



TERRA FIRMA CAPITAL CORPORATION

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

NOVEMBER 17, 2021

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") dated November 17, 2021 provides the consolidated financial performance, financial condition, and cash flows of Terra Firma Capital Corporation and its subsidiaries (collectively, unless the context requires otherwise, the "Company") for the nine and three months ended September 30, 2021, and other information that management believes is relevant for assessing and understanding its business risks and opportunities. It should be read in conjunction with the Company's interim condensed consolidated financial statements and accompanying notes for the same period and the Company's annual MD&A for the year ended December 31, 2020, and audited consolidated financial statements for the same period. These documents are available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at WWW.SEDAR.COM.

The Company's interim condensed consolidated financial statements for the three and nine months ended September 30, 2021, have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

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, the Company intention to additional funds for its land banking financing activity and other real estate financings, and the timing thereof, expected increase in loan and investment originations in 2021, significant growth both in Total Investments (as defined below) and net income in 2021 and beyond, the Company's expectation to, going forward, conduct most of its syndication activity through Funds (as defined herein) as well as other statements under the headings "Recent Developments 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 Annual Information Form for the year ended December 31, 2020 ("AIF").

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

2

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 2S5.

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.

Recently, the Company has enhanced its syndication activity and has created investment funds for multiple investments instead of raising syndicated capital on a deal-by-deal basis ("Funds"). The Funds provide the Company access to larger and more reliable sources of capital with the ability to reinvest capital raised from investors instead of having to return it and raise again. The Fund model also enables the Company to respond quicker to market opportunities and to commit to larger transactions. Going forward, the Company expects to conduct most of its syndication activity through Funds. 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).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

4

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 dedicated exclusively to land banking activity in the U.S. ("Fund I" or "Debt Fund I"). The \$32,500,000 Fund I, of which \$29,025,000 was provided by third party investors and \$3,475,000 was committed by the Company as Sponsor, is further enhanced by a \$10,000,000 revolving line of credit (originally \$5,000,000) for a total of \$42,500,000 of investment capacity. As at September 30, 2021, the Company had "called" 62% of the committed capital of Fund I or \$20,150,000 from Fund I investors (including \$2,154,500 from the Company). As at September 30, 2021, Fund I is invested in seven of the Company's land banking transactions. Subsequent to September 30, 2021, Fund I refinanced its credit facility and increased the credit limit to \$10,000,000

facilitating better cash management and increasing the expected returns enhanced by modest accretive leverage for Fund I.

Following the success of Fund I, the Company launched a second fund (“Fund II”) for its land banking and first mortgage loan financing. The Company is targeting a fund of \$75,000,000 with multiple closings during the first 12 months following the initial closing. As of the date hereof, the Company secured commitments and has interest from third-party investors totaling \$33,000,000. The Company intends to have its first closing of Fund II in November 2021 with over \$20,000,000 of capital from third-party investors. At September 30, 2021, the Company had already committed and partially funded seven investments as the seed investments of Fund II. The first closing of Fund II will allow the Company to recapitalize its balance sheet and provide over \$20,000,000 of fresh capital for its future investments. Fund II is in the process of securing a \$10,000,000 credit facility with a U.S. bank, facilitating better cash management and increasing the expected returns enhanced by modest accretive leverage for Fund II.

The Company expects to continue and develop its fund activity by offering new products and vehicles to its investors. The fund model brings significant benefits to the Company’s business. First, it provides the Company better access to capital both in terms of the amount of capital and in terms of timing. With larger pools of capital in hand, it provides the Company the opportunity to respond quicker to market opportunities. It also significantly reduces the administrative tasks relative to syndicating capital on a deal-by-deal basis. The fund model also enables the Company to attract more investors by providing investment opportunities to investors on a programmatic basis with constant and consistent expected returns enhanced by modest accretive leverage from the funds’ credit facilities.

IMPACT OF COVID-19 PANDEMIC

The Company conducts the current loan origination and monitoring activities through limited employee travel to the U.S. while adhering to the quarantining protocols, virtual meetings 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, 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 borrower of the mortgage in arrears is in the process of refinancing the property to repay the amount owed to the Company.

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 September 30, 2021, reflect its best estimate. The uncertainty surrounding COVID-19 may materially impact the accuracy of the estimates and assumptions used and, as a result, actual results may vary significantly from estimates. It is still 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 COVID-19 pandemic restrictions have impacted economic activity and this will continue to adversely impact global activity. As of date hereof the federal and provincial governments have eased the restrictions in phases. Although the vaccinations have picked pace there is considerable uncertainty related to the pace and extent of economic recovery. Although the residential development continues to perform well during this time, the Company cannot predict that this will continue. The surges in new cases of COVID-19 and mutated strains of the virus have caused additional quarantines and lockdowns, which could delay any economic recovery. 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. The Company will continue to closely monitor developments related to COVID-19 as it relates to its liquidity position and financial obligations.

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.

The Company's closed Fund I, which committed to lending the Company up to \$32.5 million, 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 Payable to Fund I."

Following the success of Fund I, the Company expects to launch additional funds for its land banking financing activity and other real estate financings.

The Company continues to strengthen the relationship with 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 total Investments 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.

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 the COVID-19 crisis will not disrupt the Company's operations and its ability to carry on business. 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, which 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

8

- 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.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The financial and operational highlights as at September 30, 2021 and December 31, 2020 and for the three and nine months ended September 30, 2021 and 2020 are as follows:

	September 30, 2021	December 31, 2020		
Total investments ⁽¹⁾	\$ 139,096,841	\$ 122,560,682		
Loans and mortgage syndications (including loan payable to Debt Fund I)	\$ 78,726,834	\$ 71,374,100		
Total equity	\$ 42,468,536	\$ 41,162,653		
AUM ⁽²⁾	\$ 152,321,701	\$ 145,146,930		
Weighted average effective interest rate				
Loan and mortgage investments	13.4%	13.0%		
Investment in finance leases (implicit)	14.4%	14.5%		
Loans and mortgage syndications (including loan payable to Debt Fund I)	10.4%	10.1%		
Weighted average remaining term to maturity				
Loan and mortgage investments	1.10 yrs	1.64 yrs		
Investment in finance leases	2.13 yrs	2.08 yrs		
Loan and mortgage syndications	1.10 yrs	1.72 yrs		
Adjusted debt to equity ⁽³⁾	0.33:1.00	0.19:1.00		
Book value per share ⁽⁴⁾	\$ 7.63	\$ 7.40		
	Quarter ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue	\$ 4,212,826	\$ 4,109,234	\$ 11,921,392	\$ 11,874,367
Interest and financing costs	\$ 2,309,715	\$ 1,990,122	\$ 6,408,460	\$ 6,355,180
Net income and comprehensive income	\$ 532,008	\$ 1,125,597	\$ 1,970,045	\$ 1,323,195
Adjusted net income and comprehensive income ⁽⁵⁾	\$ 751,231	\$ 884,135	\$ 2,127,005	\$ 2,330,034
Pre-tax profit margin ⁽⁶⁾	48.7%	54.1%	46.8%	53.0%
Adjusted earnings per share (Basic) ⁽⁷⁾	\$ 0.13	\$ 0.16	\$ 0.38	\$ 0.42
<p>(1) Before deducting the allowance for loan and mortgage investment loss at September 30, 2021 and December 31, 2020 of \$609,197 and \$764,519, respectively and before deducting the allowance of investment in finance lease loss at September 30, 2021 and December 31, 2020 of \$351,665 and \$41,061, 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>				

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

9

FINANCIAL HIGHLIGHTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

The Company reported revenue of \$4,212,826 in the third quarter of 2021, as compared to \$4,109,234 in the same period in the prior year, representing an increase of \$103,592 or 2.5%. Revenue for the nine months ended September 30, 2021, was \$11,921,392, as compared to \$11,874,367 in the same period in the prior year, representing a decrease of \$47,025 or 0.4%.

Interest and fee income for the third quarter of 2021 was \$2,803,709, as compared to \$3,435,583 in the same period in the prior year, representing a decrease of \$631,874 or 18.4%, while finance income for the third quarter of 2021 was \$1,363,762, as compared to \$635,267 in the same period in the prior year, representing an increase of \$728,495 or 114.7%. The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended September 30, 2021, and 2020 was \$45,355 and \$38,384, respectively.

Interest and fee income for the nine months ended September 30, 2021, was \$8,449,687, as compared to \$9,758,997 in the same period in the prior year, representing a decrease of \$1,309,310 or 13.4%, while finance income for the nine months ended September 30, 2021, was \$3,342,444, as compared to \$2,003,692 in the same period in the prior year, representing an increase of \$1,338,752 or 66.8%. The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the nine months ended September 30, 2021, and 2020 was \$129,261 and \$111,678, respectively.

Interest and financing expense for the third quarter of 2021 was \$2,309,715, as compared to \$1,990,122 in the same period in the prior year, representing an increase of \$319,593 or 16.1%.

Interest and financing expense for the nine months ended September 30, 2021, was \$6,408,460, as compared to \$6,355,180 in the same period in the prior year, representing an increase of \$53,280 or 0.8%.

Net income and comprehensive income attributable to common shareholders for the third quarter of 2021 was \$532,008 (including realized and unrealized foreign exchange loss of \$76,963 and incentive compensation accrual of \$166,081) or \$0.10 per basic share and diluted share, as compared to \$1,125,597 (including realized and unrealized foreign exchange gain of \$189,833) or \$0.20 per basic and diluted share in the same period in the prior year.

Net income and comprehensive income attributable to common shareholders for the nine months ended September 30, 2021, was \$1,970,045 (including realized and unrealized foreign exchange gain of \$126,906 and incentive compensation accrual of \$516,081) or \$0.35 on a basic and diluted per share, an increase of \$646,850 compared to \$1,323,195 (including realized and unrealized foreign exchange loss of \$246,419) or \$0.24 on a basic and diluted per share, for the same period last year.

