



# **TERRA FIRMA CAPITAL CORPORATION**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016**

**NOVEMBER 11, 2016**

## MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis of the financial performance financial condition, and cash flows (“MD&A”) of Terra Firma Capital Corporation (the “Company”) dated November 11, 2016 for the three and nine months ended September 30, 2016 should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements and accompanying notes for the same period as well as the Company’s annual MD&A for the year ended December 31, 2015 and audited consolidated financial statements for the same period. These documents are available under the Company’s profile on SEDAR at [WWW.SEDAR.COM](http://WWW.SEDAR.COM)

## 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 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 and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information in this MD&A includes 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, as well as other statements under the heading “Future Outlook”, and may relate to future results, performance, achievements, events, prospects or opportunities for the Company or the real estate industry and may include statements regarding the financial position, business strategy, financial results, real estate values, interest rates, loan to cost, plans and objectives of or involving the Company. In some cases, forward-looking information 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, including the risks discussed herein at “Risks and Uncertainties”. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance that actual results will be consistent with such forward-looking statements.

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 Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain stable; conditions within the real estate industry will be consistent with the current climate; and the 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.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, 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.

## BASIS OF PRESENTATION

The Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34). The Company's presentation currency is the Canadian dollar.

## CHANGE IN REPORTING PRESENTATION

The Company made a change to the reporting presentation of foreign exchange gains and losses, which is now excluded from reported revenues and is included in expenses on a prospective basis. During the year ended December 31, 2015, foreign exchange gains were included in revenue of the Company. All prior comparisons have been adjusted to reflect this change.

## BUSINESS OVERVIEW AND STRATEGY

The Company was incorporated under the *Business Corporations Act* (Ontario) on July 26, 2007. The common shares of the Company ("Shares") trade on the TSX Venture Exchange (the "Exchange") under the symbol TII. The registered office of the Company is: 22 St. Clair Avenue East, Suite 200, Toronto, Ontario, M4T 2S5.

The principal business of the Company is to provide real estate financings secured by investment properties and real estate developments throughout Canada and the United States. 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 Canadian 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 residential buildings, mixed-use properties, and land for residential and commercial development and construction projects.

These loan and mortgage financings generally take the form of:

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

These financings generally represent loan to cost and loan-to-value ratios of 80%, including all prior encumbrances at the time of underwriting of each loan. In some cases the loan-to-value ratio could increase to 90%. The "loan-to-value" ratio means the ratio, expressed as a percentage, determined by  $A/B \times 100$ , where: (A) is the principal amount of the mortgage, together with all other equal and prior ranking mortgages or tranches of mortgages on the real estate; and (B) is the appraised value of the real estate securing the mortgage at the time of funding the mortgage or in a more recent appraisal, if available.

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

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The objectives of the Company are to originate, create and maintain a diversified portfolio of real estate loans and mortgage investments (the “Loan Portfolio”), to preserve the Company’s capital while earning attractive risk-adjusted returns and to create shareholder value over the long-term, through capital appreciation, and payment of dividends (from time to time as the Board of Directors considers appropriate).

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

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

### INVESTMENTS

#### LOAN AND MORTGAGE INVESTMENTS

The Company’s Loan Portfolio as at September 30, 2016 consisted of (a) loans relating to 26 residential housing developments, comprising 1,766 high rise condominium units, mixed use developments consisting of 886 retail and low and high rise condominium units, and 1,619 low rise houses and condominium units, representing 71.7% of the Loan Portfolio (by investment amount), (b) two residential income properties consisting of 105 rental units in Toronto and Ottawa, Ontario, representing 3.7% of the Loan Portfolio (by investment amount), (c) land and lot inventory of real estate assets to be developed, located in Ottawa, Ontario; Markham, Ontario; Charlotte, North Carolina; Orlando, Florida; and Tampa Bay, Florida, representing 24.1% of the Loan Portfolio (by investment amount) and (d) a commercial retail development located in Mississauga, Ontario, representing the remaining 0.5% of the Loan Portfolio (by investment amount).

The Company’s Loan Portfolio as at December 31, 2015 consisted of (a) loans relating to 21 residential housing developments, comprising 1,647 high rise condominium units, mixed use developments consisting of 886 retail and low and high rise condominium units, and 1,525 low rise houses and condominium units, representing 68.5% of the Loan Portfolio (by investment amount), (b) two residential income properties consisting of 198 rental units in Toronto and Ottawa, Ontario, representing 3.6% of the Loan Portfolio (by investment amount), (c) land and lot inventory of real estate assets to be developed, located in Ottawa, Ontario; Markham, Ontario; Charlotte, North Carolina; and Tampa Bay, Florida, representing 26.6% of the Loan Portfolio (by investment amount) and (d) a commercial retail development located in Mississauga, Ontario, representing the remaining 1.3% of the Loan Portfolio (by investment amount).

The following table presents details of the Loan Portfolio as at September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
	Weighted Average Effective Interest Rate	Amount	% of Investments	Weighted Average Effective Interest Rate	Amount	% of Investments
Residential housing developments	16.7%	73,147,226	71.7%	16.3%	\$ 65,417,141	68.5%
Land and lot inventory	15.0%	24,607,321	24.1%	14.5%	25,465,047	26.6%
Commercial retail development	15.1%	500,000	0.5%	15.8%	1,270,000	1.3%
Residential income properties	15.8%	3,785,106	3.7%	15.9%	3,461,079	3.6%
Loan Portfolio	16.2%	\$ 102,039,653	100.0%	15.8%	\$ 95,613,267	100.0%
Allowance for loan and mortgage investment loss		(590,792)			(478,066)	
Net Loan Portfolio		\$ 101,448,861			\$ 95,135,201	

## TERRA FIRMA CAPITAL CORPORATION – MD&A

As at September 30, 2016 and December 31, 2015, the principal balance of the Loan Portfolio was \$102,039,653 and \$95,613,267, respectively. The increase in Loan Portfolio during the nine months ended 2016 resulted from the net effect of funding of loan investments of \$36,612,922, advances against existing loan commitments of \$5,380,990, capitalized interest of \$3,834,726, which aggregate amount was offset by the repayment of two loans totaling \$29,285,010, conversion of a loan investment of \$7 million into an interest in joint operations, elimination of the Company's share of loan investment in the joint operation of \$870,389 and unrealized foreign exchange loss of \$1,746,853.

The following table summarizes the change in the Loan Portfolio for the nine months ended September 30, 2016:

	Amount
Balance, beginning of period	\$ 95,613,267
Loan Portfolio activity during the period	
Funding of new loan investments	36,612,922
Advances against existing loan	5,380,990
Repayments of loans	(29,285,010)
Converted to interest in joint operations	(7,000,000)
Interest capitalized	3,834,726
Repayment of capitalized interest	(500,000)
Company's share of loan investment in joint operations	(870,389)
Unrealized foreign exchange loss	(1,746,853)
Balance, end of period	\$ 102,039,653

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

On March 9, 2016, the Company advanced a loan of \$10,000,000 to a Canadian borrower, secured by two properties (the "Secured Properties") and the borrower's 50% interest in a development project (the "Valermo Homes JV"). The loan agreement provided the Company an option to purchase the 50% interest in the Valermo Homes JV for \$7,000,000. On April 15, 2016, the Company exercised its option and acquired the 50% interest in the Valermo Homes JV for \$7,000,000 which approximates the fair value of the project. The Company has a registered security on the Secured Properties for \$5,000,000. In the event that the Company doesn't recover the \$7,000,000 from the Valermo Homes JV, the Company is entitled to receive up to \$5,000,000 from the Secured Properties.

The following table presents details of the Company's loan categories as at September 30, 2016 and December 31, 2015:

	September 30, 2016	% of Investments	December 31, 2015	% of Investments
Mortgages	\$ 95,081,746	93.2%	\$ 91,691,123	95.9%
Unregistered loans	6,957,907	6.8%	3,922,144	4.1%
	\$ 102,039,653	100.0%	\$ 95,613,267	100.0%

The weighted average effective interest rate of the Loan Portfolio at September 30, 2016 and December 31, 2015, including loans in default was 16.2% and 15.8%, respectively. The current yield indicates the Company's continued focus on the quality of security through placing its capital in more senior positions in the capital structure and reducing its exposure to unregistered loans. The higher level of security and lower weighted average interest rates have not had significant impact on the Company's overall profitability given the Company's focus on the spreads. See – "Financial Performance" and "Capital Structure and Debt Profile – Loan And Mortgage Syndications".

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The weighted average effective interest rates of the loans and mortgage investments of residential housing developments at September 30, 2016 and December 31, 2015 were 16.7% and 16.3%, respectively and the weighted average effective interest rates of the residential income properties at September 30, 2016 and December 31, 2015 were 15.1% and 15.9%, respectively. The weighted average effective interest rates of the loans and mortgage investments of lot inventory at September 30, 2016 and December 31, 2015 were 15.0% and 14.5%, respectively. The weighted average effective interest rates of the commercial retail development and land at September 30, 2016 and December 31, 2015 were 15.1% and 15.8%, respectively.

