



**TERRA FIRMA CAPITAL CORPORATION**

**ANNUAL INFORMATION FORM**

**For the year ended December 31, 2019**

**April 2, 2020**

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## MEANING OF CERTAIN REFERENCES

Capitalized terms, except as otherwise defined in this Annual Information Form (the “AIF”) are defined under “Glossary of Terms”.

Except where otherwise indicated, all references to the “Company” or “Terra Firma” refers to Terra Firma Capital Corporation and, unless the context requires otherwise, its subsidiary entities.

The consolidated financial statements of the Company are presented in United States dollars, which is also the Company's functional currency. All references in this AIF to dollars, “\$” are to United States dollars and all references to “C\$” are the Canadian dollars.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Information Form constitute forward-looking information within the meaning of applicable securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments 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. Particularly, statements under “General Development of the Business of the Company – Outlook for 2020” and statements regarding the financial position, business strategy, litigation, financial results, taxes, plans, real estate values, interest rates, loan to cost ratios, plans and objectives of or involving the Company, the payment of future dividends, the impacts arising from the global disruption caused by the novel coronavirus (the “COVID-19”) outbreak on the Company, and expected IRRs, future results, performance, achievements and prospects or opportunities for the Company or the real estate industry are forward-looking statements. In some cases, forward-looking information can be identified by terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts. The Company has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that that inflation will remain relatively low, that conditions within the real estate market, including competition for real estate financing, will be consistent with the current climate, that the Canadian capital markets will provide the Company with access to equity and/or debt at reasonable rates when required. Although the forward-looking statements contained in this Annual Information Form are based upon assumptions that management of the Company believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the Company's control, that may cause the Company's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the risks outlined under “Risk Factors” herein, which includes risks related to: real estate financing; competition for real estate financing; real estate values; interest rate fluctuations; government regulations; environmental matters; catastrophic events, natural disasters, severe weather and disease; and the general economic environment; the Company and its business (access to capital, financing risk, taxation matters, potential conflicts of interest with Directors, general insured and uninsured risks, IFRS and litigation risks); and the Shares (volatile market price for Shares, return on investment not guaranteed, dilution, Shareholder liability, and nature of investment).

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

## GLOSSARY OF TERMS

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

“**AIF**” means the Company’s Annual Information Form.

“**Associates**” means those entities over which the Company is able to exert significant influence, but which are neither subsidiaries nor interests in a joint venture.

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

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

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

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

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

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

“**Credit Facilities**” means the Revolving Operating Facility and a Master Credit Facility.

“**Credit Facility**” means the Master Credit Facility.

“**Debentures**” means, means the 7.0% convertible unsecured subordinated debentures of the Company that were issued on September 29, 2014, with a maturity date of September 27, 2017.

“**Defaulting Borrower**” has the meaning ascribed thereto under “General Development of the Business of the Company – Outlook for 2020”.

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

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

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

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

“**Great Gulf**” means GG North America Investments Limited Partnership, a member of the Great Gulf Group of companies.

“**Hill**” means the Company’s wholly owned subsidiary Terra Firma Capital (Hill) Corporation.

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

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

**“Investment in Finance Lease”** means, the accounting for land banking transaction, whereby the company purchase a tract of land, and simultaneously enter into an option agreement with the home builder, pursuant to which the home builder would purchase smaller parcels of the initial tract from the Company over time at a specified price, until it had purchased the entire initial tract.

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

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

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

**“Lan Partnership”** means the partnership interest in the 668 unit high-rise condominium project located in Toronto, Ontario.

**“Lan Project”** means the 668 unit high-rise condominium project located in Toronto, Ontario.

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

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

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

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

- A = the principal amount of the mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the real estate, and
- B = the appraised market value of the real estate securing the mortgage at the time of funding the mortgagor or in a more recent appraisal, if available.

**“LOC”** means the secured line of credit with a lending institution in the U.S., for \$40 million. The LOC provides for an increase in the limit to \$50 million over time, subject to approval by the lender.

**“Master Credit Facility”** means the credit facility governed by the Revolving Guidance Facility Agreement with a lending institution in the U.S., for a Master Facility for US\$20 million to finance the loan and mortgage investments. The Master Facility will expire thirty-six months from the date of the applicable project loan is advanced, unless otherwise approved by lender.

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

**“Montreal Street JV”** means co-ownership of a retail property in Ottawa, Ontario.

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

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

**“Offered Securities”** means any equity or voting securities, or securities convertible into or exchangeable, exercisable or redeemable for equity or voting securities, of the Company.

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

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

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

**“Revolving Operating Facility”** means the credit facility governed by the Revolving Operating Facility Credit Agreement with a financial institution, as amended, currently being for a \$20 million secured revolving loan facility, maturing on November 1, 2019.

**“Royal Palm Partnership”** means the partnership interest in the assisted living development project located in Royal Palm Beach, Florida.

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

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

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

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

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

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

**“Superintendent”** means the Superintendent of FSCO.

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

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

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

**“TFVC”** means the Company’s wholly owned subsidiary Terra Firma (Valermo) Corporation

**“TSX”** means the Toronto Stock Exchange.

**“TSX-V”** means TSX Venture Exchange.

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

“**Valermo Homes JV**” means a co-ownership of a development project located in Etobicoke, Ontario.

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

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

## CORPORATE STRUCTURE

### Name, Address and Incorporation

Terra Firma Capital Corporation was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The Shares of the Company trade on the TSX-V under the symbol TII. The head and registered office of the Company is located at 22 St. Clair Avenue East, Suite 200, Toronto, Ontario, M4T 2S5.

### Inter-corporate Relationship

The following table provides the names of the Company’s subsidiaries, the percentage of issued and outstanding voting securities of each subsidiary beneficially owned, or controlled or directed, directly or indirectly, by the Company, as at December 31, 2019, the nature of each subsidiary and the jurisdiction of incorporation of the subsidiaries.

Name of Subsidiary	Percentage of Voting Securities	Nature of Entity	Jurisdiction of Incorporation
Terra Firma MA Ltd.	100%	Corporation	Ontario
Terra Firma Queen Developments Inc.	100%	Corporation	Ontario
TFCC International Ltd.	100%	Corporation	Ontario
Terra Firma Capital (Hill) Corporation	100%	Corporation	Ontario
TFCC LanQueen Ltd.	100%	Corporation	Ontario
Terra Firma (Valermo) Corporation	100%	Corporation	Ontario
TFCC USA.LLC	100%	Corporation	Delaware, USA
TFCC Kempston Place LLC	100%	LLC	Georgia, USA
SRL Georgia Holdings LLC	100%	LLC	Delaware, USA
TFCC USA II Corporation	100%	Corporation	Delaware, USA
TFCC Saul's Ranch LLC.	100%	LLC	Delaware, USA
TFCC Wilson Trace LLC	100%	LLC	Delaware, USA
TFCC Delray Inc..	100%	Corporation	Delaware, USA
TFCC San Pablo LLC	100%	LLC	Delaware, USA



## GENERAL DEVELOPMENT OF THE BUSINESS OF THE COMPANY

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

### Three Year History

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

The Company has increased its Investment Portfolio from \$73.3 million on December 31, 2016, to \$109.5 million, \$130.7 million and \$142.2 million, respectively, on December 31, 2017, December 31, 2018 and December 31, 2019. This growth was funded through increase in Loan Syndications (\$41.8 million at December 31, 2016, \$48.0 million at December 31, 2017, \$75.9 million at December 31, 2018 and \$88.2 million at December 31, 2019) from drawings under the Company's Credit Facilities (\$5.5 million at December 31, 2016, \$14.1 million at December 31, 2017 and \$8.8 million at December 31, 2018 and \$9.2 million at December 31, 2019), while the Company repaid all outstanding Debentures on September 12, 2017 (an aggregate principal amount of C\$10,850,000 plus all accrued and unpaid interest owed).

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

### 2017

#### *Highlights as at and for the year ended December 31, 2017*

- The Investment Portfolio totaled \$109.5 million.
- For the year ended December 31, 2017, the Company's net income and comprehensive income attributable to Shareholders was \$1,182,950 or \$0.19 per basic and diluted Share.
- The principal balance of the Loan Portfolio as at December 31, 2017 was \$109,546,689. During the year ended December 31, 2017, the Company funded \$79,545,380 of Loan Portfolio, including capitalization of interest of \$5,492,456 and conversion of deposits to Loan Portfolio of \$2,425,020.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2017 were 14.1% and 1.85 years, respectively.
- On May 5, 2017, 1,014,713 broker warrants, granted to underwriters as partial consideration for their services associated with the bought deal prospectus offering of shares completed on May 15, 2015 expired unexercised.
- On June 30, 2017, the TSX-V approved the amendment to the NCIB to increase the number of Shares that the Company may acquire under the NCIB by an additional 2,861,119 Shares. During the year ended December 31, 2017, the Company purchased and cancelled 2,391,400 Shares on the TSX-V for \$1,238,503 (C\$1,601,469). See "DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE – Shares".
- On August 15, 2017, the Company amended the Revolving Operating Facility Credit Agreement, primarily to increase the credit limit to C\$20,000,000 and to extend the maturity date to March 1, 2018. The Amendment also provides the Company an option to extend the Facility for a subsequent six months from the maturity date. Pursuant to the amended agreement, the Facility carries an interest at the rate 9.5% per annum until the expiry of the extension period and 12% per annum thereafter. 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.

- In August 2017, the Company completed a non-brokered private placement offering consisting of 5,000,000 units (the "Units") at a purchase price of C\$6.50 per Unit, for gross proceeds of \$2,548,020 (C\$3,250,000) to GG North America Investments Limited Partnership, a member of the Great Gulf Group of companies ("Great Gulf"). Each Unit is comprised of one Share and one Warrant. Each Warrant is exercisable for one Share at a price of C\$8.50 per Share, with an expiry date of August 15, 2020. In connection with the closing of the private placement, Jerry Patava, Chief Executive Officer of the Great Gulf Group of Companies, was appointed to Terra Firma's Board.
- On September 12, 2017, the Company repaid in cash, all outstanding Debentures in aggregate principal amount of C\$10,850,000 plus all accrued and unpaid interest owed.
- On December 28, 2017, the Company and the co-owner of the Valermo Homes JV entered into a Valermo LP Agreement and agreed to transfer their respective interest in the Valermo Homes JV into the Valermo Partnership and hold their respective interests as limited partners of the Valermo Partnership on the terms and conditions set out in the Valermo LP Agreement. The Company recognized an unrealized gain on conversion of interest in joint operations to limited partnership interest in Valermo Partnership of \$1,890,931.
- During the year ended December 31, 2017, the Company recognized a specific impairment provision of \$732,986 and an allowance for uncollectible interest receivable and other receivable of \$1,252,662 relating to the loan investments in arrears.
- The Company expanded its investments into key markets in the United States in 2017. As at December 31, 2017, 77.1% of the Company's total Investment Portfolio was secured by real estate assets located in the U.S.

