



# **TERRA FIRMA CAPITAL CORPORATION**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF OPERATIONS  
AND FINANCIAL CONDITION

**FOR THE THREE MONTHS ENDED MARCH 31, 2013**

**MAY 17, 2013**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following Management’s Discussion and Analysis (“MD&A”) of the financial results of Terra Firma Capital Corporation (the “Company”) dated May 17, 2013 for the three months ended March 31, 2013 should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and accompanying notes for the same period as well as the audited consolidated financial statements for the year ended December 31, 2012. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company’s financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the Company or the real estate industry and may include statements regarding the financial position, business strategy, financial results, real estate values, interest rates, loan to cost, plans and objectives of or involving the Company. In some cases, forward-looking information can be identified by such terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “seek”, “aim”, “estimate”, “target”, “project”, “predict”, “forecast”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements necessarily involve known and unknown risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Company’s control, affect the lending operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, the risks discussed in the Company’s materials filed with Canadian securities regulatory authorities from time to time, including the risks discussed herein at “Risks and Uncertainties”. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance that actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management’s perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain stable; conditions within the real estate industry will be consistent with the current climate; and the referenced above, collectively, will not have a material impact on the Company. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

## **BASIS OF PRESENTATION**

The Company’s unaudited condensed consolidated interim financial statements for the three months ended March 31, 2013 have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company’s presentation currency is the Canadian dollar.

## BUSINESS OVERVIEW AND STRATEGY

The Company was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company (“Shares”) trade on the TSX Venture Exchange (the “Exchange”) under the symbol TII. The registered office of the Company is: 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6. The principal business of the Company is the arrangement of and participation in real property financings secured by investment properties and commercial and residential real estate developments, throughout Canada.

These financings generally take the form of:

- (i) Land loans registered in first position at the earlier stages of real property development and either subsequently postponing to construction financing or being discharged upon the funding of construction financing, as the project progresses through the development cycle,
- (ii) Mezzanine / equity type financings on real property developments that have either progressed to the construction phase or are near to that juncture, or
- (iii) Mezzanine financings on income property.

These financings generally represent loan to cost ratios of not more than 85% and loan to end value ratios of not more than 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases the loan to value ratio could increase to 85%.

The Company’s primary investment objective is to provide attractive returns to shareholders over the long-term, through appreciation in net book value. Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Through management’s relationships with mortgage lenders, brokers, local sponsors and other market participants, the Company is able to identify real estate opportunities where it can provide financing solutions to borrowers while achieving equity type returns at reduced risk levels as compared to straight equity ownership. The Company differentiates itself by serving these niches with an experienced financing team which generally can provide more flexible terms and creative structure. Management believes its experience with real estate investments and industry contacts will provide the Company with a consistent flow of quality investment opportunities.

On December 31, 2012, Counsel Asset Management L.P. (the “Manager”), an entity wholly-owned by Counsel Corporation (“Counsel”) terminated the Management Agreement (the “Agreement”) with the Company. Historically, the Company had sought to leverage its relationship with Counsel to access investment opportunities that satisfy the above mentioned objectives and the relationship was governed by the Agreement.

Following the termination of the Agreement, the Company’s overall strategy remains unchanged and management believes that the Company will be better positioned to deliver on its strategy and objectives with a new manager or alternatively, internalizing the management structure. Management is evaluating both options, among others.

On January 1, 2013, Counsel distributed its entire holding of 6,168,333 common shares (“Shares”) of the Company as a dividend to its shareholders.

## INVESTMENTS

### LOANS AND MORTGAGE INVESTMENTS

The Company’s loan and mortgage investments (the “Investment Portfolio”) as at March 31, 2013 consist of (a) loans relating to 13 residential housing developments, comprising 1,908 high rise units in Toronto, Ontario, 1,210 low rise single family condominium and freehold units in Toronto, Vaughan and Ajax, Ontario and a 205-bed student residence in Waterloo, Ontario, representing 95.8% of the Investment Portfolio, and (b) two residential income properties consisting of 300 rental units in Toronto and Ottawa, Ontario, representing the remaining 4.2% of the Investment Portfolio.

**TERRA FIRMA CAPITAL CORPORATION – MD&A**

The following table presents details of the Investment Portfolio as at March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Weighted Average Effective Interest Rate	Amount	% of Investments	Weighted Average Effective Interest Rate	Amount	% of Investments
Residential housing developments	18.1%	\$ 41,003,411	95.8%	20.0%	\$ 30,200,563	94.4%
Residential income properties	17.7%	1,795,671	4.2%	17.7%	1,796,168	5.6%
Investment Portfolio	18.1%	\$ 42,799,082	100.0%	19.9%	\$ 31,996,731	100.0%

As at March 31, 2013 and December 31, 2012, the principal balance of the Investment Portfolio was \$42,799,082 and \$31,996,731, respectively. The Investment Portfolio continued to grow through the funding of the new loans and mortgages payable during the three months ended March 31, 2013, an increase of \$10,802,351 or 34% from the balance at December 31, 2012. This increase resulted from the net effect of funding three loan investments totaling \$13,758,333, capitalized interest of \$430,733, the repayment of two loans totaling \$3,386,218 and contractual principal repayments of \$497.

