



Condensed Consolidated Interim Financial Statements  
(In Canadian dollars)

## **TERRA FIRMA CAPITAL CORPORATION**

Three months ended March 31, 2015 and 2014  
(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 6, 2015. 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)

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ 2,037,589	\$ 1,083,745
Funds held in trust	2,449,335	834,065
Amounts receivable and prepaid expenses (note 4)	2,375,690	2,058,846
Loan and mortgage investments (note 5)	64,926,504	78,635,796
Investment properties held in joint operations (notes 6)	2,062,312	2,062,661
Portfolio investments (note 7)	6,683,409	1,620,828
Deferred income tax asset	103,910	48,381
<b>Total assets</b>	<b>\$ 80,638,749</b>	<b>\$ 86,344,322</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	\$ 4,836,598	\$ 2,227,308
Provision for discontinued operations (note 9)	27,500	27,500
Unearned income	507,459	639,307
Income taxes payable	128,790	341,432
Short-term unsecured loans payable (note 10)	3,450,000	1,500,000
Loan and mortgage syndications (note 5)	34,265,501	45,390,821
Mortgages payable (note 6)	1,143,549	1,151,118
Convertible debentures (note 11)	10,541,640	10,514,431
<b>Total liabilities</b>	<b>54,901,037</b>	<b>61,791,917</b>
<b>Equity</b>		
Share capital (note 13 (a))	\$ 16,654,718	\$ 16,654,718
Equity component of convertible debentures (note 11)	284,490	284,490
Contributed surplus (notes 13 (b) and 14)	1,289,454	1,049,585
Retained earnings	7,298,395	6,352,957
<b>Shareholders' equity</b>	<b>25,527,057</b>	<b>24,341,750</b>
Non-controlling interest	210,655	210,655
<b>Total equity</b>	<b>25,737,712</b>	<b>24,552,405</b>
<b>Commitments and contingencies (note 12)</b>		
<b>Total liabilities and equity</b>	<b>\$ 80,638,749</b>	<b>\$ 86,344,322</b>

*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)

	Three months ended	
	March 31, 2015	March 31, 2014
Revenue		
Interest and fees	\$ 3,960,412	\$ 2,620,540
Rental (note 6)	47,348	115,437
	4,007,760	2,735,977
Expenses		
Property operating costs (note 6)	15,254	42,076
General and administrative	798,024	354,517
Share based compensation (note 13 (b))	391,039	12,608
Interest (note 17)	1,503,032	1,478,919
	2,707,349	1,888,120
Income from operations before income taxes	1,300,411	847,857
Income taxes (note 18)	354,973	229,648
Net income and comprehensive income	\$ 945,438	\$ 618,209
Earnings per share (note 15)		
Basic	\$ 0.02	\$ 0.02
Diluted	0.02	0.02

*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, 2015 and 2014  
(Unaudited)

	Share capital		Convertible debentures (note 11)	Contributed surplus (notes 13 (b) and 14)	Retained earnings	Total shareholders' equity	Non- controlling interest	Total equity
	Number of shares (note 13 (a))	Amount						
Balance, December 31, 2013	30,845,000	\$ 10,795,790	\$ -	\$ 603,962	\$ 3,125,229	\$ 14,524,981	\$ 200,000	\$ 14,724,981
Share based compensation	-	-	-	12,608	-	12,608	-	12,608
Net income and comprehensive income	-	-	-	-	618,209	618,209	-	618,209
Balance, March 31, 2014	30,845,000	\$ 10,795,790	\$ -	\$ 616,570	\$ 3,743,438	\$ 15,155,798	\$ 200,000	\$ 15,355,798
Changes during the period								
Issuance of shares pursuant to the Offering, net of share issue costs	9,587,300	5,190,543	-	106,235	-	5,296,778	-	5,296,778
Issuance of shares pursuant to private placement	1,000,000	630,000	-	-	-	630,000	-	630,000
Issuance of shares pursuant to share option plan	150,000	38,385	-	(8,385)	-	30,000	-	30,000
Share based compensation	-	-	-	335,165	-	335,165	-	335,165
Issuance of convertible debentures	-	-	284,490	-	-	284,490	-	284,490
Net income and comprehensive income	-	-	-	-	2,609,519	2,609,519	10,655	2,620,174
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								
Share based compensation	-	-	-	239,869	-	239,869	-	239,869
Net income and comprehensive income	-	-	-	-	945,438	945,438	-	945,438
Balance, March 31, 2015	41,582,300	\$ 16,654,718	\$ 284,490	\$ 1,289,454	\$ 7,298,395	\$ 25,527,057	\$ 210,655	\$ 25,737,712

*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)

