



Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2016 and 2015
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 4,009,958	\$ 11,723,550
Funds held in trust	896,434	2,061,207
Deposits (note 4)	–	11,747,370
Amounts receivable and prepaid expenses (note 5)	3,389,160	2,279,977
Loan and mortgage investments (note 6)	117,567,642	95,135,201
Investment property held in joint operations (notes 7(b))	2,143,794	2,143,794
Portfolio investments (note 8)	2,339,555	2,339,555
Investment in associates (note 9)	2,315,414	2,315,414
Income taxes recoverable (note 21)	529,108	–
Deferred income tax asset (note 21)	330,023	–
Total assets	\$ 133,521,088	\$ 129,746,068

Liabilities and Equity

Liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 4,553,389	\$ 5,980,560
Unearned income	400,932	301,099
Income taxes payable (note 21)	–	322,046
Deferred income tax liability (note 21)	–	18,665
Short-term unsecured notes payable (note 11)	7,786,010	9,286,000
Revolving operating facility (note 12)	9,890,678	9,865,144
Loan and mortgage syndications (note 6)	52,037,018	45,691,948
Mortgages payable (note 7(c))	1,112,392	1,120,314
Convertible debentures (note 13)	10,658,689	10,628,301
Total liabilities	86,439,108	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)	2,274,850	2,360,575
Retained earnings	12,489,705	12,374,881
Shareholders' equity	46,827,339	46,277,350
Non-controlling interest	254,641	254,641
Total equity	47,081,980	46,531,991
Commitments and contingencies (note 14)		
Subsequent events (note 6)		
Total liabilities and equity	\$ 133,521,088	\$ 129,746,068

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

Approved by the Board:

"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	
	March 31, 2016	March 31, 2015
Revenue:		
Interest and fees	\$ 4,221,156	\$ 3,960,412
Rental (note 7(a))	48,378	47,348
	<u>4,269,534</u>	<u>4,007,760</u>
Expenses:		
Property operating costs (note 7(a))	16,092	15,254
General and administrative	658,145	798,024
Share-based compensation (note 15(b))	210,386	391,039
Interest (note 19)	1,827,241	1,503,032
Provision for loan and mortgage investment loss (note 6)	112,726	—
Foreign exchange gain - realized	(41,634)	—
Foreign exchange loss - unrealized (note 20)	1,271,596	—
	<u>4,054,552</u>	<u>2,707,349</u>
Income from operations before income taxes	214,982	1,300,411
Income taxes (note 21)	100,158	354,973
Net income and comprehensive income	\$ 114,824	\$ 945,438
Earnings per share (note 17)		
Basic	\$ 0.00	\$ 0.02
Diluted	\$ 0.00	\$ 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, 2016 and 2015
(Unaudited)

	Share capital		Convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares	Amount						
	(note 15 (a))		(note 13)	(note 16)				
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
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
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
Issuance of shares pursuant to broker warrants	560,000	459,034	–	(106,235)	–	352,799	–	352,799
Share-based compensation	–	–	–	829,532	–	829,532	–	829,532
Net income and comprehensive income	–	–	–	–	5,076,486	5,076,486	43,986	5,120,472
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	–	–	–	166,665	–	166,665	–	166,665
Net income and comprehensive income	–	–	–	–	114,824	114,824	–	114,824
Balance, March 31, 2016	61,155,083	\$ 31,778,294	\$ 284,490	\$ 2,274,850	\$ 12,489,705	\$ 46,827,339	\$ 254,641	\$ 47,081,980

