

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 7,858,626	\$ 11,723,550
Funds held in trust	589,309	2,061,207
Deposits (note 4)	–	11,747,370
Amounts receivable and prepaid expenses (note 5)	4,413,993	2,279,977
Loan and mortgage investments (note 6)	101,448,861	95,135,201
Investment properties held in joint operations (notes 7(b))	25,540,792	2,143,794
Portfolio investments (note 8)	2,739,555	2,339,555
Investment in associates (note 9)	2,315,414	2,315,414
Income taxes recoverable (note 21)	269,725	–
Deferred income tax asset (note 21)	140,513	–
Total assets	\$ 145,316,788	\$ 129,746,068

Liabilities and Equity

Liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 8,390,248	\$ 5,980,560
Unearned income	279,903	301,099
Income taxes payable (note 21)	–	322,046
Deferred income tax liability (note 21)	–	18,665
Short-term unsecured notes payable (note 11)	–	9,286,000
Revolving operating facility (note 12)	4,941,899	9,865,144
Loan and mortgage syndications (note 6)	56,256,821	45,691,948
Due to joint operations partner (note 7(c))	14,883,912	–
Mortgages payable (note 7(d))	1,518,467	1,120,314
Convertible debentures (note 13)	10,721,648	10,628,301
Total liabilities	96,992,898	83,214,077
Equity:		
Share capital (note 15 (a))	\$ 31,778,294	\$ 31,257,404
Equity component of convertible debentures (note 13)	284,490	284,490
Contributed surplus (note 16)	2,476,832	2,360,575
Retained earnings	13,529,633	12,374,881
Shareholders' equity	48,069,249	46,277,350
Non-controlling interest	254,641	254,641
Total equity	48,323,890	46,531,991
Commitments and contingencies (note 14)		
Total liabilities and equity	\$ 145,316,788	\$ 129,746,068

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

Approved by the Board on November 9, 2016 and signed on its behalf by:

"Seymour Temkin" _____ Director

"John Kaplan" _____ Director

TERRA FIRMA CAPITAL CORPORATION

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

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Revenue:				
Interest and fees	\$ 3,568,917	\$ 4,140,615	\$ 11,317,371	\$ 12,057,763
Rental (note 7(a))	50,444	47,362	149,266	142,072
	<u>3,619,361</u>	<u>4,187,977</u>	<u>11,466,637</u>	<u>12,199,835</u>
Expenses:				
Property operating costs (note 7(a))	21,186	15,268	54,585	45,790
General and administrative	906,366	555,709	2,172,995	1,922,564
Share-based compensation (note 15(b))	120,150	345,605	389,354	1,461,333
Interest (note 19)	1,981,164	1,375,561	5,817,139	4,314,631
Provision for loan and mortgage investment loss (note 6)	—	—	112,726	—
Foreign exchange loss (gain) - realized	(65,556)	—	566,059	—
Foreign exchange loss (gain) - unrealized (note 20)	(248,051)	(736,870)	649,976	(988,580)
	<u>2,715,259</u>	<u>1,555,273</u>	<u>9,762,834</u>	<u>6,755,738</u>
Income from operations before income taxes	904,102	2,632,704	1,703,803	5,444,097
Income taxes (note 21)	259,615	768,797	549,051	1,318,074
Net income and comprehensive income	\$ 644,487	\$ 1,863,907	\$ 1,154,752	\$ 4,126,023
Earnings per share (note 17)				
Basic	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.08
Diluted	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.07

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)

Nine months ended September 30, 2016 and 2015
(Unaudited)

	Share capital		Convertible debentures (note 13)	Contributed surplus (note 16)	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares (note 15(a))	Amount						
Balance, December 31, 2014	41,582,300	\$ 16,654,718	\$ 284,490	\$ 1,049,585	\$ 6,352,957	\$ 24,341,750	\$ 210,655	\$ 24,552,405
Changes during the period								
Issuance of shares pursuant to the Offering, net of share issue costs	18,117,783	14,143,652	–	347,824	–	14,491,476	–	14,491,476
Share-based compensation	–	–	–	945,949	–	945,949	–	945,949
Net income and comprehensive income	–	–	–	–	4,126,023	4,126,023	–	4,126,023
Balance, September 30, 2015	59,700,083	\$ 30,798,370	\$ 284,490	\$ 2,343,358	\$ 10,478,980	\$ 43,905,198	\$ 210,655	\$ 44,115,853
Changes during the period								
Issuance of shares pursuant to broker warrants	560,000	459,034	–	(106,235)	–	352,799	–	352,799
Share-based compensation	–	–	–	123,452	–	123,452	–	123,452
Net income and comprehensive income	–	–	–	–	1,895,901	1,895,901	43,986	1,939,887
Balance, December 31, 2015	60,260,083	\$ 31,257,404	\$ 284,490	\$ 2,360,575	\$ 12,374,881	\$ 46,277,350	\$ 254,641	\$ 46,531,991
Changes during the period								
Issuance of shares pursuant to share option plan	895,000	520,890	–	(252,390)	–	268,500	–	268,500
Share-based compensation	–	–	–	368,647	–	368,647	–	368,647
Net income and comprehensive income	–	–	–	–	1,154,752	1,154,752	–	1,154,752
Balance, Sept 30, 2016	61,155,083	\$ 31,778,294	\$ 284,490	\$ 2,476,832	\$ 13,529,633	\$ 48,069,249	\$ 254,641	\$ 48,323,890

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

(In Canadian dollars)

(Unaudited)