	Three months ended	
	March 31, 2015	March 31, 2014
<b>Cash provided by (used in)</b>		
Operating activities		
Net income and comprehensive income	\$ 945,438	\$ 618,209
Non-cash items		
Interest and fees earned	(3,960,412)	(2,620,540)
Interest expense	1,503,032	1,478,919
Share based compensation (note 13 (b))	391,039	12,608
Income tax provision	354,973	229,648
Changes in working capital		
Decrease in other receivables	141,051	57,659
Increase in prepaid expenses and deposits	(100,813)	(6,225)
Increase in accounts payable and accrued liabilities	2,570,284	355,049
Interest and fees received	3,183,863	1,901,235
Interest paid	(2,120,152)	(1,690,579)
Income taxes paid	(623,144)	(123,009)
Cash provided by operating activities - continuing operations	2,285,159	212,974
Cash used in operating activities - discontinued operations (note 9)	-	(31,335)
Cash provided by operating activities	2,285,159	181,639
Financing activities		
Proceeds from loan and mortgage syndications	5,307,000	1,875,000
Repayments of loan and mortgage syndications	(4,300,320)	(3,977,079)
Repayments of mortgages payable	(7,569)	-
Proceeds from short-term unsecured loans payable	1,000,000	-
Cash provided by (used in) financing activities	1,999,111	(2,102,079)
Investing activities		
Funding of loan and mortgage investments	(1,918,123)	(9,645,934)
Repayments of loan and mortgage investments	1,626,236	9,709,163
Capital additions to investment properties (note 6)	-	(76,625)
Increase in funds held in trust	(1,615,270)	(102,810)
Portfolio investment	(1,423,269)	-
Cash used in investing activities	(3,330,426)	(116,206)
Increase (decrease) in cash and cash equivalents	953,844	(2,036,646)
Cash and cash equivalents, beginning of period	1,083,745	7,721,115
Cash and cash equivalents, end of period	\$ 2,037,589	\$ 5,684,469

*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 months ended March 31, 2015 and 2014  
(unaudited)

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**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 5000 Yonge Street, Suite 1502, Toronto, Ontario, M2N 7E9. 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:**

(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") 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, 2014.

(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. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's principal subsidiaries are Terra Firma MA Ltd. (100% owned), Terra Firma Queen Developments Inc. (100% owned), Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned), and TFCC LanQueen Ltd. (the "TFCC LanQueen") (100% owned). 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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 2. Basis of presentation (continued):

Non-controlling interest represents equity interest in the Hill owned by an outside party. The share of net assets of the Hill attributable to non-controlling interest is presented as a component of equity.

### (b) Basis of measurement:

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties held in joint operation, portfolio investments, financial instruments classified at fair value through profit or loss and non-controlling interests, 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.

### (d) Critical judgements and estimates:

The preparation of the unaudited condensed consolidated interim financial statements 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 period. Actual results may differ from these estimates.

In making estimates, the Company relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior period and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these consolidated financial statements and the reported amounts of revenue and expenses during the years. 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.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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### 3. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the period ended March 31, 2015 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, 2014, except for the following expanded disclosure on loan and mortgage investments.

#### (a) Loan and mortgage investments:

The loan and mortgage investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the loan and mortgage investments are measured at amortized cost using the effective interest rate method. The loan and mortgage investments are derecognized when the contractual rights to receive cash flows and benefits expire, or where they have been transferred and the Company also transfers the control or substantially all the risks and rewards of ownership.

The loan and mortgage investments are assessed each reporting period to determine whether there is any objective evidence of impairment and are considered to be impaired if one or more loss events that have occurred after its initial recognition, have a negative effect on the estimated future cash flows of the financial asset and the loss can be reliably measured.

The Company assesses individually all investments at each reporting date to determine whether there is objective evidence of impairment. The Company uses judgement, taking into account loan to value of the security, credit quality, payments in arrears, financial difficulty of the underlying asset, as applicable, financial difficulty of the borrower and/or guarantor, and general economic and real estate market conditions for reasonable assurance of timely collection of the full amount of principal and interest and to determine whether any future losses are expected to occur in order to recognize a specific loan provision.

The Company assess a requirement for a collective allowance taking into account (i) data from the loan and mortgage investments (such as composition of the loan and mortgage investments, borrower's ability to repay, loan defaults and arrears, the estimated value of the underlying collateral (loan to value ratios), average term to maturity, etc.), (ii) general economic and real estate market conditions (including current real estate prices for various real estate types, any near term real estate development fundamentals), and (iii) actual historical loan losses and other relevant factors. The Company is to-date not experienced a loan loss. Therefore; modeling and projections based on historical loan losses have not been performed. The conclusion of these assessments are that no specific or collective allowances are required.



# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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(unaudited)

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### 3. Significant accounting policies (continued):

There were no new standards issued during the three months period ended March 31, 2015 that are applicable to the Company in future periods. A Description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2014:

### 4. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2015 and December 31, 2014.

	March 31, 2015	December 31, 2014
Interest receivable	\$ 2,118,853	\$ 1,762,120
Other receivables	55,460	196,162
Prepaid expenses and deposits	201,377	100,564
Amounts receivable and prepaid expenses	\$ 2,375,690	\$ 2,058,846

Included in interest receivable are non-current balances of \$440,746.