The weighted average term to maturity at September 30, 2016 and December 31, 2015 was 1.19 years and 1.43 years, respectively.

The following table presents details of the Company's principal balances of the Loan Portfolio segmented by geography as at September 30, 2016 and December 31, 2015:

	September 30, 2016	% of Investments	December 31, 2015	% of Investments
Canada	\$ 63,759,128	62.5%	\$ 57,551,220	60.2%
United States	38,280,525	37.5%	38,062,047	39.8%
	\$ 102,039,653	100.0%	\$ 95,613,267	100.0%

Scheduled principal repayments of the Loan Portfolio maturing in the next five years and thereafter are as follows:

	Scheduled principal payments	Investments maturing during the year	Total loan and mortgage investments
Remainder of year	\$ -	\$ 26,627,223	\$ 26,627,223
2017	-	35,310,725	35,310,725
2018	-	32,618,582	32,618,582
2019	-	-	-
2020	-	5,483,123	5,483,123
Thereafter	-	2,000,000	2,000,000
	\$ -	\$ 102,039,653	\$ 102,039,653

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

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at September 30, 2016 amounted to \$13,712,067, including \$9,143,845 of capitalization of future interest relating to the existing Loan Portfolio compared to \$18,455,100, including \$11,733,451 of capitalization of future interest relating to the Loan Portfolio at December 31, 2015.

On February 20, 2015, the Company exercised its option to convert a loan and mortgage investment in a 668 unit high-rise condominium development project (the "Lan Project") located in Toronto, Ontario, into a partnership interest (the "Lan Partnership") in the development project. The carrying balance of loan and mortgage investment at the time of conversion was \$14,821,313 of which \$11,675,000 was syndicated. Certain of the syndicate investors in the amount of \$5,125,000 elected not to convert their share of interest in the loan investment into a LP interest in the Lan Partnership and syndicate investors in the amount of \$6,550,000 converted their share of interest in the loan investment into a short-term unsecured notes payable. See – "Investments – Portfolio Investments" and "Capital Structure and Debt Profile – Short-term unsecured notes payable".

The investments comprising the Loan Portfolio are classified as financial assets and categorized as loans and receivables. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less any provision for impairment. The Loan Portfolio is reviewed on a quarterly basis to determine any such impairment.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The Company assesses individually all investments at each reporting date to determine whether there is objective evidence of impairment. The Company uses judgement, taking into account the loan to value of the security, credit quality, payments in arrears, financial difficulty of the underlying asset, as applicable, financial difficulty of the borrower and/or guarantor, and general economic and real estate market conditions for reasonable assurance of timely collection of the full amount of principal and interest and to determine whether any future losses are expected to occur in order to recognize a specific loan provision. As at September 30, 2016 and December 31, 2015, the Company has concluded that there is no objective evidence of impairment on any individual loan and mortgage investments.

The Company also assesses collectively for impairment to identify potential future losses by grouping the loan and mortgage investments with similar risk characteristics, to determine whether a collective allowance should be recorded due to loss events for which there is objective evidence but whose effects are not yet evident. Based on the amounts determined by the analysis, the Company used judgment to determine whether or not the actual future losses are expected to be greater or less than the amounts calculated. As at September 30, 2016, the Company has recognized a collective impairment provision of \$590,792 (December 31, 2015 - \$478,066).

The changes in the allowance for mortgage investments loss during the nine months ended September 30, 2016 and year ended December 31, 2015 was as follows:

	Nine months ended		Year ended
	September 30, 2016		December 31, 2015
Balance, beginning of period	\$	478,066	\$ -
Provision for loan and mortgage investment loss		112,726	478,066
Balance, end of period	\$	590,792	\$ 478,066

At September 30, 2016, six loan investments totalling \$16,085,826, including interest receivable on these loans totalling \$1,558,391, to entities controlled by the same borrower are in default, of which \$2,070,713 of loan investment including interest payable have been syndicated for a net receivable of \$14,015,113. As at December 31, 2015, five project loans totaling \$11,931,439, which includes interest received of \$705,037, with \$nil balances in arrears. The weighted average effective interest rate of the loans in default at September 30, 2016 and December 31, 2016 was 22.6% and 23.9%, respectively. The foreclosure has commenced and is proceeding on these loans to enforce the securities and liquidate the loans. Based on the most recent valuations of the underlying assets, the Company has not identified any loans in default for which a loss provision should be made. Subsequent to September 30, 2016, the Company received \$4,789,021, consisting of repayment of two loans in default, including interest receivable of \$645,428 of which \$379,798 was recorded during the quarter and repaid \$1,839,716 to syndicate investors. As of the date hereof, the net amount of loans in default is \$11,133,332.

### JOINT ARRANGEMENTS

#### JOINT OPERATIONS

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

#### Montreal Street JV:

In July 2009, the Company entered into a co-tenancy agreement (the "Montreal Street JV") with a development partner and subsequently developed a retail property in Ottawa, Ontario. The land on which the store was developed is subject to a 20 year land lease, with five renewal options of five years each. The Montreal Street JV is subject to joint control and the Company records its proportionate share of the related assets, liabilities, revenue and expenses of the properties using the proportionate consolidation method. The Company's ownership interest in the Montreal Street JV is 52.5%.

**TERRA FIRMA CAPITAL CORPORATION – MD&A**

**Valermo Homes JV:**

One of the loan and mortgage investments provided the Company with an option to purchase the 50% interest in Valermo Homes JV owned by affiliate of the Company's borrower. On April 15, 2016, the Company exercised its option and acquired the 50% interest in Valermo Homes JV for \$7,000,000. The Company incurred \$624,681 in closing costs.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed, based on their fair values at the date of conversion, as follows:

	Total
Net assets acquired:	
Investment property	\$ 22,275,767
Amounts receivable and prepaid expenses	221,971
Due to joint venture partner	(13,448,799)
Accounts payable and accrued liabilities	(1,424,258)
Value of assets transferred on conversion	\$ 7,624,681
Consideration paid, funded by:	
Loan and mortgage investments	\$ 7,000,000
Amounts receivable and prepaid expenses	624,681
Value of assets transferred on conversion	\$ 7,624,681

The financial information in respect of the Company's investment in jointly controlled operations is as follows:

	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 3,192,794	\$ 4,028
Amounts receivable and prepaid expenses	373,446	11,644
Investment properties	25,540,792	2,143,794
Total assets	29,107,032	2,159,466
Accounts payable and accrued liabilities	3,618,216	41,828
Loan and mortgage syndications	870,389	-
Mortgages payable	1,518,467	1,120,314
Due to joint operations partner	14,883,912	-
Total liabilities	20,890,984	1,162,142
Net assets	\$ 8,216,048	\$ 997,324

The table below details the results of operations for the three and nine months ended September 30, 2016 and 2015, attributable to the Company from its joint operations activities:

	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenue				
Rental	\$ 50,444	\$ 47,362	\$ 149,266	\$ 142,072
Expenses				
Property operating costs	21,186	15,268	54,585	45,790
General and administrative expenses	117,408	760	118,416	875
Interest expense	8,137	11,527	29,950	34,826
	146,731	27,555	202,951	81,491
Net income (loss)	\$ (96,287)	\$ 19,807	\$ (53,685)	\$ 60,581



## TERRA FIRMA CAPITAL CORPORATION – MD&A

### INVESTMENT PROPERTIES

The Company has interests in investment properties that are subject to joint control and, accordingly, the Company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties.

The Company's investment properties consist of income-producing property and land held for development. The fair values of the investment properties are as follows:

	September 30, 2016	December 31, 2015
Income-producing property	\$ 2,143,794	\$ 2,143,794
Land under development	23,396,998	-
<b>Total</b>	<b>\$ 25,540,792</b>	<b>\$ 2,143,794</b>

The following table summarizes the changes in the Company's proportionate share of the investment properties for the nine months ended September 30, 2016 and 2015:

	Amount
Balance, December 31, 2015	\$ 2,062,661
Change in amount receivable from joint venture partner	993
Balance, September 30, 2015	\$ 2,063,654
Change in amount receivable from joint venture partner	(2,360)
Fair value adjustment	82,500
Balance, December 31, 2015	\$ 2,143,794
Acquisition of property	22,275,767
Capital additions	1,121,231
Balance, September 30, 2016	\$ 25,540,792

The Company determined the fair value of investment property in the Montreal Street JV using the direct capitalization method. Under the direct capitalization method, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. The carrying value of the Company's proportionate share of investment property in the Montreal Street JV is \$2,143,794. At September 30, 2016 and December 31, 2015, the fair value was determined by the Company's management. The capitalization rate used in the valuation property was 6.50%. The carrying value of investment property in the Montreal Street JV at September 30, 2016 approximates its fair value.

As at September 30, 2016 and December 31, 2015, a 25-basis-point decrease in the overall capitalization rate would increase the Company's proportionate share of value of investment property in the Montreal Street JV by \$89,600 and a 25-basis-point increase in the overall capitalization rate would decrease the Company's proportionate share of the value of investment property in the Montreal Street JV by \$82,500.

