



TERRA FIRMA CAPITAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

NOVEMBER 13, 2017

INTERPRETATION

The current and prior-period comparative results for the Terra Firma Capital Corporation (the “Company”) reflect the consolidation of the Company and its interests in certain joint operations and portfolio investments in its wholly owned subsidiaries which are controlled by the Company. Unless the context otherwise requires, all references in this Management’s Discussion and Analysis (“MD&A”) to the “Company” refer to Terra Firma Capital Corporation and its subsidiaries.

The Company’s unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34). The Company’s presentation currency is the Canadian dollar.

The following MD&A of the financial condition, financial performance and cash flows of the Company dated November 13, 2017 for the three and nine months ended September 30, 2017 should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and accompanying notes for the same period as well as the Company’s annual MD&A for the year ended December 31, 2016 and audited consolidated financial statements for the same period. These documents are available under the Company’s profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at WWW.SEDAR.COM.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements necessarily involve known and unknown risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Company’s control, affect the lending operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, the risks discussed in the Company’s materials filed with Canadian securities regulatory authorities from time to time under the Company’s profile at www.sedar.com, including the risks discussed herein at “Risks and Uncertainties” and risks discussed in the Company’s Annual Information Form (the “AIF”) dated March 29, 2017. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance that actual results will be consistent with such forward-looking statements.

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

While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect. This is not an exhaustive list of the factors that may affect any of the Company's forward-looking statements. Some of these and other factors are discussed in more detail in the Company's AIF. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking statements.

The forward-looking statements contained in this MD&A represent the Company's views only as of the date hereof. While the Company anticipates that subsequent events and developments may cause the Company's views to change, 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, except to the extent required by applicable Canadian securities laws.

NON-IFRS FINANCIAL MEASURES

This MD&A refers to certain financial measures, such as adjusted net income and comprehensive income, adjusted net income and comprehensive income attributable to common shareholders, adjusted net diluted income and comprehensive income attributable to common shareholders and adjusted earnings per share, are not measures defined under IFRS as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be construed as alternatives to profit/loss or other measures of financial performance calculated in accordance with IFRS. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies. These measures have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the operational and financial performance of the Company. These measures are also commonly used by the financial community to analyze and compare the performance of companies engaged in the same industries. However, they are not intended to be regarded as alternatives to other financial performance measures calculated under IFRS.

Adjusted net income and comprehensive income is the term the Company uses to describe net income and comprehensive income before non-cash foreign exchange loss related to the Company's net U.S. dollar denominated net assets. For a reconciliation of adjusted net income and comprehensive income to net income and comprehensive income, see "Financial Performance".

Adjusted net income and comprehensive income attributable to common shareholders and adjusted net diluted income and comprehensive income attributable to common shareholders are the terms the Company uses to describe net income and comprehensive income attributable to common shareholders before non-cash foreign exchange loss related to the Company's U.S. dollar denominated net assets. For reconciliations of adjusted net income and comprehensive income attributable to common shareholders to net income and comprehensive income attributable to common shareholders and adjusted net diluted income and comprehensive income attributable to common shareholders to net diluted income and comprehensive income attributable to common shareholders, see "Selected Annual and Quarterly Financial Information".

Adjusted earnings per share for the period is the term the Company uses to describe adjusted net income, as defined above, divided by the basic and fully diluted number of shares. For a reconciliation of adjusted earnings per share to earnings per share, see "Selected Annual and Quarterly Financial Information".

These items are excluded because they affect the comparability of our financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar.

BUSINESS OVERVIEW AND STRATEGY

The Company was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "TSX-V") under the symbol TII. The registered office of the Company is: 22 St. Clair Avenue East, Suite 200, Toronto, Ontario, M4T 2S3.

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. These loans are typically repaid with lower cost, longer-term debt obtained from other 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 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.

These loan and mortgage financings generally take the form of:

- (i) Land loans registered in first position or second position at the earlier stages of real property development and either subsequently postponing to construction financing or being discharged upon the funding of construction financing, as the project progresses through the development cycle,
- (ii) Term mortgages for the purposes of acquiring or re-financing income producing properties, or
- (iii) Mezzanine / subordinated debt financings of real property developments that have either progressed to the construction phase or are in the process of approaching construction phase.

These financings generally represent loan to cost 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%. The “loan-to-value” ratio means the ratio, expressed as a percentage, determined by calculating $(A)/(B) \times 100$, where: (A) is 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) is the appraised value of the real estate securing the mortgage at the time of funding the mortgage or in a more recent appraisal, if available.

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 minimum return and/or a share of remaining net cash flow from projects, and may be undertaken as a strategic partnership with established developers to pursue the development of real properties (“Joint Arrangements” or “Joint Operations”) or an equity investment by the Company in an entity that carries on the business of real estate development (“Portfolio Investments”). The Company generally provides these financings in the form of equity in the entity that holds the real estate asset. When making an equity investment, the Company prefers to invest in the form of preferred equity which ranks ahead of the developers’ or owners’ common equity in the project or the entity that carries on the business of real estate development, thereby, providing the Company with the capital protection through subordination.

The objectives of the Company are to originate, create and maintain a diversified portfolio of real estate loans and mortgage investments (the “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 of Directors considers appropriate).

Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Through management’s relationships with mortgage lenders, brokers, local sponsors and other market participants, the Company is able to identify real estate opportunities where it can provide financing solutions to borrowers while achieving equity-like 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 structuring. Management believes its experience with real estate investments and industry contacts will provide the Company with a consistent flow of quality investment opportunities.

Investment in real estate may be made by way of 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 the Loan Portfolio while bearing lower risk than equity investments, by structuring its financings primarily in debt or priority structures.

THIRD QUARTER HIGHLIGHTS

The Company reported revenue of \$3.6 million in the third quarter of 2017, approximately the same compared to the same period last year.

Interest and fee income for the third quarter of 2017 aggregated \$3.5 million, approximately the same compared to the same period last year, and the Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended September 30, 2017 was \$50,444, the same compared to the same period last year.

Interest and financing costs for the third quarter of 2017 aggregated \$1.9 million, approximately the same compared to the same period last year.

For the quarter ended September 30, 2017, the Company recognized a foreign exchange loss of \$655,851 compared to a foreign exchange gain of \$313,607 for the same period last year. For the nine months ended September 30, 2017, the Company recognized a foreign exchange loss of \$1,289,347 compared to a foreign exchange loss of \$1,216,035 for the same period last year.

Net income and comprehensive income attributable to common shareholders for the third quarter of 2017 was \$36,338 or \$0.00 per basic and diluted share, as compared to \$644,487 or \$0.01 per basic and diluted share in the same period in the prior year, representing a decrease in net income of \$608,149.

The principal balance of the Company's loan and mortgage investments decreased to \$96.0 million at September 30, 2017, as compared to \$102.0 million at September 30, 2016, a decrease of 6.0%, primarily due to net repayments of loan and mortgage investments. During the quarter ended September 30, 2017, the Company funded \$36.3 million and received repayments of \$39.4 million of loan and mortgage investments.

INVESTMENTS**LOAN AND MORTGAGE INVESTMENTS**

The Company's Loan Portfolio as at September 30, 2017 consisted of the following: (a) loans relating to 17 residential housing developments (comprising 2,613 high rise condominium units; 798 mixed use developments consisting of retail and low and high rise condominium units; and 407 low rise houses and condominium units), representing 40.5% of the Loan Portfolio (by investment amount), (b) land and lot inventory of real estate assets to be developed, located in Markham-Ontario; Orlando-Florida; Phoenix-Arizona, Charlotte-North Carolina, Washington-District of Columbia, Sarasota-Florida, Atlanta-Georgia and Savannah-Georgia, and representing 59.0% of the Loan Portfolio (by investment amount) and (c) a commercial retail development located in Mississauga, Ontario, representing the remaining 0.5% of the Loan Portfolio (by investment amount).

The Company's Loan Portfolio as at December 31, 2016 consisted of the following: (a) loans relating to 25 residential housing developments (comprising 3,051 high rise condominium units; 886 mixed use developments consisting of retail and low and high rise condominium units; and 1,734 low rise houses and condominium units), representing 71.2% of the Loan Portfolio (by investment amount), (b) a loan relating to a residential income property (consisting of 57 rental units in Toronto, Ontario), representing 2.7% of the Loan Portfolio (by investment amount), (c) land and lot inventory of real estate assets to be developed, located in Ottawa-Ontario; Markham-Ontario; Charlotte-North Carolina; Orlando-Florida; Tampa Bay-Florida and Sarasota-Florida, representing 25.6% of the Loan Portfolio (by investment amount) and (d) a commercial retail development located in Mississauga, Ontario, representing the remaining 0.5% of the Loan Portfolio (by investment amount).

