



# **TERRA FIRMA CAPITAL CORPORATION**

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

**FOR THE THREE MONTHS ENDED MARCH 31, 2019**

**MAY 15, 2019**

**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, 2019 have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

The following MD&A of the financial performance, financial condition, and cash flows of the Company dated May 15, 2019 for the three months ended March 31, 2019 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, 2018 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](http://WWW.SEDAR.COM).

**PRESENTATION CURRENCY**

Effective January 1, 2019, the Company changed its presentation currency from Canadian dollar (the “CAD”) to the United States dollar (the “USD”), as a substantial percentage of the Company’s investments, revenues, expenses and cash flows are denominated in USD. The change in presentation currency also reduces the impact of fluctuations in exchange rates on reported results and provides shareholders with a more accurate reflection of the Company’s underlying performance. This change is applied retroactively and comparative financial statements have been restated. Unless otherwise stated, all amounts discussed herein are denominated in USD. This accounting policy change is discussed in Note 3(a) to the March 31, 2019 unaudited interim condensed consolidated financial statements of the Company.

**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](http://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, 2019. 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; the ability of the Company to adapt to any changes in government regulation; the continued availability of equity and debt financing; 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, (as well as adjusted net income and comprehensive income attributable to common shareholders, adjusted net diluted income and comprehensive income attributable to common shareholders, which in the current periods are equal to adjusted net income and comprehensive income), 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.

In calculating adjusted net income and comprehensive income (as well as adjusted net income and comprehensive income attributable to common shareholders and adjusted diluted net income and comprehensive income attributable to common shareholders), the following items are adjusted (as applicable), irrespective of materiality:

- i. foreign exchange gains/losses related to the Company's net U.S. dollar denominated net assets;
- ii. impairment losses/reversals;
- iii. net gains/losses on the disposal of equity accounted investments;
- iv. other unusual one-time items; and
- v. the income tax impact of the items listed above.

These items are excluded from adjusted net income and comprehensive income (as well as, adjusted net income and comprehensive income attributable to common shareholders and adjusted net diluted income and comprehensive income attributable to common shareholders) because the Company believes that inclusion of such items affects the comparability of the Company's financial results, period-over-period, and could potentially distort the analysis of trends in the operational and financial performance of the Company. These measures may differ from those used 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.

For a reconciliation of adjusted net income and comprehensive income to net income and comprehensive income, see “Financial Performance”.

Adjusted earnings per share for the period is a non-IFRS financial measure used by the Company to describe adjusted net income, as described 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”.

## BUSINESS OVERVIEW AND STRATEGY

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

The 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 manages a diversified Investment Portfolio on Real Property situated in the United States and Canada.

The principal business of the Company provides real estate financings secured by investment properties and real estate developments throughout the United States and Canada. 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 Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and governed by loan servicing agreements, which are 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 relating to the syndicate investors are recognized in the statements of income and comprehensive income. See “Capital Structure and Debt Profile – Loan and Mortgage Syndications”.

The types of real estate assets for which the Company arranges financings include land for residential and commercial development and construction projects, residential buildings and mixed-use properties.

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 which are either subsequently subordinated to construction financing or 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 75%, including all prior encumbrances at the time of underwriting of each loan. In some cases the loan-to-value ratio could increase to 80%. The “loan-to-value” ratio means the ratio, expressed as a percentage, determined by calculating (A)/(B) x 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.

The Company also provides land bank financing to regional and national home builders in growth areas in the U.S. Under these arrangements, the Company acquires entitled residential land or lots on behalf of the home builders and simultaneously enters into an option agreement with the residential builder, pursuant to which the residential builder would make a non-refundable initial deposit of up to 20% of the initial land cost plus total development costs towards the acquisition of the land, get exclusive rights to use the property, including making subdivision improvements according to its development plan and purchase smaller parcels of the initial tract from the Company over time at a specified price, until it had purchased the entire land or lots. The investment in the land banking arrangement through the purchase of land is accounted for by the Company as a finance lease.

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.

Management believes that there is a significant market opportunity in the U.S., as a result of financing needs not being met by traditional institutional lenders. Through management’s relationships with the U.S. 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 niche markets with an experienced financing team that can provide flexible terms and creative structuring. Management believes its experience with real estate investments and its industry contacts will provide the Company with a consistent flow of quality investment opportunities.

Investment in real estate may be made by way of a variety of tranches with highly differentiated risk/return characteristics based on their position in the capital structure and subordination levels. The Company strives to achieve equity-like returns on the Loan Portfolio while bearing lower risk than equity investments, by structuring its financings primarily in debt or priority structures.

### **FIRST QUARTER HIGHLIGHTS**

The Company reported revenue of \$3,906,439 in the first quarter of 2019, as compared to \$2,804,236 in the same period in the prior year, representing an increase of \$1,102,203.

Interest and fee income for the first quarter of 2019 aggregated \$3,868,489 as compared to \$2,764,354 in the same period in the prior year, representing an increase of \$1,104,135 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, 2019 was \$37,950, compared to \$39,882 for the same period as last year.

Interest and financing expense for the first quarter of 2019 aggregated \$2,306,753, as compared to \$1,615,007 in the same period in the prior year, representing an increase of \$691,746.

Net income and comprehensive income attributable to common shareholders for the first quarter of 2019 was \$297,166 or \$0.01 per basic and diluted share, as compared to \$201,765 or \$0.00 per basic and diluted share in the same period in the prior year, representing an increase in net income of \$95,401.

The principal balance of the Company’s loan and mortgage investments at March 31, 2019 was \$121.3 million, as compared to \$122.2 million at December 31, 2018.

**INVESTMENTS****LOAN AND MORTGAGE INVESTMENTS**

The Company's Loan Portfolio as at March 31, 2019 consisted of the following: (a) loans relating to 7 residential housing developments, (comprising 2,024 high rise condominium units; mixed use developments consisting of 533 retail and low and high rise condominium units; and 533 low rise houses and condominium units), located in Phoenix-Arizona, Toronto-Ontario and Cambridge-Ontario, representing 25.8% of the Loan Portfolio (by investment amount), (b) land and lot inventory of real estate assets to be developed, located in Orlando-Florida, Jacksonville-Florida, Phoenix-Arizona, Charlotte-North Carolina, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing 70.2% of the Loan Portfolio (by investment amount) and (c) a commercial retail development land located in Palm Springs-California, representing the remaining 4.0% of the Loan Portfolio (by investment amount).

The Company's Loan Portfolio as at December 31, 2018 consisted of the following: (a) loans relating to 9 residential housing developments, comprising 2,024 high rise condominium units; mixed use developments consisting of 798 retail and low and high rise condominium units; and 517 low rise houses and condominium units located in Phoenix-Arizona, Atlanta-Georgia, Tampa-Florida, Toronto-Ontario and Cambridge-Ontario, representing 26.6% of the Loan Portfolio (by investment amount), (b) land and lot inventory of real estate assets to be developed, located in Orlando-Florida, Jacksonville-Florida, Tampa-Florida, Charlotte-North Carolina, Washington-District of Columbia, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing 69.5% of the Loan Portfolio (by investment amount) and (c) a commercial retail development land located in Palm Springs-California, representing the remaining 3.9% 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, 2019:

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Net Loan Portfolio (before syndication)	% of net Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.5%	\$ 28,744,369	\$ (91,673)	\$ 28,652,696	23.7%
Land and lot inventory	13.6%	85,296,536	(452,517)	84,844,019	70.2%
Commercial retail development	14.3%	4,755,000	(1,058)	4,753,942	4.0%
	13.6%	118,795,905	(545,248)	118,250,657	97.9%
Impaired loan and mortgage investments					
Residential housing developments	17.8%	2,545,432	-	2,545,432	2.1%
Loan Portfolio	13.7%	\$ 121,341,337	\$ (545,248)	\$ 120,796,089	100.0%

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

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Net Loan Portfolio (before syndication)	% of Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.5%	\$ 29,760,683	\$ (107,819)	\$ 29,652,864	24.4%
Land and lot inventory	13.6%	84,964,030	(422,258)	84,541,772	69.5%
Commercial retail development	14.3%	4,755,000	(3,655)	4,751,345	3.9%
	13.6%	\$ 119,479,713	\$ (533,732)	\$ 118,945,981	97.8%
Impaired loan and mortgage investments					
Residential housing developments	17.8%	2,729,998	-	2,729,998	2.2%
Loan Portfolio	13.7%	\$ 122,209,711	\$ (533,732)	\$ 121,675,979	100.0%

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

6

As at March 31, 2019 and December 31, 2018, the principal balance of the Loan Portfolio was \$121,341,337 and \$122,209,711, respectively. The decrease in Loan Portfolio during the three months ended March 31, 2019 resulted from the net effect of the repayment of loan investments totaling \$5,396,504, which aggregate amount was offset, in part by, advances against existing loan commitments of \$2,968,861, capitalized interest of \$1,296,529 and unrealized foreign exchange gain of \$262,740.

