



# **TERRA FIRMA CAPITAL CORPORATION**

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

**FOR THE THREE MONTHS ENDED MARCH 31, 2023**

**MAY 29, 2023**

## BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") contains a discussion on the financial performance, financial condition, and cash flows of the Company for the three months ended March 31, 2023, and other information that management believes is relevant for assessing and understanding its business, risks, opportunities and performance measures. This MD&A dated May 29, 2023 should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2023 (the "condensed consolidated financial statements") and the Company's annual MD&A for the year ended December 31, 2022, and audited consolidated financial statements for the same period. These documents are available under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [WWW.SEDAR.COM](http://WWW.SEDAR.COM). Unless the context indicates otherwise, all references in this MD&A to the "Company" refer to Terra Firma Capital Corporation and its subsidiaries.

The Company's condensed consolidated financial statements for the three months ended March 31, 2023, have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34), as issued by the International Accountant Standard Board ("IASB").

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.

## BUSINESS OVERVIEW

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

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

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

These loan and mortgage financings generally take the form of:

1. 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,
2. Term mortgages for the purposes of acquiring or re-financing income-producing properties, or
3. Mezzanine / subordinated debt financings of real property developments that have either progressed to the construction phase or are in the process of approaching the construction phase.

These financings generally represent a loan to cost and loan-to-value ratio ("LTV"), (a non-IFRS financial measure) of 75%, including all prior encumbrances at the time of underwriting of each loan. In some cases, the loan-to-value ratio could increase to 80%.

The Company also provides land bank financing to regional and national home builders in high-growth areas of the U.S. Under these arrangements, the Company acquires entitled residential land or lots on behalf of a homebuilder and simultaneously enters into an option agreement wherein the homebuilder obtains an option to purchase the lots from the Company. Such an option is generally secured by a non-refundable deposit of up to 20% of the total land and development costs. In addition to the option agreement, the land bank structure generally involves a construction agreement, whereby the Company finances the homebuilder's development costs to facilitate the subdivision improvements. Over time, the homebuilder purchases the lots or land at a specified price until the investment is fully repaid. These investments in the land banking arrangements through the purchase of lands are accounted for by the Company as a finance lease.

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

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

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

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 Funds model also enables the Company to respond quicker to market opportunities and to commit to larger transactions. See "Capital Structure and Debt Profile – Loan and Mortgage Syndications."

## PRIMARY OBJECTIVE AND STRATEGY

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

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

**EXPAND MARKETS:**

The Company targets higher job and population growth markets that offer the 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 can 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.

In prior years, the Company had 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. It is also fundamental to the Company's future success.

**RECENT DEVELOPMENTS AND FUTURE OUTLOOK****RECENT DEVELOPMENTS**

During the three months ended March 31, 2023, the Company continued with its review of strategic alternatives which include merger and acquisition, privatization and liquidation and is currently in discussion with various parties. The review of strategic alternatives has been overseen by a special committee of directors consisting of Tristan Kingcott and Mike Kirchmair. There is no definitive timeline of completion and there can be no assurance that the process will result in any transaction, or as to the timing of any such transaction. The Company does not intend to disclose developments related to the process unless and until the Company executes a definitive agreement with respect thereto, or it otherwise determines that further disclosure is appropriate or required.

Over the course of the first quarter of 2023, the Company continued to work towards its focus on creating liquidity while preserving capital. As at March 31, 2023, the Company received \$25,831,683 in repayments of its various loan and

mortgage investments and land banking transactions of which \$10,699,328 were early repayments. During the first quarter of 2023, the Company did not identify any concerns relating to its investment portfolio which continued to meet its financial commitments. At March 31, 2023, the Company's liquidity position included a cash balance of \$23,111,456 and an undrawn line of credit ("LOC") of up to \$40,000,000 including its accordion feature. This available capital is in excess of the Company's portion of the future funding commitments. Subsequent to March 31, 2023, the Company is working on the renewal of its secured LOC which matured on April 23, 2023.

#### **FUTURE OUTLOOK**

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

There continues to be a significant disconnect between the market value and the intrinsic value of our business. The Company is well into the process of reviewing its strategic options to determine which alternative or alternatives are the best way to maximize shareholder value and liquidity. Management and the Board are committed to ensuring that all alternatives available to the Company are considered and evaluated and are fully committed to meeting the needs of business partners, fund investors, and shareholders.

The Company believes that the financing needs for land developers and home builders will continue to be underfunded by traditional institutional lenders, both in the U.S. and Canada, especially given the current overall economic uncertainty. While there remains a level of uncertainty in the U.S. market, significant improvement with regard to sales and pricing were observed during the first quarter of 2023. However, the Company has continued its halt on new originations to increase its liquidity position to improve its attractiveness for a sale or its ability to provide liquidity for its shareholders, including potentially through share buybacks or special dividends.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

The financial and operational highlights as at March 31, 2023 and December 31, 2022 and for the three months March 31, 2023 and 2022 are as follows:

	March 31, 2023	December 31, 2022
Total investments <sup>(1)(8)</sup>	\$ 111,296,070	\$ 127,317,489
Loans and mortgage syndications (including loan payable to Debt Fund I and Debt Fund II)	\$ 86,574,721	\$ 95,881,865
Total equity	\$ 44,479,424	\$ 44,144,836
AUM <sup>(2)</sup>	\$ 115,152,327	\$ 131,443,039
Weighted average effective interest rate		
Loan and mortgage investments	13.5%	13.5%
Investment in finance leases (implicit)	13.3%	13.5%
Loan and mortgage syndications	10.7%	10.5%
Weighted average remaining term to maturity		
Loan and mortgage investments	0.95 yrs	1.19 yrs
Investment in finance leases	1.88 yrs	2.00 yrs
Loan and mortgage syndications	0.50 yrs	0.84 yrs
Adjusted debt to equity <sup>(3)</sup>	0.02:1.00	0.02:1.00
Book value per share <sup>(4)</sup>	\$ 7.97	\$ 7.91
	Quarter ended	
	March 31, 2023	March 31, 2022
Revenue	\$ 3,860,555	\$ 3,830,357
Interest and financing costs	\$ 2,260,495	\$ 2,515,709
Net income and comprehensive income	\$ 580,175	\$ 577,576
Adjusted net income and comprehensive income <sup>(5)</sup>	\$ 733,522	\$ 410,590
Adjusted pre-tax profit margin <sup>(6)</sup>	61.2%	31.0%
Earnings per share (Basic)	\$ 0.10	\$ 0.10
Adjusted earnings per share (Basic) <sup>(7)</sup>	\$ 0.13	\$ 0.07
<p>(1) Before deducting the allowance for loan and mortgage investment loss at March 31, 2023 and December 31, 2022 of \$31,560 and \$50,948, respectively and before deducting the allowance of investment in finance lease loss at March 31, 2023 and December 31, 2022 of \$47,850 and \$67,866, respectively.</p> <p>(2) AUM is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</p> <p>(3) 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) Adjusted 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> <p>(8) Refer to the Investment Profile section for the breakdown of Total Investments.</p>		

## FIRST QUARTER HIGHLIGHTS

Net income and comprehensive income for the first quarter of 2023 was \$580,175 or \$0.10 per basic and diluted share, relatively consistent with \$577,576 or \$0.10 per basic and diluted share in the same period in the prior year. Overall, net income and comprehensive income was impacted by the Company's shift to fund management requiring it to transfer certain of its investments to either its first debt fund or second debt fund (together the "Funds") until the Funds are fully invested. This has resulted in the Company's increase in cash and available credit, resulting in lower net income and comprehensive income over the periods. Furthermore, in the latter part of 2022, the Company paused business originations due to the market volatility and the Company's decision to explore strategic alternatives and to further increase the Company's liquidity, also had an impact on net income and comprehensive income.

