



TERRA FIRMA CAPITAL CORPORATION

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

FOR THE THREE MONTHS ENDED MARCH 31, 2018

MAY 10, 2018

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, investments in associates 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 interim condensed consolidated financial statements for the three months ended March 31, 2018 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 performance, financial condition, and cash flows of the Company dated May 10, 2018 for the three months ended March 31, 2018 should be read in conjunction with the Company’s interim condensed consolidated financial statements and accompanying notes for the same period as well as the Company’s annual MD&A for the year ended December 31, 2017 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, future returns on investments by the Company, 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 28, 2018. 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 risks 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, that 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. Non-IFRS measures are also commonly used by the financial community to analyze and compare the performance of companies engaged in the same industries.

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".

The foreign exchange loss related to the Company's U.S. dollar denominated net assets are excluded from these the non-IFRS measures noted above because it affects the comparability of our financial results, period-over-period, and could potentially distort the analysis of trends in business performance. This exclusion does not imply that this item is non-recurring due to ongoing currency fluctuations between the Canadian and U.S. 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, 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” or “Investments in Associates”). 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 objective of the Company is 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 (the “Board”) considers appropriate). In order to achieve this objective, the Company originates, creates and maintains a diversified Investment Portfolio on Real Property situated in Canada and the United States.

Management believes that there is currently a limited market opportunity in Canada and a significant market opportunity in the U.S., 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 “debt-like” returns on the Loan Portfolio while bearing lower risk than equity investments, by structuring its financings primarily in debt or priority structures.

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and is governed by loan servicing agreements and administered by Terra Firma MA Ltd, the wholly owned subsidiary of the Company. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment has a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense on the syndicate investors are recognized in the statements of income and comprehensive income. See “Capital Structure and Debt Profile – Loan and Mortgage Syndications”.

FIRST QUARTER HIGHLIGHTS

The Company reported revenue of \$3,548,000 in the first quarter of 2018, as compared to \$4,017,000 in the same period in the prior year, representing a decrease of \$469,000.

Interest and fee income for the first quarter of 2018 aggregated \$3,497,000, as compared to \$3,966,000 in the same period in the prior year, representing a decrease of \$469,000 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 March 31, 2018 was \$50,444, the same as last year.

Interest and financing expense for the first quarter of 2018 aggregated \$2.0 million, as compared to \$2.3 million in the same period in the prior year, representing a decrease of \$300,000.

Net income and comprehensive income attributable to common shareholders for the first quarter of 2018 was \$1,257,000 or \$0.02 per basic and diluted share, as compared to \$485,000 or \$0.01 per basic and diluted share in the same period in the prior year, representing an increase in net income of \$772,000.

The principal balance of the Company’s loan and mortgage investments increased to \$126.5 million at March 31, 2018, as compared to \$119.0 million at December 31, 2017, representing an increase of 6.3%, primarily due to fundings of new loan and mortgage investments.

INVESTMENTS

LOAN AND MORTGAGE INVESTMENTS

The Company’s Loan Portfolio as at March 31, 2018 consisted of the following: (a) loans relating to 9 residential housing developments, (comprising 2,024 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), located in Toronto-Ontario and Cambridge-Ontario representing 24.0% 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, Jacksonville-Florida, Phoenix-Arizona, Charlotte-North Carolina, Washington-District of Columbia, Sarasota-Florida, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing 71.2% of the Loan Portfolio (by investment amount) and (c) a commercial retail development land located in Palm Springs-California, representing the remaining 4.8% of the Loan Portfolio (by investment amount).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

5

The Company's Loan Portfolio as at December 31, 2017 consisted of loans relating to the following: (a) 11 residential housing developments (comprising 2,216 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 27.4% 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; Jacksonville-Florida, Phoenix-Arizona, Charlotte-North Carolina, Washington-District of Columbia, Sarasota-Florida, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing the remaining 72.6% of the Loan Portfolio (by investment amount).

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

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Loan Portfolio (before syndication)	% of Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.7%	\$ 18,551,159	\$ (11,284)	\$ 18,539,875	14.9%
Land and lot inventory	13.6%	90,014,630	(548,487)	89,466,143	71.7%
Commercial retail development	14.3%	6,129,195	(31,021)	6,098,174	4.9%
	13.7%	\$ 114,694,984	\$ (590,792)	\$ 114,104,192	91.5%
Impaired loan and mortgage investments					
Residential housing developments	18.4%	11,849,280	(1,241,971)	10,607,309	8.5%
Loan Portfolio	14.1%	\$ 126,544,264	\$ (1,832,763)	\$ 124,711,501	100.0%

The following table presents details of the Loan Portfolio, before loan and mortgage syndications as at December 31, 2017:

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Loan Portfolio (before syndication)	% of Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.9%	\$ 20,791,677	\$ (22,904)	\$ 20,768,773	17.7%
Land and lot inventory	13.6%	86,412,191	(567,888)	85,844,303	73.3%
	13.7%	\$ 107,203,868	\$ (590,792)	\$ 106,613,076	91.0%
Impaired loan and mortgage investments					
Residential housing developments	18.4%	11,795,116	(1,241,971)	10,553,145	9.0%
Loan Portfolio	14.1%	\$ 118,998,984	\$ (1,832,763)	\$ 117,166,221	100.0%