The principal balance of the Company's loan and mortgage investments at September 30, 2021 was \$86.2 million compared to \$93.8 million at December 31, 2020.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

10

The Company's financial performance for the three and nine months ended September 30, 2021 and 2020 is summarized below:

	Three months ended			Nine months ended		
	Sept 30, 2021	Sept 30, 2020	Change Increase / (decrease)	Sept 30, 2021	Sept 30, 2020	Change Increase / (decrease)
Revenue						
Interest and fees earned	\$ 2,803,709	\$ 3,435,583	\$ (631,874)	\$ 8,449,687	\$ 9,758,997	\$ (1,309,310)
Finance income	1,363,762	635,267	728,495	3,342,444	2,003,692	1,338,752
Rental income	45,355	38,384	6,971	129,261	111,678	17,583
Total revenue	4,212,826	4,109,234	103,592	11,921,392	11,874,367	47,025
Expenses						
Property operating costs	15,014	13,538	1,476	44,900	40,014	4,886
General and administrative expenses	959,694	617,904	341,790	2,830,233	2,088,758	741,475
Share based compensation (recovery)	(122,853)	69,541	(192,394)	239,880	(26,048)	265,928
Interest and financing costs	2,309,715	1,990,122	319,593	6,408,460	6,355,180	53,280
Allowance for (recovery of) loan and mortgage investment loss	-	(17,767)	17,767	(155,322)	899,204	(1,054,526)
Allowance for uncollectible receivables	-	-	-	9,776	161,428	(151,652)
Allowance for investment in finance lease loss	52,494	-	52,494	310,604	-	310,604
Realized and unrealized foreign exchange loss (gain)	76,963	(189,833)	266,796	(126,906)	246,419	(373,325)
Share of loss (income) from investment in associates	(118,060)	257,929	(375,989)	(285,115)	172,592	(457,707)
	3,172,967	2,741,434	431,533	9,276,510	9,937,547	(661,037)
Income from operations before income taxes	1,039,859	1,367,800	(327,941)	2,644,882	1,936,820	708,062
Income taxes	507,851	242,203	265,648	674,837	613,625	61,212
Net income and comprehensive income	\$ 532,008	\$ 1,125,597	\$ (593,589)	\$ 1,970,045	\$ 1,323,195	\$ 646,850

TOTAL REVENUE

Total revenue for the three months ended September 30, 2021 was \$4,212,826 compared to \$4,109,234 in the comparative period, an increase of approximately 2.5%. Almost all of the Company's revenue is derived from loan and mortgage investments and investments in finance leases. Revenue for the nine months ended September 30, 2021, was \$11,921,392, as compared to \$11,874,367 in the same period in the prior year, representing an increase of \$47,025 or 0.4%. The increase in total revenue earned was due to an increase in the loan and mortgage investment and investment in finance lease balances from \$116.1 million as at September 30, 2020 to \$130.2 million as at September 30, 2021. The further factors contributing to the changes in the interest and fees earned and finance income are discussed in detail below under "Interest and Fees Earned" and "Finance Income."

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 September 30, 2021 was \$1,039,859 compared to \$1,367,800 in the comparative period last year, representing a decrease of \$327,941 or 24.0%. Income from operations before income taxes, the components of which are discussed in detail below, for the nine months ended September 30, 2021 was \$2,644,882 compared to \$1,936,820 in the comparative period last year, representing an increase of \$708,062 or 36.6%. 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 September 30, 2021 was \$532,008, a decrease of \$593,589, compared to a net income and comprehensive income of \$1,125,597 for the corresponding period in 2020. Net income and comprehensive income for the nine months ended September 30, 2021 was \$1,970,045, an increase of \$646,850, compared to a net income and comprehensive income of \$1,323,195 for the corresponding period in 2020. The factors contributing to the increase are discussed in detail in the following sections.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

11

ADJUSTED NET INCOME AND COMPREHENSIVE INCOME

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 ended September 30, 2021 and 2020:

	Three months ended			Nine months ended		
	Sept 30, 2021	Sept 30, 2020	Change Increase / (decrease)	Sept 30, 2021	Sept 30, 2020	Change Increase / (decrease)
Net income and comprehensive income	\$ 532,008	\$ 1,125,597	\$ (593,589)	\$ 1,970,045	\$ 1,323,195	\$ 646,850
Provision for loan and mortgage investment, investment in finance leases and uncollectible receivable losses (tax adjusted)	38,583	(13,058)	51,641	121,318	779,565	(658,247)
Share based compensation (tax adjusted)	(90,297)	51,113	(141,410)	176,312	(19,145)	195,457
Foreign exchange gain (tax adjusted)	270,937	(279,517)	550,454	(140,670)	246,419	(387,089)
Adjusted net income and comprehensive income ⁽¹⁾	\$ 751,231	\$ 884,135	\$ (132,904)	\$ 2,127,005	\$ 2,330,034	\$ (203,029)

(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 September 30, 2021, was \$751,231, a decrease of \$132,904, compared to adjusted net income and comprehensive income of \$884,135 for the corresponding period in 2020. The decrease in adjusted net income and comprehensive income for the three months ended September 30, 2021, compared to the same period last year, was primarily due to the factors discussed in detail in the following sections.

Adjusted net income and comprehensive income (a non-IFRS financial measure) for the nine months ended September 30, 2021, was \$2,127,005, a decrease of \$203,029, compared to adjusted net income and comprehensive income of \$2,330,034 for the corresponding period in 2020. The increase in adjusted net income and comprehensive income for the nine months ended September 30, 2021, 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 purposes. Presenting this measure from period to period helps evaluate trends more readily compared to results from prior periods.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

12

The following table provides the calculation of pre-tax profit margin for the three and nine months ended September 30, 2021, and 2020:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue	\$ 4,212,826	\$ 4,109,234	\$ 11,921,392	\$ 11,874,367
Less: Interest on loan and mortgage syndications	(2,061,921)	(1,837,920)	(5,679,914)	(5,807,165)
Adjusted revenue ⁽¹⁾	2,150,905	2,271,314	6,241,478	6,067,202
Expenses	3,172,967	2,741,434	9,276,510	9,937,547
Less: Interest on loan and mortgage syndications	(2,061,921)	(1,837,920)	(5,679,914)	(5,807,165)
other non-operating items (2)	(6,604)	138,059	(278,032)	(1,281,003)
Adjusted expenses ⁽¹⁾	1,104,442	1,041,573	3,318,564	2,849,379
Adjusted Income from operations before income taxes	\$ 1,046,463	\$ 1,229,741	\$ 2,922,914	\$ 3,217,823
Pre-tax margin ⁽¹⁾	48.7%	54.1%	46.8%	53.0%
<p>(1) Adjusted revenue, adjusted expenses and operating margin are Non-IFRS Financial Measures. See "Non-IFRS Financial Measures".</p> <p>(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.</p>				

For the three and nine months ended September 30, 2021, a pre-tax margin was 48.7% and 46.8%, respectively, compared to 54.1% and 53.0%, respectively, for the same period last year. The decrease in pre-tax margin was primarily due to an increase in general and administrative expenses for the three and nine months ended September 30, 2021, discussed in detail in the following sections.

INTEREST AND FEES EARNED

Interest and fees earned for the three months ended September 30, 2021, aggregated to \$2,803,709, compared to \$3,435,583 in the comparative period last year, representing a decrease of \$631,874 or 18.4%. The decrease in interest and fees earned of \$1,192,444 is attributable to loan and mortgage investments repaid subsequent to September 30, 2020. This was partially offset by interest and fees earned of \$501,562 on new loan and mortgage investments funded subsequent to September 30, 2020, and a net increase in interest and fees earned of \$59,007 on loan and mortgage investments and convertible note receivable that existed at September 30, 2020.

Interest and fees earned for the nine months ended September 30, 2021, aggregated \$8,449,687, a decrease of \$1,309,310 or 13.4%, compared to \$9,758,997 in the comparative period in 2020. The decrease was primarily due to \$3,865,922 of loss of interest and fees revenue from loan and mortgage investments repaid after September 30, 2020. The decrease was partially offset by an increase in interest and fees of \$865,982 from new loans funded subsequent to September 30, 2020, and \$1,510,630 of additional interest earned from loans that existed at September 30, 2020. The Company's principal balance of the Loan Portfolio decreased by \$7.6 million, from \$93.8 million at December 31, 2020 to \$86.2 million at September 30, 2021. The weighted average effective interest rate (the "weighted average EIR") increased from 13.0% at December 31, 2020 to 13.4% at September 30, 2021. The composition and changes to the Loan Portfolio are discussed under "Investments – Loan and Mortgage Investments."

FINANCE INCOME

For the three months ended September 30, 2021, the finance income aggregated to \$1,363,762, compared to \$635,267 in the comparative period last year, representing an increase of \$728,495 or 114.7%. For the nine months ended September 30, 2021, the finance income aggregated to \$3,342,444, compared to \$2,003,692 in the comparative period last year, representing an increase of \$1,338,752 or 66.8%. The increase in finance income is primarily due to an increase in the investment in finance leases and an increase in the weighted average implicit rate of the leases from 13.8% at September 30, 2020, to 14.4% at September 30, 2021. The Company had twelve finance leases, totaling \$44,066,112 at September 30, 2021, compared to seven finance leases totaling \$16,967,029 at September 30, 2020. The weighted average EIR decreased from 14.5% at December 31, 2020 to 14.4% at September 30, 2021. The

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

13

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 September 30, 2021, and 2020 was \$45,355 and \$38,384, respectively. The Company’s proportionate share of the rental income from investment property in operations jointly controlled by the Company for the nine months ended September 30, 2021, and 2020 was \$129,261 and \$111,678, 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 September 30, 2021, was \$15,014 compared to \$13,538 for the same period last year. The Company’s proportionate share of the property operating costs in investment property in operations jointly controlled by the Company for the nine months ended September 30, 2021, was \$44,900 compared to \$40,014 for the same period last year. The investment property is a single-tenant property and the Company doesn’t expect its share of the net income from joint operations to vary significantly period over period.