The following table summarizes the change in the principal balance of Loan Portfolio for the three months ended March 31, 2019 and 2018:

	Three months ended	
	March 31, 2019	March 31, 2018
Balance, beginning of period	\$ 122,209,711	\$ 94,661,511
Loan portfolio activity during the period		
Funding of new loan investments	-	4,755,000
Advances against existing loans	2,968,861	2,942,498
Repayments of loans	(5,396,504)	(4,444,947)
Interest capitalized	1,296,529	878,590
Unrealized foreign exchange gain	262,740	(620,221)
Balance, end of period	\$ 121,341,337	\$ 98,172,431

The weighted average effective interest rate (the “EIR”) of the Loan Portfolio at both March 31, 2019 and December 31, 2018, including the average interest rate of loan in default was 13.7%. 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 effective 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, 2019 and December 31, 2018 was 13.9%, due to the factors discussed below. The weighted average EIR of the loans and mortgage investments of lot inventory at both March 31, 2019 and December 31, 2018 was 13.6%. The weighted average EIR of the commercial retail development at March 31, 2019 was 13.6%. The weighted average term to maturity at March 31, 2019 and December 31, 2018 was 1.43 years and 1.67 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, 2019:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 12,440,723	\$ (53,522)	\$ 12,387,201	10.3%
United States	108,900,614	(491,726)	108,408,888	89.7%
	\$ 121,341,337	\$ (545,248)	\$ 120,796,089	100.0%



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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

7

The following table presents details of the Company's principal balances of the Loan Portfolio before syndication, segmented by geography as at December 31, 2018:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 12,191,327	\$ (35,475)	\$ 12,155,852	10.0%
United States	110,018,384	(498,257)	109,520,127	90.0%
	\$ 122,209,711	\$ (533,732)	\$ 121,675,979	100.0%

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, 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 loan to values (the "LTV") up to 75%. As such, the Company continues 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 transactions.

At March 31, 2019, 90.0% of the loan and mortgage investments are in projects located in the U.S, compared to 74.4% at March 31, 2018. It is anticipated that this market emphasis will continue.

For the three months ended March 31, 2019, the Company had three loan and mortgage investments in the U.S, before syndication, that accounted for 13.7%, 12.4% and 11.6% of the Company's total interest and fees revenue. As at March 31, 2019, there were three loan and mortgage investments in the U.S., before syndication, that accounted for 15.5%, 13.3% and 10.3% of the principal balance of loan and mortgage investments. For the three months ended March 31, 2018, the Company had three loan and mortgage investments in the U.S, before syndication, that accounted for 16.0%, 12.3% and 10.6% of the Company's total interest and fees revenue. As at December 31, 2018, there were three loan and mortgage investments in the U.S., before syndication, that accounted for 14.7%, 13.2% and 10.2% of the principal balance of loan and mortgage investments.

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
Remainder of year	-	34,007,540	34,007,540
2020	-	49,343,347	49,343,347
2021	-	19,235,659	19,235,659
2022	-	18,754,791	18,754,791
	\$ -	\$ 121,341,337	\$ 121,341,337

Certain of the loan and mortgage investments 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, 2019 amounted to \$18,973,145, including \$7,777,213 of capitalization of future interest relating to the existing Loan Portfolio, compared to unfunded loan commitments under the existing Loan Portfolio of \$23,791,223, including \$4,436,971 of capitalization of future interest relating to the Loan Portfolio at December 31, 2018. 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) credit facilities (iv) issuance of Shares and 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 in the Company's audited consolidated financial statements for the year ended December 31, 2018, under "Significant Accounting Policies and Changes in Accounting Policies". 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 allowance for credit losses. 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.

#### 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, 2019 were as follows:

	Balance at January 1, 2019	Provision for credit losses	Net write-offs	Other adjustments	Balance at March 31, 2019
Residential housing developments	\$ 107,819	\$ (18,472)	\$ -	\$ 2,326	\$ 91,673
Land and lot inventory	422,258	21,148	-	9,111	452,517
Commercial retail development	3,655	(2,676)	-	79	1,058
	\$ 533,732	\$ -	\$ -	\$ 11,516	\$ 545,248

During the year ended December 31, 2018, due to the uncertainty and timing related to recovery of a loan and mortgage investments to entities controlled by a borrower (the "Defaulting Borrower") in arrears, the Company recorded an allowance for loan and mortgage investments loss of \$2,403,182 and, subsequently a write-off of two loan and mortgage investments totaling \$3,108,435.

On March 24, 2019, the courts approved a settlement between the Company and the Israeli Functionary (the "Functionary"), pursuant to which the lawsuit filed by the Functionary against the Company in Israel has been withdrawn in exchange for the assignment of the Company's rights in connection with a claim brought in the Defaulting Borrower's insolvency, which had previously been denied, and certain other rights of the Company. The agreement did not include any cash payment or other consideration by the Company.

At March 31, 2019 and December 31, 2018, a project loan investment originally funded to an entity controlled by the Defaulting Borrower totalling \$2,910,253 and \$3,087,122, respectively (including interest receivable and fees incurred on these loans totalling \$364,821 and \$357,124, respectively) was in arrears. As at March 31, 2019 and December 31, 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an allowance for credit loss (the "ACL") balance of \$197,234 and \$193,068, respectively, relating to this loan and mortgage investment. The development of the project according to the settlement agreement of the creditors (including the Company) and approved by the Ontario Superior Court of Justice (Commercial List) has been completed. In accordance with the settlement agreement, all creditors except the Company have been repaid. The remaining funds are held in escrow by the bankruptcy trustee to be distributed to the Company and the home purchasers. The Company expects to receive the net loan and mortgage investment balance of \$2,713,019 over the course of 2019.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

9

The following table presents details the Company's ACL on loan and mortgage investments as at March 31, 2019:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 91,673	\$ -	\$ -	91,673
Land and lot inventory	452,517	-	-	452,517
Commercial retail development	1,058	-	-	1,058
	\$ 545,248	\$ -	\$ -	545,248

**INVESTMENT IN FINANCE LEASE**

The Company has a fixed term contractual arrangement with a builder whereby the Company acquired land for residential housing development from a third party for a total cash consideration of \$2,920,000 and provided the builder with the exclusive right to use and develop the land. The Company also has a fixed price contract with the builder to complete all required development based upon a fixed construction budget. The Company is committed to make additional investments of \$3,266,029 for development of the land, subject to the builder meeting certain funding conditions. Under this arrangement, the builder has an option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. The builder provided the Company a non-refundable deposit of \$927,904 at the time of the closing of the acquisition. The builder's deposit will be applied on a lot-by-lot basis, upon acquisition of the lots by the builder. At the inception, the Company determined that the arrangement contains a lease and that all of the risks or rewards of ownership of the asset have been transferred and accounts for the arrangement as a finance lease.

The investment in finance lease is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the lease. The rate implicit in the lease is 12.9% per annum. The unearned finance income at March 31, 2019, was \$35,325.