As at March 31, 2018 and December 31, 2017, the principal balance of the Loan Portfolio was \$126,544,264 and \$118,998,984, respectively. The increase in Loan Portfolio during the three months ended March 31, 2018 resulted from the net effect of funding of loan investments of \$4,506,179, advances against existing loan commitments of \$5,193,069, capitalized interest of \$1,103,054 and unrealized foreign exchange loss of \$2,311,698, which aggregate amount was offset, in part by the repayment of loan investments totaling \$5,056,709 and repayment of previously capitalized interest of \$512,011.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

6

The following table summarizes the change in the principal balance of Loan Portfolio for the three months ended March 31, 2018 and 2017:

	Three months ended	
	March 31, 2018	March 31, 2017
Balance, beginning of period	\$ 118,998,984	\$ 94,309,729
Loan portfolio activity during the period		
Funding of new loan investments	4,506,179	26,483,183
Advances against existing loans	5,193,069	1,669,058
Deposits converted to loan investments	-	3,256,074
Repayments of loans	(5,056,709)	(9,137,967)
Interest capitalized	1,103,054	492,599
Capitalized interest received	(512,011)	(126,463)
Unrealized foreign exchange gain	2,311,698	441,992
Balance, end of period	\$ 126,544,264	\$ 117,388,205

The weighted average EIR of the Loan Portfolio at both March 31, 2018 and December 31, 2017, including loans in default was 14.1%. 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 EIR of the loans and mortgage investments of residential housing developments at March 31, 2018 and December 31, 2017 were 15.5% and 15.6%, respectively. The weighted average EIR of the loans and mortgage investments of lot inventory at both March 31, 2018 and December 31, 2017 was 13.6%. The weighted average EIR of the commercial retail development at March 31, 2018 was 13.6%. The weighted average term to maturity at March 31, 2018 and December 31, 2017 was 1.72 years and 1.85 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 principal balances of the Loan Portfolio before syndication segmented by geography as at March 31, 2018:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 32,400,439	\$ (1,256,104)	\$ 31,144,335	25.0%
United States	94,143,825	(576,659)	93,567,166	75.0%
	\$ 126,544,264	\$ (1,832,763)	\$ 124,711,501	100.0%

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

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 34,586,791	\$ (1,267,662)	\$ 33,319,129	28.4%
United States	84,412,193	(565,101)	83,847,092	71.6%
	\$ 118,998,984	\$ (1,832,763)	\$ 117,166,221	100.0%

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

7

Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets following the same prudent lending standards it has historically employed in Canada. At present, as the U.S. market continues to offer good quality lending opportunities while the price competition among lenders in the Canadian market remains quite strong. On a comparative basis, the loan and mortgage investment opportunities in the U.S market have generally offered risk/return profiles as good as or better than those available in the Canadian market. The yields on the land and lot inventory loans in U.S. are high on a risk adjusted basis, ranging between 11% and 12% for LTVs up to 75%. As such, the Company will continue to focus primarily on providing higher leveraged loans (up to 80% LTV) on development lands in the U.S. 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 rather than taking a proactive approach to generating a greater pipeline of potential transaction. It is anticipated that this trend will continue in the near term.

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

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
Remainder of year	\$ -	\$ 46,547,324	\$ 46,547,324
2019	-	23,964,200	23,964,200
2020	-	29,514,991	29,514,991
2021	-	10,642,283	10,642,283
2022	-	15,875,466	15,875,466
	\$ -	\$ 126,544,264	\$ 126,544,264

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at March 31, 2018 amounted to \$47,925,045, including \$15,203,687 of capitalization of future interest relating to the existing Loan Portfolio, compared to unfunded loan commitments under the existing Loan Portfolio of \$46,714,363, including \$13,988,176 of capitalization of future interest relating to the Loan Portfolio at December 31, 2017. 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 (iv) issuance of Shares and convertible debentures (the "Debentures"), or any combination thereof.

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

8

ALLOWANCE FOR LOAN AND MORTGAGE INVESTMENTS LOSS

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

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

At March 31, 2018, four project loan investments to entities controlled by a borrower (the “Defaulting Borrower”) totalling \$14,284,964 (including interest receivable and fees incurred on these loans totalling \$2,435,684) were in arrears. At December 31, 2017, four project loan investments to entities controlled by the Defaulting Borrower totalling \$14,182,918 (including interest receivable and fees incurred on these loans totalling \$2,387,802) were in arrears. The weighted average EIR of the loan and mortgage investments in arrears at both March 31, 2018 and December 31, 2017 was 18.4%. The foreclosure process has commenced and is proceeding on these loans to enforce on the security and liquidate the loans. The Company used the most recent valuations of the underlying net assets and management’s estimates to determine whether or not the actual future losses are expected on the loan and mortgage investments in arrears. Based on the analysis, no additional specific impairment provision was recorded for the three months ended March 31, 2018. For the three months ended December 31, 2017, based on the most recent valuations of the underlying net assets and management’s estimates, the Company recognized a specific impairment provision of \$931,478, relating to certain loan investments in arrears. As at both March 31, 2018 and December 31, 2017, based on the most recent valuations of the underlying net assets and management’s estimates, the Company carries an allowance for credit loss balance of \$1,241,971 relating to certain loan and mortgage investments in arrears. As at both March 31, 2018 and December 31, 2017, the Company carried an allowance for uncollectible interest receivable and other receivable of \$1,591,883, relating to certain loan and mortgage investments in arrears.

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 totalling \$7,903,156, including interest receivable and fees incurred that are currently in default with the Defaulting 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.

