



TERRA FIRMA CAPITAL CORPORATION

2013 ANNUAL INFORMATION FORM

August 6, 2014

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MEANING OF CERTAIN REFERENCES

Certain terms used in this Annual Information Form are defined under “Glossary”. Further, except where otherwise indicated, all references to dollar amounts and “\$” are to Canadian currency and the “Company” or “Terra Firma” refers to Terra Firma Capital Corporation and, unless the context requires otherwise, its subsidiary entities.

References to “management” in this Annual Information Form mean the persons acting in the capacity of the Company’s Chief Executive Officer, the Company’s Chief Financial Officer, and the persons who are the Company’s officers or who are acting in the capacities of the officers of the Company and are officers or employees of Terra Firma. Any statements in this Annual Information Form made by or on behalf of management are made in such persons’ capacities as officers of Terra Firma and not in their personal capacities.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking information within the meaning of applicable securities laws. Forward-looking information may relate to the Company’s future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, litigation, financial results, taxes, plans, real estate values, interest rates, loan to cost ratios and plans and objectives of or involving the Company. Particularly, statements regarding future results, performance, achievements, prospects or opportunities for the Company or the real estate industry are forward-looking statements. In some cases, forward-looking information can be identified by terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts. The Company has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that inflation will remain relatively low, that interest rates will remain stable, that conditions within the real estate market, including competition for real estate financing, will be consistent with the current climate, that the Canadian capital markets will provide the Company with access to equity and/or debt at reasonable rates when required. Although the forward-looking statements contained in this Annual Information Form are based upon assumptions that management of the Company believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the Company’s control, that may cause the Company’s or the industry’s actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: real estate financing, competition for real estate financing, real estate values, interest rate fluctuations, government regulations, environmental matters and the general economic environment; the Company and its business (access to capital, financing risk, taxation matters, potential conflicts of interest with Directors, general insured and uninsured risks, IFRS and litigation risks); and the Shares (volatile market price for Shares, return on investment not guaranteed, dilution, Shareholder liability, and nature of investment).

The forward-looking statements made in this Annual Information Form relate only to events or information as of the date on which the statements are made in this Annual Information Form. 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.

GLOSSARY OF TERMS

The following terms used in this Annual Information Form have the following meanings:

“**Audit Committee**” means the audit committee of the Directors described under “Directors and Management of the Company – Audit Committee”.

“**Board**” or “**Board of Directors**” means the Board of Directors of the Company.

“**Bridge Financing**” means the bridge financing provided by the Company for the purposes of capital improvements or redevelopment of investment property.

“**Commercial Mortgages**” means mortgages on and secured by real properties used for commercial purposes, including retail, commercial service, industrial and/or office.

“**Conventional Mortgage**” means a mortgage for which the principal amount, at the time of commitment, together with all other equal and prior ranking mortgages (a) in the case of a property purchase, does not exceed the lower of 80% of the purchase price of the underlying real estate securing the mortgage and 80% of the appraised value of the underlying real estate securing the mortgage as determined by a qualified appraiser, and (b) in the case of a refinancing, does not exceed 80% of the appraised value of the underlying real estate securing the mortgage as determined by a qualified appraiser at the time of such refinancing.

“**Commitment Fee**” means a one-time fee, paid by a borrower to the Company in return for obtaining a commitment for loan or mortgage financing, stated either as a fixed dollar amount or a percentage of the principal amount of the loan or mortgage, and generally is paid at the time of initial funding.

“**Governance, Compensation and Nominating Committee**” means the Governance, Compensation and Nominating Committee of the Directors described under “Directors and Management of the Company – Governance, Compensation and Nominating Committee”

“**Debentures**” means the 7.0% convertible unsecured subordinated debentures of the Company that mature on September 27, 2014.

“**Directors**” mean the directors from time to time of the Company.

“**First Mortgage**” means a mortgage having priority over all other security interests registered against the same real estate used to secure such mortgage, other than interests that do not affect the value or marketability of such property.

“**FSCO**” means Financial Services Commission of Ontario.

“**Independent Director**” means a Director who, in relation to the Company, is “independent” within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, as replaced or amended from time to time (including any successor rule or policy thereto).

“**Investment Committee**” means the investment committee of the Company described under “Directors and Management of the Company – Investment Committee” comprised of two Directors who are voting members and the Company’s CEO and CFO, who are non-voting members.

“**Investment Portfolio**” means, at any time, the Company’s Loan and Mortgage Investments, Joint Arrangements (or interest in Joint Operations) and Portfolio Investments.

“**IRR**” means internal rate of return, which is calculated by the Company based on actual and projected cash distributions received by the Company on its investments.

“Joint Arrangement” or **“Joint Operations”** or **“Joint Venture”** means, a strategic partnership established with established developers to pursue the development of real properties.

“Loan and Mortgage Investments” means, at any time, the loans and/or mortgages advanced by the Company on and secured by real estate (also referred to herein as **“Loan Portfolio”**).

“Loan Portfolio” means, at any time, the loans and/or mortgages advanced by the Company on and secured by real estate (also referred to herein as **“Loan and Mortgage Investments”**)

“Loan Syndications” means the Company’s Loan and Mortgage Investments that have been syndicated with other investors (as further described in this AIF under the heading “Loan Syndications”).

“Loan Servicing Agreement” means an agreement to service a Loan and Mortgage Investment by the Company, on behalf of syndicate investors.

“Loan Servicing and Participation Agreement” means an agreement that contains servicing terms and conditions between the Company and a third party.

“Loan-to-Value” or **“LTV”** means the ratio, expressed as a percentage, determined by $A/B \times 100$ where:

A = the principal amount of the mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the real estate, and

B = the appraised market value of the real estate securing the mortgage at the time of funding the mortgagor or in a more recent appraisal, if available.

“MBLAA” means the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario).

“Mortgage” or **“mortgage”** means a mortgage, hypothec, deed of trust, charge or other security interest of or in real property used to secure obligations to repay money by a charge upon the underlying real estate, whether evidenced by notes, debentures, bonds, assignments of purchase and sale agreements or other evidences of indebtedness, whether negotiable or non-negotiable.

“Portfolio Investment” means an equity investment by the Company in an entity that carries on the business of real estate development.

“Private Syndications” means a Loan Syndication with accredited investors (as further described in this AIF under the heading “Loan Syndications – Syndication Strategy”).

“Profit Participation Fee” means a one-time fee, paid by certain borrowers to the Company, and is stated as a fixed dollar amount, and generally is paid at the end of the term of the loan or from proceeds from the sale of the related development project.

“TSX” means the Toronto Stock Exchange.

“Second Mortgage” means a mortgage having priority over all interests other than any First Mortgage registered against the same real estate used to secure such mortgage.

“SEDAR” means the internet based system for electronic data archiving and retrieval maintained by or on behalf of Canadian security regulators.

“Senior Loan Syndications” means a Loan Syndication with a third party investor (typically a Canadian Chartered bank, trust company or a pension fund) where the third party investor will participate in a senior portion of a First Mortgage (as further described in this AIF under the heading “Loan Syndications – Syndication Strategy”).

“Shares” means the common shares in the capital of the Company.

“Shareholder” means a holder of the Company’s Shares.

“Schedule I Bank” means a bank listed in Schedule I of the *Bank Act* (Canada).

“Superintendent” means the Superintendent of FSCO.

“Syndication” means the participation in a mortgage investment by more than one person.

“Syndication Fee” means the fee received by the Company from a third party investor in a Senior Loan Syndication for arranging the loan, calculated as a difference between the Commitment Fee collected from the borrower on the third party investor’s portion of the mortgage and what the third party investor charges as commitment fees for their portion of the mortgage.

“Syndication Spread” is the difference between the interest collected from the borrower on the third party investor in a Senior Loan Syndication’s portion of the mortgage and what the third party investor charges as interest for their portion of the mortgage.

“Unregistered loan” means a loan that may not necessarily be secured by a mortgage charge security, but that may be secured by other securities, such as personal guarantees or a pledge of shares of the borrowing entity.

“Weighted Average Effective Interest Rate” means the weighted average of all annual interest of the Loan and Mortgage Investments that takes into account the effect of compound interest and fees.

“Weighted Average Remaining Term to Maturity” means a weighted average of the remaining terms to maturity of the Loan and Mortgage Investments of the Company, computed by weighing each maturity date (the date the Loan and Mortgage Investment comes due) by the value of the Loan and Mortgage Investment.

CORPORATE STRUCTURE

Name, Address and Incorporation

Terra Firma Capital Corporation was incorporated under the Business Corporations Act (Ontario) on July 26, 2007. The Shares of the Company trade on the TSX Venture Exchange under the symbol TII. The head and registered office of the Company is located at 5000 Yonge Street, Suite 1502, Toronto, Ontario, M2N 7E9.

Inter-corporate Relationship

The following table provides the names of the Company's subsidiaries, the percentage of issued and outstanding voting securities of each subsidiary beneficially owned, or controlled or directed, directly or indirectly, by the Company, as at December 31, 2013, the nature of each subsidiary and the jurisdiction of incorporation of the subsidiaries..

| Name of Subsidiary | Percentage of Voting Securities | Nature of Entity | Jurisdiction of Incorporation |
|--|---------------------------------|------------------|-------------------------------|
| Terra Firma MA Ltd. | 100% | Corporation | Ontario |
| Terra Firma Queen Developments Inc. | 100% | Corporation | Ontario |
| Terra Firma Capital (Hill) Corporation | 79% | Corporation | Ontario |

GENERAL DEVELOPMENT OF THE BUSINESS OF THE COMPANY

Terra Firma was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The Company completed its initial public offering on December 20, 2007 in accordance with Policy 2.4 of the TSX Venture Exchange and was classified as a Capital Pool Company. In December 2008, Terra Firma completed its Qualifying Transaction (as defined in and pursuant to Policy 2.4 of the TSX Venture Exchange) with the acquisition of a property located at 870 Red River Road in Thunder Bay, Ontario, which was subsequently sold.

The Company's business has grown steadily as a result of prudent and conservative lending practices. The Company believes this growth has resulted in a higher risk adjusted return on its invested capital. See "BUSINESS OF THE COMPANY".

Three Year History

In the past three years, the Company has demonstrated its ability to originate, create and provide sophisticated financing structures that are customized to the unique needs of borrowers and compete effectively with comparative financing structures offered by other real estate financing companies.

The Company has increased its Investment Portfolio from \$17.8 million at December 31, 2011 to \$59.3 million at December 31, 2013. This growth was funded through Loan Syndications of \$6.8 million at December 31, 2011 and \$46.6 million at December 31, 2013 and proceeds from the issuance of Debentures in September 2011 in the aggregate amount of \$10,150,000.

The Company's total revenue for the year ended December 31, 2013 was \$8.9 million, an increase of \$7.3 million from \$1.6 million for the year ended December 31, 2011.

The following is a summary of the Company's business operations for the three most recently completed financial years.

2011

In December 2011, the Company completed a private placement of 11,700,000 Shares at \$0.50 per Share for gross proceeds of \$5,850,000, less related costs of \$31,494.

In September 2011 the Company completed a private placement of 10,150 Debentures at a price of \$1,000 per debenture for gross proceeds of \$10,150,000. The Debentures mature on September 27, 2014. See "CAPITAL STRUCTURE – Debentures".

In January 2011, the Company issued 895,000 Shares at \$0.30 per Share to the Chief Executive Officer, for gross proceeds of \$268,500.

Highlights for the year ended December 31, 2011

- The Investment Portfolio totaled \$17.8 million.
- For the year ended December 31, 2011, the Company earned \$287,322 or \$0.02 per Share, basic and diluted.
- The principal balance of the Loan Portfolio as at December 31, 2011 was \$16,724,774. During the year ended December 31, 2011, the Company funded \$14,476,768 of Loan Portfolio.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2011 were 19.3% and 1.07 years, respectively.

2012

On December 31, 2012, the management agreement (the "Management Agreement") between the Company and Counsel Asset Management L.P. (the "Manager"), an entity controlled by the then Chairman of the Board of the Company, was terminated. Prior to December 31, 2012, pursuant to the term of the Management Agreement, the Manager provided the administration of the day-to-day operations of the Company.