## 2018

### *Highlights as at and for the year ended December 31, 2018*

- The Investment Portfolio totaled \$130.7 million.
- For the year ended December 31, 2018, the Company's net income and comprehensive income attributable to Shareholders was \$2,215,783 or \$0.36 per basic and diluted Share.
- The principal balance of the Loan Portfolio as at December 31, 2018 was \$122,209,711. During the year ended December 31, 2018, the Company funded \$61,623,862 of Loan Portfolio, including capitalization of interest of \$3,738,040.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2018 were 13.7% and 1.67 years, respectively.
- On November 23, 2018, following the expiry of the NCIB on November 26, 2018, the Company renewed the NCIB 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. During the year ended December 31, 2018, the Company purchased and cancelled 5,236,014 Shares on the TSX-V for \$2,390,441 (C\$3,109,488). See "DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE – Shares".
- On September 4, 2018, the Company amended the Revolving Operating Facility Credit Agreement, to extend the maturity date to April 1, 2019. The Amendment also provides the Company an option to extend the Facility for a subsequent six months from the maturity date. Pursuant to the amended agreement, the Facility carries an interest at the rate 9.5% per annum until the expiry of the extension period and 12% per annum thereafter.

- During the year ended December 31, 2018, the Company provided an allowance for loan loss of \$2,403,182 and an allowance for uncollectible interest and other receivable of \$134,940 and subsequently wrote-off \$3,108,435 of loans and \$602,853 of interest and other receivables, relating to the loan investments in arrears.
- The Company further expanded its investments into key markets in the United States in 2018. During the year ended December 31, 2018, all of the new investments made by the Company were in the United States. As at December 31, 2018, 86.0% of the Company's total Investment Portfolio was secured by real estate assets located in the U.S.
- During the year ended December 31, 2018, the Company entered into its first land banking transaction, whereby the company purchased a tract of land, and simultaneously entered into an option agreement with the home builder, pursuant to which the home builder would purchase smaller parcels of the initial tract from the Company over time at a specified price, until it had purchased the entire initial tract.

## 2019

### *Highlights as at and for the year ended December 31, 2019*

- Effective January 1, 2019, the Company changed its functional currency and reporting currency from Canadian dollar to the United States dollar.
- The Investment Portfolio totaled \$142.4 million.
- For the year ended December 31, 2019, the Company's net income and comprehensive income attributable to Shareholders was \$3,077,757 or \$0.54 per basic and diluted Share.
- The principal balance of the Loan Portfolio as at December 31, 2019 was \$116,680,520. During the year ended December 31, 2019, the Company funded \$51,551,400 of Loan Portfolio, including capitalization of interest of \$4,981,911.
- The Weighted Average Effective Interest Rate and Weighted Average Remaining Term to Maturity of the Loan Portfolio as at December 31, 2018 were 13.2% and 1.37 years, respectively.
- During the year ended December 31, 2019, the Company entered into three Investment Finance Leases and funded for these and existing finance lease totaling \$23,518,262.
- During the year ended December 31, 2019, the Company purchased and cancelled 298,550 Shares on the TSX-V for \$1,250,607 (C\$1,624,538). The Renewed NCIB commenced through the TSX-V on November 21, 2018 and concluded on November 26, 2019, being the expiry date of the Renewed NCIB. See "DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE – Shares".
- On April 1, 2019, the Company extended the term of the Facility for another seven months for a maturity date to November 1, 2019. On December 2, 2019, the Company repaid the Facility plus all accrued and unpaid interest in full and terminated the Facility Agreement. The Facility carried an interest rate of 9.5% per annum until one month prior to the maturity date and any unpaid balance one month prior to the maturity date would have carried an interest rate of 12% per annum, until repaid.
- During the year ended December 31, 2018, the Company provided an allowance for loan loss of \$226,108, relating to the loan investments in arrears.
- During the year ended December 31, 2019, 91.8% of the new investments made by the Company were in the United States. As at December 31, 2019, 84.7% of the Company's total Investment Portfolio was secured by real estate assets located in the U.S.
- On March 24, 2019, the courts approved a settlement between the Company and the Israeli Functionary in connection with a claim brought in the Defaulting Borrower's insolvency. The agreement did not include any cash payment or other consideration by the Company.

- On June 12, 2019, the Company announced that as part of the Company’s long-term strategy to maximize shareholder value, the Board has approved the implementation of a dividend policy. See “DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE – Shares”.
- On September 20, 2019, the Company consolidated its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. See “DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE – Shares”.

### **Significant Acquisitions**

There were no significant acquisitions completed by the Company in the most recently completed financial year.

### **Outlook for 2020**

On January 14, 2020, the Company entered into a \$40,000,000 secured LOC with Texas Capital Bank. The LOC replaced the Revolving Guidance Facility Agreement the Company had with Texas Capital for a \$35,000,000 Master Facility. The LOC provides for an increase in the borrowing limit to \$50,000,000 over time subject to approval by Texas Capital.

On February 14, 2020, the Company announced that it has appointed Mr. Y Dov Meyer as an Executive Chairman of the Board, effective February 14, 2020, replacing John Kaplan, who has been a Chairman since 20103. Mr. Meyer previously served as an Executive Vice Chairman and prior to that as the former Chief Executive Officer of the Company.

Management believes that there is a significant market opportunities on the U.S. for the Company to expand its presence; to identify financing needs not being met by traditional institutional lenders and to create customized financing solutions for borrowers; however, it continues to be prudent in its approach to selecting new investments and pricing.

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 Investments made in the U.S market has offered risk/return profiles as good as or better than those that were available in the Canadian market. The yields on the land and lot inventory loans in U.S. are high on a risk adjusted basis, ranging between 11% and 12% for LTVs up to 75%. As such, the Company will continue to focus primarily on providing higher leveraged loans (up to 80% LTV) on development lands in the U.S. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts versus taking a proactive approach to generating a greater pipeline of potential transaction. It is anticipated that this trend will continue in the near term.

At December 31, 2019, one loan investment totaling \$2,478,758, including interest receivable and fees paid on such loan totaling \$374,911, to a project owned by an entity controlled by a borrower of the Company (the “Defaulting Borrower”) is in default. The Company expects to collect the loan and mortgage investment and related receivables during the current year.

As at the date of the AIF, the outbreak of the COVID-19, in many countries continues to adversely impact global activity and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified, many countries including the U.S. and Canada have reacted by instituting public health measures, including quarantines and restrictions on travel. The outbreak could have a sustained adverse impact on economic and market conditions and could adversely impact the Company including by disruptions, labour shortages and/or restricted availability of the management team, project delays, an inability to monetize the value of the Company’s existing portfolio of investments due to declines in real estate values and/or difficulty accessing debt and equity capital. The extent of the impact will vary depending on the duration of the restrictions and general economic activity in the U.S. and Canada. The occurrence of such events may not release us from performing our obligations to third parties.

While the Company engages in emergency preparedness, including business continuity planning, to mitigate risks, the rapid development and fluidity of this situation limits the Company's ability to predict the ultimate adverse impact of the COVID-19 on the Company. The pace of the recovery following the pandemic cannot be accurately predicted at this time. As such, there can be no assurance that our operations and ability to carry on business will not be disrupted. Any of the aforementioned events in isolation or in combination, could have a material negative impact on the Company's performance, financial condition, results of operations and cash flows.

## **BUSINESS OF THE COMPANY**

### **General**

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments in Canada and throughout the United States on a project by project basis. These financings are made to real estate developers and owners who require shorter-term loans to bridge a transitional period of one to five years where they require capital at various stages of development or redevelopment of a property, for such development or redevelopment, property repairs or the purchase of investment property. These loans are typically repaid with lower cost, longer-term debt obtained from other financial institutions once the applicable transitional period is over or the redevelopment is complete, or from proceeds generated from the sale of the real estate assets.

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

The Loan and Mortgage Investments generally take the form of:

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

These financings generally represent loan to cost ratios of up to 80% and Loan-to-Value ratio of 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases, the loan to cost ratio and/or the Loan-to-Value ratio could increase to 90%.

The Company also provides land banking financings, in which the Company enters into a to fixed term contractual arrangements with builders whereby the Company acquires land for residential housing development from a third party and provides builders with the exclusive right to use and develop the land. The Company also enters into a fixed price contract with builders to complete all required development of the land based upon a fixed construction budget. The Company commits to making additional investments for development of the land, subject to builders meeting certain funding conditions. Simultaneously, the Company enters into an option agreement with the builders, pursuant to which the builders have option to acquire smaller parcels of the initial tract from the Company over time at a pre-determined price and in accordance with the scheduled closing dates to build residential units, until it had purchased the entire initial tract. Builders provide the Company a non-refundable deposit at each time of the closing of each acquisition. The builder's deposits are applied on a lot-by-lot basis, on acquisition of the lots by the builders.

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 generally provide a minimum return and/or a share of remaining net cash flow from projects, and may be done as strategic partnership with established developers to pursue the development of real properties in the form of Joint Arrangements or Joint Operations or an equity investment by the Company in an entity that carries on the business of real estate development, in the form of Portfolio Investments or Interest in Associates. The Company generally provides these equity-type financing in the form of equity in the entity that holds the real estate asset. When making an equity investment, the Company generally 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.

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

The Company assesses its return profile to overlay the returns of equity investors while the risk profile overlays the risk profile of other mezzanine lenders.

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

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

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

Customized financing solutions offered by the Company are secured by quality assets that involve customized features such as interest accrual, early repayment options and profit participation. This customization warrants higher yields than standard bank mortgages and senior mortgages, closer to equity returns without the risk and volatility associated with equity investments. To maintain a stable interest yield on the Loan Portfolio, the Company manages risk through diversification, conservative underwriting and diligent and proactive servicing.

The Company’s primary sources of revenue include interest income derived from its Loan and Mortgage Investments on a project by project basis as well as income earned from (i) Commitment Fees (a one-time fee, paid by a borrower to the Company in return for obtaining a commitment for loan or mortgage financing, stated either as a fixed dollar amount or a percentage of the principal amount of the loan or mortgage, and generally is paid at the time of initial funding), (ii) Syndication Spread (the difference between the interest collected from the borrower on the third party investor in a senior loan syndication’s portion of the mortgage and what the third party investor charges as interest for their portion of the mortgage), and (iii) Profit Participation Fees (a one-time fee, paid by certain borrowers to the Company, and is stated as a fixed dollar amount, and generally is paid at the end of the term of the loan or from proceeds from the sale of the related development project), finance income on the net investment in the finance leases is recognized using the interest rate implicit in the respective leases. And the share of income earned from equity investments.

The Loan Portfolio is sourced through the syndication of certain Loan and Mortgage Investments to both private investors and to financial institutions. 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. In these investments, the investors assume the same risks associated with the specific investment transaction as does 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.

### **Objectives of the Company**

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 considers appropriate). In order to achieve this objective, the Company originates, creates and manages a diversified portfolio of loan and equity financings on real properties situated in the United States and Canada.

## **U.S. Operations**

Though the Company's primary activities are carried out in Canada, it also has certain U.S. operations. The Company's U.S. operations are limited to financings secured by Real Property situated in the United States and in connection with its lot/land banking transaction, owning Real Property situated in the United States.