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

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

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%. At March 31, 2018 and December 31, 2017, the Company's share of net assets in Montreal Street JV was \$885,621 and \$863,457, respectively.

Valermo Homes JV:

The Company through Terra Firma Valermo Corporation (the "TFVC"), owned a 50% interest in the Valermo Homes JV. Valermo Homes JV is a residential real estate development consisting of approximately 98 residential dwelling units.

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

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

	Total
Net assets transferred:	
Land under development	\$ 33,188,172
Amounts receivable and prepaid expenses	488,601
Cash and cash equivalents	4,286
Loan and mortgage investments	(870,389)
Due to joint operations partner	(1,043,549)
Construction loan payable	(15,070,000)
Accounts payable and accrued liabilities	(6,889,835)
Value of assets transferred on conversion	\$ 9,807,286
Consideration paid, funded by:	
Portfolio investments	9,807,286
Value of assets transferred on conversion	\$ 9,807,286

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

10

The financial information in respect of the Company's investment in jointly controlled operations being the Montreal Street JV, at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 69,475	\$ 63,090
Amounts receivable and prepaid expenses	113,797	108,142
Investment property	2,208,694	2,208,694
Total assets	2,391,966	2,379,926
Accounts payable and accrued liabilities	46,625	46,625
Mortgages payable	1,459,720	1,469,844
Total liabilities	1,506,345	1,516,469
Net assets	\$ 885,621	\$ 863,457

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

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

INVESTMENT PROPERTY

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

At March 31, 2018 and December 31, 2017, the fair value was determined by the Company's management. The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future normalized net operating income at the market capitalization rates. The capitalization rate used in the valuation property was 6.25% (December 31, 2017 - 6.25%). At both March 31, 2018 and December 31, 2017, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV was \$2,208,694.

As at both March 31, 2018 and December 31, 2017, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by \$92,400 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by \$85,250.

LAND UNDER DEVELOPMENT

The Company's land under development was held in joint operations through the Valermo Homes JV, until December 31, 2017, when the Company converted its interest in Valermo Homes JV into limited partnership units. See - "Joint Arrangements – Valermo Homes JV".

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

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

PORTFOLIO INVESTMENTS

- (a) The Company has invested through the Hill, in a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at March 31, 2018, the cost of the investment was \$954,630 (December 31, 2017 - \$954,630), and the cost of the investment in the Hill owned by an outside party was \$200,000 (December 31, 2017 - \$200,000). At March 31, 2018 and December 31, 2017, the fair values were determined by management, using the direct comparison method. The fair value of the investment at March 31, 2018 and December 31, 2017 was \$1,174,212 and the investment owned by an outside party of \$254,641 is included in non-controlling interest.
- (b) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "LanQueen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The LanQueen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at March 31, 2018, TFCC LanQueen Ltd. contributed \$1,724,000 (December 31, 2017 - \$1,724,000) in the partnership. At March 31, 2018 and December 31, 2017, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at March 31, 2018 and December 31, 2017 was \$2,450,488.
- (c) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest U.S. \$2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after partnership making Savannah Partnership making distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed \$245,460 (U.S. \$200,000) in the Savannah Partnership. On December 1, 2017, TFCC International sold part of its interest in the Savannah Partnership to investors for \$101,823 (U.S. \$80,000). As at December 31, 2017, the cost of the investment in Savannah Partnership is \$143,637 (U.S. \$120,000) (2016 - nil (U.S. nil)). At March 31, 2018 and December 31, 2017, the fair value of the investment Savannah Partnership was determined by management, using the direct comparison method. The fair value of the investment in Savannah Partnership at March 31, 2018 and December 31, 2017 was \$143,637.

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

12

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

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

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

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

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

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 March 31, 2018, the Company's share of investment in the Lan Partnership, was \$2,315,414 (December 31, 2017 - \$2,315,414).

As at March 31, 2018, the Lan Partnership had \$13,333,333 invested in the Lan Project (December 31, 2017 - \$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 March 31, 2018 and December 31, 2017, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at both March 31, 2018 and December 31, 2017 was \$2,927,842.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

13

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

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

FINANCIAL PERFORMANCE

The Company's financial performance for the three months ended March 31, 2018 and 2017 is summarized below:

	Three months ended		Change Increase / (decrease)
	March 31, 2018	March 31, 2017	
Revenue			
Interest and fees earned	\$ 3,497,072	\$ 3,966,244	\$ (469,172)
Rental income	50,444	50,444	-
Total revenue	3,547,516	4,016,688	(469,172)
Expenses			
Property operating costs	17,266	17,331	(65)
General and administrative expenses	717,937	896,736	(178,799)
Share based compensation	26,976	280,721	(253,745)
Interest and financing costs	2,042,587	2,327,061	(284,474)
Realized and unrealized foreign exchange gain	(996,047)	(197,291)	(798,756)
	1,808,719	3,324,558	(1,515,839)
Income from operations before income taxes	1,738,797	692,130	1,046,667
Income taxes	481,406	207,318	274,088
Net income and comprehensive income	\$ 1,257,391	\$ 484,812	\$ 772,579

Total revenue for the three months ended March 31, 2017 was \$3,547,516, compared to \$4,016,688, for the same period last year, primarily due to the factors discussed below under "Interest and Fees Earned".

Income from operations before income taxes for the three months ended March 31, 2018 was \$1,738,797 compared to \$692,130 for the three months ended March 31, 2017, primarily due to an increase in foreign exchange gain of \$798,756, a reduction in share based compensation of \$253,745, a reduction in interest and financing costs of \$284,474 and a reduction in general and administrative expenses of \$178,799, which were partially offset by a decrease in interest and fees earned of \$469,172.