One loan to a residential housing development project accounts for 15.0% of the Company's total interest and fees revenue for the nine months ended September 30, 2017 and 11.0% of the principal balance of loan and mortgage investments at September 30, 2017. One loan to a residential housing development project accounted for 12.7% of the Company's total interest and fees revenue for the nine months ended September 30, 2016 and 15.4% of the principal balance of loan and mortgage investments at December 31, 2016.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

5

The following table presents details of the Loan Portfolio as at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Weighted Average Effective Interest Rate	Amount	% of Investments	Weighted Average Effective Interest Rate	Amount	% of Investments
Residential housing developments	15.6%	38,874,363	40.5%	15.7%	\$ 67,057,768	71.2%
Land and lot inventory	13.1%	56,604,356	59.0%	14.1%	24,159,165	25.6%
Commercial retail development	15.1%	500,000	0.5%	15.1%	500,000	0.5%
Residential income properties	-	-	0.0%	16.2%	2,592,796	2.7%
Loan Portfolio	14.1%	\$95,978,719	100.0%	15.3%	\$ 94,309,729	100.0%
Allowance for loan and mortgage investment loss		(901,285)			(901,285)	
Net Loan Portfolio		\$95,077,434			\$ 93,408,444	

As at September 30, 2017 and December 31, 2016, the principal balance of the Loan Portfolio was \$95,978,719 and \$94,309,729, respectively. The increase in Loan Portfolio during the nine months ended September 30, 2017 resulted from the net effect of funding of loan investments of \$63,353,368, advances against existing loan commitments of \$3,044,943, deposit converted to loan investments of \$3,256,074 and capitalized interest of \$3,256,074, which aggregate amount was offset by the repayment of loan investments totaling \$62,296,651, repayment of previously capitalized interest of \$7,250,822 and unrealized foreign exchange loss of \$3,497,449.

The following table summarizes the change in the principal balance of the Loan Portfolio for the three and nine months ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Balance, beginning of period	\$ 106,719,807	\$ 107,600,752	\$ 94,309,729	\$ 95,613,267
Loan portfolio activity during the period				
Funding of new loan investments	35,870,185	445,291	62,353,368	36,612,922
Advances against existing loans	471,441	-	3,044,943	5,380,990
Deposits converted to loan investments	-	-	3,256,074	-
Repayments of loans	(39,400,684)	(6,909,196)	(62,296,651)	(29,285,010)
Interest capitalized	1,368,784	756,150	6,059,527	3,834,726
Converted to interest in joint operations	-	-	-	(7,000,000)
Company's share of loan investment in joint operations	-	-	-	(870,389)
Capitalized interest received	(6,905,305)	(500,000)	(7,250,822)	(500,000)
Unrealized foreign exchange gain (loss)	(2,145,509)	646,656	(3,497,449)	(1,746,853)
Balance, end of period	\$ 95,978,719	\$ 102,039,653	\$ 95,978,719	\$ 102,039,653

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

6

The weighted average effective interest rate of the Loan Portfolio at September 30, 2017 and December 31, 2016, including loans in default was 14.1% and 15.3%, respectively. The Company continues to focus on the quality of security through placing its capital in more senior positions in the capital structure and reducing its exposure to unregistered loans. The higher level of security and lower weighted average interest rates have not had significant impact on the Company's overall profitability given the Company's focus on the spreads. See – "Financial Performance" and "Capital Structure and Debt Profile – Loan And Mortgage Syndications".

The weighted average effective interest rates of the loans and mortgage investments of residential housing developments at September 30, 2017 and December 31, 2016 were 15.6% and 15.7%, respectively. The weighted average effective interest rates of the residential income properties at December 31, 2016 was 16.2%. The weighted average effective interest rates of the loans and mortgage investments of lot inventory at September 30, 2017 and December 31, 2016 were 13.1% and 14.1%, respectively. The weighted average effective interest rates of the commercial retail development and land at September 30, 2017 and December 31, 2016 were 15.1%. The weighted average term to maturity at September 30, 2017 and December 31, 2016 was 1.83 years and 1.05 years, respectively.

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

The following table presents details of the Company's loan categories in the Loan Portfolio as at September 30, 2017 and December 31, 2016:

	September 30, 2017	% of Investments	December 31, 2016	% of Investments
Mortgages	\$ 95,978,719	100.0%	\$ 87,351,822	92.6%
Unregistered loans	-	0.0%	6,957,907	7.4%
	\$ 95,978,719	100.0%	\$ 94,309,729	100.0%

The following table presents details of the Company's principal balances of the Loan Portfolio segmented by geography as at September 30, 2017 and December 31, 2016:

	September 30, 2017	% of Investments	December 31, 2016	% of Investments
Canada	\$ 37,006,363	38.6%	\$ 52,412,874	55.6%
United States	58,972,356	61.4%	41,896,855	44.4%
	\$ 95,978,719	100.0%	\$ 94,309,729	100.0%

Scheduled principal repayments of the Loan Portfolio maturing in the next five years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
Reminder of year	\$ -	\$ 16,240,082	\$ 16,240,082
2018	-	26,763,129	26,763,129
2019	-	21,160,326	21,160,326
2020	-	9,285,193	9,285,193
2021	-	22,529,989	22,529,989
	\$ -	\$ 95,978,719	\$ 95,978,719

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

7

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at September 30, 2017 was \$32,194,370, including \$3,616,472 of capitalization of future interest relating to the existing Loan Portfolio compared to \$11,619,581, including \$9,051,743 of capitalization of future interest relating to the Loan Portfolio at December 31, 2016.

The investments comprising the Loan Portfolio are classified as financial assets and categorized as loans and receivables. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less any provision for impairment. The Loan Portfolio is reviewed on a quarterly basis to determine any such impairment.

The Company assesses individually all investments at each reporting date to determine whether there is objective evidence of impairment. The Company uses judgement, taking into account the loan to value of the security, credit quality, payments in arrears, financial difficulty of the underlying asset, as applicable, financial difficulty of the borrower and/or guarantor, and general economic and real estate market conditions for reasonable assurance of timely collection of the full amount of principal and interest and to determine whether any future losses are expected to occur in order to recognize a specific loan provision. As at September 30, 2017 and December 31, 2016, based on the most recent valuations of the underlying assets and managements estimates, the Company carries a specific impairment loss provision balance of \$310,493.

The Company also assesses collectively for impairment to identify potential future losses by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at September 30, 2017 and December 31, 2016, the Company carries a collective impairment loss provision balance of \$590,792.

The changes in the allowance for mortgage investments loss during the nine months ended September 30, 2017 and year ended December 31, 2016 was as follows:

	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance, beginning of period	\$ 901,285	\$ 478,066
Provision for loan and mortgage investment loss	-	423,219
Balance, end of period	\$ 901,285	\$ 901,285

At September 30, 2017, four project loan investments to entities controlled by the Borrower totaling \$13,195,512 (including interest receivable and fees incurred on these loans totaling \$2,369,963) are in arrears, of which \$157,958 of project loans including interest payable have been syndicated for a net receivable of \$13,037,554. At December 31, 2016, four loan investments to entities controlled by the Borrower totalling \$12,185,468 including interest receivable and fees paid on these loans totaling \$1,123,669 were in default, of which \$248,333 of loan investment including interest payable have been syndicated for a net receivable of \$11,937,135. The weighted average effective interest rate of the loans in default at September 30, 2017 and December 31, 2016 was 19.7% and 19.4%, respectively. The foreclosure process has commenced and is proceeding on these loans to enforce the securities and liquidate the loans.

On May 1, 2017, companies related to an entity that owns two projects that the Company has two U.S. loan and mortgage investments in filed for protection under Canada Companies' Arrangement Act in Canada (the "Filing"). At September 30, 2017, these project loan investments totaled \$7,111,603 (U.S. \$5,698,400), of which \$5,922,525 (U.S. \$4,745,613) have been syndicated for a net loan investments of the Company of \$1,189,078 (U.S. \$952,787). These loans, secured by 1st mortgages on the projects, have a loan to value of less than 40% and are performing in accordance with their loan agreements.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

8

On May 2, 2017, an order by the Ontario Superior Court of Justice (Commercial List) approved the settlement agreement of the creditors (including the Company) of a development project relating to the loan and mortgage investments of the Company totaling \$7,540,245, including interest receivable and fees incurred that are currently in default with a Borrower. Such settlement allows for the completion of the project by a development company and the ultimate sale of the residential units to existing purchasers of units who elected to become part of the agreement. Pursuant to the agreement, purchasers who have elected to close on their homes will pay an additional amount towards completion of their units and creditors will fund the additional cash required to complete the development. The homes of purchasers not electing to participate in the agreement will be completed and sold on the open market. All proceeds of sale of units will be directed to repay all creditors (including the Company) and the development company on a pre-agreed upon formula.

JOINT ARRANGEMENTS

JOINT OPERATIONS

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

Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and subsequently developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20 year land lease, with five renewal options of five years each. The Montreal Street JV is subject to joint control and the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method. The Company's ownership interest in the Montreal Street JV is 55.0%.

Valermo Homes JV:

One of the Company's loan and mortgage investments provided the Company with an option to purchase the 50% interest in Valermo Homes JV owned by an entity controlled by the Borrower. On April 15, 2016, the Company, through its wholly owned subsidiary, Terra Firma (Valermo) Corporation, exercised its option and acquired the 50% interest in Valermo Homes JV for \$7,000,000. The Company incurred \$624,681 in closing costs.

