



TERRA FIRMA CAPITAL CORPORATION

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

DECEMBER 31, 2019

APRIL 2, 2020

INTERPRETATION

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

The Company’s audited consolidated financial statements for the years ended December 31, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The following MD&A of the financial performance, financial condition, and cash flows of the Company dated April 2, 2020 for the year ended December 31, 2019 should be read in conjunction with the Company’s audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018 as well as the Company’s annual MD&A for the year ended December 31, 2018. These documents are available under the Company’s profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at WWW.SEDAR.COM.

SHARE CONSOLIDATION

Effective September 20, 2019, the Company completed a share consolidation of its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. As a result of the share consolidation, the Company’s 55,650,336 Shares issued and outstanding were consolidated to 5,565,033 Shares. The number of shares, warrants, options, deferred share units (the “DSUs”) and earnings per share data presented in this MD&A have all been adjusted retroactively to reflect the impact of this share consolidation.

CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY

Effective January 1, 2019, the Company changed its functional currency from Canadian dollar (the “CAD”) to the United States dollar (the “USD”). Prior to January 1, 2019, the functional currency of the Company, was the Canadian dollar (“CAD”). Per IAS 21 - The Effects of Changes in Foreign Exchange Rates (“IAS 21”), an entity’s functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency including the currency that influences sales prices, labour, purchases and other costs. Other indicators including the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. At December 31, 2018, over 80.0% of the Company’s investments are fully exposed to the USD, as well, the Company earns majority of the revenues in USD. Based on these factors, management concluded that effective January 1, 2019, the parent company’s and the majority of its subsidiaries’ functional currency should be the USD. The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information other than in conjunction with the change in presentation currency as discussed below.

Concurrent with the change in functional currency, on January 1, 2019, the Company changed its presentation currency from the CAD to the USD. The change in presentation currency better reflects the Company’s business activities, comprised primarily of USD transactions and provides shareholders with a more accurate reflection of the Company’s underlying performance. This change is applied retroactively, and comparative financial statements have been restated. Unless otherwise stated, all amounts discussed herein are denominated in USD. This accounting policy change is discussed in Note 3(a) to the December 31, 2019 audited consolidated financial statements of the Company.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws (“forward-looking statements”). Forward-looking statements are provided for the purposes of assisting the reader in understanding the Company’s financial performance, financial condition and cash flows as at and for the periods ended on certain dates and to present information about management’s current expectations, plans, estimates, projections, beliefs and opinions relating to the future and readers are cautioned that the assumptions related to these

plans, estimates, projections, beliefs and opinions may change and such statements may not be appropriate for other purposes. Forward-looking statements in this document include, but are not limited to, statements with respect to market opportunities for the identification and funding of loans, the provision to the Company of a consistent flow of quality investment opportunities, future returns on investments by the Company, as well as other statements under the heading “Future Outlook”, and may relate to future results, performance, achievements, events, prospects or opportunities for the Company or the real estate industry and may include statements regarding the financial position, business strategy, financial results, real estate values, interest rates, loan to cost, plans and objectives of or involving the Company. In some cases, forward-looking statements can be identified by such terms such as “may”, “might”, “will”, “could”, “should”, “would”, “occur”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “seek”, “aim”, “estimate”, “target”, “project”, “predict”, “forecast”, “potential”, “continue”, “likely”, “schedule”, or the negative thereof or other similar expressions concerning matters that are not historical facts.

Forward-looking statements necessarily involve known and unknown risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond the Company’s control, affect the lending operations, performance and results of the Company and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, the risks discussed in the Company’s materials filed with Canadian securities regulatory authorities from time to time under the Company’s profile at www.sedar.com, including the risks discussed herein at “Risks and Uncertainties” and risks discussed in the Company’s Annual Information Form (the “AIF”) dated April 2, 2020.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management’s perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the ability of the Company to adapt to any changes in government regulation and/or economic conditions; the continued availability of equity and debt financing; and the risks referenced above, collectively, will not have a material impact on the Company. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect. This is not an exhaustive list of the factors that may affect any of the Company’s forward-looking statements. Some of these and other factors are discussed in more detail in the Company’s AIF.

The forward-looking statements contained in this MD&A represent the Company’s views only as of the date hereof. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. While subsequent events and developments may cause the Company’s views to change, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events, except to the extent required by applicable Canadian securities laws.

NON-IFRS FINANCIAL MEASURES

The Company prepares and releases audited annual consolidated financial statements and unaudited interim condensed consolidated financial statements in accordance with IFRS. In this MD&A, as a complement to results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS as prescribed by the International Accounting Standards Board, that do not have standard meanings prescribed by IFRS (collectively the “non-IFRS measures”). These non-IFRS measures are further described below.

- Adjusted net income and comprehensive income as well as adjusted net income and comprehensive income attributable to common shareholders, adjusted net diluted income and comprehensive income attributable to common shareholders, which in the current periods are equal to adjusted net income and comprehensive income and adjusted earnings per share are calculated by adjusting the following (as applicable), irrespective of materiality:

- foreign exchange gains/losses related to the Company's non-functional currency denominated net assets;
- impairment losses/reversals;
- net gains/losses on the disposal of equity accounted investments;
- other unusual one-time items; and
- the income tax impact of the items listed above.

For further details, including a reconciliation of adjusted net income and comprehensive income to net income and comprehensive income, see "Financial Performance - Adjusted Net Income and Comprehensive Income". For a reconciliation of adjusted earnings per share to earnings per share, see "Selected Annual and Quarterly Financial Information".

- Adjusted revenue is revenue adjusted for the effect of interest expense incurred on loan and mortgage syndication as applicable. For further details, including a reconciliation of adjusted revenue to revenue, see "Financial Performance – Pre-Tax Profit Margin".
- Adjusted expenses are expenses adjusted for the effect of interest expense incurred on loan and mortgage syndications and other non-operating items, as applicable. For further details, including a reconciliation of adjusted expenses to expenses, see "Financial Performance – Pre-Tax Profit Margin".
- Pre-tax profit margin is the ratio of income from operations before taxes to adjusted revenue. For further details, including a reconciliation of pre-tax profit margin to revenue, see "Financial Performance – Pre-Tax Profit Margin".
- Adjusted total debt is total debt (defined as the aggregate of loan and mortgage syndications, credit facilities and mortgages payables) adjusted for the effect of loan and mortgage syndications as applicable. For further details, see "Shareholders' Equity - Debt to Equity Ratio".
- Adjusted debt-to-equity ratio is the ratio of adjusted total debt to shareholders' equity. For further details, see "Shareholders' Equity - Debt to Equity Ratio".
- Total investments (excluding cash) consists of principal balance of loan and mortgage investments, investment in finance leases, Portfolio Investments, Investments in Associates, convertible note receivable and an investment property held in joint operations (collectively, the "Total Investments"). For details regarding the components of the Company's Investment Portfolio, see "Investments".
- Loan-to-value (the "LTV") is a measure of risk determined at the time of loan and mortgage investments underwriting calculated as (i) the sum of advanced and un-advanced loan and mortgage investments commitments on a real estate asset (ii) divided by the estimate of the value of the underlying real estate collateral at that time if already developed or after completion of development in the case of a development project.
- Assets under management (the "AUM") are the assets managed by the Company on behalf of the Company's syndicate investors, as well as the Company's own assets, and include capital commitments that have not yet been drawn.

These non-IFRS measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other issuers. The Company has presented such non-IFRS measures which have been derived from the Company's financial statements, and applied on a consistent basis, because the Company believes they are of assistance in evaluating the underlying operational and financial performance of the Company. Non-IFRS measures are also commonly used by the financial community to analyze and compare the performance of companies engaged in the same industries. These non-IFRS measures should not be construed as alternatives to financial measures determined in accordance with IFRS as indicators of the Company's performance.

BUSINESS OVERVIEW AND STRATEGY

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

The objective of the Company is to preserve the Company’s capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation, and payment of dividends (from time to time as the board of directors (the “Board”) considers appropriate). In order to achieve this objective, the Company originates, creates and manages a diversified portfolio of loan and equity financings on real properties situated in the United States and Canada.

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

The Company syndicates certain of its loan and mortgage investments to investors, each participating in a prescribed manner and governed by loan servicing agreements, which are administered by Terra Firma MA Ltd, a wholly owned subsidiary of the Company which currently holds a license under the *Mortgage Brokerages, Lenders and Administrators Act, 2006 (Ontario)* (the “MBLAA”) which permits it to carry on mortgage brokerage and administrative activities. In these investments, the investors assume the same risks associated with the specific investment transaction as the Company. Each syndicated loan and mortgage investment have a designated rate of return that the syndicated investors expect to earn from that loan and mortgage investment. The interest income earned and related interest expense relating to the syndicate investors are recognized in the statements of income and comprehensive income. See “Capital Structure and Debt Profile – Loan and Mortgage Syndications”.

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

These loan and mortgage financings generally take the form of:

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

These financings generally represent loan to cost and loan-to-value ratios of 75%, including all prior encumbrances at the time of underwriting of each loan. In some cases, the loan-to-value ratio could increase to 80%. The “loan-to-value” ratio means the ratio, expressed as a percentage, determined by calculating $(A)/(B) \times 100$, where: (A) is the principal amount of the mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the real estate; and (B) is the appraised value of the real estate securing the mortgage at the time of funding the mortgage or in a more recent appraisal, if available.

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

specified price, until it had purchased the entire land or lots. These investments in the land banking arrangements through the purchase of lands are accounted for by the Company as a finance lease.

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

Management believes that there is a significant market opportunity in the U.S., as a result of financing needs not being met by traditional institutional lenders. Through management’s relationships with the U.S. mortgage lenders, brokers, local sponsors and other market participants, the Company is able to identify real estate opportunities where it can provide financing solutions to borrowers while achieving equity-like returns at reduced risk levels as compared to straight equity ownership. The Company differentiates itself by serving niche markets with an experienced financing team that can provide flexible terms and creative structuring. Management believes its experience with real estate investments and its industry contacts will provide the Company with a consistent flow of quality investment opportunities.

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

FOURTH QUARTER HIGHLIGHTS

The Company reported revenue of \$4,629,588 in the fourth quarter of 2019, compared to \$3,753,687 for the same period last year, representing an increase of \$875,901 or 23.3%.

Interest and fee income for the fourth quarter of 2019 aggregated to \$4,046,909, compared to \$3,671,489 for the same period last year, representing an increase of \$375,420 or 10.2%, while the finance income from investment in finance leases aggregated to \$540,835, compared to \$44,024 in the same period last year, representing an increase of \$496,811 or 1,128.5%.

Interest and financing costs for the fourth quarter of 2019 aggregated to \$2,422,611, compared to \$2,329,722 for the same period last year, representing an increase of \$92,889 million or 4.0%.

For the quarter ended December 31, 2019, the Company recognized a foreign exchange gain of \$114,885 compared to \$2,238,783 for the same period last year.

Net income and comprehensive income attributable to common shareholders for the fourth quarter of 2019 was \$884,279 or \$0.16 per basic and diluted share, as compared to \$1,923,369 or \$0.32 per basic and diluted share in the same period in the prior year, representing a decrease in net income and comprehensive income attributable to common shareholders of \$1,039,090.

During the quarter ended December 31, 2019, there was an allowance for credit loss relating to loan and mortgage investments of \$226,108. In the same period last year, the Company had provided an allowance for credit loss of \$102,039 relating to loan and mortgage investments and an allowance for uncollectible receivables of \$258,707 relating to certain loan and mortgage investments that are in arrears.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

6

INVESTMENTS

The following table presents details of the Company's Total Investments, as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Loan and mortgage investments ⁽¹⁾	\$ 116,820,582	\$ 122,209,711
Investment in finance leases	17,959,374	2,819,915
Portfolio investments	2,042,937	1,911,574
Investment in associates	3,097,947	2,146,984
Investment property held in Joint Operations	1,700,303	1,619,633
Convertible note receivable	800,531	-
Total Investments	\$ 142,421,674	\$ 130,707,817
(1) Before deducting the allowance for loan and mortgage investment loss at December 31, 2019 and 2018 of \$607,940 and \$533,732, respectively.		