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The Company's financial performance for the three months ended March 31, 2023 and 2022 is summarized below:

	Three months ended		
	March 31, 2023	March 31, 2022	Change Increase / (decrease)
<b>Revenue</b>			
Interest and fees	\$ 1,616,876	\$ 1,760,406	\$ (143,530)
Finance income	2,203,544	2,026,538	177,006
Rental income	40,135	43,413	(3,278)
<b>Total revenue</b>	<b>3,860,555</b>	<b>3,830,357</b>	<b>30,198</b>
<b>Expenses</b>			
Property operating costs	13,511	15,071	(1,560)
General and administrative expenses	870,897	1,103,536	(232,639)
Share based compensation (recovery)	211,803	(134,187)	345,990
Interest and financing costs	2,260,495	2,515,709	(255,214)
Recovery of loan and mortgage investment loss	(19,388)	(25,766)	6,378
Recovery of investment in finance lease loss	(20,016)	(17,346)	(2,670)
Realized and unrealized foreign exchange loss (gain)	10,220	(22,763)	32,983
Fair value adjustment - convertible note receivable	31,995	-	31,995
Share of income from investment in associates	(291,132)	(235,070)	(56,062)
	<b>3,068,385</b>	<b>3,199,184</b>	<b>(130,799)</b>
Income from operations before income taxes	792,170	631,173	160,997
Income taxes	211,995	53,597	158,398
<b>Net income and comprehensive income</b>	<b>\$ 580,175</b>	<b>\$ 577,576</b>	<b>\$ 2,599</b>

### INTEREST AND FEES EARNED

Interest and fees earned for the three months ended March 31, 2023, aggregated to \$1,616,876, compared to \$1,760,406 in the comparative period in the prior year, representing a decrease of \$143,530 or 8%. The variance was due to the repayment of \$11,031,258 on certain loan and mortgage investments which included partial and full repayments. These repayments were partially offset with the increase in funding related to existing loan and mortgage investments.

### FINANCE INCOME

For the three months ended March 31, 2023, finance income aggregated to \$2,203,544, compared to \$2,026,538 in the comparative period in the prior year, representing an increase of \$177,006 or 9%. The increase in finance income was due to the Company entering into new investments in finance leases subsequent to the first quarter of 2022 as well as an increase in funding on the investment in finance leases which was partially offset by investments sold and lease payments made period over period.

### RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company's proportionate share of the rental income from investment property in operations jointly controlled by the Company for the three months ended March 31, 2023, and 2022 was \$40,135 and \$43,413, 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 March 31, 2023, was \$13,511 and \$15,071 for the same period in the prior year. The investment property is a single-tenant property and the Company does not expect its share of the net income from joint operations to vary significantly period over period.

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### GENERAL AND ADMINISTRATIVE EXPENSES

During the three months ended March 31, 2023 and 2022, the Company incurred the following general and administrative expenses:

	Three months ended		
	March 31, 2023	March 31, 2022	Change Increase / (decrease)
Salary and benefits	538,497	\$ 734,987	\$ (196,490)
Professional fees	106,228	183,033	(76,805)
Public company expenses	28,459	6,505	21,954
Directors' fees	50,254	54,042	(3,788)
Rent	35,172	38,094	(2,922)
Other expenses	112,287	86,875	25,412
	\$ 870,897	\$ 1,103,536	\$ (232,639)

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

General and administrative expenses for the three months ended March 31, 2023, were \$870,897 compared to \$1,103,536 for the same period in the prior year. The decrease during the first quarter of 2023 was primarily related to a decrease in salary and benefits and professional fees. The decrease in salary and benefits was due to a lower head count compared to the comparative period with the departure of its former Chief Financial Officer & Corporate Secretary due to health reasons in the second quarter of 2022. Additionally, the decrease was due to no incentive compensation recorded in the current period compared to the comparative period. The decrease in professional fees was due to recruitment costs incurred in the comparative period related to the hiring of a new senior personnel with no similar expenses recorded in the current period.

### SHARE-BASED COMPENSATION

The share-based compensation that has been recognized for the three months ended March 31, 2023 and 2022 was as follows:

	Three months ended		
	March 31, 2023	March 31, 2022	Change Increase / (decrease)
Share option Plan	\$ 2,080	\$ -	\$ 2,080
DSU Plan	209,723	(134,187)	343,910
	\$ 211,803	\$ (134,187)	\$ 345,990

The share-based compensation expense (recovery) for the three months ended March 31, 2023 was an expense of \$211,803 compared to a recovery of \$134,187 for the same period in the prior year. The expense recorded for the three months ended March 31, 2023 was due to the increase in share price from CA\$5.35 per Share at December 31, 2022 to CA\$6.18 per Share at March 31, 2023. Comparatively, the share-based compensation expense for the three months ended March 31, 2022 was due to the decrease in share price from CA\$6.00 per Share at December 31, 2021 to CA\$5.46 per Share at March 31 2022.



**INTEREST AND FINANCING COSTS**

Interest and financing costs for the three months ended March 31, 2023 and 2022 were as follows:

	Three months ended		
	March 31, 2023	March 31, 2022	Change Increase / (decrease)
Interest on loan and mortgage syndications	214,673	\$ 783,003	\$ (568,330)
Interest on loans payable	1,999,866	1,656,500	343,366
Interest on financing fee	25,000	53,941	(28,941)
Interest on Montreal Street JV	10,052	11,229	(1,177)
Interest on lease obligations	10,904	11,036	(132)
	\$ 2,260,495	\$ 2,515,709	\$ (255,214)

Interest and financing costs for the three months ended March 31, 2023 were \$2,260,495 compared to \$2,515,709 for the same period in the prior year. This decrease was mainly due to the repayment of \$3,721,070 related to certain loan and mortgage syndications during the period. See – “Capital Structure and Debt Profile – Loan and Mortgage Syndications. Partially offsetting the decrease was an increase in interest on loans payable due to a higher outstanding balance on the loans payable. As at March 31, 2023, the loan outstanding balance was \$73,447,393 compared with \$64,306,573 as at March 31, 2022.

**REALIZED AND UNREALIZED FOREIGN EXCHANGE LOSS (GAIN)**

For the three months ended March 31, 2023, the Company recognized a foreign exchange loss of \$10,220 compared to a foreign exchange gain of \$22,763 for the same period in the prior year. The foreign exchange resulted from the translation of net assets carried in CA\$ translated to US\$. During the three months ended March 31, 2023, the US\$ weakened against the CA\$ from \$1.3544 to \$1.3516. During the three months ended March 31, 2022, the US\$ weakened against the CA\$ from \$1.2637 to \$1.2505.

**INCOME FROM OPERATIONS BEFORE INCOME TAXES**

Income from operations before income taxes, for the three months ended March 31, 2023 was \$792,170 compared to \$631,173 in the comparative period last year, representing an increase of \$160,997 or 26%. The variance was due to an increase in share of income from investment in associates mainly due to the Funds, a decrease in general and administrative expenses primarily related to salary and benefits and professional fees incurred during the quarter as well as the decrease in interest and financing costs. Partially offsetting this increase was the above noted share-based compensation expense compared with a recovery recorded in the prior period due to share price fluctuation.

**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 three months ended March 31, 2023, amounted to 26.8%, compared with 8.5% for the same period in the prior year.

The increase 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 gains or losses from the strengthening or weakening of the US\$ for Canadian income tax purposes while recording non-deductible foreign exchange gains or losses resulting from converting CA\$ transactions and balances to US\$ in preparing the consolidated financial statements. During the three months ended March 31, 2023, this resulted in an increase in income tax expense and a higher effective income tax rate compared with the same period in the prior year.

**NET INCOME AND COMPREHENSIVE INCOME**

Net income and comprehensive income for the three months ended March 31, 2023 was \$580,175, relatively consistent compared with \$577,576 for the corresponding period in 2022. The increase was due to the above noted factors previously discussed including the general and administrative expenses, interest and finance costs and share of income from investment in associates.

**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 March 31, 2023 and 2022:

	Three months ended		
	March 31, 2023	March 31, 2022	Change Increase / (decrease)
Net income and comprehensive income	\$ 580,175	\$ 577,576	\$ 2,599
Recovery of loan and mortgage investment, investment in finance leases and uncollectible receivable losses (tax adjusted)	(28,962)	(31,687)	2,725
Share based compensation (recovery) (tax adjusted)	155,675	(98,627)	254,302
Fair value adjustment - convertible note receivable (tax adjusted)	27,756	-	27,756
Foreign exchange gain (tax adjusted)	(1,122)	(36,672)	35,550
Adjusted net income and comprehensive income <sup>(1)</sup>	\$ 733,522	\$ 410,590	\$ 322,932

(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 March 31, 2023, was \$733,522, an increase of \$322,932, compared with \$410,590 for the corresponding period in 2022. The increase was primarily due to the factors previously discussed in the aforementioned sections: general and administrative expenses, interest and finance costs and share of income from investment in associates.

