



Condensed Interim Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2017 and 2016
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	March 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 18,933,401	\$ 12,315,242
Funds held in trust	1,381,489	982,353
Deposits (note 4)	–	3,256,074
Amounts receivable and prepaid expenses (note 5)	6,096,168	4,865,280
Loan and mortgage investments (note 6)	116,486,920	93,408,444
Investment property held in joint operations (notes 7(b))	2,208,694	2,208,694
Land under development held in joint operations (note 7(c))	24,627,004	23,808,574
Portfolio investments (note 8)	3,212,084	3,212,084
Investment in associates (note 9)	2,315,414	2,315,414
Income taxes recoverable (note 21)	188,304	–
Deferred income tax asset (note 21)	329,760	328,324
Total assets	\$ 175,779,238	\$ 146,700,483

Liabilities and Equity

Liabilities:

Accounts payable and accrued liabilities (note 10)	\$ 12,684,940	\$ 10,647,966
Unearned income	615,065	329,340
Income taxes payable (note 21)	–	22,942
Revolving operating facility (note 12)	9,993,325	7,467,586
Loan and mortgage syndications (note 6)	80,868,290	56,180,448
Due to joint operations partner (note (note 7(d))	5,293,891	11,163,640
Construction loan payable (note 7(e))	5,065,000	–
Mortgages payable (note 7(f))	1,499,100	1,509,503
Convertible debentures (note 13)	10,786,306	10,754,259
Total liabilities	126,805,917	98,075,684

Equity:

Share capital (note 15 (a))	\$ 31,565,594	\$ 31,789,819
Equity component of convertible debentures (note 13)	284,490	284,490
Contributed surplus (note 16)	2,602,008	2,514,073
Retained earnings	14,266,588	13,781,776
Shareholders' equity	48,718,680	48,370,158
Non-controlling interest	254,641	254,641
Total equity	48,973,321	48,624,799

Commitments and contingencies (note 14)
Subsequent events (notes 12 and 25)

Total liabilities and equity	\$ 175,779,238	\$ 146,700,483
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The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board of Directors on May 10, 2017

“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, 2017	March 31, 2016
Revenue:		
Interest and fees	\$ 3,966,244	\$ 4,221,156
Rental (note 7(a))	50,444	48,378
	<u>4,016,688</u>	<u>4,269,534</u>
Expenses:		
Property operating costs (note 7(a))	17,331	16,092
General and administrative	896,736	658,145
Share-based compensation (note 15(c))	280,721	210,386
Interest and financing costs (note 19)	2,327,061	1,827,241
Provision for loan and mortgage investment loss (note 6)	–	112,726
Realized and unrealized foreign exchange (gain) loss (note 20)	(197,291)	1,229,962
	<u>3,324,558</u>	<u>4,054,552</u>
Income from operations before income taxes	692,130	214,982
Income taxes (note 21)	207,318	100,158
Net income and comprehensive income	<u>\$ 484,812</u>	<u>\$ 114,824</u>
Earnings per share (note 17):		
Basic	\$ 0.01	\$ 0.00
Diluted	\$ 0.01	\$ 0.00

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

	Share capital		Convertible debentures (note 13)	Contributed surplus (note 16)	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares (note 15 (a) and (b))	Amount						
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 options 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
Changes during the period:								
Issuance of shares pursuant to share options plan	74,667	67,156	–	(29,822)	–	37,334	–	37,334
Repurchase of shares pursuant normal course issuer bid	(94,500)	(55,631)	–	–	–	(55,631)	–	(55,631)
Share-based compensation	–	–	–	269,045	–	269,045	–	269,045
Net income and comprehensive income	–	–	–	–	1,292,071	1,292,071	–	1,292,071
Balance, December 31, 2016	61,135,250	\$ 31,789,819	\$ 284,490	\$ 2,514,073	\$ 13,781,776	\$ 48,370,158	\$ 254,641	\$ 48,624,799
Changes during the period:								
Repurchase of shares pursuant normal course issuer bid	(340,000)	(224,225)	–	–	–	(224,225)	–	(224,225)
Share-based compensation	–	–	–	87,935	–	87,935	–	87,935
Net income and comprehensive income	–	–	–	–	484,812	484,812	–	484,812
Balance, March 31, 2017	60,795,250	\$ 31,565,594	\$ 284,490	\$ 2,602,008	\$ 14,266,588	\$ 48,718,680	\$ 254,641	\$ 48,973,321