The weighted average effective interest rate of the Investment Portfolio at March 31, 2013 and December 31, 2012 was 18.1% and 19.9%, respectively. The weighted average effective interest rates of the loans and mortgage investments of residential housing developments and residential income property at March 31, 2013 were 18.1% and 17.7%, respectively and the weighted average effective interest rates of the loans and mortgage investments of residential housing developments and residential income property at December 31, 2012 were 20.0% and 17.7%, respectively.

The following table summarizes the change in the Investment Portfolio for the three months ended March 31, 2013.

	Amount
Balance of Investment Portfolio, beginning of period	\$ 31,996,731
Investment Portfolio activity during the period	
Funding of three new loan investments	13,758,333
Repayments of two loans	(3,386,218)
Interest capitalized	430,733
Principal repayment of loans	(497)
Balance of Investment Portfolio, end of period	\$ 42,799,082

Principal repayments and the Investment Portfolio maturing in the next five years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2013 - remainder of year	\$ 1,588	\$ 24,084,318	\$ 24,085,906
2014	2,364	5,882,343	5,884,707
2015	1,750	12,826,719	12,828,469
	\$ 5,702	\$ 42,793,380	\$ 42,799,082

The weighted average term to maturity at March 31, 2013 and December 31, 2012 was 0.86 years and 0.65 years, respectively. The relatively short term to maturity of the Investment Portfolio allows for reinvestment of the portfolio in response to changing market conditions.

Certain of the loans have early repayment rights which, if exercised, would result in repayments in advance of their contractual maturity dates.

The Investment Portfolio is secured by mortgages registered on title and/or other forms of security including but not limited to floating charge debentures, general security agreements, postponement of specific claims and joint and several guarantees.

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, 2013 amounted to \$4,754,192, including \$2,934,293 of capitalization of future interest relating to the existing loan and mortgage investments compared to \$3,032,425 of commitments, including \$693,900 of capitalization of future interest relating to the existing loan and mortgage investments at December 31, 2012.

The investments comprising the Investment Portfolio are classified as financial assets and categorized as loans and receivables. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less any provision for impairment. The Loan Portfolio is reviewed on a quarterly basis to determine any such impairment. As at March 31, 2013 and December 31, 2012, all contractual principal and interest payments have been made on a portfolio wide basis and management believes there was no material change in the condition of the underlying properties/projects or general economic conditions that would warrant the recognition of any impairment.

### **INTERESTS IN JOINT OPERATIONS**

The company's interests in the following properties are subject to joint control and, accordingly, the company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties following the proportionate consolidation method.

#### **Queen Street West JV:**

In April 2012, the Company entered into a co-owners' agreement ("Queen Street West JV") with a development partner and acquired a land parcel in Toronto, Ontario to develop a mid-rise residential condominium building having a development potential of approximately 100,000 square feet of gross floor area. Under the terms of the co-owners agreement, the Company has agreed to contribute 75% of the capital required during the course of the development, for a 50% ownership interest.

#### **Salem Road JV:**

The Company entered into a co-owners' agreement (the "Salem Road JV") with a development partner and financial partner, to acquire and develop a single family residential housing project in Ajax, Ontario. Upon completion of the residential project and the transfer of all the units to purchasers in December 2012, the Company received its investment of \$465,500 and its share of fees of \$400,000 in January 2013.

#### **Montreal Street JV:**

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and subsequently developed a retail property 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 52.5%. The Montreal Street JV carries a loan of \$2,300,000 bearing interest at 4.2% per annum, is amortized over 25 years and matures June 1, 2016.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

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

	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 3,653	\$ 31,588
Amounts receivable and prepaid expenses	288,127	41,642
Investment properties	7,939,416	7,834,576
<b>Total assets</b>	<b>8,231,196</b>	<b>7,907,806</b>
Accounts payable and accrued liabilities	358,430	217,343
Loans and mortgages payable	4,651,095	4,368,854
<b>Total liabilities</b>	<b>5,009,525</b>	<b>4,586,197</b>
<b>Net assets</b>	<b>\$ 3,221,671</b>	<b>\$ 3,321,609</b>

The table below details the results of operations for the three months ended March 31, 2013 and 2012, attributable to the Company from its joint operations activities.

	Three months ended	
	March 31, 2013	March 31, 2012
Rental revenue	\$ 107,096	\$ 49,632
Property operating costs	47,615	17,538
	59,481	32,094
General and administrative expenses	1,468	47
Interest expense	146,906	12,596
<b>Net (loss) earnings</b>	<b>\$ (88,893)</b>	<b>\$ 19,451</b>

Net loss for the three month period ended March 31, 2013 is primarily due to the interest expense in the Queens Street West JV.

### INVESTMENT PROPERTIES

The Company has interests in investment properties that are subject to joint control and, accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties.