Net income and comprehensive income for the three months ended March 31, 2018 was \$1,257,391, compared to \$484,812 for the corresponding period in 2017. The increase in net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the three months ended March 31, 2018 and 2017.

INTEREST AND FEES EARNED

For the three months ended March 31, 2018, interest and fees earned aggregated \$3,497,072, compared to \$3,966,244 in the comparative period last year. This decrease was primarily due to a decrease of \$2,610,000 due to repayments of loan and mortgage investments since March 31, 2017 and the Company not recognizing income on certain loans that are currently in arrears resulting in a decrease of \$265,000. The decrease was partially offset by an increase in interest and fees earned of \$2,344,000 from fundings of loan and mortgage investments since March 31, 2017. The Company's

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

14

principal balance of the Loan Portfolio from \$119.0 million at December 31, 2017 to \$126.5 million at March 31, 2018, while the weighted average interest rate on the Loan Portfolio remained the same at 14.1% in both periods. 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 March 31, 2018 was \$50,444, no change compared to the same period last year. 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 March 31, 2018 was \$17,266 compared to \$17,331 for the same period last year.

INTEREST AND FINANCING COSTS

Interest and financing costs for the three months ended March 31, 2018 and 2017 were as follows:

	Three months ended		
	March 31, 2018	March 31, 2017	Change Increase / (decrease)
Interest on loan and mortgage syndications	\$1,528,643	\$1,835,916	\$ (307,273)
Interest on revolving operating facility	502,684	260,830	241,854
Interest on debentures	-	219,321	(219,321)
Montreal Street JV	11,260	10,994	266
	\$2,042,587	\$2,327,061	\$ (284,474)

Interest expense for the three months ended March 31, 2018 was \$2,042,587 compared to \$2,327,061 for the same period last year. This decrease was primarily due to the decrease in loan and mortgage syndications from \$80.9 million at March 31, 2017 to \$65.9 million at March 31, 2018 and decrease of \$219,000 on Debentures due to repayment of Debentures in September 2017. The decrease was partially offset by an increase in interest expense on the secured revolving loan facility (the “Facility”) of \$242,000, due to increase in the borrowing limit and full utilisation of the Facility. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications” and “Revolving Operating Facility”.

GENERAL AND ADMINISTRATIVE EXPENSES

During the three months ended March 31, 2018 and 2017, the Company incurred the following general and administrative expenses:

	Three months ended		
	March 31, 2018	March 31, 2017	Change Increase / (decrease)
Salary and benefits	\$ 476,600	\$ 420,800	\$ 55,800
Professional fees	102,133	129,920	(27,787)
Public company expenses	22,703	21,059	1,644
Directors' fees	25,000	25,000	-
Rent	37,266	29,595	7,671
Selling and marketing expenses	-	50,020	(50,020)
Other expenses	54,235	220,342	(166,107)
	\$ 717,937	\$ 896,736	\$ (178,799)

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 March 31, 2018 were \$717,937, compared to \$896,736 for the same period last year. Other expenses for the three months ended March 31, 2017 includes expenses relating to due diligence work on unfunded loans amounting to \$159,000, whereas no expenses relating to due diligence work were incurred during the three months ended March 31, 2018. Selling and marketing expenses for the three months ended March 31, 2017, include selling and administrative costs of \$50,000, incurred by the Valermo Street JV. The selling and marketing expenses for the three months ended March 31, 2018 is \$nil, due to Company converting its interest in Valermo Street JV to limited partnership interest. Salary and benefits for the three months ended March 31, 2018 increased by \$56,000, due to increase in salary to employees, other than CEO and Executive Vice Chairman.

SHARE BASED COMPENSATION

The share-based payments that have been recognized for the three months ended March 31, 2018 and 2017 were as follows:

	Three months ended		
	March 31, 2018	March 31, 2017	Change Increase / (decrease)
Share option Plan	\$ 77,298	\$ 87,935	\$ (10,637)
DSU Plan	(50,322)	192,786	(243,108)
	\$ 26,976	\$ 280,721	\$ (253,745)

Share-based payments associated with the Company's share option plan (the "Plan") were \$77,298 for the three months ended March 31, 2018, compared to \$87,935 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. 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 March 31, 2018 were (\$50,322), compared to \$192,786 for the same period last year. The decrease in share-based payments associated with the DSU Plan for the three months ended March 31, 2018 was primarily due to decrease in the Share price which decrease was partially offset by the vesting of additional DSUs during the period. See "Shareholders Equity – Share-Based Payments".

FOREIGN EXCHANGE GAIN (LOSS)

For the three months ended March 31, 2018, the Company recognized a foreign exchange gain of \$996,047 compared to a foreign exchange gain of \$197,291 for the same period last year. During the three months ended March 31, 2018, the US Dollar strengthened by approximately 3.0% against the Canadian dollar from \$1.2571 to \$1.2890. As at March 31, 2018, U.S. dollar denominated net monetary assets were US\$33,280,668 compared to US\$27,476,532, at December 31, 2017, primarily due to increase U.S. dollar cash balances and 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 (iv) issuance of Shares and Debentures, or any combination thereof.