The fair value of consideration paid by the Company for its interests in Montreal Street JV and the Valermo Homes JV has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of conversion, as follows:

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

9

The financial information in respect of the Company's investment in jointly controlled operations being the Montreal Street JV and the Valermo Homes JV, at September 30, 2017 and December 31, 2016 is as follows:

	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 54,597	\$ 413,420
Amounts receivable and prepaid expenses	405,125	415,616
Investment property	2,208,694	2,208,694
Land under development	25,586,787	23,808,574
Total assets	28,255,203	26,846,304
Accounts payable and accrued liabilities	7,170,175	5,151,860
Loan and mortgage syndications	870,389	870,389
Mortgages payable	1,480,169	1,509,503
Construction loan payable	10,495,000	-
Due to joint operations partner	20,248	11,163,640
Total liabilities	20,035,981	18,695,392
Net assets	\$ 8,219,222	\$ 8,150,912

The table below details the results of operations for the three and nine months ended September 30, 2017 and 2016, attributable to the Company from its joint operations activities:

	Three months ended		Six months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue				
Rental	\$ 50,444	\$ 50,444	\$ 151,332	\$ 149,266
Expenses				
Property operating costs	17,157	21,186	51,645	54,585
General and administrative expenses	1,571	117,408	(19,565)	118,416
Interest expense	11,429	8,137	34,772	29,950
	30,157	146,731	66,852	202,951
Net income	\$ 20,287	\$ (96,287)	\$ 84,480	\$ (53,685)

INVESTMENT PROPERTY

The Company's investment property consists of an income-producing property held in joint operations through the Montreal Street JV.

The following table summarizes the changes in the Company's proportionate share of the investment property for the nine months ended September 30, 2016 and 2017:

	Amount
Balance, December 31, 2015	\$ 2,143,794
Balance, September 30, 2016	\$ 2,143,794
Change in amount receivable from joint venture partner	2,950
Fair value adjustment	61,950
Balance, December 31, 2016	\$ 2,208,694
Balance, September 30, 2017	\$ 2,208,694

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

10

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net normalized operating income at the market capitalization rates. The carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$2,208,694. At September 30, 2017 and December 31, 2016, the fair value was determined by the Company's management. The capitalization rate used in the valuation property at September 30, 2017 and December 31, 2016 was 6.25%.

As at September 30, 2017 and December 31, 2016, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by \$92,400 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by \$85,250.

LAND UNDER DEVELOPMENT

The Company's land under development is held in joint operations through the Valermo Homes JV.

The following table summarizes the changes in the Company's proportionate share of the land under development for the nine months ended September 30, 2016 and 2017:

	Amount
Balance, December 31, 2015	\$ -
Acquisition of property	22,275,767
Additions, capital expenditures	1,121,231
Balance, September 30, 2016	\$ 23,396,998
Additions, capital expenditures	411,576
Balance, December 31, 2016	\$ 23,808,574
Additions, capital expenditures	1,778,213
Balance, September 30, 2017	\$ 25,586,787

PORTFOLIO INVESTMENTS

The Company has invested, through its wholly owned subsidiary Terra Firma Capital (Hill) Corporation (the "Hill"), in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at September 30, 2017, the cost of the investment is \$954,630 (December 31, 2016 - \$954,630), and the cost of the investment in the Hill owned by an outside party is \$200,000 (December 31, 2016 - \$200,000). At September 30, 2017 the fair value of the investment as determined by management, using the direct comparison method was \$1,174,212 (December 31, 2016 - \$1,174,212). The investment owned by an outside party of \$254,641 at September 30, 2017 is included in non-controlling interest (December 31, 2016 - \$254,641).

The Company, through TFCC LanQueen Ltd., entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment to the partnership. TFCC LanQueen Ltd. is accounting for this investment as a financial asset at fair value through profit or loss. As at September 30, 2017, TFCC LanQueen Ltd. contributed \$1,724,000 (December 31, 2016 - \$1,724,000) in the partnership. At September 30, 2017, the fair value of the investment as determined by management, using the direct comparison method was \$2,037,872 (December 31, 2016 - \$2,037,872). The remainder of the commitment will be funded in the future upon the borrower meeting certain funding conditions related to the project.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

11

The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest U.S. \$2,000,000 in a development project located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the partnership. TFCC International Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at September 30, 2017, TFCC International Ltd. contributed \$245,460 (U.S. \$200,000) (December 31, 2016 – \$nil (U.S. \$nil)) in the partnership. At September 30, 2017, the fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at September 30, 2017 was \$245,460 (December 31, 2016 – \$nil (U.S. \$nil)). TFCC International Ltd. also committed to provide a first mortgage loan up to U.S. \$18,000,000 to the same project at the rate of 11% per annum calculated and compounded monthly and received a commitment fee of U.S. \$400,000 on funding the loan. As at September 30, 2017, TFCC International Ltd. advanced a loan investment of \$13,400,815 (U.S. \$10,918,940) (December 31, 2016 - \$nil (U.S. \$nil)) to the partnership.

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2016 and 2017:

	Amount
Balance, December 31, 2015	\$ 2,339,555
Investment made	400,000
Balance, September 30, 2016	\$ 2,739,555
Investment made	400,000
Fair value adjustment	72,529
Balance, December 31, 2016	\$ 3,212,084
Investment made	245,460
Balance, September 30, 2017	\$ 3,457,544

INVESTMENT IN ASSOCIATES

The Company, together with certain syndicate investors, has invested in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). At September 30, 2017, the Company's share of investment in the Lan Partnership, was \$2,315,414 (December 31, 2016 - \$2,315,414).

As at September 30, 2017, the Lan Partnership has \$13,333,333 invested in the Lan Project (December 31, 2016 - \$13,333,333).

The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest of 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% per annum hurdle rate. The Company exerts significant influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

At September 30, 2017, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at September 30, 2017 and December 31, 2016 was \$2,315,414.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

12

FINANCIAL PERFORMANCE

The Company's financial performance for the three and nine months ended September 30, 2017 and 2016 is summarized below:

	Three months ended			Nine months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Revenue						
Interest and fees earned	\$3,554,940	\$3,568,917	\$ (13,977)	\$11,537,889	\$11,317,371	\$ 220,518
Rental income	50,444	50,444	-	151,332	149,266	2,066
Total revenue	3,605,384	3,619,361	(13,977)	11,689,221	11,466,637	222,584
Expenses						
Property operating costs	17,157	21,186	(4,029)	51,645	54,585	(2,940)
General and administrative expenses	697,048	906,366	(209,318)	2,260,822	2,172,995	87,827
Share based compensation	352,813	120,150	232,663	560,701	389,354	171,347
Interest expense	1,868,118	1,981,164	(113,046)	6,643,052	5,817,139	825,913
Provision for loan and mortgage investment loss	-	-	-	-	112,726	(112,726)
Realized and unrealized foreign exchange loss (gain)	655,851	(313,607)	969,458	1,289,347	1,216,035	73,312
	3,590,987	2,715,259	875,728	10,805,567	9,762,834	1,042,733
Income from operations before income taxes	14,397	904,102	(889,705)	883,654	1,703,803	(820,149)
Income taxes	(21,941)	259,615	(281,556)	248,820	549,051	(300,231)
Net income and comprehensive income	\$ 36,338	\$ 644,487	\$(608,149)	\$ 634,834	\$ 1,154,752	\$(519,918)

Total revenue for the three and nine months ended September 30, 2017 was approximately \$3.6 million, no change compared to the same period last year, primarily due to the factors discussed below under "Interest and Fees Earned". During the three months ended September 30, 2017, the Company received unusually higher early repayments of loans. The Company's principal balance of the Loan Portfolio increased from \$94.3 million at December 31, 2016 to \$96.0 million at September 30, 2017.

Income from operations before income taxes for the three months ended September 30, 2017 was \$14,397 compared to \$904,102 for the three months ended September 30, 2016, primarily impacted by a foreign exchange loss of \$655,851 for the three months ended September 30, 2017, compared to a foreign exchange gain of \$313,607 for the three months ended September 30, 2016 and increase in share based compensation expenses.

Income from operations before income taxes for the nine months ended September 30, 2017 was \$883,654 compared to \$1,703,803 for the nine months ended September 30, 2016, primarily impacted by a higher foreign exchange loss of \$1,289,347 for the nine months ended September 30, 2017, compared to \$1,216,035 for the nine months ended September 30, 2016 and increase in interest expense attributable to increase in loan and mortgage syndications to fund the Loan Portfolio and increase in share based compensation expenses.

Net income and comprehensive income for the three months ended September 30, 2017 was \$36,338, compared to \$644,487 for the corresponding period in 2016. The lower net income and comprehensive income compared to the same period last year was primarily due to increase in foreign exchange loss and share based compensation expenses recorded in the current quarter.

Net income and comprehensive income for the nine months ended September 30, 2017 was \$634,834, compared to \$1,154,752 for the corresponding period in 2016. The lower net income and comprehensive income compared to the same period last year was primarily due to increase in loan and mortgage syndications to fund the Loan Portfolio in the nine months ended September 30, 2017 and increase in share based compensation expenses.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

13

The Company's adjusted net income (non-IFRS measurement) for the three and nine months ended September 30, 2017 and 2016 is summarized below:

	Three months ended			Nine months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Net income and comprehensive income	\$ 36,338	\$ 644,487	\$(608,149)	\$ 634,834	\$ 1,154,752	\$(519,918)
Foreign exchange loss (tax adjusted)	482,050	(230,501)	712,551	947,670	893,786	53,884
Adjusted net income and comprehensive income ⁽¹⁾	\$ 518,388	\$ 413,986	\$ 104,402	\$ 1,582,504	\$ 2,048,538	\$(466,034)

(1) Adjusted net income is a non-IFRS measure. See "Non-IFRS Measures".

Adjusted net income and comprehensive income, which eliminates after tax impact related to foreign exchange loss or gain on the US dollar denominated net assets, for the three months ended September 30, 2017 was \$518,388, an increase of \$104,402 from \$413,986 for the corresponding period in 2016.