The following table summarizes the changes in the Company's proportionate share of the investment properties for the three months ended March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Balance, beginning of year	\$ 7,834,576	\$ 3,234,658
Acquisition of properties	-	4,994,892
Capital expenditures	104,840	4,391,533
Sale of investment properties	-	(4,786,507)
<b>Balance, end of year</b>	<b>\$ 7,939,416</b>	<b>\$ 7,834,576</b>

## TERRA FIRMA CAPITAL CORPORATION – MD&A

### PORTFOLIO INVESTMENT

In March 2012, the Company invested \$950,000, for a 20% partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario (the “Portfolio Investment”). The Company does not have significant influence and is accounting for its investment as a financial asset at fair value through profit and loss. At March 31, 2013, the carrying value of this investment approximates its fair value.

### FINANCIAL PERFORMANCE

The Company’s financial performance for the three months ended March 31, 2013 and 2012 is summarized below:

	Three months ended		Change Increase (decrease)
	March 31, 2013	March 31, 2012	
Revenue			
Interest and fees earned	\$ 1,586,215	\$ 966,287	\$ 619,928
Rental income	107,096	49,632	57,464
	1,693,311	1,015,919	677,392
Expenses			
Property operating costs	47,615	17,538	30,077
General and administrative expenses	367,163	127,764	239,399
Share based compensation	-	30,357	(30,357)
Interest expense	937,412	495,691	441,721
	1,352,190	671,350	680,840
Income before income taxes	341,121	344,569	(3,448)
Income tax provision	75,776	91,352	(15,576)
Net income and comprehensive income	265,345	253,217	12,128

Income from continuing operations for the three months ended March 31, 2013 experienced significant increases compared to the same period last year due to new loan originations. The Company’s loan and mortgage investments increased from \$25.3 million at March 31, 2012 to \$42.8 million at March 31, 2013.

Income before taxes for the three months ended March 31, 2013 was \$341,121, compared to income from continuing operations before income taxes for the same period last year of \$344,569 and income before income taxes for the three months ended December 31, 2012 of \$978,134. Income before income taxes for the three months ended December 31, 2012 includes the Company’s share of onetime fee income of 375,000.

### INTEREST AND FEES EARNED

Interest and fees earned for the three months ended March 31, 2013 was \$1,586,215 compared to \$1,897,945 for the three months ended December 31, 2012 and \$966,287, for the three months ended March 31, 2012. The increase in interest and fees earned from the same period last year was primarily due to the growth in the Company’s Loan Portfolio with higher weighted average effective interest rate.

### RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company’s proportionate share of the rental income from investment properties in operations jointly controlled by the Company for the three months ended March 31, 2013 was \$107,096 compared to \$49,632 for the same period last year. The Company’s proportionate share of the property operating costs in investment properties in operations jointly controlled by the Company for the three months ended March 31, 2013 was \$47,615 compared to \$17,538 for the same period last year. The increase in rental income and property operating costs are primarily due to an acquisition of property in Queen Street West JV. The rental income and property operating costs for the three months ended December 31, 2012 were \$195,113 and \$76,623, respectively.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

### INTEREST EXPENSE

Interest expense for the three months ended March 31, 2013 and 2012 were as follows:

	Three months ended,			Change Increase (decrease)
	March 31, 2013	March 31, 2012 <sup>(1)</sup>		
Interest on loans and mortgages payable	\$ 630,086	\$ 298,832	\$ 331,254	
Interest on Debentures	182,808	184,263	(1,455)	
Montreal Street JV	12,330	12,596	(266)	
Queen Street West JV	112,188	-	112,188	
	\$ 937,412	\$ 495,691	\$ 441,721	

Interest expense for the three months ended March 31, 2013 was \$937,412 compared to \$495,691 for the same period last year. Interest expense for the three months ended December 31, 2012 was \$888,303. The increase in interest expense is attributable primarily to additional loans and mortgages payable syndicated to fund the loan and mortgage investments, mortgages on investment properties.

### GENERAL AND ADMINISTRATIVE EXPENSES

During the three months ended March 31, 2013 and 2012, the Company incurred the following general and administrative expenses:

	Three months ended			Change Increase (decrease)
	March 31, 2013	March 31, 2012		
Asset management fee	\$ -	\$ 80,502	\$ (80,502)	
Professional fees	35,807	20,344	15,463	
Advertising and promotion	2,822	14,396	(11,574)	
Salary and benefits	273,108	-	273,108	
Rent	19,861	-	19,861	
Other	35,565	12,522	23,043	
	\$ 367,163	\$ 127,764	\$ 239,399	

General and administrative expenses for the three months ended March 31, 2013 were \$367,163, compared to \$134,630 for the three months ended December 31, 2012 and \$127,764 for the three months ended March 31, 2012. The increase in general and administrative expenses of \$232,533 and \$239,399 over the three months ended December 31, 2012 and March 31, 2012, respectively, is primarily due to increased payroll costs due to cancellation of the Agreement by the Manager and addition of employees to support the growth. The increase in general and administrative costs was partially offset by savings of incentive fee, which is reflected in interest and fee income and the reduction in asset management fee expense.

