



Interim Condensed Consolidated Financial Statements
(In Canadian dollars)

TERRA FIRMA CAPITAL CORPORATION

Three months ended March 31, 2018 and 2017
(Unaudited)

TERRA FIRMA CAPITAL CORPORATION

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

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 4,443,458	\$ 2,691,049
Funds held in trust	4,113,704	3,014,606
Amounts receivable and prepaid expenses (note 5)	1,351,346	1,463,310
Loan and mortgage investments (note 6)	124,711,501	117,166,221
Investment property held in joint operations (note 7(b))	2,208,694	2,208,694
Portfolio investments (notes 7(a) and 8)	7,575,623	13,575,623
Investment in associates (note 9)	2,927,842	2,927,842
Income taxes recoverable (note 20)	328,171	300,667
Deferred income tax asset (note 20)	–	126,283
	\$ 147,660,339	\$ 143,474,295

Liabilities and Equity

Liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 7,325,042	\$ 6,236,233
Unearned income	1,347,181	1,505,576
Deferred income taxes payable (note 20)	156,627	–
Revolving operating facility (note 11)	18,916,639	18,965,205
Loan and mortgage syndications (note 6)	65,866,899	63,299,522
Mortgages payable (note 7(f))	1,459,720	1,469,844
	95,072,108	91,476,380
Equity:		
Share capital (note 14(a))	32,119,914	32,864,287
Contributed surplus (note 15)	3,650,704	3,573,406
Retained earnings	16,562,972	15,305,581
	52,333,590	51,743,274
Non-controlling interest	254,641	254,641
	52,588,231	51,997,915
Commitments and contingencies (note 13)		
Subsequent events (notes 17 and 24)		
	\$ 147,660,339	\$ 143,474,295

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

Approved by the Board of Directors on May 9, 2018:

"Seymour Temkin" _____ Director

"John Kaplan" _____ Director

TERRA FIRMA CAPITAL CORPORATION

Interim Condensed Consolidated Statements of Income and Comprehensive Income

(In Canadian dollars)

(Unaudited)

	Three months ended	
	March 31, 2018	March 31, 2017
Revenue:		
Interest and fees	\$ 3,497,072	\$ 3,966,244
Rental (note 7(a))	50,444	50,444
	<u>3,547,516</u>	<u>4,016,688</u>
Expenses:		
Property operating costs (note 7(a))	17,266	17,331
General and administrative	717,937	896,736
Share-based compensation (note 14(c))	26,976	280,721
Interest and financing costs (note 18)	2,042,587	2,327,061
Realized and unrealized foreign exchange gain (note 19)	(996,047)	(197,291)
	<u>1,808,719</u>	<u>3,324,558</u>
Income from operations before income taxes	1,738,797	692,130
Income taxes (note 20)	481,406	207,318
Net income and comprehensive income	<u>\$ 1,257,391</u>	<u>\$ 484,812</u>
Earnings per share (note 16):		
Basic	\$ 0.02	\$ 0.01
Diluted	0.02	0.01

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

	Share capital		Convertible debentures	Contributed surplus	Retained earnings	Total shareholders' equity	Non-controlling interest	Total equity
	Number of shares	Amount						
	(note 14(a) and (b))		(note 12)	(note 15)				
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 to 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
Changes during the period:								
Issuance of shares pursuant to private placement	5,000,000	2,661,223	–	536,881	–	3,198,104	–	3,198,104
Issuance of shares pursuant to share options plan	32,000	14,714	–	(5,114)	–	9,600	–	9,600
Repurchase of shares pursuant to normal course issuer bid	(2,051,400)	(1,377,244)	–	–	–	(1,377,244)	–	(1,377,244)
Transfer of equity component of convertible debentures	–	–	(284,490)	284,490	–	–	–	–
Share-based compensation	–	–	–	155,141	–	155,141	–	155,141
Net income and comprehensive income	–	–	–	–	1,038,993	1,038,993	–	1,038,993
Balance, December 31, 2017	63,775,850	32,864,287	–	3,573,406	15,305,581	51,743,274	254,641	51,997,915
Changes during the period:								
Repurchase of shares pursuant to normal course issuer bid	(1,127,000)	(744,373)	–	–	–	(744,373)	–	(744,373)
Share-based compensation	–	–	–	77,298	–	77,298	–	77,298
Net income and comprehensive income	–	–	–	–	1,257,391	1,257,391	–	1,257,391
Balance, March 31, 2018	62,648,850	\$ 32,119,914	\$ –	\$ 3,650,704	\$ 16,562,972	\$ 52,333,590	\$ 254,641	\$ 52,588,231

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

TERRA FIRMA CAPITAL CORPORATION

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

	Three months ended	
	March 31, 2018	March 31, 2017
Cash provided by (used in):		
Operating activities:		
Net income and comprehensive income	\$ 1,257,391	\$ 484,812
Interest and fees earned	(3,497,072)	(3,966,244)
Unrealized foreign exchange gain	(913,376)	(112,436)
Interest expense and financing costs	2,042,587	2,327,061
Non-cash items:		
Share-based compensation (note 14(c))	26,976	280,721
Income tax provision	481,406	207,318
Changes in working capital:		
Decrease (increase) in other receivables	73,359	(234,597)
Decrease (increase) in prepaid expenses and deposits	(2,032)	174,826
Increase in accounts payable and accrued liabilities	1,033,377	1,222,859
Interest and fees received	2,064,391	2,865,680
Interest paid	(1,818,686)	(1,439,110)
Income taxes paid	(226,000)	(420,000)
Cash provided by operating activities	522,321	1,390,890
Financing activities:		
Proceeds from loan and mortgage syndications	3,931,376	27,457,208
Repayments of loan and mortgage syndications	(2,958,787)	(3,458,722)
Repayments of mortgages payable	(10,828)	(10,403)
Proceeds from revolving operating facility	—	2,500,000
Proceeds from construction loan payable (note 7(e))	—	5,065,000
Repayment to joint operations partner (note 7(d))	—	(5,869,749)
Repurchase of shares pursuant to normal course issuer bid	(744,373)	(224,225)
Cash provided by financing activities	217,388	25,459,109
Investing activities:		
Funding of loan and mortgage investments	(9,005,753)	(28,152,241)
Repayments of loan and mortgage investments	5,056,709	9,137,967
Increase in funds held in trust	(1,038,256)	(399,136)
Return of capital of portfolio investment	6,000,000	—
Capital additions to land under development (note 7(c))	—	(818,430)
Cash provided by (used in) investing activities	1,012,700	(20,231,840)
Increase in cash and cash equivalents	1,752,409	6,618,159
Cash and cash equivalents, beginning of period	2,691,049	12,315,242
Cash and cash equivalents, end of period	\$ 4,443,458	\$ 18,933,401

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

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

1. Reporting entity:

Terra Firma Capital Corporation (the "Company") was incorporated under the Ontario Business Corporations Act on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") 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 properties, for such development or redevelopment, properties repairs or the purchase of investment properties.