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Cash provided by (used in):				
Operating activities:				
Net income and comprehensive income	\$ 644,487	\$ 1,863,907	\$ 1,154,752	\$ 4,126,023
Interest and fees earned	(3,568,917)	(4,140,615)	(11,317,371)	(12,057,763)
Interest expense	1,981,164	1,375,561	5,817,139	4,314,631
Non-cash items:				
Foreign exchange loss (gain) - unrealized	(248,051)	(736,870)	649,976	(988,580)
Share-based compensation (note 13(b))	120,150	345,605	389,354	1,461,333
Provision for loan and mortgage investment loss	–	–	112,726	–
Income tax provision	259,615	768,797	549,051	1,318,074
Changes in working capital:				
Decrease (increase) in other receivables	223,912	2,415	(93,701)	191,769
Increase in prepaid expenses and deposits	(677,260)	(39,630)	(440,660)	(96,373)
Increase (decrease) in accounts payable and accrued liabilities	1,351,751	(1,837,961)	(405,480)	133,353
Interest and fees received	2,250,668	3,379,683	6,617,259	10,441,798
Interest paid	(1,481,237)	(1,855,258)	(4,749,937)	(6,191,334)
Income taxes paid	–	(229,837)	(1,300,000)	(1,203,040)
Cash provided by (used in) operating activities – continuing operations	856,282	(1,104,203)	(3,016,892)	1,449,891
Cash used in operating activities – discontinued operations	–	(27,500)	–	(27,500)
Cash provided by (used in) operating activities	856,282	(1,131,703)	(3,016,892)	1,422,391
Financing activities:				
Proceeds from loan and mortgage syndications	6,999,944	54,728	29,941,856	13,383,428
Repayments of loan and mortgage syndications	(5,750,896)	(795,211)	(24,584,797)	(18,542,747)
Proceeds from mortgages payable	–	–	417,736	–
Repayments of mortgages payable	(6,359)	(7,734)	(19,583)	(22,960)
Proceeds from short-term unsecured notes payable	–	4,887,003	200,000	5,887,003
Repayment of short-term unsecured notes payable	(2,239,200)	(100,000)	(2,741,700)	(7,550,000)
Advance from joint operations partner	1,575,771	–	2,305,502	–
Proceeds from revolving operating facility	–	–	–	11,500,000
Repayments of revolving operating facility	(5,000,000)	(2,000,000)	(5,000,000)	(9,500,000)
Proceeds from issuance of shares pursuant to the Offering, net of issue costs (note 13(a))	–	–	–	14,186,476
Proceeds from issuance of shares pursuant to broker warrants	–	264,600	–	264,600
Proceeds from issuance of shares pursuant to share options plan	–	–	268,500	–
Cash provided by (used in) financing activities	(4,420,740)	2,303,386	787,514	9,605,800
Investing activities:				
Funding of loan and mortgage investments	(445,291)	(16,427,965)	(41,993,912)	(42,935,647)
Repayments of loan and mortgage investments	6,909,196	13,551,424	29,285,010	28,149,763
Proceeds from sale of investment in associates	–	(255,000)	–	8,845,500
Repayment of deposits	–	–	11,747,370	–
Capital additions to investment properties	(542,901)	–	(1,121,231)	–
Increase in funds held in trust	180,536	885,665	1,471,898	314,827
Funding of interest in joint operations	–	–	(624,681)	–
Funding of investment in associates	–	–	–	(1,372,652)
Funding of portfolio investment	–	(64,001)	(400,000)	(124,001)
Cash provided by (used in) investing activities	6,101,540	(2,309,877)	(1,635,546)	(7,122,210)
Increase (decrease) in cash and cash equivalents	2,537,082	(1,138,194)	(3,864,924)	3,905,981
Cash and cash equivalents, beginning of period	5,321,544	6,127,920	11,723,550	1,083,745
Cash and cash equivalents, end of period	\$ 7,858,626	\$ 4,989,726	\$ 7,858,626	\$ 4,989,726

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)

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

1. Reporting entity:

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 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 United States. 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 property, for such development or redevelopment, property repairs or the purchase of investment property.

2. Basis of presentation:

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") as issued by the International Accounting Standards Board ("IASB") as well as Interpretation of International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim 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, 2015.

Certain comparative information has been restated to conform with current presentation.

3. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 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, 2015.

The Company implemented the amendments to IAS 1, Presentation of Financial Statements, ("IAS 1 Amendments") in the first quarter of 2016, with no significant impact on the Company's unaudited condensed consolidated interim financial statements.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

4. Deposits:

On December 31, 2015, the Company deposited \$11,747,370 into an account established by a borrower, requiring joint signatures of the officers of the borrower and the Company, pending a release for mortgage investments purposes. In January 2016, the loan transaction was cancelled, as funding and investment conditions were not met, and the funds were therefore returned to the Company.

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at September 30, 2016 and December 31, 2015.

	September 30, 2016	December 31, 2015
Interest receivable	\$ 3,485,573	\$ 2,107,889
Other receivables	99,548	5,847
Prepaid expenses and deposits	828,872	166,241
Amounts receivable and prepaid expenses	\$ 4,413,993	\$ 2,279,977

Included in interest receivable are non-current balances of \$1,923,729 at September 30, 2016 (December 31, 2015 - \$1,358,935).

The remaining interest and other receivables are current and due in the next twelve months in accordance with contract terms.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

As at September 30, 2016 and December 31, 2015, the Company had principal balance of loan and mortgage investments including loan and mortgage syndications owned by investors of \$102,039,653 and \$95,613,267, respectively. The principal balance of the loan and mortgage loan investments includes loan and mortgage loans and syndications of \$56,256,821 and \$45,691,948, at September 30, 2016 and December 31, 2015, respectively. The loan and mortgage investments carry a weighted average effective interest rate (the "EIR") of 16.2% (December 31, 2015 - 15.8%) and a weighted average term to maturity of 1.09 years (December 31, 2015 - 1.43 years). The loan and mortgage syndications carry a EIR of 11.3% (December 31, 2015 - 10.5 %) and a weighted average term to maturity of 1.33 years (December 31, 2015 - 1.40 years).

The Company syndicates certain of its loan and mortgage investments to investors, each having an ownership interest in a prescribed manner governed by loan servicing agreements, on an investment by investment basis and administered by Terra Firma MA Ltd, a wholly owned subsidiary of the Company. The interest income earned and related interest expense on the syndicate investors are recognized in the unaudited condensed consolidated interim statements of income and comprehensive income.