Following the termination of the Management Agreement, the Company's overall strategy remains unchanged and management believes that the Company is better positioned to deliver on its strategy and objectives with an internalized management structure. See "COMPETITIVE ADVANTAGES – Alignment of Interests".

Highlights for the year ended December 31, 2012

- The Investment Portfolio totaled \$36.3 million.
- For the year ended December 31, 2012, the Company earned \$1,251,980 or \$0.05 per Share, basic and diluted.
- The principal balance of the Loan Portfolio as at December 31, 2012 was \$31,996,731. During the year ended December 31, 2012, the Company funded \$18,487,575 of Loan Portfolio, including capitalization of interest of \$774,749.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2012 were 19.9% and 0.65 years, respectively.

2013

In October 2013, Mr. John Kaplan (a director of the Company), through a wholly-owned subsidiary, acquired 6,158,376 Shares at a price of \$0.50 per Share in a private agreement and was appointed as the Chairman of the Board.

Highlights for the year ended December 31, 2013

- The Investment Portfolio totaled \$59.3 million.
- For the year ended December 31, 2013, the Company earned \$1,699,827 or \$0.06 per basic Share, and \$0.05 per diluted Share.
- The principal balance of the Loan Portfolio as at December 31, 2013 was \$55,278,303. During the year ended December 31, 2013, the Company funded \$42,579,820 of Loan Portfolio, including capitalization of interest of \$2,296,952.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2013 were 18.6% and 1.21 years, respectively.
- Effective January 1, 2013, all of the Company's operations are managed internally. See "COMPETITIVE ADVANTAGES – Alignment of Interests".

Outlook for 2014

The objective of the Company is to provide attractive returns to shareholders over the long-term, through appreciation in net book value and the value of its Shares. Management believes that there are significant opportunities for the Company to expand its presence in the market; to identify financing needs not being met by traditional institutional lenders and to create customized financing solutions to borrowers; however, it continues to be prudent in its approach to selection of new investments and pricing.

BUSINESS OF THE COMPANY

General

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 of a property, for such development or redevelopment, property repairs or the purchase of investment property. These loans are typically repaid with lower cost, longer-term debt obtained from other Canadian financial institutions once the applicable transitional period is over or the redevelopment is complete, or from proceeds generated from the sale of the real estate assets.

The Loan and Mortgage Investments made by the Company are on properties principally located in major urban markets and their surrounding areas in Canada and the United States. The types of real estate assets for which the Company arranges financings include residential buildings, mixed-use properties, and land for residential and commercial development and construction projects.

The Loan and Mortgage Investments generally take the form of:

- Land loans registered in first or second position at the earlier stages of real estate development,
- Term mortgages for the purposes of acquiring or re-financing income-producing properties, or

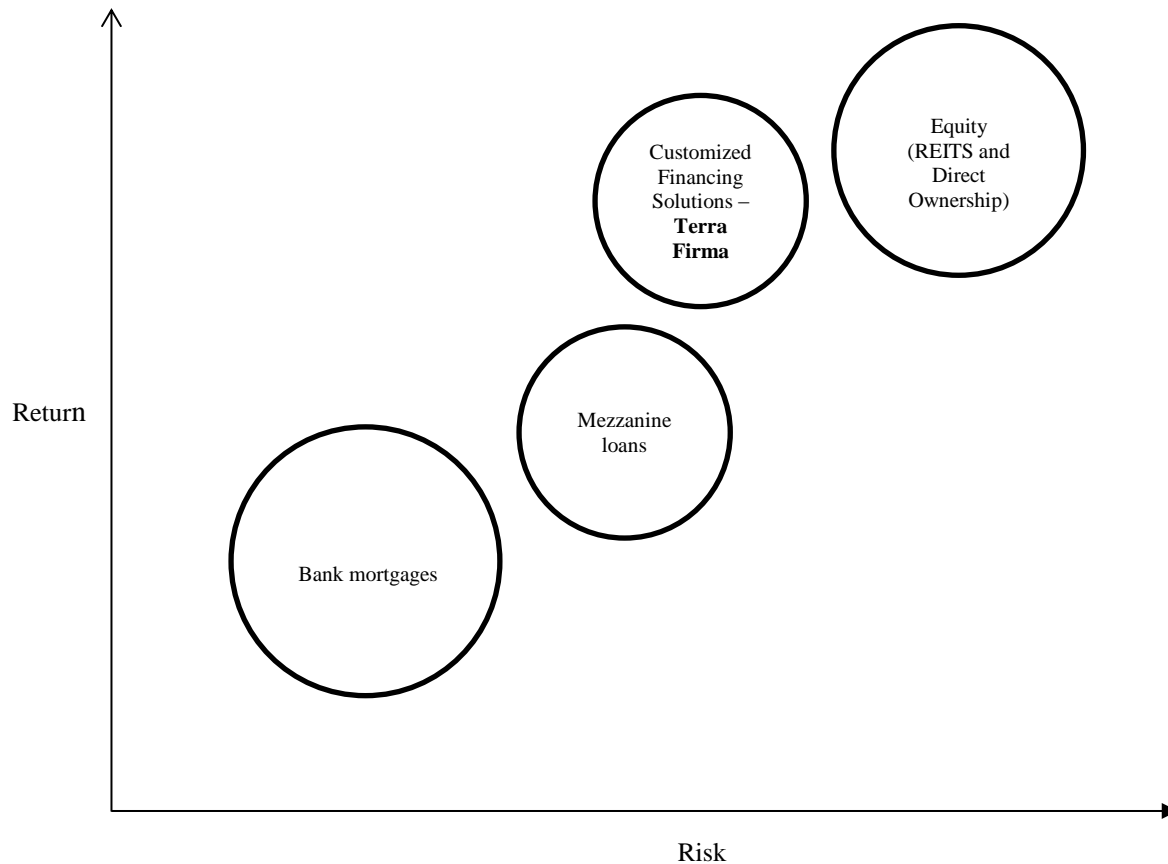
- Mezzanine / subordinated debt financings on real estate developments that have either progressed to the construction phase or are in the process of approaching the construction phase.

These financings generally represent loan to cost ratios of 80% (on a selective basis the Company may increase to 90% loan to cost ratio) and Loan-to-Value ratios of 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases the Loan-to-Value ratio could increase to 90%.

In addition, the Company participates in the development of real estate in Canada and in the United States by providing equity-type financing to developers. These financings provide a guaranteed minimum return and/or a share of remaining net cash flow from projects, and may be done as Joint Arrangements or Portfolio Investments. The Company provides these financings in the form of preferred equity in the entity that holds the real estate asset. Except for the Joint Arrangements, the Company’s equity investment ranks ahead of the developers’ or owners’ equity in the project, whereby, providing the Company with the capital protection through subordination.

Investment in real estate comprises a variety of “tranches” with highly differentiated risk/return characteristics based on their position in the capital structure and subordination levels. The Company strives to achieve “equity like” returns on its Loan and Mortgage Investments while bearing lower risk than equity investments, by structuring its financings in a “debt like” structure.

The following chart shows management’s assessment of risk/return characteristics of the Company’s Loan and Mortgage Investments relative to other participants in the real estate financings/investments. The Company assesses its return profile to overlay the returns of equity investors while the risk profile overlays the risk profile of other mezzanine lenders.



Equity investments in real estate assets are effectively unhedged and therefore relatively volatile. Equity investors must accept downside risk in order to fully share in the upside potential.

Mortgages offered by conventional banks, credit unions, trust companies and pension funds are more conservative and traditionally represent lower Loan-to-Value, accordingly, offer lower rates of return. This is an institutionalized marketplace dominated by large, well-capitalized financial services firms looking for bond-like investments.

Mezzanine loans and Second Mortgages offered in the market place are typically at higher Loan-to-Value (typically 50%-75%, depending on the type of security) and as such, offer higher rates of return.

Customized financing solutions offered by the Company are secured by quality assets that involve customized features such as interest accrual, early repayment options and profit participation. This customization warrants higher yields than standard bank mortgages and senior mortgages, closer to equity returns without the risk and volatility associated with equity investments.

The Company's primary sources of revenue include interest income derived from its Loan and Mortgage Investments as well as income earned from Commitment Fees, Syndication Fees, Syndication Spread and Profit Participation Fees.

Objectives of the Company

The objectives of the Company are to originate, create and maintain a diversified real estate Loan Portfolio, to preserve the Company's capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation, and payment of dividends (from time to time as the Board considers appropriate).

Foreign Operations

The Company's primary activities are carried out in Canada, however; it also offers financings secured by real estate assets located in the United States. The Company is not dependent on foreign operations.

Specialized Skill and Knowledge

The Company believes that its success is dependent on the performance of its management and employees. Each member of the management has extensive knowledge and understanding of the mortgage and real estate industries that has enabled them to have a strong track record of identifying sound investment opportunities and making prudent investment decisions. The Company has adequate personnel with the specialized skills required to successfully carry out its operations.

Cycles

The Company does not experience significant seasonality, and originations of new mortgages tend to occur on a fairly consistent basis over the entire year. Loan origination volumes may be affected by the level of real estate development and the availability of capital from other real estate financing companies.

REAL ESTATE LENDING

Overview

The real estate lending market can be segmented into three categories according to the track record and creditworthiness of the borrower and the value of the property.

The first category of the mortgage market consists of high quality borrowers and often Loan-to-Value ratios which are relatively low. This market, known as the Conventional Mortgage market, is well served by conventional lenders such as banks, life insurance companies, and other institutional lenders. There is strong competition among

the conventional lenders in this market segment and consequently the yields available to lenders on these mortgages are relatively low. This category is not the source of a material component of the Company's business.

The third category of the mortgage market consists of low quality borrowers and often high Loan-to-Value ratios. This is a much riskier segment in which to invest and consequently the yields on the mortgage loans are much higher. The Company does not invest in this segment of the mortgage market.

The second category of the mortgage market consists of borrowers and loans which do not fall into the first or third categories described above, but represent an acceptable level of underwriting risk. Conventional lenders normally do not participate in this category of the mortgage market because either the borrower or some other specific factors relating to the loan do not fit their lending criteria. Traditional Canadian financial institutions have particularly underserved borrowers who require some form of short-term financing in the transitional phase of the real estate investment process, which phase can include the acquisition, development or re-positioning of real estate or a portfolio of real estate to add value to the investment prior to obtaining long-term financing. The traditional financial institutions do not typically provide financing to this market segment due to the short-term nature of the mortgages and the limited size of the loans. This market segment is very fragmented as it is serviced by a large number of smaller lenders who are not widely known or accessible. The Company believes that this demand/supply imbalance creates an opportunity for the Company to achieve significantly higher yields than are available to the lenders in the first category. Many of the borrowers in this category are willing to pay higher rates for timely access to funds and to secure a more flexibly structured mortgage than the major lending institutions are willing to provide. Once the transitional phase of the underlying property is complete, the properties can be refinanced with longer-term, lower interest mortgage loans from traditional Canadian financial institutions.

The Company believes that the above factors have created an opportunity for alternative lenders to charge premium interest rates for high quality real estate financing and have contributed to the increased number of attractive investment opportunities available to the Company. The Company has profitably taken advantage of these investment opportunities since 2011.

Licensing and Legislative Regime

An individual who deals in mortgages or trades in mortgages in Ontario is required to be licensed as a mortgage broker or a mortgage agent. Mortgage brokerages in Ontario are currently regulated under the MBLAA. The MBLAA is administered by the Superintendent under the authority of the FSCO, which regulates mortgage brokerages, agents and administrators who must be licensed under the MBLAA. Under the MBLAA, a "mortgage brokerage" is a person who carries on the business of dealing in or trading in mortgages or carries on business as a mortgage lender in Ontario and is required to hold a valid brokerage license. A person is considered to be "dealing in mortgages in Ontario" when such person engages in any of the following activities in Ontario, or holds itself out as doing so: (a) soliciting another person or entity to borrow or lend money on the security of real estate; (b) providing information about a prospective borrower to a prospective mortgage lender, whether or not the MBLAA governs the lender; (c) assessing a prospective borrower on behalf of a prospective mortgage lender, whether or not the MBLAA governs the lender; (d) negotiating or arranging a mortgage on behalf of another person or entity, or attempting to do so; or (e) engaging in such other activities as may be prescribed under the MBLAA. A mortgage broker or mortgage agent can only act on behalf of one specified mortgage brokerage and every brokerage must appoint a principal broker who is licensed as a mortgage broker. Every mortgage brokerage must obtain a license issued by the Superintendent, which is for a term of two years and is subject to a fee established by the Minister of Finance. The Company, through its wholly-owned subsidiary Terra Firma MA Ltd., engages directly in the business of mortgage lending activities in Ontario on the security of real estate.

