



TERRA FIRMA CAPITAL CORPORATION

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

DECEMBER 31, 2020

APRIL 15, 2021

BASIS OF PRESENTATION

The following presents Management's Discussion and Analysis ("MD&A") of the consolidated financial performance, financial condition, and cash flows of Terra Firma Capital Corporation (the "Company") and its subsidiaries. Unless the context requires, all references in this MD&A to the "Company" refer to Terra Firma Capital Corporation and its subsidiaries.

This MD&A is structured to provide information that management believes is relevant for assessing and understanding its business, risks, opportunities, and performance measures. It should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the years ended December 31, 2020, and 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as the Company's Annual Information Form (the "AIF") for the year, ended December 31, 2020. These documents are available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at WWW.SEDAR.COM.

This MD&A also uses non-IFRS financial measures. Refer to the section of this report entitled "Non-IFRS Financial Measures" for a description of these measures.

All dollar amounts, except for amounts presented in Canadian dollars specifically identified as "CA\$," are reported in United States dollars (\$ or "US\$"), which is also the Company's functional currency.

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. 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 headings "Recent Developments – Impact of COVID-19 Pandemic" and "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 AIF.

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.

BUSINESS OVERVIEW

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 Company's principal business is to provide 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 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 a first position or second position at the earlier stages of real property development which is 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 the construction phase.

These financings generally represent a loan to cost and loan-to-value ratio ("LTV", a non-IFRS financial measure) 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 Company also provides land bank financing to regional and national home builders in high-growth areas of the U.S. Under these arrangements, the Company acquires entitled residential land or lots on behalf of a homebuilder and simultaneously enters into an option agreement wherein the homebuilder obtains an option to purchase the lots from the Company. Such an option is generally secured by a non-refundable deposit of up to 20% of the total land and development costs. In addition to the option agreement, the land bank structure generally involves a construction agreement, whereby the Company finances the homebuilder's development costs to facilitate the subdivision

improvements. Over time, the homebuilder purchases the lots or land at a specified price until the investment is fully repaid. 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 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 capital protection through subordination.

The loan and mortgage financings generally have an 18 to 36-month term with the right to repay during the term, usually only after a minimum “lock-up” of approximately six months. In some cases, the loan and mortgage financings may be structured with an option for the Company to convert its investment into a participation in the equity of the project once many of the development risks have been mitigated through contracted presales, contracted construction costs, and in-place construction financing.

The Company syndicates certain of its loan and mortgage investments and finance the investment in finance leases to third-party investors; each is participating in a prescribed manner and governed by loan servicing agreements. The syndications 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 syndicate 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.”

PRIMARY OBJECTIVE AND STRATEGY

The primary objective of the Company is to build shareholder value over the long-term through sustainable and profitable growth, supported by a robust financial foundation while paying dividends to shareholders (from time to time as the board of directors (the “Board”) considers appropriate).

To guide its activities in pursuit of this objective, the Company works toward specific long-term financial goals and consistently employs the following broad strategies:

EXPAND MARKETS:

The Company targets higher job and population growth markets that offer significant long-term potential for profitable expansion while striving to achieve or maintain leading positions in current markets. Incremental revenues are attained from repeat business from existing borrowers, funding to new borrowers, and geographic expansion.

Management believes that there is a significant market opportunity in the U.S. resulting from financing needs not being met by traditional institutional lenders. Through management’s relationships with 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 currently has identified the following target markets for expansion: Atlanta, Charlotte, Tampa, Orlando, Jacksonville, Austin, Houston, Dallas, Phoenix, and Toronto.

STRUCTURE FINANCINGS TO MEET THE NEEDS OF BORROWERS:

The Company thrives on developing closer relationships with its borrowers and developers and differentiates the Company's product and service offering.

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 provides the Company with a consistent flow of quality investment opportunities.

BROADEN THE TYPES OF FINANCINGS:

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 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.

The Company also expands its customer base by carefully extending residential real estate financings transactions within the targeted product types, such as land banking, acquisition and development loans, and selected equity financings.

MAINTAIN A STRONG FINANCIAL POSITION:

A strong, well-capitalized balance sheet creates stability and financial flexibility and has contributed to the Company's long-term track record of profitable growth. It is also fundamental to the Company's future success.

RECENT DEVELOPMENTS AND FUTURE OUTLOOK

In January 2021, the Company launched its first fund (the "Fund") totaling \$32.5 million, whereby the Company's syndicate investors committed to advance total capital of \$29.1 million into limited partnerships. The Company co-invests \$3.4 million of equity in the limited partnerships. The Fund also secured \$5.0 million of credit facility with a U.S. bank. The Fund targets financing of residential land banking and land and lot inventory for developers and landowners in the growing and vibrant housing markets in the U.S. As at April 15, 2021, the investors contributed \$7.2 million of the committed capital to finance the Company's certain investments in finance leases. The Fund offers the Company the flexibility to originate land banking transactions without dealing with the sourcing of these investments.

IMPACT OF COVID-19 PANDEMIC

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to contain the spread of the virus. The COVID-19 pandemic introduced unprecedented uncertainty in the economy, including the risk of a significant employment shock and recessionary conditions, with implications for the health and safety of the Company's employees, delinquency rates, origination volumes, the availability of financing and the Company's overall operations.

As the pandemic began to impact the real estate financing segment, the Company rapidly took steps, including postponing the closing or commitment on any new loan originations, a cessation of all employee travel, and implementing a work from home policy to protect the health and safety of its employees and their families. The Company's IT systems have enabled the Company's team to work seamlessly.

COVID-19 related disruptions adversely impacted the Company's operations and profitability since March 2020 due to the Company stopping all travel to the U.S. and loan origination activities during the first two quarters of the year. The Company resumed origination activities at the beginning of Q3 2020, started fundings of new loan investments and finance leases and created a debt fund. However, given the unprecedented and pervasive impact of changing

circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Company's future operating assumptions and expectations as compared to prior periods, including loan originations.

To safeguard the health and safety of employees, the Company efficiently mobilized to remote operations with limited employees attending the office on an as-needed and voluntary basis. The Company is prioritizing its employee's safety in its reopening plans with restrictions implemented to ensure appropriate physical distancing within the offices. The Company conducts the current loan origination and monitoring activities through virtual meetings, limited employee travel to the U.S. while adhering to the quarantining protocols and the use of third-party consultants.

Except for one loan and mortgage investment to a project in arrears prior to the COVID-19 pandemic, which continues to be in arrears, there are no other loan and mortgage investments of the Company in arrears as of the date hereof. However, there is no certainty this will continue going forward.

The allowance for credit losses (the "ACL") for the Company's assets carried at amortized cost and carrying value for the Company's investments, measured at fair value through profit and loss ("FVTPL") at December 31, 2020, reflect its best estimate. Actual results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruption is longer than currently anticipated. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other changes it will have on the Company's estimate of the ACL and carrying value for the Company's investments measured at FVTPL, both in the short term and in the long-term. The Company will continue to monitor the situation and adjust the estimate as necessary.

The Company's liquidity position is strong with a cash balance in excess of the \$3.8 million reported as at December 31, 2020; together with the available secured line of credit (the "LOC"), the Company has more than enough capital resources to provide for its funding commitments and working capital needs.

FUTURE OUTLOOK

The following section includes certain forward-looking statements, including in regard to 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 Company believes that the prevailing market conditions offer a significant market opportunity to identify and fund mortgage and land banking loans due to financing needs not being met by traditional institutional lenders, both in the U.S. and Canada and to expand its presence in the markets it currently serves. However, the Company is prudent in its approach to selecting new investments and pricing.

Yields in Canada's real estate market have compressed over the last several years to levels that are low from a risk-adjusted return perspective and 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 transactions.

In the U.S., there is a lending gap due to the market size and the limited number of financial institutions offering similar products. The Company lends in the certain U.S. markets with high employment and population growth and follows the same prudent lending standards it historically had employed in Canada. The U.S. market represents a logical extension of the Company's historical lending operations. As such, the Company focuses primarily on providing higher leveraged loans (up to 80% LTV) on development projects and land banking arrangements in the U.S. The Company expects to be able to generate interest rates similar to those reflected in the current portfolio in the near term.

Since the beginning of the pandemic, the Company started planning the creation of several new investment funds. In January 2021, the Company closed its first Fund totaling \$37.5 million, which offers the Company the flexibility to originate land banking transactions without having to deal with the sourcing of capital for these investments. See – "Capital Structure and Debt Profile – Loan and Mortgage Syndications".

The Company managed to strengthen the relationship with some of its builders and developers, including two large homebuilders, which combined have provided the Company with over \$50 million of loan originations since August 2020. With the expected increase in loan and investment originations in 2021, the Company is poised for significant growth both in AUM and net income in 2021 and beyond.

The Company's ability to achieve its objective is dependent on management's ability to execute 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 COVID-19 in all countries impacts global activity adversely and has contributed to significant volatility and negative pressure in financial markets. As the global impact of the COVID-19 outbreak has rapidly evolved, many countries, including the U.S. and Canada, have reacted by instituting public health measures, including quarantines and travel restrictions. The outbreak could have a sustained adverse impact on economic and market conditions. It could adversely impact the Company, including operating 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 the Company from performing our obligations to third parties.

While the Company engages in emergency preparedness, including business continuity, to mitigate risks, this situation's rapid development and fluidity limit the Company's ability to predict the ultimate adverse impact of the COVID-19 crisis 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 events mentioned above in isolation or in combination could have a material adverse impact on the Company's performance, financial condition, results of operations and cash flows.

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, for the stated period, are calculated by adjusting the net income and comprehensive income for following (as applicable and collectively called other non-operating items), 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;
 - share-based compensation;
 - non-recurring items; and
 - the income tax impact of the items listed above.
- Adjusted earnings per share is calculated in the same manner as earnings per share using adjusted net income and comprehensive income for the stated period.

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 revenue to adjusted 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 (the “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) consist of a 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.”
- LTV is a measure of risk determined at the time of underwriting the loan and mortgage investments, 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 (“AUM”) are the assets managed by the Company on behalf of the Company’s syndicate investors, as well as the Company’s assets, and don’t include capital commitments that have not yet been funded.

These non-IFRS financial 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 financial 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

8

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The financial and operational highlights as at and for the three months and years ended December 31, 2020, and 2019 are as follows:

	December 31, 2020		December 31, 2019	
Total investments ⁽¹⁾	\$	122,560,682	\$	142,421,674
Loans and mortgage syndications	\$	71,374,100	\$	88,249,414
Total equity	\$	41,162,653	\$	39,635,372
AUM ⁽²⁾	\$	145,146,930	\$	165,669,782
Weighted average effective interest rate				
Loan and mortgage investments		13.0%		13.2%
Investment in finance leases (implicit)		14.5%		13.4%
Loan and mortgage syndications		10.1%		9.6%
Weighted average remaining term to maturity				
Loan and mortgage investments		1.64 yrs		1.37 yrs
Investment in finance leases		2.08 yrs		2.04 yrs
Loan and mortgage syndications		1.72 yrs		1.46 yrs
Adjusted debt to equity ⁽³⁾		0.19:1.00		0.25:1.00
Book value per share ⁽⁴⁾	\$	7.40	\$	7.12
	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Revenue	\$ 3,587,417	\$ 4,629,588	\$ 15,461,784	\$ 16,656,306
Interest and financing costs	\$ 1,821,066	\$ 2,422,611	\$ 8,176,246	\$ 9,161,259
Net income and comprehensive income	\$ 846,043	\$ 884,279	\$ 2,169,238	\$ 3,077,757
Adjusted net income and comprehensive income ⁽⁵⁾	\$ 531,656	\$ 1,024,220	\$ 2,861,690	\$ 3,323,912
Pre-tax profit margin ⁽⁶⁾	38.0%	59.8%	49.4%	49.3%
Adjusted earnings per share ⁽⁷⁾	\$ 0.10	\$ 0.18	\$ 0.51	\$ 0.59
<p>(1) Before deducting the allowance for loan and mortgage investment loss at December 31, 2020 and 2019 of \$764,519 and \$607,940, respectively and before deducting the allowance of investment in finance lease loss of \$41,061 and \$nil, respectively.</p> <p>(2) AUM is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</p> <p>(3) Adjusted total debt, debt to equity and adjusted debt to equity are Non-IFRS Financial Measures. See "Non-IFRS Financial Measures".</p> <p>(4) Total shareholders' equity divided by outstanding Shares.</p> <p>(5) Adjusted net income and comprehensive income is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</p> <p>(6) Pre-tax margin is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</p> <p>(7) Adjusted earnings per share is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</p>				

FOURTH QUARTER HIGHLIGHTS

The Company reported revenue of \$3,587,417 in the fourth quarter of 2020, compared to \$4,629,588 for the same period last year, representing a decrease of \$1,042,171 or 22.5%.