**PRE-TAX PROFIT MARGIN**

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

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

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The following table provides the calculation of pre-tax profit margin for the three months ended March 31, 2023 and 2022:

	Three months ended	
	March 31, 2023	March 31, 2022
Revenue	\$ 3,860,555	\$ 3,830,357
Less: Interest on loan and mortgage syndications and loans payable	(2,214,539)	(2,439,503)
Adjusted revenue <sup>(1)</sup>	1,646,016	1,390,854
Expenses	3,068,385	3,199,184
Less: Interest on loan and mortgage syndications and loans payable	(2,214,539)	(2,439,503)
other non-operating items <sup>(2)</sup>	(214,614)	200,062
Adjusted expenses <sup>(1)</sup>	639,232	959,743
Adjusted income from operations before income taxes	\$ 1,006,784	\$ 431,111
Adjusted pre-tax margin <sup>(1)</sup>	61.2%	31.0%
(1) Adjusted revenue, adjusted expenses and adjusted pre-tax margin are Non-IFRS Financial Measures. See "Non-IFRS Financial Measures". (2) Other non-operating items are share based compensation (recovery), recovery of loan and mortgage investment loss, recovery of investment in finance lease loss, fair value adjustment - convertible note receivable, and realized and unrealized foreign exchange (gain)/loss.		

For the three months ended March 31, 2023, the pre-tax profit margin was 61.2% compared to 31.0% for the same period in the prior year. The increase in profit margin was primarily due to the aforementioned increase share of income from investment in associates, a decrease in general and administrative expenses as well as a decrease in interest and finance costs.

### INVESTMENT PROFILE

The following table presents details of the Company's Total Investments, as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Loan and mortgage investments <sup>(1)</sup>	\$ 39,493,509	\$ 46,162,027
Investment in finance leases <sup>(2)</sup>	58,100,600	67,847,493
Portfolio investments	932,093	932,093
Investment in associates	9,615,729	9,228,257
Investment property held in Joint Operations	1,639,908	1,636,518
Convertible note receivable	1,514,231	1,511,101
Total Investments	\$ 111,296,070	\$ 127,317,489
(1) Before deducting the allowance for loan and mortgage investment loss at March 31, 2023 and December 31, 2022 of \$31,560 and \$50,948, respectively. (2) Before deducting the allowance for investment in finance lease loss at March 31, 2023 and December 31, 2022 of \$47,850 and \$67,866, respectively.		

Total Investments decreased by \$16,021,419 during the three months ended March 31, 2023, primarily from the repayment of loan and mortgage investments and investment in finance leases which is in accordance with the Company's focus on liquidity.

The following table presents a breakdown of the Company's Total Investments by investment type as at March 31, 2023 and December 31, 2022:

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	March 31, 2023		December 31, 2022	
	Total	% of total	Total	% of total
First mortgage loans <sup>(1)</sup>	37,497,355	33.7	43,000,462	33.7
Finance leases <sup>(2)</sup>	58,100,600	52.2	67,847,493	53.3
2nd mortgage loans <sup>(1)</sup>	-	-	1,218,252	1.0
All other investments	15,698,115	14.1	15,251,282	12.0
	111,296,070	100.0	127,317,489	100.0

(1) Before deducting the allowance for loan and mortgage investment loss at March 31, 2023 and December 31, 2022 of \$31,560 and \$50,948, respectively.

(2) Before deducting the allowance for investment in finance lease loss at March 31, 2023 and December 31, 2022 of \$47,850 and \$67,866, respectively.

The following table presents details of the Company's Total Investments segmented by geography as at March 31, 2023 and December 31, 2022:

	March 31, 2023		December 31, 2022	
	Total	% of total	Total	% of total
Canada <sup>(1)</sup>	\$ 3,302,505	3.0	\$ 4,468,847	3.5
United States <sup>(1)</sup>	107,993,565	97.0	122,848,642	96.5
Total Investments <sup>(1)</sup>	\$ 111,296,070	100.0	\$ 127,317,489	100.0

(1) Before deducting the allowance for loan and mortgage investment loss at March 31, 2023 and December 31, 2022 of \$31,560 and \$50,948, respectively, and before deducting the allowance for investment in finance lease loss at March 31, 2023 and December 31, 2022 of \$47,850 and \$67,866, respectively.

As at March 31, 2023, the total investment in the U.S. represents 97.0% of the total investment, compared to 96.5% at December 31, 2022. The Company, subject to the above noted, continues to believe that financing real estate projects in the U.S provides the best risk-adjusted returns in the market today.

**LOAN AND MORTGAGE INVESTMENTS (LOAN PORTFOLIO)**

The Company's Loan Portfolio as at March 31, 2023, consisted of the following: (a) one loan relating to residential housing developments located in Delray Beach-Florida representing 5.1% of the Loan Portfolio (by investment amount), (b) five loans relating to land and lot inventory of real estate assets to be developed in Phoenix-Arizona, Savannah-Georgia and Charlotte-North Carolina representing 94.9% of the Loan Portfolio (by investment amount).

The Company's Loan Portfolio as at December 31, 2022, consisted of the following: (a) 3 loans relating to residential housing developments located in Kitchener-Ontario, Fort Worth-Texas and, Delray Beach-Florida representing 16.8% 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, Davenport-Florida and Charlotte-North Carolina representing 83.2% of the Loan Portfolio (by investment amount).

The following table presents details of the Loan Portfolio before loan and mortgage syndications as at March 31, 2023:

	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	14.2%	1,996,154	(8,119)	1,988,035	5.0%
Land and lot inventory	13.4%	37,497,355	(23,441)	37,473,914	95.0%
Loan Portfolio	13.5%	\$ 39,493,509	(31,560)	\$ 39,461,949	100.0%

The following table presents details of the Loan Portfolio before loan and mortgage syndications as at December 31, 2022:

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	Weighted Average Effective Interest Rate	Loan and mortgage investments	Allowance for credit losses	Net Loan Portfolio (before syndication)	% of Investments (before syndication)
Performing loan and mortgage investments					
Residential housing developments	13.2%	\$ 7,732,984	\$ (8,863)	\$ 7,724,121	16.8%
Land and lot inventory	13.5%	38,429,043	(42,085)	38,386,958	83.2%
Loan Portfolio	13.5%	\$ 46,162,027	\$ (50,948)	\$ 46,111,079	100.00%

The weighted average effective interest rate (the “EIR”) of the Loan Portfolio at March 31, 2023 and December 31, 2022 was 13.5% and 13.5%, respectively. The weighted average term to maturity of the Loan Portfolio at March 31, 2023 and December 31, 2022, was 0.95 years and 1.19 years, respectively. At March 31, 2023, the Company had 94.9% of the Loan Portfolio in first mortgage loans, compared to 93.2% of the Loan Portfolio at December 31, 2022. See – “Financial Performance” and “Capital Structure and Debt Profile – Loan and Mortgage Syndications”.

The weighted average EIR of the loan and mortgage investments of residential housing developments at March 31, 2023 and December 31, 2022 were 14.2% and 13.2%, respectively. The weighted average EIR of the loan and mortgage investments of land and lot inventory at March 31, 2023 and December 31, 2022 were 13.4% and 13.5%, respectively.

The following table summarizes the change in the principal balance of the Loan Portfolio for the three months ended March 31, 2023 and 2022:

	Three months ended	
	March 31, 2023	March 31, 2022
Balance, beginning of period	\$ 46,162,027	\$ 47,089,194
Loan portfolio activity during the period		
Advances against existing loans	3,783,311	7,500,332
Repayments of loans	(11,031,258)	(14,919,082)
Interest capitalized	576,906	600,414
Unrealized foreign exchange gain	2,523	13,783
Balance, end of period	\$ 39,493,509	\$ 40,284,641

As at March 31, 2023 and December 31, 2022, the Loan Portfolio balance was \$39,493,509 and \$46,162,027, respectively. The decrease in Loan Portfolio during the three months ended March 31, 2023, resulted from the net effect of repayments totaling \$11,031,258, of which \$8,560,483 was early repayment on a loan and mortgage investment for a residential housing development located in Austin-Texas and a land lot inventory loan located in Houston-Texas. The decrease was partially offset by advances of \$3,783,311 towards existing loan and mortgage investments.