Corporations, partnerships and sole proprietorships that carry on the business of administering mortgages in Ontario are required to hold a valid mortgage administrator's license. Terra Firma MA Ltd., the wholly-owned subsidiary of the Company that performs mortgage brokerage services on behalf of the Company, currently holds a valid license under the MBLAA which permits it to carry on the mortgage brokerage and administrative activities and operates in compliance with the requirements of the MBLAA. The administrator's license under the MBLAA qualifies Terra Firma MA Ltd. to syndicate its mortgage loans.

The Superintendent has broad authority over mortgage brokerages, including the power to grant or renew licenses, to revoke licenses, to attach conditions to a license, and to investigate complaints made regarding the conduct of registered mortgage brokerages. A mortgage brokerage must meet several requirements under the MBLAA to obtain or renew a license, and must remain in compliance with the MBLAA on a continuing basis, failing which the Superintendent may revoke the license.

Generally, a mortgage brokerage will not be granted a license or a renewal of a license if, having regard to the financial position of the mortgage brokerage, it could not reasonably be expected that the mortgage brokerage would be financially responsible in the conduct of its business. In addition, a license will not be granted or renewed if the past conduct of the applicant is such that it provides reasonable grounds for the Superintendent to believe that the mortgage brokerage will not conduct business legally and with integrity and honesty. In the case of a corporate mortgage brokerage, the Superintendent will look to the past conduct of the directors and officers of the Company. Subject to certain exceptions, every individual mortgage broker and active officers and directors of a corporate mortgage brokerage must complete an education program approved by the Superintendent.

TARGETED INVESTMENTS

General

The investment real estate markets in Canada and the United States are comprised of residential (including multi-residential, retirement and student residences, residential building lots and condominium inventory), office, retail and industrial real property, as well as development land. Real estate investors are typically either large institutional investors, such as pension funds and public companies, or smaller entrepreneurial investors, such as privately managed funds and individuals. Most real estate investors and developers in Canada and the United States require some form of real estate financing to acquire, develop or re-position real estate or a portfolio of real estate.

The Company focuses on providing a variety of structured real estate financing solutions to qualified real estate developers and investors who require short-term loans to bridge a period of one to five years during the investment or development process where they require capital for development or redevelopment of a property, property repairs or for the purchase of investment property. These short-term loans are typically repaid with lower cost, longer-term debt obtained from other Canadian financial institutions once the development or redevelopment is complete, or from proceeds generated on the sale of the real estate assets.

Though real estate developers and owners have multiple low-cost financing options available to them, these options often do not meet their requirements due to the more rigid policies of institutional lenders. The Company offers a full spectrum of structured real estate financing solutions to these developers and owners, whose financing needs are not met by conventional banks. In any equity-type financing provided to such developers and owners, the Company's equity will rank in priority to such developers' and owners' equity.

Over the past few years, the Company has successfully provided over \$100 million in capital in various types of structures to this segment of the real estate market. In addition, the Company has also arranged senior loans with financial institutions for its borrowers. As a result, the Company gained sufficient traction to build its platform, brand, reputation, and established itself as a premier non-bank lender of choice in Ontario.

The following is the description of the structured real estate financing solutions offered by the Company:

Loans and Mortgage Investments

The types of Loan and Mortgage Investments comprising the Company's Investment Portfolio are as follows:

Developer Land Loans

Developers who require financing to acquire infill land to develop low rise, midrise and high rise development projects have fewer financing options available to them as the small scale of these types of projects are

of limited appeal to larger financial institutions. Developers need this financing for the acquisition of the land and the installation of roads, drainage and sewage systems, utilities and similar improvements. The Company specializes in providing land loan and development financing to developers and builders, primarily for well positioned infill locations, which can be developed in a 12 to 24 month period. When structuring these types of financings, the Company considers: (i) the experience of developers; (ii) the location; (iii) profitability; (iv) the affordability of price points; (iv) the prior acceptance of the product in the market; and (v) the exit strategy for the Company. The Company finances these real properties either in the form of tranching First Mortgages or Second Mortgages, with a forecasted completion timeframe of 18 to 30 months, which effectively limits the exposure to changing market conditions. The Company will not consider loans against land where developers have no plans to develop the land within 12 months to 24 months.

Multi-Family Residential Investment Properties and Commercial Mortgages or Bridge Financing loans

Mortgage lending in the Canadian multi-family residential investment property market is dominated by the large financial institutions, including the Schedule I banks, life insurance companies and pension funds. These institutions, along with Canada Mortgage and Housing Corporation focus on stable assets with consistent operating history. A large segment of the market is either not serviced by traditional bank lending or is conservatively leveraged. Limited availability of capital from conventional lenders gives the Company the opportunity to provide First Mortgage and Second Mortgage financings.

In some cases, the Company offers short-term Bridge Financing loans to experienced real estate developers and investors. These loans generally ranging between 6 months to 3 year periods are used for capital improvements or implementation of efficiencies that increase value of an investment property, enabling the borrower to refinance with the traditional banks or purchase of another investment property. Bridge loans typically bear higher rates of interest than traditional debt financing.

Mezzanine and subordinated debt financing

The provision of mezzanine or subordinated debt financing for residential and commercial development projects in Canada is highly fragmented. There are few institutional providers of this specialized form of financing for developers, and the capital providers are typically small private entities with limited access to large amounts of capital. Given the lack of participation from the larger financial institutions, there is little competition in this market segment, which gives the Company the opportunity to underwrite well-structured, secure mortgages and unregistered loans with attractive pricing.

Equity-type financing and Joint Arrangements

The Company provides equity-type financings to experienced local or regional developers in Canada. These financings provide a guaranteed minimum return and/or a share of remaining net cash flow from projects, and may be done as Joint Arrangements or Portfolio Investments. These development partners or operators acquire, develop, and/or construct commercial, multi-family land development, homebuilding, and multi-family construction projects. The Company provides these financings in the form of preferred equity in the entity that holds the real estate asset. Except for the Joint Arrangements, the Company's equity investment ranks ahead of the developers' or owners' equity in the project, whereby, providing the Company with the capital protection through subordination.

INVESTMENT PORTFOLIO

Terra Firma provides real estate financings based on disciplined underwriting criteria which would include an appraisal, market assessment, environmental and geotechnical report, background checks and net worth of its borrowers etc., which are all compiled into an underwriting report prepared internally by management of the Company for each mortgage. The Investment Portfolio was sourced and underwritten internally by the Company. Based on the underwriting report, the Investment Committee determined that each investment in the Investment Portfolio met the objectives and investment policies of the Company. As at December 31, 2013 the Investment Portfolio included 19 Loans and Mortgage Investments, Joint Arrangements in two properties and a Portfolio Investment in a development property. See "INVESTMENT PROCESS – Investment Strategy".

The following is an overview of the Investment Portfolio held by the Company as at December 31, 2013 and 2012:

| | December 31, 2013 | % | December 31, 2012 | % |
|-------------------------------------|--------------------------|----------|--------------------------|----------|
| Mortgages | \$ 44,078,303 | 74% | \$ 18,032,335 | 50% |
| Unregistered Loans..... | 11,200,000 | 19% | 13,964,396 | 39% |
| Total Loan Portfolio | \$ 55,278,303 | 93% | \$ 31,996,731 | 88% |
| Interests in Joint Operations | 3,073,905 | 5% | 3,321,609 | 9% |
| Portfolio Investment | 954,073 | 2% | 950,000 | 3% |
| Total Investment Portfolio..... | \$ 59,306,281 | 100% | \$ 36,268,340 | 100% |

The Greater Toronto Area and other Ontario urban centres contain a sizeable portion of Canada's population and a well-diversified industry base. The Company makes its Loan and Mortgage Investments on real estate located primarily in the Greater Toronto Area and other Ontario urban centres that are in close proximity to the Company's offices and with which the Company's management is familiar.

The Company's Investment Portfolio as at December 31, 2013 consists of: (a) loans relating to 14 residential housing developments, comprising 1,738 high rise units in Toronto, Ontario, 469 low rise single family condominium and freehold units in Toronto and Kitchener, Ontario, representing 72.6% of the Investment Portfolio, (b) a portfolio of eleven student housing income properties consisting of 5,352 student beds in several states in the United States, representing 23.1% of the Investment Portfolio, (c) two residential income properties consisting of 301 rental units in Toronto and Ottawa, Ontario, representing 3.2% of the Investment Portfolio, and (d) a commercial retail development consisting of 5 units in Kitchener, Ontario, representing the remaining 1.1% of the Investment Portfolio. Further details are contained in the Company's Management's Discussion and Analysis for the year ended December 31, 2013, which is available at www.sedar.com or on the Company's website www.tfcc.ca.

The Investment Portfolio as at December 31, 2013 is representative of the types of Loan and Mortgage Investments, Joint Arrangements and Portfolio Investments in which the Company invests. While there can be no assurance that the Weighted Average Effective Interest Rate on the Loan and Mortgage Investments will be representative of interest yields to be obtained on the Company's future Loan and Mortgage Investments, management anticipates that the aggregate IRR on the Company's Loan and Mortgage Investments will continue to be in excess of 15%, based on the performance of the Investment Portfolio and the historical performance of the Loan and Mortgage Investments originated and serviced by the Company in the last three years.

All properties are evaluated on the basis of location, quality, and prospects for capital appreciation and, in the case of Commercial Mortgages, on prospects for income. In addition, the credit of the borrower is also reviewed and, where appropriate, personal or corporate covenants are obtained.

INVESTMENT PROCESS

General

In the view of the Board and management, the three keys to developing and maintaining a successful Loan Portfolio are: (i) knowledgeable mortgage underwriting; (ii) the ability to source a broad range of investment opportunities thereby allowing the Company to be selective and prudent in its choice of mortgage investments; and (iii) disciplined monitoring, servicing and collection enforcement methods. In these respects, the Company benefits from the experience of the Board and management.

The Company sources and funds mortgage investments which satisfy the Company's investment criteria based on: (i) the specialized lending structures offered to borrowers; (ii) the reputation, experience and marketing ability of management; (iii) the timely credit analysis and decision-making processes followed by management; and (iv) a lack of significant competitors in the market segments in which the Company invests.

The Company uses a top-down approach to identify attractive investment opportunities, beginning first with a preliminary analysis based on the preliminary information received from the prospective borrower, together with some initial due diligence. This top-down approach to investment approval has resulted in a high quality Loan Portfolio that offers attractive returns on a risk adjusted basis.

Management determines whether the loan or mortgage investment opportunity is suitable for the Company, having regard to the Company’s investment objectives and strategies and the Company’s goal of maintaining a diversified, fully-invested portfolio for the Company. Once an investment opportunity is determined to be satisfactory based on an initial review, a letter of intent is sent to the proposed borrower for signature and return (signalling acceptance of the terms), together with an initial deposit sufficient to cover the Company’s due diligence, legal and other related costs. The Company manages the risks associated with defaulting loans and mortgages through initial due diligence, careful monitoring of its loans and mortgages, active communication with borrowers and the prompt institution of enforcement procedures on defaulting loans and mortgages. All properties are evaluated on the basis of location, quality, source of repayment, prospects for value-add and cash flow profile. In addition, the creditworthiness of the borrower is reviewed and personal covenants are often obtained from the principals of the borrower. Due diligence procedures undertaken by the Company prior to funding Loan and Mortgage Investments have resulted in a strong record of return of principal and interest.

Each Loan and Mortgage Investment is subject to a detailed review process by the Investment Committee. The Loan and Mortgage Investments that are determined to be satisfactory by management upon completion of its initial due diligence will be presented to the Investment Committee, together with a comprehensive due diligence report. The Investment Committee will consider each investment opportunity with a view to assessing the strength of the security covenants of such loan or mortgage investment opportunities, and the payment and default risks associated with that loan or mortgage. In considering the adequacy of the underlying real estate that is offered as security on a proposed loan, the Investment Committee will rely on a review of (among other things): (a) real estate valuations – supported by third party appraisals; (b) environmental risks – supported by third party environmental reports; (c) covenants of the borrower and/or guarantor; (d) exit strategy for the proposed loan; and (e) default risk of the proposed loan. See “DIRECTORS AND MANAGEMENT OF THE COMPANY – Committees of the Board”.