Adjusted net income and comprehensive income, which eliminates after tax impact related to the foreign exchange loss or gain on the US dollar denominated net assets, for the nine months ended September 30, 2017 was \$1,582,504, a decrease of \$463,034 from \$2,045,538 for the corresponding period in 2016, primarily due to increase in the interest expense attributable to increase in loan and mortgage syndications and the increase in share based compensation expenses.

INTEREST AND FEES EARNED

For the three months ended September 30, 2017, interest and fees earned was \$3.5 million, no change compared to the same period last year. The interest and fees earned for the three months ended September 30, 2017 includes interest and fees earned of \$1.6 million from the Company's principal balance of the Loan Portfolio funded subsequent to September 30, 2016. This was partially offset by a decrease in interest and fees earned of \$1.4 million from loans repaid subsequent to September 30, 2016. During the three months ended September 30, 2017, the Company received unusually higher early repayments of loans. For the three months ended September 30, 2017, interest and fees earned from the loan investments to projects owned by entities controlled by the Borrower was \$23,000, as compared to \$380,000 for the three months ended September 30, 2016. The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments".

For the nine months ended September 30, 2017, interest and fees earned was \$11.5 million, compared to \$11.3 million in the comparative period in 2016, representing an increase of \$0.2 million or 2% primarily due to the increase in interest and fees earned in the amount of \$3.3 million from new loan and mortgage investments funded since December 31, 2016. The increase was partially offset by a decrease in interest and fees earned in the amount of \$3.7 million on the loan and mortgage investments repaid subsequent to September 30, 2016. For the nine months ended September 30, 2017, interest and fees earned from the loan investments to projects owned by entities controlled by the Borrower was \$753,000, as compared to \$1.1 million for the nine months ended September 30, 2016. The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments".

RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended September 30, 2017 and 2016 was \$50,444. The Company's proportionate share of the property operating costs in investment property in operations jointly controlled by the Company for the three months ended September 30, 2017 was \$17,157 compared to \$21,186 for the same period last year.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

14

The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the nine months ended September 30, 2017 was \$151,332 compared to \$146,266 for the same period last year. The Company's proportionate share of the property operating costs in investment properties in operations jointly controlled by the Company for the nine months ended September 30, 2017 was \$51,645 compared to \$54,585 for the same period last year.

INTEREST EXPENSE

Interest expense for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three months ended			Six months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Interest on loans and mortgage syndications	\$1,393,053	\$1,516,716	\$ (123,663)	\$5,367,873	\$4,340,764	\$1,027,109
Interest on revolving operating facility	279,050	233,414	45,636	614,056	784,532	(170,476)
Interest on debentures	184,586	222,897	(38,311)	626,351	661,893	(35,542)
Montreal Street JV	11,429	8,137	3,292	34,772	29,950	4,822
	\$1,868,118	\$1,981,164	\$ (113,046)	\$6,643,052	\$5,817,139	\$ 825,913

Interest expense for the three months ended September 30, 2017 was \$1,868,118 compared to \$1,981,164 for the same period last year. Interest expense for the nine months ended September 30, 2017 was \$5,367,873 compared to \$4,340,764 for the same period last year. The increase in interest expense for the nine months ended September 30, 2017 and the decrease in interest expense three months ended September 30, 2017 were primarily due to change loan and mortgage syndications. See – "Capital Structure and Debt Profile – Loan and Mortgage Syndications" and "Revolving Operating Facility".

GENERAL AND ADMINISTRATIVE EXPENSES

During the three and nine months ended September 30, 2017 and 2016, the Company incurred the following general and administrative expenses:

	Three months ended			Nine months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Salary and benefits	\$ 425,514	\$ 374,789	\$ 50,725	\$1,266,656	\$1,064,041	\$ 202,615
Professional fees	132,331	145,871	(13,540)	428,922	459,856	(30,934)
Public Company expenses	27,844	15,211	12,633	71,715	70,427	1,288
Chairman's fees	25,000	50,000	(25,000)	75,000	72,500	2,500
Rent	29,653	70,318	(40,665)	94,718	119,829	(25,111)
Selling and marketing expenses	2,170	118,260	(116,090)	(19,700)	118,260	(137,960)
Other expenses	54,536	131,917	(77,381)	343,511	268,082	75,429
	\$ 697,048	\$ 906,366	\$ (209,318)	\$2,260,822	\$2,172,995	\$ 87,827

General and administrative expenses consist mainly of salaries and other personnel costs, professional fees, occupancy costs and other expenses associated with the operation of the Company. General and administrative expenses for the three months ended September 30, 2017 were \$697,048, compared to \$906,366 for the same period last year. The increase in salary and benefits for the three and nine months ended September 30, 2017 was due to increase in salary to employees. Selling and marketing expenses for the three and nine months ended September 30, 2017, include adjustments relating to realtor fees included in the selling and administrative costs to prepaid expenses by the Valermo Homes JV and Selling and marketing expenses for the three months ended September 30, 2016 include selling and administrative costs incurred by the Valermo Homes JV. Other expenses for the three months ended September 30,

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

15

2017 was \$54,536, compared to \$131,917 for the same period last year. Other expenses for the nine months ended September 30, 2017 include expenses relating to due diligence work on unfunded loans amounting to \$157,307. No expense relating to due diligence work were incurred during the same period last year.

SHARE BASED COMPENSATION

The share-based payments that have been recognized for the three and nine months ended September 30, 2017 and 2016 were as follows:

	Three months ended			Nine months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Share option Plan	\$ 44,090	\$ 73,016	\$ (28,926)	\$ 191,608	\$ 368,647	\$ (177,039)
DSU Plan	308,723	47,134	261,589	369,093	20,707	348,386
	\$ 352,813	\$ 120,150	\$ 232,663	\$ 560,701	\$ 389,354	\$ 171,347

Share-based payments associated with the Company's share option plan (the "Plan") was \$44,090 for the three months ended September 30, 2017, compared to \$73,016 for the same period last year. The decrease in share-based payments associated with the Plan was primarily due the determination of the compensation expense using the graded-vesting accounting method. Share-based payments associated with the Plan for the nine months ended September 30, 2017 was \$191,608, compared to \$368,647 for the same period last year, due to amortization of value attributable to the stock options granted in March 31, 2016, September 26, 2016 and November 2014. See "Shareholders Equity – Share-Based Payments".

The Company has a Deferred Share Unit Plan (the "DSU Plan") to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares by awarding Deferred Share Units (the "DSUs") as compensation for services rendered.

Share-based payments associated with the DSU Plan for the three months ended September 30, 2017 was \$308,723, compared to \$47,134 for the same period last year. The increase in share-based payments associated with the DSU Plan for the three months ended September 30, 2017 is primarily due to increase in the Share price and vesting of additional DSUs during the period. Share-based payments associated with the DSU Plan for the nine months ended September 30, 2017 was \$369,093, compared to \$20,707 for the nine months ended September 30, 2016 due to increase in the number of units vested during the period and increase in the Share price over the course of the same period last year. See "Shareholders Equity – Share-Based Payments".

FOREIGN EXCHANGE GAIN/LOSS

	Three months ended			Nine months ended		
	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)	Sep 30, 2017	Sep 30, 2016	Change Increase / (decrease)
Realized and unrealized foreign exchange loss	\$ 655,851	\$ (313,607)	\$ 969,458	\$1,289,347	\$1,216,035	\$ 73,312
	\$ 655,851	\$ (313,607)	\$ 969,458	\$1,289,347	\$1,216,035	\$ 73,312

For the three months ended September 30, 2017, the Company recognized a foreign exchange loss of \$655,851 compared to a foreign exchange gain of \$313,607 for the same period last year. For the nine months ended September 30, 2017, the Company recognized a foreign exchange loss of \$1,289,347 compared to a foreign exchange loss of \$1,216,035 for the comparative period in 2016.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

16

During the three months ended September 30, 2017, the U.S. Dollar weakened by approximately 4.0% against the Canadian dollar from \$1.2977 to \$1.2480. As at September 30, 2017, U.S. dollar denominated net monetary assets were US\$25,580,210 compared to US\$11,729,109 as at December 31, 2016, primarily due to increase U.S. dollar cash balances and U.S. dollar-denominated loan and mortgage investments.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

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

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

CASH FLOWS

The following table details the changes in cash for the three and nine months ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	Sep 30, 2017	Sep 30, 2016	Sep 30, 2017	Sep 30, 2016
Cash provided by (used in) operating activities	\$ 8,408,777	\$ 856,282	\$ 8,054,738	\$ (3,016,892)
Cash (used in) provided by financing activities	(7,472,780)	(4,420,740)	(1,948,843)	787,514
Cash (used in) provided by investing activities	(2,179,131)	6,101,540	(9,163,243)	(1,635,546)
Increase (decrease) in cash and cash equivalents	\$ (1,243,134)	\$ 2,537,082	\$ (3,057,348)	\$ (3,864,924)
Cash and cash equivalents, beginning of period	10,501,028	5,321,544	12,315,242	11,723,550
Cash and cash equivalents, end of period	\$ 9,257,894	\$ 7,858,626	\$ 9,257,894	\$ 7,858,626

Cash provided by in operating activities for the three months ended September 30, 2017 and 2016 of \$8,408,777 and \$856,282, respectively, and provided by and used in operating activities for the nine months ended September 30, 2017 and 2016 of \$8,054,738 and \$3,016,892, respectively, are related primarily to the net cash provided by or used in lending operations.