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 as well as Interpretation of International Financial Reporting Interpretations Committee. 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, 2017.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

3. Significant accounting policies:

The condensed interim consolidated financial statements for the period ended March 31, 2018 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, 2017, except for new standards adopted during the three months ended March 31, 2018, as described below:

(a) Revenue from Contracts with Customers ("IFRS 15"):

The Company adopted IFRS 15 with a date of initial application of January 1, 2018. IFRS 15 provides a single model of accounting for revenue arising from contracts with customers based on the identification and satisfaction of performance obligations, and revenue from contracts with customers will be distinguished from other sources and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue ("IAS 18") and IAS 11, Construction contracts and related interpretations. The Company's revenue recognition under IFRS 15 is consistent with the timing of revenue recognition in accordance with the previous standard, IAS 18. The adoption of IFRS 15 had no material impact on the Company's financial statements.

(b) Financial Instruments - Classification and Measurement ("IFRS 9"):

Effective 1 January 2018, the Company adopted IFRS 9. Consequent upon adoption of IFRS 9, the Company's accounting policies were changed in the areas outlined below, and these new policies became applicable from January 1, 2018. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results. Accordingly, all comparative period information is presented in accordance with the Company's previous accounting policies, as described in the Company's consolidated financial statements as at and for the year ended December 31, 2017. Adjustments to carrying amounts of financial assets and liabilities at the date of initial application, if applicable were recognized in opening retained earnings and other components of equity in the current period. New or amended interim disclosures have been provided for the current period, where applicable, and comparative period disclosures are consistent with those made in the prior year.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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3. Significant accounting policies (continued):

Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost based on the Company's business model for managing the financial instruments and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortized cost and the asset is not designated as FVTPL, if both of the following conditions are met: (a) When the asset is held within a business model that is held-to-collect ("HTC") as described below, and (b) when the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

All other debt instruments are measured at FVTPL.

Business model assessment:

The Company determines the business models at the level that best reflects how portfolios of financial assets are managed to achieve the Company's business objectives. Judgment is used in determining the business models, which is supported by relevant, objective evidence including:

- how the economic activities of the Company's businesses generate benefits, for example through enhancing yields, trading revenue, or other costs and how such economic activities are evaluated and reported to key management personnel;
- the significant risks affecting the performance of the Company's businesses, for example, market risk, credit risk, or other risks and the activities undertaken to manage those risks; and
- historical and future expectations of sales of the loan and mortgage investments or securities portfolios managed as part of a business model.

TERRA FIRMA CAPITAL CORPORATION

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

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3. Significant accounting policies (continued):

The Company's business models fall into two categories, which are indicative of the key strategies used to generate returns:

- HTC - The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.
- Other fair value business model - The business model is neither HTC nor hold-to-collect-and-sell ("HTC&S"), and primarily represent business model where assets are managed on a fair value basis.

SPPI assessment:

Instruments held within a HTC business model are assessed to evaluate if their contractual cash flows are comprised of SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

3. Significant accounting policies (continued):

Loan and mortgage investments are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. Loan and mortgage investments carried at amortized cost are measured using the effective interest rate (the "EIR") method, and are presented net of any allowance for credit losses, calculated in accordance with the Company's policy for allowance for credit losses ("ACL"), as described below. Interest on loan and mortgage investments is recognized in interest income using the EIR method. The estimated future cash flows used in this calculation include those determined by the contractual term of the loan and mortgage investment and all fees that are considered to be integral to the EIR. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loan and mortgage investments using the EIR method. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the consolidated statements of income. Impairment gains or losses recognized on amortized cost investments are loans are recognized at each balance sheet date in accordance with the three-stage impairment model outlined below.

The Company currently has no financial assets measured at FVOCI.

Equity instruments:

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase. For equity instruments measured at FVTPL, changes in fair value are recognized as part of non-interest income in the consolidated statements of income.

ACL:

An ACL is established for all financial instruments, except for financial instruments and equity instruments classified or designated as FVTPL, which are not subject to impairment assessment. Financial instruments subject to impairment assessment are carried at amortized cost and presented net of ACL in the consolidated statement of financial position. ACL on loan and mortgage investments is presented in provision for loan and mortgage investment loss.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

3. Significant accounting policies (continued):

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments.

The Company measures the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

(i) Performing financial instrument:

- Stage 1 - From initial recognition of a financial instrument to the reporting date, where the instrument has not experienced a significant increase in credit risk ("SIR") relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2 - When a financial instrument experiences a SIR subsequent to initial recognition but is not considered to be in default, a loss allowance is recognized equal to the credit losses expected over the remaining lifetime of the asset.

(ii) Impaired financial instrument:

- Stage 3 - When a financial instrument is considered to be credit-impaired, a loss allowance is recognized equal to credit losses expected over the remaining lifetime of the instrument. Interest is calculated based on the carrying amount of the instrument, net of the loss allowance, rather than on its gross carrying amount.

Measurement of expected credit losses:

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") and discounted to the reporting date.

TERRA FIRMA CAPITAL CORPORATION

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

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3. Significant accounting policies (continued):

Details of the statistical parameters used in the measurement of expected credit losses are as follows:

- PD - The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the instrument has not been previously derecognized and is still in the portfolio.
- EAD - The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modeled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward looking information. Expected credit losses are discounted to the reporting period date using the EIR.

Assessment of significant increase in credit risk:

The assessment of SIR requires significant judgment. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit assessment risk at the reporting date has increased significantly relative to the date it was initially recognized.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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3. Significant accounting policies (continued):

At each reporting date, the Company assesses whether there has been a SIR for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macro-economic factors, management judgment and delinquency monitoring.

The common assessments for SIR on loan and mortgage investments include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a SIR. Qualitative factors may be assessed to supplement the gap. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Use of forward-looking information:

The measurement of expected credit losses for each stage and the assessment of SIR considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Macroeconomic factors:

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic factors (or changes in macroeconomic factors) that are most closely correlated with credit losses in the relevant loan and mortgage investment. In its models, the Company relies on forward looking information as economic inputs. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using credit judgement.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

3. Significant accounting policies (continued):

Definition of default:

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. The Company considers that default occurs when the borrower is more than 90 days past due on any material obligation to the Company, and/or the Company considers the borrower unlikely to make their payments in full without recourse action on the Company's part, such as taking formal possession of any collateral held. The Company also considers certain events such as probability of the borrower entering a phase of bankruptcy or a financial reorganization and measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan, which may result in default. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3):

Financial assets are assessed for credit-impairment at each balance sheet date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired as described above. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the migration from Stage 3 to Stage 2 as described above.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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3. Significant accounting policies (continued):

Modified financial assets:

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes expected to result. Modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset. Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a de-recognition of the original financial asset and recognition of a new financial asset.