The increase in Total Investments during the year ended December 31, 2019 resulted from the net effect of the decrease in loan and mortgage investments of \$5.4 million, which aggregate amount was offset by the increase in finance leases of \$15.1 million. The changes to these investments are discussed below.

The following table presents details of the Company's Total Investments segmented by geography as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Canada	\$ 21,787,665	\$ 17,810,518
United States	120,634,009	112,897,299
Total Investments	\$ 142,421,674	\$ 130,707,817

LOAN AND MORTGAGE INVESTMENTS

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).

The Company's Loan Portfolio as at December 31, 2018 consisted of the following: (a) 9 loans relating to residential housing developments located in Phoenix-Arizona, Atlanta-Georgia, Tampa-Florida, Toronto-Ontario and Cambridge-Ontario, representing 26.6% of the Loan Portfolio (by investment amount), (b) 11 loans relating to land and lot inventory of real estate assets to be developed, located in Orlando-Florida, Jacksonville-Florida, Tampa-Florida, Charlotte-North Carolina, Washington-District of Columbia, Atlanta-Georgia, Savannah-Georgia and Santa Barbara County-California, representing 69.5% of the Loan Portfolio (by investment amount) and (c) a commercial retail development land located in Palm Springs-California, representing the remaining 3.9% of the Loan Portfolio (by investment amount).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

7

The following table presents details of the Loan Portfolio, before loan and mortgage syndications as at December 31, 2019:

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Net Loan Portfolio (before syndication)	% of net Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.5%	\$ 37,965,218	\$ (117,776)	\$ 37,847,442	32.6%
Land and lot inventory	12.9%	71,996,517	(259,435)	71,737,082	61.7%
Commercial retail development	14.3%	4,755,000	(4,621)	4,750,379	4.1%
	13.2%	114,716,735	(381,832)	114,334,903	98.4%
Impaired loan and mortgage investments					
Residential housing developments	17.8%	2,103,847	(226,108)	1,877,739	1.6%
Loan Portfolio	13.2%	\$ 116,820,582	\$ (607,940)	\$ 116,212,642	100.0%

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

	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Net Loan Portfolio (before syndication)	% of Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.6%	\$ 29,760,683	\$ (107,819)	\$ 29,652,864	24.4%
Land and lot inventory	13.5%	84,964,030	(422,258)	84,541,772	69.5%
Commercial retail development	14.3%	4,755,000	(3,655)	4,751,345	3.9%
	13.7%	\$ 119,479,713	\$ (533,732)	\$ 118,945,981	97.8%
Impaired loan and mortgage investments					
Residential housing developments	18.3%	2,729,998	-	2,729,998	2.2%
Loan Portfolio	13.7%	\$ 122,209,711	\$ (533,732)	\$ 121,675,979	100.0%

As at December 31, 2019 and 2018, the principal balance of the Loan Portfolio was \$116,820,582 and \$122,209,711, respectively. The decrease in Loan Portfolio during the year ended December 31, 2019 resulted from the net effect of the repayment of loan investments totaling \$57,605,930 (including partial payments from four projects with loan and mortgage investments totaling \$19.4 million who elected to repay such loan and mortgage investments ahead of their scheduled maturities), and the receipt of capitalized interest of \$153,753 which were offset, in part, by advances against existing loan commitments of \$10,806,045, funding of new loan investments in the amount of \$35,903,506, and capitalized interest of \$4,981,911.

At December 31, 2019, the Company has a loan and mortgage investment totaling \$11,757,000, with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$7,000,000 and the remainder of the investment is in a subordinated position of \$4,757,000. The Company syndicated its position on a pari-passu basis for \$4,350,000, and retains a residual portion of the loan and mortgage investment of \$407,000. The syndication of other loan and mortgage investments has not created a subordinate position for the Company.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

8

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

	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Balance, beginning of period	\$ 113,538,689	\$ 129,458,149	\$ 122,209,711	\$ 94,661,511
Loan portfolio activity during the period				
Funding of new loan investments	5,381,442	2,683,755	35,903,506	40,968,845
Advances against existing loans	1,117,923	4,824,396	10,806,045	16,916,977
Repayments of loans	(5,089,491)	(11,336,549)	(57,605,930)	(28,237,829)
Interest capitalized	1,209,744	1,010,757	4,981,911	3,738,040
Capitalized interest received	(16,817)	(289,509)	(153,753)	(1,035,947)
Write-off of investment	-	(3,108,435)	-	(3,108,435)
Unrealized foreign exchange gain (loss)	679,092	(1,032,853)	679,092	(1,693,451)
Balance, end of period	\$ 116,820,582	\$ 122,209,711	\$ 116,820,582	\$ 122,209,711

The weighted average effective interest rate (the “EIR”) of the Loan Portfolio at December 31, 2019 and 2018, including the average interest rate of loans in default, was 13.2% and 13.7%, respectively. The Company continues to focus on the quality of security through placing its capital in more senior positions in the capital structure and reducing its exposure to unregistered loans. The higher level of security and lower weighted average interest rates have not had significant impact on the Company’s overall profitability given the Company’s focus on the spreads. See – “Financial Performance” and “Capital Structure and Debt Profile – Loan and Mortgage Syndications”.

The weighted average EIR of the loan and mortgage investments of residential housing developments at December 31, 2019 and 2018 was 13.5% in each case, due to the factors discussed below. The weighted average EIR of the loan and mortgage investments of land and lot inventory at December 31, 2019 and 2018 were 12.9% and 13.6%, respectively. The weighted average EIR of the commercial retail development at December 31, 2019 and 2018 were both 14.3%. The weighted average term to maturity at December 31, 2019 and 2018 was 1.37 years and 1.67 years, respectively.

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at December 31, 2019:

	December 31, 2019	% of Investments	December 31, 2018	% of Investments
1st mortgage loans	\$ 102,493,573	87.8%	\$ 110,018,384	90.1%
2nd mortgage loans	12,083,100	10.3%	9,461,329	7.7%
Unregistered loans	2,243,909	1.9%	2,729,998	2.2%
	\$ 116,820,582	100.0%	\$ 122,209,711	100.0%

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

9

The following table presents details of the Company's principal balances of the Loan Portfolio before syndication segmented by geography as at December 31, 2019:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 14,186,947	\$ (282,490)	\$ 13,904,457	12.0%
United States	102,633,635	(325,450)	102,308,185	88.0%
	\$ 116,820,582	\$ (607,940)	\$ 116,212,642	100.0%

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

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

Beginning in 2015, the Company foresaw opportunities with better risk adjusted returns in the U.S. and began a gradual program of lending in certain U.S. markets following the same prudent lending standards it has historically employed in Canada. The U.S. market continues to offer good quality lending opportunities while the price competition among lenders in the Canadian market remains quite strong. On a comparative basis, the loan and mortgage investment opportunities in the U.S market have generally offered risk/return profiles as good as or better than those available in the Canadian market. The yields on the land and lot inventory loans in U.S. are high on a risk adjusted basis, ranging between 11% and 12% for LTVs of up to 75%. As such, the Company continues to focus primarily on providing higher leveraged loans (up to 80% LTV) on development lands in the U.S. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts rather than taking a proactive approach to generating a greater pipeline of potential transactions.

At December 31, 2019, 88.0% of the loan and mortgage investments are in projects located in the U.S, compared to 90.0% at December 31, 2018. The Company expects a continued expansion of loan and mortgage investments to projects located in the U.S.

For the year ended December 31, 2019, the Company has loan and mortgage investments in two separate projects in the U.S., before syndication, that accounted for 13.5% and 16.9% of the Company's total interest and fees revenue. As at December 31, 2019, there are loan and mortgage investments in three separate projects in the U.S. that account for 19.1%, 13.9% and 10.1% of the principal balance of loan and mortgage investments. For the year ended December 31, 2018, the Company had loan and mortgage investments in two separate projects that accounted for 10.9% and 13.2% of the Company's total interest and fees revenue. As at December 31, 2018, there were loan and mortgage investments in three separate projects in the U.S. before syndication that accounted for 10.2%, 13.2% and 14.7% of the principal balance of loan and mortgage investments.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

10

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2020	\$ -	\$ 49,866,017	\$ 49,866,017
2021	-	30,717,296	30,717,296
2022	-	34,097,207	34,097,207
2023	-	2,140,062	2,140,062
	\$ -	\$ 116,820,582	\$ 116,820,582

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2019 amounted to \$34,355,724, including \$651,602 relating to the capitalization of future interest relating to the existing Loan Portfolio, compared to unfunded loan commitments under the existing Loan Portfolio of \$23,791,223, including \$7,053,657 relating to the capitalization of future interest relating to the Loan Portfolio at December 31, 2018. As at December 31, 2019, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S., before syndication, accounted for 39.3% and 36.6%, respectively, of the total unfunded commitments. As at December 31, 2018, the unfunded commitments relating to loan and mortgage investments in five separate projects in the U.S., before syndication, accounted for 29.8%, 20.1%, 13.9%, 11.5% and 10.8%, respectively, of the total unfunded commitments. The Company has a number of financing sources to fulfill its commitments including (i) cash flow from its operating activities, (ii) loan and mortgage syndications, (iii) mortgages payable (iv) credit facilities (iv) issuance of Shares and debentures, or any combination thereof.

Loan and mortgage investments are debt instruments recognized initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided in the Company's audited consolidated financial statements for the year ended December 31, 2019, under "Significant Accounting Policies and Changes in Accounting Policies". Loan and mortgage investments carried at amortized cost are measured using the EIR method and are presented net of any allowance for credit losses, calculated in accordance with the Company's policy for allowance for credit losses. Interest on loan and mortgage investments is recognized in interest income using the EIR method. The estimated future cash flows used in this calculation include those determined by the contractual term of the loan and mortgage investment and all fees that are considered to be integral to the EIR. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as interest income over the expected term of such loan and mortgage investments using the EIR method. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the consolidated statements of income. Impairment gains or losses recognized on amortized cost investments are loans are recognized at each balance sheet date in accordance with the three-stage impairment model.

ALLOWANCE FOR LOAN AND MORTGAGE INVESTMENTS LOSS

The changes in the allowance for credit losses (the "ACL") on loan and mortgage investments during the year ended December 31, 2019 were as follows:

	Balance at January 1, 2019	Provision for credit losses	Net write-offs	Other adjustments	Balance at December 31, 2019
Residential housing developments	\$ 107,819	\$ 236,065	\$ -	\$ -	\$ 343,884
Land and lot inventory	422,258	(162,823)	-	-	259,435
Commercial retail development	3,655	966	-	-	4,621
	\$ 533,732	\$ 74,208	\$ -	\$ -	\$ 607,940

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

11

During the year ended December 31, 2019, the Company additional loan and mortgage investment funding to project owned by an entity controlled by the Borrower that was in arrears to and received \$738,493 of loan and mortgage investments from a project owned by an entity controlled by the Borrower that was in arrears. During the year ended December 31, 2018, the Company funded an additional \$407,209 of loan and mortgage investments and received \$3,787,629, comprising a loan investment totaling \$3,226,580 and interest and other receivable totaling \$561,049 from a project owned by an entity controlled by the Borrower that was in arrears.

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

During the year ended December 31, 2019, the Company recorded \$226,108 of allowance for loan and mortgage investments loss and wrote-off no loan and mortgage investments. During the year ended December 31, 2018, due to the uncertainty and timing related to a recovery of a loan and mortgage investments in arrears, the Company recorded an allowance for loan and mortgage investments loss of \$2,403,182 and, subsequently a write-off of two loan and mortgage investments totaling \$3,108,435.

At December 31, 2019, one project loan investment totaling \$2,478,758 (December 31, 2018 - \$3,087,122), including interest receivable on this loan and fees incurred relating to collection of this loan totaling \$374,911 (December 31, 2018 - \$357,124), to a project owned by an entity controlled by the Borrower is in arrears.

As at December 31, 2019 and 2018, based on the most recent valuations of the underlying assets and management's estimates, the Company carries \$226,108 of allowance for credit loss balance, relating to the loan and mortgage investment in arrears. As at December 31, 2019 and 2018, the Company also carries an allowance for uncollectible receivable balance of \$202,684 and \$193,068, respectively, related to other receivables relating to loan and mortgage investments in arrears.

