



Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2013 and 2012
(Unaudited)

NOTICE TO READER

These condensed consolidated interim financial statements have been prepared by management, reviewed by the Audit Committee, and approved and authorized for issue by the Board of Directors of the Company on May 17, 2013. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, Terra Firma Capital Corporation discloses that its external auditors have not reviewed these condensed consolidated interim financial statements, notes to the condensed consolidated interim financial statements and the related quarterly Management Discussion and Analysis.

TERRA FIRMA CAPITAL CORPORATION

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

	Notes	March 31, 2013	December 31, 2012
Assets			
Cash and cash equivalents		\$ 3,698,565	\$ 3,223,291
Amounts receivable and prepaid expenses	4	1,677,012	2,396,180
Loan and mortgage investments	5	42,799,082	31,996,731
Investment properties	7	7,939,416	7,834,576
Portfolio investment	8	950,000	950,000
Total assets		\$ 57,064,075	\$ 46,400,778
Liabilities			
Accounts payable and accrued liabilities	9	\$ 1,986,855	\$ 1,192,616
Provision for discontinued operations	10	415,101	445,957
Unearned income		226,512	16,965
Income taxes payable		101,356	474,297
Deferred income taxes		23,956	15,602
Loans and mortgages payable	11	31,188,063	21,406,070
Convertible debentures	12	10,100,941	10,093,325
Total liabilities		44,042,784	33,644,832
Commitments and contingencies	13		
Shareholders' Equity			
Share capital	14 (a)	\$ 10,757,405	\$ 10,757,405
Contributed surplus	14 (b) and 15	573,139	573,139
Retained earnings		1,690,747	1,425,402
Total shareholders' equity		13,021,291	12,755,946
Total liabilities and Shareholders' Equity		\$ 57,064,075	\$ 46,400,778

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

TERRA FIRMA CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(Unaudited)
(In Canadian dollars)

	Notes	Three months ended	
		March 31, 2013	March 31, 2012
Revenue			
Interest and fees earned		\$ 1,586,215	\$ 966,287
Rental income	6	107,096	49,632
		1,693,311	1,015,919
Expenses			
Property operating costs	6	47,615	17,538
General and administrative expenses		367,163	127,764
Share based compensation	15	-	30,357
Interest expense	18	937,412	495,691
		1,352,190	671,350
Income from operations before income taxes		341,121	344,569
Income tax provision	19	75,776	91,352
Net income and comprehensive income		\$ 265,345	\$ 253,217
Basic and diluted earnings per share		\$ 0.01	\$ 0.01

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

TERRA FIRMA CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(In Canadian dollars)

Three months ended March 31, 2013 and 2012
(Unaudited)

	Share capital (note 12 (a))		Contributed surplus	Retained earnings	Total
	Number of shares	Amount	(notes 14 (b) & 15)		
Shareholders Equity, December 31, 2011	30,495,000	10,687,105	386,599	173,422	11,247,126
Changes during the period:					
Share based compensation	-	-	30,357	-	30,357
Net income and comprehensive income				253,217	253,217
Shareholders Equity, March 31, 2012	30,495,000	10,687,105	416,956	426,639	11,530,700
Changes during the year:					
Issuance of common shares under share option plan	200,000	70,300	(30,300)	-	40,000
Share based compensation	-	-	186,483	-	186,483
Net income and comprehensive income	-	-	-	998,763	998,763
Shareholders Equity, December 31, 2012	30,695,000	\$ 10,757,405	\$ 573,139	\$ 1,425,402	\$ 12,755,946
Changes during the period:					
Net income and comprehensive income	-	-	-	265,345	265,345
Shareholders Equity, March 31, 2013	30,695,000	\$ 10,757,405	\$ 573,139	\$ 1,690,747	\$ 13,021,291

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

TERRA FIRMA CAPITAL CORPORATION

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(In Canadian dollars)