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

### 5. Loan and mortgage investments and loan and mortgage syndications:

As at March 31, 2015 and December 31, 2014, the Company had principal balance of loan and mortgage investments of \$64,926,504 and \$78,635,796, respectively. The loan and mortgage investments carry a weighted average effective interest rate of 21.1% (December 31, 2014 – 19.6%) and a weighted average term to maturity of 0.82 years (December 31, 2014 – 0.86 years).

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.

# TERRA FIRMA CAPITAL CORPORATION

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(unaudited)

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

### (a) Residential housing developments:

These loans pertain to 22 projects at various stages of development, 20 in Toronto, Ontario one in Markham, Ontario and one in Kitchener, Ontario. In the aggregate, six of the projects are slated for 859 high rise condominium units, six of the projects are slated for 886 mixtures of low and high rise condominium units and 10 of the projects are slated for 916 low-housing units. Ten of the loans have been syndicated to private investors.

### (b) Commercial retail development:

The loan represents, first mortgage secured by a five unit retail development located in Kitchener, Ontario.

### (c) Residential income properties:

The loans represent, second mortgages secured two apartment properties by 403 units, located in Toronto, Ontario and two apartment properties with 215 units, located in Ottawa, Ontario.

### (d) Land:

The loan secured by a 14.6 acre parcel of land located in Ottawa, Ontario and a 1.8 acre parcel of land located in Mississauga, Ontario.

The Company syndicates certain of its loan and mortgage investments to private investors or to financial institutions, each participating in a prescribed manner per agreement and on an investment by investment basis. In these investments the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment.

The principal balance of loan and mortgage syndications at March 31, 2015 and December 31, 2014 were \$34,265,501 and \$45,390,821, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 13.3% (December 31, 2014 - 11.9 %) and a weighted average term to maturity of 0.81 years (December 31, 2014 – 0.67 years).

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 5. 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 March 31, 2015:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 58,602,423	30,989,961	\$ 27,612,463	90.0
Commercial retail development	600,000	500,000	100,000	0.3
Residential income properties	3,635,081	1,745,541	1,889,541	6.2
Land	2,089,000	1,030,000	1,059,000	3.5
	\$ 64,926,504	\$ 34,265,501	\$ 30,661,003	100.0

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2014:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 71,355,076	40,914,961	\$ 30,440,115	91.5
Commercial retail development	600,000	500,000	100,000	0.3
Residential income properties	4,591,720	2,945,860	1,645,860	5.0
Land	2,089,000	1,030,000	1,059,000	3.2
	\$ 78,635,796	\$ 45,390,821	\$ 33,244,975	100.0

The Company's loan and mortgage investments generally take the form of:

- land loans registered in first or second position at the earlier stages of real estate development;
- term mortgages for the purposes of acquiring or re-financing income-producing properties; or
- mezzanine or subordinated debt financings or real estate developments that have either progressed to the construction phase or are in the process of approaching the construction phase.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 5. Loan and mortgage investments and loan and mortgage syndications (continued):

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

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 45,662,343	\$ 21,343,614	\$ 24,318,729	83.4
Unregistered loans	19,264,161	14,421,887	4,842,274	16.6
	\$ 64,926,504	\$ 35,765,501	\$ 29,161,003	100.0

The following table presents details of the Company's loan categories as at December 31, 2014:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 59,671,635	32,468,934	\$ 27,202,701	81.8
Unregistered loans	18,964,161	12,921,887	6,042,274	18.2
	\$ 78,635,796	\$ 45,390,821	\$ 33,244,975	100.0

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

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 loan and mortgage investments
Reminder of year	\$ 1,111	\$ 36,433,653	\$ 36,434,764
2016	-	21,260,614	21,260,614
2017	-	7,231,126	7,231,126
	\$ 1,111	\$ 64,925,393	\$ 64,926,504

At March 31, 2015, one loan investment of \$3,927,545 and related interest receivable of \$310,621 are in arrears over 120 days. Based on the most recent property appraisals the Company has not identified any specific loans for which a loss provision should be made.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 5. Loan and mortgage investments and loan and mortgage syndications (continued):

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.

In March 2015, a borrower of a residential income property renegotiated the exit fee on the loan and elected to repay ahead of its due date. As a result, the Company recognized a gain of \$544,212 and included it in interest income in the condensed consolidated interim statements of income and comprehensive income.

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 located in Toronto, Ontario, into a partnership interest in the development project. The carrying balances of loan and mortgage investment at the time of conversion was \$14,821,312 of which \$11,675,000 was syndicated. Syndicate investors in the amount of \$5,550,000 elected not to convert their share of interest in the loan investment into a partnership interest. The Company received \$5,057,000 from new syndicate investors to invest in the partnership interest. The Company repaid \$3,100,000 to syndicate investors and the balance of \$2,450,000 was converted by syndicate investors into a short-term unsecured loans payable (notes 7 and 10).