CASH FLOWS

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

	Three months ended,	
	March 31, 2018	March 31, 2017
Cash provided by operating activities	\$ 522,321	\$ 1,390,890
Cash provided by financing activities	217,388	25,459,109
Cash (used in) provided by investing activities	1,012,700	(20,231,840)
Increase in cash and cash equivalents	\$ 1,752,409	\$ 6,618,159
Cash and cash equivalents, beginning of period	2,691,049	12,315,242
Cash and cash equivalents, end of period	\$ 4,443,458	\$ 18,933,401

Cash provided by operating activities for the three months ended March 31, 2018 and 2017 of \$522,321 and \$1,390,890, respectively, are related primarily to the net cash provided by or used in lending operations.

Cash provided by financing activities for the three months ended March 31, 2018 of \$217,388 related primarily to proceeds from the loan and mortgage syndications of \$3,931,376. This amount was partially offset by repayments of the loan and mortgage syndications of \$2,958,787, repurchase of Shares for cancellation under the Company's normal course issuer bid of \$744,373, and repayments of mortgage payable of \$10,828.

Cash provided by financing activities for the three months ended March 31, 2017 of \$25,459,109 related primarily to proceeds from the loan and mortgage syndications of \$27,457,208, proceeds from revolving credit facility of \$2,500,000, and proceeds from construction loan payable of \$5,065,000. The aggregate of these amounts was partially offset by repayments of the loan and mortgage syndications of \$3,458,722, repayments to joint operations partner of \$5,869,749, repayments of mortgage payable of \$10,403, and repurchase of Shares for cancellation under the Company's normal course issuer bid of \$224,225.

The cash provided by investing activities during the three months ended March 31, 2018 of \$1,012,700 primarily reflects the repayments of loans and mortgage investments of \$5,056,709 and repayment of portfolio investment of \$6,000,000. The aggregate of this amount was partially offset by funding of loan and mortgage investments of \$9,005,753 and an increase in funds held in trust of \$1,038,256.

The cash used in investing activities during the three months ended March 31, 2017 of \$20,231,840 primarily reflects the funding of loans and mortgage investments of \$28,152,241, an increase in funds held in trust of \$399,136, and capital additions to land under development of \$818,430. The aggregate of this amount was partially offset by repayment of loan and mortgage investments of \$9,137,967.

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.

As at March 31, 2018 and December 31, 2017, respectively, the total capital of the Company was as follows:

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

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:

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.

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 sold to investors and owned by the investors in a prescribed manner and are governed by loan servicing agreements. The terms of the syndication would typically 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 MONTHS ENDED MARCH 31, 2018

18

The following table presents details of the loan and mortgage syndications as at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	10.3%	\$12,096,217	18.4%	10.3%	\$12,916,020	20.4%
Land and lot inventory	10.5%	\$53,770,682	81.6%	10.2%	\$50,383,502	79.6%
	10.5%	\$65,866,899	100.0%	10.2%	\$63,299,522	100.0%

At March 31, 2018, the weighted average EIR of Loan Syndications was 10.5%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of 10.3% and land and lot inventory, having a weighted average EIR of 10.5%. At March 31, 2018, the weighted average term to maturity of Loan Syndications was 1.67 years.

At December 31, 2017, the weighted average EIR of Loan Syndications was 10.2%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of 10.3% and land and lot inventory, having a weighted average EIR of 10.2%. At December 31, 2017, the weighted average term to maturity of Loan Syndications was 1.74 years.

At March 31, 2018, the Company's syndication activities resulted in \$65,866,899 or 52.1% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 18.0%, and increasing its overall return by 3.9% from its non-leveraged 14.1% return. At December 31, 2017, the Company's syndication activities resulted in \$63,299,522 or 53.2% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 18.3%, and increasing its overall return by 4.2% from its non-leveraged 14.1% 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 months ended March 31, 2018 and 2017:

	Three months ended,	
	March 31, 2018	March 31, 2017
Balance, beginning of period	\$63,299,522	\$56,180,448
Loan and mortgage syndication activity during the period		
Proceeds to participate in new Loan Portfolio	1,233,500	20,754,035
Additional advances to existing Loan Portfolio	2,697,876	6,703,173
Interest capitalized	350,356	366,473
Repayments of loan and mortgage syndications	(2,958,787)	(3,458,722)
Repayments of capitalized interest	(67,028)	-
Unrealized foreign exchange loss	1,311,460	322,883
Balance, end of period	\$65,866,899	\$80,868,290

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

19

The following table sets out, as at March 31, 2018, 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	Total loan and mortgage syndications
Remainder of year	\$ -	\$26,438,676	\$26,438,676
2019	-	14,644,571	14,644,571
2020	-	8,461,549	8,461,549
2021	-	8,564,060	8,564,060
2022	-	7,758,043	7,758,043
	\$ -	\$65,866,899	\$65,866,899

MORTGAGES PAYABLE

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

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

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

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	32,975	-	32,975
2019	45,138	-	45,138
2020	46,513	-	46,513
2021	23,785	1,320,914	1,344,699
	\$ 148,411	\$ 1,320,914	\$ 1,469,325

DUE TO JOINT OPERATIONS PARTNER

The Company's amount due to joint operations was in Valermo Homes JV, until December 28, 2017, when the Company converted its interest into limited partnership units.

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

20

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

CONSTRUCTION LOAN PAYABLE

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

On February 23, 2017, the Valermo Homes JV entered into secured revolving and non-revolving demand facilities (the "Valermo Facilities") with a lending institution for \$65.6 million to finance the construction of homes. Interest on advanced funds under the Valermo Facilities carried interest rate of prime plus 0.75% per annum.