The Company determined the fair value of investment property in the Valermo Homes JV using the sales comparison method. At September 30, 2016, the fair value was determined by the Company's management. The carrying value of the Company's proportionate share of investment property in the Valermo Homes JV is \$23,396,998. The carrying value of investment property in the Montreal Street JV at September 30, 2016 approximates its fair value.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

### PORTFOLIO INVESTMENTS

The Company has invested, through its subsidiary Terra Firma Capital (Hill) Corporation (the "Hill") (78.95% owned by the Company), in a partnership interest in a 94 unit mid-rise condominium development project located in Toronto, Ontario. The Company does not have significant influence in the partnership and is accounting for its investment as a financial asset at fair value through profit and loss. The carrying value of the investment at September 30, 2016 is \$1,174,212 (December 31, 2015 – \$1,174,212) and the investment of the other partner in the Hill of \$210,655 is included in non-controlling interest. At September 30, 2016 and December 31, 2015, the fair values were determined using the direct comparison method. The fair value of the investment at September 30, 2016 and December 31, 2015 was \$1,174,212.

The Company, through TFCC LanQueen Ltd. (the "TFCC LanQueen") entered into a partnership agreement (the "Agreement"), whereby TFCC LanQueen is committed to invest up to \$1,326,400 in redevelopment project located in Toronto, Ontario. The Agreement allows TFCC LanQueen to receive a 3% fee at the time of commitment and an amount by way of a preferred return equal to 10% per annum calculated and compounded monthly on the amount of its investment in the partnership. TFCC LanQueen does not have significant influence in the partnership and is accounting for this investment as a financial asset at fair value through profit or loss. As at September 30, 2016, TFCC LanQueen contributed \$1,324,000 (December 31, 2015 - \$924,000) in the partnership. At September 30, 2016 and December 31, 2015, the fair value was determined by the management, using the direct comparison method. The fair value of investment at September 30, 2016 and December 31, 2015 was \$1,565,343 and \$1,165,343, respectively.

The following table summarizes the changes in the Portfolio Investments for the nine months ended September 30, 2015 and 2016:

	<b>Amount</b>
Balance, December 31, 2014	\$ 1,620,828
Investment made	124,000
Balance, September 30, 2015	\$ 1,744,828
Investment made	200,556
Fair value adjustment	394,170
Balance, December 31, 2015	\$ 2,339,554
Investment made	400,000
Balance, September 30, 2016	\$ 2,739,554

### INVESTMENT IN ASSOCIATES

On February 20, 2015, the Company, together with certain existing syndicate investors, exercised their option to convert the loan and mortgage investment into equity investment in the Lan Project into an equity investment through equity in the Lan Partnership. The subject loan was funded in February 2013 and the conversion was subject to the project achieving a level of presales, zoning and construction financing. As the Lan Project achieved these conditions to the Company's satisfaction, the Company elected to convert. The Company acts as a general partner of the Lan Partnership and is entitled to receive a carried interest of 10% at the end of the Lan Partnership's life. The Company does not earn carried interest until the limited partners in the Lan Partnership have achieved cumulative investment returns on invested capital in excess of a 10% per annum hurdle rate. The Company exerts influence in the Lan Partnership and accounts for this investment using the equity method of accounting.

As at September 30, 2016 and December 31, 2015, the Lan Partnership had \$13,333,333 invested in the Lan Project. At September 30, 2016 and December 31, 2015, the Company's share of investment in the Lan Partnership was \$2,315,414. At September 30, 2016 and December 31, 2015, the fair value of the investment in the Lan Partnership was determined by the management, using the direct comparison method. The fair value of investment at September 30, 2016 and December 31, 2015 approximated the carrying value.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table summarizes the changes to the carrying value of investment in associates for the nine months ended September 30, 2015 and 2016:

	Amount
Balance, December 31, 2014	\$ -
Loan and mortgage investment converted into equity interest in Lan Partnership	14,821,313
Loan syndications converted to equity interest in Lan Partnership	(5,125,000)
Sale of interest in Lan Partnership to investors	(8,845,500)
Contributions to Lan Partnership	1,372,652
Balance, September 30, 2015	\$ 2,223,465
Share of income from Lan Partnership	91,949
Balance, December 31, 2015	\$ 2,315,414
Balance, September 30, 2016	\$ 2,315,414

### FINANCIAL PERFORMANCE

The Company's financial performance for the three and nine months ended September 30, 2016 and 2015 is summarized below:

	Three months ended			Nine months ended		
	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)
Revenue						
Interest and fees earned	\$ 3,568,917	\$ 4,140,615	\$ (571,698)	\$11,317,371	\$12,057,763	\$ (740,392)
Rental income	50,444	47,362	3,082	149,266	142,072	7,194
Total revenue	3,619,361	4,187,977	(568,616)	11,466,637	12,199,835	(733,198)
Expenses						
Property operating costs	21,186	15,268	5,918	54,585	45,790	8,795
General and administrative expenses	906,366	555,709	350,657	2,172,995	1,922,564	250,431
Share based compensation	120,150	345,605	(225,455)	389,354	1,461,333	(1,071,979)
Interest expense	1,981,164	1,375,561	605,603	5,817,139	4,314,631	1,502,508
Provision for loan and mortgage investment loss	-	-	-	112,726	-	112,726
Foreign exchange gain - realized	(65,556)	-	(65,556)	566,059	-	566,059
Foreign exchange loss (gain) - unrealized	(248,051)	(736,870)	488,819	649,976	(988,580)	1,638,556
	2,715,259	1,555,273	1,159,986	9,762,834	6,755,738	3,007,096
Income from operations before income taxes:	904,102	2,632,704	(1,728,602)	1,703,803	5,444,097	(3,740,294)
Income taxes	259,615	768,797	(509,182)	549,051	1,318,074	(769,023)
Net income and comprehensive income	644,487	1,863,907	(1,219,420)	1,154,752	4,126,023	(2,971,271)

Total revenue for the three and nine months ended September 30, 2016 experienced a decrease compared to the same period last year, primarily due to the Company not accruing interest on the loans that are currently in arrears and not recognizing revenue on the loan investment of \$7 million converted into an interest in joint operations. The Company's principal balance of the Loan Portfolio increased from \$82.3 million at September 30, 2015 to \$102.0 million at September 30, 2016.

Income from operations before income taxes for the three months ended September 30, 2016 was \$904,102 compared to \$2,632,704 for the three months ended September 30, 2015, primarily impacted by a reduction in interest income as the Company is not accruing interest on the loans that are currently in arrears and not recognizing revenue on the loan investment of \$7 million converted into interest in joint operations and foreign exchange gains on translation of the Company's U.S dollar-denominated monetary assets and liabilities.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

Net income and comprehensive income for the three months ended September 30, 2016 was \$644,487, compared to \$1,863,907 for the corresponding period in 2015. The lower net income and comprehensive income was primarily a result of reduction in the interest and fees income due to the Company not accruing interest and fees on certain project loans that are in arrears and not recognizing revenue on portfolio investments, investment in associates and interest in joint operations held at Valermo Homes JV and reduced foreign exchange gains on translation of the Company's U.S dollar-denominated monetary assets and liabilities.

### INTEREST AND FEES EARNED

Interest and fees earned for the three months ended September 30, 2016 was \$3.6 million compared to \$4.1 million for the three months ended September 30, 2015 and \$4.0 million for the three months ended June 30, 2016. The decrease in interest and fees earned from the same period last year was primarily due to the Company not accruing interest and fees on the certain loan investments that are in default.

### RENTAL INCOME AND PROPERTY OPERATING COSTS

The Company's proportionate share of the rental income from investment properties in operations jointly controlled by the Company for the three months ended September 30, 2016 was \$50,444 compared to \$47,362 for the same period last year. The Company's proportionate share of the property operating costs in investment properties in operations jointly controlled by the Company for the three months ended September 30, 2016 was \$21,186 compared to \$15,268 for the same period last year. The rental income and property operating costs for the three months ended June 30, 2016 were \$47,378 and \$16,092, respectively.

### INTEREST EXPENSE

Interest expense for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three months ended			Nine months ended		
	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)
Interest on loans and mortgage syndications	\$1,516,716	\$1,024,467	\$ 492,249	\$4,340,764	\$3,355,353	\$ 985,411
Interest on revolving operating facility	233,414	119,115	114,299	784,532	272,066	512,466
Interest on debentures	222,897	220,452	2,445	661,893	652,386	9,507
Montreal Street JV	8,137	11,527	(3,390)	29,950	34,826	(4,876)
	\$1,981,164	\$1,375,561	\$ 605,603	\$5,817,139	\$4,314,631	\$1,502,508

Interest expense for the three months ended September 30, 2016 was \$1,981,164 compared to \$1,375,561 for the same period last year. Interest expense for the three months ended June 30, 2016 was \$2,008,734. The increase in interest expense is attributable primarily to additional loan and mortgage syndications to fund the Loan Portfolio and drawing from the Company's revolving operating facility. See – "Capital Structure and Debt Profile – Loan and Mortgage Syndications and "Revolving Operating Facility".

