, 2022
Assets		
Cash and cash equivalents	\$ 25,237,791	\$ 16,636,083
Funds held in trust	3,719,925	5,960,395
Amounts receivable and prepaid expenses (note 3)	1,038,185	916,225
Loan and mortgage investments (note 4)	34,321,394	46,111,079
Investment in finance leases (note 5)	53,628,187	67,779,627
Portfolio investments (note 6)	932,093	932,093
Investment in associates (note 7)	9,632,852	9,228,257
Investment property held in joint operations	1,673,841	1,636,518
Convertible note receivable (note 8)	1,545,563	1,511,101
Right-of-use asset	533,678	596,603
Income taxes recoverable	195,222	67,571
Deferred income tax asset	292,647	21,085
	<u>\$ 132,751,378</u>	<u>\$ 151,396,637</u>

Liabilities and Shareholders' Equity

Liabilities:

Unearned income	\$ 60,050	\$ 669,950
Loan and mortgage syndications (note 4)	13,465,670	16,034,041
Loans payable (note 10)	66,894,980	79,847,824
Mortgages payable	887,708	895,492
Accounts payable and accrued liabilities (note 9)	6,577,023	9,221,168
Credit facilities (note 11)	–	(50,000)
Lease obligations	589,408	633,326
	<u>88,474,839</u>	<u>107,251,801</u>

Shareholders' equity:

Share capital (note 13(a))	25,364,104	25,364,104
Contributed surplus (note 14)	3,610,540	3,607,129
Foreign currency translation reserve	(6,885,398)	(6,885,398)
Retained earnings	22,187,293	22,059,001
Shareholders' equity	<u>44,276,539</u>	<u>44,144,836</u>

Commitments and contingencies (note 12)

Related party transactions (note 16)

\$ 132,751,378 \$ 151,396,637

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 August 29, 2023 and signed on its behalf by:

“Mike Kirchmair” _____ Director

“Dov Meyer” _____ Director

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(In U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue:				
Interest and fees	\$ 1,057,094	\$ 1,900,132	\$ 2,673,970	\$ 3,660,538
Finance income (note 5)	1,845,981	1,863,375	4,049,525	3,889,913
Rental	40,281	42,618	80,416	86,031
	<u>2,943,356</u>	<u>3,806,125</u>	<u>6,803,911</u>	<u>7,636,482</u>
Expenses (income):				
Property operating costs	13,621	14,553	27,132	29,624
General and administrative	1,124,597	958,192	1,995,494	2,061,728
Severance cost	–	524,577	–	524,577
Share-based compensation (recovery) (note 13(c))	(9,150)	142,685	202,653	8,498
Interest and financing costs (note 17)	2,212,320	2,010,601	4,472,815	4,526,310
Allowance for (recovery of) loan and mortgage investments loss (note 4)	111	(12,292)	(19,277)	(38,058)
Recovery of investment in finance lease loss (note 5)	(22,678)	(4,747)	(42,694)	(22,093)
Realized and unrealized foreign exchange gain	(102,658)	(179,697)	(92,438)	(202,460)
Fair value adjustment - portfolio investments (note 6)	–	(186,065)	–	(186,065)
Fair value adjustment – convertible note receivable (note 8)	33,160	–	65,155	–
Share of income from investment in associates (note 7)	(255,424)	(183,066)	(546,556)	(418,136)
	<u>2,993,899</u>	<u>3,084,741</u>	<u>6,062,284</u>	<u>6,283,925</u>
Income (loss) from operations before income taxes	(50,543)	721,384	741,627	1,352,557
Income tax expense (recovery)	(99,570)	463,281	112,425	516,878
Net income and comprehensive income	\$ 49,027	\$ 258,103	\$ 629,202	\$ 835,679
Earnings per share (note 15):				
Basic	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.15
Diluted	0.01	0.05	0.11	0.15

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

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(In U.S. dollars)

Six months ended June 30, 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	–	–	–	–	(526,819)	(526,819)
Net income and comprehensive income	–	–	–	–	835,679	835,679
Balance, June 30, 2022	5,567,468	25,293,007	(6,885,398)	3,617,372	21,863,099	43,888,080
Changes during the period:						
Proceeds from issuance of shares	16,666	71,097	–	(10,243)	–	60,854
Dividends on common shares (note 13(b))	–	–	–	–	(489,656)	(489,656)
Net income and comprehensive income	–	–	–	–	685,558	685,558
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	–	–	–	3,411	–	3,411
Dividends on common shares (note 13(b))	–	–	–	–	(500,910)	(500,910)
Net income and comprehensive income	–	–	–	–	629,202	629,202
Balance, June 30, 2023	5,584,134	\$ 25,364,104	\$ (6,885,398)	\$ 3,610,540	\$ 22,187,293	\$ 44,276,539