If a modification of terms does not result in de-recognition of the financial asset, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original EIR and a gain or loss is recognized. The financial asset continues to be subject to the same assessments for SIR relative to initial recognition and credit impairment, as described above. A modified financial asset will migrate out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognized. A modified financial asset will migrate out of Stage 2 when it no longer satisfies the relative thresholds set to identify SIR, which are based on changes in its lifetime PD, days past due and other qualitative considerations.

If a modification of terms results in de-recognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for SIR, the date of initial recognition for the new financial asset is the date of the modification.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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3. Significant accounting policies (continued):

Write-off policy:

The Company writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the consolidated statements of income.

Hedge accounting:

The Company does not have any hedges.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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4. Impact of adoption of IFRS 9:

(a) Mandatory reclassifications:

The combined application of the business model and SPPI tests on adoption of IFRS 9 resulted in the reclassification of the following financial assets and liabilities:

	IFRS 9 January 1, 2018		IAS 39 December 31, 2017	
	Measurement basis	Carrying amount	Measurement basis	Carrying amount
Assets				
Loan and mortgage investments	Amortized cost	\$ 118,998,984	Loans and receivables	\$ 118,998,984
Funds held in trust	Amortized cost	3,014,606	Loans and receivables	3,014,606
Amounts receivable and prepaid expenses	Amortized cost	3,055,193	Loans and receivables	3,055,193
Cash and cash equivalents	Amortized cost	2,691,049	Loans and receivables	2,691,049
Portfolio investments	FVTPL	13,575,623	FVTPL	13,575,623
Investment in associates	FVTPL	2,927,842	FVTPL	2,927,842
Income taxes recoverable	Amortized cost	300,667	Loans and receivables	300,667
Deferred income tax asset	Amortized cost	126,283	Loans and receivables	126,283
Liabilities				
Accounts payable and accrued liabilities	Amortized cost	6,236,233	Other liabilities	6,236,233
Unearned income	Amortized cost	1,505,576	Other liabilities	1,505,576
Revolving operating facility	Amortized cost	18,965,205	Other liabilities	18,965,205
Loan and mortgage syndications	Amortized cost	63,299,522	Other liabilities	63,299,522
Mortgages payable	Amortized cost	1,469,844	Other liabilities	1,469,844

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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4. Impact of adoption of IFRS 9 (continued):

(b) Presentation of the statements of financial position:

The adoption of the IFRS 9 impairment, and classification and measurement requirements did not result in any changes to the Company's consolidated statements of financial position, presented under IAS 39.

(c) ACL:

The following table is a comparison of impairment allowances determined in accordance with IAS 39 and IAS 37 to the corresponding impairment allowance determined in accordance with IFRS 9 as at January 1, 2018:

	Impairment allowance under IAS 39 as at December 31, 2017	Remeasurement	Impairment allowance under IFRS 9 as at January 1, 2018
Loan and mortgage investments	\$ 931,478	\$ –	\$ 931,478
Amounts receivable and prepaid expenses	1,591,883	–	1,591,883
	<u>\$ 2,523,361</u>	<u>\$ –</u>	<u>\$ 2,523,361</u>

5. Amounts receivable and prepaid expenses:

The following table presents details of the amounts receivable and prepaid expenses as at March 31, 2018:

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 1,542,468	\$ (812,016)	\$ 730,452
Other receivables	1,279,907	(779,867)	500,040
Prepaid expenses and deposits	120,854	–	120,854
Amounts receivable and prepaid expenses	<u>\$ 2,943,229</u>	<u>\$ (1,591,883)</u>	<u>\$ 1,351,346</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

5. Amounts receivable and prepaid expenses (continued):

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

	Gross carrying amount	ACL	Net carrying amount
Interest receivable	\$ 1,583,105	\$ (812,016)	\$ 771,089
Other receivables	1,353,266	(779,867)	573,399
Prepaid expenses and deposits	118,822	–	118,822
Amounts receivable and prepaid expenses	\$ 3,055,193	\$ (1,591,883)	\$ 1,463,310

As at March 31, 2018 and December 31, 2017, interest receivable from loan investments to entities controlled by a Canadian borrower (the "Borrower") that are in arrears are \$1,332,749, and \$1,330,833, respectively. As at March 31, 2018 and December 31, 2017, other receivables relating to legal fees incurred on the collection of loan investments to entities controlled by the Borrower are \$1,102,935 and \$1,056,970, respectively.

Included in interest receivable at March 31, 2018 are non-current balances of \$16,977 (December 31, 2017 - \$33,040). The remaining interest and other receivables are current and due in the next 12 months in accordance with contract terms.

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

As at March 31, 2018 and December 31, 2017, the Company had principal balances of loan and mortgage investments of \$126,544,264 and \$118,998,984, respectively. The loan and mortgage investments carry a weighted average EIR of 14.1% (December 31, 2017 - 14.1%) and a weighted average term to maturity of 1.72 years (December 31, 2017 - 1.85 years).

TERRA FIRMA CAPITAL CORPORATION

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

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

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. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income.

Since the loan and mortgage investments are initially advanced by the Company and syndicated at a later date, the Company accounts for loan and mortgage investments on a gross basis. The principal balances of loan and mortgage syndications included in the loan and mortgage loan investments at March 31, 2018 and December 31, 2017 were \$65,866,899 and \$63,299,522, respectively. The loan and mortgage syndications carry a weighted average EIR of 10.5% (December 31, 2017 - 10.2 %) and a weighted average term to maturity of 1.67 years (December 31, 2017 - 1.74 years).