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

TERRA FIRMA CAPITAL CORPORATION

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

	Three months ended	
	March 31, 2017	March 31, 2016
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 484,812	\$ 114,824
Interest and fees earned	(3,966,244)	(4,221,156)
Unrealized foreign exchange (gain) loss	(112,436)	1,271,596
Interest expense and financing costs	2,327,061	1,827,241
Non-cash items:		
Share-based compensation (note 15(c))	280,721	210,386
Provision for loan and mortgage investment loss	–	112,726
Income tax provision	207,318	100,158
Changes in working capital:		
Increase in other receivables	(234,597)	(288)
Decrease in prepaid expenses and deposits	174,826	51,401
Increase (decrease) in accounts payable and accrued liabilities	1,222,859	(1,540,589)
Interest and fees received	2,865,680	2,443,494
Interest paid	(1,439,110)	(1,621,792)
Income taxes paid	(420,000)	(1,300,000)
Cash provided by (used in) operating activities	1,390,890	(2,551,999)
Financing activities:		
Proceeds from loan and mortgage syndications	27,457,208	9,007,715
Repayments of loan and mortgage syndications	(3,458,722)	(3,253,891)
Repayments of mortgages payable	(10,403)	(7,922)
Proceeds from short-term unsecured notes payable	–	200,000
Proceeds from revolving operating facility	2,500,000	–
Proceeds from construction loan payable	5,065,000	–
Repayment to joint operations partner	(5,869,749)	–
Repurchase of shares pursuant to normal course issuer bid	(224,225)	–
Proceeds from issuance of shares pursuant to share options plan	–	268,500
Cash provided by financing activities	25,459,109	6,214,402
Investing activities:		
Funding of loan and mortgage investments	(28,152,241)	(26,831,029)
Repayments of loan and mortgage investments	9,137,967	2,542,891
Repayment of deposits	–	11,747,370
Decrease (increase) in funds held in trust	(399,136)	1,164,773
Capital additions to land under development	(818,430)	–
Cash used in investing activities	(20,231,840)	(11,375,995)
Increase (decrease) in cash and cash equivalents	6,618,159	(7,713,592)
Cash and cash equivalents, beginning of period	12,315,242	11,723,550
Cash and cash equivalents, end of period	\$ 18,933,401	\$ 4,009,958

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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 interim consolidated 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 condensed interim consolidated 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 condensed interim consolidated 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, 2016.

3. Significant accounting policies:

The condensed interim consolidated financial statements for the period ended March 31, 2017 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, 2016.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
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4. Deposits:

On December 30, 2016, the Company advanced \$3,256,074 to be held in escrow with the Company's legal counsel for funding of a loan and mortgage investment. The transaction was closed on January 4, 2017.

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2017 and December 31, 2016.

	March 31, 2017	December 31, 2016
Interest receivable	\$ 4,831,294	\$ 3,660,177
Other receivables	1,157,531	873,395
Prepaid expenses and deposits	107,343	331,708
Amounts receivable and prepaid expenses	\$ 6,096,168	\$ 4,865,280

Included in interest receivable at March 31, 2017 are non-current balances of \$3,945,966 (December 31, 2016 - \$3,001,186). 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, 2017 and December 31, 2016, the Company had principal balance of loan and mortgage investments of \$117,388,205 and \$94,309,729 respectively. The loan and mortgage investments carry a weighted average effective interest rate ("EIR") of 14.9% (December 31, 2016 - 15.3%) and a weighted average term to maturity of 1.24 years (December 31, 2016 - 1.05 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.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

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

The principal balance of loan and mortgage syndications included in the loan and mortgage loan investments at March 31, 2017 and December 31, 2016 were \$80,868,290 and \$56,180,448 respectively. The loan and mortgage syndications carry a weighted average effective interest rate of 10.9% (December 31, 2016 - 10.8 %) and a weighted average term to maturity of 1.40 years (December 31, 2016 - 1.27 years).