### SHARE BASED COMPENSATION

Share-based compensation expenses, which are costs associated with the Company's share option plan (the "Plan") amounted to \$30,357 and \$15,369 for the three months ended March 31, 2012 and December 31, 2012, respectively and nil for the three months ended March 31, 2013. The Company hasn't granted any options since April 17, 2012; hence the reduction in share based compensation expense. (See "Shareholders Equity - Share Based Compensation").

## **LIQUIDITY AND CAPITAL RESOURCES**

### **LIQUIDITY**

The return on the Investment Portfolio is an important component of the Company's financial results. The Company's investment strategy focuses on the total return of assets needed to support the underlying liabilities, asset-liability management and achieving an appropriate return on capital. The Company's continued focus is to manage risks and returns and to position its Loan Portfolio to take advantage of market opportunities while attempting to mitigate adverse effects. Material changes in market conditions may adversely affect the Company's net cash flow from operating activities and liquidity. A more detailed discussion of these risks is found under the "Risks and Uncertainties" section.

The Company expects to be able to meet all of its obligations as they become due and to provide for the future growth of the business. The Company has a number of financing sources to fulfill its commitments including (i) cash flow from its operating activities, (ii) issuance of loans and mortgages payable, (iii) issuance of shares and debentures, or any combination thereof.

### **CASH FLOWS**

The following table details the changes in cash for the three month periods ended March 31, 2013 and 2012:

	Three months ended	
	March 31, 2013	March 31, 2012
Cash provided by operating activities	\$ 1,169,739	\$ 852,189
Cash provided by financing activities	9,781,993	4,330,907
Cash used in investing activities	(10,476,458)	(9,926,324)
Increase/(decrease) in cash	\$ 475,274	\$ (4,743,228)
Cash and cash equivalents, beginning of period	3,223,291	8,771,557
Cash and cash equivalents, end of period	\$ 3,698,565	\$ 4,028,329

Cash on hand at March 31, 2013 was \$3,698,565 compared to \$3,223,291 at December 31, 2012.

Cash provided by operating activities for the during the three months ended March 31, 2013 and 2012 of \$1,169,739 and \$852,189, respectively are related primarily to the net cash provided by in lending activities.

Cash provided by financing activities during the three months ended March 31, 2013 of \$9,781,993 relates to the net proceeds from the loans and mortgages payable of \$14,350,000, offset by repayments of loans \$4,568,007 in the Loan Portfolio.

The cash used in investing activities during the three months ended March 31, 2013 of \$10,476,458 primarily reflects the funding of Loan Portfolio of \$13,758,333 and capital additions to investment properties of \$104,840, which aggregate amount was offset by repayments received from Investment Portfolio of \$3,386,715.

## **CAPITAL STRUCTURE AND DEBT PROFILE**

### **CAPITAL STRUCTURE**

The Company defines its capital as the aggregate of shareholders' equity, Debentures and loans and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the shareholders.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

As at March 31, 2013 and December 31, 2012, respectively, the total capital of the Company was as follows:

	March 31, 2013	December 31, 2012
Loans and mortgages payable	\$ 31,188,063	\$ 21,406,070
Convertible debentures	10,100,941	10,093,325
Shareholders' Equity	13,021,291	12,755,946
<b>Total capital</b>	<b>\$ 54,310,295</b>	<b>\$ 44,255,341</b>

### LOANS AND MORTGAGES PAYABLE

The Company leverages its Investment Portfolio through the issuance of the loans and mortgages payable (the "Loan Portfolio") and the Debentures. These financial liabilities are designed to increase the Company's overall returns through the issuance of specific debt instruments bearing lower effective interest rates than those being realized on the Investment Portfolio itself, while lowering the Company's overall risk profile.

Loans Payable is sourced through the following initiatives:

- (i) The syndication of certain loan and mortgage investments to private investors each participating in a prescribed manner on an investment by investment basis. In these cases, the investors assume the same risks associated with the specific investment transaction as the Company.
- (ii) Conventional construction or permanent financing secured by the project or investment property. In these cases, the Company is generally in second position to the conventional construction lenders.

At March 31, 2013 the weighted average effective interest rate of Loans Portfolio was 11.6%, consisting of the syndication of loans pertaining to nine residential housing developments and one residential income property, having weighted average effective interest rates of 12.6% and 10.9%, respectively and mortgages on Montreal Street JV of 4.2% and Queen Street West JV and 4.8%, compared to the weighted average effective interest rate of 13.9%, consisting of the syndication of loans pertaining to six residential housing developments, one residential income property having weighted average effective interest rates of 16.2% and 10.9%, respectively and mortgages on Montreal Street JV of 4.2% and Queen Street West JV and 5.4% at December 31, 2012.