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

REVOLVING OPERATING FACILITY

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

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

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

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

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

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

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

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

21

CONVERTIBLE DEBENTURES

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

On September 12, 2017, the Company repaid in cash, all outstanding Debentures in aggregate principal amount of \$10,850,000 plus all accrued and unpaid interest owed. On September 12, 2017, upon repayment of the Debentures, the Company transferred the assigned equity component value of \$284,490 to contributed surplus.

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

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

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 March 31, 2018 were \$47,925,045 including \$15,203,687 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2017 were \$46,714,363 including \$13,988,176 of capitalization of future interest relating to the existing Loan Portfolio. The Company's commitments include conditions, such as borrowers reaching certain milestones, before the Company's commitment would become available. The funding commitments may expire without being drawn upon, and commitments do not necessarily represent future cash requirements or future earning assets for the Company.

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 March 31, 2018, are as follows:

	Amount
Remainder of year	166,339
2019	221,785
2020	221,785
	\$ 609,909

As at December 31, 2017, the Company had a guarantee outstanding on the construction loan payable in the Valermo Partnership to a third party lender.

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

SHAREHOLDERS' EQUITY

SHARES

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

	Shares	Amount
Outstanding, December 31, 2016	61,135,250	\$31,789,819
Repurchase of Shares pursuant to normal course issuer bid	(340,000)	(224,225)
Outstanding, March 31, 2017	60,795,250	\$31,565,594
Issuance of Shares pursuant to private placement	5,000,000	2,661,223
Issuance of Shares pursuant to share option plan	32,000	9,600
Repurchase of shares pursuant to normal course issuer bid	(2,051,400)	(1,377,244)
Transferred from contributed surplus upon exercise of options	-	5,114
Outstanding, December 31, 2017	63,775,850	\$32,864,287
Repurchase of shares pursuant to normal course issuer bid	(1,127,000)	(744,373)
Outstanding, March 31, 2018	62,648,850	\$32,119,914

As at May 10, 2018, there were 62,572,850 Shares issued and outstanding.

NORMAL COURSE ISSUER BID

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

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

During the three months ended March 31, 2018 and 2017, the Company purchased and cancelled 1,127,000 and 340,000 Shares, respectively on TSX-V for \$744,373 and \$224,225, respectively.

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 Exchange, the board of directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

23

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

On September 25, 2017, the Company granted options to its investor relations consultant to purchase up to 100,000 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.

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

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

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

For the three months ended March 31, 2018 and 2017, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$77,298 and \$87,935, respectively.

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

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

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

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of
106,667	April 17, 2018	106,667	0.30	0.25
50,000	February 23, 2019	50,000	0.50	0.42
515,000	May 20, 2019	515,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	1,050,000	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
100,000	September 25, 2020	50,000	0.69	0.69
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 27, 2023	500,000	0.57	0.57
560,000	December 27, 2023	233,370	0.65	0.65
340,000	December 21, 2024	28,334	0.67	0.67
5,001,671		4,313,375		

(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. Except for the Chairman of the Board of the Company (the "Chairman"), directors are obligated to contribute, on the last day of each quarter, a minimum of 50% and may elect to receive up to 100% of their annual retainer in DSUs 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.

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, 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 three months ended March 31, 2018 and year ended December 31, 2017:

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

25

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

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

(c) Warrants

The Company completed a non-brokered private placement offering on August 15, 2017 of 5,000,000 units (the “Units”) comprised of 5,000,000 Shares and share purchase warrant (the “Warrants”) at a purchase price of \$0.65 per Unit. 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%

CONTRIBUTED SURPLUS

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

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

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At March 31, 2018 and December 31, 2017, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 10% 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 advanced a loan investment of \$1,756,660 to a company controlled by the Chairman at an interest rate of 12% per annum. During the three months ended March 31, 2018 and 2017, the Company recognized interest and fees

revenue of \$54,938 and \$51,439, respectively. Subsequent to March 31, 2018, the Company received the repayment of loan and mortgage investment of \$1,756,660 from the Company controlled by the Chairman.

LOAN AND MORTGAGE SYNDICATIONS

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest. At March 31, 2018, and December 31, 2017, the loan and mortgage investments and the Debentures syndicated by officers and directors was \$653,069 and \$614,690, respectively.

OFFICE PREMISES

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the three months ended March 31, 2018, and 2017, the Company received \$23,073 and \$19,705, respectively, for the occupancy and office costs.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies and methods of their application as those described in Note 2 to the consolidated financial statements for the year ended December 31, 2017, except for new standards adopted during the three months ended March 31, 2018, as described below. The Company's consolidated financial statements for the year ended December 31, 2017 can be found under the Company's profile at WWW.SEDAR.COM.

(i) Revenue from Contracts with Customers ("IFRS 15")

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

(ii) Financial Instruments - Classification and Measurement ("IFRS 9")

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

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

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

All other debt instruments are measured at FVTPL.

Business model assessment:

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

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

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

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

SPPI assessment:

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

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

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

investments are loans are recognized at each balance sheet date in accordance with the three-stage impairment model outlined below.

The Company currently has no financial assets measured at FVOCI.

Equity instruments:

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

The Company can elect to classify non-trading equity instruments at FVOCI. This election will be used for certain equity investments for strategic or longer term investment purposes. The FVOCI election is made upon initial recognition, on an instrument-by-instrument basis and once made is irrevocable. Gains and losses on these instruments including when derecognized/sold are recorded in other comprehensive income and are not subsequently reclassified to the interim condensed consolidated statements of income. Dividends received are recorded in Interest income in the interim condensed consolidated statements of income. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to the interim condensed consolidated statements of income on sale of the instrument.