The following table presents details of the loan and mortgage investments and loan and mortgage syndications as at March 31, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	\$ 18,551,159	\$ (11,284)	\$ 18,539,875	\$ 12,096,217	\$ 6,443,658	11.0
Land and lot inventory	90,014,630	(548,487)	89,466,143	53,770,682	35,695,461	60.6
Commercial retail development	6,129,195	(31,021)	6,098,174	–	6,098,174	10.4
	114,694,984	(590,792)	114,104,192	65,866,899	48,237,293	82.0
Impaired loans:						
Residential housing developments	11,849,280	(1,241,971)	10,607,309	–	10,607,309	18.0
	\$ 126,544,264	\$ (1,832,763)	\$ 124,711,501	\$ 65,866,899	\$ 58,844,602	100.0

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(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, 2017:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Performing loans:						
Residential housing developments	\$ 20,791,677	\$ (22,904)	\$ 20,768,773	\$ 12,916,020	\$ 7,852,753	14.6
Land and lot inventory	86,412,191	(567,888)	85,844,303	50,383,502	35,460,801	65.8
	107,203,868	(590,792)	106,613,076	63,299,522	43,313,554	80.4
Impaired loans:						
Residential housing developments	11,795,116	(1,241,971)	10,553,145	–	10,553,145	19.6
	\$ 118,998,984	\$ (1,832,763)	\$ 117,166,221	\$ 63,299,522	\$ 53,866,699	100.0

For the three months ended March 31, 2018, the Company has one loan and mortgage investment in the U.S, before syndication, that accounts for 16.3% of the Company's total interest and fees revenue. As at March 31, 2018, there are three loans in the U.S., before syndication, that account for 12.8%, 12.5% and 11.4% of the principal balance of loan and mortgage investments. For the three months ended March 31, 2017, the Company has one loan and mortgage investments in the U.S, before syndication, that accounts for 14.8% of the Company's total interest and fees revenue. As at March 31, 2017, there is one loan in the U.S., before syndication, that accounts for 12.8% of the principal balance of loan and mortgage investments.

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, 2018 and 2017, the Company capitalized interest income of \$1,103,054 and \$492,599, 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, 2018 were \$47,925,045, including \$15,203,687 of capitalization of future interest relating to existing loan and mortgage investments (December 31, 2017 - \$46,714,363, including \$13,988,176 of capitalization of future interest relating to existing loan and mortgage investments).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(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 and mortgage investments segmented by geography as at March 31, 2018:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 32,400,439	\$ (1,256,104)	\$ 31,144,335	\$ 13,596,217	\$ 17,548,118	29.8
United States	94,143,825	(576,659)	93,567,166	52,270,682	41,296,484	70.2
	\$ 126,544,264	\$ (1,832,763)	\$ 124,711,501	\$ 65,866,899	\$ 58,844,602	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, 2017:

	Loan and mortgage investments	ACL	Net loan and mortgage investments	Loan and mortgage syndications	Net investments	% of net investments
Canada	\$ 34,586,791	\$ (1,267,662)	\$ 33,319,129	\$ 14,416,021	\$ 18,903,108	35.1
United States	84,412,193	(565,101)	83,847,092	48,883,501	34,963,591	64.9
	\$ 118,998,984	\$ (1,832,763)	\$ 117,166,221	\$ 63,299,522	\$ 53,866,699	100.0

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications, for which ECL allowance is recognized as at March 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 6,454,942	\$ –	\$ 11,849,280	\$ 18,304,222
Land and lot inventory	36,243,948	–	–	36,243,948
Commercial retail development	6,129,195	–	–	6,129,195
	\$ 48,828,085	\$ –	\$ 11,849,280	\$ 60,677,365

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

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

The following table presents details the Company's credit exposure on the gross carrying amount of loan and mortgage investments, net of loan and mortgage syndications segmented by geography, for which ECL allowance is recognized as at March 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 6,954,942	\$ –	\$ 11,849,280	\$ 18,804,222
United States	41,873,143	–	–	41,873,143
	\$ 48,828,085	\$ –	\$ 11,849,280	\$ 60,677,365

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
Remainder of year	\$ –	\$ 46,547,324	\$ 46,547,324
2019	–	23,964,200	23,964,200
2020	–	29,514,991	29,514,991
2021	–	10,642,283	10,642,283
2022	–	15,875,466	15,875,466
	\$ –	\$ 126,544,264	\$ 126,544,264

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

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

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

	Scheduled principal payments	Loans maturing during the year	Total loan and mortgage syndications
Remainder of year	\$ —	\$ 26,438,676	\$ 26,438,676
2019	—	14,644,571	14,644,571
2020	—	8,461,549	8,461,549
2021	—	8,564,060	8,564,060
2022	—	7,758,043	7,758,043
	\$ —	\$ 65,866,899	\$ 65,866,899

Allowance for loan and mortgage investments loss:

At March 31, 2018, four project loan investments totaling \$14,284,964 (December 31, 2017 - \$14,182,918), including interest receivable on these loans and fees incurred relating to collection of these loans totaling \$2,435,684 (December 31, 2017 - \$2,387,802), to projects owned by entities controlled by the Borrower are in arrears. The foreclosure process has commenced and is proceeding on these project loans to enforce the security. As at March 31, 2018 and December 31, 2017, based on the most recent valuations of the underlying assets and managements estimates, the Company carries an allowance for credit loss balance of \$1,241,971 relating to certain loan and mortgage investments in arrears.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

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

The changes in the ACL on loan and mortgage investments during the three months ended March 31, 2018 were as follows:

	IFRS 9				Balance at March 31, 2018
	Balance at January 1, 2018	Provision for credit losses	Net write offs	Other adjustments	
Residential housing developments	\$ 1,264,875	\$ (11,620)	\$ –	\$ –	\$ 1,253,255
Land and lot inventory	567,888	(19,401)	–	–	548,487
Commercial retail development	–	31,021	–	–	31,021
	<u>\$ 1,832,763</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,832,763</u>

The following table presents the changes in the Company's ACL between the beginning and the end of the period:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of period	\$ 590,792	\$ –	\$ 1,241,971	\$ 1,832,763
Provision for credit losses:				
Remeasurement	–	–	–	–
Transfer to (from):				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
	<u>\$ 590,792</u>	<u>\$ –</u>	<u>\$ 1,241,971</u>	<u>\$ 1,832,763</u>

The following table presents details the Company's ACL on loan and mortgage investments as at March 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 11,284	\$ –	\$ 1,241,971	\$ 1,253,255
Land and lot inventory	548,487	–	–	548,487
Commercial retail development	31,021	–	–	31,021
	<u>\$ 590,792</u>	<u>\$ –</u>	<u>\$ 1,241,971</u>	<u>\$ 1,832,763</u>

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

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

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at March 31, 2018:

IFRS 9	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 25,691	\$ –	\$ 1,241,971	\$ 1,267,662
United States	565,101	–	–	565,101
	\$ 590,792	\$ –	\$ 1,241,971	\$ 1,832,763

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 an option to purchase a 50% interest in the Valermo Homes JV, owned by affiliates of the Company's borrower. Valermo Homes JV is a residential real estate development consisting of approximately 98 residential dwelling units. The Company through Terra Firma Valermo Corporation (the "TFVC"), owned a 50% interest in the Valermo Homes JV.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

7. Joint arrangements (continued):

On December 28, 2017, the co-owners of the Valermo Homes JV entered into a limited partnership (the "Valermo Partnership") agreement (the "Valermo LP Agreement") and agreed to transfer their respective interest in the Valermo Homes JV into the Valermo Partnership and hold their respective interests as limited partners of the Valermo Partnership. On the transfer of interest made as of December 31, 2017, TFVC relinquished control of the project and TFVC now accounts for its interest in the Valermo Partnership as a portfolio investment (note 8).