The Company’s funding process is summarized below:

| Investment Stage | Investment Approval Activity |
|---|--|
| Deal Sourcing | Deal sourced through current network of industry participants Repeat borrowers and/or operators |
| Initial review by Management | Management reviews a discussion paper prepared by the loan originator which details the proposed loan terms and preliminary analysis based on the preliminary information received from the prospective borrower, together with some results of initial due diligence, terms of the loan, Loan-to-Value, borrower’s quality, etc. The underwriter proceeds with completion of a term sheet which details the loan terms, underwriting and due diligence, and comprises a complete analysis of the loan. |
| Letter of Intent | A letter of intent is prepared, reviewed and approved by the underwriter, sent to the proposed borrower for signature and return, together with a required deposit cheque |
| Investment Committee approval and issuance of Commitment Letter | Upon acceptance of the letter of intent, the underwriter prepares a detailed report to the Investment Committee outlining the term of the deal. A commitment letter is issued to the borrower for acceptance of the terms and conditions, pre-funding conditions and covenants for financing. |
| Due Diligence | The underwriter conducts due diligence including a review of credit checks, financial statements and personal net worth statements of the prospective borrower(s) and any guarantor(s); internet searches; third party reports (such as valuation appraisals, environmental, building condition assessment and geotechnical appraisals); a development budget and schedules, zoning and permits; and prior and subsequent ranking mortgage balances. |
| Mortgage Funding | The Company’s legal counsel prepares legal documents, obtains title insurance, and conducts the required enquiries and searches. |

| | |
|---|--|
| Final Due Diligence Meeting and Funding | The underwriter and the Company's Chief Financial Officer confirm that all due diligence and funding requirements have been completed. The Company's Accounting Department funds the borrower. The Company's legal counsel registers the security documents and ensures all conditions are satisfied before releasing funds to the borrower. |
| Monitoring | The Company monitors contractual payments and progress on the proposed development, and receives periodic reporting from borrowers. |

Once funded, the Company regularly monitors the status of each Loan and Mortgage Investment and that of the borrower. The Company communicates regularly with borrowers to understand how the asset underlying the Loan and Mortgage Investment is performing and to discuss and monitor their repayment strategies and redevelopment strategies, as applicable. The Company believes that a strong relationship with borrowers is critical to the success of the Loan and Mortgage Investments and to the development of good quality and repeat borrowers. The Company monitors the performance of the Loan and Mortgage Investments, including tracking of the status of outstanding payments due, grace periods and due dates, and the calculation and assessment of other applicable charges. The Company makes reasonable efforts to collect all payments called for under the terms and provisions of each loan and mortgage comprising the Company's Loan and Mortgage Investments and follows appropriate and prudent collection procedures or procedures the Board may otherwise direct.

Upon default of a Loan and Mortgage Investment, the Company will evaluate whether the causes of the default will be corrected quickly without significant impairment to the value of the mortgaged property, initiate corrective action, inspect the mortgaged property and take such other actions as are consistent with appropriate and prudent collection procedures as necessary.

The Company's Joint Venture and Portfolio Investment activities go through the same due diligence, approval, funding and monitoring process. The Company provides these financings in the form of preferred equity in the entity that holds the real estate asset. Except for the Joint Arrangements, the Company's equity investment ranks ahead of the developers' or owners' equity in the project, whereby, providing the Company with the capital protection through subordination.

Investment Criteria

The assets of the Company are invested in accordance with its investment objectives. The Board of Directors adopted a series of investment and operating policies for the Company and established the following investment criteria:

- the Company can only invest in: (i) Loan and Mortgage Investments and (ii) on a very selective basis, equity financings involving investment in real estate development property;
- at the time of funding the investment, no single loan or mortgage investment will have a Loan-to-Value exceeding 85% and the weighted average Loan-to-Value of the Loan Portfolio will not exceed 80%;
- at the time of investment, not more than 25% of the principal amount of the Loan and Mortgage Investment will consist of Unregistered loan investments;
- at the time of funding the investment, not more than 20% of the principal amount of the Investment Portfolio will be comprised of mortgages secured by the same property;
- the Company's debt to equity ratio may not exceed 1:1 (for greater clarity, Loan and Mortgage Investments syndicated to investors are not considered debt);
- at the time of funding the investment, the Weighted Average Term to Maturity of the Loan and Mortgage Investments of the Company will not exceed 60 months;
- the Company will not engage in securities lending; and

- the Company will not engage in derivative transactions, other than derivative transactions to hedge interest rate risk or currency risk and not for speculative purposes.

The Company's investment criteria as set out above may be changed, or waived in respect of specific Mortgage applications, with the approval of the Company's Board. As of the date thereof, the Company doesn't have any externally imposed investment restrictions.

Investment Strategy

The Company seeks to accomplish its investment objectives by providing flexibility to property developers and owners whose financing needs are not met by traditional real estate lenders by offering a full spectrum of structured financing solutions, in priority to developers' and owners' equity. 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 financing structures, including equity-type financing. The Company's Investment Portfolio consists of high yielding loans secured by, or that provide a participating interest or ownership interest in a real estate asset. The Company believes that its key lending and investing practices and advantages in the market includes its: (i) flexible structuring capability, (ii) speed of approval and funding, and (iii) certainty of executions, all of which provide the Company with a consistent flow of quality investment opportunities.

In general, the Investment Portfolio generates income through interest, which is typically payable periodically according to the terms of the Investment Portfolio, Commitment Fees, Profit Participation Fees and share of profits. In some circumstances, where the Loan and Mortgage Investment exceeds 80% Loan-to-Value ratio, the Company may charge a Profit Participation Fee as a pre-determined amount. The Profit Participation Fee is generally paid on discharge of the loan or upon completion of the development project.

The Company provides mortgages that are either first ranking or a junior position in a First Mortgage or a Second Mortgage that are extended at the earlier stages of real estate development or for the purpose of acquiring or re-financing real estate. The Company provides mezzanine / equity-type financing on real estate that has progressed to the construction phase or mezzanine financing on income properties. In certain cases, individual mortgages may be secured by more than one property owned by the same borrower.

In some cases, the Company arranges and retains the entire mortgage for the Company. In other cases, the Company permits a third party investor (typically a Canadian chartered bank, a trust company or a pension fund) to participate in a senior portion of a First Mortgage at a reduced interest rate, thereby enabling the Company to retain a disproportionately large amount of interest revenue when compared to the portion of the mortgage it retains. This practice is known as "tranching". Tranching enables the Company to effectively increase its returns while using less capital for each mortgage investment, thereby facilitating greater diversification for the Company. The third party is given priority for payment on its senior position in the mortgage in return for a lower interest than the stipulated interest rate to the borrower. The Company receives a disproportionately larger amount of interest revenue compared to the change in risk associated with the portion of the mortgage it retains. The servicing of the entire mortgage is governed by a Loan Servicing and Participation Agreement between the Company and the third party that permits the third party to control the administration of the entire mortgages, under certain conditions. Typically, both the senior and junior positions of the mortgage receive their shares of the interest payments according to the Loan Servicing and Participation Agreements. Title to the mortgage and all other security will be in the name of a nominee that will hold title on behalf of both the Company and the third party as beneficial owners of the mortgage. If there is an event of default under the Mortgage (i.e. failure of the borrower to pay an amount owing), the senior participant (or after the senior participant has been fully repaid, the junior participant) is entitled to direct the third party to enforce the mortgage on behalf of both participants in accordance with applicable law with all costs to be borne by the borrower.

The Company's second charge mortgages are secured by a stand-alone charge against the underlying real estate and are subordinate to the first charge and therefore have a lower priority for repayment.

The Company provides Loans and Mortgage Investments, focusing on terms of up to three years. The Weighted Average Remaining Term to Maturity of the Loans and Mortgage Investment at December 31, 2013 and 2012 were 15 months and 8 months, respectively. This will enable the Company to increase the interest income in the event of interest rates increase.

The Company believes that the reduced number of real estate financing options available to property developers and owners will allow the Company to earn above-average returns for a given profile and to be selective in its investments.

LOAN SYNDICATIONS

General

The Company leverages its Loan Portfolio through the issuance of Debentures and capital provided by syndicated investors. This additional capital is designed to increase the Company's Loan Portfolio, its scope and diversification. As the cost of this additional capital is typically less than the return on the Loan Portfolio, it also increases the overall return to the Company.

The Loan Portfolio is sourced through 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.

Syndication Strategy

The Company applies two syndication strategies:

- (i) Senior Loan Syndications – Whereby the Company originates a whole loan and creates a senior tranche (typically 50% to 60% LTV) and a junior tranche. The senior tranche is offered to institutional lenders at a lower rate. The Company retains the junior tranche, which is subordinated to the senior tranche, and benefits from the spread differential. See “INVESTMENT PROCESS – Investment Strategy”.
- (ii) Private Syndications – Whereby the Company offers accredited investors to participate in certain of its Loan and Mortgage Investments on a pari passu basis. Typically the Company would syndicate up to 80% of a loan to accredited investors. The terms of the syndication would mirror the terms of the loan with the exception of the interest rate paid to syndicated investors which would typically be 300 basis points per annum less. In addition the Company would retain any commitment fee and certain other fees earned from the borrower. Management of the mortgage origination, funding, payouts and delinquency (if applicable) are all handled by the Company on behalf of the syndicate investors. The Company will be registered on the title documentation of the property for the junior portion of the loan and the syndicated investors will be secured through a Loan Servicing Agreement with the Company.

Loan and Mortgage Investments that may initially be funded by the Company may then be syndicated to other lenders sourced by the Company on a pari passu basis.

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. This specific rate will vary from mortgage to mortgage depending on the Loan-to-Value, mortgage position, location, term, and exit strategy. Although all syndicated mortgages have an expected maturity date, at times loans and mortgages require more or less time than the anticipated term to payout the loan and mortgage.

Both the senior loan syndications and private syndications have no recourse to the Company and there is no obligation of the Company to fund any principal or interest shortfalls.

The Company's syndication strategy, in addition to tranching the Loan Portfolio with a senior lender, limits the Company's exposure to larger loans and typically results in greater fee and interest income relative to the Company's loan exposure that the Company has for originating and holding the entire loan.

Borrowing Strategy

The Company believes that using a modest level of borrowing significantly enhances the total return to its shareholders. The Company may from time to time borrow funds from other entities which will enable it to make its use of funds much more efficient since it allows it to operate without having excessive uninvested funds on hand due to the variable and unpredictable nature of funding commitments and investor inflows and outflows. Additionally, the Company will earn a positive interest rate spread between the interest earned from investing such borrowings and the interest rate paid by the Company on those borrowings.

On September 27, 2011, the Company issued 10,150 Debentures at par value of \$10,150,000. The Debentures bear interest at 7.0% per annum, payable on the last business day of each calendar quarter, and mature on September 27, 2014. 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. A description of the Debentures is set out in "Description of Capital Structure – Debentures".

On May 29, 2014 the Company announced that it is refinancing the Debentures with a new series of convertible debentures. The Company is currently in the process of finalizing the refinancing.

The Company does not guarantee securities or obligations of any person or company and the Company does not engage in securities lending.

COMPETITIVE ADVANTAGES

The Company believes that the experience of management and the Board, their track record in the marketplace and the Company's investment structure, have provided and will continue to provide the Company with the following, among other, competitive advantages to achieve its business objectives.

Strong Management with Key Industry Experience

The Directors and officers of the Company have experience in real estate asset, investment management and origination, underwriting and corporate governance. The Company has built a full-service lending platform that has the capacity to successfully underwrite, finance, acquire and manage investments that fit the investment profile and mandate of the Company.

The ability of the Company to move quickly and provide more creative solutions to borrowers' financing needs provides the Corporation with access to a strong supply of real estate financing opportunities. Over the last three years, management has demonstrated its ability to develop and execute sophisticated financing structures that are customized to meet the unique needs of borrowers, and to compete effectively with other financing structures offered by large financial institutions. The Company's quick turnaround and ability to creatively solve issues as they arise give it a strong competitive advantage.