## **Specialized Skill and Knowledge**

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

## **Cycles**

The Company does not experience significant seasonality, and originations of new mortgages tend to occur on a fairly consistent basis over the entire year. Loan origination volumes may be affected by the level of real estate development and the availability of capital from other real estate financing companies. The business of the borrowers to which the Company lends and invests in is cyclical and, inherently, the Company is therefore exposed to such cyclicity.

## **REAL ESTATE LENDING**

### **Lending Market in U.S.**

The real estate lending market in the U.S. shares many of the same characteristics as the Canadian real estate lending market, as outlined below. In the most populated cities in the U.S., major financial institutions compete for the tier-one, high volume, secured or insurable loan opportunities with an oversupply of capital to opportunities. In all other markets, the traditional U.S. financial institutions have underserved borrowers who require some form of short-term financing in the transitional phase of the real estate investment/development process, which phase can include the acquisition, development or re-positioning of real estate or a portfolio of real estate to add value to the investment prior to obtaining long-term financing. In these markets, there exists a demand for Real Property mortgage loans for mid-tier development and construction projects. In these markets, alternative lenders compete for lower volume development and construction loan opportunities with an abundant opportunity to appropriately priced capital. However, many of these alternative lenders have either ceased or reduced operations after the 2008-2009 global credit crisis while institutional lenders have dramatically limited the types of mortgage loans they will consider. Consequently, the U.S. market represents a logical extension of the Company's existing operations into a similar market, although the Company's approach in the U.S. is more selective than in Canada.

### **Lending Market in Canada**

The real estate lending market in Canada (and U.S.) can be segmented into three categories according to the track record and creditworthiness of the borrower and the value of the property.

The first category of the mortgage market consists of high-quality borrowers and often Loan-to-Value ratios which are relatively low. This market, known as the Conventional Mortgage market, is well served by conventional lenders such as banks, life insurance companies, and other institutional lenders. There is strong competition among the conventional lenders in this market segment and consequently the expected yields available to lenders on these mortgages are relatively low. This category is not the source of a material component of the Company's business.

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

The third category of the mortgage market consists of borrowers and loans which do not fall into the first or second categories described above but represent an acceptable level of underwriting risk. Conventional lenders normally do not participate in this category of the mortgage market because either the borrower or some other specific factors relating to the loan do not fit their lending criteria. Traditional financial institutions have particularly

underserved borrowers who require some form of short-term financing in the transitional phase of the real estate investment process, which phase can include the acquisition, development or re-positioning of real estate or a portfolio of real estate to add value to the investment prior to obtaining long-term financing. The traditional financial institutions do not typically provide financing to this market segment due to the short-term nature of the mortgages and the limited size of the loans. This market segment is very fragmented as it is serviced by a large number of smaller lenders who are not widely known or easily accessible. The Company believes that this demand/supply imbalance creates an opportunity for the Company to achieve significantly higher yields than are available to the lenders in the first category. Many of the borrowers in this category are willing to pay higher rates for timely access to funds and to secure a more flexibly structured mortgage than the major lending institutions are willing to provide. Once the transitional phase of the underlying property is complete, the properties can be refinanced with longer-term, lower interest mortgage loans from traditional financial institutions.

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

### **Licensing and Legislative Regime**

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

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

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

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

See "RISK FACTORS – Risks Related to the Industry – Change in Legislation".



## TARGETED INVESTMENTS

### General

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

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

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

Over the past few years, the Company has provided over \$596 million in capital in various types of structures to this segment of the real estate market. In addition, the Company has also arranged senior loans with financial institutions for its borrowers. As a result, the Company has gained sufficient traction in building its platform, brand and reputation, while also establishing itself as a premier non-bank lender of choice in Ontario.

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

### Loans and Mortgage Investments

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

#### *Developer Land and Lot Inventory Loans*

Developers who require financing to acquire infill land or lot inventory to develop low rise, midrise and high-rise development projects have fewer financing options available to them as the small scale of these types of projects are of limited appeal to larger financial institutions. Developers need this financing for the acquisition of the land and the installation of roads, drainage and sewage systems, utilities and similar improvements. The Company specializes in providing land and lot inventory loans and development financing to developers and builders, primarily for well positioned infill locations, which can be developed in a 12 to 36-month period. When structuring these types of financings, the Company considers: (i) the experience of developers; (ii) the location; (iii) profitability; (iv) the affordability of price points; (v) the prior acceptance of the product in the market; and (vi) the exit strategy for the Company. The Company finances these real properties either in the form of First Mortgages or Second Mortgages, with a forecasted completion timeframe of 18 to 30 months, which effectively limits the exposure to changing market conditions. The Company generally will not consider loans against land and lot inventory where developers have no plans to commence development of the land within 12 months to 24 months. The Company may co-invest with a third-party investor or investors in an investment. The Company may also take a junior portion of a Mortgage, meaning that the Company will agree to be subordinate to those investors in terms of priority of payment, but will earn a higher interest rate for doing so, commensurate with the additional risk.

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

Mortgage lending in the Canadian and U.S. multi-family residential investment property market is dominated by the large financial institutions, including the Schedule I banks, life insurance companies and pension funds. These institutions, along with Canada Mortgage and Housing Corporation, in Canada, focus on stable assets with consistent operating history. A large segment of the market is either not serviced by traditional bank lending or is conservatively

leveraged. Limited availability of capital from conventional lenders gives the Company the opportunity to provide First Mortgage and Second Mortgage financings.

In some cases, the Company offers short-term Bridge Financing loans to experienced real estate developers and investors. These loans, generally ranging between 6 months to 3 year periods, are used for capital improvements or implementing efficiencies that increase the value of an investment property, thereby enabling the borrower to defer arranging longer-term financing until conditions warrant more favourable financing terms with the traditional banks or purchase another investment property. Bridge loans typically bear higher rates of interest than traditional debt financing. Interest rates vary depending on the borrower, Real Property location, Real Property type and LTV ratio.

#### *Mezzanine and subordinated debt financing*

The provision of mezzanine or subordinated debt financing for residential and commercial development projects in Canada is highly fragmented. There are few institutional providers of this specialized form of financing for developers, and the capital providers are typically small private entities with limited access to large amounts of capital. Given the lack of participation from the larger financial institutions, there is little competition in this market segment, which gives the Company the opportunity to underwrite well-structured, secure mortgages and unregistered loans with attractive pricing. The Company may make loans that are secured by the developer's interest in the entity that is developing the Real Property. The Company will earn higher rate of return than that of a first Mortgage on the Real Property, which is commensurate with the greater risk of a loan.

#### **Land banking**

The Company provides land/lot 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 a 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. During the holding period and until the final take down of lots, the home builder shall also pay the Company on a monthly basis in arrears an option payment calculated at the rate generally between 10.0% and 12.0% per annum on the Company's total outstanding investment in the project, including the acquisition cost, but net of home builder's deposit received at time of closing of the acquisition of land. The Company recognizes the receipts as finance income during the term of the agreement. For land and development, the Company will also enter into a maximum price construction contract with the same home builder to complete the improvements based upon an agreed and fixed construction budget. The construction contract provides the Company to make construction advances as required. The home builder is responsible to complete the improvements at the price as agreed, regardless whether the home builder proceed with the purchase under the option agreement. The residential developer's deposit will be credited on a lot by lot basis. The investment in the land/lot banking arrangement through the purchase of land along with the Company's agreements, comprising series of related transactions under the landing banking arrangements that do not result in a legal form of a lease but conveys the right to use the asset in return for a payment or series of payments is accounted for by the Company as an investment in finance lease.

#### **Equity-type financing and Joint Arrangements**

The Company provides equity-type financings to experienced local or regional developers in Canada and U.S. These financings generally provide a minimum return and/or a share of remaining net cash flow from projects, and may be done as a strategic partnership established with established developers to pursue the development of real properties (Joint Arrangements, Joint Operations) or an equity investment by the Company in an entity that carries on the business of real estate development (Portfolio Investments, Investments in Associates). When making an equity investment, the Company generally prefers to invest in the form of preferred equity investment in a limited partnership which ranks the Company ahead of the developers' or owners' equity in the project, whereby, providing the Company with the capital protection. Usually, the Company will also be entitled to split the profit from the project on a predetermined basis after the project making distributions to other partners for preferred rate of return on their respective capital advances and the capital advanced.

## INVESTMENT PORTFOLIO

The Company provides real estate financings based on disciplined underwriting criteria that include reviewing appraisals, market assessments, environmental and geotechnical reports, background checks and the net worth of its borrowers, etc. These criteria are all compiled into an underwriting report for each mortgage that is prepared internally by the Company's management. The Investment Portfolio is sourced and underwritten internally by the Company. Based on the underwriting report, the Investment Committee then determines whether each investment in the Investment Portfolio meets the objectives and investment policies of the Company.

At December 31, 2019, the Investment Portfolio included 18 Loan and Mortgage Investments, a Joint Arrangement in one property, a joint arrangement in a development property, and a Portfolio Investments and Interest in Associates in four development properties. See "INVESTMENT PROCESS – Investment Strategy".

The following is an overview of the Investment Portfolio held by the Company as at December 31, 2019 and 2018:

	<b>December 31, 2019</b>	<b>%</b>	<b>December 31, 2018</b>	<b>%</b>
Mortgages.....	\$ 114,576,673	80%	\$ 119,479,713	92%
Unregistered loans.....	2,243,909	2%	2,729,998	2%
Total Loan Portfolio <sup>(1)</sup> .....	\$ 116,820,582	82%	\$ 122,209,711	94%
Investment in finance leases.....	17,959,374	13%	2,819,915	2%
Portfolio investments .....	2,042,937	1%	1,911,574	1%
Investments in Associates .....	3,097,947	2%	2,146,984	2%
Investment property held in joint operations.....	1,700,303	1%	1,619,633	1%
Convertible note receivable.....	800,531	1%	–	–
Total Investment Portfolio <sup>(1)</sup> .....	<u>\$ 142,421,674</u>	<u>100%</u>	<u>\$ 130,707,817</u>	<u>100%</u>

(1) December 31, 2019 and 2018, before deducting the allowance of loan and mortgage investment loss of \$607,940 and \$533,732, respectively.

At present, as the U.S. market continues to offer good quality lending opportunities while the price competition among lenders in the Canadian market remains quite strong. Responding to certain U.S. market opportunities provides the Company with increased flexibility to go underweight in pricier real estate markets and overweight in more attractive regions, thereby improving diversification and further stabilizing Loan Portfolio performance and reducing risk. This is of particular importance at present, as the fundamentals for real estate investment and development remain favourable in the U.S., the Canadian market is at a higher point in the real estate cycle and showing signs of softness. On a comparative basis, at the present time, U.S. transactions being funded by the Company have risk/return profiles as good as or better than those currently available in the Canadian market. Previously, the Company has made its Loan and Mortgage Investments on real estate located primarily in the Greater Toronto Area and other Ontario urban centres that are in close proximity to the Company's offices and with which the Company's management is familiar. The Greater Toronto Area and other Ontario urban centres contain a sizeable portion of Canada's population and a well-diversified industry base. Beginning in 2015, the Company began a gradual program to expand its reach to other job driven markets with high levels of population growth in North America, following the same prudent lending standards it historically had employed in Canada.