INTEREST AND FINANCING COSTS

Interest and financing costs for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three months ended			Nine months ended		
	September 30, 2021	September 30, 2020	Change Increase / (decrease)	September 30, 2021	September 30, 2020	Change Increase / (decrease)
Interest on loan and mortgage syndications	\$ 2,061,921	\$ 1,837,920	\$ 224,001	\$ 5,679,914	\$ 5,807,165	\$ (127,251)
Interest on Credit Facilities	230,341	140,120	90,221	659,203	512,252	146,951
Montreal Street JV	12,238	11,361	877	38,037	33,988	4,049
Lease obligations	5,215	721	4,494	31,306	1,775	29,531
	\$ 2,309,715	\$ 1,990,122	\$ 319,593	\$ 6,408,460	\$ 6,355,180	\$ 53,280

Interest and finance costs for the three months ended September 30, 2021 was \$2,309,715 compared to \$1,990,122 for the same period last year. Interest and finance costs for the nine months ended September 30, 2021 was \$6,408,460 compared to \$6,355,180 for the same period last year. This increase was primarily due to the loan payable to the Debt Fund I of \$24,662,603, which is partially offset by a decrease in loan and mortgage syndications from \$69.5 million at September 30, 2020 to \$54.1 million at September 30, 2021. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications,” “Credit Facilities” and “Loan Payable to Debt Fund I”.

GENERAL AND ADMINISTRATIVE EXPENSES

During the three and nine months ended September 30, 2021 and 2020, the Company incurred the following general and administrative expenses:

	Three months ended			Nine months ended		
	September 30, 2021	September 30, 2020	Change Increase / (decrease)	September 30, 2021	September 30, 2020	Change Increase / (decrease)
Salary and benefits	\$ 651,536	\$ 454,526	\$ 197,010	\$ 1,993,531	\$ 1,328,659	\$ 664,872
Professional fees	153,529	13,449	140,080	341,103	306,653	34,450
Public company expenses	8,655	11,730	(3,075)	45,519	31,820	13,699
Directors’ fees	47,475	38,979	8,496	143,465	115,392	28,073
Rent	32,213	37,165	(4,952)	105,132	110,860	(5,728)
Other expenses	66,286	62,055	4,231	201,483	195,374	6,109
	\$ 959,694	\$ 617,904	\$ 341,790	\$ 2,830,233	\$ 2,088,758	\$ 741,475

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

14

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 September 30, 2021, were \$959,694 compared to \$617,904 for the same period last year. General and administrative expenses for the nine months ended September 30, 2021, were \$2,830,233 compared to \$2,088,758 for the same period last year. Salary and benefits for the three and nine months ended September 30, 2021 were \$651,536 and \$1,993,531, respectively, which is \$197,010 and \$664,872 higher than the three and nine months ended September 30, 2020, due to the Company meeting certain financial thresholds and management reaching their incentive reward targets and recording of incentive rewards estimate of \$166,081 for the current quarter and \$516,081 for the nine months ended September 30, 2021. The increase in professional fees for the three months ended September 30, 2021 of \$140,080 is primarily due to consulting fees incurred in the current quarter.

SHARE-BASED COMPENSATION

The share-based compensation that has been recognized for the three and nine months ended September 30, 2021, and 2020 was as follows:

	Three months ended			Nine months ended		
	September 30, 2021	September 30, 2020	Change Increase / (decrease)	September 30, 2021	September 30, 2020	Change Increase / (decrease)
Share option Plan	\$ -	\$ -	\$ -	\$ -	\$ 177,745	\$ (177,745)
DSU Plan	(122,853)	69,541	(192,394)	239,880	(203,793)	443,673
	\$ (122,853)	\$ 69,541	\$ (192,394)	\$ 239,880	\$ (26,048)	\$ 265,928

Share-based payments associated with the Company's share option plan (the "Plan") were nil for the three-month ended September 30, 2021, and the same period in the prior year. Share-based payments associated with the Company's share option plan (the "Plan") were nil for the nine months ended September 30, 2021, compared to \$177,745 for the same period last year. The decrease in share-based payments associated with the Plan for the period ended September 30, 2021, was primarily due to the timing of recognizing expenses of the options granted in 2021. 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."

The share-based compensation associated with the Company's Deferred Share Units Plan (the "DSU Plan") for the three months ended September 30, 2021, was a recovery of \$122,853 compared to \$69,541 for the same period last year. The share-based compensation associated with the Company's Deferred Share Units Plan (the "DSU Plan") for the nine months ended September 30, 2021 was \$239,880 compared to a recovery of \$203,793 for the same period last year. The increase in share-based payments for the nine months ended September 30, 2021 was due to the increase in share price from CA\$5.65 per Share at December 31, 2020 to CA\$6.50 per share at September 30, 2021. The recovery of share-based compensation for the nine months ended September 30, 2020 was primarily due to the decrease in share price from CA\$5.60 per Share at December 31, 2019 to CA\$4.57 per Share at September 30, 2020.

FOREIGN EXCHANGE LOSS

For the nine months ended September 30, 2021, the Company recognized a foreign exchange gain of \$126,906 compared to a foreign exchange loss of \$246,419 for the same period last year, resulting from the translation of net assets carried in CA\$ being translated to US\$. During the nine months ended September 30, 2021, the US\$ weakened by approximately 0.4% against the CA\$ from \$1.2725 to \$1.2680. During the nine months ended September 30, 2020, the US\$ strengthened by approximately 2.5% against the CA\$ from \$1.2990 to \$1.3319.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

15

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 nine months ended September 30, 2021, amounted to 25.5%, compared with 31.7% for the same period last year. The decrease resulted primarily from tax and accounting treatment of subsidiaries with a functional currency of CA\$ and for Canadian income taxes 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 non-deductible foreign exchange gains 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 three and nine months ended September 30, 2021.

INVESTMENT PROFILE

The following table presents details of the Company's Total Investments, as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Loan and mortgage investments ⁽¹⁾	\$ 86,191,071	\$ 93,808,332
Investment in finance leases ⁽²⁾	44,066,112	20,530,716
Portfolio investments	1,047,023	2,292,991
Investment in associates	4,488,546	3,112,395
Investment property held in Joint Operations	1,741,872	1,735,712
Convertible note receivable	1,562,217	1,080,536
Total Investments	\$ 139,096,841	\$ 122,560,682
<p>(1) Before deducting the allowance for loan and mortgage investment loss at September 30, 2021 and December 31, 2020 of \$609,197 and \$764,519, respectively.</p> <p>(2) Before deducting the allowance for investment in finance lease loss at September 30, 2021 and December 31, 2020 of \$351,665 and \$41,061, respectively.</p>		

Total Investments increased by \$16,536,159 during the nine months ended September 30, 2021, resulting primarily from the increase in the investment in finance leases totaling \$23,535,396, which is partially offset by a decrease in the principal balance of loan and mortgage investments of \$7,617,261. 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 September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Total	% of total	Total	% of total
First mortgage loans ⁽¹⁾	83,253,672	59.9	88,208,729	72.0
Finance leases ⁽²⁾	44,066,112	31.7	20,530,716	16.8
2nd mortgage loans ⁽¹⁾	1,301,262	0.9	4,108,367	3.4
All other investments	10,475,795	7.5	9,712,870	7.8
	139,096,841	100.0	122,560,682	100.0
<p>(1) Before deducting the allowance for loan and mortgage investment loss at September 30, 2021 and December 31, 2020 of \$609,197 and \$764,519, respectively.</p> <p>(2) Before deducting the allowance for investment in finance lease loss at September 30, 2021 and December 31, 2020 of \$351,665 and \$41,061, respectively.</p>				

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

16

The following table presents details of the Company's Total Investments segmented by geography as at September 30, 2021 and December 31, 2020:

	September 30, 2021	% of total	December 31, 2020	% of total
Canada ⁽¹⁾	\$ 10,040,677	7.2	\$ 12,229,760	10.0
United States ⁽¹⁾	129,056,164	92.8	110,330,922	90.0
Total Investments ⁽¹⁾	\$ 139,096,841	100.0	\$ 122,560,682	100.0

(1) Before deducting the allowance for loan and mortgage investment loss at September 30, 2021 and December 31, 2020 of \$609,197 and \$764,519, respectively and before deducting the allowance for investment in finance lease loss at September 30, 2021 and December 31, 2020 of \$351,665 and \$41,061, respectively.

As at September 30, 2021, the total investment in the U.S. represents 92.8% of the total investment, compared to 90.0% at December 31, 2020. The Company continues to believe that financing real estate projects in the U.S provide the best risk-adjusted returns in the market today and accordingly, it plans to maintain its U.S. financing activities opportunistically and in a measured way.

LOAN AND MORTGAGE INVESTMENTS

The Company's Loan Portfolio as at September 30, 2021, consisted of the following: (a) 4 loans relating to residential housing developments located in Kitchener-Ontario, Fort Worth-Texas, Atlanta-Georgia, Delray Beach-Florida representing 26.3% of the Loan Portfolio (by investment amount), (b) 7 loans relating to land and lot inventory of real estate assets to be developed in Tampa-Florida, Phoenix-Arizona, Atlanta-Georgia, Savannah-Georgia, Davenport-Florida and Charlotte-North Carolina representing 68.2% of the Loan Portfolio (by investment amount) and (c) commercial retail development land located in Palm Springs-California, representing the remaining 5.5% of the Loan Portfolio (by investment amount).