	Notes	Three months ended	
		March 31, 2013	March 31, 2012
Cash provided by (used in)			
Operating activities			
Income from continuing operations		\$ 265,345	\$ 253,217
Non-cash items			
Interest and fees earned		(1,586,215)	(966,287)
Interest expense		937,412	495,691
Share based compensation	15	-	30,357
Income tax provision		75,776	91,352
Changes in working capital			
Decrease (increase) in other receivables		1,128,040	(163,841)
Decrease in prepaid expenses and deposits		(48,774)	(9,614)
Increase in accounts payable and accrued liabilities		382,615	591,454
Interest and fees received		1,225,057	941,280
Interest paid		(738,298)	(381,193)
Income taxes paid		(440,363)	-
Cash provided by operating activities - continuing operations		1,200,595	882,416
Cash used in operating activities - discontinued operations		(30,856)	(30,227)
Cash provided by operating activities		1,169,739	852,189
Investing activities			
Funding of loan and mortgage investments		(13,758,333)	(8,622,177)
Repayments of loan and mortgage investments		3,386,715	438
Capital additions to investment properties	7	(104,840)	(354,585)
Portfolio investment	8	-	(950,000)
Cash used in investing activities		(10,476,458)	(9,926,324)
Financing activities			
Proceeds from loans and mortgages payable		14,350,000	4,337,746
Repayments of loans and mortgages payable		(4,568,007)	(6,839)
Cash provided by financing activities		9,781,993	4,330,907
Increase (decrease) in cash and cash equivalents		475,274	(4,743,228)
Cash and cash equivalents, beginning of period		3,223,291	8,771,557
Cash and cash equivalents, end of period		3,698,565	4,028,329

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

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

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Terra Firma Capital Corporation (the "Company") was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "Exchange") under the symbol TII. The registered office of the Company is: 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6. The principal business of the Company is the arrangement of and participation in real property financings secured by investment properties and commercial and residential real estate developments, throughout Canada.

1. Basis of presentation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The preparation of these unaudited condensed consolidated interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim financial statements 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, 2012, since they do not contain all disclosures required by IFRS for annual financial statements.

(b) Basis of presentation:

The Company holds its interests in certain joint operations and portfolio investment in its wholly owned subsidiaries which are controlled by the Company. 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.

(b) Basis of measurement:

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties and financial instruments classified as fair value through profit and investment properties, which are stated at their fair values.

(c) Functional and presentation currency:

These unaudited condensed consolidated interim financial statements have been presented in Canadian dollars, which is the Company's functional currency.

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1. Basis of presentation (continued):

(d) Critical judgements and estimates:

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

The most significant estimates that the Company is required to make relate to, but are not limited to: revenue recognition using the effective interest rate method (the "EIM"); assessment of the recoverability and valuation of loan and mortgage investments; investment properties, portfolio investment, share options and accrued liabilities; and accounting for income taxes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the period ended March 31, 2013 follow the same accounting policies and methods of their application as those used in the Company's consolidated financial statements for the year ended December 31, 2012.

(a) Adoption of Recent Accounting Pronouncements:

The following standards and amendments to existing standards have been adopted for the period beginning January 1, 2013.

- (i) IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Instruments*, as amended requires entities to disclose information about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of this amendment did not result in any changes to the unaudited condensed consolidated interim financial statements.

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2. Significant accounting policies (continued):

- (iii) IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities'). The changes requires management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. IFRS 10 requires consolidation of an investee only if the investor possesses the power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.
- (iv) IFRS 11 *Joint Arrangements* supersedes IAS 31 and addresses two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. IFRS 11 requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011). Accounting for joint operations will follow accounting similar to that for jointly controlled assets and jointly controlled operations under IAS 31. The other amendments had no impact on the Company. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.
- (v) IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting on the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements. The Company has assessed its disclosure and concluded that the adoption of IFRS 12 did not results in any change in disclosure in these condensed consolidated interim financial statements, however will result in additional disclosure in the year-end financial statements.