The following table presents the changes in the Company's ACL between the beginning and the end of the year:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 533,732	\$ 1,457,929
Allowance for loan and mortgage investment loss	74,208	2,403,182
Write-off of loan and mortgage investments	-	(3,108,435)
Foreign exchange	-	(218,944)
Balance, end of year	\$ 607,940	\$ 533,732

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

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 343,884	\$ -	\$ -	\$ 343,884
Land and lot inventory	259,435	-	-	259,435
Commercial retail development	4,621	-	-	4,621
	\$ 607,940	\$ -	\$ -	\$ 607,940

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

12

INVESTMENT IN FINANCE LEASES

The Company is party 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 (land banking). The Company also is party to a fixed price contract with builders to complete all required development of the land based upon a fixed construction budget. The Company is committed to making additional investments for development of the land, subject to builders meeting certain funding conditions. Under this arrangement, builders have option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. 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.

At December 31, 2019, the Company had four such arrangements with builders. The Company determined that the arrangements contain a lease and that all of the risks or rewards of ownership of the asset have been transferred to the builders and accounts for these arrangements as finance leases.

The investment in finance leases is the aggregate of gross lease payments and unearned finance income discounted at the interest rate implicit in the leases. The weighted average rate implicit in the leases is 13.4% per annum. The unearned finance income at December 31, 2019 was \$96,454 (December 31, 2018 - \$46,084)

The finance income recognized from finance leases for the years ended December 31, 2019 and 2018 of \$1,497,294 and \$152,733, respectively, were included in the finance income in the consolidated statements of income and comprehensive income.

The following table summarizes the changes in the investment in finance lease for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 2,819,915	\$ -
Investments made	23,518,262	2,865,999
Investments sold	(8,282,149)	-
Lease payments received	(1,593,948)	(198,817)
Finance income recognized	1,497,294	152,733
Balance, end of year	\$ 17,959,374	\$ 2,819,915

As at December 31, 2019 and 2018, the investment in finance leases amounted to \$17,959,374 and \$2,819,915, respectively. The increase in investment in finance leases during the year ended December 31, 2019 resulted from funding of new finance leases in the amount of \$21,561,790, advances made to existing finance leases of \$1,956,472, and recognition of finance income of \$1,497,294 which were offset, in part, by sale of leases of \$8,282,149 and receipt of lease payments of \$1,593,948.

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

	Future minimum lease receipts	Finance income	Present value of minimum lease receipts
Less than one year	\$ 2,154,131	\$ 2,254,243	\$ (100,112)
Greater than one year but less than 5 years	20,376,768	2,317,282	18,059,486
	\$ 22,530,899	\$ 4,571,525	\$ 17,959,374

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

13

PORTFOLIO INVESTMENTS

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

	December 31, 2019	December 31, 2018
Investment in the LanQueen Partnership	\$ 2,001,936	\$ 1,852,573
Investment in the Savannah Partnership	41,000	59,000
Investment in the Valermo Partnership	1	1
Investment in the Hill Partnership	-	-
	\$ 2,042,937	\$ 1,911,574

- (a) The Company, through its wholly-owned subsidiary TFCC LanQueen Ltd., is party to a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to invest in a redevelopment project located in Toronto, Ontario. The Queen Agreement allows TFCC LanQueen Ltd. to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded annually on the amount of its investment in the partnership. TFCC LanQueen Ltd. does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss (the "FVTPL"). As at December 31, 2019 and 2018, TFCC LanQueen Ltd. contributed \$1,264,208 in the partnership. At December 31, 2019, the fair value of the investment was determined by management, using the direct comparison method, to be \$2,001,936 (2018 - \$1,852,573).
- (b) The Company, through its wholly-owned subsidiary TFCC International Ltd., is party to a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to invest \$2,000,000 through a partnership interest (the "Savannah Partnership") in a development project (the "Savannah Project") located in Savannah, Georgia. The Savannah Agreement allows TFCC International Ltd. to receive a preferred return equal to 11% per annum calculated and compounded monthly on the amount of its investment in the Savannah Partnership. TFCC International Ltd. is also entitled to receive 50% of the net profit after Savannah Partnership makes distributions to other partners at a rate equal to 11% per annum calculated and compounded monthly on the amount of their investment in the Savannah Partnership. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. On September 20, 2017, TFCC International Ltd. contributed \$200,000 to the Savannah Partnership. During the years ended December 31, 2019 and 2018, TFCC International Ltd. sold part of its interest in the Savannah Partnership to investors for \$18,000 and \$61,000, respectively. As at December 31, 2019 and 2018, the cost of the investment in the Savannah Partnership is \$41,000 and \$59,000, respectively. At December 31, 2019 and December 31, 2018, the fair value of the investment in the Savannah Partnership was determined by management, using the direct comparison method. The fair value of the remaining investment in the Savannah Partnership at December 31, 2019 and December 31, 2018 was \$41,000 and \$59,000, respectively.

TFCC International Ltd. also committed to advance a principal amount of first mortgage loan up to \$18,000,000 to the Savannah Project, subject to the Savannah Project meeting certain funding conditions. The loan carries interest at 11.0% per annum calculated and compounded monthly. As at December 31, 2019 and 2018, TFCC International Ltd. funded a loan and mortgage investment of \$18,288,990, and \$16,177,172, respectively and as at December 31, 2019 and 2018, syndicated the loan and mortgage investment funded to investors of \$14,523,664 and \$10,940,146, respectively).

- (c) The Company, through its wholly-owned subsidiary Terra Firma Valermo Corporation (the "TFVC"), has a limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2018, the Company received a return of capital in the Valermo Partnership of \$7,821,269. The fair value of the investment was determined by management, using the direct comparison method. The fair value of the investment at December 31, 2019 was \$1 (2018 - \$1).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

14

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

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 1,911,574	\$ 10,804,898
Return of investment	-	(7,821,269)
Redemption of investment	-	(727,858)
Sale of investment	(18,000)	(61,000)
Loss on sale of investment	-	(173,646)
Fair value adjustment	56,124	57,415
Foreign exchange	93,239	(166,966)
Balance, end of year	\$ 2,042,937	\$ 1,911,574

INVESTMENT IN ASSOCIATES

The following table presents details of the investment in associates as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Investment in the Lan Partnership	\$ 2,227,442	\$ 2,146,984
Investment in the TF Royal Palm	870,505	-
	\$ 3,097,947	\$ 2,146,984

- (a) The Company and certain investors have invested in a 668-unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, through a partnership interest (the "Lan Partnership").

At December 31, 2019 and 2018, the Company's share of investment in the Lan Partnership was CAD\$2,315,514.

At December 31, 2019 and 2018, the fair value of the investment in the Lan Partnership was determined by management, using the direct comparison method, to be \$2,227,442 and \$2,146,984, respectively.

- (b) The Company, through Royal Palm Beach Preferred Investment LLC ("TF Royal Palm"), is a party to a limited liability company agreement (the "Royal Palm Agreement") whereby TF Royal Palm committed to invest up to \$7,000,000 in an assisted living development project located in Royal Palm Beach, Florida. The Royal Palm Agreement allows TF Royal Palm to receive a 2% fee at the time of commitment, an annual project management fee of \$70,000, and a preferred return on the amount of its investment in the limited liability company. As at November 15, 2019, TF Royal Palm contributed \$4,994,033 (2018 - \$nil) in the limited liability company and received \$140,000 in fees. On November 29, 2019, the Company sold part of its interest in the TF Royal Palm to investors for \$4,280,600. The Company accounts for its investment in TF Royal Palm of \$713,433, using the equity method of accounting.

On December 9, 2019, the Company funded additional investment of \$149,920 in TF Royal Palm. During the year ended December 31, 2019, the Company recorded income of \$382,814 and received distributions of \$375,662 from TF Royal Palm.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

15

At December 31, 2019 and 2018, the carrying value of the investment in the TF Royal Palm was \$870,505 and \$nil, respectively.

The following table summarizes the changes in the investment in associates for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 2,146,984	\$ 2,329,045
Investment made	5,143,953	-
Sale of investment to investors	(4,280,600)	-
Income earned	356,435	-
Distributions received	(375,662)	-
Foreign exchange	106,837	(182,061)
Balance, end of year	\$ 3,097,947	\$ 2,146,984

JOINT ARRANGEMENTS

JOINT OPERATIONS

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

Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20-year land lease, with five renewal options of five years each. The Company's ownership interest in the Montreal Street JV is 55.0%. At December 31, 2019 and 2018, the Company's share of net assets in Montreal Street JV was \$735,087 and \$634,776, respectively.

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 54,031	\$ 16,061
Amounts receivable and prepaid expenses	83,965	81,121
Investment property	1,700,303	1,619,633
Right of use asset	739,123	-
Total assets	2,577,422	1,716,815
Accounts payable and accrued liabilities	35,772	34,230
Mortgages payable	1,067,440	1,047,809
Lease obligations	739,123	-
Total liabilities	1,842,335	1,082,039
Net assets	\$ 735,087	\$ 634,776

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

16

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

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue				
Rental	\$ 41,844	\$ 38,174	\$ 155,720	\$ 155,720
Expenses (income)				
Property operating costs	14,235	13,108	53,427	53,427
General and administrative expenses	(548)	(751)	2,315	1,661
Interest expense	12,326	8,650	32,652	34,734
	26,013	21,007	88,394	89,822
Net income	\$ 15,831	\$ 17,167	\$ 67,326	\$ 65,898

INVESTMENT PROPERTY

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

At December 31, 2019 and 2018, the fair value was determined by the Company's management. The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future normalized net operating income at the market capitalization rates. The capitalization rate used in the valuation property was 6.25% (December 31, 2018 - 6.25%). At December 31, 2019 and 2018, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV was or \$1,700,303 (CAD\$2,208,694) and \$1,619,633 (CAD\$2,208,694), respectively.

As at December 31, 2019 and 2018, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by CAD\$92,400 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by CAD\$85,250.

CONVERTIBLE NOTE RECEIVABLE

On January 29, 2019, the Company entered into a loan agreement with an unrelated Ontario corporation that provides web-based crowd funding services and holds an Exempt Market Dealer license. The loan was provided to assist in expanding its operations. The loan was made in exchange for a convertible promissory note receivable (the "Convertible Note") with a face value of CAD\$2,000,000. At signing, the Company advanced CAD\$1,000,000 of the CAD\$2,000,000 commitment. The remaining CAD\$1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. The Company has the option to convert the principal and accrued interest into an equity interest. Unless the note is converted pursuant to the terms, the Convertible Note becomes receivable by demand any time after January 29, 2021, which shall be extended for a further twelve months, under certain conditions. The option to settle payments in common shares represents an embedded derivative in the form of a call option to the Company. The Convertible Note in its entirety is classified as at FVTPL. During the year ended December 31, 2019, the Company capitalized interest income of \$29,998 (2018 - \$nil). The fair value of the investment was determined by management at December 31, 2019 to be \$800,531 (2018 - \$nil), being the principal amount and capitalized interest.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

17

The following table summarizes the changes in the investment in associates for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ -	\$ -
Investment made	752,349	-
Interest capitalized	29,998	-
Foreign exchange	18,184	-
Balance, end of year	\$ 800,531	\$ -

ASSETS UNDER MANAGEMENT

The Company also manages assets and collects spreads on assets that are shown on the Company's balance sheet. The Company generates fees and/or carried interest from certain assets managed by the Company on behalf of the Company's syndicate investors that are not the Company's assets and are not included in the Company's financial statements. AUM (a non-IFRS measure) as at December 31, 2019 and 2018 was \$186.1 million and \$175.8 million, respectively. AUM will fluctuate in value as a result of the funding of new investments and redemption of investments.