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 following table presents details of the Loan Portfolio before loan and mortgage syndications as at September 30, 2021:

	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	12.6%	\$ 22,643,751	\$ (21,456)	\$ 22,622,295	26.4%
Land and lot inventory	13.6%	58,792,320	(243,754)	58,548,566	68.4%
	13.2%	81,436,071	(265,210)	81,170,861	94.8%
Impaired loan and mortgage investments					
Commercial retail development	14.3%	4,755,000	(343,987)	4,411,013	5.2%
Loan Portfolio	13.4%	\$ 86,191,071	\$ (609,197)	\$ 85,581,874	100.0%

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

17

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%

As at September 30, 2021 and December 31, 2020, the Company had principal balances of loan and mortgage investments of \$86,191,071 and \$93,808,332, respectively. The decrease in Loan Portfolio during the nine months ended September 30, 2021, resulted from the net effect of the repayments totaling \$28,315,711, of which \$5,455,942 is related to a loan and mortgage investments that were repaid in full during the period. The decrease was partially offset by funding advances against existing loans of \$3,468,482, funding new loan investments of \$14,891,701 and capitalized interest of \$2,372,286.

The weighted average EIR of the loan and mortgage investments of residential housing developments at September 30, 2021 was 12.6% and December 31, 2020 was 12.8%. The weighted average EIR of the loan and mortgage investments of land and lot inventory at September 30, 2021 was 13.6% and December 31, 2020 was 12.9%. The weighted average EIR of the commercial retail development at September 30, 2021 and December 31, 2020 was 14.3%.

At September 30, 2021, the Company has a loan and mortgage investment totaling \$21,851,395 (December 31, 2020 - \$18,382,915) with a participation arrangement with a priority syndicate investor, whereby the priority syndicate investor holds a senior position for \$12,011,517 (December 31, 2020 - \$10,289,536) and the remainder of the investment is in a subordinated position of \$9,839,878 (December 31, 2020 - \$8,093,379). The Company syndicated its position on a pari-passu basis with certain syndicate investors for \$8,737,500 (December 31, 2020 - \$6,625,000) and retains a residual portion of \$1,102,378 (December 31, 2020 - \$1,468,379). 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.

The following table summarizes the change in the principal balance of the Loan Portfolio for the three and nine months ended September 30, 2021 and 2020:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Balance, beginning of period	\$ 89,597,689	\$ 90,212,116	\$ 93,808,332	\$ 116,820,582
Loan portfolio activity during the period				
Funding of new loan investments	5,660,118	24,000,000	14,891,701	24,000,000
Advances against existing loans	258,870	4,368,296	3,468,482	5,500,819
Write-down of loan investments	-	-	-	(981,806)
Repayments of loans	(10,107,504)	(17,373,312)	(28,315,711)	(43,873,777)
Interest capitalized	811,417	1,030,804	2,372,286	3,278,147
Capitalized interest received	-	(3,279,032)	(79,854)	(5,166,510)
Unrealized foreign exchange gain (loss)	(29,519)	151,684	45,835	(466,899)
Balance, end of period	\$ 86,191,071	\$ 99,110,556	\$ 86,191,071	\$ 99,110,556

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

18

The weighted average EIR of the Loan Portfolio at September 30, 2021 and December 31, 2020, including the average interest rate of loan and mortgage investment in default, was 13.4% and 13.0%, respectively. The weighted average term to maturity of the Loan Portfolio at September 30, 2021 and December 31, 2020, was 1.10 years and 1.64 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 September 30, 2021, the Company had 96.6% of the Loan Portfolio in first mortgage loans, compared to 94.0% of the loan Portfolio at December 31, 2020. 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 following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at September 30, 2021 and December 31, 2020:

	September 30, 2021	% of Investments	December 31, 2020	% of Investments
1st mortgage loans	\$ 83,253,672	96.6%	\$ 88,208,729	94.0%
2nd mortgage loans	1,301,262	1.5%	4,108,367	4.4%
Unregistered loans	1,636,137	1.9%	1,491,236	1.6%
	\$ 86,191,071	100.0%	\$ 93,808,332	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.

The following table presents details of the Company's principal balances of the Loan Portfolio before syndication segmented by geography as at September 30, 2021:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 1,301,262	\$ (45)	\$ 1,301,217	1.5%
United States	84,889,809	(609,152)	84,280,657	98.5%
	\$ 86,191,071	\$ (609,197)	\$ 85,581,874	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, 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 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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

19

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 September 30, 2021, 98.5% of the loan Portfolio are in projects located in the U.S, compared to 95.6% at December 31, 2020. The Company expects to maintain this level of concentration of loan and mortgage investments to projects located in the U.S.

As at September 30, 2021, three project loan investments to entities controlled by a single borrower in the U.S. totaled \$12,275,016, accounting for 20.9% of the combined principal balance of loan and mortgage investments and investment in finance leases, net of syndications.

As at September 30, 2021, there are loan and mortgage investments to three separate projects in the U.S., before syndication, that account for 31.3%, 21.4% and 12.0% of the principal balance of loan and mortgage investments. As at December 31, 2020, there are 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. 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 nine months ended September 30, 2021, the Company has loan and mortgage investments in three separate projects in the U.S., before syndication, that account for 28.2%, 20.5% and 17.5% of the Company's interest and fees revenue. For the nine months ended September 30, 2020, the Company has two loan and mortgage investments in the U.S., before syndication, that account for 22.0% and 12.6% of the Company's total interest and fees revenue.

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 September 30, 2021 were \$11,839,624, including no capitalization of future interest relating to existing loan and mortgage investments (December 31, 2020 - \$7,204,207, including \$651,602 of capitalization of future interest relating to existing loan and mortgage investments). As at September 30, 2021, the unfunded commitments relating to loan and mortgage investments in three separate projects in the U.S., before syndication, that account for 40.8%, 30.9% and 20.0% of the total unfunded commitments. 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. The Company expects to meet these funding commitments through the use of the LOC and proceeds from repayments of loan and mortgage investments.

Scheduled principal repayments of the Loan and mortgage investments maturing in the next four years are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2021, remainder of year	\$ -	\$ 5,762,378	\$ 5,762,378
2022	-	58,539,408	58,539,408
2023	-	20,253,148	20,253,148
2024	-	1,636,137	1,636,137
	\$ -	\$ 86,191,071	\$ 86,191,071

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

20

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 September 30, 2021:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 22,643,751	\$ -	\$ -	\$ 22,643,751
Land and lot inventory	58,792,320	-	-	58,792,320
Commercial retail development	-	-	4,755,000	4,755,000
Total	\$ 81,436,071	\$ -	\$ 4,755,000	\$ 86,191,071

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 September 30, 2021:

	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 1,301,262	\$ -	\$ -	\$ 1,301,262
United States	80,134,809	-	4,755,000	84,889,809
Total	\$ 81,436,071	\$ -	\$ 4,755,000	\$ 86,191,071

ALLOWANCE FOR LOAN AND MORTGAGE INVESTMENTS LOSS

The changes in the ACL on loan and mortgage investments during the year ended September 30, 2021, were as follows:

	Balance at January 1, 2021	Provision for credit losses	Net write-offs	Balance at September 30, 2021
Residential housing developments	\$ 12,999	\$ 8,457	\$ -	\$ 21,456
Land and lot inventory	397,757	(154,003)	-	243,754
Commercial retail development	353,763	(9,776)	-	343,987
	\$ 764,519	\$ (155,322)	\$ -	\$ 609,197

At September 30, 2021, a first mortgage loan investment to the U.S. Project, totaling \$4,911,306 (December 31, 2020 - \$4,854,290), including interest receivable of \$46,808 (December 31, 2020 - \$46,808) on this loan and mortgage investment and fees incurred relating to collecting this loan and mortgage investment of \$109,498 (December 31, 2020 - \$52,482), are in arrears. The syndicate investors' share of this loan investment and interest and other receivable is \$4,176,530 (December 31, 2020 - \$4,127,968). The Company's share of loan investment and interest and other receivables, net of syndication, is \$734,776 (December 31, 2020 - \$726,322). The Company 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. During the three months ended September 30, 2021, the Company has not recorded a further provision for loan losses relating to this loan investment. As at September 30, 2021 and December 31, 2020, based on the most recent valuations of the underlying assets and management's estimates, the Company carries a net ACL balance of \$343,987 relating to this loan investment.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

21

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 period	\$ 410,756	\$ -	\$ 353,763	\$ 764,519
Recovery of credit losses				
Remeasurement	(145,546)	-	(9,776)	(155,322)
Transfer to (from)				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Gross write-offs	-	-	-	-
Recoveries	-	-	-	-
Balance, end of period	\$ 265,210	\$ -	\$ 343,987	\$ 609,197

The following table presents details of the Company's ACL on loan and mortgage investments as at September 30, 2021:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 21,456	\$ -	\$ -	\$ 21,456
Land and lot inventory	243,754	-	-	243,754
Commercial retail development	-	-	343,987	343,987
	\$ 265,210	\$ -	\$ 343,987	\$ 609,197

The following table presents the Company's ACL on loan and mortgage investments segmented by geography as at September 30, 2021:

	Stage 1	Stage 2	Stage 3	Total
Canada	\$ 45	\$ -	\$ -	\$ 45
United States	265,165	-	343,987	609,152
	\$ 265,210	\$ -	\$ 343,987	\$ 609,197

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.

At September 30, 2021, the Company had twelve such arrangements with builders (December 31, 2020 - nine). 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 September 30, 2021, the weighted average implicit rate of the leases is 14.4% per annum, and the weighted average remaining term of the leases is 2.1 years. The unearned finance income at September 30, 2021 was \$87,905 (December 31, 2020 - \$345,725).