Except for the Loan and Mortgage Investment that is currently in arrears, the Investment Portfolio as at December 31, 2019 is representative of the types of Loan and Mortgage Investments, Joint Arrangements, Investments in Associates and Portfolio Investments in which the Company invests.

The following table presents the value and percentage of the Company's Investment Portfolio segmented by geography as at December 31, 2019 and 2018:

	<b>December 31, 2019</b>	<b>%</b>	<b>December 31, 2018</b>	<b>%</b>
Canada.....	\$ 21,787,665	15%	\$ 18,308,775	14%
United States .....	120,634,009	85%	112,399,042	86%
Total Investment Portfolio <sup>(1)</sup> .....	<u>\$ 142,421,674</u>	<u>100%</u>	<u>\$ 130,707,817</u>	<u>100%</u>

(1) December 31, 2019 and 2018, before deducting the allowance of loan and mortgage investment loss of \$607,940 and \$533,732, respectively.

## **Loan Portfolio**

The Company's Loan Portfolio as at December 31, 2019 consisted of the following: (a) 9 loans relating to residential housing developments, located in Phoenix-Arizona, Toronto-Ontario, and Cambridge-Ontario, representing 34.2% of the Loan Portfolio (by investment amount), (b) 8 loans relating to land and lot inventory of real estate assets to be developed, located in Orlando-Florida, Austin-Texas, Jacksonville-Florida, Phoenix-Arizona, Charlotte-North Carolina, Atlanta-Georgia and Savannah-Georgia, representing 61.7% of the Loan Portfolio (by investment amount) and (c) a commercial retail development land located in Palm Springs-California, representing the remaining 4.1% of the Loan Portfolio (by investment amount)..

As at December 31, 2019, the Loan Portfolio carried a weighted average effective interest rate of 13.2%. While there can be no assurance that the Weighted Average EIR on the Loan and Mortgage Investments will be representative of interest yields to be obtained on the Company's future Loan and Mortgage Investments, management anticipates that the aggregate IRR on the Company's Loan and Mortgage Investments will continue to be in excess of 13%, based on the performance of the Investment Portfolio and the historical performance of the Loan and Mortgage Investments originated and serviced by the Company in the last three years.

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

At December 31, 2019, a project loan investment totalling \$2,478,758 including interest receivable and fees paid incurred relating to collection of this loan totalling \$374,911, to a project owned by an entity controlled by the Defaulting Borrower is in default. The Weighted Average Effective Interest Rate of the loan in default at December 31, 2019, was 17.8%. As at December 31, 2019, based on the most recent valuations of the underlying assets and managements estimates, the Company carries \$226,108 of allowance for loan provision balance for this loan. As at December 31, 2019, the Company also carries an allowance for uncollectible interest and other receivable of \$263,287 relating to this loan and mortgage investment.

For the year ended December 31, 2019, the Company recorded an allowance for loan loss of \$226,108, relating to the loan investments in arrears. In addition, for the year ended December 31, 2019, the Company recorded a recovery Loan and Mortgage Investment loss of \$151,900. At December 31, 2018, the Company carries an allowance for Loan and Mortgage Investment loss balance of \$607,940. The Company believes that adequate allowance has been established to cover any potential losses.

## **Investment in finance leases**

The Company entered into three fixed term contractual arrangement with builders whereby the Company acquired land for residential housing development from a third party for a total cash consideration of \$17,439,593 and provided the builders with the exclusive right to use and develop the land. The Company is committed to make additional investments of \$18,514,057 for development of the lands, subject to the builders meeting certain funding conditions. During the year ended December 31, 2019, the Company made additional investments of \$11,762,319 for development of the lands. The Company also entered into a fixed price contract with the same builders to complete all required development of respective lands, based upon a fixed construction budget. Under this arrangement, the builders have an option to acquire the developed lands in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. The builders provided the Company a non-refundable deposit of \$5,683,650 and the Company paid \$11,755,943 at the time of the closing of the acquisition of the lands. The builder's deposits are being applied on a lot-by-lot basis, upon acquisition of the lots by the builders. At December 31, 2019, the Company had four such arrangements with builders.

## **Investment in Associates**

Associates are entities in which the Company has significant influence, but has no control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognized initially at cost.

The Company, together with certain syndicate investors, have invested in Lan Project through equity in the Lan Partnership. At December 31, 2019, the Company's share of investment in the Lan Partnership was C\$2,315,514. At December 31, 2019, the Company's share of investment in the Lan Partnership, after taking into account of sale of part of its interest in the Lan Partnership, was \$2,227,442..

The Company and its subsidiary TFCC International, together with certain syndicate investors, has invested in Royal Palm Preferred Investment LLC, to develop an assisted living development project located in Royal Palm Beach, Florida. At December 31, 2019, the Company's share of investment in the Royal Palm Partnership was \$870,505.

### **Portfolio Investments**

The Company and its subsidiary, TFCC LanQueen, entered into a partnership agreement, whereby TFCC LanQueen is committed to invest in a redevelopment project located in Toronto, Ontario. The cost and fair value of the investment, as at December 31, 2019, were \$1,264,208 and \$2,001,936, respectively.

The Company and its subsidiary, TFCC International, entered into a partnership agreement, whereby TFCC International is committed to invest U.S. \$2,000,000 through Savannah Partnership in a development project located in Savannah, Georgia. The Company subsequently sold 79.5% of its interest in the partnership to syndicated investors. The cost and fair value of the investment, as at December 31, 2019, were \$41,000.

The Company and its subsidiary, Terra Firma Valermo Corporation, entered into the Valermo LP Agreement in a development project in Toronto, Ontario. The cost and fair value of the investment, as at December 31, 2019, were \$1.

### **Joint Arrangements**

Where the Company's interests in properties are subject to joint control, the company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties following the proportionate consolidation method.

In July 2009, the Company entered into a co-tenancy agreement with a development partner in the Montreal Street JV and 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%.

### **Convertible Note Receivable**

On January 29, 2019, the Company advanced \$752,349 (C\$1,000,000) a convertible promissory note receivable to an unrelated Ontario corporation that provides web-based crowdfunding services and holds an Exempt Market Dealer license. The Convertible Note bears interest at the rate of 8.0% per annum becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The fair value of the Convertible Note at December 31, 2019 was \$800,531, being the principal amount and capitalized interest.

Further details are contained in the Company's Management's Discussion and Analysis for the year ended December 31, 2019, which is available at [www.sedar.com](http://www.sedar.com) or on the Company's website [www.tfcc.ca](http://www.tfcc.ca).

## **INVESTMENT PROCESS**

### **General**

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

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

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

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

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

The Company's funding process is summarized below:

<b>Investment Stage</b>	<b>Investment Approval Activity</b>
Deal Sourcing	Deal sourced through current network of industry participants Repeat borrowers and/or operators
Initial review by Management	Management reviews a discussion paper prepared by the loan originator which details the proposed loan terms and preliminary analysis based on the preliminary information received from the prospective borrower, together with some results of initial due diligence, terms of the loan, Loan-to-Value ratio, borrower's quality, etc. The underwriter proceeds with completion of a term sheet which details the loan terms, underwriting and due diligence, and comprises a complete analysis of the loan.
Letter of Intent	If the initial review is positive, a letter of intent is prepared, reviewed and approved by the underwriter, sent to the proposed borrower for signature and return, together with a required deposit cheque from the borrower to cover due diligence, legal and other costs.
Investment Committee approval and issuance of Commitment Letter	Upon acceptance of the letter of intent, the underwriter prepares a detailed report to the Investment Committee outlining the term of the deal. A commitment letter is issued to the borrower for acceptance of the terms and conditions, pre-funding conditions and covenants for financing. Where a commitment letter is not applicable in certain jurisdictions, the Company's legal counsel will prepare and conclude a loan agreement with borrower.
Due Diligence	The underwriter conducts due diligence including a review of credit checks, financial statements and personal net worth statements of the prospective borrower(s) and any guarantor(s); internet searches; third party reports (such as valuation appraisals, environmental, building condition assessment and geotechnical appraisals); a development budget and schedules, zoning and permits; and prior and subsequent ranking

	mortgage balances.
Investment Funding Process	The Company's legal counsel prepares legal documents, obtains title insurance, and conducts the required enquiries and searches. The originator obtains advice from an insurance consultant whether the current and/or proposed insurance coverage is adequate.
Final Due Diligence Meeting and Funding	The underwriter confirms that all due diligence and funding requirements have been completed. The Company's Accounting Department funds the borrower. The Company's legal counsel registers the security documents and ensures all conditions are satisfied before releasing funds to the borrower.
Monitoring	The Company monitors contractual payments and the progress of proposed developments and receives periodic reporting from borrowers.

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

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

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

### **Investment Criteria**

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

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

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

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

## **Investment Strategy**

The Company seeks to accomplish its investment objectives by providing flexibility to property developers and owners whose financing needs are not being met by traditional real estate lenders, by offering a full spectrum of structured financing solutions, in priority to developers' and owners' equity. Through management's relationships with mortgage lenders, brokers, local sponsors and other market participants, the Company is able to identify real estate opportunities where it can provide financing solutions to borrowers while achieving equity type returns at reduced risk levels as compared to straight equity ownership. The Company differentiates itself by serving these niches with an experienced financing team which generally can provide more flexible terms and creative financing structures, including equity-type financing.

The Company's Investment Portfolio consists of high yielding loans secured by, or that provide a participating interest or ownership interest in a real estate asset. The Company believes that its key lending and investing practices and advantages in the market includes its: (i) flexible structuring capability, (ii) speed of approval and funding, and (iii) certainty of executions, all of which provide the Company with a consistent flow of quality investment opportunities.

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

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

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

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



The Company's Unregistered Loans are not secured by real estate assets, but are secured by other forms of securities, such as personal guarantees, or pledge of shares of the borrowing entity and are subordinate to the first charge and therefore have a lower priority for repayment

The Company provides Loan and Mortgage Investments, focusing on terms of up to three years. The Weighted Average Remaining Term to Maturity of the Loans and Mortgage Investment at December 31, 2019 and 2018 were 1.37 years and 1.67 years, respectively. This enables the Company to increase the interest income in the event of interest rates increase.

The provides land/lot banking arrangement through the purchase of land along with the Company's agreements, comprising series of related transactions under the landing banking arrangements that do not result in a legal form of a lease but conveys the right to use the asset in return for a payment or series of payments is accounted for by the Company as an investment in finance lease.

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

## **LOAN SYNDICATIONS**

### **General**

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

### **Syndication Strategy**

The Company offers accredited investors to participate in certain of its Loan and Mortgage Investments on a pari passu basis. Typically, the Company would syndicate up to 90% of a loan to accredited investors. The terms of the syndication would mirror the terms of the loan with the exception of the interest rate paid to syndicated investors which would typically be 200 to 300 basis points per annum less. In addition, the Company would retain any commitment fee and certain other fees earned from the borrower. Management of the mortgage origination, funding, payouts and delinquency (if applicable) are all handled by the Company on behalf of the syndicate investors. The Company will be registered on the title documentation of the property for the junior portion of the loan and the syndicated investors will be secured through a loan servicing agreement with the Company.