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, 2015 was \$2,125,608 including \$1,560,448 of capitalization of future interest relating to the existing loan and mortgage investments (December 31, 2014 - \$4,010,043, including \$2,298,304 of capitalization of future interest).

During the three months ended March 31, 2015 and 2014, the Company capitalized interest income of \$820,133 and \$622,576, respectively, and included in the loan and mortgage investments.

Scheduled principal repayments and maturity amounts loan and mortgage syndications at March 31, 2015 are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
Reminder of year	\$ 555	\$ 21,301,644	\$ 22,052,200
2016	-	11,463,302	10,713,302
2017	-	1,500,000	1,500,000
	\$ 555	\$ 34,264,946	\$ 34,265,501

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 6. 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 carries a loan of \$2,079,179, bearing interest at 4.2% per annum, is amortized over 25 years and matures June 1, 2016. The Company's ownership interest in the Montreal Street JV is 52.5%.

#### (ii) Queen Street West JV

In April 2012, the Company entered into a co-owners' agreement (the "Queen Street West JV") and acquired a land parcel with a development partner to develop a mid-rise residential condominium building in Toronto, Ontario, 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.

On April 1, 2014, the Company and the co-owner of the joint operation entered into an agreement whereby the Company converted its interest in the joint operation into a loan receivable of \$2,818,000 (the Company's original investment in the joint operation), secured by the property. The carrying value of the Company's interest in joint operation at the time of conversion was \$2,331,000 (after recognizing operating losses from the joint operation during prior periods), resulting in a gain on conversion of interest in joint operation of \$487,000.

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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## 6. Joint arrangements (continued):

The following table presents the carrying value of assets in joint operations transferred on conversion:

	Amount
Investment property	\$ 5,771,041
Other receivables	46,890
Prepaid expenses and deposits	137,469
Accounts payable and accrued liabilities	(124,400)
Loan and mortgage investments	(1,000,000)
Loan and mortgages payable	(2,500,000)
<b>Value of assets transferred on conversion</b>	<b>\$ 2,331,000</b>

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

	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ 3,778	\$ 3,416
Amounts receivable and prepaid expenses	11,643	11,643
Investment properties	2,062,312	2,062,661
	2,077,733	2,077,720
<b>Liabilities</b>		
Accounts payable and accrued liabilities	41,359	41,182
Loans and mortgages payable	1,143,549	1,151,118
	1,184,908	1,192,300
<b>Net assets</b>	<b>\$ 892,825</b>	<b>\$ 885,420</b>

# TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements  
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Three months ended March 31, 2015 and 2014  
(unaudited)

## 6. Joint arrangements (continued):

The table below details the results of operations for the three months ended March 31, 2015 and 2014, attributable to the Company from its joint operations activities:

	Three months ended	
	Mar 31, 2015	Mar 31, 2014
Revenue		
Rental revenue	47,348	115,437
Expenses		
Property operating costs	15,254	42,076
General and administrative expenses	47	131
Interest expense	11,694	83,219
	26,995	125,426
Net income (loss)	\$ 20,353	\$ (9,989)

### (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 following table summarizes the changes in the Company's proportionate share of the investment properties for the three months ended March 31, 2015 and 2014:

Balance, December 31, 2013	\$ 7,671,452
Change in amount receivable from joint venture partners	(61,411)
Additions - capital expenditures	76,625
Balance, March 31, 2014	\$ 7,686,666
Change in amount receivable from joint venture partners	(914)
Sale of investment property	(5,771,041)
Fair value adjustment	147,950
Balance, December 31, 2014	\$ 2,062,661
Change in amount receivable from joint venture partners	(349)
Balance, March 31, 2015	\$ 2,062,312



# TERRA FIRMA CAPITAL CORPORATION

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## 6. Joint arrangements (continued):

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 proportionate share of investment property in the Montreal Street JV with an aggregate value of \$2,062,312 was valued by the Company's management. The capitalization rate used in the valuation property was 6.50%. The carrying value of investment property in the Montreal Street JV at March 31, 2015 approximates its fair value.

As at March 31, 2015 and December 31, 2014, 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 \$82,500 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 \$76,450.

On April 1, 2014, the Company converted its interest in the investment property in the Queen Street West JV into a loan receivable. On that date, the carrying value of investment property in the Queen Street West JV approximates its fair value.

### (c) Mortgages payable:

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at March 31, 2015 and December 31, 2014 is as follows:

	March 31, 2015		December 31, 2014	
	Amount	% of loans payable	Amount	% of loans payable
Montreal Street JV	\$ 1,143,549	100.0	\$ 1,151,118	100.0
	\$ 1,143,549	100.0	\$ 1,151,118	100.0

Scheduled principal repayments and maturity amounts of mortgages payable at March 31, 2015 are as follows:

	Scheduled principal payments	Maturing during the year	Total mortgages payable
Reminder of year 2016	\$ 23,235	\$ -	\$ 23,235
	13,224	1,107,090	1,120,314
	\$ 36,459	\$ 1,107,090	\$ 1,143,549

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## 7. Portfolio investments:

The Company has invested through 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 March 31, 2015 is \$954,073 (December 31, 2014 - \$954,073). At March 31, 2015 and December 31, 2014, the fair values were determined by the management, using the direct comparison method. The fair value of investment at March 31, 2015 and December 31, 2014 was \$1,020,828.