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

22

The finance income recognized from finance leases for the nine months ended September 30, 2021 and 2020 of \$3,342,444 and \$2,003,692, 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 leases for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 17,959,374
Investments made	19,674,806
Investments sold	(20,512,845)
Lease payments received	(2,157,998)
Finance income recognized	2,003,692
Balance, September 30, 2020	16,967,029
Investments made	8,208,656
Investments sold	(4,453,577)
Lease payments received	(833,916)
Finance income recognized	642,524
Allowance for credit losses	(41,061)
Balance, December 31, 2020	20,489,655
Investments made	34,849,086
Investments sold	(11,401,889)
Lease payments received	(3,254,245)
Finance income recognized	3,342,444
Allowance for credit losses	(310,604)
Balance, September 30, 2021	\$ 43,714,447

As at September 30, 2021, the Company's certain investment in finance leases totalling \$24,662,603 were financed by the Debt Fund I. The Debt Fund I is committed to lending the TFCC USA III Corporation (the "TFCC USA III"), a wholly owned subsidiary of the Company, up to \$32.5 million to invest in the finance leases.

As at September 30, 2021 and December 31, 2020, the investment in finance leases amounted to \$43,714,447 and \$20,489,655, respectively. There were investments in finance leases during the nine months ended September 30, 2021 of \$34,849,086, of which advances made to new investment in finance leases were \$6,802,302, advances made to existing finance leases were \$28,046,784 and finance income recognized of \$3,342,444. These were offset by investments sold of \$11,401,889 and lease payments received of \$3,254,245.

As at September 30, 2021, there are three net investments in finance leases that account for 13.9%, 11.3% and 10.7 of the net investments in finance leases. For the nine months ended September 30, 2021, the Company has four net investments in finance leases that account for 16.6%, 15.9%, 12.2% and 10.8% of the Company's finance income.

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	\$ 24,617,367	\$ 6,649,541	\$ 17,967,826
Greater than one year but less than 5 years	34,092,712	7,994,426	26,098,286
	\$ 58,710,079	\$ 14,643,967	\$ 44,066,112

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

23

At September 30, 2021 and December 31, 2020, the unfunded commitments to make additional investments to develop the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, were \$42,521,483 and \$33,762,912, respectively. At September 30, 2021, the Debt Fund I is committed to lending an additional \$7,837,396 to TFCC USA III to fund certain of these commitments (December 31, 2020 – nil).

Investment in finance leases 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.

ALLOWANCE FOR FINANCE LEASE INVESTMENTS LOSS

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 changes in the ACL on finance lease investments during the nine months ended September 30, 2021 were as follows:

	Balance at January 1, 2021		Provision for credit losses		Net write offs		Balance at September 30, 2021	
Residential housing developments	\$	41,061	\$	310,604	\$	-	\$	351,665
	\$	41,061	\$	310,604	\$	-	\$	351,665

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

	Stage 1		Stage 2		Stage 3		Total	
Balance, beginning of period	\$	41,061	\$	-	\$	-	\$	41,061
Provision for credit losses								
Remeasurement		310,604		-		-		310,604
Transfer to (from)								
Stage 1		-		-		-		-
Stage 2		-		-		-		-
Stage 3		-		-		-		-
Gross write-offs		-		-		-		-
Recoveries		-		-		-		-
Balance, end of period	\$	351,665	\$	-	\$	-	\$	351,665

PORTFOLIO INVESTMENTS

The following table presents details of the portfolio investments as at September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
Investment in the LanQueen Partnership	\$	946,779	\$	2,192,747
Investment in the Savannah Partnership		100,243		100,243
Investment in the Valermo Partnership		1		1
	\$	1,047,023	\$	2,292,991

- (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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

24

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 September 30, 2021, TFCC LanQueen Ltd. contributed \$1,264,208 (December 31, 2019 - \$1,264,208) to the partnership. At September 30, 2021 and December 31, 2020, the fair value of the investment was determined by management using the direct comparison method. The fair value of investment at September 30, 2021 and December 31, 2020 was \$946,779 and \$2,192,747, 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, 2020, 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. As at September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020 was \$100,243 and \$100,243, respectively.

TFCC International Ltd. also committed to advance a principal amount of the 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 September 30, 2021 and December 31, 2020, TFCC International Ltd. funded a loan and mortgage investment of \$18,000,000, and \$18,000,000, respectively and as at September 30, 2021 and December 31, 2020, syndicated the loan and mortgage investment funded to investors of \$14,309,755 and \$14,309,755, 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, 2020, 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 September 30, 2021 was \$1 (December 31, 2020 - \$1).

The following table summarizes the changes in the portfolio investments for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 2,042,937
Investment made	59,243
Foreign exchange	(49,451)
Balance, September 30, 2020	2,052,729
Fair value adjustment	149,120
Foreign exchange	91,142
Balance, December 31, 2020	2,292,991
Return of capital to investors	(1,270,326)
Foreign exchange	24,358
Balance, September 30, 2021	\$ 1,047,023

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

25

INVESTMENT IN ASSOCIATES

The following table presents details of the investment in associates as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
(a) Investment in the Lan Partnership	\$ 1,009,319	\$ 1,945,963
(b) Investment in the TF Royal Palm	1,324,417	1,166,432
(c) Investment in the Debt Fund I	2,154,810	
	\$ 4,488,546	\$ 3,112,395

- (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 September 30, 2021 and December 31, 2020, the Company's share of the investment in the Lan Partnership was CA\$2,315,514.

At September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020 was \$1,009,319 and \$1,945,963, respectively.

- (b) The Company, through TFCC International Ltd, and third-party investors incorporated an entity (the "TFCC Royal Palm Beach Inc.") to invest up to \$7,000,000 in an assisted living development project located in Royal Palm Beach, Florida. The arrangement allows TFCC International Ltd. to receive a 2% fee at the time of commitment, an annual project management fee of \$70,000, and a preferred return on the amount of its investment in the TFCC Royal Palm Beach Inc. The Company accounts for its investment in TFCC Royal Palm Beach Inc. as an investment in associates using the equity method of accounting. During the nine months ended September 30, 2021 and 2020, the Company recorded income of \$184,339 and \$140,101, respectively, and received distributions of \$26,253 and \$26,253, respectively, from TFCC Royal Palm Beach Inc. The fair value of the investment at September 30, 2021 was \$1,324,417 (December 31, 2020 - \$1,166,432).
- (c) Through TFCC USA III Holding Corporation (the "TFCC USA III Holding") and third-party investors, the Company entered into a limited partnership agreement and formed Debt Fund I whereby the investors and TFCC USA III Holding committed to advance total capital of \$29,025,000 and \$3,475,000, respectively. Debt Fund I also secured a \$5,000,000 credit facility with a U.S. bank. Debt Fund I entered into a loan agreement with the Company's wholly-owned subsidiary, TFCC USA III to lend up to \$32.5 Million to the Company's land banking investments. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of the Debt Fund I. The Company exerts influence in the Debt Fund I and accounts for this investment using the equity method of accounting.

During the period ended September 30, 2021, the Debt Fund I received capital contributions from investors and TFCC USA III Holding totaling \$17,995,500 and \$2,154,500, respectively, borrowed \$4,931,047 against the credit facility and advanced a loan payable of \$24,662,603 to TFCC USA III to invest in certain finance leases. Debt Fund I is committed to advance the Company's remaining funding commitments of these investments. As at September 2021, the Company through TFCC USA III Holding owns 10.69% partnership interest in the Debt Fund I. For the nine months ended September 30, 2021, the Company recognized its share of income of \$100,777 and received distributions of \$100,466 from the Debt Fund I.

During the nine months ended September 30, 2021 and 2020, the Company recognized a net income of \$285,115 and a loss incurred of \$172,592, respectively and received distributions of \$126,719 and \$26,253, respectively from investments in associates.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

26

The following table summarizes the changes in the investment in associates for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 3,097,947
Investment funded	136,647
Loss incurred	(172,592)
Distributions received	(26,253)
Foreign exchange	(55,574)
Balance, September 30, 2020	2,980,175
Income earned	57,098
Distributions received	(11,668)
Foreign exchange	86,790
Balance, December 31, 2020	3,112,395
Investment funded	2,154,500
Income earned	285,115
Distributions received	(126,719)
Repayment	(992,082)
Foreign exchange	55,337
Balance, September 30, 2021	\$ 4,488,546

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.

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 September 30, 2021 and December 31, 2020, the Company's share of net assets in Montreal Street JV was \$854,558 and \$807,920, respectively.

The financial information in respect of the Company's investment in joint operations at September 30, 2021 and December 31, 2020 is as follows:

	September 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 122,502	\$ 96,799
Amounts receivable and prepaid expenses	86,597	85,045
Investment property	1,741,872	1,735,712
Right of use asset	655,681	695,363
Total assets	2,606,652	2,612,919
Accounts payable and accrued liabilities	37,138	36,619
Mortgages payable	1,029,059	1,055,379
Lease obligations	685,897	713,001
Total liabilities	1,752,094	1,804,999
Net assets	\$ 854,558	\$ 807,920

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

27

The table below details the results of operations for the nine months ended September 30, 2021 and 2020, attributable to the Company from its joint operations activities:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Revenue				
Rental	\$ 45,355	\$ 38,384	\$ 129,261	\$ 111,678
Expenses (income)				
Property operating costs	15,014	13,538	44,900	40,014
General and administrative expenses	1,008	163	2,018	(1,277)
Interest expense	12,238	11,361	38,037	33,988
	28,260	25,062	84,955	72,725
Net income	\$ 17,095	\$ 13,322	\$ 44,306	\$ 38,953

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 September 30, 2021 and December 31, 2020, 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 September 30, 2021 and December 31, 2020, the carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$1,741,872 (CA\$2,208,694) and \$1,735,712 (CA\$2,208,694), respectively.