Cash used in financing activities for the three months ended September 30, 2017 of \$7,472,780 related primarily to repayments of the loan and mortgage syndications of \$31,536,343; repayment of the Debentures of \$10,850,000; repayments to a revolving credit facility of \$4,000,000; repayments to a joint operations partner of \$5,160,511; repayments of a mortgage payable of \$12,086; and the repurchase of Shares for cancellation under the Company's NCIB (as defined below) of \$750,250. The aggregate of these amounts was partially offset by proceeds from the loan and mortgage syndications of \$16,382,017; proceeds from a revolving credit facility of \$20,000,000; proceeds from the issuance of Shares pursuant to private placement of \$3,179,393 and proceeds from construction loan payable of \$5,275,000. Cash used by financing activities for the three months ended September 30, 2016 of \$4,420,740 related primarily to repayments of the loan and mortgage syndications of \$5,750,896, repayments of unsecured short-term notes payable of \$2,239,200, repayment of a revolving operating facility of \$5,000,000 and repayments of a mortgage payable of \$6,359, which aggregate amount was offset, in part by net proceeds from the loan and mortgage syndications of \$6,999,944 and an advance from a joint operations partner of \$1,575,771.

Cash used in financing activities for the nine months ended September 30, 2017 of \$1,948,843 related primarily to repayments of the loan and mortgage syndications of \$46,069,457; repayments to a joint operations partner of \$11,143,392; repayments of mortgage payable of \$31,472; repayment of the Debentures of \$10,850,000, repayment of revolving credit facility of \$14,000,000 and the repurchase of Shares for cancellation under the Company's NCIB of \$1,212,573. The aggregate of these amounts was partially offset by proceeds from loan and mortgage syndications of \$45,183,658; proceeds from a revolving credit facility of \$22,500,000; proceeds from a construction loan payable of \$10,495,000 and proceeds from issuance of Shares pursuant to private placement of \$3,179,393. Cash provided by financing activities for the nine months ended September 30, 2016 of \$787,514 related primarily to the net proceeds from the loan and mortgage syndications of \$29,941,856, proceeds from short-term unsecured notes payable of \$200,000, proceeds from a mortgage payable of \$417,736, proceeds from the issuance of Shares pursuant to the Plan of \$268,500, and an advance from joint operations partner of \$2,305,502, which aggregate amount was offset, in part by repayments of the loan and mortgage syndications of \$24,584,797, repayment of unsecured short-term notes loans payable of \$2,741,700, repayment of a revolving operating facility of \$5,000,000 and repayments of a mortgage payable of \$19,583.

The cash used in investing activities during the three months ended September 30, 2017 of \$2,179,131 primarily reflects the funding of loans and mortgage investments of \$36,341,626; capital additions to land under development of \$554,318; funding of a portfolio investment of \$245,460 and an increase in funds held in trust of \$4,438,411. The aggregate of this amount was partially offset by repayments of loan and mortgage investments of \$39,400,684. The cash provided by investing activities during the three months ended September 30, 2016 of \$6,101,540 primarily reflects the repayment of loan and mortgage investments of \$6,909,196, decrease in funds held in trust of \$180,536, which aggregate amount was offset by funding of loans and mortgage investments of \$445,291, funding of interests in joint operations of \$624,681 and capital additions to investment properties of \$542,901.

The cash used in investing activities during the nine months ended September 30, 2017 of \$9,163,243 primarily reflected funding of loan and mortgage investments of \$62,296,651; capital additions to investment properties of \$1,778,213; funding of a portfolio investment of \$245,460 and an increase in funds held in trust of \$4,412,910. The aggregate of this amount was partially offset by repayments received from loan and mortgage investments of \$65,023,311. The cash used in investing activities during the nine months ended September 30, 2016 of \$1,635,546 primarily reflected funding of the Loan Portfolio of \$41,993,912, funding of interests in joint operations of \$624,681, capital additions to investment properties of \$1,121,231, and funding of a portfolio investment of \$400,000, which aggregate amount was offset, in part by repayments received from the Loan Portfolio of \$29,285,010, repayment of deposits of \$11,747,370 and a decrease in funds held in trust of \$1,471,898.

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, loan and mortgage syndications, convertible debentures, short-term unsecured notes payable, revolving operating facility, mortgage payable, due to joint operations partner and construction loan payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the shareholders.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

18

As at September 30, 2017 and December 31, 2016, respectively, the total capital of the Company was as follows:

	September 30, 2017	December 31, 2016
Loan and mortgage syndications	\$ 52,525,811	\$ 56,180,448
Revolving operating facility	15,894,134	7,467,586
Mortgages payable	1,480,169	1,509,503
Convertible debentures	-	10,754,259
Construction loan payable	10,495,000	-
Due to joint operations partner	20,248	11,163,640
Non-controlling interest	254,641	254,641
Shareholders' equity	51,182,131	48,370,158
Total capital	\$ 131,852,134	\$ 135,700,235

LOAN AND MORTGAGE SYNDICATIONS

The Company enhances the Loan Portfolio through Loan Syndications, short-term unsecured notes payable, a revolving operating facility and convertible 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 are funded through the following initiatives:

- (i) The syndication of certain loan investments to private investors each participating in a prescribed manner on an investment by investment basis. In these cases, the investors rank on a pari-passu basis with the Company's share of Loan and Mortgage Investments.
- (ii) Conventional construction or permanent financing secured by the project or investment property. In these cases, the Company is generally in second position to the conventional construction lenders.

The Loan Portfolio that may initially be funded by the Company may then be syndicated to other lenders sourced by the Company on a pari-passu basis. The syndicated portion of the investments are owned by the investors in a prescribed manner and are governed by loan servicing agreements. The terms of the syndication would mirror the terms of the loan with the exception of the interest rate paid to syndicated investors. 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 administered by Terra Firma MA Ltd. (the "TFMA"), the subsidiary of the Company on behalf of the syndicate investors. The security documents are typically registered in the name of the Company, and held in trust on behalf of the syndicated investors.

The loan servicing agreement stipulates the ownership interest of the syndicate investors in the loan investments and segregates the ownership of the syndicate investors from the Company. Each syndicated Loan and Mortgage Investment has a designated rate of return that the syndicated investors expect to earn from that Loan and Mortgage Investment. This specific rate will vary from mortgage to mortgage depending on the loan-to-value, mortgage position, location, term, and exit strategy.

Under IFRS the Company recognizes the loan and mortgage investments and the loan syndications on a gross basis. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income. From a legal perspective, the syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has a beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans.

TFMA administers the Loan Syndications and all funding from and to syndicate investors are funded to and from the trust account held by this entity. The Loan Syndications have no recourse to the Company and there is no obligation of the Company to fund any principal or interest shortfalls.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

19

The following table presents details of the loan and mortgage syndications as at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing development	10.7%	\$20,377,681	38.8%	11.0%	\$ 35,109,509	62.5%
Land and lot inventory	10.3%	32,148,130	61.2%	10.5%	20,270,939	36.1%
Residential income properties	-	-	-	10.4%	800,000	1.4%
	10.4%	\$52,525,811	100.0%	10.8%	\$ 56,180,448	100.0%

At September 30, 2017, the weighted average effective interest rate of Loan Syndications was 10.4%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 10.7% and land and lot inventory, having a weighted average effective interest rate of 10.3%.

At December 31, 2016, the weighted average effective interest rate of Loan Syndications was 10.8%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 11.0%, residential income properties, having a weighted average effective interest rate of 10.4%, and land and lot inventory, having a weighted average effective interest rate of 10.5%.

At September 30, 2017, the Company's syndication activities resulted in \$52,525,811 or 54.7% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 18.6%, and increasing its overall return by 4.5% from its non-leveraged 14.1% return. At December 31, 2016, the Company's syndication activities resulted in \$56,180,448 or 59.6% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 21.4%, and increasing its overall return by 6.6% from its non-leveraged 15.3% return. Overall, returns may fluctuate significantly due to changes in the relative dollar amounts and the relative change in the weighted average effective interest rates within the Loan Portfolio and Loan Syndications.

The following table summarizes the changes in the principal balance of Loan Syndications for the three and nine months ended September 30, 2017 and 2016:

	Three months ended		Nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Balance, beginning of period	\$ 70,713,975	\$ 54,782,718	\$ 56,180,448	\$ 45,691,948
Loan and mortgage syndication activity during the period				
Proceeds to participate in new Loan Portfolio	16,124,658	6,999,944	37,132,434	28,341,856
Additional advances to existing Loan Portfolio	257,359	-	8,051,224	1,600,000
Interest capitalized	839,398	49,293	2,296,363	330,431
Repayments of loan and mortgage syndications	(31,536,343)	(5,750,896)	(46,069,457)	(24,584,797)
Transferred from short-term unsecured loans payable (net)	-	619,950	-	6,744,300
Repayments of capitalized interest	(2,102,423)	-	(2,208,702)	-
Unrealized foreign exchange gain	(1,770,813)	(444,188)	(2,856,499)	(1,866,917)
Balance, end of period	\$ 52,525,811	\$ 56,256,821	\$ 52,525,811	\$ 56,256,821

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

20

The following table sets out, as at September 30, 2017, scheduled principal repayments, and amounts maturing on the Loan Syndications to be paid over each of the next four years and thereafter, are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
Reminder of year	\$ -	\$ 8,272,958	\$ 8,272,958
2018	-	14,802,613	14,802,613
2019	-	17,042,248	17,042,248
2020	-	5,136,321	5,136,321
2021	-	7,271,671	7,271,671
	\$ -	\$ 52,525,811	\$ 52,525,811

DUE TO JOINT OPERATIONS PARTNER

The co-ownership agreement on Valermo Homes JV provides that the Company will not be required to make any other contributions in respect of expenses or development costs and the development partner will loan the applicable amounts to the co-ownership at an interest rate between 7% and 9% per annum. The interest is calculated using the formula specified in the co-ownership agreement. At September 30, 2017 and December 31, 2016, the amount due to joint operations partner was \$20,248 and \$11,163,640, respectively.