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at March 31, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 63,910,607	\$ 39,257,930	\$ 24,652,677	67.5
Land and lot inventory	52,977,598	41,610,360	11,367,238	31.1
Commercial retail development	500,000	–	500,000	1.4
	117,388,205	80,868,290	36,519,915	100.0
Allowance for loan and mortgage investments loss	(901,285)	–	(901,285)	
	\$ 116,486,920	\$ 80,868,290	\$ 35,618,630	

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

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

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at December 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Residential housing developments	\$ 67,057,768	\$ 35,109,509	\$ 31,948,259	83.8
Land and lot inventory	24,159,165	20,270,939	3,888,226	10.2
Commercial retail development	500,000	–	500,000	1.3
Residential income properties	2,592,796	800,000	1,792,796	4.7
	94,309,729	56,180,448	38,129,281	100.0
Allowance for loan and mortgage investments loss	(901,285)	–	(901,285)	
	\$ 93,408,444	\$ 56,180,448	\$ 37,227,996	

One loan to a residential housing development project accounts for 14.8% and 10.3% of the Company's total interest and fees revenue for the three months ended March 31, 2017 and 2016, respectively and 12.8% of the principal balance of loan and mortgage investments at March 31, 2017 (December 31, 2016 - 15.4%).

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, 2017 and 2016, the Company capitalized interest income of \$492,599 and \$633,331, 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, 2017 were \$21,225,717, including \$12,056,207 of capitalization of future interest relating to existing loan and mortgage investments (December 31, 2016 - \$11,619,581, including \$9,051,743 of capitalization of future interest relating to existing loan and mortgage investments).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

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

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.

The following table presents details of the Company's principal balances of loan categories as at March 31, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 110,382,514	\$ 75,986,225	\$ 34,396,289	94.2
Unregistered loans	7,005,691	4,882,065	2,123,626	5.8
	<u>\$ 117,388,205</u>	<u>\$ 80,868,290</u>	<u>\$ 36,519,915</u>	<u>100.0</u>

The following table presents details of the Company's principal balances of loan categories as at December 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Mortgages	\$ 87,351,822	\$ 52,797,323	\$ 34,554,499	90.6
Unregistered loans	6,957,907	3,383,125	3,574,782	9.4
	<u>\$ 94,309,729</u>	<u>\$ 56,180,448</u>	<u>\$ 38,129,281</u>	<u>100.0</u>

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by geography as at March 31, 2017:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 46,731,717	\$ 25,684,355	\$ 21,047,362	57.6
United States	70,656,488	55,183,935	15,472,553	42.4
	<u>\$ 117,388,205</u>	<u>\$ 80,868,290</u>	<u>\$ 36,519,915</u>	<u>100.0</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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 December 31, 2016:

	Loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 52,412,874	\$ 25,936,137	\$ 26,476,737	69.4
Unites States	41,896,855	30,244,311	11,652,544	30.6
	\$ 94,309,729	\$ 56,180,448	\$ 38,129,281	100.0

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

At March 31, 2017, four project loan investments totaling \$12,588,280 (December 31, 2016 - \$12,185,468), including interest receivable and fees incurred on these loans totaling \$1,526,481 (December 31, 2016 - \$1,123,669), to projects owned by entities controlled by the Borrower are in arrears, of which \$248,333 (December 31, 2016 - \$248,333) of project loans including interest payable have been syndicated. The foreclosure process has commenced and is proceeding on these project loans to enforce the security. As at March 31, 2017, based on the most recent valuations of the underlying assets and managements estimates, the Company recognized a specific impairment provision relating to the loans in arrears of \$310,493 (December 31, 2016 - \$310,493).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

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

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	\$ –	\$ 41,673,693	\$ 41,673,693
2018	–	37,885,908	37,885,908
2019	–	29,788,830	29,788,830
2020	–	5,845,539	5,845,539
2021	–	2,194,235	2,194,235
	\$ –	\$ 117,388,205	\$ 117,388,205

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	\$ –	\$ 23,199,056	\$ 23,199,056
2017	–	28,450,734	28,450,734
2018	–	22,184,542	22,184,542
2019	–	5,033,958	5,033,958
2020	–	2,000,000	2,000,000
	\$ –	\$ 80,868,290	\$ 80,868,290

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

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

Allowance for loan and mortgage investments loss:

The Company also assessed collectively for impairment to identify potential future losses, by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at March 31, 2017, the Company has recognized a collective impairment provision of \$590,792 (December 31, 2016 - \$590,792).

As at March 31, 2017, the Company has recognized a specific impairment of \$310,493 (December 31, 2016 - \$310,493).