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2. Significant accounting policies (continued):

(vi) IFRS 13 *Fair Value Measurement* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

(b) New standards and interpretations not yet adopted:

The following new standard issued by the IFRS Board may be relevant to the Company in preparing its consolidated financial statements in future periods.

(i) IFRS 9 *Financial Instruments* was issued to replace IAS 39, "Financial Instruments: Recognition and Measurement". This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 was the first phase of the project, which provided guidance on the classification and measurement of financial assets and financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. In December 2011, the effective date of adoption of this standard was amended to January 1, 2015. The Company is currently assessing the impact of the new standard on its consolidated financial statements

3. Financial Statement Restatement:

At December 31, 2012, the Company identified and corrected an error and reclassified its joint venture interests on a property located on Montreal Street, Ottawa, Ontario and a housing project in Ajax, Ontario from jointly controlled entities to jointly controlled assets. Prior to this correction, these joint ventures were accounted for using the equity method, subsequently; the Company has recorded its share of the joint ventures using the proportionate consolidation. This resulted in the reclassification of certain prior year balances to reflect the effects of the proportionate consolidation of these two joint ventures. This error had no effect on net income or equity. The effect of the correction is presented below.

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3. Financial Statement Restatement (continued):

The effects of the restatement on the condensed consolidated interim statement of financial position at March 31, 2012, are as follows:

	As reported	Restatement	Restated
Assets:			
Cash and cash equivalents	3,900,515	127,814	4,028,329
Amounts receivable and prepaid expenses	1,257,963	45,828	1,303,791
Interests in joint ventures	1,086,323	(1,086,323)	-
Investment properties	-	3,589,243	3,589,243
Liabilities:			
Accounts payable and accrued liabilities	1,593,610	444,437	2,038,047
Loans and mortgages payable	8,876,689	2,232,125	11,108,814
Shareholders' equity:	11,530,700	-	11,530,700

The effects of the restatement on the condensed consolidated interim statement of income and comprehensive income for the three months ended March 31, 2012, are as follows:

	As reported	Restatement	Restated
Revenue:			
Earnings from joint ventures	19,451	(19,451)	-
Rental revenue	-	49,632	49,632
Expenses			
Property operating costs	-	17,538	17,538
Interest expense	127,717	47	127,764
Net income and comprehensive income	253,217	-	253,217

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3. Financial Statement Restatement (continued):

The effects of the restatement on the condensed consolidated interim statement of cash flows for the three months ended March 31, 2012, are as follows:

	As reported	Restatement	Restated
Operating activities:			
Earnings from joint ventures	(19,451)	19,451	-
Changes in working capital			
Other receivables	(163,658)	(183)	(163,841)
Accounts payable and accrued liabilities	530,009	74,041	604,050
Interest paid	(381,193)	(12,596)	(393,789)
Investing activities:			
Capital distributed from joint ventures	6,447	(6,447)	-
Capital additions to investment properties	-	354,585	354,585
Financing activities:			
Proceeds from loan and mortgages payable	4,044,641	293,105	4,337,746
Repayments of loans and mortgages payable	(219)	(6,620)	(6,839)

4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2013 and December 31, 2012.

	March 31, 2013	December 31, 2012
Interest receivable	\$ 1,517,267	\$ 1,182,179
Other receivables	83,772	1,200,802
Prepaid expenses and deposits	75,973	13,199
Amounts receivable and prepaid expenses	\$ 1,677,012	\$ 2,396,180

5. Loan and mortgage investments:

As at March 31, 2013 and December 31, 2012, the Company had principal balance of loan and mortgage investments of \$42,799,082 and \$31,996,731, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 18.1% (December 31, 2012 – 19.9%) and a weighted average term to maturity of 0.86 years (December 31, 2012 – 0.65 years).

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5. Loan and mortgage investments (continued):

The following table presents details of the loan and mortgage investments as at March 31, 2013 and December 31, 2012.