FINANCIAL PERFORMANCE

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

	Three months ended			Years ended		
	December 31, 2019	December 31, 2018	Change Increase / (decrease)	December 31, 2019	December 31, 2018	Change Increase / (decrease)
Revenue						
Interest and fees earned	\$ 4,046,909	\$ 3,671,489	\$ 375,420	\$ 15,003,292	\$ 13,139,718	\$ 1,863,574
Finance income	540,835	44,024	496,811	1,497,294	152,733	1,344,561
Rental income	41,844	38,174	3,670	155,720	155,720	-
Total revenue	4,629,588	3,753,687	875,901	16,656,306	13,448,171	3,208,135
Expenses						
Property operating costs	14,235	13,108	1,127	53,427	53,427	-
General and administrative expenses	1,129,828	950,701	179,127	3,375,989	2,775,430	600,559
Share based compensation	120,594	(234,302)	354,896	474,168	(15,828)	489,996
Interest and financing costs	2,422,611	2,329,722	92,889	9,161,259	7,947,282	1,213,977
Provision for loan and mortgage investment loss	226,108	102,039	124,069	74,208	2,403,182	(2,328,974)
Provision for uncollectible receivables	-	258,707	(258,707)	-	134,940	(134,940)
Fair value adjustment - portfolio investment	(56,124)	(57,413)	1,289	(56,124)	(57,413)	1,289
Share of income from investment in associates	(356,435)	-	(356,435)	(356,435)	-	(356,435)
Realized and unrealized foreign exchange gain	(114,885)	(2,238,783)	2,123,898	(156,901)	(3,034,987)	2,878,086
Realized loss on sale of portfolio investment	-	-	-	-	173,646	(173,646)
	3,385,932	1,123,779	2,262,153	12,569,591	10,379,679	2,189,912
Income from operations before income taxes	1,243,656	2,629,908	(1,386,252)	4,086,715	3,068,492	1,018,223
Income taxes	359,377	706,539	(347,162)	1,008,958	902,038	106,920
Net income and comprehensive income	\$ 884,279	\$ 1,923,369	\$ (1,039,090)	\$ 3,077,757	\$ 2,166,454	\$ 911,303

Total revenue for the three months and year ended December 31, 2019 was \$4,629,588 and \$16,656,306, respectively, compared to \$3,753,687 and \$13,448,171, for the same periods last year, primarily due to the factors discussed below under "Interest and Fees Earned" and "Finance Income".

Income from operations before income taxes for the three months ended December 31, 2019 was \$1,243,656 compared to \$2,629,908 for the same period last year. The decrease was primarily due to a foreign exchange gain of \$2,238,783 for the three months ended December 31, 2018 (compared to \$114,885 for the three months ended December 31, 2019) and an increase in share based compensation expense of \$354,896, the results of which were partially offset by an increase in revenue of \$875,901 for the three months ended December 31, 2019, not recording the provision for loan and mortgage investment loss or provision for uncollectible receivables, for the three months ended December 31, 2019 (compared to the provision for loan and mortgage investment loss of \$102,039 and provision for uncollectible receivables of \$258,707 recorded for the three months ended December 31, 2018). Realized and unrealized foreign exchange gain for the three months and year ended December 31, 2018, was higher due to the strengthening of the U.S. dollar against the Canadian dollar and higher USD denominated net assets were converted to CAD.

Income from operations before income taxes for the year ended December 31, 2019 was \$4,086,715 compared to \$3,068,492 for the year ended December 31, 2018. The increase of \$1,018,223 was primarily due to an increase in interest and fees earned and finance income of \$1,863,574 and \$1,344,561, respectively, a decrease in of loan and mortgage investment loss of \$2,328,974, a share of income from investment in associates of \$356,435 and not incurring the loss on sale of portfolio investments (compared to the loss on sale of portfolio investments of \$173,646 recorded in 2018), the results of which were partially offset by an increase in interest and financing costs of \$1,213,977, an increase in general and administrative expenses of \$600,559, an increase in share based compensation of \$489,996, a foreign exchange gain of \$156,901 in 2019 (compared to \$3,034,987 in 2018). Realized and unrealized foreign exchange gain for the three months and year ended December 31, 2018, was higher due to the strengthening of the U.S. dollar against the Canadian dollar and higher USD denominated net assets were converted to CAD.

Net income and comprehensive income for the three months ended December 31, 2019 was \$884,279 (compared to a net income and comprehensive income of \$1,923,369 for the corresponding period in 2018). The decrease in net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the three months ended December 31, 2019 and 2018.

Net income and comprehensive income for the year ended December 31, 2019 was \$3,077,757 (compared to \$2,166,454 for the corresponding period in 2018). The higher net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above.

ADJUSTED NET INCOME AND COMPREHENSIVE INCOME

It is the Company's view that additional income measures linking the Company's financial statements to explanations of its business performance may be useful to give investors greater insight on the financial performance of the Company and how it is managed.

Adjusted net income and comprehensive income assess the income from operations without the effects of certain non-cash items that generally have no current economic impact or other unusual one-time items that are viewed as not directly related to a Company's operating performance.

The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors also use adjusted net income and comprehensive income for such purposes. Presenting this measure from period to period helps evaluate trends more readily in comparison with results from prior periods.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

19

The following table provides the calculation of the Company's adjusted net income and comprehensive income for the three months and years ended December 31, 2019 and 2018:

	Three months ended			Years ended		
	December 31, 2019	December 31, 2018	Change Increase / (decrease)	December 31, 2019	December 31, 2018	Change Increase / (decrease)
Net income and comprehensive income	\$ 884,279	\$ 1,923,369	\$(1,039,090)	\$ 3,077,757	\$ 2,166,454	\$ 911,303
Provision for loan and mortgage investment and uncollectible receivable losses (tax adjusted)	166,190	265,149	(98,959)	54,543	1,865,520	(1,810,977)
Loss on redemption of portfolio investment (tax adjusted)	-	-	-	-	127,630	(127,630)
Foreign exchange gain (tax adjusted)	(84,440)	(1,645,505)	1,561,065	(115,322)	(2,230,715)	2,115,393
Adjusted net income and comprehensive income ⁽¹⁾	\$ 966,029	\$ 543,013	\$ 423,016	\$ 3,016,978	\$ 1,928,889	\$ 1,088,089

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

Adjusted net income and comprehensive income (a non-IFRS measure), for the three months ended December 31, 2019 was \$966,029, an increase of \$423,016 from adjusted net income and comprehensive income of \$543,013 for the corresponding period in 2018. The increase in adjusted net income and comprehensive income compared to the same period last year was primarily due to lower adjustment for foreign exchange gain by \$1,561,065, which increase was offset in part by recording of lower provision for loan and mortgage investment and uncollectible receivable loss of \$98,959.

Adjusted net income and comprehensive income (a non-IFRS measure) for the year ended December 31, 2019 was \$3,016,978, an increase of \$1,088,089 from adjusted net income and comprehensive income of \$1,928,889 for the corresponding period in 2018. The increase in adjusted net income and comprehensive income compared to the same period last year was primarily due to the factors discussed above in the paragraph regarding income from operations before income taxes for the year ended December 31, 2019 and 2018.

PRE-TAX PROFIT MARGIN

The Company believes that the pre-tax profit margin (a non-IFRS measure) provides an assessment of the extent the Company is able to earn profit from each dollar of the adjusted revenue (a non-IFRS measure).

The Company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors also use pre-tax profit margin for such purpose. Presenting this measure from period to period helps evaluate trends more readily in comparison with results from prior periods.

The following table provides the calculation of pre-tax profit margin for the three months and years ended December 31, 2019 and 2018:

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	\$ 4,629,588	\$ 3,753,687	\$ 16,656,306	\$ 13,448,171
Less:				
Interest on loan and mortgage syndications	(2,163,694)	(1,859,074)	(7,568,285)	(6,255,559)
Adjusted revenue ⁽¹⁾	2,465,894	1,894,613	9,088,021	7,192,612
Expenses	3,385,932	1,123,779	12,569,591	10,379,679
Add (less):				
Interest on loan and mortgage syndications	(2,163,694)	(1,859,074)	(7,568,285)	(6,255,559)
Realized and unrealized foreign exchange loss (gain)	114,885	2,238,783	156,901	3,034,987
Provision for loan and mortgage investments and uncollectible receiva	(226,108)	(360,746)	(74,208)	(2,538,122)
Adjusted expenses ⁽¹⁾	1,111,015	1,142,742	5,083,999	4,620,985
Income from operations before income taxes	\$ 1,354,879	\$ 751,871	\$ 4,004,022	\$ 2,571,627
Pre-tax margin ⁽¹⁾	54.9%	39.7%	44.1%	35.8%

(1) Adjusted revenue, adjusted expenses and operating margin are non-IFRS Measures. See "Non-IFRS" Measures.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

20

For the three months and years ended December 31, 2019, pre-tax profit margin was 54.9% and 44.1%, respectively, compared to 39.7% and 35.8%, respectively for the same periods last year.

INTEREST AND FEES EARNED

For the three months ended December 31, 2019, interest and fees earned aggregated to \$4,046,909, compared to \$3,671,489 in the comparative period last year, representing an increase of \$375,420 or 10.2%, primarily due to interest and fees of \$1,591,432, earned from loan and mortgage investments made funded after December 31, 2018, which is partially offset by interest fees lost of \$1,173,489 on investments repaid after December 31, 2018.

For the year ended December 31, 2019, interest and fees earned aggregated to \$15,003,292 (compared to \$13,139,718 in the comparative period in 2018), representing an increase of \$1,863,574 or 14.2% primarily due to interest and fees of \$1,769,772, earned from loan and mortgage investments funded after December 31, 2018 and an increase in interest and fees of \$3,282,599, earned from loan and mortgage investments funded prior to December 31, 2018. The increase was partially offset by interest and fees of \$3,139,335 earned on investments repaid after December 31, 2018. The composition and changes to the Loan Portfolio are discussed under “Investments – Loan and Mortgage Investments”.

FINANCE INCOME

For the three months ended December 31, 2019, finance income aggregated to \$540,835, compared to \$44,024 in the comparative period last year, representing an increase of \$496,811 or 1,128.5%.

For the year ended December 31, 2019, finance income aggregated to \$1,497,294, compared to \$152,733 in the comparative period in 2018, representing an increase of \$1,344,561 or 880.3% primarily due to an increase in investment in finance leases. The composition and changes to the investment in finance leases are discussed under “Investments – Investment in Finance Leases”.

RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company’s proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended December 31, 2019 and 2018 was \$41,844 and \$38,174, respectively. The Company’s proportionate share of the property operating costs in investment property in operations jointly controlled by the Company for the three months ended December 31, 2019 was \$14,235 compared to \$13,108 for the same period last year.

The Company’s proportionate share of the rental income from investment property in operations jointly controlled by the Company for the years ended December 31, 2019 and 2018 was \$155,720, in each case. The Company’s proportionate share of the property operating costs in investment properties in operations jointly controlled by the Company for the year ended December 31, 2019 and 2018 was \$53,427, in each case.

INTEREST AND FINANCING COSTS

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

	Three months ended			Years ended		
	December 31, 2019	December 31, 2018	Change Increase / (decrease)	December 31, 2019	December 31, 2018	Change Increase / (decrease)
Interest on loan and mortgage syndications	\$ 2,163,694	\$ 1,859,074	\$ 304,620	\$ 7,568,285	\$ 6,255,559	\$ 1,312,726
Interest on Credit Facilities	246,192	461,998	(215,806)	1,558,228	1,656,989	(98,761)
Montreal Street JV	12,326	8,650	3,676	32,652	34,734	(2,082)
Lease obligations	399	-	399	2,094	-	2,094
	\$ 2,422,611	\$ 2,329,722	\$ 92,889	\$ 9,161,259	\$ 7,947,282	\$ 1,213,977

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

21

Interest expense for the three months ended December 31, 2019 was \$2,422,611 compared to \$2,329,722 for the same period last year. Interest expense for the year ended December 31, 2019 was \$9,161,259 compared to \$7,947,282 for the same period last year. This increase was primarily due to the increase in loan and mortgage syndications from \$75.9 million at December 31, 2018 to \$88.2 million at December 31, 2019. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications” and “Credit Facilities”.