In certain cases, the Company may originate a whole loan and create a senior tranche (typically 50% to 60% LTV) and a junior tranche. The senior tranche is offered to institutional lenders at a lower rate. The Company retains the junior tranche, which is subordinated to the senior tranche, and benefits from the spread differential. See "INVESTMENT PROCESS – Investment Strategy".

The Loan Portfolio is partially funded through the syndication of certain Loan and Mortgage Investments to private investors each participating in a prescribed manner on an investment by investment basis. Loan and Mortgage Investments that may initially be funded by the Company may then be syndicated to other lenders sourced by the Company on a pari passu basis. 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 will typically mirror the terms of the loan with the exception of the interest rate paid to syndicated investors. In addition the Company will 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 TFMA, 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 and participation 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 ratio, mortgage position, location, term, and exit strategy. Although all syndicated mortgages have an expected

maturity date, at times, loans and mortgages require more or less time than the anticipated term to payout the loan and mortgage.

The portion of the Loan and Mortgage Investments that are the subject matter of a Senior Loan Syndication or Private Syndication are beneficially owned by the applicable syndicate of investors. While the Company retains ownership of the non-syndicated portion of the Loan and Mortgage Investments, its obligations to the applicable syndicate of investors in any Loan Syndication are limited to the management of the Loan and Mortgage Investments in accordance with the terms of the applicable loan servicing and participation agreement and the syndicate of investors do not have recourse to the Company for payment of principal or interest shortfalls under the syndicated Loan and Mortgage Investments.

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

### **Borrowing Strategy**

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

### **Credit Facility**

The Company's Credit Facility consists of a \$20 million Master Facility.

The Company has a Revolving Guidance Facility Agreement with a lending institution in the U.S. for a \$20 million Master Facility to finance the loan and mortgage investments made by the Company. The Master Facility is 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. On April 30, 2019, the Master Facility Agreement was amended to increase the available principal balance under the Master Facility to \$35 million. The Master Facility will expire thirty-six months from after the date of the applicable project loan is advanced, unless otherwise approved by lender.

On January 14, 2020, the Company entered into a \$40 million<sup>0</sup> secured LOC with Texas Capital Bank. The LOC replaced the Revolving Guidance Facility Agreement the Company had with Texas Capital. The LOC provides for an increase in the borrowing limit to \$50 million<sup>0</sup> over time subject to approval by Texas Capital

## **COMPETITIVE ADVANTAGES**

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

### **Strong Management with Key Industry Experience**

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

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

## **Focused Business Model**

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

## **Alignment of Interests**

The interests of the Board and management are aligned with those of the Shareholders as members of the Board and management currently own approximately 23.6% of the Company's issued and outstanding Shares. This allows the Company's Board to remain focused on the Company's objectives of preserving shareholder capital and providing capital appreciation on the Shares.

The Company does not pay asset management fees or share of fees generated from loan originations to any third party managers, such that all commitment and other fees received for placing investments are earned by the Company, which contributes to the yield generated by the Company.

## **Strong Governance**

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

## **Prudent Growth**

With an Investment Portfolio of \$142.4 million and \$130.7 million as at December 31, 2019 and 2018, respectively, the Company expects to continue to implement the Company's conservative growth strategy. The Company has grown its Investment Portfolio in response to real estate financing opportunities and remains committed to growing in a manner that limits the impact on the Company's ability to achieve its investment objectives. The officers of the Company and the Board believe that Shareholders are best served by limiting the amounts raised under the Company's Share offerings from time to time. The Company seeks to maximize its expected risk-adjusted returns through a disciplined investment approach, which relies on rigorous quantitative and qualitative analysis. This helps the Company manage risk on a loan-by-loan basis.

## **Conservative Capital Management**

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

## **DIRECTORS AND MANAGEMENT OF THE COMPANY**

### **Governance and Board of Directors**

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

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

The Company's articles of incorporation provide that the Company may have a minimum of one and a maximum of twenty Directors. The number of Directors is currently set at six.

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

Name , Province of Residence	Date First Appointed	Principal Occupation or Employment <sup>(1)</sup>
Y. DOV MEYER <sup>(2)(3)(4)</sup> ..... Ontario, Canada	June 2, 2016	Executive Chairman, Terra Firma Capital Corporation.
DR. CHRIS BART <sup>(3)(5)(6)</sup> ..... Ontario, Canada	August 17, 2007	Chairman and CEO, Bart & Company Inc., a strategy and governance consulting organization.
PHILIP REICHMANN <sup>(4)(8)</sup> .... Ontario, Canada	August 17, 2007	Founding Partner, RH Capital Partners Inc., which is a private investment firm of active investors and business builders.
JERRY PATAVA <sup>(5)(9)</sup> ..... Ontario, CANADA	August 17, 2017	Chairman, Great Gulf Group of Companies, which develops real estate properties.
SEYMOUR TEMKIN <sup>(3)(5)(8)</sup> .. Ontario, Canada	November 8, 2011	Consultant.

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

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

### **Committees of the Board**

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

#### *Governance, Compensation and Nominating Committee*

The Governance, Compensation and Nominating Committee comprised of Dr. Bart (Chair) and Messrs. Patava and Temkin is charged with reviewing, overseeing and evaluating the governance and nominating and the compensation policies of the Company. The overall purpose of the Committee is to assist the Board in maintaining high standards of corporate governance by developing, recommending and monitoring effective governance guidelines and procedures applicable to the Company, and by establishing the process for appointing and/or providing ongoing development for directors and senior management of the Company. Responsibilities include: reviewing the mandate of the Board and its committees; periodically reviewing and evaluating the performance of all directors, committees and the Board as a whole; recommending the Board candidates for Board membership and ensuring that appropriate orientation and education programs are available for Board members; reviewing annually the membership and chairs of all committees of the Board and annually reviewing and making recommendations to the Board regarding executive and director compensation. All members of the Governance and Nominating Committee meet the independence requirements of the TSX-V and applicable regulatory authorities.

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

#### *Investment Committee*

The Investment Committee was constituted by the Board on April 15, 2011. The Investment Committee consists of voting and non-voting members. Messrs. Patava and Reichmann are voting members and Mr. Meyer, the Executive Chairman of the Company, Mr. Watchorn, the President and Chief Executive Officer of the Company are non-voting members. Currently, the Investment Committee been given the authority by the Board to review and approve all proposed investment and loan transactions by the Company. For a proposed transaction, or series of related transactions, where the total capital commitment (pre-syndication) is in an amount up to and including \$2.5 million, one voting board member of the Investment Committee at a meeting of the Investment Committee can approved the transactions. For a proposed Transaction, or series of related transactions, where the total capital commitment (pre-syndication) is in an amount exceeding \$2.5 million and up to \$10.0 million, the IC requires that the majority of its voting members approve the transaction. For proposed transaction, or series of related transactions exceeding \$10.0 million and all non-arm's length transactions must be ratified by the Board.

#### *Audit Committee*

##### *Audit Committee Charter*

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

##### *Composition of the Audit Committee*

The members of the Audit Committee are Seymour Temkin (Chair), Dr. Chris Bart and Y. Dov Meyer, each of whom is "financially literate" and Dr. Chris Bart and Seymour Temkin are "independent", within the meaning of National Instrument 52-110 – *Audit Committees* (the Company is relying on the exemption available to venture issuers pursuant to section 6.1 of National Instrument 52-110 – *Audit Committees*). Each of the Audit Committee members has the ability to perform his responsibilities as an Audit Committee member based on his education and/or experience as summarized below.

**Seymour Temkin.** For 10 years, Mr. Temkin was a member of Goodmans LLP, a Toronto based law firm, in their REITs and Income Securities Group where he provided strategic and business advisory services to public and private companies. Prior to joining Goodmans, Mr. Temkin headed the Canadian real estate practice of Deloitte & Touche LLP for 15 years and has over 30 years of public accounting experience. Mr. Temkin was the Chairman and interim Chief Executive Officer of Medical Facilities Corporation (a TSX-listed company) and was a member of the audit committee. Mr. Temkin has previously served as Chair of the board of directors and a member of the audit committee of GT Canada Medical Properties Real Estate Investment Trust (a TSX-listed company) and a director of First Capital Realty Inc., (a TSX-listed company). Mr. Temkin holds an ICD.D designation with the Institute of Corporate Directors and is a Chartered Accountant with an FCMA designation and Bachelor of Commerce Degree from the University of Witwatersrand, South Africa.

**Dr. Chris Bart.** Dr. Chris Bart is currently Chairman and CEO of Bart & Company Inc. From 1981 to 2013 he was at McMaster University’s DeGroot School of Business where he was a Professor of Strategy. He is also the Founder and Lead Faculty of The Directors College and is involved with a number of other governance education organizations. Dr. Bart has published over 170 articles, cases and reviews and he is best known for his pioneering research which has demonstrated the positive impact that mission statements have on organizational performance. Dr. Bart was awarded in 2012 the Queen Elizabeth II Diamond Jubilee Medal for service to Canada and in 2011 he received the TD Insurance Meloche Monnex Corporate Governance and Strategic Leadership Award from the Human Resources Professional Association. He is also a past recipient of the Ontario Chamber of Commerce “Outstanding Business Achievement Award for Corporate Governance”. Dr. Bart obtained his Ph.D. from the Ivey School of Business, University of Western Ontario, and both his MBA and BA (Hons Bus.) from the Schulich School of Business, York University. He is also a member of the Institute of Chartered Professional Accountants of Ontario, where he holds the designation FCPA.

**Y. Dov Meyer.** Mr. Meyer has been with the Company since 2011, as CEO until June 2016, and subsequently as Executive Vice Chairman, until February 15, 2020 and currently as Executive Chairman of the Board, where he assists with the strategy of the Company and supports the CEO with the growth and overall performance. Mr. Meyer has over 20 years of real estate and public market experience. Prior to joining the Company, Mr. Meyer held a number of positions with the Paul Reichmann Group of Companies such as Founder and Chief Investment Officer of IPC US REIT, where he was responsible for acquiring, financing and ultimately selling over \$2 billion of real estate assets. In addition, immediately prior to joining the Company, Mr. Meyer was Managing Director of Harbor Group International and was responsible for managing a debt opportunity fund that traded in collateralized mortgage-backed security notes following the 2008 debt crisis. Mr. Meyer holds an MBA from the University of Toronto and an LLB from Bar Ilan University in Israel.

*Pre-Approval of Audit and Non-Audit Services*

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

*External Auditors*

KPMG LLP, Chartered Professional Accountants and Licensed Public Accountants, the Company’s external auditor, has been named as having prepared an auditor’s report included in a filing, made under National Instrument 51-102 by the Company during, or relating to the Company’s fiscal year ended December 31, 2019. KPMG LLP is independent of the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario. The address of KPMG LLP is 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5.