CONSTRUCTION LOAN PAYABLE

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Facilities") with a lending institution for \$65.6 million to finance the construction of homes. Interest on advanced funds under the Facilities will be prime plus 0.75% per annum. The Company's share of the loan drawn against the Facilities at September 30, 2017 is \$10,495,000 (December 31, 2016 - \$nil).

MORTGAGES PAYABLE

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

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at September 30, 2017 and December 31, 2016 is as follows.

	September 30, 2017	December 31, 2016
Mortgage principal	\$ 1,491,189	\$ 1,522,661
Unamortized financing costs	(11,020)	(13,158)
Total	\$ 1,480,169	\$ 1,509,503

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

21

The following table sets out, scheduled principal and interest repayments and amounts maturing on the mortgages over each of the next five years:

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
Remainder of year	\$ 11,036	\$ -	\$ 11,036
2018	43,803	-	43,803
2019	45,138	-	45,138
2020	46,513	-	46,513
2021	23,785	1,320,914	1,344,699
	\$ 170,275	\$ 1,320,914	\$ 1,491,189

SHORT-TERM UNSECURED NOTES PAYABLE

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

As at September 30, 2017 and December 31, 2016, the Company had no outstanding short-term unsecured notes payable.

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

The following table summarizes the changes in the short-term unsecured notes payable for the nine months ended September 30, 2017 and 2016:

	Amount
Balance, December 31, 2015	\$ 9,286,000
Proceeds from issuance of short-term unsecured notes payable	200,000
Transferred from loan and mortgage syndications	50,000
Transferred to loan and mortgage syndications	(6,794,300)
Unrealized foreign exchange loss	(2,741,700)
Balance, September 30, 2016	\$ -
Balance, December 31, 2016	\$ -
Balance, September 30, 2017	\$ -

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

22

REVOLVING OPERATING FACILITY

The Company had a Revolving Operating Facility Credit Agreement (the "Facility Agreement") with a lending institution (the "Lender") for a \$10,000,000 secured revolving loan facility (the "Facility") with a 24-month term, maturing on May 1, 2017. Interest on advanced funds under the Facility was 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility was subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allowed the Company to fund and warehouse new investments while raising syndicate on and/or co investment capital.

On April 24, 2017, the Company paid the Facility in full and the Facility matured on May 1, 2017.

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

In connection with the Amendment, the Company incurred lender and other third-party costs of \$142,138. The costs associated with the Amendment have been deferred and were fully amortized over the term of the Facility as interest expense using the effective-interest amortization method.

During the nine month periods ended September 30, 2017 and 2016, the Company borrowed an aggregate of \$22,500,000 and \$nil, respectively and repaid \$14,000,000 and \$5,000,000, respectively, against the Facility.

For the three and nine months ended September 30, 2017, amortization of deferred financing costs reported as interest expense and financing costs totaled \$36,272 and \$68,686 (three and nine months ended September 30, 2016 - \$25,636 and \$76,755), respectively.

The following table presents details of the Facility as at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Face value	\$ 16,000,000	\$ 7,500,000
Unamortized financing costs	(105,866)	(32,414)
	\$ 15,894,134	\$ 7,467,586

CONVERTIBLE DEBENTURES

The Company had unsecured subordinated convertible debentures (the "Debentures") in the principal amount of \$10,850,000. The Debentures bore interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and were to mature on September 27, 2017. The Debentures were convertible into Shares in whole or in part, at the option of the holder at any time up to maturity at a conversion price of \$0.72 per Share. The Company had an option, at any time prior to the maturity date and upon giving notice, to prepay the Debentures in full or in part, by paying the holders thereof the outstanding principal amount plus all accrued and unpaid interest, provided that the market price per Share on the date on which the redemption notice is provided is at least 125% of the conversion price.

The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represented the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of \$10,486,460 (net of transaction costs of \$76,962) and the equity component was assigned a value of \$284,490 (net of transaction costs of \$2,088). The effective interest rate of the Debentures was 8.53%.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

23

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

The following table summarizes the changes in the Debentures for the nine months ended September 30, 2017 and 2016:

	Amount
Liability component of Debentures, December 31, 2015	\$ 10,628,301
Interest expensed at EIR of 8.53%	661,893
Interest paid	(568,546)
Liability component of Debentures, September 30, 2016	\$ 10,721,648
Interest expensed at EIR of 8.53%	223,565
Interest paid	(190,954)
Liability component of Debentures, December 31, 2016	10,754,259
Interest expensed at EIR of 8.53%	626,351
Interest paid	(530,610)
Repayment of Debentures	(10,850,000)
Liability component of Debentures, September 30, 2017	\$ -

COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at September 30, 2017 was \$32,194,370 including \$3,616,472 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2016 was \$11,619,581 including \$9,051,743 of capitalization of future interest relating to the existing Loan Portfolio.

The Company is also committed to provide its proportionate share of additional capital to joint operations in accordance with contractual agreements.

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at September 30, 2017, are as follows:

	Amount
Remainder of year	\$ 47,072
2018	221,785
2019	221,785
2020	221,785
	\$ 712,427

The Company, from time to time, may be involved in various claims, legal and tax proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the financial condition or future results of the Company.

SHAREHOLDERS' EQUITY**SHARES**

On August 15, 2017, the Company completed a non-brokered private placement offering of 5,000,000 units (the "Units") at a purchase price of \$0.65 per Unit, for gross proceeds of \$3,250,000. Each Unit is comprised of one Share and one warrant (a "Warrant"). Each Warrant is exercisable for one Share at a price of \$0.85 per Share for a period of 36 months from August 15, 2017. The Company incurred costs of \$70,607 which was offset by a deferred tax benefit of \$18,711.

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

The following table summarizes the changes in Shares for the nine months ended September 30, 2017 and 2016:

	Shares	Amount
Outstanding, December 31, 2015	60,260,083	\$31,257,404
Issuance of shares pursuant to share option plan	895,000	268,500
Transferred from contributed surplus upon exercise of options	-	252,390
Outstanding as at September 30, 2016	61,155,083	\$31,778,294
Repurchase of shares pursuant to normal course issuer bid	(94,500)	(55,631)
Issuance of shares pursuant to share option plan	74,667	37,334
Transferred from contributed surplus upon exercise of options	-	29,822
Outstanding, December 31, 2016	61,135,250	\$31,789,819
Repurchase of shares pursuant to normal course issuer bid	(1,817,500)	(1,212,573)
Issuance of shares pursuant to share option plan	5,000,000	2,661,223
Outstanding as at September 30, 2017	64,317,750	\$33,238,469

As at November 13, 2017, there were 63,960,250 Shares issued and outstanding.

NORMAL COURSE ISSUER BID

On October 31, 2016, the Company obtained the approval of the TSX-V of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase its Shares through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V) up to an aggregate maximum of 1,907,413 Shares. Purchases commenced on November 4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of Shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V. On June 30, 2017, the TSX-V approved the amendment to the NCIB to increase the number of Shares that the Company may acquire under the NCIB by an additional 2,861,119 Shares. Other than the increase to the maximum number of Shares which may be acquired under the NCIB, no further amendments were made.

During the nine months ended September 30, 2017 and 2016, the Company purchased and cancelled 1,817,500 and nil Shares, respectively on TSX-V for \$1,212,573 and \$nil, respectively.

Subsequent to September 30, 2017, the Company purchased 357,500 Shares for total cash consideration of \$239,639.

SHARE-BASED PAYMENTS**(a) Share Option Plan**

Pursuant to the Plan, the Company may grant eligible directors, officers, senior management and consultants options to purchase Shares. The exercise price of each option shall be determined by the board of directors and in accordance with the Plan and the policies of the TSX.V. Subject to the policies of the TSX-V, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods.

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 Shares of the Corporation at a price of \$0.69 per Share. Each of the option grants vest in four equal instalments every three months and expire in three years from the date of grant.

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

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

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

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

	Options grant dates			
	September 25, 2017	December 28, 2016	June 26, 2016	March 31, 2016
Average expected life	3.00 years	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	1.65%	1.40%	1.04%	0.89%
Average expected volatility	83.39%	87.74%	79.94%	81.61%
Average dividend yield	0.00%	0.00%	0.00%	0.00%

The fair value of options granted on September 25, 2017, December 28, 2016, June 26, 2016 and March 31, 2016 were 37,358, \$278,956, \$187,007 and \$108,854, respectively.

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

On March 31, 2016, the Executive Vice Chairman exercised 895,000 options that had been formally granted to purchase the Shares at \$0.30 per Share. The consideration of \$268,500, received by the Company upon exercise of the options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

For the three months ended September 30, 2017 and 2016, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$44,090 and \$73,016, respectively. For the nine months ended September 30, 2017 and 2016, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$191.608 and \$368.647, respectively

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

26

A total of 585,000 options previously granted to the Executive Vice Chairman, options that had been granted to purchase the Shares at \$0.50 per Share, expired during the second quarter of 2017.