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at September 30, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 73,147,226	\$ 34,675,399	\$ 38,471,827	84.0
Land and lot inventory	24,607,321	20,781,422	3,825,899	8.4
Commercial retail development	500,000	—	500,000	1.1
Residential income properties	3,785,106	800,000	2,985,106	6.5
	102,039,653	56,256,821	45,782,832	100.0
Allowance for loan and mortgage investments loss	(590,792)	—	(590,792)	
	\$ 101,448,861	\$ 56,256,821	\$ 45,192,040	

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2015:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 65,417,141	\$ 37,678,182	\$ 27,738,959	55.6
Land and lot inventory	25,465,047	7,813,766	17,651,281	35.4
Commercial retail development	1,270,000	–	1,270,000	2.5
Residential income properties	3,461,079	200,000	3,261,079	6.5
	95,613,267	45,691,948	49,921,319	100.0
Allowance for loan and mortgage investments loss	(478,066)	–	(478,066)	
	\$ 95,135,201	\$ 45,691,948	\$ 49,443,253	

The Company is committed to fund a loan investment of \$1,500,000 to a company controlled by the Chairman of the Company (the "Chairman") at the interest rate of 12% per annum. During the nine months ended September 30, 2016, the Company advanced \$1,499,831 and recognized interest and fees revenue of \$70,423 during the same period (note 18).

On June 18, 2015, the Company advanced loan investment of \$3,000,000 to a company controlled by the Chairman at the interest rate of an investment with a similar risk profile. The loan was repaid in full in August 2015 (note 18).

On February 20, 2015, the Company exercised its option to convert its loan and mortgage investment in a 668-unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). The carrying balance of the loan and mortgage investment at the time of conversion was \$14,821,313, of which \$11,675,000 was syndicated. Syndicate investors in the amount of \$5,125,000 elected to convert their share of interest in the loan investment into units of the Lan Partnership and syndicate investors in the amount of \$6,550,000 converted their share of interest in the loan investment in short-term unsecured notes payable. The Company received \$8,845,000 from new and existing syndicate investors to invest in the units of the Lan Partnership (note 9).

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

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

During the three and nine months ended September 30, 2016, the Company capitalized interest income of \$756,150 and \$3,834,726, respectively, (three and nine months ended September 30, 2015, the Company capitalized interest income of \$1,077,984 and \$2,713,849, respectively), which is included in the loan and mortgage investments.

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 September 30, 2016 were \$13,712,067, including \$9,143,845 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2015 - \$18,455,100, including \$11,733,451 of capitalization of future interest relating to the existing loan and mortgage investments).

The following table presents details of the Company's principal balances loan categories as at September 30, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 95,081,746	\$ 53,996,821	\$ 41,084,925	89.7
Unregistered loans	6,957,907	2,260,000	4,697,907	10.3
	\$ 102,039,653	\$ 56,256,821	\$ 45,782,832	100.0

The following table presents details of the Company's loan categories as at December 31, 2015:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 91,691,123	\$ 44,191,948	\$ 47,499,175	95.1
Unregistered loans	3,922,144	1,500,000	2,422,144	4.9
	\$ 95,613,267	\$ 45,691,948	\$ 49,921,319	100.0

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at September 30, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 63,759,128	\$ 39,356,578	\$ 24,402,550	53.3
United States	38,280,525	16,900,243	21,380,282	46.7
	\$ 102,039,653	\$ 56,256,821	\$ 45,782,832	100.0

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at December 31, 2015:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 57,551,220	\$ 31,488,302	\$ 26,062,918	52.2
United States	38,062,047	14,203,646	23,858,401	47.8
	\$ 95,613,267	\$ 45,691,948	\$ 49,921,319	100.0

On March 9, 2016, the Company advanced a loan of \$10,000,000 to a Canadian borrower, secured by two properties (the "Secured Properties") and the borrower's 50% interest in a development project (the "Valermo Homes JV"). The loan agreement provided the Company an option to purchase the 50% interest in the Valermo Homes JV for \$7,000,000. On April 15, 2016, the Company exercised its option and acquired the 50% interest in the Valermo Homes JV for \$7,000,000 which approximates the fair value of the project (note 7(a)). The Company has a registered security on the Secured Properties and in the event the Company does not recover the \$7,000,000 from the Valermo Homes JV, the Company is entitled to receive up to \$5,000,000 from the Secured Properties.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

At September 30, 2016, six project loan investments totalling \$16,085,826, including interest receivable on these loans totalling \$1,558,391, to entities controlled by the same borrower (the "Borrower") are in arrears, of which \$2,070,713 of project loans including interest payable have been syndicated. As at December 31, 2015, five project loans outstanding from the Borrower totalling \$11,931,439, which includes interest receivable of \$705,037, with nil balances in arrears. The foreclosure process has commenced and is proceeding on these project loans to enforce the security. Based on the most recent valuations of the underlying assets, the Company has not identified any project loans in arrears for which a loss provision should be made.

Subsequent to September 30, 2016, the Company received \$4,789,021, consisting of repayment of two project loans in arrears including interest receivable of \$645,428 and repaid \$1,839,716 to syndicate investors.