Interest and fee income for the fourth quarter of 2020 aggregated to \$2,904,000, compared to \$4,046,909 for the same period last year, representing a decrease of \$1,142,909 or 28.2%, while the finance income from investment in finance leases aggregated to \$642,524, compared to \$540,835 in the same period last year, representing an increase of \$101,689 or 18.8%.

Interest and financing costs for the fourth quarter of 2020 aggregated to \$1,821,066, compared to \$2,422,611 for the same period last year, representing a decrease of \$601,545 or 24.8%.

For the quarter ended December 31, 2020, the Company recognized a foreign exchange gain of \$364,687 compared to \$114,885 for the same period last year.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

9

Net income and comprehensive income attributable to common shareholders for the fourth quarter of 2020 was \$846,043 or \$0.15 per basic and diluted share, as compared to \$884,279 or \$0.16 per basic and diluted share in the same period in the prior year, representing a decrease of \$38,236 or 4.3%.

Adjusted net income and comprehensive income for the fourth quarter of 2020 was \$531,656 or \$0.10 per basic and diluted share, as compared to \$1,024,220 or \$0.18 per basic and diluted share in the same period in the prior year, representing a decrease of \$492,564 or 48.1%.

The Company's Total Investments decreased to \$122,560,682 at December 31, 2020, as compared to \$142,421,674 at December 31, 2019, representing a decrease of 13.9%.

The principal balance of the Company's loan and mortgage syndications decreased to \$71,374,100 at December 31, 2020, as compared to \$88,249,414 at December 31, 2019, representing a decrease of 19.1%.

During the quarter ended December 31, 2020, the Company recorded no allowance for credit loss relating to loan and mortgage investments. In the same period last year, the Company provided an allowance for credit loss of \$226,108 relating to loan and mortgage investments.

FINANCIAL PERFORMANCE

The Company's financial performance for the three months and years ended December 31, 2020 and 2019 is summarized below:

	Three months ended			Years ended		
	December 31, 2020	December 31, 2019	Change Increase / (decrease)	December 31, 2020	December 31, 2019	Change Increase / (decrease)
Revenue						
Interest and fees earned	\$ 2,904,000	\$ 4,046,909	\$ (1,142,909)	\$ 12,662,997	\$ 15,003,292	\$ (2,340,295)
Finance income	642,524	540,835	101,689	2,646,216	1,497,294	1,148,922
Rental income	40,893	41,844	(951)	152,571	155,720	(3,149)
Total revenue	3,587,417	4,629,588	(1,042,171)	15,461,784	16,656,306	(1,194,522)
Expenses						
Property operating costs	13,882	14,235	(353)	53,896	53,427	469
General and administrative expenses	1,216,807	1,129,828	86,979	3,305,565	3,375,989	(70,424)
Share based compensation	305,272	120,594	184,678	279,224	474,168	(194,944)
Interest and financing costs	1,821,066	2,422,611	(601,545)	8,176,246	9,161,259	(985,013)
Provision for loan and mortgage investment loss	-	226,108	(226,108)	899,204	74,208	824,996
Provision for investment in finance lease loss	41,061	-	41,061	41,061	-	41,061
Provision for uncollectible receivables	-	-	-	161,428	-	161,428
Fair value adjustment - portfolio investment	(149,120)	(56,124)	(92,996)	(149,120)	(56,124)	(92,996)
Realized and unrealized foreign exchange gain	(364,687)	(114,885)	(249,802)	(118,268)	(156,901)	38,633
Share of loss (income) from investment in associates	(57,098)	(356,435)	299,337	115,494	(356,435)	471,929
	2,827,183	3,385,932	(558,749)	12,764,730	12,569,591	195,139
Income from operations before income taxes	760,234	1,243,656	(483,422)	2,697,054	4,086,715	(1,389,661)
Income taxes	(85,809)	359,377	(445,186)	527,816	1,008,958	(481,142)
Net income and comprehensive income	\$ 846,043	\$ 884,279	\$ (38,236)	\$ 2,169,238	\$ 3,077,757	\$ (908,519)

TOTAL REVENUE

Total revenue for the three months ended December 31, 2020, was \$3,587,417 compared to \$4,629,588 in the comparative period, a decrease of 22.5%. Total revenue for the year ended December 31, 2020, was \$15,461,784 compared to \$16,656,306 in the comparative period, a decrease of 7.2%. Almost all of the Company's revenue is derived from loan and mortgage investments and investments in finance leases. The decrease in interest and fees earned was due to a decrease in the loan and mortgage investment balance from the comparative period last year, due to the Company ceasing all origination activities during the first half of 2020. The further factors contributing to the decrease are discussed in detail below under "Interest and Fees Earned" and "Finance Income."

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

10

INCOME FROM OPERATIONS BEFORE INCOME TAXES

Income from operations before income taxes, the components of which are discussed in detail below, for the three months ended December 31, 2020, was \$760,234 compared to \$1,243,656 in the comparative period last year a decrease of \$483,422 or 38.9%. The changes in revenue and expenses are discussed in detail in the following sections.

Income from operations before income taxes, the components of which are discussed in detail below, for the year ended December 31, 2020, was \$2,697,054 compared to \$4,086,715 in the comparative period last year, a decrease of \$1,389,661 or 34.0%. The changes in revenue and expenses are discussed in detail in the following sections.

NET INCOME AND COMPREHENSIVE INCOME

Net income and comprehensive income for the three months ended December 31, 2020, was \$846,043, a decrease of \$38,236, compared to a net income and comprehensive income of \$884,279 for the corresponding period in 2019. The factors contributing to the decrease are discussed in detail in the following sections.

Net income and comprehensive income for the year ended December 31, 2020, was \$2,169,238, a decrease of \$908,519, compared to \$3,077,757 for the corresponding period in 2019. The factors causing the decrease are discussed in detail in the following sections.

ADJUSTED NET INCOME AND COMPREHENSIVE INCOME

The Company views that additional income measures linking the Company's financial statements to explanations of its business performance may be useful to give investors greater insight into the company's financial performance 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 to results from prior periods.

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, 2020 and 2019:

	Three months ended			Years ended		
	December 31, 2020	December 31, 2019	Change Increase / (decrease)	December 31, 2020	December 31, 2019	Change Increase / (decrease)
Net income and comprehensive income	\$ 846,043	\$ 884,279	\$ (38,236)	\$ 2,169,238	\$ 3,077,757	\$ (908,519)
Provision for loan and mortgage investment, investment in finance leases and uncollectible receivable losses (tax adjusted)	30,179	166,190	(136,011)	809,744	54,543	755,201
Share based compensation (tax adjusted)	224,375	88,636	135,739	205,230	348,513	(143,283)
Foreign exchange gain (tax adjusted)	(568,941)	(114,885)	(454,056)	(322,522)	(156,901)	(165,621)
Adjusted net income and comprehensive income ⁽¹⁾	\$ 531,656	\$ 1,024,220	\$ (492,564)	\$ 2,861,690	\$ 3,323,912	\$ (462,222)

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

Adjusted net income and comprehensive income (a non-IFRS financial measure) for the three months ended December 31, 2020, was \$531,656, a decrease of \$492,564, compared to adjusted net income and comprehensive income of \$1,024,220 for the corresponding period in 2019. The decrease in adjusted net income and comprehensive income compared to the same period last year was primarily due to the factors discussed in detail in the following sections.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

11

Adjusted net income and comprehensive income for the year ended December 31, 2020, was \$2,861,690, a decrease of \$462,222, compared to adjusted net income and comprehensive income of \$3,323,912 for the corresponding period in 2019. The decrease in adjusted net income and comprehensive income compared to the same period last year was primarily due to the factors discussed in detail in the following sections.

PRE-TAX PROFIT MARGIN

The Company believes that the pre-tax profit margin (a non-IFRS financial measure) provides an assessment of the extent to which the Company can earn profit from each dollar of the adjusted revenue (a non-IFRS financial 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 compared to results from prior periods.

The following table provides the calculation of pre-tax profit margin for the three months and years ended December 31, 2020 and 2019:

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Revenue	\$ 3,587,417	\$ 4,629,588	\$ 15,461,784	\$ 16,656,306
Less: Interest on loan and mortgage syndications	(1,632,868)	(2,163,694)	(7,440,033)	(7,568,285)
Adjusted revenue ⁽¹⁾	1,954,549	2,465,894	8,021,751	9,088,021
Expenses	2,827,183	3,385,932	12,764,730	12,569,591
Less: Interest on loan and mortgage syndications	(1,632,868)	(2,163,694)	(7,440,033)	(7,568,285)
other non-operating items (2)	18,354	(231,817)	(1,262,649)	(391,475)
Adjusted expenses ⁽¹⁾	1,212,669	990,421	4,062,048	4,609,831
Income from operations before income taxes	\$ 741,880	\$ 1,475,473	\$ 3,959,703	\$ 4,478,190
Pre-tax margin ⁽¹⁾	38.0%	59.8%	49.4%	49.3%
⁽¹⁾ Adjusted revenue, adjusted expenses and operating margin are Non-IFRS Financial Measures. See "Non-IFRS Financial Measures". ⁽²⁾ Other non-operating items are share based compensation, provision for (recovery of loan and mortgage investment loss, provision for uncollectible receivable and realized and unrealized foreign exchange (gain)/loss.				

For the three months and years ended December 31, 2020, the pre-tax profit margin was 38.0% and 49.4%, respectively, compared to 59.8% and 49.3%, respectively, for the same periods last year. For the three months and years ended December 31, 2020, the pre-tax profit margin decreased due to the Company ceasing the loan origination activation during the first two quarters in 2020 while incurring operating expenses.

INTEREST AND FEES EARNED

Interest and fees earned for the three months ended December 31, 2020, aggregated to \$2,904,000, compared to \$4,046,909 in the comparative period last year, representing a decrease of \$1,142,909 or 28.2%. The decrease in interest fees earned of \$2,166,555 is attributable to repayments of loan and mortgage investments in 2020. This was partially offset by interest and fees earned of \$954,120 on loan and mortgage investments funded after December 31, 2019, and an increase in interest and fees earned of \$69,527 on loan and mortgage investments and convertible note receivable existed December 31, 2019.