*External Auditor Service Fees*

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

	Audit Fees <sup>(1)</sup>	Audit-Related Fees <sup>(2)</sup>	Tax Fees <sup>(3)</sup>	All Other Fees <sup>(4)</sup>
Year Ended December 31, 2018 <sup>(5)</sup>	\$84,098	\$44,132	Nil	\$11,152
Year Ended December 31, 2019 <sup>(6)</sup>	\$78,761	\$43,111	Nil	\$9,560

Notes:

- (1) Audit fees are billed by the Company’s external auditors for audit services.
- (2) Audit-related fees billed by KPMG LLP, Company’s external auditors for fees charged for review of the interim financial statements, advisory services associated with the Company’s financial reporting and fees charged for services rendered in connection with securities offering documents.
- (3) Tax Fees are billed by MNP LLP, Company’s external auditors for tax compliance, tax advice, tax planning and advisory

- services relating to the preparation of corporate tax returns.
- (4) These fees relate to Canadian Public Accountability Board fees and other out-of-pocket expenses.
  - (5) Of the audit fees billed by KPMG LLP, Company's external auditors in 2018, \$80,626 was billed by KPMG LLP Company's external auditors, and the remaining \$3,472 was billed by MNP LLP which performs financial and compliance audit of Terra Firma MA Ltd., a subsidiary of the Company.
  - (6) Of the audit fees billed by KPMG LLP, Company's external auditors in 2019, \$75,369 was billed by KPMG LLP Company's external auditors, and the remaining \$3,392 was billed by MNP LLP which performs financial and compliance audit of Terra Firma MA Ltd., a subsidiary of the Company.

### Senior Management and Employees

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

<u>Name and Municipality of Residence</u>	<u>Principal Occupation(s)</u>
GLENN WATCHORN ..... Ontario, Canada	President and Chief Executive Officer of the Company since June 2, 2016, President and Chief Operating Officer of the Company from November 2014 to June 1, 2016; previously Co-Chief Operating Officer at Tricon Capital Group Inc. from November 2002 to February 2014. Between January 1998 and October 2002, served as Vice President, Corporate at Intracorp Developments Ltd.
Y. DOV MEYER..... Ontario, Canada	Executive Chairman of the Board of the Company since February 15, 2020, Executive Vice Chairman of the Company since June 2, 2016, Chief Executive Officer of the Company from December 2010 to June 1, 2016; previously Managing Director, Head of Debt Investments of Harbor Group International from November 2008 to November 2010. Between March 1995 and December 2007, held various positions at the Paul Reichmann Group of companies, including Chief Investment Officer of IPC US REIT.
MANO THIYAGARAJAH..... Ontario, Canada	Chief Financial Officer of the Company; previously Vice-President, Finance of TransGlobe Apartment REIT from April 2010 to August 2012 and Vice-President, Controller of Sentinel Real Estate Corporation from August 2006 to March 2010.
CAROLYN MONTGOMERY ..... Ontario, Canada	Managing Director of the Company and Principal Mortgage Broker of Terra Firma MA Ltd.; previously Assistant Vice President at Cameron Stephens from March 2007 to May 2012 and at MCAP from 1994 to March 2007.
JEREMY SHEETZ..... Ontario, Canada	Managing Director of the Company since January 2020; previously, for over fifteen years, various roles with Tricon Capital Group, most recently as Director and co-head of their San Francisco office; previously employed for three years at HSBC Bank Canada until 2003.

As at December 31, 2019, the Company directly employed nine individuals to manage the operations of the Company. The Company also engages consultants and contractors "on demand" and numbers vary. The Company intends to engage additional full time employees as it grows.

As at the date hereof, the Directors and executive officers of the Company as a group, beneficially own , or exercise control or direction over, directly or indirectly, 1,312,182 Shares or 23.6% of the outstanding Shares of the Company.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No Director or executive officer of the Company and, in the case of (B), (C), (D) and (E) below, no Shareholder of the Company holding a sufficient number of Shares to affect materially the control of the Company, or a personal holding company of any of the foregoing: (A) is, as at the date of the AIF, or has been in the 10 years before the date of the AIF, a director, trustee, chief executive officer or chief financial officer of any issuer that (i) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the person was acting in the capacity as director, trustee, chief executive officer or chief financial officer or (ii) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation,

that was in effect for a period of more than 30 consecutive days, that was issued after the person ceased to be a director, trustee, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; (B) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; (C) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; (D) is, as at the date of the AIF, or has been in the 10 years before the date of the AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (E) has in the 10 years before the date of the AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

## **DESCRIPTION OF THE CAPITAL STRUCTURE AND DEBT PROFILE**

The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the Shareholders.

The Company leverages its Loan Portfolio through the issuance of loan and mortgage syndications, short-term unsecured notes payable and debentures. These financial liabilities are designed to increase the Company's overall returns through the issuance of specific debt instruments bearing lower effective interest rates than those being realized on the Loan Portfolio itself, while lowering the Company's overall risk profile.

### **Loan and Mortgage Syndications**

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

The principal balances of loan and mortgage syndications as at December 31, 2019 and 2018 were \$88,249,414 and \$75,906,550, respectively.

### **Mortgages Payable**

As at December 31, 2019 the Company's share of the principal balance of mortgages payable in the joint operation was \$1,053,274 with a nominal interest rate of rate of 3.0% per annum and maturity date of July 1, 2021.

### **Credit Facility**

The Company has a Revolving Guidance Facility Agreement with a lending institution in the U.S. for a \$20 million Master Facility to finance the loan and mortgage investments made by the Company. The Master Facility is 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 after the date of the applicable project loan is advanced, unless otherwise approved by lender. The principal balances of the Master Facility as at December 31, 2019 was \$9,221,447.

### **Shares**

The Company is authorized to issue an unlimited number of shares of one class, designated as Common Shares. As at December 31, 2019 and the date hereof, there are 5,564,968 Shares issued and outstanding, respectively.

Holders of Shares are entitled to receive: (i) notice of and to attend and vote at all meetings of the Shareholders and each Share has the right to one vote in person or by proxy at all meetings of the Shareholders; (ii) dividends if, as and when declared by the Board, and in the amount per Share as determined by the Board at the time of declaration; and (iii) return of capital and the distribution of assets in the event of the liquidation, dissolution or



winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among the Shareholders for the purpose of winding-up its affairs.

## DIVIDENDS

### Dividend Policy

On June 12, 2019, the Company announced that as part of the Company's long-term strategy to maximize shareholder value, the Board had approved the implementation of a dividend policy. The Board has also declared an inaugural dividend of C\$0.05 per payable on October 15, 2019, to shareholders of record as of the close of business on September 30, 2019. See "BUSINESS OF THE COMPANY – Objectives of the Company".

It is the Company's current intention is to pay quarterly dividends of C\$0.05 per Share. When declared, cash dividends are made on the 15<sup>th</sup> day (or if such date is not a business day, on the next business day) following the end of each calendar quarter to shareholders of record on the last day of each such calendar quarter or such other date as determined from time to time by the Board.

Although dividends are expected to be declared and paid on an ongoing basis, the actual timing, and amount of future dividends will be subject to the Board's sole determination and there can be no guarantee that the Company will maintain its dividend policy. All dividend payments will be based upon, among other things, the cash flow, results of operations and financial condition of the Company, the needs for funds to finance ongoing operations and other business considerations as the Board considers relevant at such time.

Unless otherwise specified, all dividends paid or to be paid are designated as "eligible dividends" under the Income Tax Act (Canada).

The table below shows quarterly dividends per Share that have been declared by the Board in 2019:

Quarter end	Type	Amount in C\$
September 30, 2019	Cash	\$0.05
December 31, 2019	Cash	\$0.05

## PRIOR SALES

During the year ended December 31, 2019, 221,411 existing options with the weighted average exercise price of \$6.86 were expired.

During the year ended December 31, 2019, the Company issued the following new options under its share options plan:

Date granted	# of options	Exercise price in C\$	Expiry date
June 12, 2019	44,000	\$5.60	June 11, 2026

## MARKET FOR SECURITIES

The Shares of the Company trade on the TSX-V under the symbol TII.

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

Period	Price (C\$)		Trading Volume
	High	Low	
<b>2019</b>			
January .....	5.50	4.25	92,800
February .....	5.50	4.80	47,800
March .....	5.90	4.50	220,600
April .....	5.50	5.00	62,200
May .....	5.50	4.80	54,300
June .....	6.20	5.00	106,200
July .....	6.50	5.40	65,100
August .....	6.50	5.10	52,800
September.....	5.60	4.80	67,500
October.....	5.60	5.29	58,900
November.....	6.05	5.20	65,100
December .....	5.75	5.40	47,900
<b>2020</b>			
January .....	5.80	5.46	96,700
February .....	6.10	5.80	96,700
March (1-13) .....	6.00	4.75	59,400

Source: TSX Market Data

## RISK FACTORS

*There are certain risks that are inherent in investing in the securities of the Company and in the activities of the Company. Some of the following factors are interrelated and, consequently, investors should carefully consider such risk factors as a whole. The following information is a summary, only, of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the other information described elsewhere in this Annual Information Form and those risks set out in the Company's management's discussion and analysis ("MD&A" for the year ended December 31, 2019 (as updated by any subsequent interim MD&A)). If any of the following, or any other risks or uncertainties not currently known to the Company, or that the Company currently deems immaterial, materialize, then 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 taking risk management steps will prevent future loss due to the occurrence of the risks described below, or other unforeseen risks.*

### Risks Related to the Industry

#### *Nature of the Investments*

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

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

### *Concentration and Composition of the Investment Portfolio*

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

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

### *Subordinated and Unregistered Loan Financing*

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

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

### *Sensitivity to Interest Rates*

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

### *Changes in Real Estate Values*

The Company's Loan Portfolio is secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants or buyers where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real estate may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. It is very likely that adverse changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, thereby impacting the ability of the borrower to service the debt and/or repay the loan based on the property income. A substantial decline in the value of real estate provided as security for a mortgage loan made by the Company may cause the value of the property

to be less than the outstanding principal amount of the mortgage loan and, where applicable, amounts owed to other creditors with security ranking ahead of the Company's security. Foreclosure by the Company or any creditor holding security in priority to the Company, on any such mortgage loan might not provide the Company or the other creditors with proceeds sufficient to satisfy the outstanding principal amount of the mortgage loan.

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

#### *Extensions and Defaults*

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

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

#### *Foreclosure and Related Costs*

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

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

### *Access to Borrowers*

Where a borrower is or may be in default under the terms of its obligations to the Company, not only will the Company be exposed to the risk of loss due to a potential lack of repayment on the loan, but the Company may also be unable to source new borrowers to lend capital to, even if the defaulted loan amounts are recovered in full by the Company. Further, if the defaulting borrower in respect of one real estate project is affiliated or related to the borrower in respect of other real estate projects, the Company may face multiple defaults at the same time and be unwilling to provide further funding to related projects and, accordingly, have difficulty in sufficiently deploying its available loan capital to other unrelated borrowers, resulting in idle capital and lower expected returns to the Company.