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

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Cash Flows

(In U.S. dollars)

(Unaudited)

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ 49,027	\$ 258,103	\$ 629,202	\$ 835,679
Interest and fees earned	(1,057,094)	(1,900,132)	(2,673,970)	(3,660,538)
Finance income earned	(1,845,981)	(1,863,375)	(4,049,525)	(3,889,913)
Interest expense and financing costs	2,212,320	2,010,601	4,472,815	4,526,310
Unrealized foreign exchange gain	(317,273)	(189,480)	(92,438)	(203,718)
Income from investments in associates	(255,424)	(183,066)	(546,556)	(418,136)
Non-cash items:				
Share-based compensation expense (recovery) (note 13(c))	(9,150)	142,685	202,653	8,498
Amortization of right-of-use asset	25,687	52,586	75,324	105,585
Amortization of deferred financing costs	25,000	(42,388)	50,000	(42,388)
Allowance for (recovery of) loan and mortgage investment loss	111	(12,292)	(19,277)	(38,058)
Recovery of investment in finance lease loss	(22,678)	(4,747)	(42,694)	(22,093)
Fair value adjustment – portfolio investment	–	(186,065)	–	(186,065)
Fair value adjustment – convertible note receivable	33,160	–	65,155	–
Income tax expense (recovery)	(99,570)	463,281	112,425	516,878
Changes in working capital:				
Decrease in other receivables	296,819	94,055	44,542	9,630
Decrease (increase) in prepaid expenses and deposits	(24,644)	13,036	(4,842)	24,556
Decrease in accounts payable and accrued liabilities	(140,942)	(44,919)	(354,665)	(87,840)
Interest and fees received	869,149	3,670,713	4,510,637	6,778,484
Distributions from investment in associates	207,334	235,146	403,741	401,328
Interest paid	(1,972,658)	(2,039,364)	(4,166,667)	(3,976,535)
Income taxes paid	(511,638)	(422,228)	(511,638)	(422,315)
Cash provided by (used in) operating activities	(2,538,445)	52,150	(1,895,778)	259,349
Financing activities:				
Proceeds from loan and mortgage syndications	–	1,764,918	489,583	5,248,610
Proceeds from loans payables	12,368,135	13,354,944	21,092,890	22,855,191
Repayments of loan and mortgage syndications	–	(2,209,447)	(3,721,070)	(7,562,425)
Repayments of loans payable	(18,920,548)	(7,377,233)	(34,045,734)	(15,624,117)
Repayments of mortgages payable	(14,103)	(14,324)	(27,921)	(28,720)
Repayment of short-term unsecured loans payable	–	–	–	(289,744)
Dividends paid	(247,891)	(266,884)	(495,268)	(531,665)
Cash provided by (used in) financing activities	(6,814,407)	5,251,974	(16,707,520)	4,067,130
Investing activities:				
Funding of loan and mortgage investments	(3,020,135)	(10,252,003)	(6,803,446)	(17,752,335)
Repayments of loan and mortgage investments	8,816,004	3,994,972	19,847,262	18,914,054
Funding of investment in finance leases	(9,347,999)	(12,405,761)	(15,378,052)	(21,195,814)
Proceeds from sale of finance leases	14,997,432	8,053,960	29,797,857	13,041,344
Funding of investment in associates	–	(808,750)	(292,500)	(808,750)
Return of capital of portfolio investment	–	180,168	–	556,789
Return of capital of investment in associates	33,885	129,172	33,885	129,172
Cash provided by (used in) investing activities	11,479,187	(11,108,242)	27,205,006	(7,115,540)
Increase (decrease) in cash and cash equivalents	2,126,335	(5,804,118)	8,601,708	(2,789,061)
Cash and cash equivalents, beginning of period	23,111,456	21,122,216	16,636,083	18,107,159
Cash and cash equivalents, end of period	\$ 25,237,791	\$ 15,318,098	\$ 25,237,791	\$ 15,318,098