At March 31, 2023, the Company received full repayment of its loan and mortgage investment totaling \$5,557,445 (December 31, 2022 - \$4,571,377) with a participation arrangement with a priority syndicate investor. Additionally, the priority syndicate investor was fully repaid its senior position.

The following table presents details of the Company's principal balances of loan and mortgage investments segmented by risk as at March 31, 2023 and December 31, 2022:

	March 31, 2023	% of Investments	December 31, 2022	% of Investments
1st mortgage loans	37,497,355	94.9%	\$ 43,000,462	93.2%
2nd mortgage loans	-	0.0%	1,218,252	2.6%
Unregistered loans	1,996,154	5.1%	1,943,313	4.2%
	\$ 39,493,509	100.0%	\$ 46,162,027	100.0%

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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 March 31, 2023:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ -	\$ -	\$ -	-
United States	39,493,509	(31,560)	39,461,949	100.0%
	\$ 39,493,509	\$ (31,560)	\$ 39,461,949	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, 2022:

	Loan and mortgage investments	Allowance for credit losses	Net investments	% of net investments
Canada	\$ 1,218,252	\$ (118)	\$ 1,218,134	2.6%
United States	44,943,775	(50,830)	\$ 44,892,945	97.4%
	\$ 46,162,027	\$ (50,948)	\$ 46,111,079	100.0%

At March 31, 2023, 100.0% of the Loan Portfolio are in projects located in the U.S, compared to 97.4% at December 31, 2022. The Company does not foresee a material variation in this level of concentration of loan and mortgage investments with respect to projects located in the U.S.

As at March 31, 2023, there are loan and mortgage investments to two separate projects in the U.S. before syndication that account for 46.8% and 23.6% of the principal balance of loan and mortgage investments. As at December 31, 2022, there were loan and mortgage investments to two separate projects in the U.S. before syndication that account for 38.9% and 14.7% 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 three months ended March 31, 2023, the Company had loan and mortgage investments in two separate projects in the U.S. before syndication, that account for 43.0% and 17.8% of the Company's interest and fees revenue. For the three months ended March 31, 2022, the Company had loan and mortgage investments in four separate projects in the U.S. before syndication, that account for 29.3%, 21.9%, 11.0% and 10.2% of the Company's interest and fees revenue.

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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 March 31, 2023, were \$26,197,893 compared to \$48,597,094 at December 31, 2022. As at March 31, 2023, the future funding commitments related to loan and mortgage investments in two separate projects in the U.S. before syndication accounted for 57.4% and 42.5% of the total unfunded commitments. As at December 31, 2022, the future funding commitments related to loan and mortgage investments in three separate projects in the U.S. before syndication accounted for 38.3%, 32.0%, and 22.9% of the total future funding commitments. The Company expects to meet these funding commitments through the use of available cash, LOC and proceeds from repayments of loans and mortgage investments.

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

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
2023	-	24,461,805	24,461,805
2024	-	5,699,896	5,699,896
2025	-	9,331,808	9,331,808
	\$ -	\$ 39,493,509	\$ 39,493,509

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, 2022, under "Significant Accounting Policies and Changes in Accounting Policies." Loan and mortgage investments carried at amortized cost are measured using the EIR method and are presented net of any ACL, calculated in accordance with the Company's policy for ACL. Interest on loan and mortgage investments is recognized in interest income using the EIR method. The estimated future cash flows used in this calculation include those determined by the contractual term of the loan and mortgage investment and, all fees that relate to activities such as originating, restructuring, or renegotiating loans are deferred and recognized as interest income over the expected term of such loan and mortgage investments using the EIR method. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the consolidated statements of income. Impairment gains or losses on the amortized cost of loan and mortgage investments are recognized at each balance sheet date in accordance with the three-stage impairment model.

The following table presents details of the Company's credit exposure on the Loan Portfolio before loan and mortgage syndications for which ACL is recognized as at March 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Residential housing developments	\$ 1,996,154	-	-	\$ 1,996,154
Land and lot inventory	37,497,355	-	-	37,497,355
Total	\$ 39,493,509	-	-	\$ 39,493,509

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 March 31, 2023:

	Stage 1	Stage 2	Stage 3	Total
Canada	-	-	-	-
United States	39,493,509	-	-	39,493,509
Total	\$ 39,493,509	-	-	\$ 39,493,509

**ALLOWANCE FOR LOAN AND MORTGAGE INVESTMENTS LOSS**

The changes in the ACL on loan and mortgage investments during the three months ended March 31, 2023, were as follows:

	Balance at January 1, 2023	Recoveries	Funding	Balance at March 31, 2023
Residential housing developments	\$ 8,863	\$ (744)	\$ -	\$ 8,119
Land and lot inventory	42,085	(18,644)	-	23,441
	\$ 50,948	\$ (19,388)	\$ -	\$ 31,560

During the three months ended March 31, 2023, the Company recorded a reversal of \$19,388 of loan losses relating to the loan and mortgage investments. As at March 31, 2023 and December 31, 2022, based on the most recent valuations of the underlying assets and management's estimates, the Company carries an ACL balance of \$31,560 and \$50,948, respectively to the overall loan and mortgage investments.

**INVESTMENT IN FINANCE LEASES (LAND BANKING ASSETS)**

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.

The Company determined that the investments in land banking asset arrangements contain a lease as the contracts convey the right to control the use of an identified asset for a period of time in exchange for consideration. The Company also determined 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 March 31, 2023, the weighted average implicit rate of the leases is 13.3% (March 31, 2022 - 14.0%) per annum, and the weighted average remaining term of the leases is 1.88 years (March 31, 2022 - 2.03 years).

As at March 31, 2023, the Company had 13 arrangements with builders (December 31, 2022 – 15). The following table summarizes the changes in the investment in finance lease for the three months ended March 31, 2023 and 2022:



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	Amount
Balance, December 31, 2021	\$ 55,728,869
Investments made	8,790,053
Investments sold	(4,987,384)
Lease payments received	(1,943,714)
Finance income recognized	2,026,538
Allowance for credit losses	17,346
Balance, March 31, 2022	59,631,708
Investments made	27,640,289
Investments sold	(19,833,121)
Lease payments received	(5,882,205)
Finance income recognized	6,187,725
Allowance for credit losses	35,231
Balance, December 31, 2022	67,779,627
Investments made	6,030,053
Investments sold	(14,800,425)
Lease payments received	(3,180,065)
Finance income recognized	2,203,544
Recovery of credit losses	20,016
Balance, March 31, 2023	\$ 58,052,750

As at March 31, 2023 and December 31, 2022, the investment in finance leases amounted to \$58,052,750 and \$67,779,627, respectively. The decrease of \$9,726,877 during the three months ended March 31, 2023 was due to \$14,800,425 of investments sold and lease payments received of \$3,180,065, partially offset by advances of \$6,030,053 made to existing investment in finance leases.

As at March 31, 2023, there are three net investments in finance leases that account for 19.3%, 18.4% and 14.8% of the net investments in finance leases. For the three months ended March 31, 2023, the Company had six net investments in finance leases that account for \$14.9%, \$13.4%, \$10.9%, 10.7%, 10.4% and 10.0% 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	\$ 22,531,966	\$ 7,117,927	\$ 15,414,039
Greater than one year but less than 5 years	48,776,718	6,090,157	42,686,561
	\$ 71,308,684	\$ 13,208,084	\$ 58,100,600

**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.

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The changes in the ACL on finance lease investments during the three months ended March 31, 2023 were as follows:

	Balance at January 1, 2023	Recoveries	Funding	Balance at March 31, 2023
Residential housing developments	\$ 67,866	\$ (20,016)	\$ -	\$ 47,850
	\$ 67,866	\$ (20,016)	\$ -	\$ 47,850

### PORTFOLIO INVESTMENTS

As at March 31, 2023, the Portfolio investments is comprised of one project: Investment in the Savannah Partnership. The Company does not have significant influence in the partnership and is accounting for it as a financial asset at Fair Value Through Profit and Loss ("FVTPL"). The following table presents details of the portfolio investments as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Investment in the Savannah Partnership	\$ 932,093	\$ 932,093
	\$ 932,093	\$ 932,093

As at March 31, 2023, the portfolio investment was \$932,093, consistent with the balance at December 31, 2022.