Focused Business Model

Currently, the Company is engaged exclusively in real estate financing and related administration activities. It neither invests in real estate assets nor does it lend to non-real estate projects or companies. This focus has allowed the Company to develop and maintain a specific expertise in the non-traditional real estate lending industry.

Alignment of Interests

The interests of the Board and management are aligned with those of the Company's shareholders as members of the Board and management currently own approximately 25% of the Company's issued and outstanding Shares. This allows the Company's Board to remain focused on the Company's objectives of preserving shareholder capital and providing capital appreciation on the Shares.

In addition, since the termination of the management agreement with Counsel Asset Management LP on December 31, 2012, the Company does not pay any asset management fees or share of fees generated from loan originations, such that all commitment and other fees received for placing investments are earned by the Company, which contributes to the yield generated by the Company.

Strong Governance

A majority of Directors on the Board are independent, and the Investment Committee reviews and approves all mortgage investment opportunities prior to investment.

Prudent Growth

With an Investment Portfolio of \$59 million and \$36 million as at December 31, 2013 and 2012, respectively, the Company expects to continue to implement the Company's conservative growth strategy. The Company has grown its Investment Portfolio in response to real estate financing opportunities, and remains committed to growing in a manner that limits the impact on the Company's ability to achieve its investment objectives. The officers of the Company and the Board believe that Shareholders are best served by limiting the amounts raised under the Company's Share offerings from time to time. The Company seeks to maximize its risk-adjusted returns through a disciplined investment approach, which relies on rigorous quantitative and qualitative analysis, which helps the Company manage risk on a loan-by-loan basis.

Conservative Capital Management

In line with the Company's investment objectives, the Board and management have executed the Company's investment strategy over the last three years to gradually increase the book value per Share that is relatively uncorrelated to the volatility experienced in other asset classes.

DIRECTORS AND MANAGEMENT OF THE COMPANY

Governance and Board of Directors

The Company's senior leadership team, comprised of a fully internalized management platform and a strong majority independent Board, has substantial real estate and finance expertise, including project finance, development and construction, legal structuring and real estate market research.

The Board has the overall stewardship responsibility and is responsible to the shareholders for the affairs of the Company. The loan origination, underwriting and servicing of the Loan Portfolio are directly managed and executed by experienced senior management of the Company. The Company believes that the quality of its management team allows it to forge long-lasting working relationships with real estate developers and owners. The Board supervises the management of the Company and ensures the integrity of the internal controls and the compliance of applicable regulatory requirements for the disclosure and dissemination of corporate information to the Company's security holders and the public.

The Company's articles of incorporation provide that the Company may have a minimum of one and a maximum of twenty Directors. The number of Directors is currently set at five. The Board is empowered to determine and fix from time to time, by ordinary resolution, the number of Directors within the minimum and maximum numbers provided for in the Company's articles of incorporation.

The following table sets forth the names and provinces of residence of the Company's Directors, the date when they first became a Director and their principal occupation during the five preceding years:

| Name , Province of Residence | Date First Appointed | Principal Occupation or Employment⁽¹⁾ |
|--|-----------------------------|--|
| JOHN KAPLAN ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada | October 8, 2013 | President, Runnymede Investment Inc., which develops real estate properties including condominiums. |
| DR. CHRIS BART ⁽³⁾⁽⁵⁾⁽⁶⁾ Ontario, Canada | August 17, 2007 | CEO, Corporate Missions Inc., which provides services to firms to organize their internal structure to better achieve their mission. |
| PHILIP REICHMANN ⁽⁴⁾⁽⁵⁾⁽⁸⁾ Ontario, Canada | August 17, 2007 | Founding Partner, RH Capital Partners Inc., which is a private investment firm of active investors and business builders. |
| REUBEN ROSENBLATT..... Ontario, Canada | August 17, 2007 | Partner (real estate practice group), Minden Gross LLP, which is a law firm. |
| SEYMOUR TEMKIN ⁽³⁾⁽⁵⁾⁽⁷⁾ Ontario, Canada | November 8, 2011 | Consultant |

- (1) The information as to principal occupation or employment of the Directors, not being within the knowledge of the Company, has been furnished by the respective Directors.
- (2) Chairman of the Corporation.
- (3) Member of the Audit Committee.
- (4) Member of the Investment Committee.
- (5) Member of the Governance, Compensation and Nominating Committee.
- (6) Chairman of the Governance, Compensation and Nominating Committee.
- (7) Chairman of the Audit Committee.
- (8) Acts as Lead Director.

Each Director holds office until the next annual meeting or until his successor is duly elected or appointed, unless his office is earlier vacated in accordance with the Company's articles and by-laws, or he becomes disqualified to act as a director.

As a group, the Company's directors and officers beneficially own, or exercise control or direction over, directly or indirectly, 9,373,197 Shares (representing approximately 30% of the total Shares issued and outstanding) as at the date hereof.

Committees of the Board

At present, there are three standing committees of the Board, being, the Governance, Compensation and Nominating Committee, the Investment Committee and the Audit Committee.

Governance, Compensation and Nominating Committee

The Governance, Compensation and Nominating Committee comprised of Messrs. Bart (Chair), Reichmann, and Temkin was constituted by the Board on November 27, 2013 and is charged with reviewing, overseeing and evaluating the governance and nominating policies and the compensation policies of the Company. The overall purpose of the Committee is to assist the Board in maintaining high standards of corporate governance by developing, recommending and monitoring effective governance guidelines and procedures applicable to the Corporation, and by establishing the process for appointing and/or providing ongoing development for directors and

senior management of the Corporation. Responsibilities include: reviewing the mandate of the Board and its committees; periodically reviewing and evaluating the performance of all directors, committees and the Board as a whole; recommending the Board candidates for Board membership and ensuring that appropriate orientation and education programs are available for Board members; reviewing annually the membership and chairs of all committees of the Board and annually reviewing and making recommendations to the Board regarding executive and director compensation. All members of the Governance and Nominating Committee meet the independence requirements of the TSX Venture Exchange and applicable regulatory authorities.

The Governance, Compensation and Nominating Committee, which is composed entirely of Independent Directors, annually or as required, identifies individuals qualified to become Board members and recommends to the Board director nominees for the next annual meeting of shareholders. Prior to nominating individuals as directors, the Governance, Compensation and Nominating Committee: (a) considers the competencies and skills the Board, as a whole, should possess; (b) assesses the competencies and skills each existing director possesses (including the personality and other qualities of each director); (c) reviews the qualifications of potential candidates identified by members of the Board, shareholders, management and others and assesses the competencies and skills each new nominee will bring to the Board; (d) considers the appropriate size of the Board, with a view to facilitating effective decision-making; and (e) considers whether or not each nominee can devote sufficient time and resources to his or her duties as a Board member.

Investment Committee

The Investment Committee was constituted by the Board on April 15, 2011. The Investment Committee consists of voting and non-voting members. Messrs. Kaplan and Reichmann are voting members and Mr. Meyer, the Chief Executive Officer of the Company and Mr. Thiyagarajah, the Chief Financial Officer of the Company, are non-voting members. Currently, the Investment Committee (without the requirement to include Mr. Reichmann) has been given the authority by the Board to review all proposed investment and loan transactions by the Corporation. Mr. Kaplan, as a voting member and in consultation with the non-voting members, can authorize such transactions on behalf of the Board where the capital required by the Corporation does not exceed \$5 million. For transactions requiring in excess of \$5 million of the Corporation's capital, the Investment Committee must consult and receive approval from Mr. Reichmann as a voting member.

Audit Committee

Audit Committee Charter

The Board has adopted a written charter for the Audit Committee, which sets out the Audit Committee's responsibility in reviewing the financial statements of the Company and public disclosure documents containing financial information and reporting on such review to the Board, ensuring that adequate procedures are in place for the review of the Company's public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. A copy of the Audit Committee charter is set forth in Appendix A to this Annual Information Form.

Composition of the Audit Committee

The members of the Audit Committee are Seymour Temkin (Chair), Dr. Chris Bart and John Kaplan, each of whom is "financially literate" and Dr. Chris Bart and Seymour Temkin are "independent", within the meaning of National Instrument 52-110 – *Audit Committees*. Each of the Audit Committee members has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience as summarized below.

Seymour Temkin. Mr. Temkin, CPA, CA, FMCA is a consultant. From 2002 to 2011, he was a member of Goodmans LLP's REITs and Income Securities Group where he provided strategic and business advisory services to public and private companies. Prior to joining Goodmans, Mr. Temkin headed the Canadian real estate practice of Deloitte & Touche LLP for 15 years and has over 30 years of public accounting experience. Mr. Temkin is the Chairman and member of the audit committee of Medical Facilities Corporation, a TSX listed company. Mr. Temkin

has previously served as Chair of the board of directors and a member of the audit committee of GT Canada Medical Properties Real Estate Investment Trust and a director of First Capital Realty Inc., a TSX listed company. Mr. Temkin holds an ICD.D designation with the Institute of Corporate Directors and is a Chartered Accountant with an FCMA designation and Bachelor of Commerce Degree from the University of Witwatersrand, South Africa.

Dr. Chris Bart. Dr. Chris Bart is currently CEO of Corporate Mission Inc. From 1981 to 2013 he was at McMaster University’s DeGroot School of Business where he was a Professor of Strategy. He is also the founding Principal and Lead Faculty of The Directors College and is involved with a number of other governance education organizations. Dr. Bart has published over 170 articles, cases and reviews and he is best known for his pioneering research which has demonstrated the positive impact that mission statements have on organizational performance. His practical approach for bringing mission statements to life has inspired business leaders and audiences around the world. Dr. Bart is also the author of one of Canada’s best sellers for business, “A Tale of Two Employees and the Person Who Wanted to Lead Them”. Dr. Bart was awarded in 2012 the Queen Elizabeth II Diamond Jubilee Medal for service to Canada and in 2011 he received the TD Insurance Meloche Monnex Corporate Governance and Strategic Leadership Award from the Human Resources Professional Association. He is also a past recipient of the Ontario Chamber of Commerce “Outstanding Business Achievement Award for Corporate Governance”. Dr. Bart obtained his Ph.D. from the Ivey School of Business, University of Western Ontario, and both his MBA and BA (Hons Bus.) from the Schulich School of Business, York University. He is also a member of the Institute of Chartered Professional Accountants of Ontario.

John Kaplan. Mr. Kaplan serves as Principal of several real estate concerns including Metropia, Trademark Communities and Haber Homes and a director of Talon Metal Corp. Mr. Kaplan served as the President of Runnymede Development Corporation Limited from 2000 to 2013. He served as Vice President and Secretary of Townsgate/Trademark Communities. Mr. Kaplan was responsible for directing and overseeing the annual audit of Runnymede Development Corporation Limited for more than 15 years.

Pre-Approval of Audit and Non-Audit Services

The Audit Committee Charter provides that the Audit Committee will pre-approve all audit and non-audit services provided by the Company’s external auditors and will only engage the external auditors to perform non-audit services permitted by law or regulation. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Audit Committee member to whom pre-approval authority is delegated must be presented to the full Audit Committee at its next scheduled meeting.

External Auditors

KPMG LLP, Chartered Accountants and Licensed Public Accountants, the Company’s external auditor, has been named as having prepared an auditor’s report included in a filing, made under National Instrument 51-102 by the Company during, or relating to the Company’s fiscal year ended December 31, 2013. KPMG LLP is independent of the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. The address of KPMG LLP is 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5.

External Auditor Service Fees

The following table sets out the aggregate audit, audit-related, tax and other fees billed by the Company’s external auditors to the Company in each of the last two fiscal years.

| | Audit Fees ⁽¹⁾ | Audit-Related Fees | Tax Fees | All Other Fees ⁽²⁾ |
|---|---------------------------|--------------------|----------|-------------------------------|
| Year Ended December 31, 2012 ⁽³⁾ | \$45,000 | Nil | Nil | \$3,150 |
| Year Ended December 31, 2013 | \$60,000 | Nil | Nil | \$4,200 |

Notes:

- (1) Audit fees are billed by the Company's external auditor for audit services.
- (2) These fees relate to administrative charges and other out-of-pocket expenses.
- (3) Fees paid to Deloitte LLP Chartered Accountants and Licensed Public Accountants.