GENERAL AND ADMINISTRATIVE EXPENSES

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

	Three months ended			Years ended		
	December 31, 2019	December 31, 2018	Change Increase / (decrease)	December 31, 2019	December 31, 2018	Change Increase / (decrease)
Salary and benefits	\$ 684,508	\$ 737,072	\$ (52,564)	\$ 1,814,258	\$ 1,835,062	\$ (20,804)
Professional fees	238,479	66,577	171,902	923,369	430,997	492,372
Public company expenses	11,507	14,846	(3,339)	36,361	51,233	(14,872)
Directors' fees	58,271	40,947	17,324	153,647	98,497	55,150
Rent	41,865	28,628	13,237	151,449	128,993	22,456
Other expenses	95,198	62,631	32,567	296,905	230,648	66,257
	\$ 1,129,828	\$ 950,701	\$ 179,127	\$ 3,375,989	\$ 2,775,430	\$ 600,559

General and administrative expenses consist mainly of salaries and other personnel costs, professional fees, occupancy costs and other expenses associated with the operation of the Company.

General and administrative expenses for the three months ended December 31, 2019 were \$1,129,828, compared to \$950,701 for the same period last year, increased primarily due to an increase in professional fees and other expenses and the payment of directors' fees in cash due to the amendment to Deferred Share Unit Plan (the “DSU Plan”). General and administrative expenses for the year ended December 31, 2019 were \$3,375,989, compared to \$2,775,430 for the prior year, increased primarily due to additional legal fees incurred relating to the loan and mortgage investments in arrears and directors' fees are being paid in cash.

SHARE BASED COMPENSATION

The share-based compensation that has been recognized for the three months and years ended December 31, 2019 and 2018 was as follows:

	Three months ended			Years ended		
	December 31, 2019	December 31, 2018	Change Increase / (decrease)	December 31, 2019	December 31, 2018	Change Increase / (decrease)
Share option Plan	\$ 25,871	\$ 38,425	\$ (12,554)	\$ 176,307	\$ 260,819	\$ (84,512)
DSU Plan	94,723	(272,727)	367,450	297,861	(276,647)	574,508
	\$ 120,594	\$ (234,302)	\$ 354,896	\$ 474,168	\$ (15,828)	\$ 489,996

Share-based compensation associated with the Company's share option plan (the "Plan") was \$25,871 for the three months ended December 31, 2019, compared to \$38,425 for the same period last year. The decrease in share-based payments associated with the Plan was primarily due to lower number of options granted in 2019 and the determination of the compensation expense using the graded-vesting accounting method. See “Shareholders Equity – Share-Based Payments”.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

22

The Company has a DSU Plan to promote a greater alignment of interests between directors, officers and employees and the shareholders of the Company by linking a portion of the annual director retainer and annual bonus to officers or employees to the future value of the Shares by awarding DSUs as compensation for services rendered. Effective September 30, 2019, the Board modified the DSU Plan. See “Shareholders Equity – Share-Based Payments”.

The share-based compensation associated with the DSU Plan for the three months ended December 31, 2019 was \$94,723, compared to a credit of \$272,727 for the same period last year. Share-based compensation associated with the DSU Plan for the year ended December 31, 2019 was \$297,861, compared to a credit of share-based compensation of \$276,647 for the same period last year. The increase in share-based compensation associated with the DSU Plan for the three months and year ended December 31, 2019 was primarily due to an increase in the Share price and vesting of additional DSUs during the period which aggregate amount was offset, in part, by payment of directors’ fees in cash, as discussed in “Shareholders Equity – Share-Based Payments”.

FOREIGN EXCHANGE (GAIN) LOSS

For the years ended December 31, 2019 and 2018, the Company recorded a realized and unrealized foreign exchange gain of \$156,901 and \$3,034,987, respectively.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

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

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

CASH FLOWS

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

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cash (used in) provided by operating activities	\$ (1,655,219)	\$ (2,961,276)	\$ 501,438	\$ (1,385,148)
Cash (used in) provided by financing activities	(3,756,875)	494,802	319,590	28,582,144
Cash provided by (used in) investing activities	3,398,416	6,542,370	(6,620,956)	(21,607,583)
Increase (decrease) in cash and cash equivalents	(2,013,678)	4,075,896	(5,799,928)	5,589,413
Cash and cash equivalents, beginning of period	3,945,129	3,655,483	7,731,379	2,141,966
Cash and cash equivalents, end of period	\$ 1,931,451	\$ 7,731,379	\$ 1,931,451	\$ 7,731,379

Cash and cash equivalents at December 31, 2019 and 2018 were \$1,931,451 and \$7,731,379, respectively.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

23

Operating Activities

Cash used in operating activities for the three months ended December 31, 2019 and 2018 of \$1,655,219 and \$2,961,276 and cash provided by operating activities for the year ended December 31, 2019 of \$501,438 and cash used in operating activities for the year ended December 31, 2018 of \$1,385,148, are related primarily to the net cash used in and provided by lending operations. The Company's cash provided by operating activities for the year ended December 31, 2019 increased despite capitalizing interest of \$4,981,911 to loan and mortgage investment. See "Investments – Loan and Mortgage Investments". The receipt of the capitalized interest on maturity of the existing loans and mortgages, in which the interest has been capitalized, will increase the cash flow from operations in the future.

Financing Activities

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

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Proceeds from loan and mortgage syndications	\$ 6,843,918	\$ 3,131,452	\$ 49,602,355	\$ 40,424,380
Repayments of loan and mortgage syndications	(2,377,372)	(6,454,017)	(39,327,209)	(15,143,072)
Repayments of mortgages payable	(8,778)	(8,380)	(34,175)	(33,965)
Payment of lease obligations	(45,973)	-	(172,620)	-
Proceeds from short-term unsecured loans payable	-	-	3,000,000	-
Proceeds from credit facilities	3,525,819	7,920,529	14,102,487	8,804,480
Repayments of credit facilities	(11,483,789)	(2,948,548)	(25,389,941)	(2,948,548)
Disposition of non-controlling interest	-	-	-	(153,233)
Dividends paid	(210,700)	-	(210,700)	-
Proceeds from issuance of shares pursuant to share options plan	-	-	-	22,544
Repurchase of shares pursuant to normal course issuer bid	-	(1,146,234)	(1,250,607)	(2,390,442)
Cash provided by (used in) financing activities	\$ (3,756,875)	\$ 494,802	\$ 319,590	\$ 28,582,144

Investing Activities

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

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Funding of loan and mortgage investments	\$ (6,499,365)	\$ (7,476,718)	\$ (46,709,551)	\$ (56,851,087)
Repayments of loan and mortgage investments	5,089,491	11,336,549	57,605,930	28,237,829
Funding of investment in finance leases	(3,497,674)	(873,903)	(23,518,262)	(2,865,999)
Proceeds from sale of finance leases	3,556,204	-	8,282,149	-
Funding of investment in convertible note receivable	-	-	(752,349)	-
Decrease (increase) in funds held in trust	1,746,247	3,556,442	(683,520)	1,261,548
Funding of investment in associates	(5,143,953)	-	(5,143,953)	-
Proceeds from sale of interest in portfolio investment	4,280,600	-	4,298,600	61,000
Proceeds from redemption of portfolio investment	-	-	-	727,858
Return of capital of portfolio investment	-	-	-	7,821,268
Funding of portfolio investment	3,866,866	-	-	-
Cash provided by (used in) investing activities	\$ 3,398,416	\$ 6,542,370	\$ (6,620,956)	\$ (21,607,583)

CAPITAL STRUCTURE AND DEBT PROFILE

CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, loan and mortgage syndications, Credit Facilities and mortgages payable. The Company's capital management is designed to ensure that the Company has sufficient financial flexibility, in the short-term and long-term and to grow cash flow and solidify the Company's long-term creditworthiness, as well as to ensure a positive return for the shareholders.

The Company adjusts its capital structure considering general economic conditions and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board, may pay dividends, buy back Shares or undertake other activities as deemed appropriate under the specific circumstances. The Board reviews and approves any material transactions not in the ordinary course of business

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

		December 31, 2019	December 31, 2018
Loan and mortgage syndications	\$	88,249,414	\$ 75,906,550
Credit Facilities		8,878,839	19,464,106
Unsecured note payable		3,000,000	-
Mortgages payable		1,067,440	1,047,809
Shareholders' Equity		39,635,372	38,053,026
Total capital	\$	140,831,065	\$ 134,471,491

LOAN AND MORTGAGE SYNDICATIONS

The Company enhances the Loan Portfolio through Loan Syndications, Credit Facilities and mortgages payable. These financial liabilities are designed to increase the Company's overall returns through the issuance of specific debt instruments bearing lower effective interest rates than those being realized on the Loan Portfolio itself, while lowering the Company's overall risk profile.

Loans and mortgages payable are funded through one of the following initiatives:

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

The Loan Portfolio that may initially be funded by the Company may then be syndicated to other lenders sourced by the Company on a pari-passu basis. The syndicated portion of the investments are sold to investors and owned by the investors in a prescribed manner and are governed by loan servicing agreements. The terms of the syndication would typically mirror the terms of the loan with the exception of the interest rate paid to syndicated investors. In addition, the Company would retain any commitment fee and certain other fees earned from the borrower. Management of the mortgage origination, funding, payouts and delinquency (if applicable) are all administered by Terra Firma MA Ltd. (the "TFMA"), a wholly-owned subsidiary of the Company, on behalf of the syndicate investors. The security documents are typically registered in the name of the Company and held in trust on behalf of the syndicated investors.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

25

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

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

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

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

	December 31, 2019			December 31, 2018		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	8.2%	\$ 21,238,552	24.1%	10.0%	\$ 7,715,756	10.2%
Land and lot inventory	10.1%	62,960,862	71.3%	10.2%	64,140,794	84.5%
Commercial retail development	9.9%	4,050,000	4.6%	9.9%	4,050,000	5.3%
	9.6%	\$ 88,249,414	100.0%	10.2%	\$ 75,906,550	100.0%

At December 31, 2019, the weighted average EIR of Loan Syndications was 9.6%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of 8.2%, land and lot inventory, having a weighted average EIR of 10.1% and commercial retail developments having a weighted average EIT of 9.9%. At December 31, 2019, the weighted average term to maturity of Loan Syndications was 1.46 years.

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

At December 31, 2019, the Company's syndication activities resulted in \$88,249,414 or 75.6% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 24.4%, and increasing its overall return by 11.2% from its non-leveraged 13.2% return. At December 31, 2018, the Company's syndication activities resulted in \$75,906,550 or 62.1% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 19.4% and increasing its overall return by 5.7% from its non-leveraged 13.7% return. Overall, returns may fluctuate significantly due to changes in the relative dollar amounts and the relative change in the weighted average effective interest rates within the Loan Portfolio and Loan Syndications.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

26

The following table summarizes the changes in the principal balance of Loan Syndications for the three months and years ended December 31, 2019 and 2018:

	Three months ended		Years ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Balance, beginning of period	\$ 82,902,486	\$ 79,304,633	\$ 75,906,550	\$ 50,353,652
Loan and mortgage syndication activity during the period				
Proceeds to participate in new Loan Portfolio	6,755,500	-	38,062,274	26,975,250
Additional advances to existing Loan Portfolio	88,418	3,131,452	11,540,081	13,449,130
Interest capitalized	466,066	330,741	1,653,402	971,475
Repayments of loan and mortgage syndications	(2,377,372)	(6,454,017)	(39,327,209)	(15,143,072)
Unrealized foreign exchange loss (gain)	414,316	(406,259)	414,316	(699,885)
Balance, end of period	\$ 88,249,414	\$ 75,906,550	\$ 88,249,414	\$ 75,906,550

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

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
2020	-	33,930,278	33,930,278
2021	-	23,913,183	23,913,183
2022	-	28,705,953	28,705,953
2023	-	1,700,000	1,700,000
	\$ -	\$ 88,249,414	\$ 88,249,414

UNSECURED NOTE PAYABLE

During the year ended December 31, 2019, the Company issued an unsecured promissory note payable (the “Unsecured Note”) to an unrelated third party investor for \$3,000,000. The Unsecured Note provides the holder with a percentage return on certain of the Company’s investments, up to a return equivalent to interest of 15% per annum compounded annually, payable monthly. The Unsecured Note matures on December 31, 2022. Proceeds from the Unsecured Note were used to fund certain loan and mortgage investments. The Unsecured Note enabled the Company to increase its overall non-leveraged return on these investments.