The following table presents details of the Loans Portfolio as at March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	12.6%	\$ 26,189,132	84.0%	16.2%	\$ 15,689,132	73.3%
Residential income properties	10.9%	1,347,836	4.3%	10.9%	1,348,084	6.3%
Montreal Street JV	4.2%	1,151,095	3.7%	4.2%	1,205,676	5.6%
Queen Street West JV	4.8%	2,500,000	8.0%	5.4%	3,163,178	14.8%
	<b>11.6%</b>	<b>\$ 31,188,063</b>	<b>100.0%</b>	<b>13.9%</b>	<b>\$ 21,406,070</b>	<b>100.0%</b>

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table summarizes the changes in the principal balance of Loans Portfolio for the three months ended March 31, 2013:

	Amount
Balance of Loan Portfolio, beginning of period	\$ 21,406,070
Loans Payable activity during the period	
Proceeds to participate in new loan and mortgage investments	14,300,000
Additional advances to existing loans	50,000
Principal repayment of loans	(4,568,007)
Balance of Loan Portfolio, end of period	\$ 31,188,063

At March 31, 2013, scheduled principal repayments, and maturity amounts on the loans to be paid over each of the next five fiscal years, are as follows:

	Scheduled principal payments	Loans maturing during the year	Total loans and mortgages payable
2013 - remainder of year	\$ 794	\$ 15,339,132	\$ 15,339,926
2014	1,182	2,650,000	2,651,182
2015	875	12,044,985	12,045,860
2016	-	1,151,095	1,151,095
	\$ 2,851	\$ 31,185,212	\$ 31,188,063

### CONVERTIBLE DEBENTURES

On September 27, 2011 the Company completed a private placement of 10,150, 7.0% debentures (the “Debentures”) at a price of \$1,000 per debenture for gross proceeds of \$10,150,000. The Debentures mature on September 27, 2014. Interest is paid on the last business day of each calendar quarter commencing December 31, 2011. The Debentures are convertible at the option of the holder at any time up to maturity at a conversion price of \$0.70 per common share. The Debentures are not redeemable or convertible at the option of the Company prior to maturity.

550 of the Debentures, having a face value of \$550,000, were issued to directors and officers of the Company.

As of the date of issuance the fair value of the liability component of the Debentures was determined to be the fair value of the Debenture as a whole.

Issue costs directly attributable to the issuance of the Debentures are deducted from the liability component of the Debenture resulting in an effective interest rate of 7.35%. The Debentures, net of the equity component and issue costs, are accreted using the effective interest rate method over the term to maturity of the Debentures, such that the carrying amount will equal the total face value of the Debenture at maturity.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table summarizes the changes in the Debentures for the year ended December 31, 2012 and three months ended March 31, 2013:

	Amount
Liability component of Debentures, December 31, 2011	\$ 10,061,869
Interest expensed at EIR of 7.35%	741,956
Interest paid	(710,500)
Liability component of Debentures, December 31, 2012	\$ 10,093,325
Interest expensed at EIR of 7.35%	182,808
Interest paid	(175,192)
Liability component of Debentures, March 31, 2013	\$ 10,100,941

### COMMITMENTS AND CONTINGENCIES

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, 2013, was \$4,754,192, including \$2,934,293 of capitalization of future interest relating the existing loan and mortgage investments (December 31, 2012 - \$3,032,425 including \$693,900 of capitalization of future interest relating to the existing loan and mortgage investments).

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.

### SHAREHOLDERS' EQUITY

#### SHARES

The following table summarizes the changes in Shares for the year ended December 31, 2012 and three months ended March 31, 2013.

	Shares	Amount
Outstanding as at December 31, 2011	30,495,000	\$ 10,687,105
Outstanding as at March 31, 2012	30,495,000	\$ 10,687,105
Issuance of shares under share Option Plan	200,000	40,000
Transferred from Contributed surplus upon exercise of options	-	30,300
Outstanding as at December 31, 2012	30,695,000	\$ 10,757,405
Outstanding as at March 31, 2013	30,695,000	\$ 10,757,405

As at May 17, 2013, there were 30,695,000 Shares issued and outstanding.

### SHARE BASED COMPENSATION

The Company has adopted the Plan to grant eligible directors, officers, senior management and consultants options to purchase Shares. The exercise price of each option shall be determined by the board of directors and in accordance with the Plan and the policies of the Exchange. Subject to the policies of the Exchange, 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 five years from the date on which it is granted.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

On April 17, 2012, the Company granted share options to directors and officers of the Company and employees of the Manager to purchase 910,000 Shares at \$0.50 per Share. Except for 20,000 share options granted to the former Chairman of the Company's Audit Committee, which vested immediately upon grant, 25% of the remaining share options vested immediately, with an additional 25% vesting each 90 day period thereafter.

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

Average expected life	5.00 years
Average risk-free interest rate	1.47%
Average expected volatility	103.00%
Average dividend yield	0.00%

The following is the summary of changes in the Company's share options for the three months ended March 31, 2013 and year ended December 31, 2012:

	March 31, 2013		December 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of period	2,442,667	\$ 0.37	1,917,667	\$ 0.28
Granted	-	-	910,000	0.50
Exercised	-	-	(200,000)	0.20
Cancelled	-	-	(185,000)	0.20
Outstanding - end of period	2,442,667	\$ 0.37	2,442,667	\$ 0.37
Number of options exercisable	2,442,667	\$ 0.37	2,270,167	\$ 0.36

### RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Counsel is considered a related party due to the significance of the level of ownership interest until January 1, 2013 and its relationship with the Manager.