The fair value of the TFVC's interest in the identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of transfer of interest to the Valermo Partnership is, as follows:

	Total
Net assets of the Valermo Homes JV transferred:	
Land under development	\$ 33,188,172
Amounts receivable and prepaid expenses	488,601
Cash and cash equivalents	4,286
Loan and mortgage investments	(870,389)
Due to joint operations partner (note 7(d))	(1,043,549)
Construction loan payable (note 7(e))	(15,070,000)
Accounts payable and accrued liabilities	(6,889,835)
Value of assets transferred on conversion to partnership interest	\$ 9,807,286
Partnership interest in the Valermo Partnership received:	
Investment in the Valermo Partnership	\$ 9,807,286
Value of investment received on conversion	\$ 9,807,286

The carrying value of TFVC's interest in identifiable assets transferred and liabilities assumed in the Valermo Homes JV at the date of conversion of interest in joint operations to limited partnership interest in the Valermo Partnership was \$7,404,290. The Company recognized a gain on conversion of interest in joint operations to limited partnership interest in the Valermo Partnership of \$2,402,996.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(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, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 69,475	\$ 63,090
Amounts receivable and prepaid expenses	113,797	108,142
Investment property	2,208,694	2,208,694
	2,391,966	2,379,926
Liabilities		
Accounts payable and prepaid expenses	46,625	46,625
Mortgages payable	1,459,720	1,469,844
	1,506,345	1,516,469
Net assets	\$ 885,621	\$ 863,457

The table below details the results of operations for the three months ended March 31, 2018 and 2017, attributable to the Company from its joint operations:

	Three months ended	
	March 31, 2018	March 31, 2017
Revenue:		
Rental revenue	\$ 50,444	\$ 50,444
Expenses (income):		
Property operating costs	17,266	17,331
General and administrative expenses	(247)	50,601
Interest expense	11,260	10,994
	28,279	78,926
Net income (loss)	\$ 22,165	\$ (28,482)

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(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.

At March 31, 2018 and December 31, 2017, the fair value was determined by the Company's management. 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 capitalization rate used in the valuation of property was 6.25% (December 31, 2017 - 6.25%). At March 31, 2018 and December 31, 2017, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$2,208,694.

As at March 31, 2018 and December 31, 2017, 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.

(c) Land under development:

The Company's land under development was held in joint operations through the Valermo Homes JV, until December 31, 2017, when the Company converted its interest in the Valermo Homes JV into limited partnership units (note 8).

TERRA FIRMA CAPITAL CORPORATION

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

The following table summarizes the changes in the Company's proportionate share of the land under development for the periods ended March 31, 2018 and 2017:

Balance, December 31, 2016	\$ 23,808,574
Additions, capital expenditures	818,430
Balance, March 31, 2017	24,627,004
Additions, capital expenditures	6,158,172
Conversion to portfolio investment	(30,785,176)
Balance, December 31, 2017	–
Balance, March 31, 2018	\$ –

(d) Due to joint operations partner:

The Company's due to joint operations was in Valermo Homes JV, until December 31, 2017, when the Company converted its interest into limited partnership units.

The co-ownership agreement did not require the Company to make additional capital contributions in respect of expenses or development costs and the development partner loaned the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest was calculated using the formula specified in the co-ownership agreement.

On December 28, 2017, TFVC's share of due to joint operations partners assumed by the Valermo Partnership at the date of conversion of interest in the Valermo Homes JV to limited partnership interest in the Valermo Partnership was \$1,043,549. At March 31, 2018 and December 31, 2017, the amount due to the joint operations partner is nil.

(e) Construction loan payable:

The Company's construction loan payable was held in joint operations through the Valermo Homes JV, until December 31, 2017, when the Company converted its interest in Valermo Homes JV into limited partnership units.

TERRA FIRMA CAPITAL CORPORATION

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

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Facilities") with a lending institution for \$65,600,000 to finance the construction of homes. Interest on advanced funds under the Facilities carried an interest rate of prime plus 0.75% per annum.

On December 28, 2017, the construction loan payable assumed upon conversion of the Valermo Homes JV into the Valermo Partnership was \$15,070,000. At March 31, 2018 and December 31, 2017, the construction loan payable was nil.

(f) Mortgages payable:

The Company's share of the mortgages payable held in joint operations through the Montreal Street JV, at March 31, 2018 and December 31, 2017 was \$1,469,325 and \$1,480,153, respectively. The mortgages bear interest at 3.0% per annum, and are amortized over 25 years and mature on July 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
Mortgage principal	\$ 1,469,325	\$ 1,480,153
Unamortized financing costs	(9,605)	(10,309)
	<u>\$ 1,459,720</u>	<u>\$ 1,469,844</u>

Scheduled principal repayments and maturity amounts of mortgages payable at March 31, 2018 are as follows:

	Loans scheduled principal payments	Total maturing during the period	Loans and mortgages payable
Remainder of year	\$ 32,975	\$ —	\$ 32,975
2019	45,138	—	45,138
2020	46,513	—	46,513
2021	23,785	1,320,914	1,344,699
	<u>\$ 148,411</u>	<u>\$ 1,320,914</u>	<u>\$ 1,469,325</u>

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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8. Portfolio investments:

- (a) The Company has invested through the Terra Firma Capital (Hill) Corporation (the "Hill"), in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at FVTPL. As at March 31, 2018, the cost of the investment is \$954,630 (December 31, 2017 - \$954,630), and the cost of the investment in the Hill owned by an outside party is \$200,000 (December 31, 2017 - \$200,000). At March 31, 2018 and December 31, 2017, the fair values were determined by management, using the direct comparison method. The fair value of the investment at March 31, 2018 and December 31, 2017 was \$1,174,212 and the investment owned by an outside party of \$254,641 is included in non-controlling interest.
- (b) 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 FVTPL. As at March 31, 2018, TFCC LanQueen Ltd. contributed \$1,724,000 (December 31, 2017 - \$1,724,000) in the partnership. At March 31, 2018 and December 31, 2017, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at March 31, 2018 and December 31, 2017 was \$2,450,488.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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8. Portfolio investments (continued):

(c) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest U.S. \$2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after partnership making Savannah Partnership making distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at TVTPL. On September 20, 2017, TFCC International Ltd. contributed \$245,460 (U.S. \$200,000) to the Savannah Partnership. On December 1, 2017, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$101,823 (U.S. \$80,000). As at December 31, 2017, the cost of the investment in the Savannah Partnership is \$143,637 (U.S. \$120,000) (2016 - nil (U.S. nil)). At March 31, 2018 and December 31, 2017, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Savannah Partnership at March 31, 2018 and December 31, 2017 was \$143,637.