The following table summarizes the changes in the investment in finance lease for the three months ended March 31, 2019 and 2018:

	March 31, 2019	March 31, 2018
Balance, beginning of year	\$ 2,819,915	\$ -
Investments made	472,181	-
Lease payments received	(82,904)	-
Finance income recognized	84,473	-
Balance, end of period	\$ 3,293,665	\$ -

The following is a reconciliation of the undiscounted future minimum lease payments receivable and imputed interest and the present value of minimum lease payments receivable thereof:

	Future minimum lease receipts	Finance income	Present value of minimum lease receipts
Less than one year	\$ 1,023,933	\$ 367,465	\$ 656,468
Greater than one year but less than 5 years	3,109,846	472,649	2,637,197
	\$ 4,133,779	\$ 840,114	\$ 3,293,665

## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

10

### JOINT ARRANGEMENTS

#### JOINT OPERATIONS

The Company's interests in the following property is 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 Company's ownership interest in the Montreal Street JV is 55.0%. At March 31, 2019 and December 31, 2018, the Company's share of net assets in Montreal Street JV was \$665,848 and \$634,776, respectively.

The financial information in respect of the Company's investment in jointly controlled operations, at March 31, 2019 and December 31, 2018 is as follows:

	March 31, 2019	March 31, 2018
Cash and cash equivalents	\$ 25,735	\$ 16,061
Amounts receivable and prepaid expenses	82,547	81,121
Investment property	1,654,576	1,619,633
<b>Total assets</b>	<b>1,762,858</b>	<b>1,716,815</b>
Accounts payable and accrued liabilities	34,953	34,230
Mortgages payable	1,062,057	1,047,809
<b>Total liabilities</b>	<b>1,097,010</b>	<b>1,082,039</b>
<b>Net assets</b>	<b>\$ 665,848</b>	<b>\$ 634,776</b>

The table below details the results of operations for the three months ended March 31, 2019 and 2018, attributable to the Company from its joint operations activities:

	Three months ended	
	March 31, 2019	March 31, 2018
Revenue		
Rental	\$ 37,950	\$ 39,882
Expenses (income)		
Property operating costs	13,053	13,651
General and administrative expenses	(1,262)	(196)
Interest expense	7,729	8,903
	19,520	22,358
<b>Net income</b>	<b>\$ 18,430</b>	<b>\$ 17,524</b>

#### 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, 2019 and December 31, 2018, 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, 2018 - 6.25%). At March 31, 2019 and December 31, 2018, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV was CAD \$2,208,694.

As at March 31, 2019 and December 31, 2018, 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 CAD\$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 CAD\$85,250.

## PORTFOLIO INVESTMENTS

- (a) The Company, through TFCC LanQueen Ltd. entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit and loss (the "FVTPL"). As at March 31, 2019, TFCC LanQueen Ltd. contributed \$1,387,065 (December 31, 2018 - \$1,387,065) in the partnership. At March 31, 2019 and December 31, 2018, the fair value of the investment was determined by management, using the direct comparison method. The fair value of investment at March 31, 2019 and December 31, 2018 was \$1,892,541 and \$1,852,573, respectively.
- (b) The Company, through TFCC International Ltd. entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest \$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 \$200,000 to the Savannah Partnership. During the years ended December 31, 2017 and 2018, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$141,000. As at December 31, 2018, the cost of the investment in the Savannah Partnership is \$59,000. During the quarter ended March 31, 2019, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$16,500. At March 31, 2019 and December 31, 2018, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the remaining investment in the Savannah Partnership at March 31, 2019 and December 31, 2018 was \$42,500 and \$59,000, respectively.

TFCC International Ltd. also committed to advance a first mortgage loan up to \$18,000,000, not including capitalization of interest, subject to the Savannah Project meeting certain funding conditions. The loan to the Savannah Project carries an interest rate of 11% per annum calculated and compounded monthly. As at March 31, 2019, TFCC International Ltd. has a principal balance of loan investment balance of \$16,495,328 (December 31, 2018 - \$16,177,172) and syndicated \$12,963,586 of the principal balance of loan investment to investors (December 31, 2018 - \$10,940,146).

- (c) The Company, through Terra Firma Valermo Corporation (the "TFVC") has limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of \$9,807,285. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at March 31, 2019 was \$1 (December 31, 2018 - \$1).

## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

12

- (d) The Company, through Terra Firma Capital (Hill) Corporation (the "Hill"), had a partnership interest in a 94-unit mid-rise condominium development project located in Toronto, Ontario. The Company did not have significant influence in the partnership and accounted for this investment as a financial asset at FVTPL. On June 14, 2018, the Company sold its interest in the partnership for \$727,858 and recorded a loss of \$173,646, including the outside party's share of loss of \$49,329. The Company disposed the non-controlling interest of \$153,233.

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2019 and 2018:

	Amount
Balance, December 31, 2017	\$ 10,804,898
Return of investment	(4,880,826)
Foreign exchange	(38,373)
Balance, March 31, 2018	5,885,699
Return of investment	(2,940,443)
Redemption of investment	(727,858)
Loss on sale of investment	(173,646)
Sale of investment to investors	(61,000)
Fair value adjustment	57,413
Foreign exchange	(128,591)
Balance, December 31, 2018	1,911,574
Sale of investment to investors	(16,500)
Foreign exchange	39,968
Balance, March 31, 2019	\$ 1,935,042

The following table presents details of the portfolio investments as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Investment in the Lanqueen Partnership	\$ 1,892,541	\$ 1,852,573
Investment in the Valermo Partnership	1	1
Investment in the Savannah Partnership	42,500	59,000
	\$ 1,935,042	\$ 1,911,574

### 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, 2019 and December 31, 2018, the Company's share of investment in the Lan Partnership, was \$1,851,443.

As at March 31, 2018 and December 31, 2018, the Lan Partnership has invested \$11,785,382 in the Lan Project. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest of 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% 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, 2019 and December 31, 2018, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method. The fair value of the investment in the Lan Partnership at March 31, 2019 and December 31, 2018 was \$2,193,304 and \$2,146,984, respectively.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

13

The following table summarizes the changes in the portfolio investments for the three months ended March 31, 2019 and 2018

	Amount
Balance, December 31, 2017	\$ 2,329,045
Foreign exchange	(57,639)
Balance, March 31, 2018	2,271,406
Foreign exchange	(124,422)
Balance, December 31, 2018	2,146,984
Foreign exchange	46,320
Balance, March 31, 2019	\$ 2,193,304

### CONVERTIBLE NOTE RECEIVABLE

On January 29, 2019, the Company entered into a loan agreement with an Ontario corporation that provides web-based crowd funding services and holds an Exempt Market Dealer license. The loan was provided to assist in expanding its operations. The loan was made in exchange for a convertible promissory note receivable (the "Convertible Note") with a face value of CAD \$2,000,000. At signing, the Company advanced CAD \$1,000,000 of the CAD \$2,000,000 commitment. The remaining CAD \$1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. The Company has the option to convert the principal and accrued interest into an equity interest. Unless the note is converted pursuant to the terms, the Convertible Note becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety is classified as at FVTPL.

### FINANCIAL PERFORMANCE

The Company's financial performance for the three months ended March 31, 2019 and 2018 is summarized below:

	Three months ended		
	March 31, 2019	March 31, 2018	Change Increase / (decrease)
Revenue			
Interest and fees earned	\$ 3,868,489	\$ 2,764,354	\$ 1,104,135
Rental income	37,950	39,882	(1,932)
Total revenue	3,906,439	2,804,236	1,102,203
Expenses			
Property operating costs	13,053	13,651	(598)
General and administrative expenses	781,238	565,668	215,570
Share based compensation	327,832	21,329	306,503
Interest and financing costs	2,306,753	1,615,007	691,746
Realized and unrealized foreign exchange gain	56,534	248,481	(191,947)
	3,485,410	2,464,136	1,021,274
Income from operations before income taxes	421,029	340,100	80,929
Income taxes	123,863	138,335	(14,472)
Net income and comprehensive income	\$ 297,166	\$ 201,765	\$ 95,401

Total revenue for the three months ended March 31, 2019 was \$3,906,439, compared to \$2,804,236, for the same period last year, primarily due to the factors discussed below under "Interest and Fees Earned".

## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

14

Income from operations before income taxes for the three months ended March 31, 2019 was \$421,323 compared to \$340,100 for the three months ended March 31, 2018, primarily due to increase in interest fees earned of \$1,104,135, and foreign exchange loss being lower by \$191,947, which were partially offset by an increase in interest and financing costs of \$691,746, increase in share based compensation of \$306,503 and an increase in general and administrative expenses of \$215,276.