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

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(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 six months ended June 30, 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 U.S. dollars)

Three and six months ended June 30, 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 June 30, 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
TFCC US Senior Debt I GP Inc.	Canada	100
TFCC US Senior Real Estate II GP Inc.	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 U.S. dollars)

Three and six months ended June 30, 2023 and 2022
(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 June 30, 2023:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 582,983	\$ –	\$ 582,983
Other receivables	324,229	–	324,229
Prepaid expenses	130,973	–	130,973
Amounts receivable and prepaid expenses	\$1,038,185	\$ –	\$1,038,185

The following table presents details of the amounts receivable, 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 June 30, 2023, include a non-current balance of nil (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 U.S. dollars)

Three and six months ended June 30, 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 June 30, 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	\$ 2,076,175	\$ (8,515)	\$ 2,067,660	\$ —	\$ 2,067,660	9.9
Land and lot inventory	32,276,890	(23,156)	32,253,734	13,465,670	18,788,064	90.1
	<u>\$ 34,353,065</u>	<u>\$ (31,671)</u>	<u>\$ 34,321,394</u>	<u>\$ 13,465,670</u>	<u>\$ 20,855,724</u>	<u>100.0</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 13.4% (December 31, 2022 - 13.5%) and a weighted average term to maturity of 0.80 years (December 31, 2022 - 1.19 years).

During the three and six months ended June 30, 2023, the Company capitalized interest income of \$630,006 and \$1,206,912, respectively, (2022 - \$557,775 and \$1,158,189, respectively) 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 interim condensed consolidated statements of income and comprehensive income.

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

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 June 30, 2023 is \$13,465,670 (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 0.25 years (December 31, 2022 - 0.84 years).

As at June 30, 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 of its senior position of \$2,759,247 and the Company retained the residual portion of \$2,798,198.

As at June 30, 2023, there are loan and mortgage investments to two separate projects in the U.S., before syndication, that account for 55.5% and 36.0% 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 six months ended June 30, 2023, the Company has loan and mortgage investments in two separate projects in the U.S. before syndication, that account for 48.0% and 24.3% of the Company's interest and fees revenue. For the six months ended June 30, 2022, the Company had three loan and mortgage investments in the U.S. before syndication, that account for 31.9%, 18.2% and 10.5% 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 future funding commitments under the existing loan and mortgage investments at June 30, 2023, were \$13,071,023 (December 31, 2022 - \$48,597,094). As at June 30, 2023, the future funding commitments relating to loan and mortgage investments in one project in the U.S. before syndication account for 99.7% of the total future funding commitments. As at December 31, 2022, the future funding 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 future funding commitments.

Mortgages are loans that are secured by real estate assets and may include other forms of securities. Unregistered loans are not secured by real estate assets but are secured by other forms of securities, such as personal guarantees or pledge of shares of the borrowing entity.

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 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 June 30, 2023:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
1st mortgage loans	\$ 32,276,890	\$ (23,156)	\$ 32,253,734	\$ 13,465,670	\$ 18,788,064	90.1
Unregistered loans	2,076,175	(8,515)	2,067,660	–	2,067,660	9.9
	<u>\$ 34,353,065</u>	<u>\$ (31,671)</u>	<u>\$ 34,321,394</u>	<u>\$ 13,465,670</u>	<u>\$ 20,855,724</u>	<u>100.0</u>
U.S.	\$ 34,353,065	\$ (31,671)	\$ 34,321,394	\$ 13,465,670	\$ 20,855,724	100.0
	<u>\$ 34,353,065</u>	<u>\$ (31,671)</u>	<u>\$ 34,321,394</u>	<u>\$ 13,465,670</u>	<u>\$ 20,855,724</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 st mortgage loans	\$ 43,000,462	\$ (42,925)	\$ 42,957,537	\$ 15,074,206	\$ 27,883,331	92.7
2 nd 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 U.S. dollars)

Three and six months ended June 30, 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 June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 2,076,175	\$ –	\$ –	\$ 2,076,175
Land and lot inventory	32,276,890	–	–	32,276,890
	<u>\$ 34,353,065</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 34,353,065</u>

The following table presents details of the Company's credit exposure on the carrying amount of loan and mortgage investments, net of loan syndication, for which ACL is recognized as at June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 2,076,175	\$ –	\$ –	\$ 2,076,175
Land and lot inventory	18,811,220	–	–	18,811,220
	<u>\$ 20,887,395</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 20,887,395</u>