### INVESTMENT IN ASSOCIATES

Investment in associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interest in joint ventures. The Company's investments in associates are accounted for using the equity method of accounting. Investments in associates are recognized initially at cost and the cost of the investment includes transaction costs. The Company's share of its associates' post acquisition net income or loss is recognized as share of income from investment in associates in the consolidated statements of income and comprehensive income. Dividends received are recorded as a reduction in the investment. The consolidated financial statements include the Company's share of the income or loss and other comprehensive income or loss from the date that significant influence commences until the date that significant influence ceases.

The following table presents details of the investment in associates as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Investment in the Lan Partnership	148,366	\$ 102,976
Investment in the TF Royal Palm	1,723,620	1,650,831
Investment in TFCC Senior Debt Fund I LP	2,682,940	2,691,388
Investment in TFCC US Senior Real Estate Fund II Funding LP	5,060,803	4,783,062
	\$ 9,615,729	\$ 9,228,257

As at March 31, 2023, the investment in associates balance was \$9,615,729 compared with \$9,228,257 as at December 31, 2022. The increase in investment in associates was primarily due to the Company's investment in the two limited partnership agreements as discussed below.

On February 5, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding Corporation (the "TFCC USA III Holding") and third-party investors, entered into a limited partnership agreement ("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 entered into a loan agreement with the wholly-owned subsidiary of the Company TFCC USA III Corporation (the "TFCC USA III"). Debt Fund I secured a new \$10,000,000 credit facility with a U.S. bank. Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of Debt Fund I. The Company exerts influence in Debt Fund I and accounts for this investment using the equity method of accounting. As at March

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31, 2023, the Company through TFCC USA III Holding owns 10.70% (December 31, 2022 – 10.70%) partnership interest in Debt Fund I.

During the three months ended March 31, 2023, the Company received distributions of \$68,566 (three months ended March 2022 - \$55,209) and recognized its share of income of \$59,838 (three months ended March 31, 2022 - \$57,974) which was recorded under “Share of income from investment in associates” in the Interim Condensed Consolidated Statements of Income and Comprehensive Income.

On December 7, 2021, the Company, through its wholly owned subsidiary TFCC USA III Holding and third-party investors, entered into a limited partnership agreement (“Debt Fund II”). As at March 31, 2023, the investors and TFCC USA III Holding committed to advance total capital of \$52,139,000 and \$5,950,000, respectively. Debt Fund II entered into a loan agreement with TFCC USA IV Corporation (the “TFCC USA IV”). Terra Firma Senior Debt Fund Corporation, a wholly-owned subsidiary of the Company, acts as a general partner of Debt Fund II. The Company exerts influence in Debt Fund II and accounts for this investment using the equity method of accounting. As at March 31, 2023, the Company through TFCC USA III Holding owns 10.38% (December 31, 2022 - 10.49%) partnership interest in Debt Fund II.

During the three months ended March 31, 2023, the Company received distributions of \$119,090 (three months March 31, 2022 - \$102,222) and recognized its share of income of \$104,050 (three months ended March 31, 2022 - \$108,102) recorded under “Share of income from investment in associates” in the Consolidated Statement of Income and Comprehensive Income.

The following table summarizes the changes in the investment in associates for the three months ended March 31, 2023 and 2022:

	Amount
Balance, December 31, 2021	\$ 8,364,711
Investment funded	-
Income earned	235,070
Distributions received	(166,182)
Foreign exchange	8,352
Balance, March 31, 2022	8,441,951
Investment funded	1,301,250
Fair value adjustment	(152,063)
Income earned	728,426
Distributions received	(916,411)
Return of capital	(129,172)
Foreign exchange	(45,724)
Balance, December 31, 2022	9,228,257
Investment funded	247,337
Fair value adjustment	45,163
Income earned	291,132
Distributions received	(196,407)
Foreign exchange	247
Balance, March 31, 2023	\$ 9,615,729

### ASSETS UNDER MANAGEMENT

The Company manages assets and collects fees, and spreads on assets that are reported on the Company’s consolidated statement of financial position. 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

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and syndicate investors invested and the syndicate investors' share of investments are not included in the Company's consolidated financial statements.

AUM (a non-IFRS financial measure) at March 31, 2023 and December 31, 2022 was \$115,152,327 and \$131,443,039, respectively. AUM fluctuates as a result of the funding of new investments and repayments of investments. The reduction in AUM was primarily due to the aforementioned early repayment of loan and mortgage investments and land banking transactions.

	March 31, 2023	December 31, 2022
Loan and mortgage investments	\$ 39,493,509	\$ 46,162,027
Investment in finance leases	58,100,600	67,847,493
Portfolio investments	932,093	932,093
Investment in associates <sup>(1)</sup>	1,871,986	1,753,807
Investment property held in Joint Operations	1,639,908	1,636,518
Convertible note receivable	1,514,231	1,511,101
Syndicates investors' share of investment	11,600,000	11,600,000
<b>Total AUM</b>	<b>\$ 115,152,327</b>	<b>\$ 131,443,039</b>

(1) Investment in associates includes investment in Lan Partnership and TFCC Royal Palm Beach Inc.

### FUTURE FUNDING COMMITMENTS

Pursuant to certain lending and land banking (investment in finance leases) agreements, the Company is committed to funding additional advances, subject to borrowers and homebuilders meeting certain funding conditions. Future funding commitments as at March 31, 2023 and December 31, 2022 were \$82,006,684 and \$109,030,094, respectively. The Company's commitments are subject to borrowers and homebuilders performing development work on the sites and being compliant under the Company's loan and land banking agreements. The funding commitments may expire without being drawn upon, and commitments do not necessarily represent future cash requirements or future assets for the Company. A portion of these funding commitments are sometimes offset by partial payments by borrowers or homebuilders as they sell or acquire portions of the Company's land collateral. Furthermore, the Company manages its future funding commitments through forecasting cash flow from operations and considering anticipated investing and financing activities. The Company continually seeks opportunities to raise capital for loan and land banking originations through a syndicate of sophisticated, accredited investors. Overall, the Company expects to fund its commitments through the use of cash on hand, its LOC and proceeds from repayments of loans and mortgage investments in addition to capital available within Debt Fund I and Debt Fund II. The following table summarizes the future funding commitments as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Loan and mortgage investments	\$ 26,197,893	\$ 48,597,094
Finance leases	52,821,031	57,152,740
Portfolio investments	1,311,010	1,311,010
Investment in associates <sup>(1)</sup>	1,676,750	1,969,250
<b>Total Unfunded Commitments</b>	<b>\$ 82,006,684</b>	<b>\$ 109,030,094</b>

(1) Represents the future funding commitments through TFCC USA III Holdings Corp.

The following tables summarizes the expected funding related to its future funding commitments as well as expected repayments:

	2023	2024	2025 onwards
Funds to be advanced	\$ (55,865,277)	\$ (26,141,407)	\$ -
Repayments	64,247,110	66,925,342	34,208,555
<b>Net cash inflow</b>	<b>\$ 8,381,833</b>	<b>\$ 40,783,935</b>	<b>\$ 34,208,555</b>

## LIQUIDITY AND CASH FLOW

### LIQUIDITY

As previously noted, the Company announced that it will review strategic alternatives to determine the best way to maximize shareholder value and liquidity. As a result, the Company shifted its focus to improving its liquidity. At March 31, 2023, the Company's liquidity position was very strong with a cash balance of \$23,111,456 and an undrawn LOC of up to \$40,000,000 including its accordion feature. This available capital is in excess of the Company's portion of the future funding commitments.

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. Material changes in market conditions may adversely affect the Company's net cash flow from operating activities and liquidity. A more detailed discussion of these risks is found under the "Risks and Uncertainties" section.