Senior Management and Employees

The following table sets forth the name, municipality of residence and principal occupation of each executive officer of the Company (or each person acting in the capacity of an executive officer of the Company) during the five preceding years:

| <u>Name and Municipality of Residence</u> | <u>Principal Occupation(s)</u> |
|---|---|
| Y. DOV MEYER Ontario, Canada | Chief Executive Officer of the Company since December 2010; previously Managing Director, Head of Debt Investments of Harbor Group International from November 2008 to November 2010. Between March 1995 and December 2007, held various positions at the Paul Reichmann Group of companies, including Chief Investment Officer of IPC US REIT. |
| MANO THIYAGARAJAH..... Ontario, Canada | Chief Financial Officer of the Company; previously Vice-President, Finance of TransGlobe Apartment REIT from April 2010 to August 2012 and Vice-President, Controller of Sentinel Real Estate Corporation from August 2006 to March 2010. |
| CAROLYN MONTGOMERY Ontario, Canada | Vice President, Operations of the Company and Principal Mortgage Broker of Terra Firma MA Ltd.; previously Assistant Vice President at Cameron Stephens from March 2007 to May 2012 and at MCAP from 1994 to March 2007. |

As at December 31, 2013, the Company directly employed seven individuals to manage the operations of the Company. The Company also engages consultants and contractors "on demand" and numbers vary. The Company intends to engage additional full time employees as it grows.

As at the date hereof, the Directors and executive officers of the Company as a group, beneficially own , or exercise control or direction over, directly or indirectly, 9,373,197 Shares or 30% of the outstanding Shares of the Company.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No Director or executive officer of the Company and, in the case of (B), (C), (D) and (E) below, no Shareholder of the Company holding a sufficient number of Shares to affect materially the control of the Company, or a personal holding company of any of the foregoing: (A) is, as at the date of the AIF, or has been in the 10 years before the date of the AIF, a director, trustee, chief executive officer or chief financial officer of any issuer that (i) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the person was acting in the capacity as director, trustee, chief executive officer or chief financial officer or (ii) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the person ceased to be a director, trustee, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; (B) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; (C) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; (D) is, as at the date of the AIF, or has been in the 10 years before the date of the AIF, a director or executive officer of any

company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (E) has in the 10 years before the date of the AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

DESCRIPTION OF CAPITAL STRUCTURE AND DEBT PROFILE

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.

The Company leverages its Investment Portfolio through the issuance of loans and mortgages payable and 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 Loan Portfolio itself, while lowering the Company's overall risk profile.

Loans and Mortgages Payable

The Company sources its Investment Portfolio through the syndication of certain of its Loan and Mortgage Investments to private investors or to financial institutions, each participating in a prescribed manner per agreement on an investment by investment basis, and conventional construction or permanent financing secured by the project or investment property.

The principal balances of loans and mortgages payable as at December 31, 2013 and 2012 were \$46,569,921 and \$21,406,070, respectively.

Debentures

As at December 31, 2013 and the date hereof, there were \$10,150,000 aggregate principal amount of Debentures issued and outstanding.

The Debentures bear interest at 7.0% per annum and mature on September 27, 2014. Interest is payable semi-annually, in arrears, on the last business day of each calendar quarter. The Debentures are direct obligations of the Company and are not secured by any mortgage, pledge, hypothecation or other charge and are subordinated to the Company's other liabilities. The Indenture does not and will not restrict the Company from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging the Company's investments to secure any indebtedness.

The Debentures are convertible at the option of the holder at any time up to maturity at a conversion price of \$0.70 per Share. The Debentures are not redeemable or convertible at the option of the Company prior to maturity. If all conversion rights attached to the Debentures are exercised, Terra Firma will be required to issue approximately 14,500,000 additional fully paid, non-assessable and freely tradable Shares.

Shares

The Company is authorized to issue an unlimited number of shares of one class, designated as Common Shares. As at December 31, 2013 and the date hereof, the number of Shares issued and outstanding were 30,845,000, 30,995,000, respectively.

Holders of Shares are entitled to receive: (i) notice of and to attend and vote at all meetings of the Company's shareholders and each common share has the right to one vote in person or by proxy at all meetings of the Company's shareholders; (ii) dividends if, as and when declared by the Board, and in the amount per common

share as determined by the Board at the time of declaration; and (iii) return of capital and the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs.

DIVIDENDS

Dividend Policy

The Company has not declared or paid any dividends on any of its Shares since incorporation. The Board will determine the actual timing, payment and amount of dividends, if any, that may be paid by the Company from time to time based upon, among other things, the cash flow, results of operations and financial condition of the Company, the needs for funds to finance ongoing operations and other business considerations as the Board considers relevant at such time. See “BUSINESS OF THE COMPANY – Objectives of the Company”.

MARKET FOR SECURITIES

The Shares of the Company trade on the TSX Venture Exchange under the symbol TII. The Debentures are not listed for trading on the exchange.

The following summarizes the price range and trading volume of the Shares (as reported by the TSXV) on a monthly basis for the most recently completed financial year and up to the trading date prior to the date of this AIF:

| Period | Price (\$) | | Trading Volume |
|----------------|------------|------|----------------|
| | High | Low | |
| 2013 | | | |
| January | 0.30 | 0.14 | 178,457 |
| February | 0.22 | 0.15 | 66,063 |
| March | 0.25 | 0.20 | 664,011 |
| April | 0.30 | 0.20 | 560,665 |
| May | 0.30 | 0.23 | 301,618 |
| June | 0.40 | 0.26 | 35,713 |
| July | 0.39 | 0.22 | 656,275 |
| August | 0.34 | 0.25 | 200,288 |
| September..... | 0.34 | 0.29 | 114,372 |
| October..... | 0.36 | 0.30 | 600,685 |
| November..... | 0.36 | 0.32 | 1,003,018 |
| December | 0.45 | 0.35 | 327,319 |
| 2014 | | | |
| January | 0.56 | 0.36 | 226,194 |
| February | 0.50 | 0.41 | 415,256 |
| March | 0.50 | 0.43 | 383,763 |
| April | 0.49 | 0.44 | 351,743 |
| May | 0.67 | 0.38 | 8,366,312 |
| June | 0.64 | 0.54 | 1,895,054 |
| July | 0.63 | 0.50 | 3,906,709 |

Source: TSX Market Data

RISK FACTORS

There are certain risks inherent in an investment in the securities of the Company and in the activities of the Company. Some of the following factors are interrelated and, consequently, investors should carefully consider such risk factors as a whole. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the other information described elsewhere in this Annual Information Form and those risks set out in the Company's management's discussion and analysis ("MD&A" for the year ended December 31, 2013 (as updated by subsequent interim MD&A). If any of the following or any other risks or uncertainties not currently known to the Company or that the Company currently deems immaterial 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 below described or other unforeseen risks.

Risks Related to the Industry

Nature of the Investments

All real estate investments are subject to elements of risk. Investments in loans and mortgages are affected by many factors, including general economic conditions, local real estate market conditions (such as an oversupply of space or reduction in demand for real estate in the area), government regulations, changing demographics, prevailing interest rates and various other factors.

Land loans and mortgages pose a risk in the event of default by the borrower, in that the asset would have no capacity to generate cash flow. The Company may invest in real properties with a Loan-to-Value of more than 85%, including prior encumbrances, which exceeds the investment limit for Conventional Mortgage lending. Fluctuations in real estate values may increase the risk of borrower default and may also reduce the net realizable value of the collateral property to the Company.

Concentration and Composition of the Investment Portfolio

The Investment Portfolio is exclusively comprised of investments in real estate assets. Given the concentration of the Company's exposure to the real estate lending sector, the Company is more susceptible to adverse economic or regulatory occurrences affecting that sector than a Company that is not concentrated in a single sector. Loan and Mortgage Investments and equity-type financings on real estate assets are relatively illiquid. Such lack of liquidity tends to limit the Company's ability to vary its mortgage investments promptly in response to changing economic or investment conditions. If the Company were to be required to liquidate its investments, the proceeds might be significantly less than the aggregate carrying value of its investments which could have an adverse effect on the Company's financial condition and results of operations.

The investment objectives permit the assets of the Company to be invested in a broad spectrum of Loan and Mortgage Investments and equity-type financing. The composition of the Company's Investment Portfolio may vary widely from time to time and may be concentrated by type of security, industry or geography, resulting in it being less diversified than at other times. Currently, the Company's loan and mortgage investments are concentrated in Ontario, Canada. A lack of diversification may result in the Company being exposed to economic downturns or other events that have an adverse and disproportionate effect on particular types of security, industry or geography. In particular, given the current concentration, the Company may be more susceptible to adverse economic or other occurrences affecting real estate in Ontario, Canada than an issuer that holds an Investment Portfolio that is more diversified by geographic area.

Subordinated and Unregistered Loan Financing

Some of the Company's Loan and Mortgage Investments do not have a first-ranking charge on the underlying property. When a charge on real estate is in a position other than first-ranking, it is possible for a holder

of a senior-ranking charge on the real estate, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the real estate to realize on the security given for such loan. Such actions may include a foreclosure action, the exercise of a giving-in-payment clause or an action forcing the real estate to be sold. A foreclosure action or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person having other than a first-ranking charge on the real estate or the security of the real estate. If an action is taken to sell the real estate and sufficient proceeds are not realized from such sale to pay off creditors who have prior charges on the property, the holder of a subsequent charge may lose its investment or part thereof to the extent of such deficiency unless they can otherwise recover such deficiency from other property, if any, owned by the debtor.

The Company may make an investment in a mortgage where its Loan-to-Value exceeds 85% and invest up to 20% of the principal balance of the Investment Portfolio on the same real estate, and such concentration of investment would increase the risk of loss to the Company. Fluctuations in real estate values may increase the risk of borrower default and may also reduce the net realizable value of the collateral property to the Company.

Sensitivity to Interest Rates

The market price for the Shares and the value of the Loan and Mortgage Investments at any given time may be affected by the level of interest rates prevailing at such time. The Company's income consists primarily of interest receipts on the mortgages comprising the Loan and Mortgage Investments. If there is a decline in interest rates, the Company may find it difficult to make additional mortgage loans bearing rates sufficient to achieve the targeted capital appreciation on the Shares. There can be no assurance that an interest rate environment in which there is a significant decline or increase in interest rates would not adversely affect the value of the Company's Investment Portfolio.

Changes in Real Estate Values

The Company's Loan Portfolio, secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants or buyers where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real estate may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. It is very likely that adverse changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby impacting the ability of the borrower to service the debt and/or repay the loan based on the property income. A substantial decline in the value of real estate provided as security for a mortgage loan made by the Company may cause the value of the property to be less than the outstanding principal amount of the mortgage loan and, where applicable, amounts owed to other creditors with security ranking ahead of the Company's security. Foreclosure by the Company or any creditor holding security in priority to the Company, on any such mortgage loan might not provide the Company or the other creditors with proceeds sufficient to satisfy the outstanding principal amount of the mortgage loan.

While independent appraisals are required before the Company may make any loan or mortgage investments, the appraised values provided therein, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real estate at the time when the Company may seek to enforce its security on such property. The market value of real estate may fluctuate substantially within a short period at times of economic instability and turmoil. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion of construction, rehabilitation, remediation or leasehold improvements on the real estate providing security for the loan. There can be no assurance that these conditions will be satisfied and, to the extent they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real estate at the time the conditions are satisfied.

Extensions and Defaults

As part of the Company's active management of the Investment Portfolio, among other strategies, the Company may deem it appropriate to extend or renew the term of a mortgage or a loan past its maturity, in order to provide the borrower with increased repayment flexibility or accrue interest on the mortgage loan. The Company generally will do so if it believes that there is a very low risk to the Company of not being repaid the full principal and interest owing on the loan. These strategies may be used in circumstances where the value of the security underlying the mortgage loan is high relative to the outstanding principal and/or accrued interest thereof. In these circumstances, however, the Company is subject to the risk that the principal and/or accrued interest of such loan may not be repaid in a timely manner or at all, which could impact the cash flows of the Company during the period in which it is granting this accommodation. Further, in the event that the valuation of the asset has fluctuated substantially due to market conditions, there is a risk that the Company may not recover all or substantially all of the principal and interest owed to the Company in respect of such loan.