#### MANAGEMENT AGREEMENT WITH COUNSEL ASSET MANAGEMENT LP

On December 31, 2012, the Manager terminated the Agreement with the Company.

Prior to December 31, 2012, pursuant to the term of the Agreement, the Manager provided management and administrative services to the Company including accounting, reporting, financial statement preparation assistance, the provision of office space, equipment and personnel and advising on strategic matters, including assisting the Company in structuring, sourcing, evaluating, and negotiating investments, the financing of such investments and dispositions.

Prior to December 31, 2012, pursuant to the terms of the Agreement, for the services provided by the Manager, the Company paid the Manager an annual management fee, quarterly in arrears, equal to the sum of (i) 1.5% of the first \$200 million of the Company's shareholder's equity, (ii) 1.25% of the Company's shareholders' equity in excess of \$200 million and up to \$300 million, and (iii) 1.00% of the Company's shareholders' equity in excess of \$300 million, in each case calculated in accordance with Canadian generally accepted accounting principles. Subsequent to September 30, 2011 and pursuant to an amended Agreement, the management fee calculation included the debt securities issued by the Company, excluding syndication of loan or other investments by the Company. For the three months ended March 31, 2012, the management fee was \$80,502, and is included in general and administrative expenses.

In addition, pursuant to the Agreement, the Company paid the Manager 50% of all fees attributable to lending activities earned by the Company and certain fees or profit earned by the Company in connection with equity participations in commercial and residential developments and investment property acquisitions. These fees paid to the Manager are deducted from the fees used in the determination of the effective interest rate on each of the Company's loan and mortgage investments. During the three months ended March 31, 2012, the Company paid \$112,083 in fees.

The transactions with the Manager pursuant to the Agreement were in the normal course of business and were recorded at their exchange amounts established and agreed to by the related parties, which closely represent the market value of these types of transactions. The terms of the Agreement were approved by the independent members of the Company's board of directors.

On January 1, 2013, Counsel paid its entire holding of 6,168,333 Shares in dividends to its shareholders.

#### **LOANS AND MORTGAGES PAYABLE**

Several of the Company's loans and mortgage investments are shared with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of each applicable syndicate as to payment of principal and interest.

At March 31, 2013, the loan and mortgage investments and Debentures syndicated by officers and directors were \$4,276,088 (December 31, 2012 - \$2,276,088). No loans or investments have been issued to borrowers controlled by or related to officers or directors of the Company.

#### **SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES**

A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements.

There were no changes in significant accounting policies adopted by the Company in the three months ended March 31, 2013.

#### **ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS:**

The following standards and amendments to existing standards have been adopted for the period beginning January 1, 2013.

IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Instruments*, as amended requires entities to disclose information about the effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after January 1, 2013. The adoption of this amendment did not result in any changes to the unaudited condensed consolidated interim financial statements.

IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities (including 'special purpose entities,' or 'structured entities'). The change requires management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. IFRS 10 requires consolidation of an investee only if the investor possesses the power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11 *Joint Arrangements* supersedes IAS 31 and addresses two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control. IFRS 11 requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, *Investments in Associates and Joint Ventures* (amended in 2011). The other amendments had no impact on the Company. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for the Company's subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include reporting on the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements. The Company has assessed its disclosure and concluded that the adoption of IFRS 12 did not result in any change in disclosure in these condensed consolidated interim financial statements, however will result in additional disclosure in the year-end financial statements.

IFRS 13 *Fair Value Measurement* provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

#### **NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:**

The following new standard issued by the IFRS Board may be relevant to the Company in preparing its consolidated financial statements in future periods.

IFRS 9 *Financial Instruments* was issued to replace IAS 39, "Financial Instruments: Recognition and Measurement". This is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 in November 2009 was the first phase of the project, which provided guidance on the classification and measurement of financial assets and financial liabilities. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. In December 2011, the effective date of adoption of this standard was amended to January 1, 2015. The Company is currently assessing the impact of the new standard on its consolidated financial statements

#### **USE OF ESTIMATES**

The preparation of the Company's unaudited condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

The most significant estimates that the Company is required to make relate to, but are not limited to: revenue recognition using the effective interest rate method; assessment of the recoverability and valuation of loan and mortgage investments; interests in joint ventures, portfolio investment, accrued liabilities; valuation of share options; and accounting for income taxes. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## **FINANCIAL INSTRUMENTS**

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, interest and other receivables, loan and mortgage investments, portfolio investment, accounts payable and accrued liabilities, loans and mortgages payable and Debentures.

The Company determines the fair value of financial instruments based on the estimated amount it would receive or pay to settle the financial assets and financial liabilities at the reporting date.

The fair value of interest and other receivables and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of loans and mortgage investments, portfolio investment loans, loans and mortgages payable and Debentures approximate their carrying value as the underlying interest rates on these instruments approximate the market interest rates.