The following is the summary of changes in the Company's options for the nine months ended September 30, 2017 and year ended December 31, 2016:

	September 30, 2017		December 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of period	5,278,671	\$ 0.67	5,052,338	\$ 0.61
Granted	100,000	1	1,260,000	0.63
Exercised	-	-	(969,667)	0.32
Expired	(585,000)	0.50	(64,000)	0.50
Cancelled	(50,000)	0.50	-	-
Outstanding - end of period	4,743,671	\$ 0.69	5,278,671	\$ 0.67
Number of options exercisable	4,140,356	\$ 0.70	4,260,335	\$ 0.67

The following summarizes the Company's options as at September 30, 2017:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
138,667	April 17, 2018	138,667	0.30	0.25
50,000	February 23, 2019	50,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	966,663	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
100,000	September 25, 2020	-	0.69	0.69
200,000	March 30, 2023	200,000	0.77	0.77
500,000	June 27, 2023	500,000	0.57	0.57
560,000	December 27, 2023	140,022	0.65	0.65
4,743,671		4,140,356		

(b) Deferred Share Unit Plan

The Company has a DSU Plan to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares by awarding DSUs as compensation for services rendered.

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

27

Each DSU has the same value as one Share (based on the five day volume weighted average trading price). Directors must retain DSUs until they leave the Board of Directors, or in the case of officers or employees, until their employment is terminated, at which time the redemption payment equal to the value of the DSUs, calculated as the volume weighted average closing price of the Shares for the last five days preceding the redemption date, net of applicable taxes are paid out.

The following table presents the changes in DSUs for the nine months ended September 30, 2017 and year ended December 31, 2016:

	Number of DSUs	
	September 30, 2017	December 31, 2016
DSUs outstanding, beginning of period	2,394,066	1,757,001
Granted	214,479	637,065
DSUs outstanding, end of period	2,608,545	2,394,066
Number of DSUs vested	2,561,658	2,292,150

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2017 were \$308,723 and \$369,093, respectively. The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2016 were \$47,134 and (\$20,707), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at September 30, 2017 and December 31, 2016 are \$1,927,754 and \$1,558,661, respectively.

(c) Warrants

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

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

	August 15, 2017
Average expected life	3.00 years
Average risk-free interest rate	1.27%
Average expected volatility	48.73%
Average dividend yield	0.00%

As part of a bought deal prospectus offering (the "Offering") completed on May 5, 2015, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitled the holder to acquire one Share at an exercise price of \$0.85 per Share. The broker warrants expired on May 5, 2017.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

28

CONTRIBUTED SURPLUS

The following table presents the changes to contributed surplus for the nine months ended September 30, 2017 and year ended December 31, 2016:

	Amount
Balance, December 31, 2015	\$ 2,360,575
Fair value of share-based compensation	368,647
Transferred to share capital - exercise of options	(252,390)
Balance, September 30, 2016	2,476,832
Fair value of share-based compensation	67,063
Transferred to share capital - exercise of options	(29,822)
Balance, December 31, 2016	2,514,073
Fair value of share-based compensation	191,608
Transferred of equity component of debentures on repayment	284,490
Fair value of warrants	536,881
Balance, September 30, 2017	\$ 3,527,052

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At September 30, 2017 and December 31, 2016, the Chairman of the Board of the Company (the "Chairman"), indirectly through a wholly owned subsidiary, owned approximately 10.0% of the issued and outstanding Shares.

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

LOAN AND MORTGAGE INVESTMENTS

The Company is committed to fund a loan investment of \$1,756,550 to a company controlled by the Chairman at the interest rate of 12% per annum. As of September 30, 2017 and December 31, 2016, the Company had advanced \$1,756,381. During the three and nine months ended September 30, 2017, the Company recognized interest and fees revenue of \$52,555 and \$155,990, respectively (three and nine months ended September 30, 2016 - \$23,872 and \$59,212, respectively).

LOAN AND MORTGAGE SYNDICATIONS, SHORT-TERM UNSECURED LOANS PAYABLE AND CONVERTIBLE DEBENTURES

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest.

At September 30, 2017 and December 31, 2016, the Loan Portfolio and Debentures syndicated by officers and directors were \$694,932 and \$1,997,135, respectively.

OFFICE PREMISES

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a sublease agreement corresponding to the terms of the Company's lease. The costs are divided in accordance with actual use. During the three and nine months ended September 30, 2017, the Company received occupancy and office costs of \$19,705 and \$59,212, respectively (three and nine months ended September 30, 2016 - \$23,872 and \$59,212, respectively).

SHAREHOLDERS' EQUITY

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

On March 31, 2016, the Company's executive vice chairman exercised 895,000 options that had been granted to purchase the Shares at \$0.30 per Share. The consideration of \$268,500 received by the Company upon exercise of the options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2016 which can be found under the Company's profile at WWW.SEDAR.COM.

There were no changes in significant accounting policies adopted by the Company in the nine months ended September 30, 2017.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2018 or later periods that the Company has decided not to early adopt. The following are standards, amendments and interpretations that may be relevant to the Company in preparing its consolidated financial statements in future years:

(i) *Financial Instruments: Classification and Measurement ("IFRS 9")*

The Company will adopt IFRS 9 *Financial Instruments*, which replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), in its consolidated financial statements for the annual period beginning on January 1, 2018, the mandatory effective date.

The Company have commenced their evaluation of the impact of this standard on each of its financial instruments. Based upon the Company's existing financial instruments and related accounting policies at September 30, 2017, the principal areas impacted are: classification of financial assets, impairment of financial assets, and presentation of fair value changes for certain financial liabilities designated at fair value through profit or loss ("FVTPL"). IFRS 9 also requires new disclosures.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as FVTPL are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in OCI, and the remaining amount of change in fair value is presented in profit or loss.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The Company do not currently apply hedge accounting in their consolidated financial statements.

The Company expects to complete the assessment of the impact of adopting IFRS 9 during the second half of 2017 and is not able at this time to estimate reasonably the impact that the standard will have on the consolidated financial statements.

(ii) *Revenue from Contracts with Customers (“IFRS 15”)*

IFRS 15, *Revenue from Contracts with Customers* is effective for annual periods beginning on or after January 1, 2018, and will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, International Financial Reporting Interpretations Committee (“IFRIC”) 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The Company will adopt IFRS 15 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently evaluating the applicability of the standard to various revenue streams, including an assessment of the new Leases standard (see below). The Company expect to complete their assessment of the potential impact of adopting IFRS 15 during the second half of 2017.

(iii) *Leases (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet. Lessor accounting remains similar to the current standard. However, the Company is evaluating the identification of leases and non-lease components in accordance with the new requirements. IFRS 16 is only applicable to leases components and therefore other standards, such as IFRS 15, will apply to non-leases components of contracts. The new standard is effective for years beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

USE OF ESTIMATES

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

In making estimates, the Company relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with the prior year and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these consolidated financial statements.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant are disclosed separately. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of these consolidated financial statements and the reported amounts of revenue and expenses during the years. Actual results could also differ from those estimates under different assumptions and conditions.

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

FINANCIAL INSTRUMENTS

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, the Loan Portfolio, portfolio investment, accounts payable and accrued liabilities, construction loan, provision for discontinued operations, loans and mortgages payable, short-term unsecured notes payable and the liability component of convertible debentures.

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

The fair value of loans and mortgage investments, Loan Syndications, Due to joint operations partner, mortgages payable, due to joint operations partner, revolving operating facility and convertible debentures approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the Loan Portfolio, Loan Syndications or convertible debentures. The Company makes the determinations of fair value based on its assessment of the current lending market for Loan Portfolio of same or similar terms. As a result, the fair value is based on Level 3 on the fair value hierarchy.

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

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

The fair value of the Company's investment properties, Portfolio Investments and non-controlling interest are determined by using Level 3 inputs at September 30, 2017 and December 31, 2016 and no amounts were transferred between fair value levels during the three and nine months ended September 30, 2017 or 2016.

OFF BALANCE SHEET ITEMS

As of September 30, 2017 and December 31, 2016, the Company did not have any off-balance sheet (statement of financial position) arrangements.

RISKS AND UNCERTAINTIES

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

MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market price whether the changes are caused by factors specific to the investment or factors affecting all securities in the market.

The Company's objective of managing this risk is to minimize the volatility of earnings. The Company mitigates this risk by charging interest rates which are significantly above normal banking rates.

CREDIT RISK

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

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

Cash and cash equivalents are held with financial institutions that management believes are of high credit quality.

The Company mitigates the risk of credit losses on its Loan Portfolio by maintaining strict credit policies and conducting thorough investment due diligence, ensuring loans and mortgages have risk-adjusted loan to value, together with personal guarantees by the borrowers and parties related to the borrowers, reviewing and approving new loans and mortgages and continually monitoring change in value of underlying collateral.

The Company regularly reviews the Loan Portfolio and interest receivable listing for balances in arrears and follows up with clients as needed regarding payment. For individual accounts in arrears where discussion with the client has not succeeded, foreclosure proceedings commence. Balances receivable include accrued interest and legal and other costs related to attempts at collection. Where the loan investments are collateralized by real property and losses are recognized to the extent that recovery of the balance through sale of the underlying property is not reasonably assured.