Net income and comprehensive income for the three months ended March 31, 2019 was \$297,166, compared to \$201,765 for the corresponding period in 2018. 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, 2019 and 2018.

The Company's adjusted net income (non-IFRS measurement) for the three months ended March 31, 2019 and 2018 is summarized below:

	Three months ended		
	March 31, 2019	March 31, 2018	Change Increase / (decrease)
Net income and comprehensive income	\$ 297,166	\$ 201,765	\$ 95,401
Foreign exchange loss (gain) (tax adjusted)	41,552	182,634	(141,082)
Adjusted net income and comprehensive income <sup>(1)</sup>	\$ 338,718	\$ 384,399	\$ (45,681)
<small>(1) Adjusted net income and comprehensive income is a non-IFRS measure. See "Non-IFRS Measures".</small>			

Adjusted net income and comprehensive income for the three months ended March 31, 2019 was \$338,718, a decrease of \$45,681 from adjusted net income and comprehensive income of \$384,399 for the corresponding period in 2018. The decrease in adjusted 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, 2019 and 2018.

### INTEREST AND FEES EARNED

For the three months ended March 31, 2019, interest and fees earned aggregated \$3,868,489, compared to \$2,764,354 in the comparative period last year. This increase was primarily due to interest and fees of \$955,904, earned from loan and mortgage investments funded after March 31, 2018. The increase was partially offset by interest and fees of \$162,300, earned on investments repaid after March 31, 2018. The Company's principal balance of the Loan Portfolio decreased from \$122.2 million at December 31, 2018 to \$121.3 million at March 31, 2018, while the weighted average EIR on the Loan Portfolio remained the same at 13.7% 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, 2019 was \$37,950 compared to \$39,882 for 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, 2019 was \$13,053 compared to \$13,651 for the same period last year.



**INTEREST AND FINANCING COSTS**

Interest and financing costs for the three months ended March 31, 2019 and 2018 were as follows:

	Three months ended		
	March 31, 2019	March 31, 2018	Change Increase / (decrease)
Interest on loan and mortgage syndications	\$ 2,030,992	\$ 1,249,239	\$ 781,753
Interest on Credit Facilities	268,032	356,865	(88,833)
Montreal Street JV	7,729	8,903	(1,174)
	\$ 2,306,753	\$ 1,615,007	\$ 691,746

Interest expense for the three months ended March 31, 2019 was \$2,306,753 compared to \$1,615,007 for the same period last year. This increase was primarily due to the increase in loan and mortgage syndications from \$51.1 million at March 31, 2018 to \$79.0 million at March 31, 2019. The increase was partially offset by a decrease in interest expense on Credit Facilities (defined below) of \$88,833, due to decrease in the borrowing. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications” and “Credit Facilities”.

**GENERAL AND ADMINISTRATIVE EXPENSES**

During the three months ended March 31, 2019 and 2018, the Company incurred the following general and administrative expenses:

	Three months ended		
	March 31, 2019	March 31, 2018	Change Increase / (decrease)
Salary and benefits	\$ 394,061	\$ 377,095	\$ 16,966
Professional fees	279,546	79,336	200,210
Public company expenses	2,201	17,676	(15,475)
Directors' fees	18,701	19,332	(631)
Rent	41,121	29,582	11,539
Other expenses	45,608	42,647	2,961
	\$ 781,238	\$ 565,668	\$ 215,570

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, 2019 were \$781,238, compared to \$565,668 for the same period last year. Professional fees for the three months ended March 31, 2019 increased by \$200,210 due to increase in legal fees relating to matters associated for the loan and mortgage investments in arrears.

**SHARE BASED COMPENSATION**

The share-based payments that have been recognized for the three months ended March 31, 2019 and 2018 were as follows:

	Three months ended		
	March 31, 2019	March 31, 2018	Change Increase / (decrease)
Share option Plan	\$ 57,475	\$ 61,115	\$ (3,640)
DSU Plan	270,357	(39,786)	310,143
	\$ 327,832	\$ 21,329	\$ 306,503

Share-based payments associated with the Company's share option plan (the "Plan") were \$57,475 for the three months ended March 31, 2019, compared to \$61,115 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, 2019 were \$270,357, compared to a recovery of \$39,786 for the same period last year. The increase in share-based payments associated with the DSU Plan for the three months ended March 31, 2019 was primarily due to increase in the share price and 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, 2019, the Company recognized a foreign exchange loss of \$56,534 compared to a foreign exchange loss of \$248,481 for the same period last year. During the three months ended March 31, 2019, the USD weakened by approximately 2.0% against the CAD from \$1.3637 to \$1.3349.

**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.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

17

**CASH FLOWS**

The following table details the changes in cash for the three months ended March 31, 2019 and 2018:

	Years ended,	
	March 31, 2019	March 31, 2018
Cash (used in) provided by operating activities	\$ (457,184)	\$ 146,814
Cash provided by financing activities	1,759,139	187,405
Cash provided by investing activities	1,045,744	969,477
Increase in cash and cash equivalents	2,347,699	1,303,696
Cash and cash equivalents, beginning of period	7,731,379	2,141,966
Cash and cash equivalents, end of period	\$ 10,079,078	\$ 3,445,662

**Operating Activities**

Cash used in operating activities for the three months ended March 31, 2019 of \$457,184 and cash provided by operating activities for the three months ended March 31, 2018 of \$146,814, are related primarily to the net cash used in and provided by lending operations.

**Financing Activities**

Cash flows from financing activities, as reflected in the interim condensed consolidated statements of cash flows, are summarized in the following table:

	Three months ended,	
	March 31, 2019	March 31, 2018
Proceeds from loan and mortgage syndications	\$ 4,094,378	\$ 3,139,907
Repayments of loan and mortgage syndications	(1,514,636)	(2,350,623)
Repayments of mortgages payable	(8,395)	(8,400)
Payment of lease obligations	(42,280)	-
Proceeds from credit facilities	1,062,128	-
Repayments of credit facilities	(1,536,754)	-
Repurchase of shares pursuant to normal course issuer bid	(295,302)	(593,479)
Cash provided by financing activities	\$ 1,759,139	\$ 187,405

**Investing Activities**

Cash flows from investing activities, as reflected in the interim condensed consolidated statements of cash flows, are summarized in the following table:

	Three months ended,	
	March 31, 2019	March 31, 2018
Funding of loan and mortgage investments	\$ (2,968,861)	\$ (7,147,498)
Repayments of loan and mortgage investments	5,388,171	4,034,194
Funding of investment in finance lease	(472,181)	-
Funding of investment in convertible note receivable	(752,349)	-
Increase in funds held in trust	(165,536)	(798,045)
Proceeds from sale of interest in portfolio investment	16,500	4,880,826
Cash provided by investing activities	\$ 1,045,744	\$ 969,477

## 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, 2019 and December 31, 2018, respectively, the total capital of the Company was as follows:

	March 31, 2019	December 31, 2018
Loan and mortgage syndications	\$ 78,979,830	\$ 75,906,550
Credit Facilities	19,320,653	19,464,106
Mortgages payable	1,062,057	1,047,809
Shareholders' equity	38,896,562	38,837,223
<b>Total capital</b>	<b>\$ 138,259,102</b>	<b>\$ 135,255,688</b>

### 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 one of the following initiatives:

- (1) the syndication of certain loan investments to private investors each participating in a prescribed manner on an investment by investment basis, in which cases, the investors rank on a pari-passu basis with the Company's share of Loan and Mortgage Investments; or,
- (2) conventional construction or permanent financing secured by the project or investment property, in which, the Company is generally in a subordinate 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.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

19

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.