For the years ended December 31, 2019 and 2018, interest and financing costs relating to the Unsecured Note, reported as interest expense and financing costs totaled \$138,750 and \$nil, respectively.

MORTGAGES PAYABLE

The Company’s share of the mortgage payable held in joint operations through the Montreal Street JV, at December 31, 2019 and 2018 was \$1,070,973 and \$1,053,274, respectively. The mortgage bears interest at 3.0% per annum and is amortized over 25 years and matures on July 1, 2021.

The details of the mortgages payable in respect of the Company’s proportionate share of the joint operations at December 31, 2019 and 2018 is as follows.

	December 31, 2019	December 31, 2018
Mortgage principal	\$ 1,070,973	\$ 1,053,274
Unamortized financing costs	(3,533)	(5,465)
Total	\$ 1,067,440	\$ 1,047,809

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

27

The following table summarizes the changes in the principal balance of mortgages payable for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 1,053,274	\$ 1,177,435
Repayments made	(34,175)	(33,965)
Foreign exchange	51,874	(90,196)
Balance, end of year	\$ 1,070,973	\$ 1,053,274

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

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
2020	35,807	-	35,807
2021	18,296	1,016,870	1,035,166
	\$ 54,103	\$ 1,016,870	\$ 1,070,973

CREDIT FACILITIES

At December 31, 2019, the Company's credit facilities (the "Credit Facilities") consist s \$20,000,000 master credit facility (the "Master Facility"). At December 31, 2018, the Company's Credit Facilities consist of a CAD\$20,000,000 secured revolving operating facility (the "Facility") and a \$20,000,000 Master Facility.

(a) Revolving Operating Facility

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a CAD \$20,000,000 secured revolving loan facility (the "Facility") that was scheduled to mature on March 1, 2018. On March 1, 2018, the Company exercised its option to extend the term of the Facility for another nine months for a maturity date to September 1, 2018 and paid the Facility extension fee of \$100,000. The extension fee was deferred and amortized over the six-month extension term of the Facility. The Facility carried an interest rate of 9.5% per annum. The Facility was subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. On September 4, 2018, the Company amended the Facility Agreement (the "Amendment"), to extend the maturity date to April 1, 2019 and provide the Company the option for two further extensions of the Facility, each for a further term of seven months from the maturity date. Pursuant to the Amendment, the Facility carries an interest rate of 9.5% per annum until one month prior to the maturity date. Any unpaid balance one month prior to the maturity date will carry an interest rate of 12% per annum, until repaid. In connection with the Amendment, the Company incurred lender and other third-party costs of CAD \$100,000. On April 1, 2019, the Company again extended (the "Extension") the term of the Facility for a further seven months for a maturity date to November 1, 2019. In connection with the Extension, the Company incurred lender and other third-party costs of CAD\$100,000. The costs associated with the Amendment and Extension have been deferred and are being amortized over the term of the Facility as interest expense using the EIR method. On December 2, 2019, the Company repaid the Facility plus all accrued and unpaid interest in full and terminated the Facility Agreement.

During the years ended December 31, 2019 and 2018, the Company borrowed an aggregate of \$1,871,678 and \$nil, respectively and repaid \$13,169,985 and 2,948,548, respectively, against the Facility.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

28

(b) Master Credit Facility

On August 20, 2018, the Company entered into a Revolving Guidance Facility Agreement (the “Master Facility Agreement”) with a lending institution in the U.S. for a \$20,000,000 master credit facility (the “Master Facility”) to finance the loan and mortgage investments made by the Company. Funds under the Master Facility are available on a project by project basis as a project loan. The Master Facility carries an interest rate of three-month LIBOR plus three percent (3.00%) per annum, with a floor rate of five percent (5.00%) per annum. On April 30, 2019 the Master Facility Agreement was amended to increase the maximum amount available under the Master Facility to \$35,000,000. The Master Facility will expire thirty-nine months from the date of the applicable project loan is advanced, unless otherwise approved by lender.

In connection with the establishment of the Master Facility in 2019, the Company incurred lender and other third-party costs of \$176,319 (2018 - \$355,504). The costs associated with the Master Facility have been deferred and are being amortized over the term of the Master Facility as interest expense using the effective-interest amortization method.

During the years ended December 31, 2019 and 2018, the Company borrowed an aggregate of \$12,230,809 and \$8,804,480, respectively, against the Master Facility, and repaid \$12,219,956 and \$nil, respectively, against the Master Facility.

Subsequent to year end, the Company terminated the Master Facility Agreement and entered into a \$40,000,000 secured line of credit (the “LOC”) with a same lending institution in the U.S. The LOC provides for an increase to \$50,000,000 over time subject to approval by the lending institution.

The following table presents details of the Credit Facilities as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Revolving operating facility		
Face value	\$ -	\$ 10,999,487
Unamortized financing costs	-	(33,439)
	-	10,966,048
Master credit facility		
Face value	9,221,447	8,804,480
Unamortized financing costs	(342,608)	(306,422)
	8,878,839	8,498,058
Total credit facilities	\$ 8,878,839	\$ 19,464,106

The following table summarizes the changes in the Credit Facilities for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 19,803,967	\$ 15,114,151
Proceeds from facilities	14,102,487	8,804,480
Repayment of facilities	(25,389,941)	(2,948,548)
Interest capitalized	406,114	-
Foreign exchange	298,820	(1,166,116)
Total credit facilities	\$ 9,221,447	\$ 19,803,967

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

29

For the years ended December 31, 2019 and 2018, amortization of deferred financing costs reported as interest expense and financing costs relating to the Credit Facilities totaled \$248,038 and \$223,187, respectively.

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

LEASE OBLIGATIONS

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and a land lease on the Montreal Street JV located in Ottawa, Ontario. The future minimum lease payments, which includes estimated operating costs for the next five years and thereafter, are as follows:

	Amount
2020	237,811
2021	59,276
2022	59,276
2023	59,276
2024 and thereafter	668,482
	\$ 1,084,121

COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2019 were \$33,095,786 including \$651,602 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2018 were \$23,791,223, including \$4,436,971 of capitalization of future interest relating to the existing Loan Portfolio. The Company's commitments include conditions, such as borrowers reaching certain milestones, before the Company's commitment would become available. The funding commitments may expire without being drawn upon, and commitments do not necessarily represent future cash requirements or future earning assets for the Company.

At December 31, 2019 and 2018, the unfunded commitments to make additional investments, for development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions were \$9,143,864 and \$2,392,126, respectively.

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

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

SHAREHOLDERS' EQUITY

SHARES

On September 20, 2019, the Company consolidated its share capital on the basis of one post-consolidation Share for each ten pre-consolidation Shares. The consolidation was approved by the shareholders of the Company on June 17, 2019 and was subsequently approved by the TSX-V. All references to the number of shares and per share amounts have been retroactively restated to reflect the consolidation.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

30

The following table summarizes the changes in Shares for the years ended December 31, 2019 and 2018:

	Shares	Amount
Outstanding, December 31, 2017	6,377,585	\$ 28,887,862
Repurchase of shares pursuant to normal course issuer bid	(523,601)	(2,390,442)
Issuance of shares pursuant to share option plan	9,600	22,544
Transferred from contributed surplus upon exercise of options	-	13,986
Outstanding, December 31, 2018	5,863,584	\$ 26,533,950
Repurchase of shares pursuant to normal course issuer bid	(298,550)	(1,250,607)
Share consolidation adjustment	(66)	-
Outstanding, December 31, 2019	5,564,968	\$ 25,283,343

On May 14, 2018, directors of the Company exercised 9,600 options that had been granted to purchase the Shares at CAD \$3.00 per share. The consideration of \$22,544 received on exercising the options was recorded as share capital and the related contributed surplus of \$13,986 was transferred to share capital.

NORMAL COURSE ISSUER BID

On November 23, 2018, following its prior expiry of the Normal Course Issuer Bid (the “NCIB”) on November 6, 2018, the Company renewed the NCIB (the “Renewed NCIB”). Under the terms of the Renewed NCIB, the Company was permitted to acquire up to 4,186,319 Shares, being 10% of the public float of common shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The Renewed NCIB commenced through the TSX-V on November 17, 2018 and concluded on November 26, 2019, the expiry date of the Renewed NCIB.

During the years ended December 31, 2019 and 2018, the Company purchased 298,550 and 523,601 Shares, respectively on the TSX-V for \$1,250,607 (CAD\$1,624,538) and \$2,390,442 (CAD\$3,105,184), respectively.

DIVIDENDS

On June 12, 2019, the Board declared a quarterly cash dividend of CAD\$0.05 per Share, payable on October 15, 2019, to shareholders of record as of the close of business on September 30, 2019. Dividends are recognized in the period in which they are formally declared by the Board.

On November 13, 2019, the Board declared a quarterly dividend of CAD\$0.05 per Share, payable on January 15, 2020, to shareholders of record as of the close of business on December 31, 2019.

On March 11, 2020, the Board declared a quarterly dividend of CAD\$0.05 per common share, payable on April 15, 2020, to shareholders of record as of the close of business on March 31, 2020.

Dividends are recognized in the period in which they are formally declared by the Board. For the year ended December 31, 2019, the Company recorded dividends of \$421,111 (CAD\$547,023) (2018 - \$nil).

The Company pays quarterly dividends based on the Company’s overall financial performance and cash flow generation. Decisions on dividend payments are made on a quarterly basis by the Board of Directors. Although the Company does not have a formal dividend policy, it started dividend payments and plans to maintain regular quarterly dividends. There can be no assurance as to the amount or payment of such dividends in the future.

SHARE-BASED COMPENSATION

Share Option Plan

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

On June 12, 2019, the Company granted options to its Chairman to purchase up to 20,000 common shares of the Company at a price of CAD \$5.60 per share with the expiry date of June 11, 2026. 10,000 options vested immediately, and the remaining 10,000 options vested in equal instalments on a quarterly basis over a six-month period.

June 12, 2019, the Company granted options to its President and Chief Executive Officer to purchase up to 24,000 common shares of the Company at a price of CAD \$5.60 per share with the expiry date of June 11, 2026. The options shall vest in equal installments on a quarterly basis over a three-year period.

On August 23, 2018, the Company granted options to its Chairman to purchase up to 40,000 common shares of the Company at a price of CAD \$6.40 per share with the expiry date of August 24, 2025. 20,000 options vested immediately, and the remaining 20,000 options vested in equal instalments on a quarterly basis over a six-month period.

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

	Options grant date	
	June 12, 2019	August 23, 2018
Average expected life	7.00 years	7.00 years
Average risk-free interest rate	1.41%	2.21%
Average expected volatility	74.56%	81.92%
Average dividend yield	0.00%	0.00%

The fair value of options granted on June 12, 2019 and August 23, 2018, was \$128,293 and \$145,564, respectively.

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

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding - beginning of period	528,500	\$ 7.00	500,166	\$ 7.00
Granted	44,000	5.60	40,000	6.40
Exercised	-	-	(9,600)	3.00
Cancelled	-	-	(1,000)	8.50
Expired	(221,411)	6.86	(1,066)	3.00
Outstanding - end of period	351,089	\$ 6.95	528,500	\$ 7.00
Number of options exercisable	315,073	\$ 7.05	467,838	\$ 7.10

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

32

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

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price in CAD	Market price at date of grant
97,089	May 11, 2020	97,089	8.50	8.50
10,000	September 25, 2020	10,000	6.90	6.90
20,000	March 31, 2023	20,000	7.70	7.70
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	51,336	6.50	6.50
34,000	December 21, 2024	22,648	6.70	6.70
40,000	August 24, 2025	40,000	6.70	6.70
44,000	June 11, 2026	24,000	5.60	5.60
351,089		315,073		

Deferred Share Unit Plan

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

Effective September 30, 2019, the Board modified the DSU Plan. Employees or the directors no longer can elect to receive their annual bonus or retainer, respectively, in DSUs. The Company will no longer grant additional DSUs to employees or the directors. At the beginning of each year, the Board will determine which board members or employees will be eligible to participate in the DSU Plan and the dollar amount that can be contributed to the DSU Plan. Unless authorized by the Board, the directors and employees will continue to receive their annual retainer and bonus, respectively, in cash.