	March 31, 2013		December 31, 2012	
	Amount	% of Investments	Amount	% of Investments
Residential housing developments	\$ 41,003,411	95.8%	\$ 30,200,563	94.4%
Residential income properties	1,795,671	4.2%	1,796,168	5.6%
Loan and mortgage investments	\$ 42,799,082	100.0%	\$ 31,996,731	100.0%

The Company's investment activities include:

- (a) land loans generally in first priority position and
- (b) mezzanine loans on development projects and income properties generally subordinated to first mortgages

The loans are on most major real estate property types, but predominantly within the residential and commercial asset groups. In some cases land loans will subsequently be subordinated to construction financing as the project progresses through its development period. The loan and mortgage investments are secured by mortgages registered on title and/or other forms of security including, but not limited to floating charge debentures, general security agreements, postponement of specific claims and joint and several guarantees.

Residential housing developments:

These loans pertain to 13 projects at various stages of development, 12 in Toronto, Ontario and one in Vaughan, Ontario. In the aggregate, nine of the projects are slated for 1,908 high rise condominium units, 1,210 low rise condominium and freehold single family units. Six of the loans have been syndicated with private investors (note 11).

Residential income properties:

The loans represent second mortgages secured by a 250 unit apartment building located in Toronto, Ontario and 50 unit apartment property located in Ottawa, Ontario.

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5. Loan and mortgage investments (continued):

The following table presents details of the Company's loan categories as at March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Non-conventional mortgages	\$ 29,496,905	\$ 18,032,335
Unsecured loans investments	13,302,177	13,964,396
	\$ 42,799,082	\$ 31,996,731

Non-conventional mortgages are loans that may or may not exceed 75% of loan to value and earn profit participation. Unsecured investments are loans that may not necessarily be secured by mortgage charge security.

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

	Scheduled principal payments	Investments maturing during the year	Total loans and mortgage investments
2013 - remainder of year	\$ 1,588	\$ 24,084,318	\$ 24,085,906
2014	2,364	5,882,343	5,884,707
2015	1,750	12,826,719	12,828,469
	\$ 5,702	\$ 42,793,380	\$ 42,799,082

Certain of the loans and mortgage investments have early repayment rights and, if exercised, would result in repayments in advance of their contractual maturity dates.

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at March 31, 2013 was \$4,754,192 including \$2,934,293 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2012 - \$3,032,425, including \$693,900 of capitalization of future interest).

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Notes to Condensed Consolidated Interim Financial Statements
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6. Interests in joint operations:

The company's interests in the following properties are subject to joint control and, accordingly, the company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties following the proportionate consolidation method.

(i) **Montreal Street JV:**

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and subsequently developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20 year land lease, with five renewal options of five years each. The Montreal Street JV carries a loan of \$2,300,000 bearing interest at 4.2% per annum, is amortized over 25 years and matures June 1, 2016. The Company's ownership interest of in the Montreal Street JV is 52.5%.

(ii) **Salem Road JV**

The Company entered into a co-owners' agreement (the "Salem Road JV") with a development partner and financial partner, to acquire and develop a single family residential housing project in Ajax, Ontario. Upon completion of the residential project and the transfer of all the units to purchasers in December 2012, the Company received its investment of \$465,500 and its share of fees of \$400,000 in January 2013.

(iii) **Queen Street West JV**

In April 2012, the Company entered into a co-owners' agreement ("Queen Street West JV") with a development partner and acquired a land parcel in Toronto, Ontario to develop a mid-rise residential condominium building having a development potential of approximately 100,000 square feet of gross floor area. Under the terms of the co-owners agreement, the Company has agreed to contribute 75% of the capital required during the course of the development, for a 50% ownership interest.