On December 4, 2014, TFCC LanQueen entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen is committed to invest up to \$1,326,400 in redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen 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. As at March 31, 2015, TFCC LanQueen contributed \$660,000 to the partnership (December 31, 2014 - \$600,000).

On February 20, 2015, the Company, together with certain existing and new syndicate investors exercised its option to convert a loan and mortgage investment in a 668 unit high-rise condominium development project located in Toronto, Ontario, into a partnership interest. On conversion, the Company funded \$1,360,333 to the partnership. The Company's share of loan and mortgage investment at the time of conversion, after taking into account of repayment to certain syndicate investors and investments from new syndicate investors, was \$5,002,581 (note 5). 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 Company interest in the partnership upon conversion and at March 31, 2015 approximates its fair value.

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2014 and 2015:

	Amount
Balance, December 31, 2013	\$ 950,000
Investment made	4,073
Balance, March 31, 2014	\$ 954,073
Investment made	600,000
Fair value adjustment	66,755
Balance, December 31, 2014	\$ 1,620,828
Investment made	5,062,581
Balance, March 31, 2015	\$ 6,683,409

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## 8. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Interest payable	\$ 784,146	\$ 728,439
Interest reserve	142,612	310,483
Accounts payable, accrued liabilities and provisions	3,297,334	727,050
Share-based compensation payable	612,506	461,336
Accounts payable and accrued liabilities	\$ 4,836,598	\$ 2,227,308

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

## 9. Provision for discontinued operations:

The Company's discontinued operations consist of the assets, liabilities and operations of a sold property for which the Company has agreed to indemnify rents with respect to a tenant's lease of a unit in the property from the date of sale until its lease expiry of July 2016, to the extent that the tenant fails to make rent payments (the "indemnified tenancy"). The tenant entered into a court appointed receivership process and the receiver was unable to sell the underlying business and as a result, the receiver disclaimed the lease subject to the indemnified tenancy. Effective July 1, 2014, the unit was leased on subsidised basis to a third party tenant for the remainder of the lease term. The balance of the provision as at March 31, 2015 and December 31, 2014 was \$27,500.

Following table summarizes the changes in the provision for discontinued operations for the three months ended March 31, 2014 and 2015:

	Amount
Balance, December 31, 2013	\$ 321,490
Lease payments made during the period	(31,335)
Balance, March 31, 2014	\$ 290,155
Lease payments made during the period	(56,336)
Reversal of rent obligation	(206,319)
Balance, December 31, 2014	\$ 27,500
Balance, March 31, 2015	\$ 27,500

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## **10. Short-term unsecured loans payable:**

On January 1, 2014, the lender of \$1,500,000 short-term unsecured loans payable elected to convert the loan into a mortgage syndication in one of the Company's loan and mortgage investments.

On February 20, 2015, certain syndicate investors of the loan and mortgage investment in the amount of \$2,450,000 elected to convert their interest into a short-term unsecured loan payable at the interest rate at 8% per annum (notes 5 and 7). On March 12, 2015, the Company borrowed \$1,000,000 from a lender at the interest rate of 10% per annum, payable monthly. These loans are repayable by the Company anytime, without penalty.

## **11. Convertible debentures:**

On September 29, 2014, the Company, refinanced by way of a private placement, the unsecured subordinated convertible debentures in the principal amount of \$10,150,000 with an original maturity date of September 27, 2014 (the "2011 Debentures"), with the issuance of new unsecured subordinated convertible debentures (the "2014 Debentures") in the principal amount of \$10,850,000.

The 2014 Debentures bear interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter commencing December 31, 2014, and mature on September 27, 2017. The 2014 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 2014 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 2011 Debentures bore interest at an annual rate of 7.0%, paid on the last business day of each calendar quarter and were 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 \$0.70 per Share. The 2011 Debentures were not redeemable or convertible at the option of the Company prior to maturity.

The fair value of the liability component of the 2011 Debentures was determined to be the fair value of the Debenture as a whole. Issue costs directly attributable to the issuance of the 2011 Debentures were deducted from the liability component of the 2011 Debentures resulting in an effective interest rate of 7.35%.

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## 11. Convertible debentures (continued):

The fair value of the liability component of the 2014 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 effective interest rate of the 2014 Debentures is 8.53%.

A portion of the 2014 Debentures were issued to related parties (note 16). Certain directors and officers held 2011 Debentures in an aggregate principal amount of \$800,000.