TFCC International Ltd. also committed to provide a first mortgage loan up to U.S. \$18,000,000, including capitalization of interest, to the Savannah Project at the rate of 11% per annum calculated and compounded monthly. As at March 31, 2018, TFCC International Ltd. had a loan investment balance of \$15,875,466 (U.S. \$12,316,110) (December 31, 2017 - \$14,707,685 (U.S. \$11,699,964)) and syndicated \$7,758,043 (U.S. \$6,018,653) of the loan investment to investors (December 31, 2017 - \$5,875,990 (U.S. \$4,674,242)).

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
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8. Portfolio investments (continued):

(d) On December 28, 2017, TFVC entered into the Valermo LP Agreement and transferred its interest in the Valermo Homes JV in exchange for limited partnership units in the Valermo Partnership (note 7). The fair value of TFVC's interest in identifiable assets and liabilities transferred at the date of conversion of interest in the Valermo Homes JV to a 50% limited partnership interest in the Valermo Partnership was \$9,807,286. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. On January 30, 2018, the Company received a return of capital in the Valermo Partnership of \$6,000,000. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at March 31, 2018, after repayment of \$6,000,000, was \$3,807,286 (December 31, 2017 - \$9,807,286).

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2018 and 2017:

Balance, December 31, 2016	\$ 3,212,084
Balance, March 31, 2017	3,212,084
Investment made	245,460
Conversion of interest in joint operations to limited partnership units	9,807,286
Sale of investment	(101,823)
Fair value adjustment	412,616
Balance, December 31, 2017	13,575,623
Return of investment	(6,000,000)
Balance, March 31, 2018	\$ 7,575,623

The following table presents details of the portfolio investments as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Investment in the Hill Partnership	\$ 1,174,212	\$ 1,174,212
Investment in the Lanqueen Partnership	2,450,488	2,450,488
Investment in the Valemo Partnership	3,807,286	9,807,286
Investment in the Savannah Partnership	143,637	143,637
	\$ 7,575,623	\$ 13,575,623

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

9. Investment in associates:

The Company, together with certain syndicate investors had 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, 2018 and December 31, 2017, the Company's share of the investment in the Lan Partnership, was \$2,315,414.

At March 31, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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, 2018 was \$2,927,842 (December 31, 2017 - \$2,927,842).

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2018 and 2017:

Balance, December 31, 2016	\$ 2,315,414
Balance, March 31, 2017	2,315,414
Share of income from Lan Partnership	612,428
Balance, December 31, 2017	2,927,842
Balance, March 31, 2018	\$ 2,927,842

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
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10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Interest payable	\$ 644,404	\$ 647,152
Interest reserve	2,467,765	2,356,821
Accounts payable, accrued liabilities and provisions	2,605,581	1,574,646
Share-based compensation payable (note 14(c)(ii))	1,607,292	1,657,614
Accounts payable and accrued liabilities	\$ 7,325,042	\$ 6,236,233

Accounts payable and accrued liabilities are current and payable in the next 12-month period.

11. Revolving operating facility:

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a \$10,000,000 secured revolving loan facility (the "Facility") that matured on May 1, 2017. Interest on advanced funds under the Facility was 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility was 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 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 allowed the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

On August 15, 2017, the Company amended the Facility Agreement (the "Amendment"), primarily to increase the credit limit to \$20,000,000 and to extend the maturity date to March 1, 2018. The Amendment also provides the Company an option to extend the Facility for a subsequent six-months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until the maturity. Any unpaid balance after maturity date will carry an interest rate of 12% per annum, until repaid.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
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11. Revolving operating facility (continued):

In connection with the Amendment to extend the maturity date of the Facility to March 1, 2018, the Company incurred lender and other third-party costs of \$142,138. The costs associated with the Amendment have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

During the period ended March 31, 2018 and 2017, the Company borrowed an aggregate of nil and \$2,500,000, respectively and repaid nil and nil, respectively, against the Facility.

On March 1, 2018, the Company exercised its option to extend the term of the Facility for another six months for a maturity date to September 1, 2018. The Company paid Facility extension fee of \$100,000. The extension fee has been deferred and is being amortized over the extension term of the Facility

For the three months ended March 31, 2018 and 2017, amortization of deferred financing costs reported as interest and financing costs totaled \$51,434 and \$25,739, respectively.

The following table presents details of the revolving operating facility as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Face value	\$ 19,000,000	\$ 19,000,000
Unamortized financing costs	(83,361)	(34,795)
Revolving operating facility	\$ 18,916,639	\$ 18,965,205

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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12. Convertible debentures:

The Company had unsecured subordinated convertible debentures (the "Debentures") in the principal amount of \$10,850,000. The Debentures bore interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and were to mature on September 27, 2017. The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of \$10,486,460 (net of transaction costs of \$76,962) and the equity component was assigned a value of \$284,490 (net of transaction costs of \$2,088). The EIR of the Debentures is 8.53%.

On September 12, 2017, the Company repaid in cash, all outstanding Debentures in the aggregate principal amount of \$10,850,000 plus all accrued and unpaid interest owed.

The following table summarizes the changes in the Debentures for the three months ended March 31, 2018 and 2017:

Liability component of Debentures, December 31, 2016	\$ 10,754,259
Interest expensed at EIR of 8.53%	219,321
Interest paid	(187,274)
<hr/>	
Liability component of Debentures, March 31, 2017	10,786,306
Interest expensed at EIR of 8.53%	407,030
Interest paid	(343,336)
Repayment of Debentures	(10,850,000)
<hr/>	
Liability component of Debentures, December 31, 2017	–
<hr/>	
Liability component of debentures, March 31, 2018	\$ –

On September 12, 2017, upon repayment of the Debentures, the Company transferred the assigned equity component value of \$284,490 to contributed surplus (note 15).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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13. Commitments and contingencies:

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing lending agreements at March 31, 2018 were \$47,925,045 (December 31, 2017 - \$46,714,363).