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6. Interests in joint operations (continued):

The financial information in respect of the company's proportionate share of investments in jointly controlled operations is as follows:

	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 3,653	\$ 31,588
Amounts receivable and prepaid expenses	288,127	41,642
Investment properties	7,939,416	7,834,576
Total assets	8,231,196	7,907,806
Accounts payable and accrued liabilities	358,430	217,343
Loans and mortgages payable	4,651,095	4,368,854
Total liabilities	5,009,525	4,586,197
Net assets	\$ 3,221,671	\$ 3,321,609

The table below details the results of operations for the three months ended March 31, 2013 and 2012, attributable to the Company from its joint operations activities:

	Three months ended	
	March 31, 2013	March 31, 2012
Rental revenue	\$ 107,096	\$ 49,632
Property operating costs	47,615	17,538
	59,481	32,094
General and administrative expenses	1,468	47
Interest expense	146,906	12,596
Net (loss) income	\$ (88,893)	\$ 19,451

7. Investment properties:

The Company has interests in investment properties that are subject to joint control and accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties.

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7. Investment properties (continued):

The following table summarizes the changes in the Company's proportionate share of the investment properties for the year ended December 31, 2012 and three months ended March 31, 2013:

Balance, December 31, 2011	\$	3,234,658
Acquisition of properties		4,994,892
Additions - capital expenditures		4,391,533
Sale of investment properties		(4,786,507)
Balance, December 31, 2012	\$	7,834,576
Additions - capital expenditures		104,840
Balance, March 31, 2013	\$	7,939,416

8. Portfolio investment:

In March 2012, the Company invested \$950,000 for a 20% partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit and loss. At March 31, 2013 and December 31, 2012, the carrying value of investment approximates its fair value.

9. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2013 and December 31, 2012:

		March 31, 2013		December 31, 2012
Interest payable	\$	708,099	\$	453,346
Interest reserve		392,966		-
Accounts payable, accrued liabilities and provisions		885,790		739,270
Accounts payable and accrued liabilities	\$	1,986,855	\$	1,192,616

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10. Provision for discontinued operations:

The Company has agreed to indemnify rent with respect to a tenant's lease of a unit in the property that was sold in 2011. The lease expires on July 31, 2016. The balance of the lease obligation as at March 31, 2013 and December 31, 2012 were \$441,101 and \$445,957, respectively.

Following table summarizes the changes in the provision for discontinued operations for the year ended December 31, 2012 and March 31, 2013:

Ending balance, December 31, 2011	\$	251,864
Lease payments made during the period		(120,907)
Additional provisions made for remainder of the term		315,000
Ending balance, December 31, 2012	\$	445,957
Lease payments made during the period		(30,856)
Ending balance, March 31, 2013	\$	415,101

11. Loans and mortgages payable:

The Company sources its loans and mortgages payable through the syndication of certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement on an investment by investment basis and conventional construction or permanent financing secured by the project or investment property.

The principal balance of loans and mortgage payable at March 31, 2013 and December 31, 2012 were \$31,188,063 and \$21,406,070, respectively. The loans and mortgages carry a weighted average effective interest rate of 11.6% (December 31, 2012 – 13.8%) and a weighted average term to maturity of 1.11 years (December 31, 2012 – 0.84 years).

The details of loans and mortgages payable at March 31, 2013 and December 21, 2012 are as follows:

	March 31, 2013		December 31, 2012	
	Amount	% of Loans Payable	Amount	% of Loans Payable
Residential housing developments	\$ 26,189,132	84.0%	\$ 15,689,132	73.3%
Residential income properties	1,347,836	4.3%	1,348,084	6.3%
Montreal Street JV	1,151,095	3.7%	1,205,676	5.6%
Queen Street West JV	2,500,000	8.0%	3,163,178	14.8%
	\$ 31,188,063	100.0%	\$ 21,406,070	100.0%

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11. Loans and mortgages payable (continued):

Scheduled principal repayments and maturity amounts loans and mortgages payable at March 31, 2013 are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loans and mortgages payable
2013 - remainder of year	\$ 794	\$ 15,339,132	\$ 15,339,926
2014	1,182	2,650,000	2,651,182
2015	875	12,044,985	12,045,860
2016	-	1,151,095	1,151,095
	\$ 2,851	\$ 31,185,212	\$ 31,188,063

12. Convertible debentures:

On September 27, 2011 the Company completed a private placement of 10,150, 7.0% unsecured subordinated debentures (the "Debentures") at a price of \$1,000 per debenture for gross proceeds of \$10,150,000. The Debentures mature on September 27, 2014. Interest is paid on the last business day of each calendar quarter commencing December 31, 2011. The Debentures are convertible at the option of the holder at any time up to maturity at a conversion price of \$0.70 per common share. The Debentures are not redeemable or convertible at the option of the Company prior to maturity.