For the year ended December 31, 2020, interest and fees earned aggregated to \$12,662,997, compared to \$15,003,292 in the comparative period last year, representing a decrease of \$2,340,295 or 15.6%. The repayments of loans and mortgage investments after December 31, 2019, resulted in a decrease in interest fees earned by \$6,729,869. The decrease is partially offset by interest and fees earned of \$1,191,858 on loan and mortgage investments funded after December 31, 2019 and an increase in interest and fees of \$3,197,714 earned on loan and mortgage investments and convertible note receivable existing December 31, 2019.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

12

From the start of the COVID-19 pandemic until the third quarter, the Company chose not to commit to funding any new loan and mortgage investments and finance leases. As a result, the principal balance of the loan and mortgage investments contracted by \$23,012,250 during 2020 due to net repayments. 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, 2020, the finance income aggregated to \$642,524, compared to \$540,835 in the comparative period last year, representing an increase of \$101,689 or 18.8%.

For the year ended December 31, 2020, finance income aggregated to \$2,646,216, compared to \$1,497,294 in the comparative period in 2019, representing an increase of \$1,148,922 or 76.7%, primarily due to the increase in the number and amount of investment in finance leases. At December 31, 2020, the Company had nine finance leases, totaling \$20,530,716, compared to four finance leases totaling \$17,959,374 at December 31, 2019. 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, 2020, and 2019 was \$40,893 and \$41,844, 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, 2020, was \$13,882 compared to \$14,235 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, 2020, and 2019 was \$152,571 and \$155,720, respectively. 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, 2020 and 2019 was \$53,896 and \$53,427, respectively.

INTEREST AND FINANCING COSTS

Interest and financing costs for the three months and years ended December 31, 2020 and 2019 were as follows:

	Three months ended			Years ended		
	December 31, 2020	December 31, 2019	Change Increase / (decrease)	December 31, 2020	December 31, 2019	Change Increase / (decrease)
Interest on loan and mortgage syndications	\$ 1,632,868	\$ 2,163,694	\$ (530,826)	\$ 7,440,033	\$ 7,568,285	\$ (128,252)
Interest on Credit Facilities	177,725	246,192	(68,467)	689,977	1,558,228	(868,251)
Montreal Street JV	11,525	12,326	(801)	45,513	32,652	12,861
Lease obligations	(1,052)	399	(1,451)	723	2,094	(1,371)
	\$ 1,821,066	\$ 2,422,611	\$ (601,545)	\$ 8,176,246	\$ 9,161,259	\$ (985,013)

Interest expense for the three months ended December 31, 2020 was \$1,821,066 compared to \$2,422,611 for the same period last year. Interest expense for the year ended December 31, 2020 was \$8,176,246 compared to \$9,161,259 for the same period last year. This decrease was primarily due to the lower interest rate and carrying balances of the LOC and the decrease in loan and mortgage syndications from \$88,249,414 at December 31, 2019 to \$71,374,100 at December 31, 2020. The decrease was partially offset by an increase in the weighted average interest rate from 9.6% at December 31, 2019 to 10.1% at December 31, 2020. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications” and “Credit Facilities”.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

13

GENERAL AND ADMINISTRATIVE EXPENSES

During the three months and years ended December 31, 2020 and 2019, the Company incurred the following general and administrative expenses:

	Three months ended			Years ended		
	December 31, 2020	December 31, 2019	Change Increase / (decrease)	December 31, 2020	December 31, 2019	Change Increase / (decrease)
Salary and benefits	\$ 779,299	\$ 684,508	\$ 94,791	\$ 2,107,958	\$ 1,814,258	\$ 293,700
Professional fees	268,810	238,479	30,331	575,463	923,369	(347,906)
Public company expenses	14,132	11,507	2,625	45,952	36,361	9,591
Directors' fees	40,259	58,271	(18,012)	155,651	153,647	2,004
Rent	36,364	41,865	(5,501)	147,224	151,449	(4,225)
Other expenses	77,943	95,198	(17,255)	273,317	296,905	(23,588)
	\$ 1,216,807	\$ 1,129,828	\$ 86,979	\$ 3,305,565	\$ 3,375,989	\$ (70,424)

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, 2020 were \$1,216,807 compared to \$1,129,828 for the same period last year, an increase of \$86,979 or 7.7%. The increase is primarily due to an increase in salary and benefits due to a new hire and annual salary increases, an increase in legal fees relating to corporate matters, and fees incurred on tax services. The increase is partially offset by savings in fees paid to directors due to a smaller board during the year.

General and administrative expenses for the year ended December 31, 2020 were \$3,305,565 compared to \$3,375,989 in the same period last year, a decrease of \$70,424 or 2.1%. The decrease is primarily due to a reduction in legal fees relating to the loan and mortgage investments in arrears. The decrease is partially offset by an increase in salary and benefits due to a new hire in 2020 and annual salary increases.

SHARE-BASED COMPENSATION

The share-based compensation that has been recognized for the three months and years ended December 31, 2020 and 2019 was as follows:

	Three months ended			Years ended		
	December 31, 2020	December 31, 2019	Change Increase / (decrease)	December 31, 2020	December 31, 2019	Change Increase / (decrease)
Share option Plan	\$ -	\$ 25,871	\$ (25,871)	\$ 177,745	\$ 176,307	\$ 1,438
DSU Plan	305,272	94,723	210,549	101,479	297,861	(196,382)
	\$ 305,272	\$ 120,594	\$ 184,678	\$ 279,224	\$ 474,168	\$ (194,944)

Share-based payments associated with the Company's share option plan (the "Plan") were nil for the three months ended December 31, 2020, compared to \$25,871 for the same period last year. Share-based payments associated with the Plan were \$177,745 for the year ended December 31, 2020, compared to \$176,307 for the same period last year. The decrease in share-based payments associated with the Plan for the three months ended December 31, 2020, was primarily due to the timing of recognizing expenses of the options granted in 2020. The options are valued and recognized as compensation expenses using the graded-vesting accounting method over the option vesting period. See "Shareholders Equity – Share-Based Payments."

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

14

The share-based compensation associated with the Company's Deferred Share Units Plan (the "DSU Plan") for the three months ended December 31, 2020 was \$305,272 compared to \$94,723 for the same period last year. Share-based compensation associated with the DSU Plan for the year ended December 31, 2020 was \$101,479 compared to \$297,861 for the same period last year. The increase in share-based payments for the three months ended December 31, 2020 was primarily due to the share price increase from CA\$4.67 per Share at September 30, 2020 to \$5.65 per share at December 31, 2020 and due to the granting of additional DSUs to participants for amounts equivalent to dividends paid on the Shares of the Company.

The higher share-based compensation associated with the DSU Plan for the year ended December 31, 2019 was primarily due to the higher share price increase from December 31, 2018 to December 31, 2019. The increase in share-based compensation associated with the DSU Plan for the year ended December 31, 2020 is due to granting additional DSUs to participants for amounts equivalent to dividends paid on the Shares of the Company, which is partially offset by the decrease in share price from CA\$5.65 at December 31, 2019 to CA\$5.60 at December 31, 2020.

FOREIGN EXCHANGE LOSS

For the year ended December 31, 2020, the Company recognized a foreign exchange gain of \$118,268 compared to a foreign exchange gain of \$156,901 for the same period last year, resulting from the translation of net assets carried in CA\$ being translated to US\$. During the year ended December 31, 2020, the US\$ weakened by approximately 2.0% against the CA\$ from \$1.2990 to \$1.2725. During the year ended December 31, 2019, the US\$ weakened by approximately 5.0%, from \$1.3637 to \$1.2990.

INCOME TAXES

The Company is subject to federal, provincial and state income taxes in jurisdictions it conducts business and is required to estimate the income tax provision in each of these jurisdictions in preparing its consolidated financial statements. The Company's effective consolidated tax rate is influenced by various factors, including the mix of accounting profits or losses before income taxes among tax jurisdictions in which it operates and the foreign exchange gain or loss. The effective income tax rate for the year ended December 31, 2020, amounted to 19.6%, compared with 24.7% for the same period last year. The decrease resulted primarily from tax and accounting treatment of subsidiaries with a functional currency of CA\$ and filing income taxes in CA\$ while holding certain assets denominated in US\$. These subsidiaries recognized taxable foreign exchange losses from the weakening of the US\$ for Canadian income tax purposes while recording a non-deductible foreign exchange loss resulting from converting CA\$ transactions and balances to US\$ in preparing the consolidated financial statements. This resulted in a decrease in income tax expense and a lower effective income tax rate for the year ended December 31, 2020.

INVESTMENT PROFILE

The following table presents details of the Company's Total Investments, as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Loan and mortgage investments ⁽¹⁾	\$ 93,808,332	\$ 116,820,582
Investment in finance leases ⁽²⁾	20,530,716	17,959,374
Portfolio investments	2,292,991	2,042,937
Investment in associates	3,112,395	3,097,947
Investment property held in Joint Operations	1,735,712	1,700,303
Convertible note receivable	1,080,536	800,531
Total Investments	\$ 122,560,682	\$ 142,421,674
<p>(1) Before deducting the allowance for loan and mortgage investment loss at December 31, 2020 and 2019 of \$764,519 and \$607,940, respectively.</p> <p>(2) Before deducting the allowance for investment in finance lease loss at December 31, 2020 and 2019 of \$41,061 and nil, respectively.</p>		

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

15

Since the start of the COVID-19 pandemic, the Company chose not to commit to funding any new loan and mortgage investments and investments in finance leases during the first half of the year and started new fundings from the third quarter. Total Investments decreased by \$19,860,992 during the year ended December 31, 2020, resulting primarily from the decline in the principal balance of loan and mortgage investments totaling \$23,012,250. The changes to these investments are discussed in detail below.

The following table presents a breakdown of the Company's Total Investments by investment type as at December 31, 2020, and December 31, 2019:

	December 31, 2020		December 31, 2019	
	Total	% of total	Total	% of total
First mortgage loans ⁽¹⁾	88,208,729	72.0	102,493,573	72.0
Finance leases ⁽²⁾	20,530,716	16.8	17,959,374	12.6
2nd mortgage loans ⁽¹⁾	4,108,367	3.4	12,083,100	8.5
All other investments	9,712,870	7.8	9,885,627	6.9
	122,560,682	100.0	142,421,674	100.0
(1) Before deducting the allowance for loan and mortgage investment loss at December 31, 2020 and December 31, 2019 of \$764,519 and \$607,940, respectively.				
(2) Before deducting the allowance for investment in finance lease loss at December 31, 2020 and 2019 of \$41,061 and nil, respectively.				

The following table presents details of the Company's Total Investments segmented by geography as at December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Total	% of total	Total	% of total
Canada ⁽¹⁾	\$ 12,229,760	10.0	\$ 21,787,665	15.3
United States ⁽¹⁾	110,330,922	90.0	120,634,009	84.7
Total Investments ⁽¹⁾	\$ 122,560,682	100.0	\$ 142,421,674	100.0
(1) Before deducting the allowance for loan and mortgage investment loss at December 31, 2020 and December 31, 2019 of \$764,519 and \$607,940, respectively and before deducting the allowance for investment in finance lease loss at December 31, 2020 and 2019 of \$41,061 and nil, respectively.				

As at December 31, 2020, the total investment in the U.S. represents 90.0% of the total investment, compared to 84.7% at December 31, 2019. The Company continues to believe that financing real estate projects in the U.S provide the best risk-adjusted returns in the market today. The Company plans to continue to expand its U.S. financing activities opportunistically and in a measured way.