## TERRA FIRMA CAPITAL CORPORATION – MD&A

### GENERAL AND ADMINISTRATIVE EXPENSES

During the three and nine months ended September 30, 2016 and 2015, the Company incurred the following general and administrative expenses:

	Three months ended,			Nine months ended,		
	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)
Salary and benefits	\$ 374,789	\$ 344,130	\$ 30,659	\$1,064,041	\$1,296,264	\$ (232,223)
Professional fees	145,871	72,553	73,318	459,856	219,592	240,264
Public Company expenses	15,211	9,784	5,427	70,427	47,451	22,976
Directors fees and expenses	14,083	-	14,083	14,083	56,971	(42,888)
Chairman's fees	50,000	25,000	25,000	72,500	75,000	(2,500)
Rent	70,318	23,421	46,897	119,829	70,263	49,566
Other	236,094	80,821	155,273	372,259	157,023	215,236
	\$ 906,366	\$ 555,709	\$ 350,657	\$2,172,995	\$1,922,564	\$ 250,431

General and administrative expenses consist mainly of salaries and other personnel costs, professional fees, occupancy costs and other expenses associated with the operation of the Company. General and administrative expenses for the three months ended September 30, 2016 were \$906,366, compared to \$555,709 for the three months ended September 30, 2015 and \$608,484 for the three months ended June 30, 2016. Other general and administrative expenses consist of employee travel related expenses, office expenses, depreciation and other miscellaneous expenses increased due to growth in operation of the Company. Other general and administrative expenses for the three months ended September 30, 2016 and 2015 include selling and administrative costs incurred by the Valermo Street JV was \$118,260 and \$nil, respectively.

### SHARE BASED COMPENSATION

The share-based payments that have been recognized for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three months ended			Nine months ended		
	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)	Sept 30, 2016	Sept 30, 2015	Change Increase/ (decrease)
Share option Plan	\$ 73,016	\$ 249,905	\$ (176,889)	\$ 368,647	\$ 945,949	\$ (577,302)
DSU Plan	47,134	95,700	(48,566)	20,707	515,384	(494,677)
	\$ 120,150	\$ 345,605	\$ (225,455)	\$ 389,354	\$1,461,333	\$ (1,071,979)

Share-based payments associated with the Company's share option plan (the "Plan") amounted to \$73,016 for the three months ended September 30, 2016, compared to \$249,905 for the three months ended September 30, 2015. The decrease in share-based payments associated with the Plan was primarily due to the granting of lower number of options during the three months ended September 30, 2016. Share-based payments associated with the Plan for the nine months ended September 30, 2016 amounted to \$368,647, compared to \$945,949 for the nine months ended September 30, 2015. The decrease in share-based payments associated with the Plan was primarily due to the granting of 700,000 options in 2016 compared to 980,889 options in May 2015 and 1,649,115 options in November 2014. See "Shareholders Equity – Share-Based Payments"

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

## TERRA FIRMA CAPITAL CORPORATION – MD&A

Share-based payments associated with the DSU Plan for the three months ended September 30, 2016 amounted to \$47,134, compared to \$95,700 for the three months ended September 30, 2015. The reduction in Share-based payments associated with the DSU Plan for the three months ended September 30, 2016 is primarily due to granting of lower number of DSUs and of the decrease in the price of the Company's Shares. (See "Shareholders Equity – Share-Based Payments").

### FOREIGN EXCHANGE LOSS

For the quarter ended September 30, 2016, the Company recognized a foreign exchange gain of \$313,607 compared to a foreign exchange gain of \$736,870 for the comparative period in 2015.

For the nine months ended September 30, 2016, the U.S. dollar weakened by approximately 6% against the Canadian dollar from \$1.384 to \$1.3114. For the three months ended September 31, 2016, the US. Dollar strengthened by approximately 2% against the Canadian dollar from \$1.2917 to \$1.3114. As at September 30, 2016, U.S. dollar denominated net monetary assets were US\$10,848,905, as compared to US\$20,265,161 as at December 31, 2015 and US\$9,395,750 as at September 30, 2015.

## LIQUIDITY AND CAPITAL RESOURCES

### LIQUIDITY

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

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

### CASH FLOWS

The following table details the changes in cash for the three and nine months periods ended September 30, 2016 and 2015:

	Three months ended		Nine months ended	
	Sept 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Cash (used in) provided by operating activities	\$ 856,282	\$ (1,131,703)	\$ (3,016,892)	\$ 1,422,391
Cash provided by (used in) financing activities	(4,420,740)	2,303,386	787,514	9,605,800
Cash (used in) provided by investing activities	6,101,540	(2,309,877)	(1,635,546)	(7,122,210)
Increase (decrease) in cash and cash equivalents	\$ 2,537,082	\$ (1,138,194)	\$ (3,864,924)	\$ 3,905,981
Cash and cash equivalents, beginning of period	5,321,544	6,127,920	11,723,550	1,083,745
Cash and cash equivalents, end of period	\$ 7,858,626	\$ 4,989,726	\$ 7,858,626	\$ 4,989,726

Cash on hand at September 30, 2016 was \$7,858,626 compared to \$11,723,550 at December 31, 2015. Cash on hand at September 30, 2016 includes the Company's share of cash and cash equivalents of \$3,170,218 in the Valermo Street JV.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

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Cash provided by (used in) operating activities for the during the three and nine months ended September 30, 2016 of \$856,282 and (\$3,016,892), respectively and cash (used in) provided by operating activities for the three and nine months ended September 30, 2015 of (\$1,131,703) and \$1,422,391, respectively, are related primarily to the net cash provided by or used in lending operations.

Cash used by financing activities for the three months ended September 30, 2016 of \$4,420,740 related primarily to repayments of the loan and mortgage syndications of \$5,750,896, repayments of unsecured short-term unsecured notes payable of \$2,239,200, repayment of revolving operating facility of \$5,000,000 and repayments of mortgage payable of \$6,359, which aggregate amount was offset, in part by net proceeds from the loan and mortgage syndications of \$6,999,944 and advance from joint operations partner of \$1,575,771. The cash provided by financing activities for the three months ended September 30, 2015 of \$2,303,386 relates primarily to the net proceeds from the Loan Syndications of \$54,728, proceeds from short-term unsecured notes payable of \$4,887,003, proceeds from issuance of Shares pursuant to exercise of broker warrants of \$264,600, which aggregate amount was offset by repayments of the Loan Syndications of \$795,211, repayment of mortgages payable of \$7,734, repayment of short-term unsecured notes payable of \$100,000 and repayment of revolving operating facility of \$2,000,000.

Cash provided by financing activities for the nine months ended September 30, 2016 of \$787,514 related primarily to the net proceeds from the loan and mortgage syndications of \$29,941,856, proceeds from short-term unsecured notes payable of \$200,000, proceeds from mortgage payable of \$417,736, proceeds from issuance of Shares pursuant to share options plan of \$268,500, and advance from joint operations partner of \$2,305,502, which aggregate amount was offset, in part by repayments of the loan and mortgage syndications of \$24,584,797, repayment of short-term unsecured loans payable of \$2,741,700, repayment of revolving operating facility of \$5,000,000 and repayments of mortgage payable of \$19,583. The cash provided by financing activities during the nine months ended September 30, 2015 of \$9,605,800 relates primarily to the net proceeds from the Loan Syndications of \$13,383,428 and net proceeds from issuance of Shares pursuant to the offering of \$13,161,476, proceeds from issuance of Shares pursuant to private placement of \$1,025,000, proceeds from issuance of Shares pursuant to exercise of broker warrants of \$264,600, proceeds from revolving operating facility of \$11,500,000, proceeds from short-term unsecured notes payable of \$5,887,003, which aggregate amount was offset by repayments of the Loan Syndications of \$18,542,747, repayment of mortgages payable of \$22,960, repayment of short-term unsecured notes payable of \$7,550,000 and repayment of revolving operating facility of \$9,500,000.

The cash provided by investing activities during the three months ended September 30, 2016 of \$6,101,510 primarily reflects the repayment of loan and mortgage investments of \$6,909,196, decrease in funds held in trust of \$180,536, which aggregate amount was offset by funding of loans and mortgage investments of \$445,291, funding of interest in joint operations of \$624,681 and capital additions to investment properties of \$542,901. The cash used in investing activities during the three months ended September 30, 2015 of \$2,309,877 primarily reflects the funding of Loan Portfolio of \$16,427,965 and funding of Portfolio Investment of \$64,001, which aggregate amount was offset by repayment received from Loan Portfolio of \$13,551,424, and decrease in funds held in trust of \$885,665.

The cash used in investing activities during the nine months ended September 30, 2016 of \$1,635,546 primarily reflected funding of the Loan Portfolio of \$41,993,912, funding of interest in joint operations of \$624,681, capital additions to investment properties of \$1,121,231, and funding of portfolio investment of \$400,000, which aggregate amount was offset, in part by repayments received from Loan Portfolio of \$29,285,010, repayment of deposits of \$11,747,370 and decrease in funds held in trust of \$1,471,898. The cash used in investing activities during the nine months ended September 30, 2015 of \$7,122,210 primarily reflects the funding of Loan Portfolio of \$42,935,647, funding of interest in associates of \$1,372,652 and funding of portfolio investment of \$124,001, which aggregate amount was offset by repayments received from Loan Portfolio of \$28,149,763 proceeds from sale of interests in associates of \$8,845,500 and decrease in funds held in trust of \$314,827.