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

### CASH FLOW

The following table details the changes in cash and cash equivalents for the three months ended March 31, 2023 and 2022:

	Three months ended	
	March 31, 2023	March 31, 2022
Cash provided by operating activities	\$ 642,667	\$ 207,199
Cash used in financing activities	(9,893,113)	(1,184,844)
Cash provided by investing activities	15,725,819	3,992,702
Increase in cash and cash equivalents	6,475,373	3,015,057
Cash and cash equivalents, beginning of period	16,636,083	18,107,159
Cash and cash equivalents, end of period	\$ 23,111,456	\$ 21,122,216

### Operating Activities

Cash provided by operating activities for the three months ended March 31, 2023 of \$642,667 compared with \$207,199 for the same period in the prior year. The fluctuation in cash provided by operating activities was 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:

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	Three months ended	
	March 31, 2023	March 31, 2022
Proceeds from loan and mortgage syndications	\$ 489,583	\$ 3,483,692
Proceeds from loan payable on finance leases	8,724,755	9,500,247
Repayments of loan and mortgage syndications	(3,721,070)	(5,352,978)
Repayment of loans payable	(15,125,186)	(8,246,884)
Repayments of mortgages payable	(13,818)	(14,396)
Repayment of short-term unsecured loans payable	-	(289,744)
Dividends paid	(247,377)	(264,781)
<b>Cash used in financing activities</b>	<b>\$ (9,893,113)</b>	<b>\$ (1,184,844)</b>

### Investing Activities

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

	Three months ended	
	March 31, 2023	March 31, 2022
Funding of loan and mortgage investments	\$ (3,783,311)	\$ (7,500,332)
Repayments of loan and mortgage investments	11,031,258	14,919,082
Funding of investment in finance leases	(6,030,053)	(8,790,053)
Proceeds from sale of finance leases	14,800,425	4,987,384
Funding of investment in associates	(292,500)	-
Return of capital of portfolio investment	-	376,621
<b>Cash provided by investing activities</b>	<b>\$ 15,725,819</b>	<b>\$ 3,992,702</b>

## CAPITAL STRUCTURE AND DEBT PROFILE

### CAPITAL STRUCTURE

The Company defines its capital as the aggregate of shareholders' equity, loan and mortgage syndications, credit facilities, loans payable 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 March 31, 2023 and December 31, 2022, respectively, the total capital of the Company was as follows:

	March 31, 2023	December 31, 2022
Loan and mortgage syndications	13,127,328	\$ 16,034,041
Credit Facilities	(25,000)	(50,000)
Mortgages payable	883,530	895,492
Loans payable	73,447,393	79,847,824
Shareholders' Equity	44,479,424	44,144,836
<b>Total capital</b>	<b>\$ 131,912,675</b>	<b>\$ 140,872,193</b>

## 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:

- (a) 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
- (b) 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 March 31, 2023 and December 31, 2022:

	March 31, 2023			December 31, 2022		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	-	\$ -	-	9.5%	\$ 3,229,497	20.1%
Land and lot inventory	10.7%	13,127,328	100.0%	10.7%	12,804,544	79.9%
	10.7%	\$ 13,127,328	100.0%	10.5%	\$ 16,034,041	100.0%

At March 31, 2023, the weighted average EIR of Loan Syndications was 10.7%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of nil and land and lot inventory having

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a weighted average EIR of 10.7%. At March 31, 2023, the weighted average term to maturity of Loan Syndications was 0.50 years.

At December 31, 2022, the weighted average EIR of Loan Syndications was 10.5%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average EIR of 9.5% and land and lot inventory having a weighted average EIR of 10.7%. At December 31, 2022, the weighted average term to maturity of Loan Syndications was 0.84 years.

The following table presents the net effective return on investments, net of syndications as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Loan and mortgage investments and investment in finance leases (A)	\$ 97,594,109	\$ 114,009,520
Weighted average effective interest rate (D)	13.5%	13.5%
Loans and mortgage syndications (B)	\$ 13,127,328	\$ 16,034,041
Weighted average effective interest rate (E)	10.7%	10.5%
Loans payable (C)	73,447,393	79,847,824
Weighted average interest rate (F)	10.7%	10.7%
Loan and mortgage investments and investment in finance leases, net of syndications (G) (A-B-C)	\$ 11,019,388	\$ 18,127,655
Return from investments, net of syndications (H) (A*D)-(B*E)-(C*F)	3,911,710	5,163,994
% Return from investments, net of syndications <sup>(1)</sup> (I) (H/G)	35.5%	28.5%
Increase in return due to syndications (I-D)	22.0%	15.0%
<small>(1) % Return from investments, net of syndication is a Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".</small>		
<small>(2) *Before deducting the allowance for loan and mortgage investment loss at March 31, 2023 and December 31, 2022 of \$31,560 and \$50,948, respectively, and before deducting the allowance for investment in finance lease loss at March 31, 2023 and December 31, 2022 of \$47,850 and \$67,866, respectively.</small>		

At March 31, 2023, the Company's syndication activities resulted in \$86,574,721, which includes loan and mortgage syndications of \$13,127,328 and loans payable of \$73,447,393, or 88.7% of the investment portfolio (by investment amount) being syndicated to investors. This yielded a return on investments, net of syndications of 35.5%, which increased its overall return by 22.0% from its weighted average effective interest rate of 13.5%. At December 31, 2022, the Company's syndication activities resulted in \$95,881,865, which includes loan and mortgage syndications of \$16,034,041 and loans payable of \$79,847,824 or 84.1% of the investment portfolio (by investment amount) being syndicated to investors. This yielded a return on investments, net of syndications of 28.5%, which increased its overall return by 15.0% from its weighted average effective interest rate of 13.5%. Overall, returns may fluctuate significantly due to changes in the relative dollar amounts and the relative change in the weighted average effective interest rates within the Loan Portfolio and Loan Syndications.

The following table summarizes the changes in the principal balance of Loan Syndications for the three months ended March 31, 2023 and 2022:

	Three months ended	
	March 31, 2023	March 31, 2022
Balance, beginning of period	16,034,041	\$ 22,043,144
Loan and mortgage syndication activity during the period		
Additional advances to existing Loan Portfolio	489,583	3,483,692
Interest capitalized	322,786	354,511
Repayments of loan and mortgage syndications	(3,721,070)	(5,352,978)
Unrealized foreign exchange loss	1,988	10,858
Balance, end of period	\$ 13,127,328	\$ 20,539,227



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The following table sets out, as at March 31, 2023, scheduled principal repayments and amounts maturing on the Loan Syndications to be paid over the next year as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
2023	-	13,127,328	13,127,328
	\$ -	\$ 13,127,328	\$ 13,127,328

**LOANS PAYABLE**

On February 5, 2021, the Company, through TFCC USA III, entered into a new loan agreement with Debt Fund I. Debt Fund I agreed to advance up to a total of \$32,500,000 in a loans payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10.25% per annum, paid monthly in arrears and matures on February 5, 2024. The interest and principal on this loan are payable from the proceeds from these investments and have recourse only to these investments in finance leases.

On December 6, 2021, the Company, through TFCC USA IV, entered into a new loan agreement with Debt Fund II. Debt Fund II agreed to advance up to a total of \$150,000,000 in a loans payable to the Company to invest in certain finance leases. The loan carries an interest rate of 10% per annum, paid monthly in arrears and matures on December 6, 2024. The interest and principal on this loan are payable from the proceeds from these investments and have recourse only to these investments in finance leases.

As at March 31, 2023, Debt Fund I advanced \$24,707,126 (December 31, 2022 - \$28,459,840) to TFCC USA III and during the three months ended March 31, 2023 incurred interest expense of \$716,160 (three months ended March 31, 2022 - \$674,848) on this loan. As at March 31, 2023, Debt Fund II advanced \$48,740,267 (December 31, 2022 - \$51,387,984) to TFCC USA IV and during the three months ended March 31, 2023 incurred interest expense of \$1,283,706 (three months ended March 31, 2022 - \$981,652).

## CREDIT FACILITIES

As at March 31, 2023, the Company had not drawn on its LOC and the borrowing capacity was \$20,000,000. The LOC matures on April 25, 2023, and the interest rate is the greater of 5% or prime plus 0.75%. The LOC is subject to a borrowing capacity, calculated monthly as a percentage of eligible loan and mortgage investments and investment in finance leases and subject to certain adjustments.

The terms of the LOC require the Company to comply with certain covenants. If the Company fails to comply with these covenants, the lenders may declare an event of default. At March 31, 2023, the Company was in compliance with these covenants.

Subsequent to March 31, 2023, the Company is working on the renewal of its secured LOC which matured on April 23, 2023.

## COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to funding additional loan advances. The future funding commitments under the existing lending agreements at March 31, 2023 were \$26,197,893.

At March 31, 2023, the future funding commitments to make additional investments for the development of the lands under the finance lease arrangements, subject to builders meeting certain funding conditions, was \$52,821,031.