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

	Scheduled principal payments	Loan and mortgage investments maturing	Total loan and mortgage investments
Remainder of year	\$ —	\$ 26,627,223	\$ 26,627,223
2017	—	35,310,725	35,310,725
2018	—	32,618,582	32,618,582
2019	—	—	—
2020	—	5,483,123	5,483,123
Thereafter	—	2,000,000	2,000,000
	\$ —	\$ 102,039,653	\$ 102,039,653

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

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

Scheduled principal repayments and loan and mortgage syndications maturing in the next five years and thereafter are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing	Total loan and mortgage syndications
Remainder of year	\$ –	\$ 9,705,000	\$ 9,705,000
2017	–	19,800,990	19,800,990
2018	–	19,815,400	19,815,400
2019	–	–	–
2020	–	4,935,431	4,935,431
Thereafter	–	2,000,000	2,000,000
	\$ –	\$ 56,256,821	\$ 56,256,821

7. Joint arrangements:

(a) 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 to develop a store for a national pharmacy chain 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 is subject to joint control, and the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties following the proportionate consolidation method.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

(ii) Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company an option to purchase 50% interest in a development in Etobicoke, Ontario by affiliates of the Company's borrower. On April 15, 2016, the Company exercised its option and acquired 50% interest in a residential housing development project in Toronto, Ontario for \$7,000,000. The Company incurred \$624,681 in closing costs.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of conversion, as follows:

	<u>Total</u>
Net assets acquired:	
Investment property	\$ 22,275,767
Amounts receivable and prepaid expenses	221,971
Due to joint venture partner	(13,448,799)
Accounts payable and accrued liabilities	(1,424,258)
<u>Value of assets transferred on conversion</u>	<u>\$ 7,624,681</u>
Consideration paid, funded by:	
Loan and mortgage investments	\$ 7,000,000
Amounts receivable and prepaid expenses	624,681
<u>Value of assets transferred on conversion</u>	<u>\$ 7,624,681</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

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

	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 3,192,794	\$ 4,028
Amounts receivable and prepaid expenses	373,446	11,644
Investment properties	25,540,792	2,143,794
	29,107,032	2,159,466
Liabilities		
Accounts payable and accrued liabilities	3,618,216	41,828
Loan and mortgage syndications	870,389	–
Mortgages payable	1,518,467	1,120,314
Due to joint operations partner	14,883,912	–
	20,890,984	1,162,142
Net assets	\$ 8,216,048	\$ 997,324

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

The table below details the results of operations for the three and nine months ended September 30, 2016 and 2015, attributable to the Company from its joint operations activities:

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Revenue:				
Rental revenue	\$ 50,444	\$ 47,362	\$ 149,266	\$ 142,072
Expenses				
Property operating costs	21,186	15,268	54,585	45,790
General and administrative expenses	117,408	760	118,416	875
Interest expense	8,137	11,527	29,950	34,826
	146,731	27,555	202,951	81,491
Net income (loss)	\$ (96,287)	\$ 19,807	\$ (53,685)	\$ 60,581

(b) 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.

The Company's investment properties consist of income-producing property and land under development and are carried at fair value through profit and loss. The fair values of the investment properties are as follows:

	Sept 30, 2016	December 31, 2015
Income-producing property	\$ 2,143,794	\$ 2,143,794
Land under development	23,396,998	–
Total assets	\$ 25,540,792	\$ 2,143,794

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

The following table summarizes the changes in the Company's proportionate share of the investment properties for the nine months ended September 30, 2016 and 2015:

Balance, December 31, 2014	\$ 2,062,661
Change in amount receivable from joint venture partner	993
Balance, September 30, 2015	\$ 2,063,654
Change in amount receivable from joint venture partner	(2,360)
Fair value adjustment	82,500
Balance, December 31, 2015	\$ 2,143,794
Acquisition of property	22,275,767
Capital additions	1,121,231
Balance, September 30, 2016	\$ 25,540,792

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. The carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$2,143,794. At September 30, 2016 and December 31, 2015, the fair value was determined by the Company's management. The capitalization rate used in the valuation property was 6.50%.

As at September 30, 2016 and December 31, 2015, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by \$89,600 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by \$82,500.

The Company determined the fair value of investment property in the Valermo Homes JV using the sales comparison method. At September 30, 2016, the fair value was determined by the Company's management. The fair value of the Company's proportionate share of investment property in the Valermo Homes JV is \$23,396,998.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

(c) Due to joint operations partner:

The co-ownership agreement on Valermo Homes JV provides that the Company will not be required to make any other contributions in respect of expenses or development costs and the development partner will loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest is calculated using the formula specified in the co-ownership agreement. At September 30, 2016, the amount due to joint operations partner is \$14,883,912.

(d) Mortgages payable:

On June 16, 2016, the Montreal Street JV refinanced the mortgage totalling \$2,800,000. The Company's share of the mortgage, net of deferred financing costs is \$ 1,524,826. The original mortgage had an interest rate of 4.07% per annum, with a maturity date of June 16, 2016. The refinanced mortgage bears interest at 3.02% per annum, is amortized over 25 years and matures on June 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at September 30, 2016 and December 31, 2015 is as follows:

	September 30, 2016		December 31, 2015	
	Amount	% of loans payable	Amount	% of loans payable
Montreal Street JV	\$ 1,518,467	100.0	\$ 1,120,314	100.0

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

Scheduled principal repayments and mortgages payable maturing in the next five years and thereafter are as follows:

	Scheduled principal payments	Maturing during the year	Total mortgages payable
Remainder of year	\$ 9,208	\$ —	\$ 9,208
2017	39,544	—	39,544
2018	40,831	—	40,831
2019	42,159	—	42,159
2020	43,518	—	43,518
Thereafter	22,293	1,320,914	1,343,207
	<u>\$ 197,553</u>	<u>\$ 1,320,914</u>	<u>\$ 1,518,467</u>

8. Portfolio investments:

The Company has invested through Terra Firma Capital (Hill) Corporation (the "Hill"), in a 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. The carrying value of the investment at September 30, 2016 is \$1,174,212 (December 31, 2015 - \$1,174,212). At September 30, 2016 and December 31, 2015, the fair value was determined by the management, using the direct comparison method. The fair value of the investment at September 30, 2016 and December 31, 2015 was \$1,174,212.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

8. Portfolio investments (continued):

The Company, through TFCC LanQueen Ltd., entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest up to \$1,326,400 in a redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded monthly on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at September 30, 2016, TFCC LanQueen Ltd. contributed \$1,324,000 (December 31, 2015 - \$924,000) in the partnership. At September 30, 2016 and December 31, 2015, the fair value was determined by the management, using the direct comparison method. The fair value of investment at September 30, 2016 and December 31, 2015 was \$1,565,343 and \$1,165,343, respectively.