## CAPITAL STRUCTURE AND DEBT PROFILE

### CAPITAL STRUCTURE

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

As at September 30, 2016 and December 31, 2015, respectively, the total capital of the Company was as follows:

	September 30, 2016	December 31, 2015
Short-term unsecured notes payable	\$ -	\$ 9,286,000
Revolving operating facility	4,941,899	9,865,144
Loan and mortgage syndications	56,256,821	45,691,948
Due to joint venture partner	14,883,912	-
Mortgages payable	1,518,467	1,120,314
Convertible debentures	10,721,648	10,628,301
Non-controlling interest	254,641	254,641
Shareholders' Equity	48,069,249	46,277,350
<b>Total capital</b>	<b>\$ 136,646,637</b>	<b>\$ 123,123,698</b>

### LOAN AND MORTGAGE SYNDICATIONS

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

Loans and mortgages payable are funded through the following initiatives:

- (i) The syndication of certain Loan investments to private investors each participating in a prescribed manner on an investment by investment basis. In these cases, the investors rank on a pari-passu basis with the Company's share of Loan and Mortgage Investments.
- (ii) Conventional construction or permanent financing secured by the project or investment property. In these cases, the Company is generally in second position to the conventional construction lenders.

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



## TERRA FIRMA CAPITAL CORPORATION – MD&A

Under International Financial Reporting Standards (“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 the legal perspective, syndicated portion of the loan and mortgage investments are owned by syndicate investors. The Company neither has a beneficial ownership in the syndicated assets nor has any obligation with regards to the syndicated loans.

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

The following table presents details of the loan and mortgage syndications as at September 30, 2016 and December 31, 2015:

	September 30, 2016			December 31, 2015		
	Weighted Average Effective Interest Rate	Amount	% of Loans Payable	Weighted Average Effective Interest Rate	Amount	% of Loans Payable
Residential housing developments	11.6%	\$34,675,399	61.7%	10.9%	\$ 37,678,182	82.5%
Land and lot inventory	10.9%	20,781,422	36.9%	8.8%	7,813,766	17.1%
Residential income properties	10.4%	800,000	1.4%	10.4%	200,000	0.4%
	11.3%	\$56,256,821	100.0%	10.5%	\$ 45,691,948	100.0%

At September 30, 2016, the weighted average effective interest rate of Loan Syndications was 11.3%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 11.6%, residential income properties, having a weighted average effective interest rate of 10.4%, and land and lot inventory, having a weighted average effective interest rate of 10.9%.

At December 31, 2015, the weighted average effective interest rate of Loan Syndications was 10.5%, consisting of the syndication of loans pertaining to residential housing developments having a weighted average effective interest rate of 10.9%, residential income properties, having a weighted average effective interest rate of 10.4%, and land and lot inventory, having a weighted average effective interest rate of 8.8%.

At September 30, 2016, the Company’s syndication activities resulted in \$56,256,821 or 55.1% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 22.2%, thereby increasing its overall return by 6.0% from its non-leveraged 16.2% return compared to \$45,691,948 or 47.8% of the Loan Portfolio (by investment amount) being syndicated to investors, yielding a net effective return of 20.7%, thereby increasing its overall return by 4.9% from its non-leveraged 15.8% return, at December 31, 2015. Overall return 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 nine months ended September 30, 2016:

	September 30, 2016
Balance, beginning of period	\$ 45,691,948
Loan and mortgage syndication activity during the period	
Proceeds to participate in new Loan Portfolio	28,341,856
Additional advances to existing Loan Portfolio	1,600,000
Interest capitalized	330,431
Repayments of loan and mortgage syndications	(24,584,797)
Transferred from short-term unsecured loans payable (net)	6,744,300
Unrealized foreign exchange loss	(1,866,917)
Balance, end of period	\$ 56,256,821

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table sets out, as at September 30, 2016, scheduled principal repayments, and amounts maturing on the Loan Syndications to be paid over each of the next five fiscal years, are as follows:

	Scheduled principal payments	Loan and mortgage syndications maturing during the year	Total loan and mortgage syndications
Remainder of year	\$ -	\$ 9,705,000	\$ 9,705,000
2017	-	19,800,990	19,800,990
2018	-	19,815,400	19,815,400
2019	-	-	-
2020	-	4,935,431	4,935,431
Thereafter	-	2,000,000	2,000,000
	\$ -	\$ 56,256,821	\$ 56,256,821

### MORTGAGES PAYABLE

On September 16, 2016, the Montreal Street JV refinanced its mortgage totalling \$2,800,000. The Company's share of the mortgage, net of deferred financing costs is \$ 1,524,826. The original mortgage had an interest rate of 4.07% per annum, with a maturity date of September 16, 2016. The refinanced mortgage bears interest at 3.024% per annum, is amortized over 25 years and matures on September 1, 2021.

The details of the mortgages payable in respect of the Company's proportionate share of the joint operations at September 30, 2016 and December 31, 2015 is as follows.

	September 30, 2016			December 31, 2015		
	Interest Rate	Amount	% of mortgages payable	Interest Rate	Amount	% of mortgages payable
Montreal Street JV	3.0%	\$ 1,518,467	100.0%	4.2%	\$ 1,120,314	100.0%
	3.0%	\$ 1,518,467	100.0%	4.2%	\$ 1,120,314	100.0%

The following table sets out, as at September 30, 2016, scheduled principal and interest repayments and amounts maturing on the mortgages over each of the next five years and thereafter:

	Scheduled principal payments	Mortgages maturing during the year	Total mortgages payable
Remainder of year	\$ 9,208	\$ -	\$ 9,208
2017	39,544	-	39,544
2018	40,831	-	40,831
2019	42,159	-	42,159
2020	43,518	-	43,518
Thereafter	22,293	1,320,914	1,343,207
	\$ 197,553	\$ 1,320,914	\$ 1,518,467

### SHORT-TERM UNSECURED NOTES PAYABLE

During nine months ended September 30, 2016, the Company issued short-term unsecured notes payable to syndicate investors totaling \$250,000, including those investors of the loan and mortgage investments in the amount of \$50,000 who elected to convert their interest into a short-term unsecured note payable.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

During the nine months ended September 30, 2016 holders of short-term unsecured notes payable totaling \$6,794,300 elected to convert their notes into syndication in the loan and mortgage investment. During the nine months ended September 30, 2016, the Company repaid \$2,415,234 of short-term unsecured notes payable, respectively.

On February 20, 2015, the Company issued short-term unsecured notes payable totaling \$6,550,000 to certain syndicate investors who elected to convert their interest the loan and mortgage investments into a short-term unsecured loan payable. These notes carried annual interest in the range of 7%-9%.

The short-term unsecured notes payable notes bear annual interest in the range of 7% - 9%, have term of 6 months from issuance, closed for prepayment through the full term, and are convertible, in whole or in part, into loan and mortgage syndications on the terms and conditions to be agreed by the holders and the Company. At any time prior to the maturity date, the Company may elect to extend these notes by three months. Proceeds from issuance of those notes were used to fund certain loan and mortgage investments and used for general corporate purposes.

The following table summarizes the changes in the short-term unsecured notes payable for the nine months ended September 30, 2015 and 2016:

	Amount
Balance, December 31, 2014	\$ 1,500,000
Proceeds from issuance of short-term unsecured notes payable	5,887,003
Transferred from loan and mortgage syndications	9,300,000
Transferred to loan and mortgage syndications	(1,600,000)
Repayments of short-term unsecured notes payable	(7,450,000)
Balance, September 30, 2015	\$ 7,637,003
Proceeds from issuance of short-term unsecured notes payable	3,868,494
Transferred from loan and mortgage syndications	2,844,753
Transferred to loan and mortgage syndications	(5,220,000)
Unrealized foreign exchange loss	155,750
Balance, December 31, 2015	\$ 9,286,000
Proceeds from issuance of short-term unsecured notes payable	200,000
Transferred from loan and mortgage syndications	50,000
Transferred to loan and mortgage syndications	(6,794,300)
Repayments of short-term unsecured notes payable	(2,741,700)
Balance, September 30, 2016	\$ -

### REVOLVING OPERATING FACILITY

On April 23, 2015, the Company entered into a Revolving Operating Facility Credit Agreement with a lending institution for a \$10 million secured revolving loan facility (the "Facility") with a 24-month term. Interest on advanced funds under the Facility is 9.5% per annum for the first 23 months and 12.0% thereafter. The Facility is subject to a redetermination of a borrowing base, calculated as a percentage of eligible loan and mortgage investments and subject to certain adjustments. As security for its obligations under the Facility, the Company has entered into certain security documents, including a general security agreement, a specific assignment of the Company's current and future participating loan interests in certain real estate investments located throughout Canada and the United States. The Facility allows the Company to fund and warehouse new investments while raising syndicate on and/or co-investment capital.