The Company uses various methods in estimating the fair values recognized in the condensed consolidated interim financial statements. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

All of the Company's financial assets and liabilities are valued using Level 3 inputs at March 31, 2013 and December 31, 2012 and no amounts were transferred between fair value levels during the three months ended March 31, 2013 and 2012.

## **OFF BALANCE SHEET ITEMS**

As of March 31, 2013 and December 31, 2012, the Company did not have any off-balance sheet (statement of financial position) arrangements.

## **RISKS AND UNCERTAINTIES**

There are certain risks inherent in an investment in the securities of the Company and in the activities of the Company, including the following, which current and prospective holders of securities of the Company should carefully consider. If any of the following or other risks occurs, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the trading price of the securities of the Company could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

### GENERAL BUSINESS RISKS

The Company is subject to general business risks and to risks inherent in the commercial and residential real estate industries, including both the making of loans secured by real estate and the development and ownership of real property. Income and gains from the Company's investments may be adversely affected by:

- i. changes in national or local economic conditions,
- ii. changes in demand for newly constructed residential units,
- iii. the inability of property owners to secure and retain tenants,
- iv. the financial inability of tenants to meet their lease obligations,
- v. changes in interest rates and in the availability, cost and terms of any mortgage or other financing,
- vi. the impact of present or future environmental legislation and compliance with environmental laws,
- vii. changes in real estate assessed values and taxes payable on such values and other operating expenses, or
- viii. civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses)

Any of the foregoing events could impact the ability of borrowers to timely repay (if at all) loans made by the Company, negatively impact the value or viability of a development project in which the Company has invested or negatively impact the value of portfolio properties of the Company or their ability to generate positive cash flow.

In addition, the Company may be unable to identify and complete investments that fit within its investment criteria. The failure to make a sufficient number of these investments would impair the future growth of the Company.

### CREDIT RISK

Credit risk is the risk of financial loss from the failure of a borrower, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's loan and mortgage investment activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. Credit losses occur when a borrower fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

The Company is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the consolidated statements of financial position.

The Company mitigates the risk of credit losses on its loan and mortgage investments by maintaining strict credit policies and conducting thorough investment due diligence, ensuring loans and mortgages have risk-adjusted loan to value, together with personal guarantees by the borrowers and parties related to the borrowers, review and approval of new loans and mortgages and continued monitoring of change in value of underlying securities.

### INTEREST RATE RISK

Interest rate risk arises due to exposure to the effects of future changes in the prevailing level of interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates primarily on its loan and mortgage investments, debentures payable and loans and mortgages payable.

The Company mitigates its exposure to this risk by entering into contracts having either fixed interest rates or interest rates pegged to prime for its loan and mortgage investments and loans and mortgages payable and asset liability matching. Such risk is further mitigated by the general short term nature of loan and mortgage investments.

### LIQUIDITY RISK

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity risk is to ensure, to the extent possible, that it always has sufficient liquidity to meet its liabilities when they come due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's credit worthiness.

The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities.

### OPERATING HISTORY

The Company has a limited history of earnings or operations, it has not paid any dividends and it is unlikely to pay any dividends in the immediate or foreseeable future. The success of the Company depends largely on the expertise, ability, judgment, discretion, and good faith of its management and board of directors.

### SUBORDINATED DEBT FINANCING

Subordinated financings that are carried on by the Company would generally be considered riskier than primary financing because the Company will not have a first-ranking charge on the underlying property. When a charge on a property is in a position other than first-ranking, it is possible for the holder of a prior charge on the property to realize on the security given for the loan, in priority to and to the detriment of the Company's security interest in such property or security.

### DEVELOPMENT STRATEGY

Any development projects in which the Company invests are subject to a number of risks, including, but not limited to:

- (i) construction delays or cost overruns that may increase project costs,
- (ii) financing risks,
- (iii) the failure to meet anticipated occupancy or rent levels,
- (iv) failure to meet anticipated sale levels or prices,
- (v) failure to receive required zoning, land use and other governmental permits and authorizations and/or
- (vi) changes in applicable zoning and land use laws.

### INVESTMENTS IN JOINT OPERATIONS

In any joint operations in which the Company invests, the Company may not be in a position to exercise sole decision-making authority. Investments in joint operations may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions. Joint operations partners may have business interests or goals that are inconsistent with the Company's business interests or goals and may be in a position to take actions contrary to the Company's policies or objectives. Any disputes that may arise between the Company and its joint operations partners could result in litigation or arbitration that could increase the Company's expenses and distract its officers and/or directors from focusing their time and effort on the Company's business. In addition, the Company might in certain circumstances be liable for the actions of its joint operations partners.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. As of the end of the period covered by this MD&A, the Company's CEO and CFO evaluated the Company's disclosure controls and procedures and, based upon that review and evaluation, concluded that those disclosure controls and procedures are effective.