As at September 30, 2021 and December 31, 2020, 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 CAD\$85,250.

CONVERTIBLE NOTE RECEIVABLE

On January 29, 2019, the Company entered into a loan agreement with an unrelated Ontario corporation that provides web-based crowdfunding services and holds an Exempt Market Dealer license (the "EMD"). 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. The remaining CA\$1,000,000 will be advanced in tranches upon the achievement of certain key performance indicators. The Convertible Note bears interest at the rate of 8.0% per annum, calculated and compounded semi-annually. The Company has the option to convert the principal and accrued interest of the Convertible Note into an equity interest in the EMD. The Convertible Note was receivable on demand any time after January 29, 2021, unless extended for a further twelve months under certain conditions and has been extended for a further twelve months under the same terms. The option to settle payments in common shares of the EMD 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 nine months ended September 30, 2021, the Company advanced an additional \$399,425 and capitalized interest income of \$83,975. The fair value of the Convertible Note at September 30, 2021, was \$1,562,217 (December 31, 2020 - \$1,080,536), being the principal amount advanced and capitalized interest.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

28

The following table summarizes the changes in the Convertible Note receivable for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 800,531
Investment made	94,402
Interest capitalized	63,887
Foreign exchange	(20,324)
Balance, September 30, 2020	938,496
Funding of investment	95,078
Foreign exchange	46,962
Balance, December 31, 2020	1,080,536
Funding of investment	399,425
Interest capitalized	83,975
Foreign exchange	(1,719)
Balance, September 30, 2021	\$ 1,562,217

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 is entitled to receive carried interest from certain investments (investment in associates and portfolio investments) in which the Company, Debt Fund I investors 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 September 30, 2021 and December 31, 2020 was \$152.3 million and \$145.1 million, respectively. AUM fluctuates in value as a result of the funding of new investments and repayments of investments. The increase in AUM from \$145.1 million at December 31, 2020 to \$152.3 million at September 30, 2021 is primarily due to the Company increasing loan origination activities in the investment of finance leases in the first half of 2021.

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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

29

CASH FLOW

The following table details the changes in cash and cash equivalents for the three and nine months ended September 30, 2021 and 2020:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash provided by (used in) operating activities	\$ 821,039	\$ 10,401,911	\$ 528,844	\$ 13,496,312
Cash provided by (used in) financing activities	2,237,178	(247,463)	11,834,912	(19,763,444)
Cash provided by (used in) investing activities	(1,577,054)	(14,820,375)	(13,783,186)	8,163,451
Increase (decrease) in cash and cash equivalents	1,481,163	(4,665,927)	(1,419,430)	1,896,319
Cash and cash equivalents, beginning of period	880,231	8,493,697	3,780,824	1,931,451
Cash and cash equivalents, end of period	\$ 2,361,394	\$ 3,827,770	\$ 2,361,394	\$ 3,827,770

Cash and cash equivalents at September 30, 2021 and 2020 were \$2,361,394 and \$3,827,770, respectively.

Operating Activities

Cash used in operating activities for the three months ended September 30, 2021 of \$2,361,394 is related primarily to the net cash used in and provided by lending operations.

Financing Activities

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

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Proceeds from loan and mortgage syndications	\$ 1,028,520	\$ 15,215,534	\$ 3,834,481	\$ 15,351,630
Proceeds from loan payable to Debt Fund I	2,795,275	-	24,662,603	-
Repayments of loan and mortgage syndications	(9,568,345)	(20,181,133)	(22,679,133)	(35,307,398)
Repayments of mortgages payable	(12,735)	(8,750)	(31,810)	(25,663)
Payment of lease obligations	-	(43,400)	-	(127,838)
Proceeds from short-term unsecured loans payable	1,966,988	-	1,966,988	-
Repayment of short-term unsecured loans payable	(249,408)	(266,827)	(1,504,406)	(266,827)
Proceeds from credit facilities	10,000,000	14,000,000	33,000,000	20,270,423
Repayments of credit facilities	(3,500,000)	(8,756,762)	(26,750,000)	(19,041,103)
Dividends paid	(223,117)	(206,125)	(663,811)	(616,668)
Cash provided by (used in) financing activities	\$ 2,237,178	\$ (247,463)	\$ 11,834,912	\$ (19,763,444)

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

30

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		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Funding of loan and mortgage investments	\$ (5,918,988)	\$ (28,368,296)	\$ (18,360,183)	\$ (29,500,819)
Repayments of loan and mortgage investments	10,107,504	17,373,312	28,315,711	43,873,777
Funding of investment in finance leases	(9,872,729)	(5,552,675)	(34,849,086)	(19,674,806)
Proceeds from sale of finance leases	3,694,003	7,657,258	11,401,889	20,512,845
Funding of investment in convertible note receivable	(399,425)	(94,402)	(399,425)	(94,402)
Recovery of loan and mortgage investments previously written-off	-	238,824	-	238,824
Increase in funds held in trust	-	(6,074,396)	-	(6,996,078)
Funding of investment in associates	20,000	-	(2,154,500)	(136,647)
Return of capital of portfolio investment	792,581	-	1,270,326	-
Return of capital of investment in associates	-	-	992,082	-
Funding of portfolio investment	-	-	-	(59,243)
Cash provided by (used in) investing activities	\$ (1,577,054)	\$ (14,820,375)	\$ (13,783,186)	\$ 8,163,451

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.

As at September 30, 2021 and December 31, 2020, respectively, the total capital of the Company was as follows:

	September 30, 2021	December 31, 2020
Loan and mortgage syndications	\$ 54,064,231	\$ 71,374,100
Credit Facilities	13,064,041	6,700,964
Unsecured note payable	2,256,732	1,794,150
Mortgages payable	1,029,059	1,055,379
Loan payable to Debt Fund I	24,662,603	-
Shareholders' Equity	42,468,536	41,162,653
Total capital	\$ 137,545,202	\$ 122,087,246

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

31

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.

The following table presents details of the loan and mortgage syndications as at September 30, 2021 and December 31, 2020:

	September 30, 2021			December 31, 2020		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	9.8%	\$ 18,366,833	34.0%	9.8%	\$ 20,590,945	28.8%
Land and lot inventory	10.4%	31,647,398	58.5%	10.2%	46,733,155	65.5%
Commercial retail development	9.9%	4,050,000	7.5%	9.9%	4,050,000	5.7%
	10.2%	\$ 54,064,231	100.0%	10.1%	\$ 71,374,100	100.0%

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

32

At September 30, 2021, 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 10.4% and commercial retail developments having a weighted average EIR of 9.9%. At September 30, 2021, the weighted average term to maturity of Loan Syndications was 1.10 years.

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 September 30, 2021, the Company's syndication activities, including Debt Fund I resulted in \$78,726,834 or 60.4% of the loan and mortgage investments and investment in finance leases (by investment amount) being syndicated to investors, yielding a net effective return of 19.0%, and increasing its overall return by 5.3% from its non-leveraged average return of 13.7%. At December 31, 2020, the Company's syndication activities resulted in \$71,374,100 or 62.4% of the loan and mortgage investments and investment in finance leases (by investment amount) being syndicated to investors, yielding a net effective return of 19.7% and increasing its overall return by 6.0% 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 September 30, 2021 and 2020:

	Three months ended		Nine months ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Balance, beginning of period	\$ 62,113,577	\$ 73,813,741	\$ 71,374,100	\$ 88,249,414
Loan and mortgage syndication activity during the period				
Additional advances to existing Loan Portfolio	1,028,520	15,215,534	3,834,481	15,351,630
Interest capitalized	513,798	519,250	1,492,544	1,481,321
Repayments of loan and mortgage syndications	(9,568,345)	(19,388,352)	(22,679,133)	(34,534,101)
Repayments of capitalized interest	-	(773,297)	-	(773,297)
Unrealized foreign exchange loss (gain)	(23,319)	115,191	42,239	(272,900)
Balance, end of period	\$ 54,064,231	\$ 69,502,067	\$ 54,064,231	\$ 69,502,067

On February 5, 2021, the Company, through TFCC USA III, entered into a loan agreement with Debt Fund I. This fund structure complements the Company's loan and mortgage syndication activities. See – "Capital Structure and Debt Profile – Loan Payable to Debt Fund I."

The following table sets out, as at September 30, 2021, 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, remainder of year	-	-	-
2022	-	43,707,080	43,707,080
2023	-	10,357,151	10,357,151
	\$ -	\$ 54,064,231	\$ 54,064,231

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

33

UNSECURED NOTE PAYABLE

- (a) The Company has an unsecured promissory note payable (the “Unsecured Note”) to an unrelated third-party investor. 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 three and nine months ended September 30, 2021 and 2020, interest and financing costs relating to the Unsecured Note, reported as interest expense and financing costs totaled \$9,938 and \$89,154, respectively, and \$80,555 and \$301,111, respectively. During the nine months ended September 30, 2021, the Company made a repayment of \$1,504,406. The carrying value of the Unsecured Note at September 30, 2021 was \$289,744 (December 31, 2020 - \$1,794,150).

- (b) On August 20, 2021, the Company issued short-term unsecured notes payable (the “Short Term Note”) to a syndicate investor for \$1,966,988. The Short Term Note bears an annual interest rate of 8.0% per annum, matures on November 30, 2021, and is convertible, in whole or in part, into loan and mortgage syndications on the terms and conditions to be agreed by the holder and the Company. At any time prior to the maturity date, the Company may elect to repay this Short Term Note, in whole or in part, with five days' written notice to the holder. The investor intends to convert the Short Term Note to investment in Fund II, subject to the Company receiving commitments for not less than \$10.0 million in the Fund II. The Company used the proceeds to repay the Company's credit facilities. During the nine months ended September 30, 2021, the Company reported an interest expense of \$11,656 relating to this Short Term Note. The fair value of the Short Term Note at September 30, 2021 was \$1,966,988.