In connection with the Facility, the Company incurred lender and other third-party costs of \$204,717. The costs associated with the Facility have been deferred and are being amortized over the term of the Facility as interest expense using the effective-interest amortization method.

For the three and nine months ended September 30, 2016, amortization of deferred financing costs reported as interest expense and financing costs totaled \$25,636 and \$76,755 (three and nine months ended September 30, 2015, \$25,449 and \$44,362), respectively.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table presents details of the revolving operating facility as at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Face value	\$ 5,000,000	\$ 10,000,000
Unamortized financing costs	(58,101)	(134,856)
	\$ 4,941,899	\$ 9,865,144

### CONVERTIBLE DEBENTURES

On September 29, 2014, the Company issued by way of private placement, unsecured subordinated convertible debentures (the "Debentures") in the principal amount of \$10,850,000. The Debentures bear interest at an annual rate of 7%, payable quarterly on the last business day of each calendar quarter and mature on September 27, 2017. The Debentures are convertible into Shares of the Company in whole or in part, at the option of the holder at any time up to maturity at a conversion price of \$0.72 per Share. The Company may, at any time prior to the maturity date and upon giving notice, prepay the Debentures in full or in part, by paying the holders thereof the outstanding principal amount plus all accrued and unpaid interest, provided that the market price per Share on the date on which the redemption notice is provided is at least 125% of the conversion price.

The fair value of the liability component of the Debentures was calculated by discounting the stream of future principal and interest payments at the rate of 8.0% which represents the rate of interest prevailing at the date of issue for instruments of similar terms and risks. The debt component was assigned a value of \$10,486,460 (net of transaction costs of \$76,962) and the equity component was assigned a value of \$284,490 (net of transaction costs of \$2,088). The effective interest rate of the Debentures is 8.53%.

Certain directors and officers hold Debentures in an aggregate principal amount of \$1,330,000.

The following table summarizes the changes in the Debentures for the nine months ended September 30, 2016 and 2015:

	Amount
Liability component of debentures, December 31, 2014	\$ 10,514,431
Interest expensed at EIR of 8.53%	652,386
Interest paid	(568,065)
Liability component of debentures, September 30, 2015	\$ 10,598,752
Interest expensed at EIR of 8.53%	220,984
Interest paid	(191,435)
Liability component of debentures, December 31, 2015	10,628,301
Interest expensed at EIR of 8.53%	661,893
Interest paid	(568,546)
Liability component of debentures, September 30, 2016	\$ 10,721,648

### COMMITMENTS AND CONTINGENCIES

Pursuant to certain lending agreements, the Company is committed to fund additional loan advances. The unfunded loan commitments under the existing Loan Portfolio at September 30, 2016 was \$13,712,067 including \$13,712,067 of capitalization of future interest relating to the existing Loan Portfolio. The unfunded loan commitments under the existing Loan Portfolio at December 31, 2015 was \$18,455,110 including \$11,733,451 of capitalization of future interest relating to the existing Loan Portfolio.

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

## TERRA FIRMA CAPITAL CORPORATION – MD&A

The Company has a lease commitment on its head office premises located at 22 St. Clair Avenue East, Toronto, Ontario and its previous head office premises located at 5000 Yonge Street, Toronto, Ontario. The future minimum lease payments, which includes estimated operating costs of the office spaces as at September 30, 2016, are as follows:

	Amount
Remainder of year	\$ 66,999
2017	208,217
2018	221,785
2019	221,785
2020	221,785
	\$ 940,571

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

### SHAREHOLDERS' EQUITY

#### SHARES

The following table summarizes the changes in Shares for the nine months ended September 30, 2016 and 2015:

	Shares	Amount
Outstanding, December 31, 2014	41,582,300	\$16,654,718
Issuance of shares pursuant to the Offering	16,911,900	13,118,652
Issuance of shares pursuant to Private Placement	1,205,883	1,025,000
Issuance of shares pursuant to broker warrants	420,000	264,600
Transferred from contributed surplus upon exercise of broker warrants	-	79,676
Outstanding as at September 30, 2015	60,120,083	\$31,142,646
Issuance of shares pursuant to broker warrants	140,000	88,200
Transferred from contributed surplus upon exercise of broker warrants	-	26,558
Outstanding, December 31, 2015	60,260,083	\$31,257,404
Issuance of shares pursuant to share option plan	895,000	268,500
Transferred from contributed surplus upon exercise of options	-	252,390
Outstanding as at September 30, 2016	61,155,083	\$31,778,294

On March 31, 2016, 895,000 Options to purchase the Company's Shares at \$0.30 per share with an expiry date of January 24, 2016, granted to the Company's executive vice chairman (previous chief executive officer) (the "Executive Vice Chairman") were exercised. The consideration of \$268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

On October 14, 2015, 140,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$88,200.

On July 29, 2015, 420,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The consideration received on the exercise of broker warrants of \$264,600 was recorded as share capital and the related contributed surplus of \$79,676 was transferred to share capital.

On May 5, 2015, the Company completed a bought deal prospectus offering (the "Offering") consisting of 16,911,900 Shares, including fully exercised over-allotment Shares, at a price of \$0.85 per Share, for gross proceeds of \$14,375,115. As part of the Offering, the Company issued 1,014,714 broker warrants as additional compensation. Each broker warrant entitles the holder to purchase one common share at an exercise price of \$0.85 until May 4, 2017. Share issuance costs amounted to \$1,256,463, consisting of cash costs of \$1,213,639 and non-cash costs of \$347,824 relating to the value attributable to broker warrants issued to underwriters, offset by a deferred tax benefit of \$305,000.

Concurrent with the closing of the Offering, the Company also completed a non-brokered private placement of 1,205,883 Shares, at the same price as the Shares issued pursuant to the Offering, for aggregate gross proceeds of \$1,025,000. Certain officers and directors participated in the private placement and the Company issued 811,765 Shares to those officers and directors for gross proceeds of \$690,000.

On October 31, 2016, the Company obtained the approval of the TSX Venture Exchange (the "TSX-V") of the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase through the facilities of the TSX-V (or by other means as may be permitted by the TSX-V), from time to time over the next 12 months, up to an aggregate of 1,907,413 Shares. Purchases may commence through the TSX-V on November 4, 2016 and will conclude on the earlier of (i) November 3, 2017, (ii) the date on which the Company has purchased the maximum number of common shares to be acquired pursuant to the NCIB, or (iii) the Company providing a notice of termination to the TSX-V. Cormark Securities Inc. will be appointed as the broker firm responsible for making purchases of common shares under the NCIB on behalf of the Company, having regard to the rules of the TSX-V.

### SHARE-BASED PAYMENTS

#### (a) Share Option Plan

Pursuant to the Option 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 of directors and in accordance with the Option Plan and the policies of the Exchange. Subject to the policies of the Exchange, the board of directors 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 five years from the date on which it is granted.

Pursuant to the employment agreement between the Company and the Executive Vice Chairman, the Executive Vice Chairman was eligible to receive options equal to 5% of the Shares (the "Option Right") issued outstanding through to December 31, 2015, at the price determined by the Board. The Option Right expired on December 31, 2015.

On June 27, 2016, the Company granted share options to current Chief Executive Officer of the Company to purchase an aggregate of 500,000 Shares at \$0.57 per share, with the expiry date of June 28, 2023. Of the share options, 25% vested immediately upon grant, with an additional 25% vesting each 90-day period thereafter.

On March 31, 2016, the Company granted share options to the Chairman of the Board of the Company to purchase an aggregate of 200,000 Shares at \$0.77 per Share, with the expiry date of March 31, 2023. These share options vested immediately upon grant.

On May 11, 2015, the Company granted share options to officers and employees of the Company to purchase an aggregate of 980,889 Shares at \$0.85 per share. 25% of the share options vested immediately upon grant, with an additional 25% vesting at the end of each 90-day period thereafter.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

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

	Options grant dates		
	June 27, 2016	March 31, 2016	May 11, 2015
Average expected life	7.00 years	7.00 years	5.00 years
Average risk-free interest rate	1.04%	0.89%	0.80%
Average expected volatility	79.94%	81.61%	89.45%
Average dividend yield	0.00%	0.00%	0.00%

The fair value of options granted on June 28, 2016, March 31, 2016 and May 11, 2015 were \$187,007, \$108,853 and \$574,801, respectively.

On March 31, 2016, the Executive Vice Chairman exercised 895,000 options that had been formally granted to purchase the Company's Shares at \$0.30 per Share. The consideration of \$268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

For the three months ended September 30, 2016 and 2015, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$73,016 and \$249,905, respectively. For the nine months ended September 30, 2016 and 2015, the Company recorded share-based compensation expense with an offsetting increase to contributed surplus of \$368,647 and \$945,949, respectively.