The following table summarizes the changes in the Debentures for the three months ended March 31, 2014 and 2015:

	2011 Debentures	2014 Debentures	Total
Liability component of debentures, December 31, 2013	\$ 10,125,074	\$ -	\$ 10,125,074
Interest expensed at EIR of 7.35% for 2011 Debentures	183,383	-	183,383
Interest paid	(175,192)	-	(175,192)
Liability component of debentures, March 31, 2014	10,133,265	-	10,133,265
Interest expensed at EIR of 7.35% for 2011 Debentures and at 8.53% for 2014 Debentures	365,843	223,434	589,277
Interest paid	(349,108)	(195,463)	(544,571)
Issuance of debentures	-	10,850,000	10,850,000
Repayment of debentures	(10,150,000)	-	(10,150,000)
Transaction costs	-	(79,050)	(79,050)
Amount classified as equity	-	(284,490)	(284,490)
Liability component of debentures, December 31, 2014	-	10,514,431	10,514,431
Interest expensed at EIR of 8.53% for 2014 Debentures	-	214,483	214,483
Interest paid	-	(187,274)	(187,274)
Liability component of debentures, March 31, 2015	\$ -	\$ 10,541,640	\$ 10,541,640

Holders of an aggregate \$6,225,000 principal amount of the 2011 Debentures elected to subscribe to 2014 Debentures.

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## 12. 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 March 31, 2015 were \$2,125,608 (December 31, 2014 - \$4,010,043).

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

The Company has a lease commitment on its head office premises located at 5000 Yonge Street, Toronto, Ontario. The minimum rental amount is \$30,693 per annum extending to March 31, 2017. Additional maintenance and utility costs and realty taxes are payable as incurred.

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

## 13. Shareholders' equity:

### (a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2014 and 2015:

	Shares	Amount
Outstanding, December 31, 2013	30,845,000	\$10,795,790
Outstanding, March 31, 2014	30,845,000	\$10,795,790
Issuance of shares pursuant to the Offering	9,587,300	5,190,543
Issuance of shares pursuant to Private Placement	1,000,000	630,000
Issuance of shares pursuant to share option plan	150,000	30,000
Transferred from contributed surplus upon exercise of options	-	8,385
Outstanding, December 31, 2014	41,582,300	\$16,654,718
Outstanding, March 31, 2015	41,582,300	\$16,654,718

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## 13. Shareholders' equity (continued):

On October 15, 2014, the Company completed a bought deal offering (the "Offering") of 8,000,000 Shares at a price of \$0.63 per Share, for gross proceeds of \$5,040,000. As part of the Offering, the Company issued 560,000 broker warrants to underwriters as additional compensation. Each broker warrant entitles the holder to purchase one Share of the Company at an exercise price of \$0.63 per Share, until October 15, 2015. Share issuance costs amounted to \$849,456, consisting of cash costs of \$743,221 and non-cash costs of \$106,235 relating to the value attributable to broker warrants issued to underwriters. Concurrently with the Offering, the Company issued 1,587,300 Shares through private placement at a price of \$0.63 per Share to the Chairman and the Chief Executive Officer of the Company, for gross proceeds of \$999,999 (note 16).

On November 24, 2014, the Company issued 1,000,000 Shares at \$0.63 per Share to the President and Chief Operating Officer of the Company, for gross proceeds of \$630,000 (note 16).

### (b) Share based payments:

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

	Three months ended	
	March 31, 2015	March 31, 2014
Share option Plan	\$ 239,869	\$ 12,608
DSU Plan	151,170	-
	<u>\$ 391,039</u>	<u>\$ 12,608</u>

### (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 five years from the date on which it is granted.

Pursuant to the employment agreement between the Company and the Chief Executive Officer of the Company, the Chief Executive Officer is eligible to receive options equal to 5% of Shares issued outstanding through to December 31, 2015, at the price determined by the Board.

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## 13. Shareholders' equity (continued):

On November 28, 2014, the Company granted share options to certain officers and a consultant of the Company to purchase an aggregate of 1,050,000 Shares at \$0.79 per share and an aggregate of 599,115 Shares at \$0.68 per share. Except for the 1,000,000 options granted to an officer, which shall vest in equal instalments on a quarterly basis over the three-year period, the options vest in four instalments, with the first 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On May 20, 2014, the Company granted share options to directors, officers and employees of the Company to purchase an aggregate of 565,000 Shares at \$0.50 per share. Except for the 210,000 options granted to employees, which vested immediately, the options vest in four instalments, with the first 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On February 24, 2014, the Company granted share options to consultants of the Company to purchase an aggregate of 100,000 Shares at \$0.50 per Share. 25% of the share options vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter

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:

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	<b>November 28, 2014</b>	<b>May 20, 2014</b>	<b>February 24, 2014</b>
Average expected life	3.06 years	2.62 years	2.68 years
Average risk-free interest rate	1.20%	1.05%	0.98%
Average expected volatility	90.00%	96.00%	98.29%
Average dividend yield	0.00%	0.00%	0.00%

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In 2014, directors and officers exercised 150,000 Options that had been formally granted to purchase the Company's Shares at \$0.20 with an expiry date of June 22, 2014. The consideration of \$30,000, received on exercising the Options was recorded as share capital and the related contributed surplus of \$8,385 was transferred to share capital.