The Company is not required to certify the design and evaluation of its disclosure controls and procedures. Inherent limitations on the ability of the certifying officers to design and implement, on a cost effective basis, disclosure controls and procedures for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Given the small size of the Company, and, consequently, limited staff levels, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation deficiencies is likely to result in a misstatement to the consolidated financial statements as the Company relies on certain compensating controls, including the detailed monitoring of operations and transactions by the CEO and CFO. No material changes were made in the Company's internal control over financial reporting during the three months ended March 31, 2013.

The Company is not required to certify the design and evaluation of its internal control over financial reporting and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and maintain, on a cost effective basis, internal control over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **FUTURE OUTLOOK**

The objective of the Company is to provide attractive returns to shareholders over the long-term, through appreciation in net book value. Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Management believes there are opportunities for the Company to expand its presence in the market; however, it continues to be prudent in its approach to selection of new investments and pricing. Management expects to be able to generate interest rates similar to those reflected in the current portfolio in 2012.

The achievement of the Company's objectives is dependent on management's ability to execute on its business strategy as described while also successfully mitigating business risks as discussed in this MD&A.

## **SELECTED ANNUAL AND QUARTERLY INFORMATION**

The following selected financial information should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the years ended December 31, 2012 and 2011 and the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2013.

**TERRA FIRMA CAPITAL CORPORATION – MD&A**

The following table shows information for revenues, profit, total assets, total liabilities, shareholders' equity and earnings per share amounts for the periods noted therein.

	As at March 31, 2013	As at December 31, 2012	As at March 31, 2012
Total assets	\$ 57,064,075	\$ 46,400,778	\$ 35,234,855
Total liabilities	\$ 44,042,784	\$ 33,644,832	\$ 23,704,155
Shareholders' equity	\$ 13,021,291	\$ 12,755,946	\$ 11,530,700
Loan and mortgage investments	\$ 42,799,082	\$ 31,996,731	\$ 25,346,513
Loans and mortgages payable and Debentures	\$ 41,289,004	\$ 31,499,395	\$ 21,178,291
Loans and mortgage payable and Debentures to loan and mortgage investments	96.5%	98.4%	83.6%
	March 31, 2013	March 31, 2012	
Total revenue	\$ 1,693,311	\$ 1,015,919	
Total expenses	\$ 1,352,190	\$ 671,350	
Income from continuing operations before income taxes	\$ 341,121	\$ 344,569	
Net income and comprehensive income	\$ 265,345	\$ 253,217	
Diluted income and comprehensive income	\$ 399,709	\$ 253,217	
Weighted average number of shares outstanding - basic		30,695,000	30,495,000
Weighted average number of shares outstanding - diluted		45,247,008	31,000,843
Basic and diluted earnings per share	\$ 0.01	\$ 0.01	

The following table sets out the Company's quarterly results of operations for the eight periods ended March 31, 2013.

	Three months ended							
	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Revenue								
Interest and fees earned	1,586,215	1,897,945	1,234,250	1,058,183	966,287	749,883	247,125	176,915
Rental income	107,096	195,113	49,607	49,606	49,632	55,305	47,388	47,373
	1,693,311	2,093,058	1,283,857	1,107,789	1,015,919	805,188	294,513	224,288
Expenses								
Property operating expenses	47,615	76,623	17,512	17,513	17,538	17,834	15,294	66,699
General and administrative expenses	367,163	134,630	143,385	133,199	127,764	93,829	52,870	-
Share based compensation	-	15,369	41,803	129,311	30,357	32,608	-	-
Interest expense	937,412	888,303	681,942	503,070	495,691	294,562	66,189	52,776
	1,352,190	1,114,925	884,642	783,093	671,350	438,833	134,353	119,475
Fair value adjustment of investment properties	-	-	-	-	-	50,000	-	-
Income before income taxes	341,121	978,133	399,215	324,696	344,569	416,355	160,160	104,813
Income tax provision	75,776	249,445	109,061	112,462	91,352	110,210	57,000	10,586
Income from continuing operations	265,345	728,688	290,154	212,234	253,217	306,145	103,160	94,227
Loss from discontinued operations	-	(232,313)	-	-	-	1,928	(194,299)	(153)
Net income and comprehensive income	265,345	496,375	290,154	212,234	253,217	308,073	(91,139)	94,074
Diluted net income attributable to common shareholders	399,709	496,375	290,154	212,234	253,217	308,073	(91,139)	94,074
Weighted average number of shares outstanding								
- basic	30,695,000	30,518,087	30,495,000	30,518,087	30,518,087	20,321,087	18,795,000	18,795,000
- diluted	45,247,008	30,518,087	30,495,000	30,518,087	30,518,087	20,321,087	18,795,000	18,795,000
Basic and diluted earnings (loss) per share								
Continuing operations	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Discontinued operations	-	(0.01)	-	-	-	-	(0.01)	-

## TERRA FIRMA CAPITAL CORPORATION – MD&A

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Additional information relating to the Company, including the Company's management information circular can be found on the SEDAR at [www.sedar.com](http://www.sedar.com).

Dated: May 17, 2013  
Toronto, Ontario, Canada