The following table presents details of the Company's credit exposure on the gross carrying amount of loan and mortgage investments segmented by geography, for which ACL is recognized as at June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
U.S.	\$ 34,353,065	\$ –	\$ –	\$ 34,353,065
	<u>\$ 34,353,065</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 34,353,065</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 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 June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
U.S.	\$ 20,887,395	\$ –	\$ –	\$ 20,887,395
	\$ 20,887,395	\$ –	\$ –	\$ 20,887,395

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:

	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:

	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 U.S. dollars)

Three and six months ended June 30, 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:

	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:

	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	\$ –	\$ 19,924,948
2024	–	2,076,174
2025	–	12,351,943
	\$ –	\$ 34,353,065

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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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	Investments maturing during the year
2023, remainder of year	\$ —	\$ 13,465,670
	\$ —	\$ 13,465,670

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 six months ended June 30, 2023 were as follows:

	Balance at January 1, 2023	Recovery of credit losses	Funding	Balance at June 30, 2023
Residential housing developments	\$ 8,863	\$ (348)	\$ —	\$ 8,515
Land and lot inventory	42,085	(18,929)	—	23,156
	\$ 50,948	\$ (19,277)	\$ —	\$ 31,671

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(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	(19,277)	–	–	(19,277)
Balance, end of period	\$ 31,671	\$ –	\$ –	\$ 31,671

The following table presents details of the Company's ACL on loan and mortgage investments as at June 30, 2023:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 8,515	\$ –	\$ –	\$ 8,515
Land and lot inventory	23,156	–	–	23,156
	\$ 31,671	\$ –	\$ –	\$ 31,671

	Stage 1	Stage 2	Stage 3	Total
U.S.	\$ 31,671	\$ –	\$ –	\$ 31,671
	\$ 31,671	\$ –	\$ –	\$ 31,671

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

5. Investment in finance leases:

As at June 30, 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 June 30, 2023:

	June 30, 2023	December 31, 2022
Investment in finance leases	\$ 53,653,359	\$ 67,847,493
Allowance for credit losses	(25,172)	(67,866)
Balance, at period end	\$ 53,628,187	\$ 67,779,627

Investment in finance leases of \$53,653,359 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 13.2% per annum and the weighted average term of the leases is 1.85 years. The unearned finance income at June 30, 2023 was nil (December 31, 2022 - nil).

The income recognized from finance leases for the six months ended June 30, 2023, of \$4,049,525 (six months ended June 30, 2022 - \$3,889,913) 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 U.S. dollars)

Three and six months ended June 30, 2023 and 2022
(Unaudited)

5. Investment in finance leases (continued):

The following table summarizes the changes in the investment in finance leases for the six months ended June 30, 2023 and 2022:

Balance, December 31, 2021	\$ 55,728,869
Investment made	21,195,814
Investments sold	(13,041,344)
Lease payments received	(3,928,538)
Finance income recognized	3,889,913
Recovery of credit losses	22,093
Balance, June 30, 2022	63,866,807
Investment made	15,234,528
Investments sold	(11,779,161)
Lease payments received	(3,897,097)
Finance income recognized	4,324,066
Recovery of credit losses	30,484
Balance, December 31, 2022	67,779,627
Investment made	15,378,052
Investments sold	(29,797,857)
Lease payments received	(3,823,854)
Finance income recognized	4,049,525
Recovery of credit losses	42,694
Balance, June 30, 2023	\$ 53,628,187

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	\$ 10,278,949	\$ 6,557,540	\$ 3,721,409
Greater than one year but less than 5 years	54,592,015	4,660,065	49,931,950
	\$ 64,870,964	\$ 11,217,605	\$ 53,653,359

TERRA FIRMA CAPITAL CORPORATION

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

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5. Investment in finance leases (continued):

As at June 30, 2023, there are three net investments in finance leases that account for 24.6%, 23.0% and 17.5% 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 six months ended June 30, 2023, the Company has four net investments in finance leases that account for 17.7%, 14.2%, 14.0% and 10.0% of the Company's finance income (June 30, 2023 - 12.4% and 11.3%).