550 of the Debentures, having a face value of \$550,000, were placed with directors and officers of the Company.

As of the date of issuance the fair value of the liability component of the Debentures was determined to be the fair value of the Debenture as a whole.

Issue costs directly attributable to the issuance of the Debentures are deducted from the liability component of the Debenture resulting in an effective interest rate of 7.35%. The Debentures, net of the equity component and issue costs are accreted using the effective interest rate method over the term to maturity of the Debentures, such that the carrying amount will equal the total face value of the Debenture at maturity.

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12. Convertible debentures (continued):

The following table summarizes the changes in the Debentures for the year ended December 31, 2012 and March 31, 2013:

	Amount
Liability component of Debentures, December 31, 2011	\$ 10,061,869
Interest expensed at EIR of 7.35%	741,956
Interest paid	(710,500)
Liability component of Debentures, December 31, 2012	\$ 10,093,325
Interest expensed at EIR of 7.35%	182,808
Interest paid	(175,192)
Liability component of Debentures, March 31, 2013	\$ 10,100,941

Upon initial recognition, the fair value of the liability component of the Debentures was determined to be the fair value of the Debenture as a whole.

13. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2012 was \$ 4,754,192 (December 31, 2012 - \$3,032,425).

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.

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14. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2012 and 2013:

	Shares	Amount
Outstanding as at December 31, 2011	30,495,000	\$ 10,687,105
Outstanding as at March 31, 2012	30,495,000	10,687,105
Issuance of shares under share Option Plan	200,000	40,000
Transferred from Contributed surplus upon exercise of options	-	30,300
Outstanding as at December 31, 2012	30,695,000	10,757,405
Outstanding as at March 31, 2013	30,695,000	\$ 10,757,405

As at December 31, 2012, Counsel Corporation, controlled by the Chairman of the Board of the Company, beneficially owns 20.2% of the common shares of the Company and therefore is considered a related party (note 17).

(b) Share based payments:

The Company has a share option plan (the "Plan") to grant eligible directors, officers, senior management and consultants to grant options to purchase Shares. The exercise price of an option each option shall be determined by the board of directors and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the Exchange, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no Option shall be exercisable after five years from the date on which it is granted.

On April 17, 2012, the Company granted share options to Directors and Officers of the Company and employees of the Manager to purchase 910,000 common shares at \$0.50 per share. Except for 20,000 share options granted to the former Chairman of the Company's Audit Committee which vested immediately upon grant, 25% of the remaining share options vested immediately, with an additional 25% vesting each 90 day period thereafter.

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14. Shareholders' equity (continued):

The fair value of the share options granted was estimated on the dates of grant, April 17, 2012, using the Black-Scholes option pricing model, with the following assumptions:

Average expected life	5.00 years
Average risk-free interest rate	1.47%
Average expected volatility	103.00%
Average dividend yield	0.00%

The following is the summary of changes in share options for the three months ended March 31, 2013 and year ended December 31, 2012:

	March 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of year	2,442,667	\$ 0.37	1,917,667	\$ -
Granted	-	-	910,000	0.50
Exercised	-	-	(200,000)	0.20
Cancelled	-	-	(185,000)	0.20
Outstanding - end of year	2,442,667	\$ 0.37	2,442,667	\$ 0.37
Number of options exercisable	2,442,667	\$ 0.37	2,270,167	\$ 0.36