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2016 and 2015:

	Amount
Balance, December 31, 2014	\$ 1,620,828
Investment made	124,000
Balance, September 30, 2015	1,744,828
Investment made	200,557
Fair value adjustment	394,170
Balance, December 31, 2015	2,339,555
Investment made	400,000
Balance, September 30, 2016	\$ 2,739,555

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

9. Investment in associates:

On February 20, 2015, the Company, together with certain existing syndicate investors exercised their right to convert a loan and mortgage investment into equity investment in Lan Project through equity in the Lan Partnership. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest at 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% hurdle rate. The Company exerts influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

At September 30, 2016 and December 31, 2015, the Lan Partnership has invested \$13,333,333 in the Lan Project. At September 30, 2016 and December 31, 2015, the Company's share of investment in the Lan Partnership was \$2,315,414. At September 30, 2016 and December 31, 2015, the fair value of the investment in the Lan Partnership was determined by the management, using the direct comparison method.

The following table summarizes the changes to the carrying value of investment in associates for the nine months ended September 30, 2016 and 2015:

	Amount
Balance, December 31, 2014	\$ –
Loan and mortgage investment converted into equity interest in Lan Partnership (note 6)	14,821,313
Loan syndications converted to equity interest in Lan Partnership (note 6)	(5,125,000)
Sale of interest in Lan Partnership to investors (note 6)	(8,845,500)
Contributions to Lan Partnership	1,372,652
Balance, September 30, 2015	2,223,465
Share of income from Lan Partnership	91,949
Balance, December 31, 2015	2,315,414
Balance, September 30, 2016	\$ 2,315,414

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Interest payable	\$ 2,015,120	\$ 1,287,698
Interest reserve	389,313	456,985
Accounts payable, accrued liabilities and provisions	4,790,451	3,061,220
Share-based compensation payable (note 15(b)(ii))	1,195,364	1,174,657
Accounts payable and accrued liabilities	\$ 8,390,248	\$ 5,980,560

Accounts payable and accrued liabilities are current and payable in the next twelve month period.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

11. Short-term unsecured notes payable:

The following table summarizes the changes in the short-term unsecured notes payable for the nine months ended September 30, 2016 and 2015:

	Amount
Balance, December 31, 2014	\$ 1,500,000
Proceeds from issuance of short-term unsecured notes payable	5,887,003
Transferred from loan and mortgage syndications	9,300,000
Transferred to loan and mortgage syndications	(1,600,000)
Repayments of short-term unsecured notes payable	(7,450,000)
Balance, September 30, 2015	7,637,003
Proceeds from issuance of short-term unsecured notes payable	3,868,494
Transferred from loan and mortgage syndications	2,844,753
Transferred to loan and mortgage syndications	(5,220,000)
Unrealized foreign exchange loss	155,750
Balance, December 31, 2015	9,286,000
Proceeds from issuance of short-term unsecured notes payable	200,000
Transferred from loan and mortgage syndications	50,000
Transferred to loan and mortgage syndications	(6,794,300)
Repayments of short-term unsecured notes payable	(2,741,700)
Balance, September 30, 2016	\$ —

For the three and nine months ended September 30, 2016, the Company recorded interest expense of \$28,155 and \$285,705 (three and nine months ended September 30, 2015 - \$91,799 and \$100,950), respectively.

Included in short-term unsecured notes payable at December 31, 2015 are U.S. dollar-denominated balances of \$3,000,000 (Canadian \$4,152,000).

These notes bore annual interest in the range of 7% - 9%, had term of 6 months from issuance, closed for prepayment through the full term, and are convertible, in whole or in part, into loan and mortgage syndications on the terms and conditions to be agreed by the holders and the Company. At any time prior to the maturity date, the Company had an option to extend these notes by three months. Proceeds from issuance of those notes were used to fund certain loan and mortgage investments.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

12. Revolving operating facility:

On April 23, 2015, the Company entered into a Revolving Operating Facility Credit Agreement with a lending institution for a \$10 million secured revolving loan facility (the "Facility") with a 24-month term. Interest on advanced funds under the Facility will be 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility is subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company has entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allows the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

In connection with the Facility, the Company incurred lender and other third-party costs of \$204,717. The costs associated with the Facility have been deferred and are being amortized over the term of the Facility as interest expense using the effective-interest amortization method.

For the three and nine months ended September 30, 2016, amortization of deferred financing costs reported as interest expense and financing costs totaled \$25,636 and \$76,755 (three and nine months ended September 30, 2015 - \$25,449 and \$44,362), respectively.

The following table presents details of the revolving operating facility as at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Face value	\$ 5,000,000	\$ 10,000,000
Unamortized financing costs	(58,101)	(134,856)
Revolving operating facility	\$ 4,941,899	\$ 9,865,144

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

13. Convertible debentures:

On September 29, 2014, the Company issued by way of private placement, unsecured subordinated convertible debentures (the "Debentures") in the principal amount of \$10,850,000. The Debentures bear interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and mature on September 27, 2017. The Debentures are convertible into Shares of the Company in whole or in part, at the option of the holder at any time up to maturity at a conversion price of \$0.72 per Share. The Company may, at any time prior to the maturity date and upon giving notice, prepay the Debentures in full or in part, by paying the holders thereof the outstanding principal amount plus all accrued and unpaid interest, provided that the market price per Share on the date on which the redemption notice is provided is at least 125% of the conversion price.

The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of \$10,486,460 (net of transaction costs of \$76,962) and the equity component was assigned a value of \$284,490 (net of transaction costs of \$2,088). The EIR of the Debentures is 8.53%.