The changes in the allowance for mortgage investments loss during the three months ended March 31, 2017 and 2016 were as follows:

Balance, December 31, 2015	\$ 478,066
Provision for loan and mortgage investment loss	112,726
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Balance, March 31, 2016	\$ 590,792
Provision for loan and mortgage investment loss	310,493
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Balance, December 31, 2016	\$ 901,285
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Balance, March 31, 2017	\$ 901,285

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

7. Joint arrangements:

(a) Interests in joint operations:

The Company's interests in the following properties are subject to joint control and, accordingly, the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using 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 Company's ownership interest in the Montreal Street JV is 55.0%.

(ii) Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company with the option to purchase 50% interest in the Valermo Homes JV, owned by an entity controlled by the Borrower.

On April 15, 2016, the Company through its wholly owned subsidiary, Terra Firma (Valermo) Corporation, exercised its option and acquired a 50% interest in the Valermo Homes JV for \$7,000,000. The Company incurred \$624,681 in closing costs.

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

Net assets acquired:	
Land under development	\$ 22,275,767
Amounts receivable and prepaid expenses	221,971
Due to joint operations partner	(13,448,799)
Accounts payable and accrued liabilities	(1,424,258)
Value of assets transferred on conversion	\$ 7,624,681
Consideration paid, funded by:	
Loan and mortgage investments	\$ 7,000,000
Cash	624,681
Value of assets transferred on conversion	\$ 7,624,681

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

7. Joint arrangements (continued):

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

	March 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 35,262	\$ 413,420
Amounts receivable and prepaid expenses	405,815	415,616
Investment properties (note 7 (b))	2,208,694	2,208,694
Land under development (note 7 (c))	24,627,004	23,808,574
	<u>27,276,775</u>	<u>26,846,304</u>
Liabilities		
Accounts payable and prepaid expenses	6,425,964	5,151,860
Loan and mortgage syndications	870,389	870,389
Mortgages payable (note 7 (f))	1,499,100	1,509,503
Construction loan payable (note 7 (e))	5,065,000	–
Due to joint operations partner (note 7 (d))	5,293,891	11,163,640
	<u>19,154,344</u>	<u>18,695,392</u>
Net assets	\$ 8,122,431	\$ 8,150,912

The table below details the results of operations for the three months ended March 31, 2017 and 2016, attributable to the Company from its joint operations:

	Three months ended	
	March 31, 2017	March 31 2016
Revenue:		
Rental revenue	\$ 50,444	\$ 48,378
Expenses		
Property operating costs	17,331	16,092
General and administrative expenses	50,601	923
Interest expense	10,994	11,338
	<u>78,926</u>	<u>28,353</u>
Net (loss) income	\$ (28,482)	\$ 20,025

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

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(Unaudited)

7. Joint arrangements (continued):

(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 for the three months ended March 31, 2017 and 2016:

Balance, December 31, 2015	\$ 2,143,794
Balance, March 31, 2016	\$ 2,143,794
Change in amount receivable from joint venture partner	2,950
Fair value adjustment	61,950
Balance, December 31, 2016	\$ 2,208,694
Balance, March 31, 2017	\$ 2,208,694

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 normalized 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 \$2,208,694. At March 31, 2017 and December 31, 2016, the fair value was determined by the Company's management and the external appraiser, respectively. The capitalization rate used in the valuation property was 6.25%. (December 31, 2016 - 6.25%).

As at March 31, 2017 and December 31, 2016, 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 \$92,400 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 \$85,250.

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

Three months ended March 31, 2017 and 2016
(Unaudited)

7. Joint arrangements (continued):

(c) Land under development:

The following table summarizes the changes in the Company's proportionate share of the land under development for the periods ended March 31, 2017 and 2016:

Balance, December 31, 2015	\$	–
Balance, March 31, 2016	\$	–
Acquisition of property		22,275,767
Additions, capital expenditures		1,532,807
Balance, December 31, 2016	\$	23,808,574
Additions, capital expenditures		818,430
Balance, March 31, 2017	\$	24,627,004

(d) Due to joint operations partner:

The co-ownership agreement on Valermo Homes JV provides that the Company will not be required to make any other contributions in respect of expenses or development costs and the development partner will loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest is calculated using the formula specified in the co-ownership agreement. At March 31, 2017, the amount due to the joint operations partner is \$5,293,891 (December 31, 2016 - \$11,163,640).