The following summarizes the Company's outstanding share options as at March 31, 2013:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
435,000	22-Jun-2014	435,000	\$ 0.20	\$ 0.09
895,000	24-Jan-2016	895,000	0.30	0.28
202,667	19-Dec-2016	202,667	0.50	0.40
910,000	16-Apr-2017	910,000	0.50	0.30
2,442,667		2,442,667		

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15. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2012 and March 31, 2013:

	Amount
Balance, December 31, 2011	\$ 386,599
Fair value of share-based compensation	30,357
Balance, March 31, 2012	416,956
Fair value of share-based compensation	186,483
Transferred to share capital - exercise of options	(30,300)
Balance at December 31, 2012	\$ 573,139
Fair value of share-based compensation	-
Balance at March 31, 2013	573,139

16. Earnings per share:

The calculation of earnings per share of the three months ended March 31, 2013 and 2012 is as follows:

	March 31, 2013	March 31, 2012
Numerator for basic and diluted earnings per share:		
Income attributable to Common shareholders	\$ 265,345	\$ 253,217
Interest savings on Debentures, net of taxes	134,364	-
Diluted income attributable to common shareholders	\$ 399,709	\$ 253,217
Denominator basic and diluted earnings per share:		
Weighted average number of Shares outstanding	30,695,000	30,495,000
Dilutive effect of share based payments	52,008	-
Assumed conversion of Debentures	14,500,000	-
Weighted average number of diluted common shares outstanding	45,247,008	30,495,000
Basic and diluted earnings per share	\$ 0.01	\$ 0.01

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17. Transactions with related parties:

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the following are the related party transactions.

At December 30, 2012, Counsel Corporation owned approximately 20.2% of the outstanding Shares of the Company, and therefore is considered a related party. On January 1, 2013, Counsel distributed its entire holding of Shares as a dividend to its shareholders.

(a) Management Agreement

On December 31, 2012, Counsel Asset Management L.P. (the "Manager"), an entity wholly-owned by Counsel Corporation, terminated the Management Agreement with the Company.

Prior to December 31, 2012, pursuant to the term of the Management Agreement, the Manager provided the administration of the day-to-day operations of the Company including providing other general management services to the Company including accounting, reporting, financial statement preparation assistance, and the provision of office space, equipment and personnel and advising on strategic matters including assisting the Company in structuring, sourcing, evaluating, and negotiating investments; the financing of such investments; and dispositions.

Prior to December 31, 2012, pursuant to the terms of the Management Agreement, for the services provided by the Manager, the Company paid the Manager an annual management fee, quarterly in arrears, equal to the sum of (i) 1.5% of the first \$200 million of the Company's shareholder's equity, (ii) 1.25% of the Company's shareholders' equity in excess of \$200 million and up to \$300 million, and (iii) 1.00% of the Company's shareholders' equity in excess of \$300 million, in each case calculated in accordance with Canadian generally accepted accounting principles. Subsequent to September 30, 2011 and pursuant to the amended Management Agreement, the management fee calculation included the debt securities issued by the Company; excluding syndication of loan or other investments by the company was included in calculating the management fee. For the three months ended March 31, 2012, the management fee amount to \$80,502, and are included in general and administrative expenses.

In addition, pursuant to the Management Agreement, the Company paid the Manager, 50% of all fees attributable to lending activities earned by the Company and certain fees or profit earned by the Company in connection with equity participations in commercial and residential developments and investment property acquisitions. The fees paid to the Manager are deducted from the fees used in the determination of the effective interest rate on each of the Company's loan and mortgage investments. During the three months ended March 31, 2012, the Company paid \$112,083 in such fees to the Manager.

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17. Transactions with related parties (continued):

The Management Agreement transactions were in the normal course of business and were recorded at their exchange amounts agreed to by the related parties, which closely represent the market value of these types of transactions. The terms of the Management Agreement were approved by the independent members of the Company's Board of Directors.