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## 13. Shareholders' equity (continued):

The following is the summary of changes in share options for the three months ended March 31, 2015 and year ended December 31, 2014:

	March 31, 2015		December 31, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,071,449	\$ 0.55	1,932,334	\$ 0.37
Granted	-	-	2,314,115	0.68
Exercised	-	-	(150,000)	0.20
Cancelled	-	-	(25,000)	0.50
Outstanding, end of period	4,071,449	\$ 0.55	4,071,449	\$ 0.55
Number of options exercisable	2,830,225	\$ 0.46	2,495,863	\$ 0.43

The following summarizes the Company's outstanding share options as at March 31, 2015:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
895,000	24-Jan-2016	895,000	\$ 0.30	\$ 0.28
138,667	19-Dec-2016	138,667	0.50	0.40
585,000	16-Apr-2017	585,000	0.50	0.30
138,667	17-Apr-2018	138,667	0.30	0.25
100,000	23-Feb-2019	100,000	0.50	0.42
565,000	20-May-2019	565,000	0.50	0.47
599,115	28-Nov-2019	299,558	0.68	0.85
1,050,000	28-Nov-2019	108,333	0.79	0.85
4,071,449		2,830,225		

### (ii) Deferred share unit plan:

In May 2014, the Company established and adopted 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.

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## 13. Shareholders' equity (continued):

The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Directors may elect to receive, on the last day of each quarter, a minimum of 50% and up to 100% of their annual retainer in DSUs and employees may elect to receive up to 100% 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 or employees elect to receive 50% or more of their fees or annual bonus in DSUs, the Company will grant additional DSUs of up to 50% of the value of the DSUs granted to them. 50% of the additional DSUs granted by the Company vest in six months from the date of grant and 50% of the additional DSUs vest in twelve months from the date of grant.

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 three months ended March 31, 2015 and year ended December 31, 2014:

	March 31, 2015	December 31, 2014
DSUs outstanding, beginning of period	747,705	-
Granted	56,915	747,705
Settled	-	-
DSUs outstanding, end of period	804,620	747,705
Number of DSUs vested	720,596	670,642

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2015 and 2014, were \$151,170 and \$nil, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2015 is \$612,506 (December 31, 2014 - \$461,336).

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## 13. Shareholders' equity (continued):

### (c) Broker warrants:

As part of the Offering completed on October 15, 2014, the Company granted 560,000 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 \$0.63 per Share, with an expiry date of October 15, 2015.

The following is the summary of changes in broker warrants for three months ended March 31, 2015 and 2014:

	Number of broker warrants outstanding
Outstanding, December 31, 2013	-
Granted	-
Outstanding, March 31, 2014	-
Granted	560,000
Outstanding, December 31, 2014	560,000
Granted	-
Outstanding, March 31, 2015	560,000

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

	October 15, 2014
Average expected life	1.00 years
Average risk-free interest rate	1.13%
Average expected volatility	73.50%
Average dividend yield	0.00%

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## 14. Contributed surplus:

The following table presents the details of the contributed surplus balances as at December 31, 2014 and March 31, 2015:

	Amount
Balance, December 31, 2013	603,962
Fair value of share-based compensation	12,608
Balance, March 31, 2014	616,570
Fair value of share-based compensation	335,165
Transferred to share capital - exercise of options	(8,385)
Faie value of broker warrants	106,235
Balance, December 31, 2014	1,049,585
Fair value of share-based compensation	239,869
Balance, March 31, 2015	1,289,454

## 15. Earnings per share:

The calculation of earnings per share of the three months ended March 31, 2015 and 2014 is as follows:

	Three months ended	
	Mar 31, 2015	Mar 31, 2014
<b>Numerator for basic and diluted earnings per share:</b>		
Income attributable to common shareholders	\$ 945,438	\$ 618,209
Interest savings on debentures, net of taxes	157,645	134,787
Diluted income attributable to common shareholders	\$ 1,103,083	\$ 752,996
<b>Denominator basic and diluted earnings per share:</b>		
Weighted average number of shares outstanding	41,582,300	30,845,000
Dilutive effect of share based payments	1,023,341	430,469
Dilutive effect of broker warrants	49,858	-
Assumed conversion of debentures	15,069,444	14,500,000
Weighted average number of diluted common shares outstanding	57,724,943	45,775,469
Earnings per share:		
Basic	\$ 0.02	\$ 0.02
Diluted	\$ 0.02	\$ 0.02

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## 16. Transactions with related parties:

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

At March 31, 2015 and December 31, 2014, the Chairman of the Board of the Company, indirectly through a wholly owned subsidiary, owned approximately 20% of the issued and outstanding shares of the Company.