(e) Construction loan payable:

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Facilities") with a lending institution for \$65.6 million to finance the construction of homes. Interest on advanced funds under the Facilities will be prime plus 0.75% per annum. The Company's share of the loan drawn against the Facilities at March 31, 2017 is \$5,065,000 (December 31, 2016 - \$nil).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

7. Joint arrangements (continued):

(f) Mortgages payable:

On June 16, 2016, the Montreal Street JV refinanced the mortgage totaling \$2,800,000, of which the Company's share of the mortgage, net of deferred financing costs was \$1,524,826. The original mortgage had an interest rate of 4.2% per annum, with a maturity date of June 16, 2016. The refinanced mortgage bears interest at 3.0% per annum, and is amortized over 25 years and matures on June 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at March 31, 2017 and December 31, 2016 are as follows:

	March 31, 2017	December 31, 2016
Mortgage principal	\$ 1,512,258	\$ 1,522,661
Unamortized financing costs	(13,158)	(13,158)
	\$ 1,499,100	\$ 1,509,503

Scheduled principal repayments and maturity amounts of mortgages payable at March 31, 2017 are as follows:

	Loans scheduled principal payments	Total maturing during the year	Loans and mortgages payable
Remainder of year	\$ 32,105	\$ —	\$ 32,105
2018	43,803	—	43,803
2019	45,138	—	45,138
2020	46,513	—	46,513
2021	23,785	1,320,914	1,344,699
	\$ 191,344	\$ 1,320,914	\$ 1,512,258

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

8. 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 or loss. As at March 31, 2017, the cost of the investment is \$954,630 (December 31, 2016 - \$954,630), and the cost of the investment in the Hill owned by an outside party is \$200,000 (December 31, 2016 - \$200,000). At March 31, 2017 and December 31, 2016, the fair values were determined by management, using the direct comparison method. The fair value of the investment at March 31, 2017 and December 31, 2016 was \$1,174,212 and the investment owned by an outside party of \$254,641 is included in non-controlling interest.

The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest 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 annually 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, 2017, TFCC LanQueen Ltd. contributed \$1,724,000 (December 31, 2016 - \$1,724,000) in the partnership. At March 31, 2017 and December 31, 2016, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at March 31, 2017 and December 31, 2016 was \$2,037,872.

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2017 and 2016:

Balance, December 31, 2015	\$ 2,339,555
Balance, March 31, 2016	\$ 2,339,555
Investment made	800,000
Fair value adjustment	72,529
Balance, December 31, 2016	\$ 3,212,084
Balance, March 31, 2017	\$ 3,212,084

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

9. Investment in associates:

During the year ended December 31, 2015, the Company, together with certain syndicate investors has invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership").

At March 31, 2017 and December 31, 2016, the Company's share of investment in the Lan Partnership, was \$2,315,414.

At March 31, 2017 and December 31, 2016, the Lan Partnership has invested \$13,333,333 in the Lan Project. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest of 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 significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

At March 31, 2017 and December 31, 2016, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at March 31, 2017 was \$2,315,414 (December 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, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Interest payable	\$ 2,571,114	\$ 2,106,632
Interest reserve	670,142	513,295
Accounts payable, accrued liabilities and provisions	7,692,237	6,469,378
Share-based compensation payable (note 15(b)(ii))	1,751,447	1,558,661
Accounts payable and accrued liabilities	\$ 12,684,940	\$ 10,647,966

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
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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, 2017 and 2016:

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
Transferred to loan and mortgage syndications		(5,219,310)
Repayments of short-term unsecured notes payable		(2,741,700)
Unrealized foreign exchange loss		175,000
Balance, December 31, 2016	\$	–
Balance, March 31, 2017	\$	–

As at March 31, 2017 and December 31, 2016, the Company had no outstanding short-term unsecured notes payable.

During the year ended December 31, 2016, the Company issued short-term unsecured notes payable to syndicate investors totaling \$250,000, including those investors of the loan and mortgage investments in the amount of \$50,000 who elected to convert their interest into a short-term unsecured note payable. Holders of short-term unsecured notes payable totaling \$6,794,300 elected to convert their notes into syndications of the loan and mortgage investment. During the year ended December 31, 2016, the Company repaid \$2,741,700 of short-term unsecured notes payable.

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

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Interim Consolidated Financial Statements (continued)
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Three months ended March 31, 2017 and 2016
(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 \$10,000,000 secured revolving loan facility (the "Facility") with a 24-month term, maturing on May 1, 2017. Interest on advanced funds under the Facility is 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.