The following table presents details of the loan and mortgage syndications as at March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	10.0%	\$ 8,280,456	10.5%	10.0%	\$ 7,715,756	10.2%
Land and lot inventory	10.2%	66,649,374	84.4%	10.2%	64,140,794	84.5%
Commercial retail development	9.9%	4,050,000	5.1%	9.9%	4,050,000	5.3%
	10.2%	\$ 78,979,830	100.0%	10.2%	\$ 75,906,550	100.0%

At March 31, 2019, 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 10.0%, land and lot inventory, having a weighted average EIR of 10.2% and commercial retail developments having a weighted average EIR of 9.9%. At March 31, 2019, the weighted average term to maturity of Loan Syndications was 1.35 years.

At December 31, 2018, 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 10.0% land and lot inventory, having a weighted average EIR of 10.2% and commercial retail developments having a weighted average EIR of 9.9%. At December 31, 2018, the weighted average term to maturity of Loan Syndications was 1.53 years.

At March 31, 2019, the Company's syndication activities resulted in \$78,979,830 or 65.1% 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 6.5% from its non-leveraged 13.7% return. At December 31, 2018, the Company's syndication activities resulted in \$75,906,550 or 62.1% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 19.4%, and increasing its overall return by 5.7% from its non-leveraged 13.7% 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, 2019 and 2018:

	Three months ended	
	March 31, 2019	March 31, 2018
Balance, beginning of period	\$ 75,906,550	\$ 50,353,652
Loan and mortgage syndication activity during the period		
Additional advances to existing Loan Portfolio	4,094,378	3,139,907
Interest capitalized	348,704	278,829
Repayments of loan and mortgage syndications	(1,514,636)	(2,402,970)
Unrealized foreign exchange loss (gain)	144,834	(270,192)
Balance, end of period	\$ 78,979,830	\$ 51,099,226

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

20

The following table sets out, as at March 31, 2019, scheduled principal repayments, and amounts maturing on the Loan Syndications to be paid over each of the next four years and thereafter, are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
Remainder of year	-	26,172,139	26,172,139
2020	-	31,788,768	31,788,768
2021	-	6,456,904	6,456,904
2022	-	14,562,019	14,562,019
	\$ -	\$ 78,979,830	\$ 78,979,830

**MORTGAGES PAYABLE**

The Company's share of the mortgage payable held in joint operations through the Montreal Street JV, at March 31, 2019 and December 31, 2018 was \$1,067,650 and \$1,053,274, 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, 2019 and December 31, 2018 is as follows.

	March 31, 2019	December 31, 2018
Mortgage principal	\$ 1,067,650	\$ 1,053,274
Unamortized financing costs	(5,583)	(5,465)
<b>Total</b>	<b>\$ 1,062,067</b>	<b>\$ 1,047,809</b>

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

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
Remainder of year	25,465	-	25,465
2020	34,844	-	34,844
2021	17,818	989,523	1,007,341
	\$ 78,127	\$ 989,523	\$ 1,067,650

**CREDIT FACILITIES**

The Company's credit facilities (the "Credit Facilities") consist of a CAD\$20,000,000 secured revolving operating facility (the "Facility") and a U.S. \$20,000,000 master credit facility (the "Master Facility").

**(a) Revolving Operating Facility**

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a CAD\$20,000,000 secured revolving loan facility (the "Facility") that matured on March 1, 2018. 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 and paid the Facility extension fee of \$100,000. The extension fee was deferred and amortized over the six-month extension term of the Facility. The Facility carried an interest rate of 9.5% per annum. 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 September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend the maturity date to April 1, 2019. The Amendment provides the Company an option for two extensions of the Facility, each for a further term of seven months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until one month prior to the maturity date. Any unpaid balance one month prior to the maturity date will carry an interest rate of 12% per annum, until repaid. In connection with the Amendment, the Company incurred lender and other third-party costs of CAD\$100,000. 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.

On April 1, 2019, the Company extended the term of the Facility for another seven months for a maturity date to November 1, 2019. In connection with the extension, the Company incurred lender and other third-party costs of CAD\$100,000. The costs associated with the extension have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method.

During the three months ended March 31, 2019 and 2018, the Company had no borrowings or repayments, against the Facility.

(b) Master Credit Facility

On August 20, 2018, the Company entered into a Revolving Guidance Facility Agreement (the "Master Facility Agreement") with a lending institution in the U.S. for a Master Facility to finance the loan and mortgage investments made by the Company. Funds under the Master Facility are available on a project by project basis as a project loan. The Master Facility carries an interest rate of three month LIBOR plus three percent (3.00%) per annum, with a floor rate of five percent (5.00%) per annum. The Master Facility will expire thirty-six months from the date of the applicable project loan is advanced, unless otherwise approved by lender.

During the three months ended March 31, 2019 and 2018, the Company borrowed an aggregate of \$1,062,128 and nil, respectively, and repaid \$1,536,754 and nil, respectively, against the Master Facility.

In connection with the Master Facility, the Company incurred lender and other third-party costs of \$355,504. The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

The following table presents details of the revolving operating facility as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
<b>Revolving operating facility</b>		
Face value	\$ 11,236,797	\$ 10,999,487
Unamortized financing costs	(62,447)	(33,439)
	11,174,350	10,966,048
<b>Master credit facility</b>		
Face value	8,423,231	8,804,480
Unamortized financing costs	(276,928)	(306,422)
	8,146,303	8,498,058
<b>Total credit facilities</b>	<b>\$ 19,320,653</b>	<b>\$ 19,464,106</b>



## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

22

For the three months ended March 31, 2019 and 2018, amortization of deferred financing costs reported as interest and financing costs totaled \$85,435 and \$51,434, respectively.

The terms of the Credit Facilities require the Company to comply with certain covenants. If the Company fails to comply with these covenants the lenders may declare an event of default. At March 31, 2019 and December 31, 2018, the Company was in compliance with these covenants.

### LEASE OBLIGATIONS

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, 2019, are as follows:

	Amount
Remainder of year	127,547
2020	170,062
	\$ 297,609

### 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, 2019 were \$18,973,145 including \$7,777,213 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2018 were \$23,791,223 including \$4,436,971 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, 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, 2019 and 2018:

	Shares	Amount
Outstanding, December 31, 2017	63,775,850	\$ 28,887,862
Repurchase of shares pursuant to normal course issuer bid	(1,127,000)	(593,479)
Outstanding, March 31, 2018	62,648,850	\$ 28,294,383
Issuance of shares pursuant to share option plan	96,000	22,544
Repurchase of shares pursuant to normal course issuer bid	(4,109,014)	(1,796,963)
Transferred from contributed surplus upon exercise of options	-	13,986
Outstanding, December 31, 2018	58,635,836	\$ 26,533,950
Repurchase of shares pursuant to normal course issuer bid	(738,000)	(295,302)
Outstanding, March 31, 2019	57,897,836	\$ 26,238,648

As at May 15, 2019, there were 57,200,836 Shares issued and outstanding.

On May 14, 2018, directors of the Company exercised 96,000 options that had been granted to purchase the Shares at CAD\$0.30 per share. The consideration of \$28,800 received on exercising the options was recorded as share capital and the related contributed surplus of \$13,986 was transferred to share capital.

#### NORMAL COURSE ISSUER BID

On November 23, 2018, following the expiry of the Normal Course Issuer Bid (the "NCIB") on November 6, 2018 (the "Prior NCIB"), the Company renewed the NCIB (the "Renewed NCIB"). Under the terms of the Renewed NCIB, the Company may be permitted to acquire up to 4,186,319 Shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 17, 2018 and will conclude on the earlier of: (i) November 26, 2019, (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 14, 2017, permitted the Company to purchase up to an aggregate maximum of 4,255,765 Shares. The Prior NCIB concluded on November 6, 2018, being the date on which the Company has purchased the maximum number of Shares permitted to be acquired pursuant to the Prior NCIB.

During the three months ended March 31, 2019 and 2018, the Company purchased and cancelled 738,000 and 1,127,000 Shares, respectively, on TSX-V for \$295,302 and \$593,479, respectively.

#### SHARE-BASED PAYMENTS

##### (c) 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 and in accordance with the Plan and the policies of the TSX.V. Subject to the policies of the Exchange, the Board may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist, provided that no option shall be exercisable after seven years from the date on which it is granted. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods.