At September 30, 2017, four project loan investments to entities controlled by the same borrower totalling \$14,002,991, including interest receivable and fees incurred on these loans totalling \$2,402,015, are in arrears, of which \$157,958 of loans including interest payable have been syndicated. Certain affiliates of the borrower announced restructuring proceedings under the *Bankruptcy and Insolvency Act (Canada)*. As at September 30, 2017, based on the most recent valuations of the underlying assets and managements estimates, the Company has provided a specific impairment loss provision of \$310,493.

INTEREST RATE RISK

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

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

GENERAL BUSINESS RISKS

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

- i. civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses),
- ii. changes in national or local economic conditions,
- iii. changes in real estate assessed values and taxes payable on such values and other operating expenses,
- iv. the inability of developers to sell development land,
- v. changes in demand for newly constructed residential units,
- vi. changes in real estate assessed values and taxes payable on such values and other operating expenses, or

- vii. changes in interest rates and in the availability, cost and terms of any mortgage or other development financing.

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

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

CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency denominated Loan Portfolio, Loan Syndications and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates.

The following table presents the amounts denominated in U.S. dollars as at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 6,386,784	\$ 250,033
Amounts receivable and prepaid expenses	1,457,436	1,695,516
Deposits	-	3,256,074
Loan and mortgage investments	47,253,490	30,372,383
Accounts payable and accrued liabilities	(908,908)	(1,204,623)
Unearned income	(750,795)	(115,279)
Loan and mortgage syndications	(27,857,797)	(22,524,995)
	\$ 25,580,210	\$ 11,729,109

Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results. The Company manages its currency risk on Loan Portfolio by syndicating and or borrowing in the same currency.

LIQUIDITY RISK

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

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

If the Company is unable to continue to have access to its loans and mortgages syndications and revolving operating facility, the size of the Company's loan and mortgage investments will decrease and the income historically generated through holding larger investments by utilizing leverage will not be earned.

Contractual obligations as at September 30, 2017 are due as follows:

	Less than 1 year	More than 1 year	Total
Accounts payable and accrued liabilities	\$ 16,119,241	\$ -	\$ 16,119,241
Due to joint operations partner	20,248	-	20,248
Construction loan payable	10,495,000	-	10,495,000
Revolving operating facility	16,000,000	-	16,000,000
Mortgages payable	9,964	1,480,153	1,490,117
	\$ 42,644,453	\$ 1,480,153	\$ 44,124,606

SUBORDINATED DEBT FINANCING

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

DEVELOPMENT STRATEGY

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

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

INVESTMENTS IN JOINT OPERATIONS

In any joint operations in which the Company invests, the Company may not be in a position to exercise sole decision-making authority. Investments in joint operations may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Given the small size of the Company, and, consequently, limited staff levels, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation deficiencies is likely to result in a misstatement to the consolidated financial statements as the Company relies on certain compensating controls, including the detailed monitoring of operations and transactions by the CEO and CFO. No material changes were made in the Company's internal control over financial reporting during the three months ended September 30, 2017.

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

FUTURE OUTLOOK

The following section includes certain forward looking statements, including in regards of the Company's objectives and priorities. Please refer to the section titled "Caution Regarding Forward Looking Statements" on page 1 of this MD&A.

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

Yields in the real estate market in Canada have compressed over the last year to levels that are not only low from a risk adjusted return perspective but also below the cost of capital of the Company. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts versus taking a proactive approach to generating a greater pipeline of potential transaction. As such, the Company continues to focus primarily on providing higher leveraged loans (up to 80% LTV) on development projects in the U.S. Management expects to be able to generate interest rates similar to those reflected in the current portfolio during the remainder of 2017.

As at September 30, 2017, the Company has issued letters of intent and unfunded commitments of approximately \$60 million to finance various real estate loans that are subject to certain funding conditions to be fulfilled by borrowers. These loans are expected to close in the fourth quarter of 2017. The Company intends to finance these investments through a combination of the Company's own cash resources, its operating credit facility and its co-investment platform.

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

SUBSEQUENT EVENT

On October 12, 2017, the Company closed an \$18.6 million (U.S. \$14.8 million) first mortgage loan secured by land in Jacksonville, Florida. The Company partially funded the Loan with a \$3.6 million (U.S. \$2.8 million) advance on closing from available cash balances.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

36

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015 and the unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2017.

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

	As at September 30, 2017		As at December 31, 2016		As at December 31, 2015	
Total assets	\$	148,918,043	\$	146,700,483	\$	129,746,068
Total liabilities	\$	97,481,271	\$	98,075,684	\$	83,214,077
Total equity	\$	51,436,772	\$	48,624,799	\$	46,531,991
Loan and mortgage investments	\$	95,978,719	\$	93,408,444	\$	95,135,201
Loan and mortgage syndications and Debentures	\$	52,525,811	\$	66,934,707	\$	56,320,249
Loan and mortgage syndications and Debentures to loan and mortgage investments		54.7%		71.7%		59.2%
	Three months ended			Years ended		
		September 30, 2017	September 30, 2016	December 31, 2016	December 31, 2015	December 31, 2014
Total revenue	\$	3,605,384	\$	3,619,361	\$	14,901,658
Total expenses	\$	3,590,987	\$	2,715,259	\$	12,840,856
Income from operations before income taxes	\$	14,397	\$	904,102	\$	2,060,802
Net income and comprehensive income attributable to common shareholders	\$	36,338	\$	644,487	\$	1,406,895
Diluted net income and comprehensive income attributable to common shareholders	\$	36,338	\$	808,316	\$	1,406,895
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	518,388	\$	413,986	\$	1,064,116
Adjusted net diluted income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	518,388	\$	577,815	\$	1,388,813
Weighted average number of shares outstanding						
Basic		62,029,973		61,155,083		60,935,292
Diluted		62,350,838		76,513,207		61,438,545
Earnings per share						
Basic	\$	0.00	\$	0.01	\$	0.02
Diluted	\$	0.00	\$	0.01	\$	0.02
Adjusted earnings per share ⁽¹⁾						
Basic	\$	0.01	\$	0.01	\$	0.02
Diluted	\$	0.01	\$	0.01	\$	0.02

(1) Adjusted net income and diluted net income attributable common shareholders and adjusted earnings per share are non-IFRS Measures.
See "Non-IFRS" Measures.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

37

The following table sets out the Company's quarterly results of operations for the eight periods ended September 30, 2017:

	Three months ended							
	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015
Revenue								
Interest and fees earned	\$ 3,554,940	\$ 4,016,705	\$ 3,966,244	\$ 3,384,576	\$ 3,568,917	\$ 3,527,298	\$ 4,221,156	\$ 5,104,378
Rental income	50,444	50,444	50,444	50,445	50,444	50,444	48,378	47,362
	3,605,384	4,067,149	4,016,688	3,435,021	3,619,361	3,577,742	4,269,534	5,151,740
Expenses								
Property operating expenses	17,157	17,157	17,331	17,307	21,186	17,307	16,092	15,269
General and administrative expenses	697,048	667,038	896,736	854,683	906,366	608,484	658,145	1,303,935
Share based compensation	352,813	(72,833)	280,721	430,360	120,150	58,818	210,386	321,389
Interest and financing costs	1,868,118	2,447,873	2,327,061	1,957,033	1,981,164	2,008,734	1,827,241	1,613,844
Provision for loan and mortgage investment loss	-	-	-	310,493	-	-	112,726	478,066
Realized and unrealized foreign exchange (gain) loss	655,851	830,787	(197,291)	(357,375)	(313,607)	299,680	1,229,962	(1,090,208)
Fair value adjustment - investment properties	-	-	-	(61,950)	-	-	-	(82,500)
Fair value adjustment - portfolio investments	-	-	-	(72,529)	-	-	-	(394,170)
Share of income from investment in associates	-	-	-	-	-	-	-	(91,949)
	3,590,987	3,890,022	3,324,558	3,078,022	2,715,259	2,993,023	4,054,552	2,073,676
Income before income taxes	14,397	177,127	692,130	356,999	904,102	584,719	214,982	3,078,064
Income tax provision	(21,941)	63,443	207,318	104,856	259,615	189,278	100,158	1,138,177
Net income and comprehensive income	36,338	113,684	484,812	252,143	644,487	395,441	114,824	1,939,887
Net income and comprehensive income attributable to:								
Common shareholders	36,338	113,684	484,812	252,143	644,487	395,441	114,824	1,895,901
Non-controlling interest	-	-	-	-	-	-	-	43,986
	\$ 36,338	\$ 113,684	\$ 484,812	\$ 252,143	\$ 644,487	\$ 395,441	\$ 114,824	\$ 1,939,887
Diluted net income attributable to common shareholders								
	36,338	277,180	646,013	252,143	808,316	556,973	275,954	2,058,325
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	518,388	724,312	339,804	(10,528)	413,986	615,706	1,018,846	1,094,598
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	518,388	887,808	501,005	(10,528)	577,815	777,238	1,179,976	1,257,022
Weighted average number of shares outstanding								
- basic	62,029,973	60,669,415	60,865,878	61,163,579	61,155,083	61,155,083	60,260,083	60,237,257
- diluted	62,350,838	76,051,064	76,651,845	76,522,023	76,513,207	76,656,258	76,386,025	76,522,023
Earnings per share								
Basic	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.03
Diluted	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.03
Adjusted earnings per share ⁽²⁾								
Basic	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
<small>(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders, and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS" Measures.</small>								

Additional information relating to the Company, including the Company's management information circular can be found on the SEDAR at www.sedar.com.

Dated: November 13, 2017
Toronto, Ontario, Canada