During the period ended March 31, 2017 and 2016, the Company borrowed an aggregate of \$2,500,000 and \$nil, respectively and repaid \$nil and \$nil, respectively, against the facility.

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 and financing costs using the effective-interest amortization method.

For the three months ended March 31, 2017 and 2016, amortization of deferred financing costs reported as interest and financing costs totaled \$25,739 and \$25,534, respectively.

The following table presents details of the revolving operating facility as at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Face value	\$ 10,000,000	\$ 7,500,000
Unamortized financing costs	(6,675)	(32,414)
Revolving operating facility	\$ 9,993,325	\$ 7,467,586

Subsequent to March 31, 2017, the Company has elected to repay the revolving operating facility in full.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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 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 the 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, 2017 and 2016:

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
Interest expensed at EIR of 8.53%	666,233
Interest paid	(570,663)
Liability component of Debentures, December 31, 2016	\$ 10,754,259
Interest expensed at EIR of 8.53%	219,321
Interest paid	(187,274)
Liability component of debentures, March 31, 2017	\$ 10,786,306

TERRA FIRMA CAPITAL CORPORATION

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

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(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, 2017 were \$21,225,717 (December 31, 2016 - \$11,619,581).

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. The future minimum lease payments, which includes estimated operating costs of the office spaces as at March 31, 2017, are as follows:

Remainder of year	\$ 141,217
2018	221,785
2019	221,785
2020	221,785
	<hr/>
	\$ 806,572

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 Interim Consolidated Financial Statements (continued)
(In Canadian dollars)

Three months ended March 31, 2017 and 2016
(Unaudited)

15. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2017 and 2016:

	Shares	Amount
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
Repurchase of shares pursuant to normal course issuer bid	(94,500)	(55,631)
Issuance of shares pursuant to share option plan	74,667	37,334
Transferred from contributed surplus upon exercise of options	–	29,822
Outstanding, December 31, 2016	61,135,250	\$ 31,789,819
Repurchase of shares pursuant to normal course issuer bid	(340,000)	(224,225)
Outstanding, March 31, 2017	60,795,250	\$ 31,565,594

On December 19, 2016, certain directors of the Company exercised 74,667 options that had been granted to purchase the Shares at \$0.50 per Share. The consideration of \$37,334 received on exercising the options was recorded as share capital and the related contributed surplus of \$29,822 was transferred to share capital (note 15(c)(i)).

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

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Interim Consolidated Financial Statements (continued)
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Three months ended March 31, 2017 and 2016
(Unaudited)

15. Shareholders' equity (continued):

(b) Normal course issuer bid:

On October 31, 2016, the Company obtained the approval of the TSX-V of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase its Shares through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V) up to an aggregate maximum of 1,907,413 Shares. Purchases commenced on November 4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V.

During the three months ended March 31, 2017 and 2016, the Company purchased 340,000 and nil Shares, respectively on TSX-V for \$224,225 and \$nil, respectively.

(c) Share-based payments:

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

	Three months ended	
	March 31, 2017	March 31, 2016
Share option Plan	\$ 87,935	\$ 166,665
DSU Plan	192,786	43,721
	<u>\$ 280,721</u>	<u>\$ 210,386</u>

(i) Share option plan:

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

TERRA FIRMA CAPITAL CORPORATION

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

On December 28, 2016, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 560,000 Shares at \$0.65 per Share, with an expiry date of December 27, 2023. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

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

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

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:

	December 28, 2016	June 26, 2016	March 31, 2016
Average expected life	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	1.40%	1.04%	0.89%
Average expected volatility	87.74%	79.94%	81.61%
Dividend yield	0%	0%	0%

The fair value of options granted on December 28, 2016, June 26, 2016 and March 31, 2016 were \$278,956, \$187,007 and 108,854, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

15. Shareholders' equity (continued):

The following is the summary of changes in share options for the three months ended March 31, 2017 and year ended December 31, 2016:

	March 31, 2017		December 31, 2016	
	Number of options	Weighted average	Number of options	Weighted average
Outstanding, beginning of period	5,278,671	\$ 0.67	5,052,338	\$ 0.61
Granted	–	–	1,260,000	0.63
Exercised	–	–	(969,667)	0.32
Expired	–	–	(64,000)	0.50
Outstanding, end of period	5,278,671	\$ 0.67	5,278,671	\$ 0.67
Number of options exercisable	4,515,342	\$ 0.67	4,260,335	\$ 0.67

The following summarizes the Company's outstanding share options as at March 31, 2017:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
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	799,997	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	46,674	0.65	0.65
5,278,671		4,515,342		

TERRA FIRMA CAPITAL CORPORATION

Notes to Condensed Interim Consolidated Financial Statements (continued)
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Three months ended March 31, 2017 and 2016
(Unaudited)

15. Shareholders' equity (continued):

(ii) Deferred share unit plan:

The Company has a cash-settled Deferred Share Unit Plan (the "DSU Plan") to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to the future value of the Shares.