The following is the summary of changes in the Company's share options for the nine months ended September 30, 2016 and year ended December 31, 2015:

	September 30, 2016		December 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - beginning of period	5,052,338	\$ 0.61	4,071,449	\$ 0.55
Granted	700,000	0.63	980,889	0.85
Exercised	(895,000)	0.30	-	-
Outstanding - end of period	4,857,338	\$ 0.67	5,052,338	\$ 0.61
Number of options exercisable	4,190,669	\$ 0.67	4,140,447	\$ 0.56

The following summarizes the Company's share options as at September 30, 2016:

Number of options outstanding	Expiry date	Number of options exercisable	Exercise price	Market price at date of grant
138,667	December 19, 2016	138,667	0.50	0.40
585,000	April 16, 2017	585,000	0.50	0.30
138,667	April 17, 2018	138,667	0.30	0.25
100,000	February 23, 2019	100,000	0.50	0.42
565,000	May 20, 2019	565,000	0.50	0.47
599,115	November 28, 2019	599,115	0.68	0.85
1,050,000	November 28, 2019	633,331	0.79	0.85
980,889	May 11, 2020	980,889	0.85	0.85
200,000	March 30, 2023	200,000	0.77	0.77
500,000	June 28, 2023	250,000	0.57	0.52
4,857,338		4,190,669		

(b) Deferred Share Unit Plan

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

The Board determines the amount, timing, and vesting conditions associated with each award of DSUs. Directors are required to contribute a minimum of 50% and may elect to contribute up to 100% of their annual retainer in DSUs and employees may elect to receive up to 25% of their annual bonus in DSUs. DSUs granted pursuant to such an election are fully vested on the date of grant. In addition, when the Directors elect to contribute more than 50% of their fees in DSUs, the Company will grant additional DSUs of up to 50% of the value of the DSUs granted to them on contribution over 50% and when the employees elect to receive their bonus in DSUs, the Company will grant additional DSUs of up to 20% of the value of the DSUs granted to them. On the additional DSUs granted by the Company to the directors, 50% vest in 6 months from the date of grant and 50% of the additional DSUs vest in twelve months from the date of the grant. The additional DSUs granted to the employees, 1/3 vests annually from the date of the grant.

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

The following table presents the changes in DSUs for the nine months ended September 30, 2016 and year ended December 31, 2015:

	Number of DSUs	
	September 30, 2016	December 31, 2015
DSUs outstanding, beginning of period	1,757,001	747,705
Granted	522,743	1,009,296
DSUs outstanding, end of period	2,279,744	1,757,001
Number of DSUs vested	2,173,389	1,525,530

The total cost recognized with respect to DSUs, including the change in fair value of DSUs during the three and nine months ended September 30, 2016 were \$47,134 and \$20,707, respectively and the three and nine months ended September 30, 2015 were \$268,514 and \$419,684, respectively.

The carrying amount of the liability, included in accounts payable and accrued liabilities relating to the DSUs at September 30, 2016 and December 31, 2015 are \$1,195,364 and \$1,174,657, respectively.

(c) Broker warrants

On October 14, 2015, 140,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 6, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$88,200.

On July 29, 2015, 420,000 broker warrants to purchase the Company's Shares at \$0.63 per share with the expiry date of October 16, 2015 granted to underwriters were exercised. The total consideration received on the exercise of broker warrants was \$264,600.

As part of the Offering completed on May 5, 2015, the Company granted 1,014,713 broker warrants to underwriters as partial consideration for their services associated with the Offering. Each broker warrant entitles the holder to acquire one Share of the Company at an exercise price of \$0.85 per Share, with an expiry date of May 5, 2017.



## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following is the summary of changes in broker warrants for nine months ended September 30, 2016 and 2015:

	Number of broker warrants outstanding		Fair value		Exercise price
Outstanding, December 31, 2014	560,000	\$	106,235	\$	0.63
Granted	1,014,713		347,824		0.85
Exercised	(420,000)		(79,676)		0.63
Outstanding, September 30, 2015	1,154,713	\$	374,383	\$	0.82
Exercised	(140,000)		(26,559)		0.63
Outstanding, December 31, 2015	1,014,713	\$	347,824	\$	0.85
Outstanding, September 30, 2016	1,014,713	\$	347,824	\$	0.85

The fair value of broker warrants was estimated as at the grant date using the Black-Scholes option-pricing model with the following assumptions:

	May 5, 2015
Average expected life	2.00 years
Average risk-free interest rate	0.67%
Average expected volatility	73.96%
Average dividend yield	0.00%

### CONTRIBUTED SURPLUS

The following table presents the details of the contributed surplus balances as at December 31, 2015 and September 30, 2016:

	Amount
Balance, December 31, 2014	\$ 1,049,585
Fair value of share-based compensation	945,949
Fair value of broker warrants	347,824
Transferred to share capital - exercise of warrants	(79,676)
Balance, September 30, 2015	2,263,682
Fair value of share-based compensation	123,452
Transferred to share capital - exercise of warrants	(26,559)
Balance, December 31, 2015	2,360,575
Fair value of share-based compensation	368,647
Transferred to share capital - exercise of options	(252,390)
Balance, September 30, 2016	\$ 2,476,832

### RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

At September 30, 2016 and December 31, 2015, the Chairman of the Board of the Company (the "Chairman"), indirectly through a wholly owned subsidiary, owned approximately 10% of the issued and outstanding shares of the Company.

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

#### **LOAN AND MORTGAGE INVESTMENTS**

The Company is committed to fund a loan investment of \$1,500,000 to a company controlled by the Chairman at the interest rate 12% annum. During the nine months ended September 30, 2016, the Company advanced \$1,499,831 and recognized interest and fees revenue of \$70,423 during the same period. At September 30, 2016, the loan remained unpaid.

On June 18, 2015, the Company advanced loan investment of \$3,000,000 to a company controlled by the Chairman at the interest rate of 12% for the first month and 15% thereafter. This transaction was incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. The loan was repaid in full in August 2015.

#### **LOAN AND MORTGAGE SYNDICATIONS, SHORT-TERM UNSECURED LOANS PAYABLE AND CONVERTIBLE DEBENTURES**

Certain of the Company's loan and mortgage investments are syndicated with other investors of the Company, which may include officers or directors of the Company. The Company ranks equally with other members of the syndicate as to payment of principal and interest.

At September 30, 2016 and December 31, 2015, the Loan Portfolio and convertible debentures syndicated by officers and directors were \$1,895,570 and \$1,844,848, respectively. No loans or investments were issued to borrowers controlled by or related to officers or directors of the Company.

#### **OFFICE PREMISES**

The Company sub-leased a portion of the office premises to a company controlled by the Chairman, pursuant to a lease agreement corresponding to the terms of the Company's lease. The costs are divided in accordance with actual use. During the nine months ended September 30, 2016, the Company received \$59,212 for the occupancy and office costs (nine months ended September 30, 2015 - \$nil).

#### **SHAREHOLDERS' EQUITY**

On March 31, 2016, the Executive Vice Chairman exercised 895,000 Options that had been previously granted to purchase the Company's Shares at \$0.30 with an expiry date of January 24, 2016. The consideration of \$268,500, received on exercising the Options was recorded as share capital and the related contributed surplus of \$252,390 was transferred to share capital.

On May 5, 2015, concurrent with the closing of the Offering, the Company issued 811,765 Shares through a non-brokered private placement at a price of \$0.85 per Share to certain officers and Directors of the Company, for gross proceeds of \$690,000.

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

A summary of the significant accounting policies are described in Note 2 to the audited consolidated financial statements for the year ended December 31, 2015.

The Company implemented the amendments to IAS 1, Presentation of Financial Statements, ("IAS 1 Amendments") in the first quarter of 2016, with no significant impact on the Company's unaudited condensed consolidated interim financial statements.

#### **USE OF ESTIMATES**

The preparation of the Company's 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 consolidated financial statements and the reported amounts of income and expenses during the year. Actual results may differ from these estimates.

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

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

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

### FINANCIAL INSTRUMENTS

The Company, as part of its operations, carries a number of financial instruments. The Company's financial instruments consist of cash and cash equivalents, funds held in trust, interest and other receivables, Loan Portfolio, portfolio investment, accounts payable and accrued liabilities, provision for discontinued operations, loans and mortgages payable, short-term unsecured notes payable and the liability component of convertible debentures.

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

The fair value of loans and mortgage investments, Loan Syndications, Due to joint operations partner, mortgages payable, unsecured-notes payable, revolving operating facility and convertible debentures approximate their carrying value as they are short-term in nature. There is no quoted price in an active market for the loans and mortgage investments, Loan Syndications or convertible debentures. The Company makes the determinations of fair value based on its assessment of the current lending market for Loan Portfolio of same or similar terms. As a result, the fair value is based on Level 3 on the fair value hierarchy.

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

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

The fair value of the Company's investment properties, Portfolio Investments and non-controlling interest are determined by using Level 3 inputs at September 30, 2016 and December 31, 2015 and no amounts were transferred between fair value levels during 2016 or 2015.

### OFF BALANCE SHEET ITEMS

As of September 30, 2016 and December 31, 2015, the Company did not have any off-balance sheet (statement of financial position) arrangements.