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	
	March 31, 2016	March 31, 2015
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 114,824	\$ 945,438
Interest and fees earned	(4,221,156)	(3,960,412)
Interest expense	1,827,241	1,503,032
Non-cash items:		
Foreign exchange loss - unrealized	1,271,596	-
Share-based compensation (note 13(b))	210,386	391,039
Provision for loan and mortgage investment loss	112,726	-
Income tax provision	100,158	354,973
Changes in working capital:		
Decrease (increase) in other receivables	(288)	141,051
Decrease (increase) in prepaid expenses and deposits	51,401	(100,813)
Increase (decrease) in accounts payable and accrued liabilities	(1,540,589)	2,570,284
Interest and fees received	2,443,494	3,183,863
Interest paid	(1,621,792)	(2,120,152)
Income taxes paid	(1,300,000)	(623,144)
Cash provided by (used in) operating activities	(2,551,999)	2,285,159
Financing activities:		
Proceeds from loan and mortgage syndications	9,007,715	250,000
Repayments of loan and mortgage syndications	(3,253,891)	(1,200,320)
Repayments of mortgages payable	(7,922)	(7,569)
Proceeds from short-term unsecured notes payable	200,000	1,000,000
Repayment of short-term unsecured notes payable	-	(4,100,000)
Proceeds from issuance of shares pursuant to share options plan	268,500	-
Cash provided by (used in) financing activities	6,214,402	(4,057,889)
Investing activities:		
Funding of loan and mortgage investments	(26,831,029)	(1,918,124)
Repayments of loan and mortgage investments	2,542,891	1,626,236
Proceeds from sale of interest in investment in associates	-	6,057,000
Repayment of deposits	11,747,370	-
Decrease (increase) in funds held in trust	1,164,773	(1,615,270)
Funding of investment in associates	-	(60,000)
Funding of portfolio investment	-	(1,363,268)
Cash provided by (used in) investing activities	(11,375,995)	2,726,574
Increase (decrease) in cash and cash equivalents	(7,713,592)	953,844
Cash and cash equivalents, beginning of period	11,723,550	1,083,745
Cash and cash equivalents, end of period	\$ 4,009,958	\$ 2,037,589

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, 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:

Statement of compliance:

These unaudited condensed consolidated interim financial statements of the Company have been prepared by management in accordance with International Accounting Standard ("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 reclassified to conform with current presentation.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

3. Significant accounting policies:

The unaudited condensed consolidated interim financial statements for the period ended March 31, 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.

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 returned to the Company.

5. Amounts receivable and prepaid expenses:

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

	March 31, 2016	December 31, 2015
Interest receivable	\$ 3,268,185	\$ 2,107,889
Other receivables	6,135	5,847
Prepaid expenses and deposits	114,840	166,241
Amounts receivable and prepaid expenses	\$ 3,389,160	\$ 2,279,977

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

5. Amounts receivable and prepaid expenses (continued):

Included in interest receivable are non-current balances of \$2,133,798 at March 31, 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.

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

As at March 31, 2016 and December 31, 2015, the Company had principal balance of loan and mortgage investments of \$118,158,434 and \$95,613,267, respectively. The loan and mortgage investments carry a weighted average effective interest rate ("EIR") of 15.6% (December 31, 2015 - 15.8%) and a weighted average term to maturity of 1.47 years (December 31, 2015 - 1.43 years).

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and is governed by loan servicing agreements and administered by Terra Firma MA Ltd, the wholly owned subsidiary of the Company. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income.

The principal balance of loan and mortgage syndications included in the loan and mortgage loan investments at March 31, 2016 and December 31, 2015 were \$52,037,018 and \$45,691,948, respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.3% (December 31, 2015 - 10.5 %) and a weighted average term to maturity of 1.32 years (December 31, 2015 - 1.40 years).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 March 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 83,303,241	\$ 37,380,760	\$ 45,922,481	69.4
Land and lot inventory	28,913,034	13,856,258	15,056,776	22.8
Commercial retail development	1,270,000	–	1,270,000	1.9
Residential income properties	4,672,159	800,000	3,872,159	5.9
	118,158,434	52,037,018	66,121,416	100.0
Allowance for loan and mortgage investments loss	(590,792)	–	(590,792)	
	\$ 117,567,642	\$ 52,037,018	\$ 65,530,624	

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	

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 months ended March 31, 2016 and 2015, the Company capitalized interest income of \$633,331 and \$820,133, 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 March 31, 2016 were \$17,206,274, including \$13,517,877 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).

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 (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).

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 loan categories as at March 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 111,708,355	\$ 50,537,018	\$ 61,171,337	92.5
Unregistered loans	6,450,079	1,500,000	4,950,079	7.5
	<u>\$ 118,158,434</u>	<u>\$ 52,037,018</u>	<u>\$ 66,121,416</u>	<u>100.0</u>

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
	<u>\$ 95,613,267</u>	<u>\$ 45,691,948</u>	<u>\$ 49,921,319</u>	<u>100.0</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 March 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 76,310,351	\$ 31,310,639	\$ 44,999,712	68.1
United States	41,848,083	20,726,379	21,121,704	31.9
	\$ 118,158,434	\$ 52,037,018	\$ 66,121,416	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 borrower (the "Borrower"), secured by two properties and a 50% interest in a development project owned by affiliates of the Borrower. The loan agreement provided the Company an option to purchase the 50% interest in the development project for a fair market value of \$7,000,000, which would reduce the loan by the same amount. On April 15, 2016, the Company exercised its option and acquired the 50% interest in the development project for \$7,000,000, reducing the loan investment amount to \$3,000,000.