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, 2018, are as follows:

Remainder of year	\$ 166,339
2019	221,785
2020	221,785
	<hr/>
	\$ 609,909

As at December 31, 2017, the Company has a guarantee outstanding on the construction loan payable in the Valermo Partnership to a third party lender (note 7(e)).

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

Three months ended March 31, 2018 and 2017
(Unaudited)

14. Shareholders' equity:

(a) Shares issued and outstanding:

The following table summarizes the changes in shares for the three months ended March 31, 2018 and 2017:

	Shares	Amount
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
Issuance of shares pursuant to private placement	5,000,000	2,661,223
Issuance of shares pursuant to share option plan	32,000	9,600
Repurchase of shares pursuant to normal course issuer bid	(2,051,400)	(1,377,244)
Transferred from contributed surplus upon exercise of options	–	5,114
Outstanding, December 31, 2017	63,775,850	32,864,287
Repurchase of shares pursuant to normal course issuer bid	(1,127,000)	(744,373)
Outstanding, March 31, 2018	62,648,850	\$ 32,119,914

On August 15, 2017, the Company completed a non-brokered private placement offering consisting of 5,000,000 units (the "Units") at a purchase price of \$0.65 per Unit, for gross proceeds of \$3,250,000. Each Unit is comprised of one Share and one warrant (a "Warrant") (note 14(d)). Each Warrant is exercisable for one Share at a price of \$0.85 per Share, with an expiry date of August 15, 2020. The Company incurred share issuance costs of \$51,896, consisting of cash costs of \$70,607, offset by a deferred tax benefit of \$18,711.

On December 19, 2017, a director of the Company exercised 32,000 options that had been granted to purchase the Shares at \$0.30 per share. The consideration of \$9,600 received on exercising the options was recorded as share capital and the related contributed surplus of \$5,114 was transferred to share capital (note 15).

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

14. Shareholders' equity (continued):

(b) Normal course issuer bid:

On November 14, 2017, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 3, 2017 (the Prior NCIB"), the Company renewed its NCIB. Under the terms of the renewed NCIB, the Company may be permitted to acquire up to 4,255,765 Shares, being 10% of the public float of common shares issued and outstanding as of November 14, 2017, as defined by the policies of the TSX-V. The renewed NCIB commenced through the TSX-V on November 16, 2017 and will conclude on the earlier of (i) November 15, 2018, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the renewed NCIB, or (iii) the Company providing a notice of termination to the TSX-V.

The Prior NCIB commenced on November 4, 2016, permitted the Company to purchase up to an aggregate maximum of 1,907,413 Shares. On June 30, 2017, the TSX-V approved the amendment to the Prior NCIB to increase the number of Shares that the Company may acquire under the Prior NCIB by an additional 2,861,119 Shares. The Prior NCIB concluded on November 3, 2017.

During the three months ended March 31, 2018 and 2017, the Company purchased and cancelled 1,127,000 and 340,000 Shares, respectively, on TSX-V for \$744,373 and \$224,225, 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, 2018	March 31, 2017
Share option Plan	\$ 77,298	\$ 87,935
Deferred Share Unit Plan	(50,322)	192,786
	<u>\$ 26,976</u>	<u>\$ 280,721</u>

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(Unaudited)

14. Shareholders' equity (continued):

(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 TSX-V. 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.

On December 21, 2017, the Company granted options to certain officers and employees of the Company to purchase an aggregate of 340,000 Shares at \$0.67 per share, with the expiry date of December 21, 2024. Each of the option grants shall vest in equal instalments on a quarterly basis over a three-year period.

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 common shares of the Company at a price of \$0.69 per share with the expiry date of September 25, 2020. Each of the option grants shall vest in four equal instalments every three months.

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 21, 2017	September 25, 2017
Average expected life	7.00 years	3.00 years
Average risk-free interest rate	1.72%	1.65%
Average expected volatility	59.09%	48.70%
Dividend yield	0.00%	0.00%

The fair value of options granted on December 21, 2017 and September 25, 2017 were \$168,103, \$37,358, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

14. Shareholders' equity (continued):

The following is the summary of changes in share options for the three months ended March 31, 2018 and year ended December 31, 2017:

	March 31, 2018		December 31, 2017	
	Number of options	Weighted average	Number of options	Weighted average
Outstanding, beginning of period	5,001,671	\$ 0.70	5,278,671	\$ 0.67
Granted	–	–	440,000	0.67
Exercised	–	–	(32,000)	0.30
Cancelled	–	–	(100,000)	0.50
Expired	–	–	(585,000)	0.50
Outstanding, end of period	5,001,671	\$ 0.70	5,001,671	\$ 0.70
Number of options exercisable	4,313,375	\$ 0.70	4,295,367	\$ 0.70

The following summarizes the Company's outstanding share options as at March 31, 2018:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
106,667	April 17, 2018	106,667	\$ 0.30	\$ 0.25
50,000	February 23, 2019	50,000	0.50	0.42
515,000	May 20, 2019	515,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	1,050,000	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
100,000	September 25, 2020	50,000	0.69	0.69
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	233,370	0.65	0.65
340,000	December 21, 2024	28,334	0.67	0.67
5,001,671		4,313,375		

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(Unaudited)

14. 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 deferred share units (the "DSUs"). Except for the Chairman of the Board (the "Chairman"), 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.

TERRA FIRMA CAPITAL CORPORATION

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

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(Unaudited)

14. Shareholders' equity (continued):

The following is the summary of changes in DSUs for the three months ended March 31, 2018 and year ended December 31, 2017:

	March 31, 2018	December 31, 2017
DSUs outstanding, beginning of period	2,515,561	2,394,066
Granted	80,644	302,254
Settled	–	(173,925)
Cancelled	–	(6,834)
DSUs outstanding, end of period	2,596,205	2,515,561
Number of DSUs vested	2,551,258	2,474,051

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2018 and 2017, were (\$50,322) and \$192,786, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2018 is \$1,607,292 (December 31, 2017 - \$1,657,614).

(d) Warrants:

The Company completed a non-brokered private placement offering on August 15, 2017 of 5,000,000 Units comprised of 5,000,000 Shares and Warrants. Each Warrant is exercisable for one Share at a price of \$0.85 per Share, with an expiry date of August 15, 2020. The fair value of Warrants granted on August 15, 2017 was \$536,881.