Certain directors and officers hold Debentures in an aggregate principal amount of \$1,330,000.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

13. Convertible debentures (continued):

The following table summarizes the changes in the Debentures for the nine months ended September 30, 2016 and 2015:

	Total
Liability component of Debentures, December 31, 2014,	\$ 10,514,431
Interest expensed at EIR of 8.53%	652,386
Interest paid	(568,065)
Liability component of Debentures, September 30, 2015	10,598,752
Interest expensed at EIR of 8.53%	220,984
Interest paid	(191,435)
Liability component of Debentures, December 31, 2015	10,628,301
Interest expensed at EIR of 8.53%	661,893
Interest paid	(568,546)
Liability component of debentures, September 30, 2016	\$ 10,721,648

14. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at September 30, 2016 were \$13,712,067 (December 31, 2015 - \$18,455,100).

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

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

14. Commitments and contingencies (continued):

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and its previous head office premises located at 5000 Yonge Street, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at September 30, 2016, are as follows:

Remainder of year	\$	66,999
2017		208,217
2018		221,785
2019		221,785
2020		221,785
	\$	940,571

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.

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the nine months ended September 30, 2016 and 2016:

	Shares	Amount
Outstanding, December 31, 2014	41,582,300	\$ 16,654,718
Issuance of shares pursuant to the Offering	16,911,900	13,118,652
Issuance of shares pursuant to private placement	1,205,883	1,025,000
Issuance of shares pursuant to broker warrants	420,000	264,600
Transferred from contributed surplus upon exercise of broker warrants	–	79,676
Outstanding, September 30, 2015	60,120,083	31,142,646
Issuance of shares pursuant to broker warrants	140,000	88,200
Transferred from contributed surplus upon exercise of broker warrants	–	26,558
Outstanding, December 31, 2015	60,260,083	31,257,404
Issuance of shares pursuant to share option plan	895,000	268,500
Transferred from contributed surplus upon exercise of options	–	252,390
Outstanding, September 30, 2016	61,155,083	\$ 31,778,294

On March 31, 2016, the Company's executive vice chairman (previous chief executive officer) (the "Executive Vice Chairman") exercised 895,000 options that had been formally granted to purchase the Company's Shares at \$0.30 per share. The consideration of \$268,500, received on exercising the options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital (note 15(b)(i)).

On October 14, 2015, 140,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2016 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$88,200 (note 15(c)).

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended September 30, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

On July 29, 2015, 420,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The consideration received on the exercise of broker warrants of \$264,600 was recorded as share capital and the related contributed surplus of \$79,676 was transferred to share capital (note 15(c)).

On May 5, 2015, the Company completed a bought deal prospectus offering (the "Offering") consisting of 16,911,900 Shares, including fully exercised over-allotment Shares, at a price of \$0.85 per share, for gross proceeds of \$14,375,115. As part of the Offering, the Company issued 1,014,714 broker warrants as additional compensation. Each broker warrant entitles the holder to purchase one common share at an exercise price of \$0.85 until May 4, 2017. Share issuance costs amounted to \$1,256,463, consisting of cash costs of \$1,213,639 and non-cash costs of \$347,824 relating to the value attributable to broker warrants issued to underwriters, offset by a deferred tax benefit of \$305,000.

Concurrent with the closing of the Offering, the Company also completed a non-brokered private placement of 1,205,883 Shares, at the same price as the Shares issued pursuant to the Offering, for aggregate gross proceeds of \$1,025,000. Certain officers and directors participated in the private placement and the Company issued 811,765 Shares to those officers and directors for gross proceeds of \$690,000 (note 18).

(b) Share-based payments:

The share-based payments that have been recognized in these unaudited condensed consolidated interim financial statements are as follows:

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Share option plan	\$ 73,016	\$ 249,905	\$ 368,647	\$ 945,949
Deferred share unit plan	47,134	95,700	20,707	515,384
	<u>\$ 120,150</u>	<u>\$ 345,605</u>	<u>\$ 389,354</u>	<u>\$ 1,461,333</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

(i) Share option plan:

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 (the "Board") and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the Exchange, the Board may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no Option shall be exercisable after seven years from the date on which it is granted.

Pursuant to the employment agreement between the Company and the Executive Vice Chairman of the Company, the Executive Vice Chairman was eligible to receive options equal to 5% of Shares (the "Option Right") issued outstanding through to December 31, 2015, at the price determined by the Board. The Option Right expired on December 31, 2015.

On June 27, 2016, the Company granted share options to the current chief executive officer of the Company to purchase an aggregate of 500,000 Shares at \$0.57 per share, with the expiry date of June 28, 2023. Of the share options, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On March 31, 2016, the Company granted share options to the Chairman of the Board of the Company to purchase an aggregate of 200,000 Shares at \$0.77 per share, with the expiry date of March 31, 2023. These share options vested immediately upon grant.

On May 11, 2015, the Company granted share options to directors, officers and employees of the Company to purchase an aggregate of 980,889 Shares at \$0.85 per share, with the expiry date of May 11, 2020. Of the share options, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

TERRA FIRMA CAPITAL CORPORATION

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

15. Shareholders' equity (continued):

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

	June 27, 2016	March 31, 2016	May 11, 2015
Average expected life	7.00 years	7.00 years	5.00 years
Average risk-free interest rate	1.04%	0.89%	0.80%
Average expected volatility	79.94%	81.61%	89.45%
Average dividend yield	0.00%	0.00%	0.00%

The fair value of options granted on June 27, 2016, March 31, 2016 and May 11, 2015 were \$187,007, \$108,853 and \$574,801, respectively.

On March 31, 2016, the Executive Vice Chairman exercised 895,000 options that had been formally granted to purchase the Company's Shares at \$0.30 per share. The consideration of \$268,500, received on exercising the options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

The following is the summary of changes in share options for the nine months ended September 30, 2016 and year ended December 31, 2015:

	September 30, 2016		December 31, 2015	
	Number of options	Weighted average	Number of options	Weighted average
Outstanding, beginning of period	5,052,338	\$ 0.61	4,071,449	\$ 0.55
Granted	700,000	0.63	980,889	0.85
Exercised	(895,000)	0.30	–	–
Outstanding, end of period	4,857,338	0.67	5,052,338	0.61
Number of options exercisable	4,190,669	\$ 0.67	4,140,447	\$ 0.56

TERRA FIRMA CAPITAL CORPORATION

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

Three and nine months ended September 30, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

The following summarizes the Company's outstanding share options as at September 30, 2016:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
138,667	December 19, 2016	138,667	\$ 0.50	\$ 0.40
585,000	April 16, 2017	585,000	0.50	0.30
138,667	April 17, 2018	138,667	0.30	0.25
100,000	February 23, 2019	100,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	633,331	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 27, 2023	250,000	0.57	0.52
4,857,338		4,190,669		

(ii) Deferred share unit plan:

The Company has a deferred share unit plan (the "DSU Plan") to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Company's Shares.