At March 31, 2016, loans outstanding including interest receivable from the Borrower and its affiliates as referred to above totalled \$22,964,712, of which \$3,030,657 is syndicated to investors for a net loan amount of \$19,934,055. Subsequent to quarter end, the Company repaid \$1,000,000 to its syndicate investors and further reduced its loan exposure to the Borrower and its affiliates by \$7,000,000, through the Company exercising its option as noted above, for a net loan amount of \$13,934,055.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

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

At March 31, 2016, loan and mortgage investment totalling \$12,863,396 (including interest receivable on these loans totalling \$683,961) to the Borrower and its affiliates, are in arrears of which \$3,030,657 including interest payable have been syndicated. The foreclosure/power of sale process has commenced and is proceeding on these loans to enforce the security. Subsequent to March 31, 2016, certain affiliates of the Borrower announced restructuring proceedings under the Bankruptcy and Insolvency Act. Based on the most recent valuations of the underlying assets, the Company has not identified any loans in arrears for which a loss provision should be made.

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

	Scheduled principal payments	Loan and mortgage investments maturing	Total loan and mortgage investments
Remainder of year	\$ –	\$ 38,287,499	\$ 38,287,499
2017	–	35,896,394	35,896,394
2018	–	28,974,541	28,974,541
2019	–	–	–
2020	–	15,000,000	15,000,000
	\$ –	\$ 118,158,434	\$ 118,158,434

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

	Scheduled principal payments	Loan and mortgage syndications maturing	Total loan and mortgage syndications
Remainder of year	\$ –	\$ 22,173,301	\$ 22,173,301
2017	–	11,181,405	11,181,405
2018	–	13,844,975	13,844,975
2019	–	–	–
2020	–	4,837,337	4,837,337
	\$ –	\$ 52,037,018	\$ 52,037,018

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

7. Joint arrangements:

(a) Interests in joint operation:

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.

The Montreal Street JV carries a loan of \$2,022,530, 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%.

The financial information in respect of the Company's proportionate share of investments in Montreal Street JV is as follows:

	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 3,507	\$ 4,028
Amounts receivable and prepaid expenses	11,315	11,644
Investment properties	2,143,794	2,143,794
	<u>2,158,616</u>	<u>2,159,466</u>
Liabilities		
Accounts payable and accrued liabilities	41,823	41,828
Mortgages payable	1,112,392	1,120,314
	<u>1,154,215</u>	<u>1,162,142</u>
Net assets	<u>\$ 1,004,401</u>	<u>\$ 997,324</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

The table below details the results of operations for the three months ended March 31, 2016 and 2015, attributable to the Company from Montreal Street JV:

	Three months ended	
	March 31, 2016	March 31 2015
Revenue:		
Rental revenue	\$ 48,378	\$ 47,348
Expenses		
Property operating costs	16,092	15,254
General and administrative expenses	923	47
Interest expense	11,338	11,694
Net income	\$ 20,025	\$ 20,353

(b) Investment property:

The Company has interests in investment property 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 property in the Montreal Street JV for the three months ended March 31, 2016 and 2015:

Balance, December 31, 2014	\$ 2,062,661
Change in amount receivable from joint venture partner	(349)
Balance, March 31, 2015	\$ 2,062,312
Change in amount receivable from joint venture partner	(1,018)
Fair value adjustment	82,500
Balance, December 31, 2015	\$ 2,143,794
Balance, March 31, 2016	\$ 2,143,794

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

7. 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 carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$2,143,794. At March 31, 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%. The carrying value of investment property in the Montreal Street JV at March 31, 2016 approximates its fair value.

As at March 31, 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.