LOAN AND MORTGAGE INVESTMENTS

The Company's Loan Portfolio as at December 31, 2020, consisted of the following: (a) 5 loans relating to residential housing developments located in Kitchener-Ontario, Fort Worth-Texas, Atlanta-Georgia, Delray Beach-Florida representing 31.3% of the Loan Portfolio (by investment amount), (b) 6 loans relating to land and lot inventory of real estate assets to be developed in Tampa-Florida, Phoenix-Arizona, Atlanta-Georgia, Savannah-Georgia and Davenport-Florida representing 63.6% of the Loan Portfolio (by investment amount) and (c) commercial retail development land located in Palm Springs-California, representing the remaining 5.1% of the Loan Portfolio (by investment amount).

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 Kitchener-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) commercial retail development land located in Palm Springs-California, representing the remaining 4.1% of the Loan Portfolio (by investment amount).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

16

The following table presents details of the Loan Portfolio before loan and mortgage syndications as at December 31, 2020:

	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	12.8%	\$ 29,391,302	\$ (12,999)	\$ 29,378,303	31.6%
Land and lot inventory	12.9%	59,662,030	(397,757)	59,264,273	63.7%
	13.2%	89,053,332	(410,756)	88,642,576	95.3%
Impaired loan and mortgage investments					
Commercial retail development	14.3%	4,755,000	(353,763)	4,401,237	4.7%
Loan Portfolio	13.0%	\$ 93,808,332	\$ (764,519)	\$ 93,043,813	100.0%

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 investments (before syndication)	% of 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%

As at December 31, 2020 and December 31, 2019, the principal balance of the Loan Portfolio was \$93,808,332 and \$116,820,582, respectively. The decrease in Loan Portfolio of \$23,012,250 during the year ended December 31, 2020 resulted from the net effect of the repayments totaling \$53,910,395, of which \$45,311,995 is related to loans and mortgage investments that were repaid in full during the period, the write-down of one loan investment of \$981,806 and the receipt of capitalized interest of \$5,199,823. The decrease was partially offset by funding of advances against existing loans of \$8,078,517, funding of new loan investments of \$25,293,408 and capitalized interest of \$4,035,865. The funding of new loan and mortgage investments was lower, primarily due to the Company stopping all loan origination activities during the first two quarters of this year and resuming at the beginning of the third quarter of 2020.

As at December 31, 2020, the Company had a loan and mortgage investment totaling \$18,382,915 (December 31, 2019 - \$11,757,000) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$10,289,536 (December 31, 2019 - \$7,000,000) and the remainder of the investment is in a subordinated position of \$8,093,379 (December 31, 2019 - \$4,757,000). The Company syndicated its position on a pari-passu basis with certain syndicate investors for \$6,625,000 (December 31, 2019 - \$4,350,000) and retains a residual portion of \$1,468,379 (December 31, 2019 - \$407,000). The remaining syndications of all other loan and mortgage investments are not in a priority position to that of the Company's retained residual portions.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

17

The following table summarizes the change in the principal balance of the Loan Portfolio for the three months and years ended December 31, 2020 and 2019:

	Three months ended		Year ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Balance, beginning of period	\$ 99,110,556	\$ 113,538,689	\$ 116,820,582	\$ 122,209,711
Loan portfolio activity during the period				
Funding of new loan investments	1,293,408	5,381,442	25,293,408	35,903,506
Advances against existing loans	2,577,698	1,117,923	8,078,517	10,806,045
Write-down of loan investments	-	-	(981,806)	-
Repayments of loans	(10,036,618)	(5,089,491)	(53,910,395)	(57,605,930)
Interest capitalized	757,718	1,209,744	4,035,865	4,981,911
Capitalized interest received	(33,313)	(16,817)	(5,199,823)	(153,753)
Unrealized foreign exchange gain (loss)	138,883	679,092	(328,016)	679,092
Balance, end of period	\$ 93,808,332	\$ 116,820,582	\$ 93,808,332	\$ 116,820,582

The weighted average effective interest rate (the “EIR”) of the Loan Portfolio at December 31, 2020 and 2019, including the average interest rate of loan and mortgage investment in default, was 13.0% and 13.2%, respectively. The weighted average term to maturity of the Loan Portfolio at December 31, 2020 and 2019, was 1.64 years and 1.37 years, respectively. The Company continues to focus on the quality of security by placing its capital in more senior positions in the capital structure and reducing its exposure to unregistered loans. At December 31, 2020, the Company had 87.8% of the Loan Portfolio in first mortgage loans, compared to 90.1% of the Loan Portfolio at December 31, 2019. The higher level of security and lower weighted average interest rates have not significantly impacted the Company’s overall profitability, given the Company’s focus on the spreads earned on the loan and mortgage syndications. 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, 2020 and 2019 were 12.8% and 13.5%, respectively, due to the factors discussed below. The weighted average EIR of the loan and mortgage investments of land and lot inventory at December 31, 2020 and 2019 were 12.9%. The weighted average EIR of the commercial retail development at December 31, 2020 and 2019 were 14.3%.

The following table presents details of the Company’s principal balances of loan and mortgage investments segmented by risk as at December 31, 2020 and 2019:

	December 31, 2020	% of Investments	December 31, 2019	% of Investments
1st mortgage loans	\$ 88,208,729	94.0%	\$ 102,493,573	87.7%
2nd mortgage loans	4,108,367	4.4%	12,083,100	10.3%
Unregistered loans	1,491,236	1.6%	2,243,909	2.0%
	\$ 93,808,332	100.0%	\$ 116,820,582	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 the pledge of shares of the borrowing entity.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

18

The following table presents details of the Company's principal balances of the Loan Portfolio before syndication segmented by geography as at December 31, 2020:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 4,108,369	\$ (501)	\$ 4,107,868	4.4%
United States	89,699,963	(764,018)	88,935,945	95.6%
	\$ 93,808,332	\$ (764,519)	\$ 93,043,813	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, 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 Company believes the U.S market offers better risk-adjusted returns and lends in specific U.S. markets following the same prudent lending standards it has historically employed in Canada. Despite the COVID-19 pandemic, 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, land acquisition and development, land banking and lot inventory loans in the U.S. are high on a risk-adjusted basis, ranging between 11% and 12% for LTVs of up to 80%. As such, the Company focuses primarily on providing higher leveraged loans (up to 80% LTV) on development lands in the U.S. 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 more significant pipeline of potential transactions. The COVID-19 pandemic and continued travel restrictions resulted in the Company adjusting the underwriting process for loan and mortgage investments and investment in finance leases.

At December 31, 2020, 95.6% of the Loan Portfolio are in projects located in the U.S, compared to 88.0% at December 31, 2019. The Company expects to maintain its concentration of loan and mortgage investments to projects located in the U.S.

As at December 31, 2020, four project loan investments to entities controlled by a single borrower in the U.S. totaled \$16,289,711, accounting for 37.9% of the combined principal balances of loan and mortgage investments and investment in finance leases, net of syndications.

As at December 31, 2020, there were loan and mortgage investments to three separate projects in the U.S. before syndication that account for 26.4%, 20.1% and 19.6% of the principal balance of loan and mortgage investments. As at December 31, 2019, there were loan and mortgage investments to three separate projects in the U.S. before syndication accounted for 19.1%, 13.9% and 10.1% of the principal balance of loan mortgage investments. These loan and mortgage investments are syndicated to certain syndicate investors on a pari-passu basis, and these percentages do not represent the Company's exposure on these loans and mortgage investments. For the year ended December 31, 2020, the Company had loan and mortgage investments in two separate projects in the U.S. before syndication that accounted for 22.5% and 15.0% of the Company's interest and fees revenue. For the year ended December 31, 2019, there were loan and mortgage investments to two separate projects in the U.S. before syndication, which accounted for 16.9% and 13.5% of the Company's interest and fees revenue.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

19

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances, subject to borrowers meeting certain funding conditions. The unfunded loan commitments under the existing loan and mortgage investments at December 31, 2020 were \$7,204,207, including no capitalization of future interest relating to existing loan and mortgage investments (December 31, 2019 - \$34,355,724, including \$651,602 of capitalization of future interest relating to existing loan and mortgage investments). As at December 31, 2020, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S. before syndication account for 82.8% and 15.8% of the total unfunded commitments. As at December 31, 2019, the unfunded commitments relating to loan and mortgage investments in two separate projects in the U.S. before syndication account for 39.3% and 36.6% of the total unfunded commitments. The Company expects to meet these funding commitments through the use of the LOC and proceeds from repayments of loans and mortgage investments.

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2021	\$ -	\$ 22,323,555	\$ 22,323,555
2022	-	47,871,881	47,871,881
2023	-	22,121,660	22,121,660
2024	-	1,491,236	1,491,236
	\$ -	\$ 93,808,332	\$ 93,808,332

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.

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, 2020, 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 ACL, calculated in accordance with the Company's policy for ACL. 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 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 on the amortized cost of loan and mortgage investments are recognized at each balance sheet date in accordance with the three-stage impairment model.

The following table presents details of the Company's credit exposure on the Loan Portfolio before loan and mortgage syndications for which ACL is recognized as at December 31, 2020:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 29,391,302	\$ -	\$ -	\$ 29,391,302
Land and lot inventory	59,662,030	-	-	59,662,030
Commercial retail development		-	4,755,000	4,755,000
Total	\$ 89,053,332	\$ -	\$ 4,755,000	\$ 93,808,332

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

20

The following table presents details of the Company's credit exposure on the Loan Portfolio before loan and mortgage syndications, segmented by geography, for which ACL is recognized as at December 31, 2020:

	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 4,108,369	\$ -	\$ -	\$ 4,108,369
United States	84,944,963	-	4,755,000	89,699,963
Total	\$ 89,053,332	\$ -	\$ 4,755,000	\$ 93,808,332

ALLOWANCE FOR LOAN AND MORTGAGE INVESTMENTS LOSS

The changes in the ACL on loan and mortgage investments during the year ended December 31, 2020, were as follows:

	Balance at January 1, 2020	Provision for credit losses	Net write-offs	Balance at December 31, 2020
Residential housing developments	\$ 343,884	\$ 411,740	\$ (742,625)	\$ 12,999
Land and lot inventory	259,435	138,322	-	397,757
Commercial retail development	4,621	349,142	-	353,763
	\$ 607,940	\$ 899,204	\$ (742,625)	\$ 764,519

At December 31, 2020, a first mortgage loan investment to a project located in the U.S. (the "U.S. Project") totaled \$4,854,290, including interest receivable of \$46,808 on this loan and mortgage investment and fees incurred relating to collecting this loan and mortgage investment of \$52,482, is in arrears. The syndicate investors' share of this loan investment and interest and other receivable is \$4,127,968. The Company's share of loan investment and interest and other receivables, net of syndication, is \$726,322. The Company has commenced the foreclosure process to enforce the security and liquidate this loan investment and related receivables. During the year ended December 31, 2020, the Company recorded a provision for loan losses of \$349,142 relating to this loan investment. As at December 31, 2020, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an ACL balance of \$353,763 relating to this loan investment.