The Board determines the amount, timing, and vesting conditions associated with each award of deferred share units (the "DSUs"). Directors are required to contribute, on the last day of each quarter, a minimum of 50% and may elect to contribute up to 100% of their annual retainer in DSUs and employees may elect to receive up to 25% of their annual bonus in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant. In addition, when the directors elect to contribute more than 50% of their fees in DSUs, the Company will grant additional DSUs of up to 50% of the value of the DSUs granted to them on contribution over 50% and when the employees elect to receive their bonus in DSUs, the Company will grant additional DSUs of up to 20% of the value of DSUs granted to them. Of the additional DSUs granted by the Company to the directors, 50% vest in nine months from the date of grant and 50% of the additional DSUs vest in 12 months from the date of grant. The additional DSUs granted to the employees vest 33.33% annually.

TERRA FIRMA CAPITAL CORPORATION

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

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15. Shareholders' equity (continued):

Each DSU has the same value as one share (based on the five day volume weighted average trading price). DSUs must be retained until the director leaves the Board or termination of employment of officers or employees, at which time the redemption payment equal to the value of the DSUs, calculated as the volume weighted average closing price of the shares for the last five days preceding the redemption date, net of applicable taxes are paid out.

The following is the summary of changes in DSUs for the nine months ended September 30, 2016 and year ended December 31, 2015:

	September 30, 2016	December 31, 2015
DSUs outstanding, beginning of period	1,757,001	747,705
Granted	522,743	1,009,296
DSUs outstanding, end of period	2,279,744	1,757,001
Number of DSUs vested	2,173,389	1,525,530

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2016 were \$47,134 and \$20,707 (three and nine months ended September 30, 2015 - \$95,700 and \$515,384), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at September 30, 2016 is \$1,195,364 (December 31, 2015 - \$1,174,657).

(c) Broker warrants:

As part of the Offering completed on May 5, 2015, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitles the holder to acquire one share of the Company at an exercise price of \$0.85 per share, with an expiry date of May 5, 2017.

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15. Shareholders' equity (continued):

On July 29, 2015, 420,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$264,600 (note 15(a)).

On October 14, 2015, 140,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$88,200 (note 15(a)).

The following is the summary of changes in broker warrants for the nine months ended September 30, 2016 and year ended December 31, 2015:

	Number of broker warrants outstanding	Fair value	Exercise price
Outstanding, December 31, 2014	560,000	\$ 106,235	\$ 0.63
Granted	1,014,713	347,824	0.85
Exercised	(420,000)	(79,676)	0.63
Outstanding, September 30, 2015	1,154,713	374,383	0.82
Exercised	(140,000)	(26,559)	0.63
Outstanding, December 31, 2015	1,014,713	\$ 347,824	\$ 0.85
Outstanding, September 30, 2016	1,014,713	\$ 347,824	\$ 0.85

The fair value of broker warrants was estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	May 5, 2015
Average expected life	2.00 years
Average risk-free interest rate	0.67%
Average expected volatility	73.96%
Average dividend yield	0.00%

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16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at September 30, 2016 and December 31, 2015:

	Amount
Balance, December 31, 2014	\$ 1,049,585
Fair value of broker warrants	347,824
Fair value of share-based compensation	945,949
Transfer to share capital - exercise of warrants	(79,676)
Balance, September 30, 2015	2,263,682
Fair value of share-based compensation	123,452
Transfer to share capital - exercise of warrants	(26,559)
Balance, December 31, 2015	2,360,575
Fair value of share-based compensation	368,647
Transfer to share capital - exercise of options	(252,390)
Balance, September 30, 2016	\$ 2,476,832

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17. Earnings per share:

The calculation of earnings per share of the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Numerator for basic and diluted earnings per share:				
Income attributable to common shareholders	\$ 644,487	\$ 1,863,907	\$ 1,154,752	\$ 4,126,023
Interest savings on debentures, net of taxes	163,829	162,032	486,491	479,503
Diluted income attributable to common shareholders	\$ 808,316	\$ 2,025,939	\$ 1,641,243	\$ 4,605,526
Denominator basic and diluted earnings per share:				
Weighted average number of Shares outstanding	61,155,083	59,996,822	60,858,919	51,534,306
Dilutive effect of share-based payments	288,680	1,139,808	432,973	1,184,791
Dilutive effect of broker warrants	–	6,414	–	7,217
Assumed conversion of debentures	15,069,444	15,069,444	15,069,444	15,069,444
Weighted average number of diluted Shares outstanding	76,513,207	76,212,488	76,361,336	67,795,758
Earnings per share:				
Basic	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.08
Diluted	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.07

18. Transactions with related parties:

Except as disclosed elsewhere in the unaudited condensed consolidated interim 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.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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18. Transactions with related parties (continued):

At September 30, 2016 and December 31, 2015, the Chairman of the Board of the Company, indirectly through a wholly owned subsidiary, owned approximately 10% of the issued and outstanding Shares of the Company.

The Company is committed to fund a loan investment of \$1,500,000 to a company controlled by the Chairman at the interest rate of 12% per annum. During the nine months ended September 30, 2016, the Company advanced a loan investment of \$1,499,831, and recognized interest and fees revenue of \$70,423 during the same period. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties (note 6).

On June 18, 2015, the Company advanced loan investment of \$3,000,000 to a company controlled by the Chairman at the interest rate of 12% for the first month and 15% thereafter. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. The loan was repaid in full in August 2015 (note 6).