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

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

33

The following table presents the changes in DSUs for the years ended December 31, 2019 and 2018:

	Number of DSUs	
	Year ended December 31, 2019	Year ended December 31, 2018
DSUs outstanding, beginning of year	286,220	251,556
Granted	18,115	34,664
Settled	(1,964)	-
DSUs outstanding, end of year	302,371	286,220
Number of DSUs vested	299,511	280,865

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at December 31, 2019 and 2018 are \$1,291,160 and \$947,406, respectively.

Warrants

At both December 31, 2019 and December 31, 2018, the Company had 500,000 Warrants outstanding. Each Warrant is exercisable for one Share at a price of \$8.50 per Share, with an expiry date of August 15, 2020.

CONTRIBUTED SURPLUS

The following table presents the details of the changes to the contributed surplus balances for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 3,264,388	\$ 3,017,555
Share options	176,307	260,819
Transferred to share capital on exercise of shares	-	(13,986)
Balance, end of year	\$ 3,440,695	\$ 3,264,388

DEBT TO EQUITY RATIO

IFRS requires that the loan and mortgage syndications be included as part of the assets and offsetting liabilities of the Company. Given that the loan and mortgage syndications have no recourse or risk to the Company, management believes that the loan and mortgage syndications should be subtracted from the Company's debt to provide a better depiction of the Company's debt to equity ratio. The significantly lower adjusted debt to equity ratio represents the Company's position with much lower leverage and risk.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

34

Such calculation is represented in the following table provides details of the Company's adjusted debt to equity ratio as at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Total debt	\$ 101,195,693	\$ 96,418,465
Less: loan and mortgage syndications and unsecured note payable	(91,249,414)	(75,906,550)
Adjusted total debt	\$ 9,946,279	\$ 20,511,915
Shareholders' equity	\$ 39,635,372	\$ 38,053,026
Debt to equity ⁽¹⁾	2.55:1.00	2.53:1.00
Adjusted debt to equity ⁽¹⁾	0.25:1.00	0.54:1.00
(1) Total debt, adjusted total debt, debt to equity and adjusted debt to equity are non-IFRS Measures. See "Non-IFRS" Measures.		

As at December 31, 2019 and December 30, 2018, the adjusted debt to equity ratio was 0.25:1.00 and 0.54:1.00, respectively.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At December 31, 2019 and 2018, the Chairman, indirectly through a wholly owned subsidiary, owned approximately 8.5% and 8.1%, respectively, of the issued and outstanding Shares.

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

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Company include the Executive Vice Chairman, President and Chief Executive Officer, Chief Financial Officer, Managing Director and the Board.

During the years ended December 31, 2019 and 2018, no key management personnel were personally indebted to the Company.

Aggregate compensation for key management personnel for years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Short-term employee benefits	\$ 1,404,828	\$ 1,266,608
Share-based compensation	449,335	- 79,721
Total	\$ 1,854,163	\$ 1,186,887

LOAN AND MORTGAGE INVESTMENTS

The Company had extended a loan investment of \$1,362,592 to a company controlled by the Chairman at an interest rate of 12% per annum. On May 2, 2018, the Company received the repayment of the loan and mortgage investment in full, together with accrued interest. During the three months ended December 31, 2019 and 2018, the Company recognized interest and fees revenue of \$nil and \$58,082, respectively. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties.

LOAN AND MORTGAGE SYNDICATIONS

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest. At December 31, 2019 and 2018, the loan and mortgage investments syndicated by officers and directors were \$556,466 and \$467,659, respectively.

OFFICE PREMISES

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. During the year ended December 31, 2019 and 2018, the Company received occupancy and office costs of \$49,880 and \$59,047, respectively, for the occupancy and office costs.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

A summary of the significant accounting policies and methods of their application as those described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2018, except for the following changes in accounting policies and disclosures and new standards adopted during year ended December 31, 2019, as described below. The Company's audited consolidated financial statements for the year ended December 31, 2018 can be found under the Company's profile at WWW.SEDAR.COM.

(i) Change in functional and presentation currency:

Functional currency

Prior to January 1, 2019, the functional currency of the Company, was the Canadian dollar ("CAD"). Per IAS 21 - The Effects of Changes in Foreign Exchange Rates ("IAS 21"), an entity's functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency including the currency that influences sales prices, labour, purchases and other costs. Other indicators including the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets and the Company's economic and currency exposure has shifted from Canada to U.S. At December 31, 2018, over 80.0% of the Company's investments are fully exposed to the USD, as well, the Company earns a significant portion of its revenue in U.S. dollars.

Based on these factors, management concluded that effective January 1, 2019, the parent company's functional currency should be the USD. The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information other than in conjunction with the change in presentation currency as discussed below.

Presentation currency

Concurrent with the change in functional currency, on January 1, 2019, the Company changed its presentation currency from the CAD to the USD. The change in presentation currency is to better reflect the Company's business activities and to improve comparability of the Company's financial results with other publicly traded businesses in the real estate finance industry. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21, The Effects of Changes in Foreign Exchange Rates, and have applied the change retrospectively, as if the USD had always been the Company's presentation currency, as follows:

- for periods prior to January 1, 2019, the statements of financial position for each period presented have been translated from the CAD functional currency to the USD presentation currency at the rate of exchange prevailing at the respective financial position date with the exception of equity items which have been translated at accumulated historical rates from the Company's date of incorporation in 2007;

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

36

- for periods prior to January 1, 2019, the statements of income and comprehensive income were translated at the average exchange rates for the reporting period, or at the exchange rate prevailing at the date of the transactions;
- for periods prior to January 1, 2019, equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- exchange differences arising in 2018 on translation from the CAD functional currency to the USD presentation currency have been recognized in "cumulative translation adjustment" as a separate component of equity.

The exchange rates used in translation were as follows:

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

In addition to the comparative financial statements, the Company has presented a third statement of financial position as at January 1, 2018 as required by IFRS

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

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

37

EFFECT OF CHANGE IN PRESENTATION CURRENCY

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

As at	December 31, 2018		January 1, 2018	
	USD	CAD	USD	CAD
Assets				
Cash and cash equivalents	\$ 7,731,379	\$ 10,543,289	\$ 2,141,966	\$ 2,691,049
Funds held in trust	1,095,669	1,494,940	2,401,781	3,014,606
Amounts receivable and prepaid expenses	1,013,935	1,347,626	1,164,074	1,463,310
Loan and mortgage investments	121,675,979	165,929,535	93,203,582	117,166,221
Investment in finance Lease	2,819,915	3,845,519	-	-
Investment properties	1,619,633	2,208,694	1,756,976	2,208,694
Portfolio investment	1,911,574	2,591,586	10,804,898	13,575,623
Interest in associates	2,146,984	2,927,842	2,329,045	2,927,842
Income taxes recoverable	130,741	178,292	239,175	300,667
Deferred income tax asset	-	-	100,456	126,283
Total assets	140,145,809	191,067,323	114,141,953	143,474,295
Liabilities				
Accounts payable and accrued liabilities	3,618,067	4,933,963	4,965,980	6,236,233
Unearned income	1,303,162	1,777,129	1,197,647	1,505,576
Deferred income taxes payable	753,089	1,026,987	-	-
Credit Facilities	19,464,106	26,560,237	15,086,472	18,965,205
Loan and mortgage syndication	75,906,550	103,513,760	50,353,652	63,299,522
Mortgages payable	1,047,809	1,428,897	1,169,234	1,469,844
Total liabilities	102,092,783	139,240,973	72,772,985	91,476,380
Shareholders' Equity				
Share capital	26,533,950	29,801,466	28,887,862	32,864,287
Contributed surplus	3,264,388	3,893,731	3,017,555	3,573,406
Cumulative translation adjustment	(6,885,398)	-	(3,663,314)	-
Retained earnings	15,140,086	18,131,153	12,924,303	15,305,581
Total shareholders' equity	38,053,026	51,826,350	41,166,406	51,743,274
Non-controlling interest	-	-	202,562	254,641
Total liabilities and Shareholders' Equity	\$ 140,145,809	\$ 191,067,323	\$ 114,141,953	\$ 143,474,295

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

38

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

	Years ended	
	December 31,	December 31,
	2018 USD	2018 CAD
Revenue		
Interest and fees earned	\$ 13,292,451	\$ 17,258,558
Rental income	155,720	201,772
	13,448,171	17,460,330
Expenses		
Property operating costs	53,427	69,228
General and administrative expenses	2,775,430	3,617,616
Share based compensation	(15,828)	(27,444)
Interest expense	7,947,282	10,322,969
Loss on sale of portfolio investment	173,646	224,212
Fair value adjustment - portfolio investment	(57,413)	(75,866)
Provision on loan and mortgage investments	2,403,182	3,137,059
Provision for uncollectible receivables	134,940	186,140
Realized and unrealized foreign exchange loss (gain)	(3,034,987)	(3,933,646)
	10,379,679	13,520,268
Income from operations before income taxes	3,068,492	3,940,062
Income tax provision	902,038	1,169,131
Net income and comprehensive income	\$ 2,166,454	\$ 2,770,931
Net income and comprehensive income attributable to:		
Common shareholders	2,215,783	2,825,572
Non-controlling interest	(49,329)	(54,641)
Net income and comprehensive income	\$ 2,166,454	\$ 2,770,931

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

39

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

	Years ended	
	December 31, 2018 USD	December 31, 2018 CAD
Cash provided by (used in)		
Operating activities		
Net income and comprehensive income	\$ 2,166,454	\$ 2,770,931
Interest and fees earned	(13,292,451)	(17,258,558)
Interest expense and financing costs	7,947,282	10,322,969
Unrealized foreign exchange loss (gain)	(3,230,915)	(3,565,531)
Non-cash items:		
Share based compensation	(15,828)	(27,444)
Loss on sale of portfolio investment	173,646	224,212
Fair value adjustment - portfolio investment	(57,413)	(75,866)
Provision for loan and mortgage investments loss	2,403,182	3,137,059
Provision for uncollectible receivables	134,940	186,140
Income tax provision	902,038	1,169,131
Changes in working capital:		
Decrease (increase) in other receivables	(482,855)	(669,494)
Decrease (increase) in prepaid expenses and deposits	41,235	39,292
Increase (decrease) in accounts payable and accrued liabilities	223,204	475,715
Interest and fees received	8,862,839	11,484,860
Interest paid	(7,238,873)	(9,386,967)
Income taxes refunded	78,367	106,514
	(1,385,148)	(1,067,037)
Financing activities		
Proceeds from loan and mortgage syndications	40,424,380	52,103,952
Repayments of loan and mortgage syndications	(15,143,072)	(19,591,954)
Repayments of mortgages payable	(33,965)	(43,803)
Proceeds from credit facilities	8,804,480	11,773,353
Repayment of credit facilities	(2,948,548)	(4,000,000)
Disposition of non-controlling interest	(153,233)	(200,000)
Proceeds from issuance of shares pursuant to share options plan	22,544	28,800
Repurchase of shares under normal course issuer bid	(2,390,442)	(3,109,488)
	28,582,144	36,960,860
Investing activities		
Funding of loan and mortgage investments	(56,851,087)	(73,491,392)
Repayments of loan and mortgage investments	28,237,829	36,661,641
Funding of investment in finance lease	(2,865,999)	(3,675,053)
Decrease (increase) in funds held in trust	1,261,548	1,627,530
Proceeds from sale of interest in portfolio investment	61,000	78,406
Proceeds from redemption of portfolio investment	727,858	950,000
Return of capital of portfolio investment	7,821,268	9,807,285
	(21,607,583)	(28,041,583)
Increase in cash and cash equivalents	5,589,413	7,852,240
Cash and cash equivalents, beginning of period	2,141,966	2,691,049
Cash and cash equivalents, end of period	\$ 7,731,379	\$ 10,543,289

RECAST OF COMPARATIVE FIGURES

During the three months ended December 31, 2019, the Company determined that adjustments were required to certain amounts reported in the March 31, 2019 financial statements which were restated to USD to reflect the change in functional and presentation currency from CAD to USD. The following amounts previously presented in the financial statements as at and for the three months ended March 31, 2019 have been recast as at December 31, 2019:

- cumulative translation adjustment as at March 31, 2019 and December 31, 2018 (as restated to USD) - (\$6,885,398), (previously (\$3,663,314));
- retained earnings as at March 31, 2019 and December 31, 2018 (as restated to USD) - \$15,437,252 and \$15,140,086, respectively (previously \$12,999,365 and \$12,702,199, respectively);
- income taxes recoverable as at March 31, 2019 and December 31, 2018 - \$168,317 and \$130,741, respectively (previously \$236,936 and \$195,225, respectively); and
- deferred income taxes payable (recoverable) as at March 31, 2019 and December 31, 2018 (as restated to USD) - \$658,729 and \$753,089, respectively, (previously (\$60,960) and \$33,376, respectively).