TERRA FIRMA CAPITAL CORPORATION

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

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

	August 15, 2017
Average expected life	3.00 years
Average risk-free interest rate	1.27%
Average expected volatility	48.7%
Average dividend yield	—

15. Contributed surplus:

The following table presents the details of the contributed surplus balances as at March 31, 2018 and December 31, 2017:

Balance, December 31, 2016	\$ 2,514,073
Fair value of share-based compensation	87,935
Balance, March 31, 2017	2,602,008
Fair value of share-based compensation	155,141
Fair value of Warrants	536,881
Transferred to share capital on repayment of Debentures	284,490
Transferred to share capital on exercise of options	(5,114)
Balance, December 31, 2017	3,573,406
Fair value of share-based compensation	77,298
Balance, March 31, 2018	\$ 3,650,704

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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16. Earnings per share:

The calculation of earnings per share for the three months ended March 31, 2018 and 2017 is as follows:

	Three months ended	
	March 31, 2018	March 31, 2017
Numerator for basic and diluted earnings per share:		
Income attributable to common shareholders	\$ 1,257,391	\$ 484,812
Interest savings on Debentures, net of taxes	–	161,201
Diluted income attributable to common shareholders	\$ 1,257,391	\$ 646,013
Denominator basic and diluted earnings per share:		
Weighted average number of Shares outstanding	62,788,494	60,865,878
Dilutive effect of share-based payments	252,634	716,523
Assumed conversion of Debentures	–	15,069,444
Weighted average number of diluted Shares outstanding	63,041,128	76,651,845
Earnings per share:		
Basic	\$ 0.02	\$ 0.01
Diluted	0.02	0.01

17. 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, 2018 and December 31, 2017, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares.

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, 2018 and 2017, the Company recognized interest and fees revenue of \$54,938 and \$51,439, respectively. Subsequent to March 31, 2018, the Company received the repayment of the loan investment in full, together with accrued interest.

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(Unaudited)

17. 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, 2018, and December 31, 2017, the loan and mortgage investments and the Debentures syndicated by officers and directors was \$653,069 and \$614,690, 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, 2018, and 2017, the Company received \$23,073 and \$19,705, respectively, for the occupancy and office costs.

18. Interest and financing costs:

The following table presents the interest incurred for the three months ended March 31, 2018 and 2017:

	Three months ended	
	March 31, 2018	March 31, 2017
Interest on loans and mortgage syndications	\$ 1,528,643	\$ 1,835,916
Interest on revolving operating facility	502,684	260,830
Interest on debentures	–	219,321
Montreal Street JV	11,260	10,994
	<u>\$ 2,042,587</u>	<u>\$ 2,327,061</u>

19. Foreign exchange:

For the three months ended March 31, 2018 and 2017, the Company recorded a realized and unrealized foreign exchange gain of \$996,047 and \$197,291, respectively. During the three months ended March 31, 2018, the U.S. dollar strengthened by approximately 3% against the Canadian dollar from \$1.2571 to \$1.2890. As at March 31, 2018 and December 31, 2017, the U.S. dollar-denominated net monetary assets held by the Company were U.S. \$33,280,688 and U.S. \$27,476,532, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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20. Income taxes:

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

	Three months ended	
	March 31, 2018	March 31, 2017
Current income tax provision	\$ 198,496	\$ 208,754
Deferred income tax provision (recovery)	282,910	(1,436)
Total tax provision	\$ 481,406	\$ 207,318

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, 2018	March 31, 2017
Income from operations before income taxes	\$ 1,738,797	\$ 692,130
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	460,781	183,414
Increase in income tax due to:		
Non-taxable items	140	601
Non-deductible stock-based compensation	20,485	23,303
Total tax provision	\$ 481,406	\$ 207,318

TERRA FIRMA CAPITAL CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months ended March 31, 2018 and 2017
(Unaudited)

20. Income taxes (continued):

The composition of the Company's recognized deferred income tax assets and liabilities for the three months ended March 31, 2018 is as follows:

	Opening balance	Recognized in income	Closing balance
Investment property	\$ (224,247)	\$ (4,736)	\$ (228,983)
Portfolio investments	(1,019,827)	–	(1,019,827)
Incorporation costs	525	(9)	516
Deferred share units	469,668	(13,335)	456,333
Allowance for loan and mortgage investment loss	907,532	–	907,532
Unrealized foreign exchange loss	(271,798)	(242,045)	(513,843)
Debentures, Shares and revolving operating facility issue costs	264,430	(22,785)	241,645
	\$ 126,283	\$ (282,910)	\$ (156,627)

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
Deferred share units	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
	\$ 328,324	\$ 1,436	\$ 329,760

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
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21. 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, 2018 and December 31, 2017

	March 31, 2018	December 31, 2017
Loan and mortgage syndications	\$ 65,866,899	\$ 63,299,522
Revolving operating facility	18,916,639	18,965,205
Mortgages payable	1,459,720	1,469,844
Non-controlling interest	254,641	254,641
Equity	52,333,590	51,743,274
Total capital	\$ 138,831,489	\$ 135,732,486

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, 2018 and 2017.

During the three months ended March 31, 2018 and 2017, the Company had no externally imposed capital requirements.

22. 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 and revolving operating facility.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

22. Fair value measurement (continued):

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 investment and loan and mortgage syndications 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 or revolving operating facility 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 interim condensed 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 property, portfolio investments, investment in associates and non-controlling interests are determined using Level 3 inputs at March 31, 2018 and December 31, 2017 and no amounts were transferred between fair value levels during the three months ended March 31, 2018 or 2017. Notes 7(b), 8 and 9 outline the key assumptions used by the Company in determining fair value of its investment property, portfolio investments and investment in associates, respectively.

TERRA FIRMA CAPITAL CORPORATION

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

Three months ended March 31, 2018 and 2017
(Unaudited)

23. 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, 2017.

Credit risk:

As at March 31, 2018, \$14,284,964 (December 31, 2017 - \$14,182,918) of the loan and mortgage investments and \$2,435,684 (December 31, 2017 - \$2,387,802) of interest receivable and fees paid on these loans are in arrears over 60 days.

24. Subsequent events:

Subsequent to March 31, 2018, the Company received repayment of loan and mortgage investment of \$1,756,660 from the Company controlled by the Chairman.

On April 16, 2018, the Company closed a transaction in Atlanta, Georgia totaling \$6.7 million (U.S. \$5.3 million) for a large national homebuilder. The Company invested \$2.5 million (U.S. \$1.9 million) advance on closing from available cash balances.

On April 27, 2018, the Company closed a first mortgage loan investment totaling \$7.5 million (U.S. \$5.9 million) secured by a residential development land located in Phoenix, Arizona. The Company partially funded the loan with a \$2.0 million (U.S. \$1.6 million) advance on closing from available cash balances.