(b) Loans and mortgages payable and Debentures:

Several 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, 2013, the loan and mortgage investments and Debentures syndicated by officers and directors were \$4,276,088 (December 31, 2012 - \$2,276,088). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

18. Interest expense:

The following table presents the interest incurred for the three months ended March 31, 2013 and 2012:

	Three months ended	
	March 31, 2013	March 31, 2012
Interest on loans and mortgages payable	630,086 \$	298,832
Interest on Debentures	182,808	184,263
Montreal Street JV	12,330	12,596
Queen Street West JV	112,188	-
	<u>\$ 937,412</u>	<u>\$ 495,691</u>

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19. Income taxes:

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

	Three months ended	
	March 31, 2013	March 31, 2012
Current income tax provision	\$ 67,422	\$ 90,424
Deferred income tax provision	8,354	928
Total tax provision	\$ 75,776	\$ 91,352

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, 2013	March 31, 2012
Income from operations before income taxes	\$ 341,121	\$ 344,569
Combined federal and provincial statutory income tax rates	26.50%	26.25%
Income tax provision based on statutory income tax rates	90,397	90,449
Increase (decrease) in income tax due to:		
Non-taxable items	(6,267)	(6,652)
Non-deductible stock based compensation	-	7,969
Change in deferred tax asset not previously recognized	(8,354)	-
Tax rate differential on temporary differences	-	(414)
Total tax provision	\$ 75,776	\$ 91,352

The combined federal and provincial statutory income tax rate of 26.50% for the three months ended March 31, 2013 has increased from rate of 26.25% for the three months ended March 31, 2012 due to increasing enacted federal and provincial income tax rates.

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19. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2013 is as follows:

	Opening balance	Recognized in of income	Recognized in equity	Closing balance
Investment property	\$ (25,838)	\$ -	\$ -	\$ (25,838)
Incorporation costs	753	(13)		740
Debenture and share issue costs	9,483	(8,341)	-	1,142
	\$ (15,602)	\$ (8,354)	\$ -	\$ (23,956)

The composition of the Company's recognized deferred income tax assets and liabilities for the year three months ended March 31, 2012 is as follows:

	Opening balance	Recognized in income	Recognized in equity	Closing balance
Investment property	\$ (25,350)	\$ 878	\$ -	\$ (24,472)
Incorporation costs	794	(42)		752
Debenture and share issue costs	14,296	(1,764)	-	12,532
	\$ (10,260)	\$ (928)	\$ -	\$ (11,188)

20. Capital management:

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

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20. Capital management (continued):

The following table presents the capital structure of the Company as at March 31, 2013 and December, 2012:

	March 31, 2013	December 31, 2012
Loans and mortgages payable	\$ 31,188,063	\$ 21,406,070
Convertible debentures	10,100,941	10,093,325
Shareholders' Equity	13,021,291	12,755,946
Total capital	\$ 54,310,295	\$ 44,255,341

The Company is free to determine the appropriate level of capital in context with the cash flow requirements, overall business risks and potential opportunities. As a result, the Company will make adjustments to its capital structure in response to lending opportunities, the availability of capital and anticipated changes in general economic conditions. The Company's overall strategy with respect to capital remains unchanged during the three months ended March 31, 2013 and 2012.

During the three months ended March 31, 2013 and 2012, the Company had no externally imposed capital requirements.

21. 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, interest and other receivables, loan and mortgage investments, portfolio investment, accounts payable and accrued liabilities, loans and mortgages payable and Debentures.

The fair value of interest and other receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of loans and mortgage investments, portfolio investment loans, loans and mortgages payable and Debentures approximate their carrying value as the underlying interest rates on these instruments approximate the market interest rates.

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21. Fair value measurement (Continued):

The Company uses various methods in estimating the fair values recognized in the condensed consolidated interim 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 technique for which significant inputs are not based on observable market data.

All of the Company's financial assets and liabilities are valued using Level 3 inputs at March 31, 2013 and December 31, 2012 and no amounts were transferred between fair value levels during the three months ended March 31, 2013 and 2012.

22. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2012.

23. Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.