Allowance for investment in finance leases loss:

The changes in the ACL on investment in finance leases during the six months ended June 30, 2022 were as follows:

	Balance at January 1, 2023	Recoveries	Funding	Balance at June 30, 2023
Residential housing developments	\$ 67,866	\$ (42,694)	\$ –	\$ 25,172

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	\$ 67,866	\$ –	\$ –	\$ 67,866
Recovery of credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Gross write-offs				
Recoveries	(42,694)	–	–	(42,694)
Balance, end of period	\$ 25,172	\$ –	\$ –	\$ 25,172

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

6. Portfolio investments:

The following table presents details of the portfolio investments as at June 30, 2023 and December 31, 2022:

	June 30, 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 six months ended June 30, 2023 and December 31, 2022:

Balance, December 31, 2021	\$ 676,421
Fair value adjustment	186,065
Return of capital	(556,789)
Foreign exchange	(1,169)
Balance, June 30, 2022	304,528
Fair value adjustment	590,000
Preferred return earned	37,565
Balance, December 31, 2022	932,093
Balance, June 30, 2023	<u>\$ 932,093</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

7. Investment in associates:

The following table presents details of the investment in associates as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31 2022
Investment in the Lan Partnership	\$ 117,551	\$ 102,976
Investment in the TFCC Royal Palm Beach Inc.	1,801,586	1,650,831
Investment in TFCC Senior Debt Fund I LP	2,674,034	2,691,388
Investment in TFCC US Senior Real Estate Fund II Funding LP	5,039,681	4,783,062
	<u>\$ 9,632,852</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. TFCC US Senior Debt I GP Inc., 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 June 30, 2023, the Company through TFCC USA III Holding owns 10.70% partnership interest in Debt Fund I (December 31, 2022 - 10.70%).

As at June 30, 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 June 30, 2023, Debt Fund I had an outstanding balance of nil (December 31, 2022 - \$3,774,512) against the credit facility and a loans payable balance of \$21,813,372 (December 31, 2022 - \$28,459,840) to TFCC USA III (note 10). For the six months ended June 30, 2023, the Company recognized its share of income of \$121,016 (six months ended June 30, 2022 - \$124,259) and received distributions of \$138,656 (six months ended June 30, 2022 - \$118,769) from Debt Fund I.

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

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 June 30, 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"). TFCC US Senior Real Estate II GP Inc., 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 June 30, 2023, the Company through TFCC USA III Holding owns 10.38% (December 31, 2022 – 10.49%) partnership interest in Debt Fund II.

As at June 30, 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 June 30, 2023, Debt Fund II had an outstanding balance of nil (December 31, 2022 - \$6,485,312) against the credit facility and advanced a loans payable of \$45,081,608 (December 31, 2022 - \$51,387,984) to TFCC USA IV (note 10). For the six months ended June 30, 2023, the Company recognized its share of income of \$211,415 (six months ended June 30, 2022 - \$213,155) and received distributions of \$247,583 (six months June 30, 2022 - \$204,924) from Debt Fund II.

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

7. Investment in associates (continued):

The following table summarizes the changes in the investment in associates for the six months ended June 30, 2023 and 2022:

Balance, December 31, 2021	\$ 8,364,711
Investment funded	808,750
Income earned	479,213
Fair value adjustment	(61,077)
Distributions received	(401,328)
Return of capital	(129,172)
Foreign exchange	(26,027)
Balance, June 30, 2022	9,035,070
Investment funded	492,500
Income earned	484,283
Fair value adjustment	(90,986)
Distributions received	(681,265)
Foreign exchange	(11,345)
Balance, December 31, 2022	9,228,257
Investment funded	292,500
Income earned	501,393
Fair value adjustment	45,163
Distributions received	(403,741)
Return of capital	(33,885)
Foreign exchange	3,165
Balance, June 30, 2023	\$ 9,632,852

During the six months ended June 30, 2023, the Company recognized net income from investments in associates of \$501,393 (six months ended June 30, 2022 - \$479,213) and received distributions of \$403,741 (six months ended June 30, 2022 - \$401,328).

8. Convertible note receivable:

The following table summarizes the changes in the Convertible Note receivable for the six months ended June 30, 2023:

Balance, December 31, 2022	\$ 1,511,101
Interest capitalized	65,155
Fair value adjustment	(65,155)
Foreign exchange	34,462
Balance, June 30, 2023	\$ 1,545,563

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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9. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Interest payable	\$ 693,098	\$ 990,748
Interest reserve	614,483	3,975,192
Accounts payable, accrued liabilities and provisions	872,353	998,162
Funds held in trust	3,105,442	1,985,203
Share-based compensation payable (note 13(c)(ii))	1,291,647	1,271,863
Accounts payable and accrued liabilities	\$ 6,577,023	\$ 9,221,168

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.