As at March 31, 2023, the future funding commitments from Debt Fund I and Debt Fund II, through its third-party investors and TFCC USA III Holding, were \$7,490,000.

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

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

## SHAREHOLDERS' EQUITY

### SHARES

The following table summarizes the changes in Shares for the three months ended March 31, 2023 and 2022:

	Shares	Amount
Outstanding, December 31, 2021	5,567,468	\$ 25,293,007
Outstanding, March 31, 2022	5,567,468	\$ 25,293,007
Proceeds from issuance of shares under share option	16,666	71,097
Outstanding, December 31, 2022	5,584,134	\$ 25,364,104
Outstanding, March 31, 2023	5,584,134	\$ 25,364,104

As at the date of this report shares outstanding were 5,584,134.

### 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.

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	March 31, 2023		December 31, 2022	
	Per Share in CA\$	Total	Per Share in CA\$	Total
March	\$ 0.06	\$ 335,048	\$ 0.06	\$ 334,048
June	-	-	0.06	334,048
September	-	-	0.06	335,048
December	-	-	0.06	335,048
<b>Total</b>	<b>\$ 0.06</b>	<b>\$ 335,048</b>	<b>\$ 0.24</b>	<b>\$ 1,338,192</b>

**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.

The following is the summary of changes in the Company's share options for the three months ended March 31, 2023 and year ended December 31, 2022:

	Period ended March 31, 2023		Year ended December 31, 2022	
	Number of options	Weighted average exercise price in CAD	Number of options	Weighted average exercise price in CAD
Outstanding - beginning of period	464,000	\$ 4.96	514,000	\$ 5.00
Exercised	-	-	(16,666)	-
Cancelled	-	-	(33,334)	-
Outstanding - end of period	464,000	\$ 4.96	464,000	\$ 4.96
Number of options exercisable	434,830	\$ 4.96	413,996	\$ 4.98

The following summarizes the Company's share options as at March 31, 2023:

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
41,000	December 27, 2023	41,000	6.50	6.50
24,000	December 21, 2024	24,000	6.70	6.70
24,000	June 11, 2026	24,000	5.60	5.60
25,000	January 6, 2027	22,913	5.70	5.70
255,000	April 6, 2027	240,000	4.28	4.28
25,000	June 26, 2027	22,917	4.05	4.28
20,000	November 28, 2028	10,000	5.95	5.95
<b>464,000</b>		<b>434,830</b>		

**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.

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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 three months ended March 31, 2023 and year ended December 31, 2022:

	Number of DSUs	
	Period ended March 31, 2023	Year ended December 31, 2022
DSUs outstanding, beginning of period	324,878	314,295
Granted	2,269	10,583
DSUs outstanding, end of period	327,147	324,878
Number of DSUs vested	327,147	324,878

The total cost (recovery) recognized with respect to DSUs, including the change in fair value of DSUs during the three months ended March 31, 2023 was \$209,723 (three months ended March 31, 2022 - \$(134,187)).

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 March 31, 2023, was \$1,484,376 (December 31, 2022 - \$1,271,863).

### CONTRIBUTED SURPLUS

The following table presents the details of the changes to the contributed surplus balances at March 31, 2023 and December 31, 2022:

	Amount
Balance, December 31, 2021	\$ 3,617,372
Balance, March 31, 2022	3,617,372
Issuance of shares	(10,243)
Balance, December 31, 2022	3,607,129
Share-based compensation	2,303
Balance, March 31, 2023	\$ 3,609,432

**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 March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Total debt	\$ 87,433,251	\$ 96,727,357
Less: loan and mortgage syndications, loans payable and unsecured note payable	(86,574,721)	(95,881,865)
Adjusted total debt	\$ 858,530	\$ 845,492
Shareholders' equity	\$ 44,479,424	\$ 44,144,836
Debt to equity <sup>(1)</sup>	1.97:1.00	2.19:1.00
Adjusted debt to equity <sup>(1)</sup>	0.02:1.00	0.02:1.00
(1) Total debt, adjusted total debt, debt to equity and adjusted debt to equity are non-IFRS Measures. See "Non-IFRS" Measures.		

**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 March 31, 2023, the loan and mortgage investments syndicated by officers and directors were \$927,249.

**SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared using the same significant accounting policies and methods as those used in the Company's consolidated financial statements for the year ended December 31, 2022. Refer to note 2 for a summary of the significant accounting policies and methods of their application in the consolidated financial statements for the year ended December 31, 2022. The Company's consolidated financial statements for the year ended December 31, 2022 can be found under the Company's profile at [WWW.SEDAR.COM](http://WWW.SEDAR.COM).

**USE OF ESTIMATES**

The preparation of the Company's interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed consolidated financial statements and the reported amounts of income and expenses during the period. 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 period. 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 interim condensed 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 the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

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

### **FINANCIAL INSTRUMENTS**

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, convertible note receivable, Loan Portfolio, portfolio investments, investment in finance leases, accounts payable and accrued liabilities, loans payable, portfolio investments, lease obligation, loan and mortgage syndications, mortgage payable, and credit facilities.

The fair value of interest and other receivables, convertible note receivable, funds held in trust and accounts payable and accrued liabilities approximate their carrying values due to their short-term maturities.

The fair value of the Loan Portfolio, loan and mortgage syndications approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the Loan Portfolio, loan and mortgage syndications, convertible note receivable, mortgages payable or credit facilities and the fair values are based on Level 3 of the fair value hierarchy.

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

1. Level 1 - quoted prices in active markets
2. Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
3. 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 are determined by using Level 3 inputs at March 31, 2023 and no amounts were transferred between fair value levels during the three months ended March 31, 2023.

### **OFF-BALANCE SHEET ITEMS**

As at March 31, 2023, the Company did not have any off-balance sheet (interim condensed consolidated 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.

In addition to the risk factors below, for a discussion of the material risks relating to the Company and its business and information concerning Risks and Risk Management, please refer to the 2022 Annual Report and the 2022 Annual Information Form, which are filed electronically on SEDAR under the Trust's profile at [www.sedar.com](http://www.sedar.com).

**STRATEGIC RISK**

The recent strategic alternative review considers several alternative future directions, each of which brings certain attendant risks. The review is on-going, and its conclusion has the potential to influence the company's valuation.

**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.

**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.

Contractual obligations as at March 31, 2023, are due as follows:

	Less than 1 year	Over 2 years	Total
Accounts payable and accrued liabilities	\$ 8,302,406	\$ -	\$ 8,302,406
Mortgages payable	43,958	839,572	883,530
Loans payable	-	73,447,393	73,447,393
	\$ 8,346,364	\$ 74,286,965	\$ 82,633,329

## 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 and other supplementary financial measures are further described below.

### NON-IFRS FINANCIAL MEASURES

- 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 the 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;
  - Severance cost; and
  - the income tax impact of the items listed above.

For further details, including a reconciliation of adjusted net income and comprehensive income to net income and comprehensive income, see “Financial Performance - Adjusted Net Income and Comprehensive Income.”

- Adjusted earnings per share is adjusted net income and comprehensive income divided by the number of outstanding Shares. For a reconciliation of adjusted earnings per share to earnings per share, see “Selected Annual and Quarterly Financial Information.”
- Return from investments, net of syndications is the calculation of the return the Company earns from the loan and mortgage investments and investment in finance leases, net of syndications. This is a performance measure used to evaluate the efficiency of the investments net of syndications. For a reconciliation of adjusted earnings per share to earnings per share, see “Financial Performance - Capital Structure and Debt Profile – Loan and Mortgage Syndications.”
- Adjusted revenue is revenue adjusted for the effect of interest expense incurred on loan and mortgage syndication and loans payable as applicable. For further details, including a reconciliation of revenue to adjusted revenue, see “Financial Performance – Adjusted Pre-Tax Profit Margin.”
- Adjusted expenses are expenses adjusted for the effect of interest expense incurred on loan and mortgage syndications, loans payable and other non-operating items, as applicable. For further details, including a



reconciliation of adjusted expenses to expenses, see “Financial Performance – Adjusted Pre-Tax Profit Margin.”