### *Environmental Matters*

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

### *Competition*

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

### *General Economic Conditions*

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

### *Catastrophic Events, Natural Disasters, Severe Weather and Disease*

The Company's business may be negatively impacted to varying degrees by a number of events which are beyond its control, including energy blackouts, pandemics (or other public health crises), terrorist attacks, acts of war, earthquakes, hurricanes, tornados, fires, floods, ice storms or other natural or manmade catastrophes. While the Company engages in emergency preparedness, including business continuity planning, to mitigate risks, such events can evolve very rapidly, and their impacts can be difficult to predict. As such, there can be no assurance that in the event of such a catastrophe that the Company's operations and ability to carry on business will not be disrupted. The occurrence of such events may not release the Company from performing its obligations to third parties. A catastrophic event, including an outbreak of infectious disease, a pandemic or a similar health threat, such as the evolving 2019 COVID-19 outbreak, or fear of any of the foregoing, could adversely impact the Company and its investments. In addition, liquidity and volatility, credit availability and market and financial conditions generally could change at any time as a result. Any of these events in isolation or in combination, could have a material negative impact on the Company's performance, financial condition, results of operations and cash flows.

### *Change in Legislation*

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

The Ontario government has announced plans to transfer responsibility for syndicated mortgage investments from the Financial Services Commission of Ontario to the Ontario Securities Commission. In relation to the foregoing, the Canadian Securities Administrators has published for comment proposed changes to substantially harmonize the regulatory framework for syndicated mortgages in Canada. Under the proposed amendments, prospectus and registration exemptions that currently apply to syndicated mortgages in certain jurisdictions (including Ontario) would be removed. Additionally, the amendments, if adopted, would introduce revisions to the offering memorandum exemption to provide heightened disclosure for investors and, in certain circumstances, issuers would be required to deliver property appraisals prepared by an independent, qualified appraiser. The proposed amendments would also exclude syndicated mortgages from the private issuer exemption. The Company is assessing the proposed regulatory amendments and cannot predict what the final regime will look like and how it will impact on the Company's business and results.

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.

### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of the Company's foreign currency-denominated loan and mortgage investments, loans and mortgages payable and cash and cash equivalents will fluctuate based on changes in foreign currency exchange rates. Consequently, the Company is subject to currency fluctuations that may impact its financial position and results. The Company manages its currency risk on loan and mortgage investments by syndicating in the same currency.

## **Risks Related to the Company and its Business**

### *Availability of Capital and Investment*

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

as mortgages are repaid, in which case the funds will be invested in interim investments. The rates of return on interim investments will be lower than the rates of return on the mortgages.

#### *Unable to Fund Investments*

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

#### *Limited Sources of Borrowing*

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

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

#### *Syndication of loans*

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

#### *Interests in Joint Operations*

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

#### *Potential Conflicts of Interest With Directors*

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

### *No Guarantees or Insurance*

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

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

### *Litigation Risks*

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

### *Ability to Manage Growth*

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

### *Dependence on Key Personnel*

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

### *Competition*

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

### *Cybersecurity Risk*

Cybersecurity has become an increasingly problematic issue for issuers and businesses. Cyber-attacks against organizations are increasing in sophistication and are often focused on financial fraud, compromising sensitive data for inappropriate use or disrupting business operations. A cyber-incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the Company's information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential or personal information. As the



Company's reliance on technology has increased, so have the risks posed to its systems. The Company's primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation, damage to the Company's business relationships, disclosure of confidential information regarding third parties with whom the Company interacts, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation. The Company has implemented processes, procedures and controls to help mitigate these risks, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that the Company will be able to prevent all such incidents, or detect and remedy such incidents in a timely manner, which could then have negative impact on the Company's financial results and the price of the Company's securities.

## **Risks Related to the Shares (and Warrants)**

### *Ownership of Shares*

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

### *Volatile Market Price for Shares*

The market price for Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following: (i) actual or anticipated fluctuations in the Company's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the Company; (iv) the addition or departure of the Company's executive officers and other key personnel; (v) sales or perceived sales of additional Shares; (vi) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

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

### *Dilution*

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

## MATERIAL CONTRACTS

Other than those contracts entered into in the ordinary course of business or that would not be considered material to the Company or its businesses, the material contracts entered into by the Company during the year ended December 31, 2019, or entered into prior to the year ended December 31, 2019 and after January 1, 2002, but which are still in effect are set out below:

### Description of the Material Contracts

The following descriptions of the material contracts are summaries only, are not comprehensive and are qualified in their entirety by reference to the full text of such material contracts, a copy of which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Loan and Security Agreement*

The Company entered into a Loan and Security Agreement with Texas Capital Bank, National Association (“Texas Capital”), effective January 9, 2020, providing for a \$40 million revolving credit facility with a one-year term, subject to acceleration in certain circumstances and an annual option to extend. The Loan and Security Agreement also provides the Company with the option to increase the maximum amount available under the credit facility by an additional \$10 million, subject to approval by Texas Capital. The credit facility will be used to fund new investments by the Company and to fund general corporate working capital requirements.

#### *Subscription Agreement and Warrant Certificate*

The Company entered into a Subscription Agreement dated August 11, 2017 with Great Gulf, pursuant to which it completed a non-brokered private placement offering consisting of 500,000 Units at a purchase price of C\$6.50 per Unit, for gross proceeds of C\$3,250,000 to Great Gulf. Each Unit is comprised of one Share and one Warrant. Pursuant to the terms of warrant certificate, each Warrant is exercisable for one Share at a price of C\$8.5 per Share, with an expiry date of August 15, 2020.

#### *Investor Rights Agreement*

The Company entered into the Investor Rights Agreement with Great Gulf on August 15, 2017, concurrent with the closing of the private placement of Units. Pursuant to the Investor Rights Agreement, provided that the Great Gulf beneficially owns, directly or indirectly, at least 5% of the issued and outstanding Shares, Great Gulf shall be entitled to designate one nominee for election or appointment to the Board. Under the terms of the Investor Rights Agreement, the Company agreed to establish a strategic relationship committee to further the Company’s strategic relationship with the Great Gulf which shall meet monthly to discuss, subject to compliance with applicable law, the Company’s interactions with Great Gulf. As long as Great Gulf beneficially owns, directly or indirectly, at least 5% of the issued and outstanding Shares, it shall have the right to participate in any a public offering or a private placement by the Company in order to maintain its percentage ownership in the Company.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

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

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

In the ordinary course of business, the Company and its properties may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. There are no existing or, to the Company's knowledge, contemplated legal proceedings to which the Company is or was a party to, or of which any of the Company's property is or was the subject, since January 1, 2019.

The Company is not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against the Company since January 1, 2019, nor has the Company entered into any settlement agreements before a court or with a securities regulatory authority since January 1, 2019.

## **TRANSFER AGENT AND REGISTRAR**

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

## **ADDITIONAL INFORMATION**

Additional information, including Directors' and officers' remuneration and indebtedness, the executive compensation for named executive officers of the Company, principal holders of the Company's securities, and interests of insiders in material transactions, as applicable, is contained in the Company's management information circular for its most recent annual and special meeting of Shareholders. Additional financial information is provided in the Company's financial statements and MD&A for the year ended December 31, 2019. A copy of the management information circular, financial statements and management's discussion and analysis may be obtained from the Company upon request, and those documents and other information in respect of the Company are also available on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A

### CHARTER OF THE AUDIT COMMITTEE OF TERRA FIRMA CAPITAL CORPORATION

#### 1. Composition

- a) the Audit Committee (“AC”) of Terra Firma Capital Corporation (“TFCC”) is a Committee which shall be comprised of a minimum of 3 members of the Board of Directors (“Board”) of “TFCC” as required by National instrument 52-110;
- b) the majority of the AC must be “independent” as defined by National Instrument 52-110;
- c) all members of the AC shall be *financially literate* in understanding “TFCC’s” financial information (or acquire such literacy at the expense of TFCC within a reasonable period after appointment);
- d) upon the recommendation of “TFCC’s” Governance, Compensation, and Nominating Committee (Governance Committee”) the Board shall appoint the members of the AC by Board resolution at the first Board meeting following the “TFCC” annual meeting;
- e) the Chairman of the AC (“Chair”) shall be appointed by the Board, upon the recommendation of the Governance Committee;
- f) no member of the AC shall concurrently serve on the audit committee of more than 3 other public companies without the specific approval of the Board; and
- g) a majority of the members of the AC shall be “resident Canadians”, as contemplated by the Business Corporations Act (Ontario).

#### 2. Operating Principles

The AC shall fulfill its responsibilities within the context of the following principles:

##### a) Committee Values

The AC expects the management of “TFCC” to operate in compliance with “TFCC’s” Code of Ethics and Professional Conduct and policies; with laws and regulations governing “TFCC”; and to maintain strong financial reporting and control processes.

##### b) Communications

The Chair and members of the AC expect to have direct, open and frank communications throughout the year with management, other Committee Chairs, the external auditors, the Chief Financial Officer (“CFO”) and other key AC advisors as applicable.

##### c) Financial Literacy

All AC members shall have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by “TFCC’s” financial statements.

d) Annual AC Work Plan

The AC, in consultation with management, shall develop an annual Committee Work Plan responsive to the AC's responsibilities as set out in this Mandate.

e) Meeting Agenda

AC meeting agendas shall be the responsibility of the Chair in consultation with the Board Chair, Committee members, senior management and the external auditors.

f) Committee Expectations and Information Needs

The AC shall communicate its expectations to Management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the AC at its meetings will be received from Management and the external auditors within a reasonable time frame in advance of each AC meeting (e.g. 4 days).

g) Reliance on Experts

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

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

h) External Resources

In addition to the external auditors, the AC may, after consultation with the Chair of the Board, retain one or more persons having special expertise that will assist the AC in discharging its responsibilities.

i) In Camera Meetings

The members of the AC shall meet in private session and separately with the external auditors annually; and, as part of each meeting, with the AC members only (i.e., without Management present). The Committee shall meet in private session as often as it deems necessary.

j) Reporting to the Board

The AC, through its Chair, shall report after each Committee meeting its activities and recommendations to the Board at the Board's next regular meeting.

k) Committee Evaluation

The AC shall annually review, discuss and assess its own performance. In addition, the AC shall periodically review and assess the adequacy of its charter and recommend to the Board any improvements to this charter that the AC determines to be appropriate.

l) The External Auditors

The AC will assure themselves that the external auditors have the appropriate qualifications, independence and performance track record to carry out their audit of “TFCC”. The AC expects that, in discharging their responsibilities to the Board, the external auditors shall be accountable to the Board through the AC. The external auditors shall report all material issues or potentially material issues to the AC.

m) Financial Statements

Given “TFCC’s” relative small size and the low number of transactions it undertakes, only “Notice to Reader” financial statements will be produced for the first three quarters of any financial year. Financial statements audited by the external auditors will only be produced annually at the completion of a financial year.