On August 23, 2018, the Company granted options to its Chairman to purchase up to 400,000 common shares of the Company at a price of CAD\$0.64 per share with the expiry date of August 24, 2025. 200,000 options vested immediately and the remaining 200,000 options shall vest in equal instalments on a quarterly basis over a six-month period.

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 date
	August 23, 2018
Average expected life	7.00 years
Average risk-free interest rate	2.21%
Average expected volatility	81.92%
Average dividend yield	0.00%

The fair value of options granted on August 23, 2018 was \$145,524.

For the three months ended March 31, 2019 and 2018, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$57,475 and \$61,115, respectively.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

24

The following is the summary of changes in the Company's share options for the three months ended March 31, 2019 and year ended December 31, 2018:

	Three months ended March 31, 2019		Year ended December 31, 2018	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding - beginning of period	5,285,004	\$ 0.70	5,001,671	\$ 0.70
Granted	-	-	400,000	0.64
Exercised	-	-	(96,000)	0.30
Expired	(50,000)	0.50	(10,000)	0.85
Cancelled	-	-	(10,667)	0.30
Outstanding - end of period	5,235,004	\$ 0.70	5,285,004	\$ 0.70
Number of options exercisable	4,656,718	\$ 0.71	4,678,384	\$ 0.71

The following summarizes the Company's share options as at March 31, 2019:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price in CAD	Market price at date of grant
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
970,889	May 11, 2020	970,889	0.85	0.85
100,000	September 25, 2020	100,000	0.69	0.69
200,000	March 31, 2023	200,000	0.77	0.77
500,000	June 28, 2023	500,000	0.57	0.57
560,000	December 27, 2023	280,044	0.65	0.65
340,000	December 21, 2024	141,670	0.67	0.67
400,000	August 24, 2025	300,000	0.64	0.64
5,235,004		4,656,718		

**(d) 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.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE MONTHS ENDED MARCH 31, 2019

25

The following table presents the changes in DSUs for the three months ended March 31, 2019 and year ended December 31, 2018:

	Number of DSUs	
	Three months ended Mar 31, 2019	Year ended Dec 31, 2018
DSUs outstanding, beginning of period	2,862,202	2,515,561
Granted	91,668	346,641
Settled	(19,636)	-
Cancelled	-	-
DSUs outstanding, end of period	2,934,234	2,862,202
Number of DSUs vested	2,878,743	2,808,648

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2019 and 2018, were \$270,357 and (\$39,786), respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at March 31, 2019 and December 31, 2018 are \$1,229,219 and \$947,406, respectively.

### (e) Warrants

At March 31, 2019 and December 31, 2018, the Company has 5,000,000 Warrants outstanding. Each Warrant is exercisable for one Share at a price of \$0.85 per Share, with an expiry date of August 15, 2020.

### CONTRIBUTED SURPLUS

The following table presents the details of the changes to the contributed surplus balances as at March 31, 2019 and 2018:

	Amount
Balance, December 31, 2017	\$ 3,017,555
Fair value of share-based compensation	61,115
Balance, March 31, 2018	3,078,670
Fair value of share-based compensation	199,704
Transferred to share capital on exercise of options	(13,986)
Balance, December 31, 2018	3,264,388
Fair value of share-based compensation	57,475
Balance, March 31, 2019	\$ 3,321,863

### RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At March 31, 2019 and December 31, 2018, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.1% 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 had a loan investment of \$1,362,592 to a company controlled by the Chairman at an interest rate of 12% per annum. During the three months ended March 31, 2019 and 2018, the Company recognized interest and fees revenue of \$nil and \$43,378, respectively. On May 2, 2018, the Company received the repayment of loan and mortgage investment in full, together with accrued interest.

**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, 2019, and December 31, 2018, the loan and mortgage investments and the Debentures syndicated by officers and directors was \$469,230 and \$467,659, 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, 2019, and 2018, the Company received \$13,019 and \$17,359, 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, 2018, except for the following changes in accounting policies and disclosures and new standards adopted during the three months ended March 31, 2019, as described below. The Company's consolidated financial statements for the year ended December 31, 2018 can be found under the Company's profile at [WWW.SEDAR.COM](http://WWW.SEDAR.COM).

## (i) Change in presentation currency:

Effective January 1, 2019, the Company changed its presentation currency from the CAD to USD to better reflect the Company's business activities. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21. The effects of changes in foreign exchange rates and have applied the change retrospectively, as if the USD had always been the Company's presentation currency, as follows:

- Assets and liabilities have been translated into the USD at the rate of exchange prevailing at the respective reporting dates;
- The consolidated statements of loss and comprehensive loss were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- Equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- Exchange differences arising on translation were recorded in cumulative translation adjustment in shareholders' equity.

The exchange rates used in translation were as follows:

	March 31, 2018	December 31, 2018	January 1, 2018
At reporting date	\$ 0.7758	\$ 0.7332	\$ 0.7955
Average rate for the period	0.7906	0.7716	0.7704

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

27

(ii) IFRS 16, Leases ("IFRS 16"):

Effective 1 January 2019, the Company adopted IFRS 16. Previously, the Company classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company and classified operating lease payments as operating costs. Under IFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease obligation representing its obligation to make lease payments. The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses its incremental borrowing rate as the discount rate. The lease obligation is subsequently measured at amortized cost using the effective interest rate method, and is subsequently adjusted for interest and lease payments.

**EFFECT OF CHANGE IN PRESENTATION CURRENCY**

For comparative purposes, the consolidated statements of financial position as at January 1, 2018 and December 31, 2018 includes adjustments to reflect the change in the accounting policy resulting from the change in presentation to the USD. The amounts previously reported in CAD as shown below have been translated into USD at January 1, 2018 and December 31, 2018 exchange rates, listed above. The effect of the translation is as follows.

As at	December 31, 2018		January 1, 2018	
	USD	CAD	USD	CAD
<b>Assets</b>				
Cash and cash equivalents	\$ 7,731,379	\$ 10,543,289	\$ 2,141,966	\$ 2,691,049
Funds held in trust	1,095,669	1,494,940	2,401,781	3,014,606
Amounts receivable and prepaid expenses	1,013,935	1,347,626	1,164,074	1,463,310
Loan and mortgage investments	121,675,979	165,929,535	93,203,582	117,166,221
Investment in finance Lease	2,819,915	3,845,519	-	-
Investment properties	1,619,633	2,208,694	1,756,976	2,208,694
Portfolio investment	1,911,574	2,591,586	10,804,898	13,575,623
Interest in associates	2,146,984	2,927,842	2,329,045	2,927,842
Income taxes recoverable	195,225	178,292	239,175	300,667
Deferred income tax asset	-	-	100,456	126,283
<b>Total assets</b>	<b>140,210,293</b>	<b>191,067,323</b>	<b>114,141,953</b>	<b>143,474,295</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	3,618,067	4,933,963	4,965,980	6,236,233
Unearned income	1,303,162	1,777,129	1,197,647	1,505,576
Deferred income tax Liabilities	33,376	1,026,987	-	-
Credit Facilities	19,464,106	26,560,237	15,086,472	18,965,205
Loan and mortgage syndication	75,906,550	103,513,760	50,353,652	63,299,522
Mortgages payable	1,047,809	1,428,897	1,169,234	1,469,844
<b>Total liabilities</b>	<b>101,373,070</b>	<b>139,240,973</b>	<b>72,772,985</b>	<b>91,476,380</b>
<b>Shareholders' Equity</b>				
Share capital	26,533,950	29,801,466	28,887,862	32,864,287
Contributed surplus	3,264,388	3,893,731	3,017,555	3,573,406
Cumulative translation adjustment	(3,663,314)	-	(3,663,314)	-
Retained earnings	12,702,199	18,131,153	12,924,303	15,305,581
<b>Total shareholders' equity</b>	<b>38,837,223</b>	<b>51,826,350</b>	<b>41,166,406</b>	<b>51,743,274</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>202,562</b>	<b>254,641</b>
<b>Total liabilities and Shareholders' Equity</b>	<b>\$ 140,210,293</b>	<b>\$ 191,067,323</b>	<b>\$ 114,141,953</b>	<b>\$ 143,474,295</b>

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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