- Adjusted pre-tax profit margin is the ratio of income from operations before taxes to adjusted revenue. For further details, including a reconciliation of adjusted pre-tax profit margin to revenue, see “Financial Performance – Adjusted Pre-Tax Profit Margin.”
- Adjusted total debt is total debt (defined as the aggregate of loan and mortgage syndications, credit facilities, unsecured note payable, loans payable and mortgages payables) adjusted for the effect of loan and mortgage syndications, loans payable and unsecured note payable as applicable. For further details, including a reconciliation of adjusted total debt to total debt, 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.”
- AUM are the assets managed by the Company on behalf of the Company’s syndicate investors, as well as the Company’s assets, and do not include capital commitments that have not yet been funded. For further details, including a reconciliation of AUM to the assets, see “Financial Performance – Assets Under Management.”

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 financial 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 financial measures should not be construed as alternatives to financial measures determined in accordance with IFRS as indicators of the Company’s performance.

#### **SUPPLEMENTARY FINANCIAL MEASURES**

- Total investments (excluding cash) consist 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.

**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’s intention to provide 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 2023, significant growth both in Total Investments (as defined below) and net income in 2023 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](http://www.sedar.com), including the risks discussed herein at “Risks and Uncertainties” and risks discussed in the Company’s AIF.

Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management’s perceptions of historical trends, current conditions, and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including the following: the ability of the Company to adapt to any changes in government regulation and/or economic conditions; the continued availability of equity and debt financing; and the risks referenced above, collectively, will not have a material impact on the Company. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect. This is not an exhaustive list of the factors that may affect any of the Company’s forward-looking statements. Some of these and other factors are discussed in more detail in the Company’s Annual Information Form for the year ended December 31, 2022 (“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.

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**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**

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**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, 2022, and 2021, and the unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2023.

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		As at		As at	
	March 31, 2023		December 31, 2022		December 31, 2021	
Total assets	\$	141,359,747	\$	151,396,637	\$	139,305,967
Total liabilities	\$	96,880,323	\$	107,251,801	\$	95,726,747
Total equity	\$	44,479,424	\$	44,144,836	\$	43,579,220
Loan and mortgage investments	\$	39,493,509	\$	46,162,027	\$	47,089,194
Investment in finance leases	\$	58,100,600	\$	67,847,493	\$	55,849,312
Loan and mortgage syndications and loans payable	\$	86,574,721	\$	95,881,865	\$	85,096,354
Loan and mortgage syndications to loan and mortgage investments and investment in finance leases		88.7%		84.1%		82.7%
	Three months ended			Years ended		
		March 31, 2023	March 31, 2022	December 31, 2022	December 31, 2021	December 31, 2020
Total revenue	\$	3,860,555	\$	3,830,357	\$	15,102,639
Total expenses	\$	3,068,385	\$	3,199,184	\$	12,352,172
Income from operations before income taxes	\$	792,170	\$	631,173	\$	2,750,467
Net income and comprehensive income attributable to common shareholders	\$	580,175	\$	577,576	\$	1,521,237
Diluted net income and comprehensive income attributable to common shareholders	\$	580,175	\$	577,576	\$	1,521,237
Adjusted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	\$	733,522	\$	410,590	\$	1,626,981
Adjusted diluted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	\$	733,522	\$	410,590	\$	1,626,981
Weighted average number of shares outstanding						
Basic		5,566,381	5,567,468	5,575,710	5,565,323	5,564,968
Diluted		5,615,017	5,567,468	5,620,108	5,644,662	5,618,522
Earnings per share						
Basic	\$	0.10	\$	0.10	\$	0.27
Diluted	\$	0.10	\$	0.10	\$	0.27
Adjusted earnings per share <sup>(1)</sup>						
Basic	\$	0.13	\$	0.07	\$	0.29
Diluted	\$	0.13	\$	0.07	\$	0.29
(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**

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The following table sets out the Company's quarterly results of operations for the eight quarterly periods ended March 31, 2023:

	Three months ended							
	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Dec 31, 2021	Sept 30, 2021	June 30, 2021
<b>Revenue</b>								
Interest and fees	1,616,876	1,516,020	1,542,767	1,900,132	1,760,406	2,730,395	2,803,709	2,849,254
Finance income	2,203,544	2,171,933	2,152,133	1,863,375	2,026,538	1,547,442	1,363,762	1,192,719
Rental	40,135	41,724	41,580	42,618	43,413	41,930	45,355	43,347
	3,860,555	3,729,677	3,736,480	3,806,125	3,830,357	4,319,767	4,212,826	4,085,320
<b>Expenses</b>								
Property operating	13,511	16,884	13,901	14,553	15,071	13,113	15,014	15,049
General and administrative	870,897	1,030,598	979,663	958,192	1,103,536	1,397,956	959,694	1,132,855
Severance	-	-	-	524,577	-	-	-	-
Share based compensation (recovery)	211,803	159,871	(265,675)	142,685	(134,187)	(112,829)	(122,853)	302,662
Interest and financing costs	2,260,495	2,621,248	2,384,102	2,010,601	2,515,709	2,180,521	2,309,715	2,112,967
Allowance for (recovery of) loan and mortgage investment loss	(19,388)	(208,568)	3,214	(12,292)	-	(527,837)	-	(109,187)
Allowance for (recovery of) investment in finance lease loss	(20,016)	(32,336)	1,852	(4,747)	(25,766)	(231,222)	52,494	154,327
Allowance for (recovery of) uncollectible receivables	-	-	-	-	(17,346)	(9,776)	-	9,776
Realized and unrealized foreign exchange (gain) loss	10,220	139,662	116,329	(179,697)	(22,763)	(20,337)	76,963	(126,171)
Fair value adjustment - convertible note receivable	31,995	128,364	-	-	-	-	-	-
Fair value adjustment - portfolio investments	-	-	(590,000)	-	-	(205,556)	-	-
Preferred return from portfolio investments	-	(37,565)	-	-	-	(54,285)	-	-
Share of (income) loss from investment in associates	(291,132)	(144,625)	(248,672)	(369,131)	(235,070)	63,137	(118,060)	(87,428)
	3,068,385	3,673,533	2,394,714	3,084,741	3,199,184	2,492,885	3,172,967	3,404,850
Income before income taxes	792,170	56,144	1,341,766	721,384	631,173	1,826,882	1,039,859	680,470
Income tax provision (recovery)	211,995	(166,056)	878,408	463,281	53,597	456,375	507,851	61,189
Net income and comprehensive income	\$ 580,175	\$ 222,200	\$ 463,358	\$ 258,103	\$ 577,576	\$ 1,370,507	\$ 532,008	\$ 619,281
Diluted net income attributable to common shareholders	580,175	222,200	463,358	258,103	577,576	1,370,507	532,008	619,281
Adjusted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	733,522	111,716	380,110	724,564	410,590	571,958	751,231	678,471
Adjusted diluted net income and comprehensive income attributable to common shareholders <sup>(1)</sup>	733,522	111,716	380,110	724,564	410,590	571,958	751,231	678,471
Weighted average number of shares outstanding								
- basic	5,566,381	5,584,134	5,567,468	5,567,468	5,567,468	5,566,381	5,564,968	5,564,968
- diluted	5,615,017	5,607,151	5,647,435	5,647,435	5,567,468	5,676,265	5,633,614	5,658,536
Earnings per share								
Basic	\$ 0.10	\$ 0.04	\$ 0.08	\$ 0.05	\$ 0.10	\$ 0.25	\$ 0.10	\$ 0.11
Diluted	\$ 0.10	\$ 0.04	\$ 0.08	\$ 0.05	\$ 0.10	\$ 0.24	\$ 0.10	\$ 0.11
Adjusted earnings per share								
Basic	\$ 0.13	\$ 0.02	\$ 0.07	\$ 0.13	\$ 0.07	\$ 0.10	\$ 0.13	\$ 0.12
Diluted	\$ 0.13	\$ 0.02	\$ 0.07	\$ 0.13	\$ 0.07	\$ 0.10	\$ 0.13	\$ 0.12
<small>(1) Adjusted net income and comprehensive income attributable to common shareholders, Adjusted diluted net income and comprehensive income attributable to common shareholders and adjusted basic and diluted net income per common share are non-IFRS measures and are not defined under IFRS and as a result, may not be comparable to similarly titled measures presented by other publicly traded entities, nor should they be construed as an alternative to other earnings measures determined in accordance with IFRS. See "Non-IFRS Financial Measures".</small>								

Additional information relating to the Company, including the Company's management information circular, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Dated: May 29, 2023  
Toronto, Ontario, Canada