(c) Mortgages payable:

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

	March 31, 2016		December 31, 2015	
	Amount	% of loans payable	Amount	% of loans payable
Montreal Street JV	\$ 1,112,392	100.0	\$ 1,120,314	100.0
	\$ 1,112,392	100.0	\$ 1,120,314	100.0

The Company is in the process of refinancing the mortgages payable.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

7. Joint arrangements (continued):

Scheduled principal repayments and maturity amounts of mortgages payable at March 31, 2016 are as follows:

	Scheduled principal payments	Maturing during the year	Total mortgages payable
Remainder of year	\$ 5,302	\$ 1,107,090	\$ 1,112,392

8. Portfolio investments:

The Company has invested through Terra Firma Capital 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 March 31, 2016 is \$1,174,212 (December 31, 2015 - \$1,174,212). At March 31, 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 March 31, 2016 and December 31, 2015 was \$1,174,212.

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 March 31, 2016, TFCC LanQueen Ltd. contributed \$924,000 (December 31, 2015 - \$924,000) in the partnership. At March 31, 2016 and December 31, 2015, the fair value was determined by the management, using the direct comparison method. The fair value of investment at March 31, 2016 and December 31, 2015 was \$1,165,343.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

8. Portfolio investments (continued):

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2016 and 2015:

	Amount
Balance, December 31, 2014	\$ 1,620,828
Investment made	60,000
Balance, March 31, 2015	1,680,828
Investment made	264,557
Fair value adjustment	394,170
Balance, December 31, 2015	2,339,555
Balance, March 31, 2016	\$ 2,339,555

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 March 31, 2016 and December 31, 2015, the Lan Partnership has invested \$13,333,333 in the Lan Project. At March 31, 2016 and December 31, 2015, the Company's share of investment in the Lan Partnership was \$2,315,414. At March 31, 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 fair value of investment at March 31, 2016 and December 31, 2015 approximates the carrying value.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

9. Investment in associates (continued):

The following table summarizes the changes to the carrying value of investment in associates for the three months ended March 31, 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)	(6,057,000)
Contributions to Lan Partnership	1,363,268
Balance, March 31, 2015	5,002,581
Sale of interest in Lan Partnership to investors	(2,788,500)
Contributions to Lan Partnership	9,384
Share of income from Lan Partnership	91,949
Balance, December 31, 2015	2,315,414
Balance, March 31, 2016	\$ 2,315,414

10. Accounts payable and accrued liabilities:

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

	March 31, 2016	December 31, 2015
Interest payable	\$ 1,542,363	\$ 1,287,698
Interest reserve	531,317	456,985
Accounts payable, accrued liabilities and provisions	1,261,331	3,061,220
Share-based compensation payable (note 15(b)(ii))	1,218,378	1,174,657
Accounts payable and accrued liabilities	\$ 4,553,389	\$ 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 months ended March 31, 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 three months ended March 31, 2016 and 2015:

	Amount
Balance, December 31, 2014	\$ 1,500,000
Proceeds from issuance of short-term unsecured notes payable	1,000,000
Transferred from loan and mortgage syndications	6,550,000
Transferred to loan and mortgage syndications	(1,500,000)
Repayments of short-term unsecured notes payable	(4,100,000)
Balance, March 31, 2015	3,450,000
Proceeds from issuance of short-term unsecured notes payable	8,755,497
Transferred from loan and mortgage syndications	6,094,753
Transferred to loan and mortgage syndications	(5,320,000)
Repayments of short-term unsecured notes payable	(3,850,000)
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	(1,574,990)
Unrealized foreign exchange gain	(175,000)
Balance, March 31, 2016	\$ 7,786,010

For the three months ended March 31, 2016 and 2015, the Company recorded interest expense of \$154,396 and \$62,170, respectively.

Included in short-term unsecured notes payable are U.S. dollar-denominated balances of Canadian \$2,987,010 (U.S. - \$2,300,000) (December 31, 2015 - Canadian \$4,152,000, U.S. \$3,000,000).

These notes bear annual interest in the range of 7% - 9%, have a 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 may elect 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 months ended March 31, 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 months ended March 31, 2016 and 2015, amortization of deferred financing costs reported as interest expense and financing costs totaled \$25,534 and nil, respectively.

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

	March 31, 2016	December 31, 2015
Face value	\$ 10,000,000	\$ 10,000,000
Unamortized financing costs	(109,322)	(134,856)
Revolving operating facility	\$ 9,890,678	\$ 9,865,144

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 effective interest rate of the Debentures is 8.53%.