28

For comparative purposes, the consolidated statements of income and comprehensive income for the three months ended March 31, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates, listed above. The effect of the translation is as follows:

	Three months ended		Year ended	
	March 31,	March 31,	December 31,	December 31,
	2018	2018	2018	2018
	USD	CAD	USD	CAD
<b>Revenue</b>				
Interest and fees earned	\$ 2,764,354	\$ 3,497,072	\$ 13,292,451	\$ 17,258,558
Rental income	39,882	50,444	155,720	201,772
	2,804,236	3,547,516	13,448,171	17,460,330
<b>Expenses</b>				
Property operating costs	13,651	17,266	53,427	69,228
General and administrative expenses	565,668	717,937	2,775,430	3,617,616
Share based compensation	21,329	26,976	(15,828)	(27,444)
Interest expense	1,615,007	2,042,587	7,947,282	10,322,969
Loss on sale of portfolio investment	-	-	173,646	224,212
Fair value adjustment - portfolio investment	-	-	(57,413)	(75,866)
Provision on loan and mortgage investments	-	-	2,403,182	3,137,059
Provision for uncollectible receivables	-	-	134,940	186,140
Realized and unrealized foreign exchange loss (gain)	248,481	(996,047)	222,828	(3,933,646)
	2,464,136	1,808,719	13,637,494	13,520,268
<b>Income (loss) from operations before income taxes</b>	340,100	1,738,797	(189,323)	3,940,062
Income tax provision	138,335	481,406	82,110	1,169,131
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 201,765</b>	<b>\$ 1,257,391</b>	<b>\$ (271,433)</b>	<b>\$ 2,770,931</b>
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>				
Common shareholders	201,765	1,257,391	(222,104)	2,825,572
Non-controlling interest	-	-	(49,329)	(54,641)
<b>Net income (loss) and comprehensive income (loss)</b>	<b>\$ 201,765</b>	<b>\$ 1,257,391</b>	<b>\$ (271,433)</b>	<b>\$ 2,770,931</b>



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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

29

For comparative purposes, the consolidated statements of cash flows for the three months ended March 31, 2018 and year ended December 31, 2018 include adjustments to reflect the change in accounting policy resulting from the change in presentation currency to USD. The amounts previously reported in CAD as shown below have been translated into USD at the average exchange rates, listed above. The effect of the translation is as follows:

	Three months ended		Years ended	
	March 31, 2018 USD	March 31, 2018 CAD	December 31, 2018 USD	December 31, 2018 CAD
Cash provided by (used in)				
Operating activities				
Net income (loss) and comprehensive income (loss)	\$ 201,765	\$ 1,257,391	\$ (271,433)	\$ 2,770,931
Interest and fees earned	(2,764,354)	(3,497,072)	(13,292,451)	(17,258,558)
Interest expense and financing costs	1,615,007	2,042,587	7,947,282	10,322,969
Unrealized foreign exchange loss (gain)	64,205	(913,376)	26,503	(3,565,531)
Non-cash items:				
Share based compensation	21,329	26,976	(15,828)	(27,444)
Loss on sale of portfolio investment	-	-	173,646	224,212
Fair value adjustment - portfolio investment	-	-	(57,415)	(75,866)
Provision for loan and mortgage investments loss	-	-	2,403,182	3,137,059
Provision for uncollectible receivables	-	-	134,940	186,140
Income tax provision	138,335	481,406	82,509	1,169,131
Changes in working capital:				
Decrease (increase) in other receivables	83,302	73,359	(482,855)	(669,494)
Decrease (increase) in prepaid expenses and deposits	4,246	(2,032)	41,235	39,292
Increase (decrease) in accounts payable and accrued liabilities	727,318	1,033,377	223,204	475,715
Interest and fees received	1,677,363	2,064,391	8,862,839	11,484,860
Interest paid	(1,446,857)	(1,818,686)	(7,238,873)	(9,386,967)
Income taxes paid	(174,845)	(226,000)	78,367	106,514
	146,814	522,321	(1,385,148)	(1,067,037)
Financing activities				
Proceeds from loan and mortgage syndications	3,139,907	3,931,376	40,424,380	52,103,952
Repayments of loan and mortgage syndications	(2,350,623)	(2,958,787)	(15,143,072)	(19,591,954)
Repayments of mortgages payable	(8,400)	(10,828)	(33,965)	(43,803)
Proceeds from credit facilities	-	-	8,804,480	11,773,353
Repayment of credit facilities	-	-	(2,948,548)	(4,000,000)
Disposition of non-controlling interest	-	-	(153,233)	(200,000)
Proceeds from issuance of shares pursuant to share options plan	-	-	22,544	28,800
Repurchase of shares under normal course issuer bid	(593,479)	(744,373)	(2,390,442)	(3,109,488)
	187,405	217,388	28,582,144	36,960,860
Investing activities				
Funding of loan and mortgage investments	(7,147,498)	(9,005,753)	(56,851,087)	(73,491,392)
Repayments of loan and mortgage investments	4,034,194	5,056,709	28,237,829	36,661,641
Funding of investment in finance lease	-	-	(2,865,999)	(3,675,053)
Decrease (increase) in funds held in trust	(798,045)	(1,038,256)	1,261,548	1,627,530
Proceeds from sale of portfolio investment	4,880,826	6,000,000	-	-
Proceeds from sale of interest in portfolio investment	-	-	61,000	78,406
Proceeds from redemption of portfolio investment	-	-	727,858	950,000
Return of capital of portfolio investment	-	-	7,821,268	9,807,285
	969,477	1,012,700	(21,607,583)	(28,041,583)
Increase in cash and cash equivalents	1,303,696	1,752,409	5,589,413	7,852,240
Cash and cash equivalents, beginning of period	2,141,966	2,691,049	2,141,966	2,691,049
Cash and cash equivalents, end of period	\$ 3,445,662	\$ 4,443,458	\$ 7,731,379	\$ 10,543,289

## 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 unaudited 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 unaudited 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 investments, investment in associates, investment in finance lease, Convertible Note, accounts payable and accrued liabilities, lease obligation, loan and mortgage syndications and mortgage 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 Loan Portfolio, investment in finance lease, Convertible Note, mortgages payable, Loan Syndications and Credit Facilities 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, 2019 and December 31, 2018 and no amounts were transferred between fair value levels during the three months ended March 31, 2019 or 2018.

## **OFF BALANCE SHEET ITEMS**

As of March 31, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, one project loan investment to an entity controlled by the Defaulting Borrower totalling \$2,545,432 and \$2,792,998, respectively, including interest receivable and fees incurred on these loans totalling

\$364,821 and \$357,124, respectively, is in arrears. The Company expects to receive the outstanding loan and mortgage investment balance in due course.

**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.

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, 2019 are due as follows:

	Less than 1 year	More than 1 year	Total
Accounts payable and accrued liabilities	\$ 4,163,035	\$ -	\$ 4,163,035
Lease obligations	127,547	170,062	297,609
Credit Facilities (face value)	11,236,797	8,423,231	19,660,028
Mortgages payable	25,465	1,042,185	1,067,650
	\$ 15,552,844	\$ 9,635,478	\$ 25,188,322

### 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 Government of Ontario 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.

The Government of Ontario made regulatory amendments to Ontario Regulation (O. Reg.) 188/08 Mortgage Brokerages: Standards of Practice under the Mortgage Brokerages, Lenders and Administrators Act, 2006 ("MBLAA"), effective July 1, 2018. The amendments require mortgage brokerages transacting in syndicated mortgages that do not meet the regulatory definition of a qualified syndicated mortgage ("non-qualified syndicated mortgages") to, among other things: (a) the collection and documentation, on Superintendent of the FSCO approved forms, information relating to knowing the client, including information about the financial circumstances, investment needs and objectives, risk tolerance, level of financial knowledge, investment experience and relationship with the mortgage brokerage (if any) of the prospective investor/lender; (b) the completion an assessment of whether or not the proposed non-qualified syndicated mortgage is suitable for the prospective investor/lender given the information about the investor/lender in (a) and the features and risks of the proposed syndicated mortgage investment; and (c) expanded disclosures to each prospective investor/lender regarding, for example, property appraisal and, in cases where the borrower is not an individual, the financial statements of the borrower. In addition, mortgage brokerages are required to update their policies and procedures that are designed to ensure that the mortgage brokerage and its mortgage brokers and agents comply with all the requirements established under the MBLAA to be compliant with the amended regulations to now include how the mortgage brokerage will verify that an investor/lender is eligible to invest in, or make a loan in respect of, a non-qualified syndicated mortgage.