At December 31, 2019, a second mortgage loan investment to a project located in Toronto, Canada, in arrears totaled \$2,478,758, including interest receivable on this loan and mortgage investment and fees incurred relating to a collection of this loan and mortgage investment totaling \$374,911, was in arrears. As at December 31, 2019, based on the recent valuations of the underlying asset and management's estimates, the Company carried an ACL balance totaling \$226,108 against this loan investment and \$202,684 against the other receivables relating to this loan and mortgage investment. During the year ended December 31, 2020, the Company received repayment of \$1,030,397 of loan and mortgage investment, determined that the remainder of the loan and mortgage investment be uncollectible and recorded an additional provision for loan losses of \$755,698, recognized a foreign exchange loss of \$91,644 and wrote-off the loan investment balance of \$981,806. Subsequently, the Company received \$238,824 of loan and mortgage investment repayment previously written off and adjusted the provision for loan losses by \$238,824.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

21

The following table presents the changes to the loan investment and related receivables to a project located in Toronto, in arrears, during the year ended December 31, 2020:

	Loan and mortgage investment	Other receivables	Total amount in arrears	ACL	Net amount in arrears
Balance, beginning of year	\$ 2,103,847	\$ 374,911	\$ 2,478,758	\$ (428,792)	\$ 2,049,966
Foreign exchange loss recognized	(91,644)	(23,508)	(115,152)	12,709	(102,443)
Repayment of loan investment	(1,030,397)	-	(1,030,397)	-	(1,030,397)
Provision for loan investment loss	-	-	-	(917,126)	(917,126)
Amounts written-off	(981,806)	(351,403)	(1,333,209)	1,333,209	-
Repayment of loan investment previously written-off	-	-	-	(238,824)	(238,824)
Recovery of loan investment loss	-	-	-	238,824	238,824
Balance, end of year	\$ -	\$ -	\$ -	\$ -	\$ -

For the three months ended December 31, 2020, and 2019, the Company recorded no provision for collective credit losses. For the year ended December 31, 2020, the Company recorded a provision for collective credit losses of \$33,546 relating to loan and mortgage investments. For the year ended December 31, 2019, the Company recorded a recovery of collective credit losses of \$151,900 relating to loan and mortgage investments.

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

	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	\$ 381,832	\$ -	\$ 226,108	\$ 607,940
Provision for credit losses	33,545	-	865,659	899,204
Remeasurement	-	-	-	-
Transfer to (from)				
Stage 1	(4,621)	-	4,621	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	(981,449)	(981,449)
Recoveries	-	-	238,824	238,824
Balance, end of year	\$ 410,756	\$ -	\$ 353,763	\$ 764,519

The following table presents details of the Company's ACL on loan and mortgage investments as at December 31, 2020:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 12,999	\$ -	\$ -	12,999
Land and lot inventory	397,757	-	-	397,757
Commercial retail development	-	-	353,763	353,763
	\$ 410,756	\$ -	\$ 353,763	\$ 764,519

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at December 31, 2020:

	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 501	\$ -	\$ -	501
United States	410,255	-	353,763	764,018
	\$ 410,756	\$ -	\$ 353,763	\$ 764,519

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

22

The principal amount of the loan and mortgage investments are subject to the company's internal risk ratings for credit risk purposes.

The following table represents the internal risk ratings on the carrying amount of loan and mortgage investments net of syndication as at December 31, 2020:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	\$ 36,182,659	\$ -	\$ -	\$ 36,182,659
Medium	28,136,707	-	-	28,136,707
High	24,733,966	-	-	24,733,966
High - Default	-	-	4,755,000	4,755,000
Total	\$ 89,053,332	\$ -	\$ 4,755,000	\$ 93,808,332

INVESTMENT IN FINANCE LEASES

The Company is a 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 is also a party to a fixed-price contract with builders to complete all required land development, based upon a fixed construction budget. The Company is committed to making additional investments in developing the land, subject to builders meeting certain funding conditions, including the payment of option fees. Under this arrangement, builders have an option to acquire the developed land in the form of divided lots, at a pre-determined price and in accordance with the scheduled closing dates to build residential units. Builders provide the Company with a non-refundable deposit and the payment of monthly option fees to secure their rights under each contract upon acquisition. The builder's deposits are applied on a lot-by-lot basis on the acquisition of the lots by the builders.

As at December 31, 2020, the Company had nine arrangements with builders (December 31, 2019 – four). The Company determined that the arrangements contain a lease and that all 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. As at December 31, 2020, the weighted average implicit rate of the leases is 14.5% per annum, and the weighted average remaining term of the leases is 2.08 years. As at December 31, 2020 and 2019, the unearned finance income was \$345,725 and \$96,454, respectively.

The finance income recognized from finance leases for the years ended December 31, 2020 and 2019 of \$2,646,216 and \$1,497,294, respectively, is included in the finance income in the interim condensed 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, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 17,959,374	\$ 2,819,915
Investments made	27,883,462	23,518,262
Investments sold	(24,966,422)	(8,282,149)
Lease payments received	(2,991,914)	(1,593,948)
Finance income recognized	2,646,216	1,497,294
Balance, end of year	\$ 20,530,716	\$ 17,959,374

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

23

As at December 31, 2020 and 2019, the investment in finance leases amounted to \$20,530,716 and \$17,959,374, respectively. The increase in investment in finance leases during the years ended December 31, 2020 of \$2,571,342 resulted from advances made to new investment in finance leases of \$19,176,077, advances made to existing finance leases for \$8,707,385 and finance income recognized of \$2,646,216, which were offset by investments sold of \$24,966,422 and lease payments received of \$2,991,914.

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	\$ 3,275,054	\$ 2,733,520	\$ 541,534
Greater than one year but less than 5 years	23,357,740	3,368,558	19,989,182
	\$ 26,632,794	\$ 6,102,078	\$ 20,530,716

The Company measures ACL for investment in finance leases at an amount equal to credit losses expected over the remaining lifetime of the finance leases.

The investments in finance leases are subject to the company's internal risk ratings for credit risk purposes.

The following table represents the internal risk ratings on the carrying amount of investment in finance leases as at December 31, 2020:

Categories of PD grades	Stage 1	Stage 2	Stage 3	Total
Low	\$ 3,591,502	\$ -	\$ -	\$ 3,591,502
Medium	16,939,214	-	-	16,939,214
High	-	-	-	-
High - Default	-	-	-	-
Total	\$ 20,530,716	\$ -	\$ -	\$ 20,530,716

The Company's entire investments in finance leases are situated in the U.S. Based on the ACL assessment. All of the investments in finance leases are classified into State 1. As at December 31, 2020, the Company carries an ACL balance of \$41,061 relating to investments in finance leases

At December 31, 2020 and 2019, the unfunded commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were \$33,762,912 and \$9,143,864, respectively.

PORTFOLIO INVESTMENTS

The following table presents details of the portfolio investments as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Investment in the LanQueen Partnership	\$ 2,192,747	\$ 2,001,936
Investment in the Savannah Partnership	100,243	41,000
Investment in the Valermo Partnership	1	1
	\$ 2,292,991	\$ 2,042,937

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

24

- (a) The Company, through TFCC LanQueen Ltd., entered into a partnership agreement (the "Queen Agreement"), whereby TFCC LanQueen Ltd. is committed to investing 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 a significant influence in the partnership and is accounting for this investment as a financial asset at FVTPL. As at December 31, 2020, TFCC LanQueen Ltd. contributed \$1,264,208 (December 31, 2019 - \$1,264,208) to the partnership. At December 31, 2020 and 2019, the fair value of the investment was determined by management using the direct comparison method. The fair value of investment at December 31, 2020 and 2019 was \$2,192,747 and \$2,001,936, respectively.
- (b) The Company, through TFCC International Ltd., entered into a partnership agreement (the "Savannah Agreement"), whereby TFCC International Ltd. is committed to investing \$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. TFCC International Ltd. does not have significant influence in the Savannah Partnership and is accounting for this investment as a financial asset at FVTPL. As at December 31, 2019, the cost of the investment in the Savannah Partnership is \$41,000. During the year ended December 31, 2020, TFCC International Ltd. contributed \$59,243 to the Savannah Partnership. At December 31, 2020 and 2019, 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, 2020 and 2019 was \$100,243 and \$41,000, 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, 2020 and 2019, TFCC International Ltd. funded a loan and mortgage investment of \$18,000,000, and \$18,000,000, respectively and as at December 31, 2020 and 2019, syndicated the loan and mortgage investment funded to investors of \$14,309,755 and \$14,523,664, respectively.

- (c) The Company, through TFVC, has a limited partnership interest in a partnership that developed 98 residential dwelling units in Toronto. TFVC does not have a significant influence in the Valermo Partnership and is accounting for this investment as a financial asset at FVTPL. During the year ended December 31, 2019, 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, 2020 was \$1 (December 31, 2019 - \$1).

The following table summarizes the changes in the portfolio investments for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 2,042,937	\$ 1,911,574
Investment made	59,243	-
Sale of investment	-	(18,000)
Fair value adjustment	149,120	56,124
Foreign exchange	41,691	93,239
Balance, end of year	\$ 2,292,991	\$ 2,042,937

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

25

INVESTMENT IN ASSOCIATES

The following table presents details of the investment in associates as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Investment in the Lan Partnership	\$ 1,945,963	\$ 2,227,442
Investment in the TF Royal Palm	1,166,432	870,505
	\$ 3,112,395	\$ 3,097,947

- (a) The Company and certain syndicate investors invested in a 668-unit high-rise condominium development project located in Toronto, Ontario, through a partnership interest (the "Lan Partnership"). At December 31, 2020 and 2019, the Company's share of the investment in the Lan Partnership was CA\$2,315,514.

During the year ended December 31, 2020, the Lan Partnership reduced the value of its investment in the high-rise condominium development project. The Company recorded a reduction of income earned (loss from investment in associates) of \$312,695 and recorded an unrealized foreign exchange gain of \$31,216.

At December 31, 2020 and 2019, the fair value of the investment in the Lan Partnership was determined by management using the direct comparison method. The fair value of the investment in the Lan Partnership at December 31, 2020 and 2019 was \$1,945,963 and \$2,227,442, respectively.

- (b) The Company, through Royal Palm Beach Preferred Investment LLC (the "TF Royal Palm") entered into a limited liability company agreement (the "Royal Palm Agreement"), whereby TF Royal Palm along with its syndicate investors is committed to investing 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 loan monitoring fee of \$70,000, and a preferred return on the amount of its investment in the limited liability company. The Company accounts for its investment in TF Royal Palm as an investment in associates using the equity method of accounting. During the year ended December 31, 2020, the Company recorded income of \$197,201 and received distributions of \$37,921. At December 31, 2020 and 2019, the fair value of investment is \$1,166,432 (2019 - \$870,505).

The following table summarizes the changes in the investment in associates for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 3,097,947	\$ 2,146,984
Investment made	136,647	5,143,953
Sale of investment to investors	-	(4,280,600)
Income (loss) earned (incurred)	(115,494)	356,435
Distributions received	(37,921)	(375,662)
Foreign exchange	31,216	106,837
Balance, end of year	\$ 3,112,395	\$ 3,097,947

JOINT ARRANGEMENTS

JOINT OPERATIONS

The Company's interest 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

26

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 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, 2020 and 2019, the Company’s share of net assets in Montreal Street JV was \$807,920 and \$735,087, respectively.

The financial information in respect of the Company’s investment in joint operations at December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 96,799	\$ 54,031
Amounts receivable and prepaid expenses	85,045	83,965
Investment property	1,735,712	1,700,303
Right of use asset	695,363	739,123
Total assets	2,612,919	2,577,422
Accounts payable and accrued liabilities	36,619	35,772
Mortgages payable	1,055,379	1,067,440
Lease obligations	713,001	739,123
Total liabilities	1,804,999	1,842,335
Net assets	\$ 807,920	\$ 735,087

The table below details the results of operations for the three and years ended December 31, 2020 and 2019, attributable to the Company from its joint operations activities:

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Revenue				
Rental	\$ 40,893	\$ 41,844	\$ 152,571	\$ 155,720
Expenses (income)				
Property operating costs	13,882	14,235	53,896	53,427
General and administrative expenses	(231)	(548)	(1,508)	2,315
Interest expense	11,525	12,326	45,513	32,652
	25,176	26,013	97,901	88,394
Net income	\$ 15,717	\$ 15,831	\$ 54,670	\$ 67,326

INVESTMENT PROPERTY

The Company has interests in an investment property subject to joint control. Accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue, and expenses of the property.