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

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 of Directors or until 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, 2017 and year ended December 31, 2016:

	March 31, 2017	December 31, 2016
DSUs outstanding, beginning of period	2,394,066	1,757,001
Granted	68,111	637,065
DSUs outstanding, end of period	2,462,177	2,394,066
Number of DSUs vested	2,366,820	2,292,150

TERRA FIRMA CAPITAL CORPORATION

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

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(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, 2017 and 2016, were \$192,786 and \$43,721, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2017 is \$1,751,447 (December 31, 2016 - \$1,558,661).

(d) Broker warrants:

As part of the bought deal prospectus (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.

As of March 31, 2017 and December 31, 2016, there were outstanding broker warrants to purchase 1,014,713 Shares with an exercise price of \$0.85 per Share.

16. Contributed surplus:

The following table presents the details of the contributed surplus balances as at March 31, 2017 and December 31, 2016:

Balance, December 31, 2015	\$ 2,360,575
Fair value of share-based compensation	166,665
Transfer to share capital - exercise of options	(252,390)
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Balance, March 31, 2016	\$ 2,274,850
Fair value of share-based compensation	269,045
Transfer to share capital - exercise of options	(29,822)
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Balance, December 31, 2016	\$ 2,514,073
Fair value of share-based compensation	87,935
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Balance, March 31, 2017	\$ 2,602,008

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

17. Earnings per share:

The calculation of earnings per share for the three months ended March 31, 2017 and 2016 is as follows:

	Three months ended	
	March 31, 2017	March 31, 2016
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	\$ 484,812	\$ 114,824
Interest savings on debentures, net of taxes	161,201	161,130
Diluted income attributable to common shareholders	\$ 646,013	\$ 275,954
Denominator basic and diluted earnings per share:		
Weighted average number of Shares outstanding	\$ 60,865,878	\$ 60,260,083
Dilutive effect of share-based payments	716,523	1,056,498
Assumed conversion of debentures	15,069,444	15,069,444
Weighted average number of diluted Shares outstanding	\$ 76,651,845	\$ 76,386,025
Earnings per share:		
Basic	\$ 0.01	\$ 0.00
Diluted	\$ 0.01	\$ 0.00

18. Transactions with related parties:

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

Related party transactions are measured at the exchange amount, which is the amount of consideration established and offered by related parties.

At March 31, 2017 and December 31, 2016, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

18. Transactions with related parties (continued):

The Company advanced a loan investment of \$1,756,660 to a company controlled by the Chairman at an interest rate of 12% per annum. During the three months ended March 31, 2017 and 2016, the Company recognized interest and fees revenue of \$51,439 and \$3,428, respectively.

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, 2017, and December 31, 2016, the loan and mortgage investments and the Debentures syndicated by officers and directors was \$2,313,870 and \$1,997,135, respectively.

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the three months ended March 31, 2017, and 2016, the Company received \$19,705 for the occupancy and office costs.

19. Interest:

The following table presents the interest incurred for the three months ended March 31, 2017 and 2016:

	Three months ended	
	March 31, 2017	March 31, 2016
Interest on loans and mortgage syndications	\$ 1,835,916	\$ 1,321,144
Interest on revolving operating facility	260,830	275,534
Interest on debentures	219,321	219,225
Montreal Street JV	10,994	11,338
	<u>\$ 2,327,061</u>	<u>\$ 1,827,241</u>

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

20. Foreign exchange:

For the three months ended March 31, 2017 and 2016, the Company recorded a realized and unrealized foreign exchange (gain) loss of (\$197,291) and \$1,229,962, respectively. During the three months ended March 31, 2017, the U.S. dollar weakened by approximately 0.3% against the Canadian dollar from C\$1.3427 to C\$1.3387. As at March 31, 2017 and December 31, 2016, the U.S. dollar-denominated net monetary assets were U.S. \$17,525,605 and U.S. \$11,729,109, respectively.