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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 June 30, 2023, Debt Fund I advanced \$21,813,372 (December 31, 2022 - \$28,459,840) to TFCC USA III and during the six months ended June 30, 2023 incurred interest expense of \$1,343,128 (six months ended June 30, 2022 - \$1,255,144) 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 June 30, 2023, Debt Fund II advanced \$45,081,608 (December 31, 2022 - \$51,387,984) to TFCC USA IV and during the six months ended June 30, 2023 incurred interest expense of \$2,489,504 (six months ended June 30, 2022 - \$2,048,834). The interest and principal on this loan are payable from the proceeds from these investments.

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

During the six months ended June 30, 2023, the Company had a \$20,000,000 secured credit line (the LOC) with a US financial lending institution which included an additional \$20,000,000 accordion feature. The LOC matured on April 25, 2023. Subsequent to June 30, 2023, in accordance with its extension options, the Company renegotiated its LOC terms which included a new maturity date of May 25, 2024, and a maximum amount on the LOC of \$5,000,000 with an additional \$15,000,000 accordion feature 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 June 30, 2023, the Company had drawn nil (December 31, 2022 - nil) on the LOC. As at June 30, 2023, the borrowing capacity with the LOC was \$12,037,168.

The following table presents details of the Credit Facilities as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Unamortized financing costs	\$ -	\$ (50,000)

The following table summarizes the changes in the principal balance of credit facilities for the six months ended June 30, 2023 and 2022:

Balance, December 31, 2021	\$ -
Balance, June 30, 2022	-
Balance, December 31, 2022	-
Balance, June 30, 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 June 30, 2023 was \$100,000 (December 31, 2022 - \$50,000). For the three and six months ended June 30, 2023, amortization of deferred financing costs reported as interest and financing costs totaled \$25,000 and \$50,000, respectively (2022 – nil and nil, respectively). The terms of the Credit Facilities require the Company to comply with certain covenants. At June 30, 2023, the Company was in compliance with these covenants.

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12. 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 June 30, 2023 were \$13,071,023 (December 31, 2022 - \$48,597,094).

At June 30, 2023, 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 \$41,548,294 (December 31, 2022 - \$57,152,740).

As at June 30, 2023, the future funding commitments from Debt Fund II, through its third-party investors and TFCC USA III Holding, were \$10,225,900.

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.

13. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in Shares for the six months ended June 30, 2023 and 2022:

	Shares	Amount
Outstanding, December 31, 2021	5,567,468	\$ 25,293,007
Outstanding, June 30, 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, June 30, 2023	5,584,134	\$ 25,364,104

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

(b) Dividends:

Quarterly dividends declared to common shareholders during the period ended June 30, 2023 and year ended December 31, 2022 were as follows:

	June 30, 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	335,048	0.06	334,048
September	-	-	0.06	335,048
December	-	-	0.06	335,048
	\$ 0.12	\$ 670,096	\$ 0.24	\$ 1,338,192

(c) Share-based payments:

The share-based payments that have been recognized for the three and six months ended June 30, 2023 and 2022 are as follows:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Share option plan	\$ 1,011	\$ 7,654	\$ 3,091	\$ 7,654
Deferred share unit plan	(10,161)	135,031	199,562	844
	\$ (9,150)	\$ 142,685	\$202,653	\$ 8,498

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

13. Shareholders' equity (continued):

(i) Share option plan:

The following is the summary of changes in share options for the six months ended June 30, 2023 and the year ended December 31, 2022:

	June 30, 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
Granted	–	–	(16,666)	–
Exercised	–	–	(33,334)	–
Cancelled	–	–	–	–
Outstanding, end of period	464,000	\$ 4.96	464,000	4.96
Number of options exercisable	455,667	\$ 4.94	413,996	\$ 4.98

The following summarizes the Company's outstanding share options as at June 30, 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	25,000	5.70	5.70
255,000	April 6, 2027	255,000	4.28	4.28
25,000	June 26, 2027	25,000	4.05	4.28
20,000	November 28, 2028	11,667	5.95	5.95
464,000		455,667		

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

13. Shareholders' equity (continued):

(ii) Deferred share unit plan:

The following is the summary of changes in deferred share units ("DSUs") for the six months ended June 30, 2023 and year ended December 31, 2022:

	June 30 2023	December 31, 2022
DSUs outstanding, beginning of period	324,878	314,295
Granted	5,806	10,583
Settled	(46,092)	-
DSUs outstanding, end of period	284,592	324,878
Number of DSUs vested	284,592	324,878

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the six months ended June 30, 2023 was \$199,562 (six months ended June 30, 2022 - \$844).