As at December 31, 2020 and 2019, 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 of the property was 6.25% (December 31, 2019 - 6.25%). At December 31, 2020 and 2019, the carrying value of the Company’s proportionate share of investment property in the Montreal Street JV is \$1,735,712 (CA\$2,208,694) and \$1,700,303 (CA\$2,208,694), respectively.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

27

As at December 31, 2020 and 2019, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of the value of investment property in the Montreal Street JV by CA\$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 CA\$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 crowdfunding 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 CA\$2,000,000. At signing, the Company advanced \$752,349 (CA\$1,000,000) of the CA\$2,000,000 commitment and \$189,480 (CA\$250,000) in 2020. The remaining CA\$750,000 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. The Convertible Note was receivable by demand any time after January 29, 2021, unless 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 a financial asset at FVTPL.

During the year ended December 31, 2020, the Company capitalized interest income of \$63,887 (2019 - \$29,998). The fair value of the investment was determined by management. The fair value of the Convertible Note at December 31, 2020 was \$1,080,536 (2019 - \$800,531), being the principal amount and capitalized interest.

On January 29, 2021, the Company extended the Convertible Note for a further twelve months.

The following table summarizes the changes in the Convertible Note receivable for the years ended December 31, 2020 and 2019:

	December 31, December 31,	
	2020	2019
Balance, beginning of year	\$ 800,531	\$ -
Investment made	189,480	752,349
Interest capitalized	63,887	29,998
Foreign exchange	26,638	18,184
Balance, end of year	\$ 1,080,536	\$ 800,531

ASSETS UNDER MANAGEMENT

The Company manages assets and collects fees, and spreads on assets that are reported on the Company's balance sheet. The Company also generates spreads, fees and/or entitled to receive carried interest from certain investments (investment in associates and portfolio investments) in which the Company and syndicate investors invested and the syndicate investors' share of investments are not included in the Company's financial statements.

AUM (a non-IFRS financial measure) at December 31, 2020 and 2019 was \$145.1 million and \$165.7 million, respectively. AUM fluctuates in value as a result of the funding of new investments and repayments of investments. The reduction in AUM from \$165.7 million at December 31, 2019 to \$145.1 million at December 31, 2020 is primarily due to the Company ceasing all loan origination activities during the first half of 2020 due to COVID-19 and net repayment of loan and mortgage investments and investment in finance leases during the year.

While the Company currently collects fees and generates spreads on investments in which the Company and syndicate investors invested, the Company does not view itself as an asset manager to accumulate AUM.

LIQUIDITY AND CASH FLOW

LIQUIDITY

The return on the Loan Portfolio is a crucial 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 FLOW

The following table details the changes in cash and cash equivalents for the three months and years ended December 31, 2020 and 2019:

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Cash (used in) provided by operating activities	\$ (5,914,265)	\$ (1,655,219)	\$ 7,582,047	\$ 501,438
Cash (used in) provided by financing activities	(3,444,114)	(3,756,875)	(23,207,558)	319,590
Cash provided by (used in) investing activities	9,311,433	3,398,416	17,474,884	(6,620,956)
Increase (decrease) in cash and cash equivalents	(46,946)	(2,013,678)	1,849,373	(5,799,928)
Cash and cash equivalents, beginning of year	3,827,770	3,945,129	1,931,451	7,731,379
Cash and cash equivalents, end of year	\$ 3,780,824	\$ 1,931,451	\$ 3,780,824	\$ 1,931,451

Cash and cash equivalents at December 31, 2020 and 2019 were \$3,780,824 and \$1,931,451, respectively.

Operating Activities

Cash used in operating activities for the three months ended December 31, 2020, of \$5,914,265 and cash used in operating activities for the three months ended December 31, 2019, of \$1,655,219, is related primarily to the net cash used in and provided by lending operations.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

29

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, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Proceeds from loan and mortgage syndications	\$ 12,092,405	\$ 6,843,918	\$ 27,444,035	\$ 49,602,355
Repayments of loan and mortgage syndications	(10,830,251)	(2,377,372)	(46,137,649)	(39,327,209)
Repayments of mortgages payable	(9,257)	(8,778)	(34,920)	(34,175)
Payment of lease obligations	(44,444)	(45,973)	(172,282)	(172,620)
Proceeds from short-term unsecured loans payable	-	-	-	3,000,000
Repayment of short-term unsecured loans payable	(939,023)	-	(1,205,850)	-
Proceeds from credit facilities	2,500,000	3,525,819	22,770,423	14,102,487
Repayments of credit facilities	(6,000,000)	(11,483,789)	(25,041,103)	(25,389,941)
Dividends paid	(213,544)	(210,700)	(830,212)	(210,700)
Repurchase of shares pursuant to normal course issuer bid	-	-	-	(1,250,607)
Cash provided by (used in) financing activities	\$ (3,444,114)	\$ (3,756,875)	\$ (23,207,558)	\$ 319,590

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, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Funding of loan and mortgage investments	\$ (3,871,106)	\$ (6,499,365)	\$ (33,371,925)	\$ (46,709,551)
Repayments of loan and mortgage investments	10,036,618	5,089,491	53,910,395	57,605,930
Funding of investment in finance leases	(8,208,656)	(3,497,674)	(27,883,462)	(23,518,262)
Proceeds from sale of finance leases	4,453,577	3,556,204	24,966,422	8,282,149
Funding of investment in convertible note receivable	(95,078)	-	(189,480)	(752,349)
Recovery of loan and mortgage investments previously written-off	-	-	238,824	-
Decrease (increase) in funds held in trust	6,996,078	1,746,247	-	(683,520)
Funding of investment in associates	-	(5,143,953)	(136,647)	(5,143,953)
Proceeds from sale of interest in portfolio investment	-	4,280,600	-	4,298,600
Funding of portfolio investment	-	3,866,866	(59,243)	-
Cash provided by (used in) investing activities	\$ 9,311,433	\$ 3,398,416	\$ 17,474,884	\$ (6,620,956)

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, grows cash flow and solidifies the Company's long-term creditworthiness and ensures 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

30

As at December 31, 2020 and 2019, respectively, the total capital of the Company was as follows:

	December 31, 2020	December 31, 2019
Loan and mortgage syndications	\$ 71,374,100	\$ 88,249,414
Credit Facilities	6,700,964	8,878,839
Unsecured note payable	1,794,150	3,000,000
Mortgages payable	1,055,379	1,067,440
Shareholders' Equity	41,162,653	39,635,372
Total capital	\$ 122,087,246	\$ 140,831,065

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.

Loan and mortgage investments are sourced 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 Company may initially fund the Loan Portfolio and may syndicate to other investors 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 except for 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.

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 beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans.

TFMA administers the Loan Syndications with all fundings from and to syndicate investors through its trust account. The Loan Syndications have no recourse to the Company, and there is no obligation of the Company to fund any principal or interest shortfalls.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

31

The following table presents details of the loan and mortgage syndications as at December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	9.8%	\$ 20,590,945	28.8%	8.2%	\$ 21,238,552	24.1%
Land and lot inventory	10.2%	46,733,155	65.5%	10.1%	62,960,862	71.3%
Commercial retail development	9.9%	4,050,000	5.7%	9.9%	4,050,000	4.6%
	10.1%	\$ 71,374,100	100.0%	9.6%	\$ 88,249,414	100.0%

At December 31, 2020, the weighted average EIR of Loan Syndications was 10.1%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of 9.8%, land and lot inventory having a weighted average EIR of 10.2% and commercial retail developments having a weighted average EIR of 9.9%. At December 31, 2020, the weighted average term to maturity of Loan Syndications was 1.72 years.

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 EIR of 9.9%. At December 31, 2019, the weighted average term to maturity of Loan Syndications was 1.46 years.

At December 31, 2020, the Company's syndication activities resulted in \$71,374,100 or 76.1% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 23.1%, and increasing its overall return by 9.9% from its non-leveraged 13.2% return. At December 31, 2019, the Company's syndication activities resulted in \$88,249,414 or 75.5% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 24.5% and increasing its overall return by 10.8% from its non-leveraged 13.7% return. Overall, returns may fluctuate significantly due to changes in the relative dollar amounts and the relative change in the weighted average effective interest rates within the Loan Portfolio and Loan Syndications.

The following table summarizes the changes in the principal balance of Loan Syndications for the three months and years ended December 31, 2020 and 2019:

	Three months ended		Years ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Balance, beginning of period	\$ 69,502,067	\$ 82,902,486	\$ 88,249,414	\$ 75,906,550
Loan and mortgage syndication activity during the period				
Proceeds to participate in new Loan Portfolio	21,993,409	38,062,274	21,993,409	38,062,274
Additional advances to existing Loan Portfolio	(9,901,004)	(31,218,356)	5,450,626	11,540,081
Interest capitalized	471,203	466,066	1,952,524	1,653,402
Repayments of loan and mortgage syndications	(11,603,548)	(2,377,372)	(46,137,649)	(39,327,209)
Unrealized foreign exchange loss (gain)	138,676	414,316	(134,224)	414,316
Balance, end of period	\$ 71,374,100	\$ 88,249,414	\$ 71,374,100	\$ 88,249,414

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

32

The following table sets out, as at December 31, 2020, scheduled principal repayments and amounts maturing on the Loan Syndications to be paid over each of the next three years as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
2021	-	11,882,806	11,882,806
2022	-	39,920,637	39,920,637
2023	-	19,570,657	19,570,657
	\$ -	\$ 71,374,100	\$ 71,374,100

Subsequent to year-end, the Company closed its first fund totaling \$37.5 million, comprising \$32.5 million of investor capital, including the Company's capital of \$3.4 million and \$5.0 million of credit facility (the "Fund"). The Fund is dedicated to facilitating land banking financings of the Company. The fund structure complements the Company's traditional loan and mortgage syndication activity but offers a number of benefits, including providing the Company with significant capital ahead of its lending commitments, thereby assuring the Company can finance its funding commitments and significantly reduces the administrative tasks required on a deal-by-deal basis and improves and streamlines the Company's capital raising efforts. The Fund also benefits investors by providing investment opportunities on a programmatic basis with constant and consistent return enhanced by modest accretive leverage from the Fund's credit facility.

With the first Fund's success, the Company expects to continue and launch additional funds for its land banking financing activity and other real estate financings. The Company's next fund is expected to be launched still in 2021.

The loan and mortgage syndication activity will continue alongside the Company's fund structure for specific transactions that, for some reason, do not fit the investment criteria of the funds.

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 a right to receive a percentage return equivalent to the performance of certain of the Company's investments up to a percentage return equivalent to an interest rate of 15% per annum compounded annually, payable monthly. The Unsecured Note has recourse only to certain investments of the Company. The Unsecured Note's repayment is limited to the return and proceeds from these investments, and the Unsecured Note only has recourse to the Company as it relates to the performance of certain investments of the Company. 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, 2020, and 2019, interest and financing costs relating to the Unsecured Note, reported as interest expense and financing costs totaled \$368,865 and \$138,750, respectively. During the year, the Company made a repayment of \$1,205,850. The carrying value of the Unsecured Note at December 31, 2020 was \$1,794,150 (December 31, 2019 - \$3,000,000).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

33

MORTGAGES PAYABLE

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV at December 31, 2020 and 2019 were \$1,056,723 and \$1,070,973, respectively. The mortgages bear interest at 3.0% per annum and are amortized over 25 years and mature 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, 2020 and 2019 are as follows.