Allowance for Credit Loss:

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

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

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

(i) Performing financial instrument:

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

(ii) Impaired financial instrument:

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

Measurement of expected credit losses:

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

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

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

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

Assessment of significant increase in credit risk:

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

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

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

Use of forward-looking information:

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

Macroeconomic factors:

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

Definition of default:

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for our internal credit risk management purposes. The Company considers that default occurs when the borrower is more than 90 days past due on any material obligation to the Company, and/or the Company considers the borrower unlikely to make their payments in full without recourse action on the Company's part, such as taking formal possession of any collateral held. For certain project finance loans, default occurs when payments are 180 days past due. The Company also considers certain events such as probability of the borrower entering a phase of bankruptcy or a financial reorganization and measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan, which may result in default. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3):

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

Modified financial assets:

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

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

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

Write-off policy:

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

Hedge accounting:

The Company does not have any hedges.

IMPACT OF ADOPTION OF IFRS 9

(a) Mandatory reclassifications:

The combined application of the business model and SPPI tests on adoption of IFRS 9 and reclassification or remeasurement not resulted in any changes to the reported values of the Company's financial assets and liabilities at December 31, 2017.

(b) Presentation of the statements of financial position:

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

(c) Allowance for Credit Loss:

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

		Impairment allowance under IAS 39 as at December 31, 2017	Remeasurement	Impairment allowance under IFRS 9 as at January 1, 2018
Residential housing developments	\$ 11,284	\$ -	\$ 1,241,971	\$ 1,253,255
Land and lot inventory	548,487	-	-	548,487
Commercial retail development	31,021	-	-	31,021
	\$ 590,792	\$ -	\$ 1,241,971	\$ 1,832,763

USE OF ESTIMATES

The preparation of the Company's unaudited interim condensed 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 interim condensed 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 interim condensed 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 and loans and mortgages payable.

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, mortgages payable and revolving operating facility approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the Loan Portfolio or Loan Syndications. 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 property, Portfolio Investments, Investment in Associates and non-controlling interest are determined by using Level 3 inputs at March 31, 2018 and December 31, 2017 and no amounts were transferred between fair value levels during the three months ended March 31, 2018 or 2017.

OFF BALANCE SHEET ITEMS

As of March 31, 2018 and December 31, 2017, 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. The amounts 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 March 31, 2018, four project loan investments to entities controlled by the same borrower totalling \$14,284,964, including interest receivable and fees incurred on these loans totalling \$2,435,684 are in arrears over 60 days. Certain affiliates of the borrower announced restructuring proceedings under the *Bankruptcy and Insolvency Act (Canada)*. At March 31, 2018 and December 31, 2017, the Company carries impairment loss provision of \$1,241,971 relating to certain loan and mortgage investments that are in arrears. At December 31, 2017, the Company has provided an allowance for uncollectible interest receivable and other receivable of \$1,591,883, relating to certain loan and mortgage investments that are in arrears.

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 March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 1,969,085	\$ 473,516
Amounts receivable and prepaid expenses	31,638	75,036
Loan and mortgage investments	73,036,327	67,148,352
Portfolio investments	120,000	120,000
Accounts payable and accrued liabilities	(282,364)	(261,152)
Unearned income	(1,042,506)	(1,193,290)
Loan and mortgage syndications	(40,551,492)	(38,885,930)
	\$ 33,280,688	\$ 27,476,532

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 March 31, 2018 are due as follows:

	Less than 1 year	More than 1 year	Total
Accounts payable and accrued liabilities	\$ 7,325,042	\$ -	\$ 7,325,042
Revolving operating facility	19,000,000	-	19,000,000
Mortgages payable	32,975	1,436,350	1,469,325
	\$ 26,358,017	\$ 1,436,350	\$ 27,794,367

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.

REGULATORY RISK

The Ontario government has announced plans to transfer responsibility for syndicated mortgage investments from the Financial Services Commission of Ontario to the Ontario Securities Commission. In relation to the foregoing, the Canadian Securities Administrators has published for comment proposed changes to substantially harmonize the regulatory framework for syndicated mortgages in Canada. Under the proposed amendments, prospectus and registration exemptions that currently apply to syndicated mortgages in certain jurisdictions (including Ontario) would be removed. Additionally, the amendments, if adopted, would introduce revisions to the offering memorandum exemption to

provide heightened disclosure for investors and, in certain circumstances, issuers would be required to deliver property appraisals prepared by an independent, qualified appraiser. The proposed amendments would also exclude syndicated mortgages from the private issuer exemption. The Company is assessing the proposed regulatory amendments and cannot predict what the final regime will look like and how it will impact on the Company's business and results.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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.

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. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets following the same prudent lending standards it historically had employed in Canada. The U.S. market represented a logical extension of the Partnership's existing lending operations. 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.

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 EVENTS

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

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

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2018

37

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, 2017 and 2016 and the unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2018.