MORTGAGE PAYABLE

The Company's share of the principal balance of mortgages payable held in joint operations through the Montreal Street JV at September 30, 2021 and December 31, 2020 was \$1,029,059 and \$1,056,723, respectively. The mortgage bears interest at 2.5% per annum and are amortized over 15 years and mature on July 1, 2026.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at September 30, 2021 and December 31, 2020 are as follows:

	September 30, 2021	December 31, 2020
Mortgage principal	\$ 1,029,059	\$ 1,056,723
Unamortized financing costs	-	(1,344)
Total	\$ 1,029,059	\$ 1,055,379

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

34

The following table summarizes the changes in the principal balance of mortgages payable for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 1,070,973
Repayments	(25,663)
Foreign exchange	(26,871)
Balance, September 30, 2020	1,018,439
Repayments	(9,257)
Foreign exchange	47,541
Balance, December 31, 2020	1,056,723
Repayments	(31,810)
Foreign exchange	4,146
Balance, September 30, 2021	\$ 1,029,059

The following table sets out scheduled principal repayments and maturity amounts of mortgages payable at September 30, 2021 are as follows:

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
2021, remainder of year	14,314.00	-	14,314
2022	58,234.00	-	58,234
2023	59,731.00	-	59,731
2024	61,267	-	61,267
2025 and thereafter	100,242	735,271	835,513
	\$ 293,788	\$ 735,271	\$ 1,029,059

On July 1, 2021, the Montreal Street JV renewed the mortgage for another 5 years term at an interest of 2.584% per annum.

LOAN PAYABLE TO DEBT FUND I

During the nine months ended September 30, 2021, the Company closed Debt Fund I, totaling \$32,500,000, comprising \$29,025,000 committed capital from investors and \$3,475,000 of committed capital from the Company. The Company's capital commitment to Fund I represents 10.8% of the total capital commitments. Debt Fund I is dedicated to lending to the Company for the Company's land banking investments. The fund structure complements the Company's traditional loan and mortgage syndication activity but offers a number of additional benefits, including providing the Company with access to significant capital ahead of its lending commitments. In addition, It significantly reduces the administrative tasks required on a deal-by-deal basis. Debt Fund I enabled the company to attract more investors by providing investment opportunities to investors on a programmatic basis with constant and consistent return enhanced by modest accretive leverage from the Debt Fund I's credit facility.

On February 5, 2021, the Company, through TFCC USA III, entered into a loan agreement with Debt Fund I. Debt Fund I agreed to advance up to \$32,500,000 in loan payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10.25% per annum and matures on February 5, 2024. As at September 30, 2021, Debt Fund I advanced \$24,662,603 to TFCC USA III. The interest and principal on this loan are payable only from the proceeds of these investments and has no recourse to the Company. During the three and nine months ended September 30, 2021, TFCC USA III incurred an interest expense of \$601,600 and 1,092,516, respectively, on this loan payable.

Following the success of Debt Fund I, the Company launched Fund II, a new \$75,000,000 fund for its land banking financing activity and other real estate financings. Fund II is expected to have its first closing in in the fourth quarter 2021 – see RECENT DEVELOPMENTS AND FUTURE OUTLOOK.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

35

The loan and mortgage syndication activity will continue alongside the Company's fund structure for specific transactions that do not fit the investment criteria of the Debt Fund I or Fund II.

CREDIT FACILITIES

At September 30, 2021 and December 31, 2020, the Company's Credit Facilities (the "Credit Facilities") consist of a \$40,000,000 secured line of credit (the "LOC").

On January 14, 2020, the Company entered into a \$40,000,000 secured LOC with the lending institution, replacing the \$35,000,000 master credit facility (the "Master Facility") the Company had with the same lending institution to finance the loan and mortgage investments funded by the Company. 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, 2024. At September 30, 2021, the borrowing limit remained at \$40,000,000.

During the nine months ended September 30, 2021 and 2020, the Company borrowed an aggregate of \$33,000,000 and \$20,270,423, respectively, and repaid \$26,750,000 and \$19,041,103, respectively, against the LOC and the Master Facility, combined.

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.

The following table presents details of the Credit Facilities as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Face value	\$ 13,250,000	\$ 7,000,000
Unamortized financing costs	(185,959)	(299,036)
Total credit facilities	\$ 13,064,041	\$ 6,700,964

The following table summarizes the changes in the Credit Facilities for the nine months ended September 30, 2021 and 2020:

	Amount
Balance, December 31, 2019	\$ 9,221,447
Proceeds from facilities	20,270,423
Repayment of facilities	(19,041,103)
Interest capitalized	49,233
Balance, September 30, 2020	10,500,000
Proceeds from facilities	2,500,000
Repayment of facilities	(6,000,000)
Balance, December 31, 2020	7,000,000
Proceeds from facilities	33,000,000
Repayment of facilities	(26,750,000)
Balance, September 30, 2021	\$ 13,250,000

For the three and nine months ended September 30, 2021, amortization of deferred financing costs reported as interest and financing costs totaled \$102,632 and \$313,890 (2020 - \$71,999 and \$215,749), 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 September 30, 2021, The Company was in compliance with these covenants.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

36

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, resulting 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 September 30, 2021 and December 31, 2020 was \$901,866 and \$1,056,879, 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 September 30, 2021 and December 31, 2020 was \$928,559 and \$1,074,518, respectively.

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

	Amount
2021	65,525
2022	265,890
2023	130,061
2024	67,232
2025 and thereafter	617,593
	\$ 1,146,301

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 September 30, 2021 were \$11,839,624 (December 31, 2020 - \$7,204,207). 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 September 30, 2021 and December 31, 2020, 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 \$42,521,483 and \$33,762,912, respectively. At September 30, 2021, the Fund I is committed to lending an additional \$10,632,672 to TFCC USA III to fund certain of these funding commitments in investments in finance leases.

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

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

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

37

SHAREHOLDERS' EQUITY

SHARES

The following table summarizes the changes in Shares for the three months ended September 30, 2021 and 2020:

	Shares	Amount
Outstanding, December 31, 2019	5,564,968	\$ 25,283,343
Outstanding, September 30, 2020	5,564,968	\$ 25,283,343
Outstanding, December 31, 2020	5,564,968	\$ 25,283,343
Outstanding, September 30, 2021	5,564,968	\$ 25,283,343

As at August 18, 2021, there were 5,564,968 Shares issued and outstanding.

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.

	September 30, 2021		December 31, 2020	
	Per Share in CA\$	Total	Per Share in CA\$	Total
March	\$ 0.05	\$ 221,271	\$ 0.05	\$ 199,418
June	0.05	224,503	0.05	200,771
September	0.05	218,388	0.05	208,958
December	-	-	0.05	210,555
Total	\$ 0.15	\$ 664,162	\$ 0.20	\$ 819,702

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.

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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

38

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
Average expected life	7.00 years	7.00 years	7.00 years
Average risk-free interest rate	0.41%	0.65%	1.58%
Average expected volatility	27.54%	25.76%	25.95%
Average dividend yield	4.94%	4.67%	3.09%

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

The following is the summary of changes in the Company's share options for nine months ended September 30, 2021 and the year-ended December 31, 2020:

	Period ended September 30, 2021		Year ended December 31, 2020	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding - beginning of period	499,000	\$ 4.96	351,089	\$ 6.95
Granted	-	-	335,000	4.37
Expired	-	-	(97,089)	8.50
Cancelled	-	-	(90,000)	6.70
Outstanding - end of period	499,000	\$ 4.96	499,000	\$ 4.96
Number of options exercisable	295,415	\$ 5.36	217,916	\$ 5.71

The following summarizes the Company's share options as at September 30, 2021:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price in CAD	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, 2027	12,498	5.70	5.70
285,000	April 6, 2027	112,500	4.28	4.28
25,000	June 26, 2027	10,417	4.05	4.28
499,000		295,415		

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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

39

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, it accrues dividend equivalents in the form of additional DSUs based on 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.

The following table presents the changes in DSUs for the nine months ended September 30, 2021 and year ended December 31, 2020:

	Number of DSUs	
	Nine months ended September 30, 2021	Year ended December 31, 2020
DSUs outstanding, beginning of period	304,344	302,371
Granted	7,646	14,978
Settled	-	(13,005)
DSUs outstanding, end of period	311,990	304,344
Number of DSUs vested	311,990	304,344

During the nine months ended September 30, 2021, the Company granted 7,646 DSUs (year ended December 31, 2020 – 14,978 DSUs) based on the dividend paid on Shares.

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the nine months ended September 30, 2021 and 2020 were \$239,880 and (\$203,793) respectively.

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 September 30, 2021, is \$1,587,105 (December 31, 2020 - \$1,351,278).

CONTRIBUTED SURPLUS

The following table presents the details of the changes to the contributed surplus balances at September 30, 2021 and December 31, 2020:

	Amount
Balance, December 31, 2019	\$ 3,440,695
Fair value of share-based compensation	177,745
Balance, September 30, 2020	3,618,440
Balance, December 31, 2020	3,618,440
Balance, September 30, 2021	\$ 3,618,440

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

40

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.

The following table provides details of the Company's adjusted debt to equity ratio as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Total debt	\$ 95,076,666	\$ 80,924,593
Less: loan and mortgage syndications and unsecured note payable	(80,983,566)	(73,168,250)
Adjusted total debt	\$ 14,093,100	\$ 7,756,343
Shareholders' equity	\$ 42,468,536	\$ 41,162,653
Debt to equity ⁽¹⁾	2.24:1.00	1.97:1.00
Adjusted debt to equity ⁽¹⁾	0.33:1.00	0.19:1.00
(1) Total debt, adjusted total debt, debt to equity and adjusted debt to equity are non-IFRS Measures. See "Non-IFRS" Measures.		