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

The following table summarizes the changes in the Debentures for the three months ended March 31, 2016 and 2015:

	Total
Liability component of Debentures, December 31, 2014,	\$ 10,514,431
Interest expensed at EIR of 8.53%	214,483
Interest paid	(187,274)
Liability component of Debentures, March 31, 2015	10,541,640
Interest expensed at EIR of 8.53%	658,887
Interest paid	(572,226)
Liability component of Debentures, December 31, 2015	10,628,301
Interest expensed at EIR of 8.53%	219,225
Interest paid	(188,837)
Liability component of debentures, March 31, 2016	\$ 10,658,689

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

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 March 31, 2016 were \$17,206,274 (December 31, 2015 - \$18,455,100).

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 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 March 31, 2016, are as follows:

Remainder of year	\$ 200,998
2017	208,217
2018	221,785
2019	221,785
2020	221,785
	<hr/>
	\$ 1,074,570

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 months ended March 31, 2016 and 2015
(Unaudited)

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2015 and 2016:

	Shares	Amount
Outstanding, December 31, 2015	41,582,300	\$ 16,654,718
Outstanding, March 31, 2015	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	560,000	352,800
Transferred from contributed surplus upon exercise of broker warrants	–	106,234
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, March 31, 2016	61,155,083	\$ 31,778,294

On March 31, 2016, 895,000 options to purchase the Company's Shares at \$0.30 per share with an expiry date of January 24, 2016, granted to the Company's Chief Executive Officer (the "CEO") were exercised. 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, 2015 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)
(In Canadian dollars)

Three months ended March 31, 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 19).

(b) Share-based payments:

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

	Three months ended	
	March 31, 2016	March 31, 2015
Share option Plan	\$ 166,665	\$ 239,869
DSU Plan	43,721	151,170
	<u>\$ 210,386</u>	<u>\$ 391,039</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 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 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 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 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.

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:

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

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

On March 31, 2016, the CEO of the Company exercised 895,000 options that had been formally granted to purchase the Company's Shares at \$0.30 with an expiry date of January 24, 2016. 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 three months ended March 31, 2016 and year ended December 31, 2015:

	March 31, 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	200,000	0.77	980,889	0.85
Exercised	(895,000)	0.30	–	–
Outstanding, end of period	4,357,338	0.68	5,052,338	0.61
Number of options exercisable	3,774,003	\$ 0.66	4,140,447	\$ 0.56

The following summarizes the Company's outstanding share options as at March 31, 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	466,665	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
4,357,338		3,774,003		

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

(ii) Deferred share unit plan:

The Company has a Deferred Share Units 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 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. Of the additional DSUs granted by the Company, 50% 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, 2016 and year ended December 31, 2015:

	March 31, 2016	December 31, 2015
DSUs outstanding, beginning of period	1,757,001	747,705
Granted	79,083	1,009,296
DSUs outstanding, end of period	1,836,084	1,757,001
Number of DSUs vested	1,603,130	1,525,530

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2016 and 2015, were \$210,386 and \$391,039, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2016 is \$1,218,378 (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.

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 three months ended March 31, 2016 and 2015:

	Number of broker warrants outstanding	Fair value	Exercise price
Outstanding, December 31, 2014	560,000	\$ 106,235	\$ 0.63
Outstanding, March 31, 2015	560,000	\$ 106,235	0.63
Granted	1,014,713	347,824	0.85
Exercised	(560,000)	(106,235)	0.63
Outstanding, December 31, 2015	1,014,713	\$ 347,824	\$ 0.85
Outstanding, March 31, 2016	1,014,713	\$ 347,824	\$ 0.85

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

15. Shareholders' equity (continued):

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%

16. Contributed surplus:

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

	Amount
Balance, December 31, 2014	\$ 1,049,585
Fair value of share-based compensation	239,869
Balance, March 31, 2015	1,289,454
Issuance of shares pursuant to the Offering, net of share issue costs	347,824
Fair value of share-based compensation	829,532
Transfer to share capital - exercise of warrants	(106,235)
Balance, December 31, 2015	2,360,575
Fair value of share-based compensation	166,665
Transfer to share capital - exercise of options	(252,390)
Balance, March 31, 2016	\$ 2,274,850

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

17. Earnings per share:

The calculation of earnings per share for the three months ended March 31, 2016 and 2015 is as follows:

	Three months ended	
	March 31, 2016	March 31, 2015
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	\$ 114,824	\$ 945,438
Interest savings on debentures, net of taxes	161,130	157,645
Diluted income attributable to common shareholders	\$ 275,954	\$ 1,103,083
Denominator basic and diluted earnings per share:		
Weighted average number of Shares outstanding	\$ 60,260,083	\$ 41,582,300
Dilutive effect of share-based payments	1,056,498	1,023,341
Dilutive effect of broker warrants	–	49,858
Assumed conversion of debentures	15,069,444	15,069,444
Weighted average number of diluted Shares outstanding	\$ 76,386,025	\$ 57,724,943
Earnings per share:		
Basic	\$ 0.00	\$ 0.02
Diluted	0.00	0.02

18. Transactions with related parties:

Except as disclosed elsewhere in the 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.

At March 31, 2016 and December 31, 2015, the Chairman of the Board of the Company, indirectly through a wholly owned subsidiary, owned approximately 11% of the issued and outstanding Shares of the Company.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

18. Transactions with related parties (continued):

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

During the three months ended March 31, 2016, the Company advanced a loan investment of \$845,000 to a company controlled by the Chairman of the Company at the interest rate of 12% per annum and recognized interest and fees revenue of \$3,428 during the year.

19. Interest:

The following table presents the interest incurred for the three months ended March 31, 2016 and 2015:

	Three months ended	
	March 31, 2016	March 31, 2015
Interest on loans and mortgage syndications	\$ 1,321,144	\$ 1,276,855
Interest on revolving operating facility	275,534	–
Interest on Debentures	219,225	214,483
Montreal Street JV	11,338	11,694
	<u>\$ 1,827,241</u>	<u>\$ 1,503,032</u>

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

20. Foreign exchange:

For the three months ended March 31, 2016 and 2015, the Company recorded an unrealized foreign exchange loss of \$1,271,596 and \$nil, respectively.

For the three months ended March 31, 2016, the U.S. dollar weakened by approximately 6% against the Canadian dollar from C\$1.384 to C\$1.2987. As at March 31, 2016 and 2015, U.S. dollar-denominated net monetary assets were U.S.\$15,734,508 and U.S.\$203,366, respectively (December 31, 2015 - \$20,265,161).

21. Income taxes:

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

	Three months ended	
	March 31, 2016	March 31, 2015
Current income tax provision	\$ 448,846	\$ 410,502
Deferred income tax recovery	(348,688)	(55,529)
Total tax provision	\$ 100,158	\$ 354,973

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

	Three months ended	
	March 31, 2016	March 31, 2015
Income from operations before taxes	\$ 214,982	\$ 1,300,411
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	56,970	344,609
Increase (decrease) in income tax due to:		
Non-taxable items	(978)	1,120
Non-deductible stock-based compensation	44,166	63,565
Change in deferred tax asset not previously recognized	–	(54,321)
Total tax provision	\$ 100,158	\$ 354,973

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three months ended March 31, 2016 and 2015
(Unaudited)

21. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2016 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (176,230)	\$ (29,732)	\$ (205,962)
Portfolio investment	(111,397)	–	(111,397)
Incorporation costs	606	(11)	595
DSUs	311,284	11,586	322,870
Allowance for loan and mortgage investment loss	126,689	29,872	156,561
Unrealized foreign exchange loss	(540,982)	336,973	(204,009)
Debentures, Shares and revolving operating facility issue costs	371,365	–	371,365
	\$ (18,665)	\$ 348,688	\$ 330,023

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 Shares issue costs	73,132	22,166	95,298
DSUs	122,254	40,060	162,314
	\$ 48,381	\$ 55,529	\$ 103,910

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, 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 March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Short-term unsecured notes payable	\$ 7,786,010	\$ 9,286,000
Revolving operating facility	9,890,678	9,865,144
Loan and mortgage syndications	52,037,018	45,691,948
Mortgages payable	1,112,392	1,120,314
Debentures	10,658,689	10,628,301
Non-controlling interest	254,641	254,641
Shareholders' equity	46,827,339	46,277,350
Total capital	\$ 128,566,767	\$ 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 months ended March 31, 2016 and 2015.

During the three months ended March 31, 2016 and 2015, the Company had no externally imposed capital requirements.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

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 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 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 March 31, 2016 and December 31, 2015 and no amounts were transferred between fair value levels during the three months ended March 31, 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 investment.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2016 and 2015
(Unaudited)

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.