In addition, the following restated comparative figures included in the effect of change in presentation currency described above, have been recast: realized and unrealized foreign exchange gain (loss) (as restated to USD) for the year ended December 31, 2018 - \$3,034,987 (previously (\$222,828)); income tax expense (as restated to USD) for the year ended December 31, 2018 - \$902,038 (previously \$82,110). The Company concluded that these adjustments were not material to these or any previously issued financial statements as a whole.

USE OF ESTIMATES

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

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

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

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

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

FINANCIAL INSTRUMENTS

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, the Loan Portfolio, portfolio investments, investment in associates, investment in finance lease, Convertible Note, lease obligation, loan and mortgage syndications, the Master Facility and mortgage payable.

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

The fair value of the Loan Portfolio, investment in finance lease, Convertible Note, Loan Syndications, mortgages payable, Unsecured Note and Master Facility approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the Loan Portfolio or Loan Syndications. The Company makes the determinations of fair value based on its assessment of the current lending market for Loan Portfolio of same or similar terms. As a result, the fair value is based on Level 3 on the fair value hierarchy.

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

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

The fair value of the Company's investment property, Portfolio Investments, investment in associates and non-controlling interest are determined by using Level 3 inputs at December 31, 2019 and 2018 and no amounts were transferred between fair value levels during the three months and years ended December 31, 2019 or 2018.

OFF BALANCE SHEET ITEMS

As of both December 31, 2019, and 2018, the Company did not have any off-balance sheet (statement of financial position) arrangements.

RISKS AND UNCERTAINTIES

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

MARKET RISK

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

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

CREDIT RISK

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

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

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

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

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

As at December 31, 2019, \$2,478,759 (2018 - \$2,792,998) of the loan and mortgage investments to entities controlled by the Borrower and \$374,911 (2018 - \$357,124) of interest receivable and fees paid on these loans are in arrears.

INTEREST RATE RISK

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

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

GENERAL BUSINESS RISKS

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

- i. civil unrest, acts of God, including earthquakes and other natural disasters, acts of terrorism or war and public health crises such as the current outbreak of the novel coronavirus, COVID-19 (which may result in uninsured losses),
- ii. changes in national or local economic conditions,
- iii. changes in real estate assessed values and taxes payable on such values and other operating expenses,
- iv. the inability of developers to sell development land,
- v. changes in demand for newly constructed residential units,
- vi. changes in real estate assessed values and taxes payable on such values and other operating expenses, or

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

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

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

CURRENCY RISK

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

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

LIQUIDITY RISK

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

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

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

Contractual obligations as at December 31, 2019 are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	\$ 5,344,792	\$ -	\$ 5,344,792
Credit Facilities (face value)	-	9,221,447	9,221,447
Mortgages payable	-	1,070,973	1,070,973
	\$ 5,344,792	\$ 10,292,420	\$ 15,637,212

SUBORDINATED DEBT FINANCING

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

DEVELOPMENT STRATEGY

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

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

INVESTMENTS IN JOINT OPERATIONS

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

REGULATORY RISK

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FUTURE OUTLOOK

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

The objective of the Company is to preserve the Company's capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation and payment of dividends (from time to time as the Board considers appropriate). Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Management believes there will be significant opportunities for the Company to expand its presence in the market; however, it continues to be prudent in its approach to selection of new investments and pricing.

Yields in the real estate market in Canada have compressed over the last year to levels that are not only low from a risk adjusted return perspective but also below the cost of capital of the Company. As a result, the Company has adjusted its marketing efforts in Canada to become more reactive to deals that may present themselves for special situations through existing borrowers or existing contacts versus taking a proactive approach to generating a greater pipeline of potential transaction. Beginning in 2015, the Company began a gradual program of lending in certain U.S. markets following the same prudent lending standards it historically had employed in Canada. The U.S. market represents a logical extension of the Company's existing lending operations. As such, the Company continues to focus primarily on providing higher leveraged loans (up to 80% LTV) on development projects and land banking arrangements in the U.S. Management expects to be able to generate interest rates similar to those reflected in the current portfolio.

The Company's ability to achieve its objective is dependent on management's ability to execute on its business strategy as described while also successfully mitigating business risks as discussed in this MD&A. Further, the Company's ability to attract larger sources of lower cost capital will have a significant impact on the growth of its earnings.

The outbreak of the novel coronavirus (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 causing operating or supply chain delays and 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 on attractive terms. 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 Coronavirus on the Company. 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.

SUBSEQUENT EVENTS

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

On March 11, 2020, the Board declared a quarterly dividend of CAD\$0.05 per common share, payable on April 15, 2020, to shareholders of record as of the close of business on March 31, 2020.

On February 14, 2020, the Company appointed Mr. Y Dov Meyer as an Executive Chairman of the Board, effective February 14, 2020, replacing John Kaplan, who was the Chairman since 2013.

Subsequent to year-end, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the U.S. and Canadian governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. The Company continues to monitor its investments and assess the impact COVID-19 will have on its business activities. The extent of the effect of the COVID-19 pandemic on the Company is uncertain.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

47

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

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

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

	As at December 31, 2019		As at December 31, 2018		As at December 31, 2017
Total assets	\$	148,231,267	\$	140,145,809	\$ 114,141,953
Total liabilities	\$	108,595,895	\$	102,092,783	\$ 72,772,985
Total equity	\$	39,635,372	\$	38,053,026	\$ 41,368,968
Loan and mortgage investments	\$	116,820,582	\$	122,209,711	\$ 118,998,984
Loan and mortgage syndications	\$	88,249,414	\$	75,906,550	\$ 63,299,522
Loan and mortgage syndications to loan and mortgage investments		75.5%		62.1%	53.2%
	Three months ended		Years ended		
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2017
Total revenue	\$	4,629,588	\$	3,753,687	\$ 16,656,306
Total expenses	\$	3,385,932	\$	1,123,779	\$ 12,569,591
Income from operations before income taxes	\$	1,243,656	\$	2,629,908	\$ 4,086,715
Net income and comprehensive income attributable to common shareholders	\$	884,279	\$	1,923,369	\$ 3,077,757
Diluted net income and comprehensive income attributable to common shareholders	\$	884,279	\$	1,923,369	\$ 2,215,783
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	966,029	\$	543,013	\$ 3,016,978
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	966,029	\$	543,013	\$ 1,928,889
Weighted average number of shares outstanding					
Basic		5,570,451		6,014,050	5,675,671
Diluted		5,574,020		6,018,275	6,178,067
Earnings per share					
Basic	\$	0.16	\$	0.32	\$ 0.54
Diluted	\$	0.16	\$	0.32	\$ 0.36
Adjusted earnings per share ⁽¹⁾					
Basic	\$	0.17	\$	0.09	\$ 0.53
Diluted	\$	0.17	\$	0.09	\$ 0.31
(1) Adjusted net income and diluted net income attributable common shareholders and adjusted earnings per share are non-IFRS Measures. See "Non-IFRS" Measures.					

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2019

48

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

	Three months ended							
	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018
Revenue								
Interest and fees earned	\$ 4,046,909	\$ 3,588,715	\$ 3,583,652	\$ 3,784,016	\$ 3,671,489	\$ 3,560,158	\$ 3,187,741	\$ 2,720,330
Finance income	540,835	536,761	335,225	84,473	44,024	59,603	5,082	44,024
Rental income	41,844	38,211	37,715	37,950	38,174	38,597	39,067	39,882
	4,629,588	4,163,687	3,956,592	3,906,439	3,753,687	3,658,358	3,231,890	2,804,236
Expenses								
Property operating expenses	14,235	13,156	12,983	13,053	13,108	13,253	13,415	13,651
General and administrative expenses	1,129,828	670,802	794,121	781,238	950,701	585,571	673,490	565,668
Share based compensation	120,594	(61,292)	87,034	327,832	(234,302)	40,320	156,825	21,329
Interest and financing costs	2,422,611	2,384,399	2,047,496	2,306,753	2,329,722	2,083,914	1,918,639	1,615,007
Provision for loan and mortgage investment loss	226,108	-	(151,900)	-	102,039	2,301,143	-	-
Provision for uncollectible receivables	-	-	-	-	258,707	(123,767)	-	-
Realized and unrealized foreign exchange (gain) loss	(114,885)	(88,171)	(10,379)	56,534	(2,238,783)	675,783	(1,720,468)	248,481
Loss on sale of portfolio investment	-	-	-	-	-	-	173,646	-
Fair value adjustment - portfolio investments	(56,124)	-	-	-	(57,413)	-	-	-
Share of income from investment in associates	(356,435)	-	-	-	-	-	-	-
	3,385,932	2,918,894	2,779,355	3,485,410	1,123,779	5,576,217	1,215,547	2,464,136
Income (loss) before income taxes	1,243,656	1,244,793	1,177,237	421,029	2,629,908	(1,917,859)	2,016,343	340,100
Income tax provision (recovery)	359,377	215,934	309,784	123,863	706,539	(467,396)	524,560	138,335
Net income (loss) and comprehensive income (loss)	884,279	1,028,859	867,453	297,166	1,923,369	(1,450,463)	1,491,783	201,765
Net income (loss) and comprehensive income (loss) attributable to:								
Common shareholders	884,279	1,028,859	867,453	297,166	1,923,369	(1,450,463)	1,541,112	201,765
Non-controlling interest	-	-	-	-	-	-	(49,329)	-
	\$ 884,279	\$ 1,028,859	\$ 867,453	\$ 297,166	\$ 1,923,369	\$ (1,450,463)	\$ 1,491,783	\$ 201,765
Diluted net income (loss) attributable to common shareholders	884,279	1,028,859	867,453	297,166	1,923,369	(1,450,463)	1,491,783	201,765
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	966,029	964,053	748,178	338,718	543,012	646,609	322,614	416,653
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾	966,029	964,053	748,178	338,718	543,012	646,609	322,614	416,653
Weighted average number of shares outstanding								
- basic	5,570,451	5,598,484	5,725,856	5,837,957	6,014,050	6,171,425	6,247,418	6,278,849
- diluted	5,574,020	5,599,454	5,726,320	5,838,674	6,018,276	6,182,314	6,263,000	6,304,112
Earnings (loss) per share								
Basic	\$ 0.16	\$ 0.18	\$ 0.15	\$ 0.05	\$ 0.32	\$ (0.24)	\$ 0.24	\$ 0.03
Diluted	\$ 0.16	\$ 0.18	\$ 0.15	\$ 0.05	\$ 0.32	\$ (0.24)	\$ 0.24	\$ 0.03
Adjusted earnings per share ⁽²⁾								
Basic	\$ 0.17	\$ 0.18	\$ 0.13	\$ 0.06	\$ 0.09	\$ 0.10	\$ 0.05	\$ 0.07
Diluted	\$ 0.17	\$ 0.18	\$ 0.13	\$ 0.06	\$ 0.09	\$ 0.10	\$ 0.05	\$ 0.07
<p>(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders, and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS" Measures.</p>								

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

Dated: April 2, 2020
Toronto, Ontario, Canada