## RISKS AND UNCERTAINTIES

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

### GENERAL BUSINESS RISKS

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

- i. changes in national or local economic conditions,
- ii. changes in demand for newly constructed residential units,
- iii. the inability of property owners to secure and retain tenants,
- iv. the financial inability of tenants to meet their lease obligations,
- v. changes in interest rates and in the availability, cost and terms of any mortgage or other financing,
- vi. the impact of present or future environmental legislation and compliance with environmental laws,
- vii. changes in real estate assessed values and taxes payable on such values and other operating expenses, or
- viii. civil unrest, acts of God, including earthquakes and other natural disasters and acts of terrorism or war (which may result in uninsured losses).

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

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

### CREDIT RISK

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

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

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

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

## TERRA FIRMA CAPITAL CORPORATION – MD&A

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

At September 30, 2016, six loan investments totalling \$16,085,826, including interest receivable on these loans totalling \$1,558,391, to entities controlled by the same borrower are in arrears, of which \$2,070,713 of loans including interest payable have been syndicated. Certain affiliates of the borrower announced restructuring proceedings under the *Bankruptcy and Insolvency Act (Canada)*. Based on the most recent valuations of the underlying assets, the Company has not identified any loans in arrears for which a loss provision should be made.

Subsequent to September 30, 2016, the Company received \$4,789,021, consisting repayment of two project loans in arrears, including interest receivable of \$645,428 and repaid \$1,839,716 to syndicate investors

### CURRENCY RISK

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

The following table presents the amounts denominated in U.S. dollars as at September 30, 2016 and December, 2015:

	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 1,745,771	\$ 5,654,478
Amounts receivable and prepaid expenses	1,087,729	750,357
Loan and mortgage investments	31,935,130	27,501,479
Accounts payable and accrued liabilities	(909,665)	(378,403)
Unearned income	(65,493)	-
Short-term unsecured notes payable	-	(3,000,000)
Loan and mortgage syndications	(22,944,567)	(10,262,750)
	\$ 10,848,905	\$ 20,265,161

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

### INTEREST RATE RISK

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

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

### LIQUIDITY RISK

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

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

### SUBORDINATED DEBT FINANCING

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

### DEVELOPMENT STRATEGY

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

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

### INVESTMENTS IN JOINT OPERATIONS

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

### DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's CEO and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure. As of the end of the period covered by this MD&A, the Company's CEO and CFO evaluated the Company's disclosure controls and procedures and, based upon that review and evaluation, concluded that those disclosure controls and procedures are effective.

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.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Given the small size of the Company, and, consequently, limited staff levels, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation deficiencies is likely to result in a misstatement to the consolidated financial statements as the Company relies on certain compensating controls, including the detailed monitoring of operations and transactions by the CEO and CFO. No material changes were made in the Company's internal control over financial reporting during the three months ended June 30, 2016.

The Company is not required to certify the design and evaluation of its internal control over financial reporting and has not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and maintain, on a cost effective basis, internal control over financial reporting for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## **FUTURE OUTLOOK**

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

The objective of the Company is to provide attractive returns to shareholders over the long-term, through appreciation in net book value. Management believes that there is currently a significant market opportunity to identify and fund such loans as a result of financing needs not being met by traditional institutional lenders. Management believes there will be significant opportunities for the Company to expand its presence in the market; however, it continues to be prudent in its approach to selection of new investments and pricing. Management expects to be able to generate interest rates similar to those reflected in the current portfolio in 2016.

As of the date hereof, the Company has issued letters of intent totaling over \$40 million to finance various real estate loans that are subject to certain funding conditions to be fulfilled by borrowers. These investments are expected to close in the fourth quarter of 2016. The Company intends to finance these investments through a combination of the Company's own cash resources, its operating credit facility and its syndication platform.

The Company's ability to achieve its objectives is dependent on management's ability to execute on its business strategy as described while also successfully mitigating business risks as discussed in this MD&A.

## TERRA FIRMA CAPITAL CORPORATION – MD&A

### 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, 2015 and 2014 and the unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2016.

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

	As at September 30, 2016		As at December 31, 2015		As at December 31, 2014
Total assets	\$	145,316,788	\$	129,746,068	\$ 73,669,821
Total liabilities	\$	96,992,898	\$	83,214,077	\$ 58,944,840
Shareholders' equity	\$	48,323,890	\$	46,531,991	\$ 14,524,981
Loan and mortgage investments	\$	10,144,861	\$	95,135,201	\$ 55,278,303
Loan and mortgage syndications and Debentures	\$	66,978,469	\$	56,320,249	\$ 53,014,448
Loan and mortgage syndications and Debentures to loan and mortgage investments		66.0%		59.2%	95.9%
	Three months ended,		Years ended,		
	September 30, 2016	September 30, 2015	December 31, 2015	December 31, 2014	December 31, 2013
Total revenue	\$	3,619,361	\$	4,187,977	\$ 19,430,363
Total expenses	\$	2,715,259	\$	1,555,273	\$ 10,908,202
Income from operations before income taxes	\$	904,102	\$	2,632,704	\$ 8,522,161
Net income and comprehensive income attributable to common shareholders	\$	644,487	\$	1,863,907	\$ 4,139,261
Diluted net income and comprehensive income attributable to common shareholders	\$	808,316	\$	2,025,939	\$ 3,795,634
Weighted average number of shares outstanding					
Basic		61,155,083		59,996,822	53,721,933
Diluted		76,513,207		76,212,488	69,987,615
Earnings per share					
Basic	\$	0.01	\$	0.03	\$ 0.11
Diluted	\$	0.01	\$	0.03	\$ 0.10



## TERRA FIRMA CAPITAL CORPORATION – MD&A

The following table sets out the Company's quarterly results of operations for the eight periods ended September 30, 2016:

	Three months ended							
	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014
<b>Revenue</b>								
Interest and fees earned	\$ 3,568,917	\$ 3,527,298	\$ 4,221,156	\$ 5,104,378	\$ 4,140,615	\$ 3,956,736	\$ 3,960,412	\$ 3,458,498
Rental income	50,444	50,444	48,378	47,362	47,362	47,362	47,348	47,319
	3,619,361	3,577,742	4,269,534	5,151,740	4,187,977	4,004,098	4,007,760	3,505,817
<b>Expenses</b>								
Property operating expenses	21,186	17,307	16,092	15,269	15,268	15,268	15,254	15,225
General and administrative expenses	906,366	608,484	658,145	1,303,935	555,709	568,831	798,024	694,218
Share based compensation	120,150	58,818	210,386	321,389	345,605	724,689	391,039	256,463
Interest and financing costs	1,981,164	2,008,734	1,827,241	1,613,844	1,375,561	1,436,038	1,503,032	1,603,801
Provision for loan and mortgage investment loss	-	-	112,726	478,066	-	-	-	-
Realized foreign exchange loss (gain )	(65,556)	673,249	(41,634)	7,391	-	-	-	-
Unrealized foreign exchange loss (gain)	(248,051)	(373,569)	1,271,596	(1,097,599)	(736,870)	(251,710)	-	-
Gain on conversion of interest in joint operation	-	-	-	-	-	-	-	-
Fair value adjustment - investment properties	-	-	-	(82,500)	-	-	-	(147,950)
Fair value adjustment - portfolio investments	-	-	-	(394,170)	-	-	-	(66,755)
Share of income from investment in associates	-	-	-	(91,949)	-	-	-	-
	2,715,259	2,993,023	4,054,552	2,073,676	1,555,273	2,493,116	2,707,349	2,355,002
Income before income taxes	904,102	584,719	214,982	3,078,064	2,632,704	1,510,982	1,300,411	1,150,815
Income tax provision	259,615	189,278	100,158	1,138,177	768,797	194,304	354,973	231,068
<b>Net income and comprehensive income</b>	<b>644,487</b>	<b>395,441</b>	<b>114,824</b>	<b>1,939,887</b>	<b>1,863,907</b>	<b>1,316,678</b>	<b>945,438</b>	<b>919,747</b>
<b>Net income and comprehensive income attributable to:</b>								
Common shareholders	644,487	395,441	114,824	1,895,901	1,863,907	1,316,678	945,438	909,092
Non-controlling interest	-	-	-	43,986	-	-	-	10,655
	\$ 644,487	\$ 395,441	\$ 114,824	\$ 1,939,887	\$ 1,863,907	\$ 1,316,678	\$ 945,438	\$ 919,747
<b>Diluted net income attributable to common shareholders</b>								
	808,316	556,973	275,954	2,058,325	2,025,939	1,476,504	1,103,083	1,069,116
<b>Weighted average number of shares outstanding</b>								
- basic	61,155,083	61,155,083	60,260,083	60,237,257	59,996,822	52,930,801	41,582,300	39,444,563
- diluted	76,513,207	76,656,258	76,386,025	76,522,023	76,212,488	69,929,304	57,724,943	55,670,610
<b>Earnings per share</b>								
Basic	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.02

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

Dated: November 11, 2016  
Toronto, Ontario, Canada