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at June 30, 2023, is \$1,291,647 (December 31, 2022 - \$1,271,863).

14. Contributed surplus:

The following table presents the details of the contributed surplus balances as at June 30, 2023 and December 31, 2022:

Balance, December 31, 2021	\$ 3,617,372
Balance, June 30, 2022	3,617,372
Exercise of options transferred to share capital	(10,243)
Balance, December 31, 2022	3,607,129
Fair value of share-based compensation	3,411
Balance, June 30, 2023	\$ 3,610,540

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15. Earnings per share:

The calculation of earnings per share of the three and six months ended June 30, 2023 and 2022 is as follows:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	\$ 49,027	\$ 258,103	\$ 629,202	\$ 835,679
Diluted income attributable to common shareholders	\$ 49,027	\$ 258,103	\$ 629,202	\$ 835,679
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	5,584,134	5,567,468	5,584,134	5,567,468
Dilutive effect of share-based payments	86,629	79,967	94,887	66,342
Weighted average number of diluted Shares outstanding	5,670,763	5,647,435	5,679,021	5,633,810
Earnings per share:				
Basic	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.15
Diluted	0.01	0.05	0.11	0.15

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

16. Related party transactions:

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 June 30, 2023, the loan and mortgage investments syndicated by officers and directors was \$661,000 (December 31, 2022 - \$661,000).

17. Interest and financing costs:

The following table presents the interest incurred for the three and six months ended June 30, 2023 and 2022:

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Interest on loan and mortgage syndications	\$ 340,795	\$ 296,750	\$ 555,468	\$ 1,079,753
Interest on loans payable	1,832,766	1,647,478	3,832,632	3,303,978
Interest on financing fee	25,000	44,523	50,000	98,464
Interest on Montreal Street JV	10,088	10,995	20,140	22,224
Interest on lease obligations	3,671	10,855	14,575	21,891
	<u>\$ 2,212,320</u>	<u>\$ 2,010,601</u>	<u>\$ 4,472,815</u>	<u>\$ 4,526,310</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

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		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Current income tax provision	\$ 11,742	\$ 718,663	\$ 387,376	\$ 828,763
Deferred income tax provision (recovery)	(111,312)	(255,382)	(274,951)	(311,885)
Total tax provision	\$ (99,570)	\$ 463,281	\$ 112,425	\$ 516,878

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

	Three months ended		Six months ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Income (loss) from operations before taxes	\$ (50,543)	\$ 721,384	\$ 741,627	\$ 1,352,557
Combined statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	\$ (13,395)	\$ 191,166	\$ 196,530	\$ 358,427
Increase (decrease) in income tax due to:				
Non-taxable items	(25,863)	585	(23,132)	833
Non-deductible stock-based compensation	268	2,028	819	2,028
Effect of changes in foreign exchange rates	(63,002)	269,502	(77,248)	155,590
Non-taxable portion of capital gain	2,422	–	15,456	–
Total tax provision	\$ (99,570)	\$ 463,281	\$ 112,425	\$ 516,878

TERRA FIRMA CAPITAL CORPORATION

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

Three and six months ended June 30, 2023 and 2022
(Unaudited)

19. Capital management:

The following table presents the capital structure of the Company as at June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Loan and mortgage syndications	\$ 13,465,670	\$ 16,034,041
Credit Facilities	-	(50,000)
Mortgages payable	887,708	895,492
Loans payable	66,894,980	79,847,824
Shareholders' equity	44,276,539	44,144,836
Total capital	\$ 125,524,897	\$ 140,872,193

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 six months ended June 30, 2023.

During the six months ended June 30, 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 U.S. dollars)

Three and six months ended June 30, 2023 and 2022
(Unaudited)

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 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, 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 June 30, 2023 and no amounts were transferred between fair value levels during the six months ended June 30, 2023.