As at September 30, 2021 and December 31, 2020, the adjusted debt to equity ratio was 0.33:1.00 and 0.19:1.00, 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.

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 September 30, 2021 and December 31, 2020, the loan and mortgage investments syndicated by officers and directors was \$547,028 and \$668,752, 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 consolidated financial statements for the year ended December 31, 2020, except for the following changes in accounting policies and disclosures and new standards adopted during the six months ended September 30, 2021, as described below. The Company's consolidated financial statements for the year ended December 31, 2020 can be found under the Company's profile at WWW.SEDAR.COM.

NEW STANDARDS AND INTERPRETATIONS ADOPTED:

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

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 Company has adopted the LBOR in its financial statements for the period beginning January 1, 2021. The implementation of the amendments did not have a material impact on the Company's 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 to make 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 September 30, 2021 and December 31, 2020 and no amounts were transferred between fair value levels during the three months ended September 30, 2021 and 2020.

OFF-BALANCE SHEET ITEMS

As of both September 30, 2021 and December 31, 2020, 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.

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

43

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 September 30, 2021, 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 \$343,987 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 \$3,182,154 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.

The Company's LOC carries an interest rate based on LIBOR. On March 5, 2021, the Financial Conduct Authority announced that panel bank submissions for certain LIBOR settings would cease as at December 31, 2021 and the remainder on June 30, 2023, after which representative LIBOR rates will no longer be available. The Company's LOC carries an interest rate based on LIBOR. The Company also holds debt instruments that will be impacted by any potential changes to the June 30, 2023 LIBOR cessation date. The Company plans to amend in-place agreements to a new benchmark or implement appropriate fallback provisions as applicable in response to the IBOR reform prior to or by the June 30, 2023 effective date.

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,

TERRA FIRMA CAPITAL CORPORATION – MD&A

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

44

- 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.

The COVID-19 pandemic restrictions have impacted economic activity and this will continue to adversely impact global activity. As of date hereof the federal and provincial governments have eased the restrictions in phases. Although the vaccinations have picked pace there is considerable uncertainty related to the pace and extent of economic recovery. Although the residential development continues to perform well during this time, the Company cannot predict that this will continue. The surges in new cases of COVID-19 and mutated strains of the virus have caused additional quarantines and lockdowns, which could delay any economic recovery. The vaccination program globally is ongoing and its effectiveness remains uncertain. These factors could further materially and adversely affect the Company's results and financial condition.

The 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 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

45

Contractual obligations as at September 30, 2021, are due as follows:

	Less than 1 year		Over 2 years		Total
Accounts payable and accrued liabilities	\$	5,231,967	\$	-	\$ 5,231,967
Credit Facilities (face value)		-		13,250,000	13,250,000
Mortgages payable		1,029,059		-	1,029,059
Loan payable to Debt Fund I		-		24,662,603	24,662,603
	\$	6,261,026	\$	37,912,603	\$ 44,173,629

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 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

47

SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

The following selected financial information should be read in conjunction with the Company's MD&A, audited consolidated financial statements and accompanying notes for the years ended December 31, 2020, and 2019, and the unaudited condensed consolidated financial statements and accompanying notes for the ended September 30, 2021.

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 September 30, 2021		As at December 31, 2020		As at December 31, 2019					
Total assets	\$	144,138,355	\$	133,052,468	\$	148,231,267				
Total liabilities	\$	101,669,819	\$	91,889,815	\$	108,595,895				
Total equity	\$	42,468,536	\$	41,162,653	\$	39,635,372				
Loan and mortgage investments	\$	86,191,071	\$	93,808,332	\$	116,820,582				
Investment in finance leases	\$	44,066,112	\$	20,530,716	\$	17,959,374				
Loan and mortgage syndications (including loan payable to Debt Fund I)	\$	78,726,834	\$	71,374,100	\$	88,249,414				
Loan and mortgage syndications to loan and mortgage investments		60.4%		62.4%		65.5%				
	Three months ended		Years ended							
	September 30, 2021	September 30, 2020	December 31, 2020	December 31, 2019	December 31, 2018					
Total revenue	\$	4,212,826	\$	4,109,234	\$	15,461,784	\$	16,656,306	\$	13,448,171
Total expenses	\$	3,172,967	\$	2,741,434	\$	12,764,730	\$	12,569,591	\$	10,379,679
Income from operations before income taxes	\$	1,039,859	\$	1,367,800	\$	2,697,054	\$	4,086,715	\$	3,068,492
Net income and comprehensive income attributable to common shareholders	\$	532,008	\$	1,125,597	\$	2,169,238	\$	3,077,757	\$	2,215,783
Diluted net income and comprehensive income attributable to common shareholders	\$	532,008	\$	1,125,597	\$	2,169,238	\$	3,077,757	\$	2,215,783
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	751,231	\$	884,135	\$	2,861,690	\$	3,323,912	\$	1,928,889
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾	\$	751,231	\$	884,135	\$	2,861,690	\$	3,323,912	\$	1,928,889
Weighted average number of shares outstanding										
Basic		5,564,968		5,564,968		5,564,968		5,675,671		6,178,067
Diluted		5,633,614		5,576,857		5,618,522		5,675,671		6,185,726
Earnings per share										
Basic	\$	0.10	\$	0.20	\$	0.39	\$	0.54	\$	0.36
Diluted	\$	0.10	\$	0.20	\$	0.39	\$	0.54	\$	0.36
Adjusted earnings per share ⁽¹⁾										
Basic	\$	0.13	\$	0.16	\$	0.51	\$	0.59	\$	0.31
Diluted	\$	0.13	\$	0.16	\$	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 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

48

The following table sets out the Company's quarterly results of operations (as restated) for the eight quarterly periods ended September 30, 2021:

	Three months ended							
	Sept 30, 2021	June 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020	Dec 31, 2019
Revenue								
Interest and fees earned	2,803,709	2,849,254	2,796,724	2,904,000	\$ 3,435,583	\$2,967,009	\$3,356,405	\$4,046,909
Finance income	1,363,762	1,192,719	785,963	642,524	635,267	737,218	631,207	540,835
Rental income	45,355	43,347	40,559	40,893	38,384	35,768	37,526	41,844
	4,212,826	4,085,320	3,623,246	3,587,417	4,109,234	3,739,995	4,025,138	4,629,588
Expenses								
Property operating expenses	15,014	15,049	14,837	13,882	13,538	13,051	13,425	14,235
General and administrative expenses	959,694	1,132,855	737,684	1,216,807	617,904	731,795	739,059	1,129,828
Share based compensation	(122,853)	302,662	60,071	305,272	69,541	113,965	(209,554)	120,594
Interest and financing costs	2,309,715	2,112,967	1,985,778	1,821,066	1,990,122	2,086,628	2,278,430	2,422,611
Allowance for (recovery of) loan and mortgage investment loss	-	(109,187)	(46,135)	-	(17,767)	811,234	105,737	226,108
Allowance for investment in finance lease loss	52,494	154,327	103,783	41,061	-	-	-	-
Allowance for uncollectible receivables	-	9,776	-	-	-	161,428	-	-
Realized and unrealized foreign exchange (gain) loss	76,963	(126,171)	(77,698)	(364,687)	(189,833)	(359,638)	795,890	(114,885)
Fair value adjustment - portfolio investments	-	-	-	(149,120)	-	-	-	(56,124)
Share of income from investment in associates	(118,060)	(87,428)	(79,627)	(57,098)	257,929	(39,876)	(45,461)	(356,435)
	3,172,967	3,404,850	2,698,693	2,827,183	2,741,434	3,518,587	3,677,526	3,385,932
Income before income taxes	1,039,859	680,470	924,553	760,234	1,367,800	221,408	347,612	1,243,656
Common shareholders	532,008	619,281	818,756	846,043	1,125,597	323,909	(126,311)	884,279
Non-controlling interest	-	-	-	-	-	-	-	-
Net income (loss) and comprehensive income (loss)	532,008	619,281	\$ 818,756	\$ 846,043	\$ 1,125,597	\$ 323,909	\$ (126,311)	\$ 884,279
Diluted net income (loss) attributable to common shareholders	532,008	619,281	818,756	846,043	1,125,597	323,909	(126,311)	884,279
Adjusted net income and comprehensive income attributable to common shareholders ⁽¹⁾	751,231	678,471	697,303	531,656	884,135	686,710	759,189	1,024,220
Adjusted diluted net income and comprehensive income attributable to common shareholders ⁽¹⁾	751,231	678,471	697,303	531,656	884,135	686,710	759,189	1,024,220
Weighted average number of shares outstanding								
- basic	5,564,968	5,564,968	5,564,968	5,564,968	5,564,968	5,564,968	5,564,968	5,570,451
- diluted	5,633,614	5,658,536	5,564,968	5,590,429	5,564,968	5,564,968	5,565,167	5,574,020
Earnings (loss) per share								
Basic	\$ 0.10	\$ 0.11	\$ 0.15	\$ 0.15	\$ 0.20	\$ 0.06	\$ (0.02)	\$ 0.16
Diluted	\$ 0.10	\$ 0.11	\$ 0.15	\$ 0.15	\$ 0.20	\$ 0.06	\$ (0.02)	\$ 0.16
Adjusted earnings per share ⁽²⁾								
Basic	\$ 0.13	\$ 0.12	\$ 0.13	\$ 0.10	\$ 0.16	\$ 0.12	\$ 0.14	\$ 0.18
Diluted	\$ 0.13	\$ 0.12	\$ 0.13	\$ 0.10	\$ 0.16	\$ 0.12	\$ 0.14	\$ 0.18
<p>(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders, and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS Financial Measures".</p>								

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

Dated: November 17, 2021
Toronto, Ontario, Canada