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

	As at March 31, 2018	As at December 31, 2017	As at December 31, 2016		
Total assets	\$ 147,660,339	\$ 143,474,295	\$ 146,700,483		
Total liabilities	\$ 95,072,108	\$ 91,476,380	\$ 98,075,684		
Total equity	\$ 52,588,231	\$ 51,997,915	\$ 48,624,799		
Loan and mortgage investments	\$ 0	\$ 118,998,984	\$ 93,408,444		
Loan and mortgage syndications and Debentures	\$ 65,866,899	\$ 63,299,522	\$ 66,934,707		
Loan and mortgage syndications and Debentures to loan and mortgage investments	48078028467.2%	53.2%	71.7%		
	Three months ended		Years ended		
	March 31, 2018	March 31, 2017	December 31, 2017	December 31, 2016	December 31, 2015
Total revenue	\$ 3,547,516	\$ 4,016,688	\$ 14,730,553	\$ 14,901,658	\$ 17,351,575
Total expenses	\$ 1,808,719	\$ 3,324,558	\$ 12,617,787	\$ 12,840,856	\$ 8,829,414
Income from operations before income taxes	\$ 1,738,797	\$ 692,130	\$ 2,112,766	\$ 2,060,802	\$ 8,522,161
Net income and comprehensive income attributable to common shareholders	\$ 1,257,391	\$ 484,812	\$ 1,523,805	\$ 1,406,895	\$ 6,021,924
Diluted net income and comprehensive income attributable to common shareholders	\$ 1,257,391	\$ 646,013	\$ 1,523,805	\$ 1,406,895	\$ 6,663,851
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$ 525,296	\$ 339,803	\$ 2,330,780	\$ 2,038,010	\$ 1,124,287
Adjusted net diluted income and comprehensive income attributable to common shareholders ⁽¹⁾	\$ 525,296	\$ 501,004	\$ 2,330,780	\$ 2,038,010	\$ 1,957,214
Weighted average number of shares outstanding					
Basic	62,788,494	60,865,878	61,875,327	60,935,292	53,721,933
Diluted	63,041,128	76,651,845	62,257,369	61,438,545	69,987,615
Earnings per share					
Basic	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.11
Diluted	\$ 0.02	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.10
Adjusted earnings per share ⁽¹⁾					
Basic	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03	\$ 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 MONTHS ENDED MARCH 31, 2018

38

The following table sets out the Company's quarterly results of operations for the eight quarterly periods ended March 31, 2018:

	Three months ended							
	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016
Revenue								
Interest and fees earned	\$ 3,497,072	\$ 2,990,889	\$ 3,554,940	\$ 4,016,705	\$ 3,966,244	\$ 3,384,576	\$ 3,568,917	\$ 3,527,298
Rental income	50,444	50,443	50,444	50,444	50,444	50,445	50,444	50,444
	3,547,516	3,041,332	3,605,384	4,067,149	4,016,688	3,435,021	3,619,361	3,577,742
Expenses								
Property operating expenses	17,266	17,157	17,157	17,157	17,331	17,307	21,186	17,307
General and administrative expenses	717,937	1,067,353	697,048	667,038	896,736	854,683	906,366	608,484
Share based compensation	26,976	(103,952)	352,813	(72,833)	280,721	430,360	120,150	58,818
Interest and financing costs	2,042,587	1,927,763	1,868,118	2,447,873	2,327,061	1,957,033	1,981,164	2,008,734
Provision for loan and mortgage investment loss	-	931,478	-	-	-	310,493	-	-
Provision for uncollectible receivables	-	1,591,883	-	-	-	-	-	-
Realized and unrealized foreign exchange (gain) / (loss)	(996,047)	(191,422)	655,851	830,787	(197,291)	(357,375)	(313,607)	299,680
Gain on conversion of interest in joint operation	-	(2,402,996)	-	-	-	-	-	-
Fair value adjustment - investment properties	-	-	-	-	-	(61,950)	-	-
Fair value adjustment - portfolio investments	-	(412,616)	-	-	-	(72,529)	-	-
Share of income from investment in associates	-	(612,428)	-	-	-	-	-	-
	1,808,719	1,812,220	3,590,987	3,890,022	3,324,558	3,078,022	2,715,259	2,993,023
Income before income taxes	1,738,797	1,229,112	14,397	177,127	692,130	356,999	904,102	584,719
Income tax provision	481,406	340,141	(21,941)	63,443	207,318	104,856	259,615	189,278
Net income and comprehensive income	1,257,391	888,971	36,338	113,684	484,812	252,143	644,487	395,441
Net income and comprehensive income attributable to:								
Common shareholders	1,257,391	888,971	36,338	113,684	484,812	252,143	644,487	395,441
Non-controlling interest	-	-	-	-	-	-	-	-
	\$ 1,257,391	\$ 888,971	\$ 36,338	\$ 113,684	\$ 484,812	\$ 252,143	\$ 644,487	\$ 395,441
Diluted net income attributable to common shareholders								
	1,257,391	888,971	36,338	277,180	646,013	252,143	808,316	556,973
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	525,296	748,276	518,388	724,312	339,804	(10,528)	413,986	615,706
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	525,296	748,276	518,388	887,808	501,005	(10,528)	577,815	777,238
Weighted average number of shares outstanding								
- basic	62,788,494	63,909,035	62,029,973	60,669,415	60,865,878	61,163,579	61,155,083	61,155,083
- diluted	63,041,128	64,369,275	62,350,838	76,051,064	76,651,845	76,522,023	76,513,207	76,656,258
Earnings per share								
Basic	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01
Diluted	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01
Adjusted earnings per share ⁽²⁾								
Basic	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01
<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 SEDAR at www.sedar.com.

Dated: May 10, 2018
Toronto, Ontario, Canada