	December 31, 2020	December 31, 2019
Mortgage principal	\$ 1,056,723	\$ 1,070,973
Unamortized financing costs	(1,344)	(3,533)
Total	\$ 1,055,379	\$ 1,067,440

The following table summarizes the changes in the principal balance of mortgages payable for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 1,070,973	\$ 1,053,274
Repayments made	(34,920)	(34,175)
Foreign exchange	20,670	51,874
Balance, end of year	\$ 1,056,723	\$ 1,070,973

Scheduled principal repayments and maturity amounts of mortgages payable at December 31, 2020 are as follows:

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
2021	18,677	1,038,046	1,056,723
	\$ 18,677	\$ 1,038,046	\$ 1,056,723

CREDIT FACILITIES

The Company's credit facilities (the "Credit Facilities") consist of a \$40,000,000 LOC at December 31, 2020, and a \$35,000,000 master credit facility (the "Master Facility") at December 31, 2019.

(a) Line of Credit:

The Company had a Revolving Guidance Facility Agreement (the "Master Facility Agreement") with a lending institution in the U.S. for a \$35,000,000 Master Facility to finance the loan and mortgage investments funded by the Company. The Master Facility was available on a project by project basis as a project loan. The Master Facility carried 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 January 14, 2020, the Company entered into a \$40,000,000 secured LOC with the same lending institution, replacing the Master Facility Agreement. The LOC provides an increase in the borrowing limit to \$50,000,000 over time, subject to the lending institution's approval. The LOC carries an interest rate of three-month LIBOR plus three and one-quarter of one percent (3.25%) per annum with a floor rate of five percent (5.00%) per annum and matures on January 9, 2025.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

34

During the years ended December 31, 2020 and 2019, the Company borrowed an aggregate of \$22,770,423 and \$1,871,678, respectively and repaid \$25,041,103 and \$13,169,985, respectively, against the Facility.

In connection with the LOC, the Company incurred lender and other third-party costs of \$244,264. The costs associated with the LOC have been deferred and are being amortized over the term of the LOC as interest expense using the effective-interest amortization method.

(b) Revolving operating facility:

The Company had a revolving operating facility credit agreement (the "Facility Agreement") with a lending institution for a CA\$20,000,000 secured revolving operating facility (the "Facility"). The Facility carried an interest rate of 9.5% per annum until one month prior to the maturity date, and any unpaid balance one month prior to the maturity date would have carried an interest rate of 12% per annum until repaid. On December 2, 2019, the Company repaid the Facility plus all accrued and unpaid interest in full and terminated the Facility Agreement.

The following table presents details of the Credit Facilities as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Face value	\$ 7,000,000	\$ 9,221,447
Unamortized financing costs	(299,036)	(342,608)
Total credit facilities	\$ 6,700,964	\$ 8,878,839

The following table summarizes the changes in the Credit Facilities for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 9,221,447	\$ 19,803,967
Proceeds from facilities	22,770,423	14,102,487
Repayment of facilities	(25,041,103)	(25,389,941)
Interest capitalized	49,233	406,114
Foreign exchange	-	298,820
Balance, end of year	\$ 7,000,000	\$ 9,221,447

For the years ended December 31, 2020 and 2019, amortization of deferred financing costs reported as interest expense and financing costs relating to the credit facilities totaled \$287,832 and \$248,038, 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, 2020 and 2019, 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 with a lease term greater than 12 months resulted in recognition of a right-of-use asset and a corresponding lease liability.

On September 30, 2020, the Company entered into a new lease agreement (the "New Lease") to lease its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario. The New Lease has two years and four months commencing on January 1, 2021, under similar terms as the existing lease.

The right-of-use asset represents the Company's right to control the use of the head office premises and the land lease on the Montreal Street JV for the lease term. The right-of-use asset at December 31, 2020 and 2019 was \$1,056,879 and \$912,436, respectively. The lease obligations represent the present value of the Company's future lease payments on its head office premises over the expected lease term. The lease obligations at December 31, 2020 and 2019 was \$1,074,518 and \$913,129, respectively. The New Lease resulted in the Company recognizing an additional right-of-use asset of \$345,394 and a corresponding lease obligation of \$345,394 at December 31, 2020.

The future minimum lease payments, which includes estimated operating costs for the next five years and thereafter, are as follows:

	Amount
2021	261,173
2022	264,950
2023	129,601
2024	66,994
2025 and thereafter	615,409
	\$ 1,338,127

COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances. The unfunded loan commitments under the existing lending agreements at December 31, 2020 were \$7,204,207 (December 31, 2019 - \$33,095,786). 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 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, 2020 and 2019, the unfunded commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were \$34,130,358 and \$9,143,864, respectively.

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

From time to time, the Company 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 every 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, DSUs and earnings per share data presented in this MD&A have all been adjusted retroactively to reflect the impact of this share consolidation.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

36

The following table summarizes the changes in Shares for the years ended December 31, 2020 and 2019:

	Shares	Amount
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
Outstanding, December 31, 2020	5,564,968	\$ 25,283,343

As at April 15, 2021, there were 5,564,968 Shares issued and outstanding.

Normal Course Issuer Bid

On November 23, 2018, the Company renewed its Normal Course Issuer Bid (the "NCIB") to acquire up to 418,631 Shares, being 10% of the public float of Shares issued and outstanding as of November 27, 2018, as defined by the policies of the TSX-V. The NCIB expired on November 26, 2019.

During the years ended December 31, 2020 and 2019, the Company purchased nil and 298,550 Shares, respectively, on the TSX-V for nil and \$1,250,607, respectively.

DIVIDENDS

The Board determines the level of dividend payments. Although the Company does not have a formal dividend policy, it started dividend payments and plans to maintain regular quarterly dividends. Dividends are recognized in the period in which they are formally declared by the Board.

	Year ended December 31, 2020		Year ended December 31, 2019	
	Per Share in CA\$	Total	Per Share in CA\$	Total
March	\$ 0.05	\$ 199,418	\$ -	\$ -
June	0.05	200,771	-	-
September	0.05	208,958	0.05	210,698
December	0.05	210,555	0.05	210,413
Total	\$ 0.20	\$ 819,702	\$ 0.10	\$ 421,111

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 26, 2020, the Company granted options to one of its employees to purchase up to 25,000 Shares at a price of CA\$4.05 per share with the expiry date of June 26, 2027. The options shall vest in equal installments quarterly over a three-year period.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

37

On April 6, 2020, the Company granted options to its officers and employees to purchase up to 285,000 Shares at a price of CA\$4.28 per Share with the expiry date of April 6, 2027. The options shall vest in equal installments quarterly over a three-year period.

On January 6, 2020, the Company granted options to one of its employees to purchase up to 25,000 Shares at a price of CA\$5.70 per Share with the expiry date of January 6, 2027. The options shall vest in equal installments quarterly over a three-year period.

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

On 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 CA\$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.

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

	Options grant date			
	June 26, 2020	April 6, 2020	January 6, 2020	June 12, 2019
Average expected life	7.00 years	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	0.41%	0.65%	1.58%	1.41%
Average expected volatility	27.54%	25.76%	25.95%	74.56%
Average dividend yield	4.94%	4.67%	3.09%	0.00%

The fair value of options granted on June 26, 2020, April 6, 2020, January 6, 2020 and June 12, 2019, was \$12,940, \$151,585, \$26,522 and \$128,293, respectively.

The following is the summary of changes in the Company's share options for the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of options	Weighted average exercise price in CA\$	Number of options	Weighted average exercise price in CA\$
Outstanding - beginning of year	351,089	\$ 6.95	528,500	\$ 7.00
Granted	335,000	4.37	44,000	5.60
Expired	(97,089)	8.50	(221,411)	6.86
Cancelled	(90,000)	6.70	-	-
Outstanding - end of year	499,000	\$ 4.96	351,089	\$ 6.95
Number of options exercisable	217,916	\$ 5.71	315,073	\$ 7.05

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

38

The following summarizes the Company's share options as at December 31, 2020:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price in CA\$	Market price at date of grant
50,000	June 28, 2023	50,000	5.70	5.20
56,000	December 27, 2023	56,000	6.50	6.50
34,000	December 21, 2024	34,000	6.70	6.70
24,000	June 11, 2026	20,000	5.60	5.60
25,000	January 6, 2020	6,249	5.70	5.70
285,000	April 6, 2020	47,500	4.28	4.28
25,000	June 26, 2020	4,167	4.05	4.28
499,000		217,916		

Deferred Share Unit Plan

The Company has a DSU Plan to promote 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.

Prior to September 30, 2019, the Board determined the amount, timing, and vesting conditions associated with each award of DSUs. Except for the Ex-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 eligible 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 grant date. The additional DSUs granted to the employees vested 33.33% annually.

Effective September 30, 2019, the Board modified the DSU Plan. Employees or 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 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.

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. The number of additional DSUs granted as of a dividend payment date is determined by dividing the aggregate amount obtained by multiplying the dividends paid on each Share by the number of DSUs in each participant's account on the dividend record date by the market value of the Shares on the dividend payment date.

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 will be paid out.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

39

The following table presents the changes in DSUs for the years ended December 31, 2020 and 2019:

	Number of DSUs	
	Year ended December 31, 2020	Year ended December 31, 2019
DSUs outstanding, beginning of year	302,371	286,220
Granted	14,978	18,115
Settled	(13,005)	(1,964)
DSUs outstanding, end of year	304,344	302,371
Number of DSUs vested	304,344	299,511

During the year ended December 31, 2020, the Company granted 14,978 of DSUs based on the dividend paid on Shares.

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the years ended December 31, 2020 and 2019, were \$101,479 and \$297,861, respectively.

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. The carrying amount of the liability, included in accounts payable and accrued liabilities, relating to the DSUs at December 31, 2020 and 2019 is \$1,351,278 and \$1,291,160, respectively.

WARRANTS

The Company had 500,000 warrants outstanding. Each warrant entitled the holder to acquire one Share at an exercise price of \$8.50 per Share. The warrants expired on 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, 2020 and 2019:

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 3,440,695	\$ 3,264,388
Share options	177,745	176,307
Balance, end of year	\$ 3,618,440	\$ 3,440,695

DEBT TO EQUITY RATIO

IFRS requires that the loan and mortgage syndications be included as part of the company's assets and offsetting liabilities. 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 better depict the Company's debt to equity ratio (a Non-IFRS financial measure). 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, 2020

40

The following table provides details of the Company's adjusted debt to equity ratio as at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Total debt	\$ 80,924,593	\$ 101,195,693
Less: loan and mortgage syndications and unsecured note payable	(73,168,250)	(91,249,414)
Adjusted total debt	\$ 7,756,343	\$ 9,946,279
Shareholders' equity	\$ 41,162,653	\$ 39,635,372
Debt to equity ⁽¹⁾	1.97:1.00	2.55:1.00
Adjusted debt to equity ⁽¹⁾	0.19:1.00	0.25:1.00
(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, 2020 and December 30, 2019, the adjusted debt to equity ratio was 0.19:1.00 and 0.25:1.00, respectively.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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 Company's key management personnel include the Executive Vice Chairman, President and Chief Executive Officer, Chief Financial Officer, Managing Directors, and the Board.

During the years ended December 31, 2020 and 2019, no key management personnel was personally indebted to the Company.

Aggregate compensation for key management personnel for years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Short-term employee benefits	\$ 1,616,608	\$ 1,404,828
Share-based compensation	129,598	449,335
Total	\$ 1,746,206	\$ 1,854,163

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, 2020 and 2019, the loan and mortgage investments syndicated by officers and directors were \$668,752 and \$556,466, respectively.