### 3. Operating Procedures

- a) The AC shall meet at least quarterly, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, or upon the request of two (2) members of the Committee or at the request of the external auditors;
- b) a quorum will consist of a majority of the members present in person or by telephone and all decisions of the AC require a majority of those present at a meeting of the AC at which a quorum is present;
- c) unless the AC otherwise specifies, the CFO of “TFCC” (or his/her designate) shall act as Secretary of all meetings of the Committee;
- d) to accommodate the planned and unplanned absences of the AC Chair, he or she should appoint an Acting Chair at the start of his or her term of office. In the absence of the Acting Chair, the Committee members present shall appoint an Acting Chair; and
- e) minutes shall be maintained for all meetings of the AC together with materials relating to those meetings and a copy of the minutes of each meeting of the AC shall be provided to each member of the Committee and to each director of “TFCC” in a timely fashion.

### 4. Terms of Reference

The AC’s role is to oversee the financial affairs of “TFCC” and to assist the Board in monitoring the organization’s financial reporting and disclosure. The objective of the Board’s monitoring of “TFCC’s” financial reporting and disclosure (the "**Financial Reporting Objective**") is to gain reasonable assurance of the following:

- a) that “TFCC” complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure;
- b) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in “TFCC” financial statements are the most appropriate in the prevailing circumstances;
- c) that “TFCC’s” interim “Review Engagement” financial statements (recognizing the limitations of such statements) and annual audited financial statements present fairly “TFCC’s” financial position as a result of its operations in accordance with international financial reporting standards (“IFRS”) and together with Management Discussion and Analysis (i.e., the document containing a complete and integrated view of the organization’s historical operations, prospective analysis and financial condition explaining the ‘why’ behind performance and prospects) constitute a fair presentation of “TFCC’s” financial condition; and

- d) that appropriate information concerning the financial position and performance of “TFCC” is disseminated to the Board in a timely manner.

## 5. Fundamental Activities

The Board is of the view that the Financial Reporting Objective cannot be reliably met unless the following activities (the "**Fundamental Activities**") are conducted effectively:

- a) “TFCC’s” accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the “TFCC’s” financial transactions;
- b) “TFCC’s” internal financial controls are regularly assessed for effectiveness and efficiency; and
- c) “TFCC’s” interim and annual financial statements are in accordance with IFRS and promptly prepared by management.

The AC shall develop and present to the Board for the Board's approval a process which, amongst other things, will describe the activities in which the AC will engage for the purpose of gaining reasonable assurance that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met.

The following is provided as a guide to the AC to fulfill its responsibilities and duties:

## 6. Financial Reporting

- a) review and provide guidance to the full Board and management about:
  - i) policies relating to “TFCC’s” cash flow, cash management and working capital, and investments;
  - ii) adjustments to “TFCC’s” capital structure;
  - iii) capital and debt issuances;
  - iv) working capital and cash flow management;
  - v) tax planning and compliance; and
  - vi) other transactions or financial issues that management desires to have reviewed by the Committee.
- b) review “TFCC’s” annual financial statements with management and the external auditors to gain reasonable assurance that the statements are (i) prepared in accordance with IFRS, (ii) are complete, (iii) represent fairly “TFCC’s” financial position and performance, (iv) and together with Management's Discussion and Analysis ensure fair presentation of “TFCC’s” financial condition and (v) report thereon to the Board before such financial statements are approved by the Board;
- c) review “TFCC’s” interim Notice to Reader financial statements with management (recognizing the limitations of such statements) to gain reasonable assurance that the statements are (i) prepared in accordance with IFRS, (ii) are complete, (iii) represent fairly “TFCC’s” financial position and performance, (iv) ensure fair presentation of “TFCC’s” financial condition and (v) report thereon to the Board before such financial statements are approved by the Board;
- d) receive from the external auditors reports on their review of the audited annual financial statements;
- e) receive from Management a copy of the engagement letter provided to the external auditors;

- f) receive from the external auditors a copy of the “management letter” and Management’s response to it;
- g) receive from Management any additional representations required by the AC;
- h) review and recommend approval to the Board of all public disclosure documents where the Board has delegated such responsibility to the AC;
- i) satisfy itself that adequate procedures are in place for the review of “TFCC’s” disclosure of financial information extracted or derived from “TFCC’s” financial statements (especially ratio and trend analyses) in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures; and
- j) obtain summaries of complex financings and other significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance disclosure;

## 7. Accounting Policies

Review with management and, where appropriate, the external auditors:

- a) the appropriateness of “TFCC’s” accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with IFRS;
- b) all major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of “TFCC”;
- c) any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect “TFCC’s” financial reporting;
- d) all critical accounting policies and practices used, including their application to unusual and material related party transactions;
- e) all alternative treatments of financial information within IFRS, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
- f) the use of “*pro forma*” or “adjusted” non-IFRS information;
- g) the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise), on “TFCC’s” financial reports;
- h) any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal financial controls or disclosure controls made to the Audit Committee by the Chief Executive Officer and the Chief Financial Officer during their approval process for forms filed with applicable securities regulators; and
- i) the adequacy of “TFCC’s” internal accounting controls and its financial, auditing and accounting organizations and personnel and any special steps adopted in light of any material control deficiencies recognizing by definition because TFCC size is not able to have adequate internal controls.

Review with the external auditor:

- a) the quality, as well as the acceptability of the accounting principles that have been applied and significant



judgments made in estimating amounts;

- b) any problems or difficulties the external auditor may have encountered during the provision of its audit-related services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management, any management letter provided by the independent auditor or other material communication (including any schedules of unadjusted differences) to management and the Corporation's response to that letter or communication;
- c) any changes to the Corporation's significant auditing and accounting principles and practices suggested by the external auditor or other members of management; and
- d) other matters required to be communicated to the AC under generally accepted auditing standards.

## **8. Risk and Uncertainty**

By acknowledging that it is the responsibility of the Board, in consultation with Management, to identify the principal business risks facing "TFCC" and "TFCC's" tolerance for risk and approve risk management policies, the AC shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

- a) reviewing with management "TFCC's" tolerance for financial risk;
- b) reviewing with management (through a Risk map or other risk assessment tool) its assessment of the significant financial risks facing "TFCC";
- c) reviewing with management "TFCC's" policies and any proposed changes thereto for managing those significant financial risks;
- d) reviewing with management its plans, processes and programs to manage and control such risks;
- e) reviewing the adequacy of D&O and E&O insurance maintained by "TFCC"; and
- f) reviewing with management, the external auditors and the company's legal counsel, any legal claim or other contingency that could have a material effect upon the financial position or operating results of the company.

## **9. Compliance with Legal, Ethical and Regulatory Requirements**

The AC shall obtain reasonable assurance that "TFCC" has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively by:

- a) Inquiring about the policies and procedures "TFCC" has in place for monitoring compliance with laws and regulations and "TFCC's" own code of conduct;
- b) Obtain reports from management and the independent auditor that "TFCC" is in conformity with applicable legal requirements including disclosures of insider and affiliated party transactions;
- c) Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Corporation's financial statements or accounting policies;
- d) Advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations affecting financial reporting and compliance with internal policies relating to employee conduct, conflicts and integrity;

- e) review with “TFCC’s” in-house or outside counsel legal matters that may have a material impact on financial statements, “TFCC’s” compliance policies and any material reports or inquiries received from regulators or governmental agencies;
- f) review and approve “TFCC’s” hiring policies regarding partners, employees, and former partners and employees of the present and former external auditor of “TFCC”;
- g) establish procedures for:
  - i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and
  - ii) the confidential, anonymous submission by employees of the Corporation with concerns regarding any accounting or auditing matters.
- h) informing senior management and external auditors on which matters the AC wishes them to report should such matters come to the auditors’ attention during the course of the auditors’ work;
- i) asking senior management to provide a summary concerning compliance and any changes in the acts or regulations governing “TFCC”; and
- j) considering whether the CFO or others should be asked to undertake special assignments to monitor compliance with regulatory requirements.

#### **10. Internal Audit**

- a) assess periodically the need for an internal audit function and, if needed, is adequately staffed and effectively carried out by the AC; and
- b) if applicable, review the terms of reference, activities and resources of the internal audit function to ensure its primary reporting relationship to the AC.

#### **11. Financial Controls**

- a) review both management’s overall approach to control and the plans of the CFO and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;
- b) inquire specifically about “TFCC’s” compliance with its internal control policies and procedures; and
- c) receive regular reports from management, the external auditors and “TFCC’s” legal advisors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto.

#### **12. Relationship with External Auditors**

- a) recommend to the Shareholders, through the Board, the need for the annual financial statements of “TFCC” to be audited by external auditors;
- b) recommend to the Shareholders, through the Board, the appointment of the external auditors, subject to shareholder approval as is required under the Business Corporations Act (Ontario);
- c) recommend to the Shareholders, through the Board, the terms of engagement of the external auditors;

- d) obtain confirmation from the external auditor that it ultimately is accountable, and will report directly, to the AC and the Board;
- e) review and approve the external auditors annual engagement letter, the audit plans, the experience and qualifications of the senior members of the audit team and proposals for related fees
- f) review the performance of the external auditors annually or more frequently as required;
- g) if deemed necessary, receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services to “TFCC”;
- h) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit and the materiality levels which the external auditors propose to employ;
- i) meet with the external auditors in the absence of management to determine, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the AC;
- j) establish effective communication processes with Management and “TFCC’s” CFO and external auditors to assist the AC in monitoring objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- k) oversee the work of the external auditors, reviewing all reports and recommendations from them, and helping to resolve any disagreements between management and the external auditors with respect to financial reporting;
- l) request that the external auditors provide to the AC, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews;
- m) adopt policies and procedures for the pre-approval by the AC regarding the retention of the external auditor by “TFCC” for all audit and permitted non-audit services (subject to any regulatory restrictions on such services) including procedures for the delegation of authority to provide such approval to one or more members of the AC;
- n) at least annually, review a report by the external auditors describing :
  - i) its internal quality-control procedures;
  - ii) any material issues raised by recent firm-wide internal quality-control reviews, peer or professional body reviews of the independent auditor;
  - iii) any material issues raised by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor;
  - iv) any steps taken to deal with issues identified in ii) and iii) above; and
  - v) all relationships between the external auditor and “TFCC”.
- o) discuss with the national office of the independent auditor issues on which it was consulted by the Corporation’s audit team and matters of audit quality and consistency.

### **13. Other Responsibilities**

- a) approve semi-annually the reasonableness of the expenses of the Chair of the Board and the Chief Executive Officer;
- b) investigate any matters that, in the AC's discretion, fall within the Committee's duties;
- c) perform such other functions as may from time to time be assigned to the AC by the Board; and
- d) review the terms of reference of the AC annually.

### **14. Delegation**

Except as otherwise provided above, the AC may form and delegate authority to individual members of the AC and/or subcommittees where the AC determines it is appropriate to do so. All matters dealt with by delegation shall be promptly reported to the full committee, no later than the subsequent meeting of the full committee.

To avoid any confusion, the AC responsibilities identified above are the responsibilities of the AC and may not be allocated to a different committee.

### **15. Limitations on the Audit Committee's Duties**

In contributing to the AC's discharging of its duties under this mandate, each member of the AC shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the AC a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

March 25, 2015