The Company is currently in the process of updating its policies and creating internal procedures along with other market participants to adopt and implement these new requirements. These regulatory amendments are not expected to have a material impact on the Company's business.

## **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 preserve the Company's capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation, and payment of dividends (from time to time as the Board considers appropriate). 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 represents a logical extension of the Company'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 objective 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. Further, the Company's ability to attract larger sources of lower cost capital will have a significant impact on the growth of its earnings

**SUBSEQUENT EVENTS**

In April 2019, the Company closed two preferred equity investments totaling \$14 million in two separate assisted living and memory care development projects located in Florida. The Company funded \$1.3 million on closing. The remainder of the investments will be made over the course of the year, in accordance with the equity requirements of the respective projects. The investments will be funded through a combination of Company's cash and funds from syndications.

In April 2019, the Company received a full repayment of a loan investment of \$5,635,144, from a U.S borrower, that had been in arrears during the three months ended March 31, 2019.

In May 2019, the Company closed and fully funded a loan investment of \$3.3 million to a residential development project located in Kitchener, Ontario.

In May 2019, the Company closed two finance lease transactions totaling \$24.5 million in two separate locations in the Austin MSA. The Company funded \$4.9 million on closing and the remainder will be substantially funded over the course of the year, subject to the projects meeting certain funding conditions. The investments will be funded through a combination of Company's cash and Credit Facilities.

In May 2019, the Company increased its Master Credit Facility with the lending institution in the U.S. to \$35 million from \$20 million, under the existing terms.



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

FOR THE THREE MONTHS ENDED MARCH 31, 2019

36

**SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION**

The following selected financial information should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the years ended December 31, 2018 and 2017 and the unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2019.

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

	As at March 31, 2019		As at December 31, 2018		As at December 31, 2017	
Total assets	\$ 143,703,737		\$ 140,210,293		\$ 114,141,953	
Total liabilities	\$ 104,807,175		\$ 101,373,070		\$ 72,772,985	
Total equity	\$ 38,896,562		\$ 39,091,864		\$ 41,368,968	
Loan and mortgage investments	\$ 121,341,337		\$ 122,209,711		\$ 118,998,984	
Loan and mortgage syndications	\$ 78,979,830		\$ 75,906,550		\$ 63,299,522	
Loan and mortgage syndications to loan and mortgage investments	65.1%		62.1%		53.2%	
	Three months ended		Years ended			
	Mar 31, 2019	Mar 31, 2018	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	
Total revenue	\$ 3,906,439	\$ 2,804,236	\$ 13,448,171	\$ 11,331,013	\$ 11,276,899	
Total expenses	\$ 3,485,410	\$ 2,464,136	\$ 13,637,494	\$ 7,171,348	\$ 8,682,187	
Income from operations before income taxes	\$ 421,029	\$ 340,100	\$ (189,323)	\$ 4,159,665	\$ 2,594,712	
Net income and comprehensive income attributable to common shareholders	\$ 297,166	\$ 201,765	\$ (271,433)	\$ 3,483,869	\$ 2,154,118	
Diluted net income and comprehensive income attributable to common shareholders	\$ 297,166	\$ 201,765	\$ (271,433)	\$ 3,483,869	\$ 2,154,118	
Adjusted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	\$ 338,718	\$ 384,399	\$ 2,487,048	\$ 1,725,041	\$ 2,047,717	
Adjusted diluted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	\$ 338,718	\$ 384,399	\$ 2,487,048	\$ 1,725,041	\$ 2,017,717	
Weighted average number of shares outstanding						
Basic	58,379,575	62,788,494	61,780,671	61,875,327	60,935,292	
Diluted	58,386,741	63,041,128	61,857,264	62,257,369	61,438,545	
Earnings per share						
Basic	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.06	\$ 0.04	
Diluted	\$ 0.01	\$ 0.00	\$ (0.00)	\$ 0.06	\$ 0.04	
Adjusted earnings per share <sup>(1)</sup>						
Basic	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	
Diluted	\$ 0.01	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.03	
(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, 2019

37

The following table sets out the Company's quarterly results of operations (as restated) for the eight quarterly periods ended March 31, 2019:

	Three months ended							
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
<b>Revenue</b>								
Interest and fees earned	\$3,868,489	\$ 3,715,513	\$ 3,619,761	\$ 3,192,824	\$ 2,764,354	\$ 2,353,548	\$ 2,836,463	\$ 2,988,175
Rental income	37,950	38,174	38,597	39,067	39,882	39,695	40,249	37,527
	3,906,439	3,753,687	3,658,358	3,231,891	2,804,236	2,393,243	2,876,712	3,025,702
<b>Expenses</b>								
Property operating expenses	13,053	13,108	13,253	13,415	13,651	13,501	13,689	12,764
General and administrative expenses	781,238	950,701	585,572	673,489	565,668	839,909	552,708	496,232
Share based compensation	327,832	(234,302)	40,320	158,167	21,329	(81,800)	281,507	(54,182)
Interest and financing costs	2,306,753	2,329,722	2,083,914	1,918,639	1,615,007	1,516,968	1,490,559	1,821,063
Provision for loan and mortgage investment loss	-	102,039	2,301,143	-	-	732,986	-	-
Provision for uncollectible receivables	-	258,707	(123,767)	-	-	1,252,662	-	-
Realized and unrealized foreign exchange (gain) loss	56,534	(79,626)	(21,954)	74,585	248,481	(240,691)	(661,437)	(681,665)
Loss on sale of portfolio investment	-	-	-	173,646	-	-	-	-
Gain on conversion of interest in joint operation	-	-	-	-	-	(1,890,931)	-	-
Fair value adjustment - portfolio investments	-	(57,413)	-	-	-	(324,690)	-	-
Share of income from investment in associates	-	-	-	-	-	(481,923)	-	-
	3,485,410	3,282,936	4,878,481	3,011,941	2,464,136	1,335,991	1,677,026	1,594,212
Income (loss) before income taxes	421,029	470,751	(1,220,123)	219,950	340,100	1,057,252	1,199,686	1,431,490
Income tax provision (recovery)	123,863	(149,303)	(9,116)	102,194	138,335	371,358	19,100	64,055
Net income (loss) and comprehensive income (loss)	297,166	620,054	(1,211,007)	117,756	201,765	685,894	1,180,586	1,367,435
Net income (loss) and comprehensive income (loss) attributable to:								
Common shareholders	297,166	620,054	(1,211,007)	68,427	201,765	685,894	1,180,586	1,367,435
Non- controlling interest	-	-	-	49,329	-	-	-	-
	\$ 297,166	\$ 620,054	\$ (1,211,007)	\$ 117,756	\$ 201,765	\$ 685,894	\$ 1,180,586	\$ 1,367,435
Diluted net income (loss) attributable to common shareholders	297,166	620,054	(1,211,007)	117,756	201,765	685,894	1,180,586	1,367,435
Adjusted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	338,718	784,479	373,226	300,206	384,399	(14,257)	694,430	866,411
Adjusted diluted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	338,718	784,479	373,226	300,206	384,399	(14,257)	694,430	866,411
Weighted average number of shares outstanding								
- basic	58,379,575	60,140,507	61,714,258	62,474,180	62,788,494	63,909,035	62,029,973	60,669,415
- diluted	58,386,741	60,182,766	61,823,145	62,630,008	63,041,128	64,369,275	62,350,838	76,051,064
Earnings (loss) per share								
Basic	\$ 0.01	\$ 0.01	\$ (0.02)	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ (0.02)	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.02	\$ 0.02
Adjusted earnings per share <sup>(2)</sup>								
Basic	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.00)	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.00	\$ 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](http://www.sedar.com).

Dated: May 15, 2019  
Toronto, Ontario, Canada