When a mortgage loan is extended past its maturity, the loan can either be held over on a month to month basis or renewed for an additional term at the time of maturity. Notwithstanding any such extension or renewal, if the borrower subsequently defaults under any terms of the loan, the Company has the ability to exercise its mortgage enforcement remedies in respect of the extended or renewed loan. Exercising enforcement remedies is a process that requires a significant amount of time to complete, which could adversely impact the cash flows of the Company during the period of enforcement. In addition, as a result of potential declines in real estate values, there is no assurance that the Company will be able to recover all or substantially all of the outstanding principal and interest owed to the Company in respect of such loans by exercising its enforcement remedies. Should the Company be unable to recover all or substantially all of the principal and interest owed to the Company in respect of such loans, the returns, financial condition and results of operations of the Company could be adversely impacted. See "RISK FACTORS - Risks Related to the Industry -Subordinated and Unregistered Loan Financing".

Foreclosure and Related Costs

One or more borrowers could fail to make payments according to the terms of their mortgage loan, and the Company could therefore be forced to exercise its rights as mortgagee. The recovery of a portion of the Company's assets may not be possible for an extended period of time during this process and there are circumstances where there may be complications in the enforcement of the Company's rights as mortgagee. Legal fees and expenses and other costs incurred by the Company in enforcing its rights as mortgagee against a defaulting borrower are usually recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, although there is no assurance that they will actually be recovered. In the event that these expenses are not recoverable, they will be borne by the Company.

Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made through the period of ownership of real estate regardless of whether the property is producing income or whether mortgage payments are being made. The Company may therefore be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

Environmental Matters

The Company may from time to time take possession, through enforcement proceedings, of properties that secured defaulted mortgage loans to recover its investment in such mortgage loans. Prior to taking possession of a property which secures a mortgage investment, the Company assesses the potential environmental liability associated with it and determines whether it is significant, having regards to the value of the property. If the Company subsequently determines to take possession of the property, the Company could be subject to environmental liabilities in connection with the property, which could exceed the value of the property. As part of the due diligence performed in respect of the Company's mortgage investments, the Company obtains a Phase I environmental audit on the underlying real estate provided as security for a mortgage, unless the Company determines that a Phase I environmental audit is not necessary. However, there can be no assurance that such Phase I environmental audits will reveal any or all existing or potential environmental liabilities. If hazardous substances are discovered on a property of which the Company has taken possession, it may be required to remove such substances

and clean up the property. The Company may also be liable to third parties and may find it difficult to resell the property prior to or following such clean-up.

Competition

The performance of the Company depends, in large part, on its ability to invest in or acquire Loan and Mortgage Investments at favourable yields. The Company competes with individuals, corporations and institutions for investment opportunities in the financing of real estate. Certain of these competitors may have greater resources than the Company and may therefore operate with greater flexibility. As a result, the Company may not be able to acquire sufficient Loan and Mortgage Investments at favourable yields or at all.

General Economic Conditions

General adverse economic conditions in Canada and globally, including economic slowdown, disruptions to the credit and financial markets in Canada and worldwide and local economic turmoil in areas where the borrowers of the mortgage loans are located may adversely affect the value of real estate on which the mortgage loans are secured and the ability of the borrowers to repay the mortgage loans and thereby negatively impact the Company's business and the value of its securities.

Change in Legislation

There can be no assurance that certain laws applicable to the Company, including Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation thereof, will not change in a manner that will adversely affect the Company or fundamentally alter the tax consequences to Shareholders acquiring, holding or disposing of the Company's Shares.

Risks Related to the Company and its Business

Availability of Capital and Investment

Terra Firma may require additional capital to implement its business plan and objectives. The ability of the Company to make investments in accordance with its investment objectives and strategies depends upon the availability of suitable investments and the amount of funds available to make such investments. There can be no assurance that the Company will have access to sufficient capital or access to capital on terms favourable to the Company for future investments. There can be no assurance that the yields on the mortgages in the Company's current Loan and Mortgage investments will be representative of yields to be obtained on the Company's Loan and Mortgage investments in the future. The Company may not be able to source suitable mortgages in which to reinvest its funds as mortgages are repaid, in which case the funds will be invested in interim investments. The rates of return on interim investments will be lower than the rates of return on the mortgages.

Unable to Fund Investments

The Company may commit to making future Loan and Mortgage investments in anticipation of repayment of principal outstanding under existing Loan and Mortgage investments. In the event that such repayments of principal are not made, the Company may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may be required to obtain interim financing and to fund such commitments or face liability in connection with its failure to make such advances.

Limited Sources of Borrowing

The Canadian financial marketplace is characterized as having a limited number of financial institutions that provide credit to the Company and like entities. The limited availability of sources of credit may limit the Company's ability to take advantage of leveraging opportunities to enhance the yield on its Investment Portfolio.

The Company continues to seek opportunities for capital for loan originations through a syndicate of sophisticated accredited investors. Although the mortgages and Unregistered Loans in the Loan Portfolio are generally secured by specific collateral, there can be no assurance the liquidation of such collateral would satisfy a borrower's obligation in the event of borrower default or that such collateral could be readily liquidated under such circumstances. In the event of bankruptcy of a borrower, delays or limitations could be experienced with respect to the ability to realize the benefits of any collateral securing a senior loan.

Syndication of loans

The Company has, from time to time, entered into strategic relationships to syndicate certain loans as part of its strategy to diversify and manage risks associated with its loan portfolio, its liquidity position and to enhance its revenue/yield. This also affords the Company the opportunity to participate in transactions in which it otherwise would not be able to participate. No assurance can be given that such existing strategic relationships will continue or that the terms and conditions of such relationships will not be modified in a way that renders them uneconomic. Furthermore, there can be no assurance that the Company will be able to enter into such relationships in the future. The inability to do so may adversely affect the Company's ability to continue to service existing and prospective clients and manage its liquidity position.

Interests 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 Operations 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.

Potential Conflicts of Interest With Directors

The Directors will, from time to time, in their individual capacities, deal with parties with whom the Company may be dealing, or may be seeking investments similar to those desired by the Company. The interests of these Directors could conflict with those of the Company. The Company's Code of Business Conduct and Ethics contains conflict of interest provisions requiring the Directors to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. In addition, certain decisions regarding matters that may give rise to a conflict of interest must be made by a majority of Independent Directors only (excluding, for greater clarity, any Director that may have a conflict of interest with respect to the matter).

No Guarantees or Insurance

There can be no assurance that Loan and Mortgage Investments made by the Company will result in a guaranteed rate of return or any return to shareholders, or that losses will not be suffered on one or more loans and mortgages. Moreover, at any time, the interest rates being charged for loans and mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it may be expected that the aggregate yield on Loan and Mortgage investments will also change.

The obligations of a borrower under any Loan or Mortgage Investments made by the Company are not guaranteed by the Government of Canada, the government of any province or any agency thereof nor are they insured under the National Housing Act (Canada). In the event that additional security is given by the borrower or a third party or that a private guarantor guarantees the mortgage borrower's obligations, there is no assurance that such additional security or guarantee will be sufficient to make the Company whole. The Company's Shares are not "deposits" within the meaning of the Canadian Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation.

Litigation Risks

In the normal course of the Company's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to land rights, the environment and contract disputes. The outcome with respect to future proceedings cannot be predicted with certainty and may be determined adversely to the Company and, as a result, could have a material adverse effect on the Company's assets, liabilities, business, financial condition and results of operations. Even if the Company prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the Company's business operations, and there is no assurance that such costs will be recovered in whole or at all, which could adversely affect the Company's financial condition.

Ability to Manage Growth

The Company intends to grow its Investment Portfolio. In order to effectively deploy its capital and monitor its Loan Portfolio in the future, the Company will need to retain additional personnel and may be required to augment, improve or replace existing systems and controls, each of which can divert the attention of management from their other responsibilities and present numerous challenges. As a result, there can be no assurance that the Company would be able to effectively manage its growth and, if unable to do so, the Company's Loan Portfolio and the market price of its Shares may be materially adversely affected.

Dependence on Key Personnel

The success of Terra Firma depends upon the personal efforts of a small group of senior management. Although Terra Firma believes it will be able to replace key employees within a reasonable time should the need arise, the loss of key personnel could have a material adverse effect on Terra Firma's business, financial condition, liquidity and results of operations. Terra Firma does not carry any "key man" insurance.

Competition

The performance of the Company depends, in large part, on its ability to invest in or acquire mortgage loans at favourable yields. The Company competes with individuals, corporations and institutions for investment opportunities in the financing of real estate. Certain of these competitors may have greater resources than the Company and may therefore operate with greater flexibility. As a result, the Company may not be able to acquire sufficient Loan and Mortgage Investments at favourable yields or at all.

Risks Related to the Shares

Ownership of Shares

There is no certainty as to any future dividend payments by Terra Firma. Terra Firma is not obligated to pay dividends on the Shares. The funds available for the payment of dividends (if any) will be dependent upon, among other things, income and cash flow generated by the Company and financial requirements for the Company's operations and the execution of its growth strategy. Further, the Company's ability to pay dividends to holders of Shares will be subject to applicable laws and to any prior right to dividend, interest or other payments in favour of any other security holders.

Volatile Market Price for Shares

The market price for Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (i) actual or anticipated fluctuations in the Company's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the Company; (iv) the addition or departure of the Company's executive officers and other key personnel; (v) sales or perceived sales of additional Shares; (vi) significant acquisitions or business combinations, strategic partnerships,

joint ventures or capital commitments by or involving the Company or its competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the Company's Shares may decline even if the Company's operating results, underlying asset values, or prospects have not changed. As well, certain institutional investors may base their decision to invest in the Company on consideration of the Company's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Company's Shares by those institutions, which could adversely affect the trading price of the Company's Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, the Company's operations could be adversely impacted and the trading price of the Company's Shares may be adversely affected.

Dilution

The Company is authorized to issue an unlimited number of Shares. The Company may, in its sole discretion, issue additional Shares (including through the issuance of securities convertible into or exchangeable for Shares and on the vesting of share options) from time to time, subject to the rules of any applicable stock exchange on which the Shares are listed. The Company cannot predict the size of future issuances of Shares or the effect that future issuances of Shares will have on the market price of the Shares. Issuances of a substantial number of additional Shares, or the perception that such issuances could occur, may adversely affect prevailing market prices for the Shares. With additional issuances of Shares, investors will suffer dilution to their voting power and the Company may experience dilution in its earnings per share.

MATERIAL CONTRACTS

Other than those contracts entered into in the ordinary course of business or that would not be considered material to the Company or its businesses, there are no material contracts entered into by the Company during the year ended December 31, 2013 or entered into prior to the year ended December 31, 2013 and after January 1, 2002 but which are still in effect.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Certain of the Company's Loan and Mortgage Investments are syndicated with other investors, which may include officers or Directors of the Company. In all cases, the Company and its officers and Directors rank equally to other syndicate investors as to receipt of principal and interest.

As of the date hereof, the Chairman of the Board of the Company, indirectly through a wholly-owned subsidiary, owns approximately 19.9% of the issued and outstanding Shares of the Company.

Other than the foregoing or as otherwise disclosed herein, the Directors and officers of Terra Firma are not aware of any material interests, direct or indirect, of any director, officer, any shareholder who beneficially owns, or exercises control or direction over, directly or indirectly, more than 10% of outstanding Shares of the Company, or any other Informed Person (as such term is defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction within Terra Firma's three most recently completed financial years or during its current financial year up to the date of the AIF, or in any proposed transaction, that has materially affected or would reasonably be expected to materially affect Terra Firma.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the ordinary course of business, the Company and its properties may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. There are no existing

or, to the Company's knowledge, contemplated legal proceedings to which the Company is or was a party to, or of which any of the Company's property is or was the subject, since January 1, 2013.

The Company is not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against the Company since January 1, 2013, nor has the Company entered into any settlement agreements before a court or with a securities regulatory authority since January 1, 2013.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Shares is Computershare Trust Company of Canada at its principal offices located in Toronto, Ontario, Canada.

ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, the executive compensation for named executive officers of the Company, principal holders of the Company's securities, and interests of insiders in material transactions, as applicable, is contained in the Company's management information circular for its most recent annual and special meeting of shareholders. Additional financial information is provided in the Company's financial statements and management's discussion and analysis for the year ended December 31, 2013. A copy of the management information circular, financial statements and management's discussion and analysis may be obtained from the Company upon request, and those documents and other information in respect of the Company are also available on SEDAR at www.sedar.com.

APPENDIX A
CHARTER OF THE AUDIT COMMITTEE
OF
TERRA FIRMA CAPITAL CORPORATION

GENERAL

1. Purpose And Responsibilities Of The Committee

1.1 Purpose

The primary purpose of the Committee is to assist Board oversight of the following (by gaining reasonable assurance thereof):

- (a) that the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure;
- (b) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in the Corporation's financial statements are the most appropriate in the prevailing circumstances;
- (c) that the internal and accounting controls and procedures of the Corporation are adequate and appropriate;
- (d) that the External Auditor's qualifications and independence are sufficient;
- (e) that the performance of the Corporation's internal audit function, if any, and the External Auditor is satisfactory;
- (f) that the Corporation's interim and annual financial statements present fairly the Corporation's financial position as a result of its operations in accordance with GAAP and together with Management Discussion and Analysis constitute a fair presentation of the Corporation's financial condition; and
- (g) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the Board in a timely manner.

2. Definitions And Interpretation

2.1 Definitions

In this Charter:

- (a) "**Board**" means the Board of Directors of the Corporation;
- (b) "**Chair**" means the chair of the Committee;
- (c) "**Committee**" means the Audit Committee of the Board;
- (d) "**Corporation**" means Terra Firma Capital Corporation
- (e) "**Directors**" means the directors of the Corporation;
- (f) "**External Auditor**" means the Corporation's independent auditor; and

- (g) “GAAP” means Canadian generally accepted accounting principles.

CONSTITUTION AND FUNCTIONING OF THE COMMITTEE

3. Establishment And Composition Of The Committee

3.1 Establishment of the Audit Committee

The Committee is hereby continued with the constitution, function and responsibilities herein set forth.

3.2 Appointment and Removal of Members of the Committee

- (a) Board Appoints Members. The members of the Committee shall be appointed by the Board. Each member of the Committee shall be a member of the Board.
- (b) Annual Appointments. The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) Vacancies. The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors.
- (d) Removal of Member. Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Number of Members

The Committee shall consist of three or more Directors.

3.4 Independence of Members

The majority of the members of the Committee shall be “independent” (as such term is used in National Instrument 52-110 – *Audit Committees* (“NI 52-110”)) unless the Board determines that an exemption contained in NI 52-110 is available and determines to rely thereon.

3.5 Financial Literacy

All of the members of the Committee must be “financially literate” (as defined in NI 52-110) in terms of understanding the Corporation’s financial information unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110.

4. Committee Chair

4.1 Board to Appoint Chair

The Board shall appoint the Chair from the members of the Committee (or, if it fails to do so, the members of the Committee shall appoint the Chair from among its members). The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for the purposes of that particular meeting.

4.2 Chair to be Appointed Annually

The appointment of the Committee's Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5. **Committee Meetings**

5.1 Quorum

A quorum of the Committee shall be a majority of its members.

5.2 Secretary

The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings

The time and place of the meetings of the Committee, the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee in accordance with the by-laws of the Corporation; provided, however, the Committee shall meet at least quarterly.

5.4 In Camera Meetings

As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee approves the quarterly financial statements, the Committee may, at its reasonable discretion, meet separately with each of:

- (a) management;
- (b) the External Auditor (if, with respect to quarterly financial statements, the External Auditor has been engaged to review or audit such financial statements); and
- (c) the internal auditor, if any.

5.5 Right to Vote

Each member of the Committee shall have the right to vote on matters that come before the Committee. In case of an equality of votes, the Chair of the meeting shall be entitled to a second or casting vote.

5.6 Invitees

The Committee may invite Directors, officers and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

5.7 Regular Reporting

The Committee shall report to the Board at the Board's next meeting the proceedings at the meetings of the Committee and all recommendations made by the Committee at such meetings.

6. Authority Of Committee

6.1 Reliance on Experts

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be entitled to rely in good faith upon:

- (a) the financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles; and
- (b) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

6.2 Retaining and Compensating Advisors

The Committee shall have the authority to engage independent counsel and other advisors as the Committee may deem appropriate in its sole discretion and to set and pay the compensation for any advisors employed by the Committee. The Committee shall not be required to obtain the approval of the Board in order to retain or compensate such consultants or advisors.

6.3 Subcommittees

The Committee may form and delegate authority to subcommittees if deemed appropriate by the Committee.

6.4 Recommendations to the Board

The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

7. Remuneration Of Committee Members

7.1 Remuneration of Committee Members

Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time and as may be permitted by applicable law.

SPECIFIC DUTIES AND RESPONSIBILITIES

8. Integrity Of Financial Statements

8.1 Review and Approval of Financial Information

- (a) **Annual Financial Statements.** The Committee shall review and discuss with management and the External Auditor, the Corporation's audited annual financial statements and related MD&A together with the report of the External Auditor thereon and, when appropriate, shall recommend to the Board that the Board approve the audited annual financial statements and related MD&A.
- (b) **Interim Financial Statements.** The Committee shall review and discuss with management and, if applicable, the External Auditor and, when appropriate, shall recommend to the Board that the Board approve the Corporation's interim unaudited financial statements and related MD&A.
- (c) **Material Public Financial Disclosure.** The Committee shall discuss with management and the External Auditor:

- (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases (if any),
- (ii) financial information and earnings guidance (if any) to be provided to analysts, investors and rating agencies, and
- (iii) press releases (if any) containing financial information (paying particular attention to any use of “pro forma” or “adjusted” non-GAAP information),

and, when appropriate, shall recommend to the Board that the Board approve any such material financial disclosure prior to its release to the public.

- (d) **Procedures for Review.** The Committee shall be satisfied that adequate procedures are in place for the review of the Corporation’s disclosure of financial information extracted or derived from the *Corporation’s financial statements* (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Charter) and shall periodically assess the adequacy of those procedures.
- (e) **Accounting Treatment.** The Committee shall review and discuss with management and the External Auditor:
 - (i) the appropriateness of the Corporation’s accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with GAAP
 - (ii) major issues regarding accounting principles and financial statement presentations including any significant changes in the Corporation’s selection or application of accounting principles and major issues as to the adequacy of the Corporation’s internal controls and any special audit steps adopted in light of material control deficiencies;
 - (iii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements, if any;
 - (iv) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the Corporation’s financial statements;
 - (v) the management certifications of the financial statements as required by applicable securities laws in Canada or otherwise; and
 - (vi) pension plan financial statements, if any.

9. External Auditor

9.1 External Auditor

- (a) **Authority with Respect to External Auditor.** The Committee shall be directly responsible for the nomination, compensation and oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. In the discharge of this responsibility, the Committee shall:
 - (i) have sole responsibility for recommending to the Board the person to be proposed to the Corporation’s shareholders for appointment as External Auditor for the above-described purposes as well as the responsibility for recommending such External Auditor’s compensation and determining at any time whether the Board should recommend to the Corporation’s shareholders whether the incumbent External Auditor should be removed from office;

- (ii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and be solely responsible for approving such audit fees; and
 - (iii) require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to, and shall report directly to, the Committee as the representative of shareholders.
- (b) Independence. The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
 - (i) assure the regular rotation of the lead audit partner as required by law and consider whether, in order to ensure continuing independence of the External Auditor, the Corporation should rotate periodically, the audit firm that serves as External Auditor;
 - (ii) require the External Auditor to submit on a periodic basis to the Committee, a formal written statement delineating all relationships between the External Auditor and the Corporation and its subsidiaries and that the Committee is responsible for actively engaging in a dialogue with the External Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor and for recommending that the Board take appropriate action in response to the External Auditor's report to satisfy itself of the External Auditor's independence;
 - (iii) address non-audit services provided by the External Auditor as described in clause (d) below; and
 - (iv) review and approve the policy setting out the restrictions on the Corporation and its subsidiaries hiring partners, employees and former partners and employees of the Corporation's current or former External Auditor.
- (c) Issues Between External Auditor and Management. The Committee shall:
 - (i) review any problems experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or in access to requested information;
 - (ii) review any disagreements with management and, to the extent possible, resolve any disagreements between management and the External Auditor regarding financial reporting; and
 - (iii) review with the External Auditor:
 - (A) any accounting adjustments that were proposed by the External Auditor, but were not made by management;
 - (B) any communications between the audit team and audit firm's national office respecting significant auditing or accounting issues presented by the engagement;
 - (C) any management or internal control letter issued, or proposed to be issued by the External Auditor to the Corporation; and
 - (D) the performance of the Corporation's internal audit function and internal auditors.
- (d) Non-Audit Services.
 - (i) The Committee shall either:
 - (A) approve any non-audit services provided by the External Auditor or the external auditor of any subsidiary of the Corporation to the Corporation (including its subsidiaries); or

- (B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the Committee is informed of each non-audit service and the procedures do not include delegation of the Committee's responsibilities to management.
 - (ii) The Committee may delegate to one or more members of the Committee the authority to pre-approve non-audit services in satisfaction of the requirement in the previous section, provided that such member or members must present any non-audit services so approved to the full Committee at its first scheduled meeting following such pre-approval.
 - (iii) The Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor which were not recognized by the Corporation at the time of the engagement as being non-audit services.
- (e) Evaluation of External Auditor. The Committee shall evaluate the External Auditor each year, and present its conclusions to the Board. In connection with this evaluation, the Committee may:
- (i) review their satisfaction with the lead partner of the External Auditor;
 - (ii) obtain the opinions of management and of the persons responsible for the Corporation's internal audit function, if any, with respect to the performance of the External Auditor; and
 - (iii) obtain and review a report by the External Auditor describing:
 - (A) the External Auditor's internal quality-control procedures;
 - (B) to the extent permitted by applicable laws and by the Canadian Public Accountability Board, any material issues raised by the most recent internal quality-control review, or peer review, of the External Auditor's firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the External Auditor's firm, and any steps taken to deal with any such issues; and
 - (C) all relationships between the External Auditor and the Corporation (for the purposes of assessing the External Auditor's independence).
- (f) Review of Management's Evaluation and Response. The Committee may, if it should deem appropriate:
- (i) review management's evaluation of the External Auditor's audit performance;
 - (ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses;
 - (iii) review management's response to significant internal control recommendations of the internal audit staff and the External Auditor;
 - (iv) receive regular reports from management and receive comments from the External Auditor, if any, on:
 - (A) management's tolerance for financial risk;
 - (B) the Corporation's principal financial risks;
 - (C) the systems implemented to monitor those risks; and

- (D) the strategies (including hedging strategies) in place to effectively manage those risks; and
- (E) recommend to the Board whether any new material risk management strategies presented by management should be considered appropriate and approved.

10. Internal Audit Function

10.1 Internal Auditor

In connection with the Corporation's internal audit function, if any, the Committee shall:

- (a) review the terms of reference of the internal auditor, if any, and meet with the internal auditor as the Committee may consider appropriate to discuss any concerns or issues;
- (b) in consultation with the External Auditor and the internal audit group, if any, review the adequacy of the Corporation's internal control structure and procedures designed to ensure compliance with laws and regulations and any special audit steps adopted in light of material deficiencies and controls;
- (c) review the internal control report prepared by management, including management's assessment of the effectiveness of the Corporation's internal control structure and procedures for financial reporting; and
- (d) periodically review with the internal auditor, if any, any significant difficulties, disagreements with management or scope restrictions encountered in the course of the work of the internal auditor.

11. Compliance With Legal And Regulatory Requirements

11.1 Risk Assessment and Risk Management

The Committee shall discuss the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures and shall report to the Board with respect thereto.

11.2 Whistleblowing Policy

The Committee shall put in place, subject to approval by the Board, procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation or its subsidiaries regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters.

12. Limitations on the Audit Committee's Duties

In contributing to the Committee's discharging of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the activities reported above are being conducted effectively and to enable the Committee to report thereon to the Board.

13. Charter Review

The Committee shall review and assess the adequacy of this Charter annually and recommend to the Board any changes it deems appropriate.

May 20, 2014