In connection with the financing of the 2014 Debentures, (note 11), certain directors and officers of the Company subscribed for an aggregate principal amount of \$1,330,000. The terms offered to related parties for the 2014 Debentures are identical to those offered to non-related 2014 Debenture holders.

On October 15, 2014, the Company issued 1,587,300 Shares through private placement at a price of \$0.63 per Share to the Chairman and the Chief Executive Officer of the Company, for gross proceeds of \$999,999 (note 13).

On November 24, 2014, the Company issued 1,000,000 Shares at \$0.63 per Share to the President and Chief Operating Officer of the Company, for gross proceeds of \$630,000 (note 13).

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, 2015, the loan and mortgage investments and 2014 Debentures syndicated by officers and directors were \$1,794,848 (December 31, 2014 - \$1,844,848). No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

## 17. Interest expense:

The following table presents the interest incurred for the three months ended March 31, 2015 and 2014:

	Three months ended	
	Mar 31, 2015	Mar 31, 2014
Interest on loans and mortgages payable	\$ 1,276,855	\$ 1,251,183
Interest on debentures	214,483	183,383
Montreal Street JV	11,694	12,018
Queen Street West JV	-	32,335
	<u>\$ 1,503,032</u>	<u>\$ 1,478,919</u>

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## 18. 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	
	Mar 31, 2015	Mar 31, 2014
Current income tax provision	\$ 410,502	\$ 236,086
Deferred income tax recovery	(55,529)	(6,438)
<b>Total tax provision</b>	<b>\$ 354,973</b>	<b>\$ 229,648</b>

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	
	Mar 31, 2015	Mar 31, 2014
Income from continuing operations before taxes	\$ 1,300,411	\$ 847,857
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	344,609	224,682
Increase (decrease) in income tax due to:		
Non-taxable items	1,120	1,014
Non-deductible stock based compensation	63,565	10,390
Change in deferred tax asset not previously recognized	(54,321)	(6,438)
<b>Total tax provision</b>	<b>\$ 354,973</b>	<b>\$ 229,648</b>

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2015 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (138,811)	\$ (6,686)	\$ (145,497)
Portfolio investment	(8,845)	-	(8,845)
Incorporation costs	651	(11)	640
Debenture and share issue costs	73,132	22,166	95,298
Deferred Share Units	122,254	40,060	162,314
	<b>\$ 48,381</b>	<b>\$ 55,529</b>	<b>\$ 103,910</b>

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## 18. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the year three months ended March 31, 2014 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (15,466)	\$ (4,255)	\$ (19,721)
Incorporation costs	700	(12)	688
Debenture and share issue costs	8,418	(2,171)	6,247
	\$ (6,348)	\$ (6,438)	\$ (12,786)

## 19. Capital management:

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

The following table presents the capital structure of the Company as at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Short-term unsecured loans payable	\$ 3,450,000	\$ 1,500,000
Loan and mortgage syndications	34,265,501	45,390,821
Mortgages payable	1,143,549	1,151,118
Convertible debentures	10,541,640	10,514,431
Non-controlling interest	210,655	210,655
Shareholders' Equity	25,527,057	24,341,750
Total capital	\$ 75,138,402	\$ 83,108,775

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, 2015 and 2014.

During the three months ended March 31, 2015 and 2014, the Company had no externally imposed capital requirements.

# TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2015 and 2014  
(unaudited)

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## 20. Fair value measurement:

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

The fair value 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 loans 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 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 consolidated 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 March 31, 2015 and December 31, 2014 and no amounts were transferred between fair value levels during the three months ended March 31, 2015 and 2014. Notes 6(b) and 7 outlines the key assumptions used by the Company in determining fair value of its investment properties and portfolio investment.

## 21. 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, 2014.



# TERRA FIRMA CAPITAL CORPORATION

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(In Canadian dollars)

Three months ended March 31, 2015 and 2014  
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## **22. Subsequent events:**

On May 5, 2015, the Company closed a bought deal prospectus offering and a concurrent non-brokered private placement, for gross proceeds of \$15,400,115. The bought deal financing consisted 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. In connection with the bought deal prospectus offering, the underwriters received a cash commission \$862,507 (6% of the gross proceeds), together with the issuance of 1,014,714 broker warrants equal to 6% of the total number of Shares sold. Each broker warrant entitles the holder to purchase one common share at an exercise price of \$0.85 until May 4, 2017. Concurrent with the closing of the bought deal prospectus 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 bought deal offering, for aggregate gross proceeds of \$1,025,000.

On April 23, 2015, the Company entered into an agreement with a financial 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 twenty three months and 12.0% thereafter. As security for its obligations under the Facility, the Corporation has entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future loan portfolio which consists of participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility will be used to fund and warehouse new investments while raising syndicate on and/or co-investment capital.