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, 2020, which can be found under the Company's profile at WWW.SEDAR.COM.

NEW STANDARDS AND INTERPRETATIONS ADOPTED:

The following new standards were adopted during the year ended December 31, 2020:

Amendments to References to the Conceptual Framework in IFRS:

On March 29, 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the "Framework") that underpins IFRS. The IASB also issued Amendments to References to the Conceptual Framework in IFRS to update references in IFRS to previous versions of the Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

The Company has adopted the amendments in its consolidated financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's consolidated financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8):

On October 31, 2018, the IASB refined its definition of material and removed the definition of material omissions or misstatements from IAS 8. The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is permitted.

The definition of material has been aligned across IFRS and the Framework. The amendments provide a definition and explanatory paragraphs in one place.

Pursuant to the amendments, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Company has adopted the amendments to IAS 1 and IAS 8 in its consolidated financial statements for the period beginning January 1, 2020. The implementation of the amendments did not have a material impact on the Company's consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED:

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 that the Company has decided not to early adopt. The following are standards that may be relevant to the Company in preparing its consolidated financial statements in future years:

Application of Interest Rate Benchmark Reform ("LBOR"):

In August 2020, the IASB issued IBOR Reform and the Effects on Financial Reporting – Phase II (amendments to IFRS 9, IFRS 7, IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"), IFRS 4 – Insurance Contracts ("IFRS 4") and IFRS 16 – Leases ("IFRS 16")). The objective of the second phase of the IASB's project was to assist entities in providing useful information about the effects of the transition to alternative benchmark rates and support preparers in applying the requirements of the IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to an alternative benchmark interest rate. The amendments affect the basis for determining the contractual cash flows as a result of benchmark interest rate reform, hedge accounting and disclosures.

The amendments are effective for annual periods beginning on or after January 1, 2021, with early application permitted and include retrospective application with the reinstatement of hedge relationships. The Company is currently in the process of assessing the impact of adopting the amendments in Phase II on its consolidated financial statements.

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. 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 judgment 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.

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the Company's future operating assumptions and expectations as compared to prior periods. It is not possible to forecast with certainty the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's estimate of the ACL and investments measured at FVTPL, both in the short term and in the long term.

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 leases, 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 leases, Convertible Note, Loan Syndications, mortgages payable, Unsecured Note, and Credit Facilities approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the Loan Portfolio or Loan Syndications. The Company makes the determinations of fair value based on its assessment of the current lending market for Loan Portfolio of the 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 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 values 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, 2020, and 2019, 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 occur, 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 reduce the collateral property's net realizable value 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 the 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 the 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 the sale of the underlying property is not reasonably assured.

The Company syndicates its loan and mortgage investments with investors on a pari-passu basis. The syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans. The Company assesses its credit risk and its ACL on loan and mortgage investments, net of syndication.

As at December 31, 2020, a loan investment to the U.S. Project is in arrears since February 29, 2020. Based on the most recent valuations of the underlying asset and management's estimates, the Company carries a net ACL balance of \$353,763 against this loan investment. The Company expects to receive the outstanding loan and mortgage investment and related receivable balances in due course.

If the ACL relating to the loan and mortgage investments are presented on a gross basis, the loan and mortgage investments and the corresponding loan and mortgage syndications balances would be lower by \$3,258,447 on the consolidated statement of financial position with no impact to the consolidated statements of income and comprehensive income.

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 from fluctuations in interest rates, primarily on 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 generally short-term nature of loan and mortgage investments.

GENERAL BUSINESS RISKS

The Company is subject to general business risks and risks inherent in commercial and residential real estate lending, including 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 (discussed below),
- 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.

COVID-19 pandemic has further increased the risk factors described above.

In March 2020, Governments worldwide, including the U.S. and Canada, have enacted emergency measures to combat the spread of the COVID-19. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses resulting in an economic slowdown and may, in the future, have further and larger impacts. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not yet determinable. The situation remains dynamic, and the ultimate duration and magnitude of the impact on the economy and the financial effect on both the Company and its borrowers is not known at this time but could be material. In particular, such enhanced risks associated with COVID-19 include, but are not limited to: a reduction in interest income and an increase in credit loss provisions in the event that financial hardship causes an inability of borrowers to make contractual principal and interest payments to the Company on a timely basis; deterioration in the ability of the Company to achieve expected values on a timely basis from asset sales in connection with loan realizations and the ability to access capital markets at a reasonable cost.

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 creditworthiness.

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 mortgage syndications and revolving operating facility, the size of the Company's loan and mortgage investments will decrease, and the income historically generated by holding larger investments by utilizing leverage will not be earned.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

46

Contractual obligations as at December 31, 2020, are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	\$ 5,719,843	\$ -	\$ 5,719,843
Credit Facilities (face value)	-	7,000,000	7,000,000
Mortgages payable	1,056,723	-	1,056,723
	\$ 6,776,566	\$ 7,000,000	\$ 13,776,566

SUBORDINATED DEBT FINANCING

Subordinated financings that the Company carries 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 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, in certain circumstances, the Company might 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 have 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, if adopted, the amendments would introduce revisions to the offering memorandum exemption to provide heightened disclosure for investors. 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 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

48

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, 2020, and 2019, and the audited condensed consolidated financial statements and accompanying notes for the three months and years ended December 31, 2020.

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

	As at December 31, 2020		As at December 31, 2019		As at December 31, 2018					
Total assets	\$	133,052,468	\$	148,231,267	\$	140,145,809				
Total liabilities	\$	91,889,815	\$	108,595,895	\$	102,092,783				
Total equity	\$	41,162,653	\$	39,635,372	\$	38,053,026				
Loan and mortgage investments	\$	93,808,332	\$	116,820,582	\$	122,209,711				
Loan and mortgage syndications	\$	71,374,100	\$	88,249,414	\$	75,906,550				
Loan and mortgage syndications to loan and mortgage investments		76.1%		75.5%		62.1%				
	Three months ended			Years ended						
	December 31, 2020		December 31, 2019		December 31, 2020		December 31, 2019		December 31, 2018	
Total revenue	\$	3,587,417	\$	4,629,588	\$	15,461,784	\$	16,656,306	\$	13,448,171
Total expenses	\$	2,827,183	\$	3,385,932	\$	12,764,730	\$	12,569,591	\$	10,379,679
Income from operations before income taxes	\$	760,234	\$	1,243,656	\$	2,697,054	\$	4,086,715	\$	3,068,492
Net income and comprehensive income attributable to common shareholders	\$	846,043	\$	884,279	\$	2,169,238	\$	3,077,757	\$	2,215,783
Diluted net income and comprehensive income attributable to common shareholders	\$	846,043	\$	884,279	\$	2,169,238	\$	3,077,757	\$	2,215,783
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	531,656	\$	1,024,220	\$	2,861,690	\$	3,323,912	\$	1,928,889
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	531,656	\$	1,024,220	\$	2,861,690	\$	3,323,912	\$	1,928,889
Weighted average number of shares outstanding										
Basic		5,564,968		5,570,451		5,564,968		5,675,671		6,178,067
Diluted		5,590,429		5,574,020		5,618,522		5,675,671		6,185,726
Earnings per share										
Basic	\$	0.15	\$	0.16	\$	0.39	\$	0.54	\$	0.36
Diluted	\$	0.15	\$	0.16	\$	0.39	\$	0.54	\$	0.36
Adjusted earnings per share ⁽¹⁾										
Basic	\$	0.10	\$	0.18	\$	0.51	\$	0.59	\$	0.31
Diluted	\$	0.10	\$	0.18	\$	0.51	\$	0.59	\$	0.31
(1) Adjusted net income and diluted net income attributable common shareholders and adjusted earnings per share are Non-IFRS Financial Measures. See "Non-IFRS Financial Measures".										

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE YEAR ENDED DECEMBER 31, 2020

49

The following table sets out the Company's quarterly results of operations (as restated) for the eight quarterly periods ended December 31, 2020:

	Three months ended							
	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019
Revenue								
Interest and fees earned	2,904,000	\$3,435,583	\$2,967,009	\$3,356,405	\$4,046,909	\$3,588,715	\$3,583,652	\$3,784,016
Finance income	642,524	635,267	737,218	631,207	540,835	536,761	335,225	84,473
Rental income	40,893	38,384	35,768	37,526	41,844	38,211	37,715	37,950
	3,587,417	4,109,234	3,739,995	4,025,138	4,629,588	4,163,687	3,956,592	3,906,439
Expenses								
Property operating expenses	13,882	13,538	13,051	13,425	14,235	13,156	12,983	13,053
General and administrative expenses	1,216,807	617,904	731,795	739,059	1,129,828	670,802	794,121	781,238
Share based compensation	305,272	69,541	113,965	(209,554)	120,594	(61,292)	87,034	327,832
Interest and financing costs	1,821,066	1,990,122	2,086,628	2,278,430	2,422,611	2,384,399	2,047,496	2,306,753
Provision for loan and mortgage investment loss	-	(17,767)	811,234	105,737	226,108	-	(151,900)	-
Provision for investment in finance lease loss	41,061	-	-	-	-	-	-	-
Provision for uncollectible receivables	-	-	161,428	-	-	-	-	-
Realized and unrealized foreign exchange (gain) loss	(364,687)	(189,833)	(359,638)	795,890	(114,885)	(88,171)	(10,379)	56,534
Fair value adjustment - portfolio investments	(149,120)	-	-	-	(56,124)	-	-	-
Share of income from investment in associates	(57,098)	257,929	(39,876)	(45,461)	(356,435)	-	-	-
	2,827,183	2,741,434	3,518,587	3,677,526	3,385,932	2,918,894	2,779,355	3,485,410
Income before income taxes	760,234	1,367,800	221,408	347,612	1,243,656	1,244,793	1,177,237	421,029
Income tax provision (recovery)	(85,809)	242,203	(102,501)	473,923	359,377	215,934	309,784	123,863
Net income (loss) and comprehensive income (loss)	\$ 846,043	\$ 1,125,597	\$ 323,909	\$ (126,311)	\$ 884,279	\$ 1,028,859	\$ 867,453	\$ 297,166
Diluted net income (loss) attributable to common shareholders								
	846,043	1,125,597	323,909	(126,311)	884,279	1,028,859	867,453	297,166
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	531,656	884,135	686,710	759,189	1,024,220	919,633	812,148	579,675
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾								
	531,656	884,135	686,710	759,189	1,024,220	919,633	812,148	579,675
Weighted average number of shares outstanding								
- basic	5,564,968	5,564,968	5,564,968	5,564,968	5,570,451	5,598,484	5,725,856	5,837,958
- diluted	5,590,429	5,564,968	5,564,968	5,565,167	5,574,020	5,599,454	5,726,320	5,838,675
Earnings (loss) per share								
Basic	\$ 0.15	\$ 0.20	\$ 0.06	\$ (0.02)	\$ 0.16	\$ 0.18	\$ 0.15	\$ 0.05
Diluted	\$ 0.15	\$ 0.20	\$ 0.06	\$ (0.02)	\$ 0.16	\$ 0.18	\$ 0.15	\$ 0.05
Adjusted earnings per share ⁽²⁾								
Basic	\$ 0.10	\$ 0.16	\$ 0.12	\$ 0.14	\$ 0.18	\$ 0.16	\$ 0.14	\$ 0.10
Diluted	\$ 0.10	\$ 0.16	\$ 0.12	\$ 0.14	\$ 0.18	\$ 0.16	\$ 0.14	\$ 0.10
<small>(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders, and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS Financial Measures".</small>								

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

Dated: April 15, 2021
Toronto, Ontario, Canada