On May 5, 2015, concurrent with the closing of the Offering, the Company issued 811,765 Shares through private placement at a price of \$0.85 per share to certain officers and directors of the Company, for gross proceeds of \$690,000 (note 15).

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest. At September 30, 2016, and December 31, 2015, the loan and mortgage investments and Debentures syndicated by officers and directors was \$1,895,570 and \$1,745,000, respectively. No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the three and nine months ended September 30, 2016, the Company received \$23,872 and \$59,212, respectively, for the occupancy and office costs (nine months ended September 30, 2015 - nil).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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19. Interest and financing costs:

The following table presents the interest and financing costs incurred for the three and nine months ended September 30, 2016 and 2015:

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Interest on loans and mortgage syndications	\$ 1,516,716	\$ 1,024,467	\$ 4,340,764	\$ 3,355,353
Interest on revolving operating facility	233,414	119,115	784,532	272,066
Interest on Debentures	222,897	220,452	661,893	652,386
Montreal Street JV	8,137	11,527	29,950	34,826
	<u>\$ 1,981,164</u>	<u>\$ 1,375,561</u>	<u>\$ 5,817,139</u>	<u>\$ 4,314,631</u>

20. Foreign exchange:

For the three and nine months ended September 30, 2016, the Company recorded a foreign exchange realized and unrealized gain (loss) of \$313,607 and (\$1,216,035), respectively (foreign exchange gain for the three and nine months ended September 30, 2015 - \$736,870 and \$988,580, respectively).

For the nine months ended September 30, 2016, the U.S. dollar weakened by approximately 6% against the Canadian dollar from C\$1.384 to C\$1.3114. As at September 30, 2016 and 2015, U.S. dollar-denominated net monetary assets were U.S. \$10,848,905 and U.S. \$9,395,750, respectively (December 31, 2015 - \$20,265,161).

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

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

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Current income tax provision	\$ 196,502	\$ 768,582	\$ 708,229	\$ 1,753,424
Deferred income tax provision (recovery)	63,113	215	(159,178)	(435,350)
Total tax provision	\$ 259,615	\$ 768,797	\$ 549,051	\$ 1,318,074

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

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Income from operations before taxes	\$ 904,102	\$ 2,632,704	\$ 1,703,803	\$ 5,444,097
Combined federal and provincial statutory income taxes	26.50%	26.50%	26.50%	26.50%
Income tax provision based on statutory income taxes	239,587	697,667	451,508	1,442,686
Increase (decrease) in income taxes due to:				
Non-taxable items	678	(30,725)	(149)	(86,571)
Non-deductible stock-based compensation	19,350	101,640	97,692	397,309
Change in deferred tax asset not previously recognized	–	215	–	(435,350)
Total tax provision	\$ 259,615	\$ 768,797	\$ 549,051	\$ 1,318,074

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended September 30, 2016 and 2015
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21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the nine months ended September 30, 2016 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (176,230)	\$ (4,823)	\$ (181,053)
Portfolio investment	(111,397)	–	(111,397)
Incorporation costs	606	(32)	574
DSUs	311,284	5,487	316,771
Allowance for loan and mortgage investment loss	126,689	29,872	156,561
Unrealized foreign exchange loss	(540,982)	172,251	(368,731)
Debentures, Shares and revolving operating facility issue costs	371,365	(43,577)	327,788
	\$ (18,665)	\$ 159,178	\$ 140,513

The composition of the Company's recognized deferred income tax assets and liabilities for the nine months ended September 30, 2015 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (138,811)	\$ (20,855)	\$ (159,666)
Portfolio investment	(8,845)	–	(8,845)
Incorporation costs	651	(34)	617
Debenture and Shares issue costs	73,132	136,577	209,709
DSUs	122,254	319,662	441,916
	\$ 48,381	\$ 435,350	\$ 483,731

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, due to joint operations partner, short-term unsecured notes payable and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as a good return for the shareholders.

The following table presents the capital structure of the Company as at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Short-term unsecured notes payable	\$ –	\$ 9,286,000
Revolving operating facility	4,941,899	9,865,144
Loan and mortgage syndications	56,256,821	45,691,948
Due to joint operations partner	14,883,912	–
Mortgages payable	1,518,467	1,120,314
Debentures	10,721,648	10,628,301
Non-controlling interest	254,641	254,641
Shareholders' equity	48,069,249	46,277,350
Total capital	\$ 136,646,637	\$ 123,123,698

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 and nine months ended September 30, 2016 and 2015.

During the three and nine months ended September 30, 2016 and 2015, the Company had no externally imposed capital requirements.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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23. Fair value measurement:

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, loan and mortgage syndications, mortgages payable, short-term unsecured notes payable and Debentures.

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

The fair value of loan and mortgage investments, loan and mortgage syndications, mortgages payable, short-term unsecured notes payable and Debentures approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, mortgage syndication liabilities, mortgages payable, short-term unsecured loans payable or Debentures. The Company makes its determinations of fair value based on its assessment of the current lending market for these instruments of same or similar terms. As a result, the fair value is based on Level 3 on the fair value hierarchy.

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.

The fair value of the Company's investment properties, portfolio investments and non-controlling interests are determined using Level 3 inputs at September 30, 2016 and December 31, 2015 and no amounts were transferred between fair value levels during the three and nine months ended September 30, 2016 and 2015. Notes 7(b), 8 and 9 outlines the key assumptions used by the Company in determining fair value of its investment properties and portfolio investments.

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24. Risk management:

In the normal course of business, the Company is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2015.

25. Subsequent events:

On October 31, 2016, the Company obtained the approval of the TSX Venture Exchange (the "TSX-V") of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V), from time to time over the next 12 months, up to an aggregate of 1,907,413 Shares. Purchases may commence through the TSX-V on November 4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of common shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V. Cormark Securities Inc. will be appointed as the broker firm responsible for making purchases of common shares under the NCIB on behalf of the Company, having regard to the rules of the TSX-V.