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, 2017	March 31, 2016
Current income tax provision	\$ 208,754	\$ 448,846
Deferred income tax recovery	(1,436)	(348,688)
Total tax provision	\$ 207,318	\$ 100,158

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, 2017	March 31, 2016
Income from operations before taxes	\$ 692,130	\$ 214,982
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	183,414	56,970
Increase (decrease) in income tax due to:		
Non-taxable items	601	(978)
Non-deductible stock-based compensation	23,303	44,166
Total tax provision	\$ 207,318	\$ 100,158

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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, 2017 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (205,224)	\$ (5,422)	\$ (210,646)
Portfolio investments	(111,397)	–	(111,397)
Incorporation costs	564	(10)	554
DSUs	413,045	51,088	464,133
Allowance for loan and mortgage investment loss	238,842	–	238,842
Unrealized foreign exchange loss	(328,056)	(29,697)	(357,753)
Debentures, Shares and revolving operating facility issue costs	320,550	(14,523)	306,027
	<u>\$ 328,324</u>	<u>\$ 1,436</u>	<u>\$ 329,760</u>

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)
Debenture and Shares issue costs	371,365	–	371,365
	<u>\$ (18,665)</u>	<u>\$ 348,688</u>	<u>\$ 330,023</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(Unaudited)

22. Capital management:

The Company defines its capital as the aggregate of shareholders' equity, non-controlling interest, convertible debentures, loan and mortgage syndications, revolving operating facility, due to joint operations partner, construction loan 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 earn a good return for the shareholders.

The following table presents the capital structure of the Company as at March 31, 2017 and December 31, 2016

	March 31, 2017	December 31, 2016
Loan and mortgage syndications	\$ 80,868,290	\$ 56,180,448
Revolving operating facility	9,993,325	7,467,586
Mortgages payable	1,499,100	1,509,503
Debentures	10,786,306	10,754,259
Construction loan payable	5,065,000	—
Due to joint operations partner	5,293,891	11,163,640
Non-controlling interest	254,641	254,641
Shareholders' equity	48,718,680	48,370,158
Total capital	\$ 162,479,233	\$ 135,700,235

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, 2017 and 2016.

During the three months ended March 31, 2017 and 2016, the Company had no externally imposed capital requirements.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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, deposits, loan and mortgage investments, portfolio investments, accounts payable and accrued liabilities, loan and mortgage syndications, mortgages payable, due to joint operations partner, construction loan payable, revolving operating facility and convertible 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, due to joint operations partner and convertible debentures approximate their carrying values as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, loan and mortgage syndications, mortgages payable, construction loan payable, revolving operating facility or Debentures and the fair values are based on Level 3 of the fair value hierarchy.

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

The fair value of the Company's investment properties, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at December 31, 2016 and 2015 and no amounts were transferred between fair value levels during the three months ended March 31, 2017 or 2016. Notes 7(b), 8 and 9 outline the key assumptions used by the Company in determining fair value of its investment properties, portfolio investments and investment in associates.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2017 and 2016
(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, 2016.

Credit risk:

As at March 31, 2017, \$12,588,280 (December 31, 2016 - \$12,185,468) of the loan and mortgage investments and \$1,526,481 (December 31, 2016 - \$1,123,669) of interest receivable and fees paid on these loans are in arrears over 60 days.

25. Subsequent events:

On May 1, 2017, companies related to an entity that owns two projects that the Company has two US loan and mortgage investments in filed for protection under Companies' Creditors Arrangement Act in Canada. At May 10, 2017, these project loan investments including interest receivable totaled U.S. \$7,756,150, of which U.S. \$6,457,681 have been syndicated for a net receivable of the Company of U.S. \$1,298,469. These loans are secured by 1st mortgages on the projects and are performing in accordance with their loan agreements.

On May 2, 2017, an order by the Ontario Superior Court of Justice (Commercial List) approved the settlement agreement of the creditors (including the Company) of a development project securing \$6,144,607 of the loan and mortgage investments of the Company that are currently in default with a Borrower. Such settlement allows for the completion of the project and the ultimate sale of the residential units. All proceeds of such sales will be directed to repay all creditors (including the Company). The settlement is subject to certain conditions to be satisfied under the agreement to complete the project.