MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2021

FRONTENAC MORTGAGE INVESTMENT CORPORATION
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BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar. This Management Discussion & Analysis ("MD&A") is prepared in accordance with National Instrument 51-102 "Continuous Disclosure".

This Management Discussion & Analysis ("MD&A") is dated January 28, 2022 and should be read in conjunction with the audited financial statements and the notes thereto for the years ended December 31, 2021 and 2020.

OUR BUSINESS

Frontenac Mortgage Investment Corporation (the "Corporation") is a non-bank lender that operates as a mortgage investment corporation as defined under the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity while providing shareholders with a stable stream of dividends from the Corporation's investments.

The Corporation achieves its investment objective predominantly by lending on the security of short-term residential first mortgages in the province of Ontario. The mortgage loans transacted by the Corporation will not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, the Corporation's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

W.A. Robinson Asset Management Ltd. (the "Manager") manages the Corporation's investment portfolio and manages the distribution of the Corporation's shares. Pillar Financial Services Inc. (the "Administrator") serves as the Corporation's loan originator, underwriter, and servicer.

As a mortgage investment corporation, the Corporation does not pay corporate income taxes on any earnings that are distributed out to its shareholders provided that it continues to meet the requirements of subsection 130.1(6) of the Income Tax Act (Canada). Dividends received by shareholders are generally treated as interest income for personal income tax purposes.

HIGHLIGHTS

Frontenac Mortgage Investment Corporation continues to meet its primary objective of offering its shareholders capital preservation while providing a stable stream of monthly dividend income. The carrying value per share remained stable at $30 at December 31, 2021 with an annualized dividend yield, assuming dividends are re-invested under the Corporation's dividend re-investment plan, of 5.53% for the year.

As at December 31, 2021, the Corporation's assets totaled $203.5 million including a mortgage investment portfolio totaling $183.3 million with shareholder's equity of $202.7 million. Total assets and mortgage investments increased from December 31, 2020, when the Corporation's assets totaled $172.3 million including a mortgage investment portfolio of $160.8 million while shareholders' equity increased from $171.6 million as at December 31, 2020.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in significant economic uncertainty. As at the date of this MD&A, the performance of the Corporation has not been materially impacted; however, the Corporation continues to monitor the potential impact COVID-19 could have on its business activities including potential changes related to default rates from borrowers, demand for borrowing or the value of the underlying security of the mortgage portfolio. Further discussion of the potential impacts on the Corporation of this continuing outbreak is included in this MD&A under Results of Operations.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation's mortgage investment portfolio totaled $183,318,440 as at December 31, 2021 as compared to $160,810,418 as at December 31, 2020.

Breakdown of the mortgage investment portfolio by type as at December 31 2021 and December 31, 2020:

	Dec 31, 2021			**Dec 31, 2020**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Residential	181	50,573	27.6%	230	51,751	32.2%
Residential construction	187	84,483	46.1%	132	51,765	32.2%
Residential developments	6	31,409	17.1%	10	41,886	26.0%
Commercial	8	1,654	0.9%	10	3,863	2.4%
Vacant land	52	15,199	8.3%	47	11,545	7.2%
Total	434	183,318	100.0%	429	160,810	100.0%

Residential construction comprises construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

Over the past few months, there has been an increase in the percentage of the mortgage portfolio represented by residential construction mortgages. This increase is a result of management's decision to allocate a smaller percentage of the mortgage portfolio in the short-term for residential refinancing loans given the uncertainty over the potential short-term economic impacts on that class of borrower in as a result of the ongoing COVID pandemic. At the same time, the COVID pandemic has created an increase in demand for new home construction loans in the Corporation's rural market areas. As discussed further in the Results of Operations section below, all components of the mortgage portfolio have performed well

and management expects that allocations of the portfolio between residential and residential construction loans will return to pre-COVID levels over the next year.

The Corporation has strategically decided for the long term that the percentage of the portfolio dedicated to residential developments will be reduced over the next few years to instead focus on its rural residential and residential construction core business. As at December 31, 2021, five of the six loans reported in the residential developments category relate to two separate and unrelated development projects. As at December 31, 2020, nine of the ten loans reported in the residential developments category relate to three separate and unrelated development projects. During 2021, the loans related to one project were paid out. This project had been considered impaired and was sold under power-of-sale. The outstanding balances including principal and accrued interest for each of these development projects individually represent approximately 8% of the shareholders' equity of the Corporation at each of December 31, 2021 and 2020.

Breakdown of the mortgage investment portfolio by location as at December 31, 2021 and December 31, 2020:

	Dec 31, 2021			**Dec 31, 2020**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Ontario – East	271	109,161	59.5%	304	107,487	66.8%
Ontario – Southwest	44	34,156	18.6%	36	26,711	16.6%
Ontario – Central	45	24,210	13.2%	37	16,472	10.2%
Ontario – North	73	15,761	8.5%	51	10,109	6.3%
Quebec	1	30	0.1%	1	31	0.1%
Total	434	183,318	100.0%	429	160,810	100.0%
Loans on Ontario rural property	289	113,935	62.2%	279	105,593	65.7%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. Rural properties comprise postal codes designated as rural general delivery.

The Corporation's mortgage portfolio has been historically centered on the Ontario – East market, which aside from the Ottawa and Kingston markets is primarily a rural and small-town market area. As the Corporation's assets grow, management is targeting to diversify the mortgage loan portfolio to include a greater allocation to the rural areas of Ontario – Southwest to further mitigate any geographic concentration risk in the mortgage portfolio. As at December 31, 2021 and December 31, 2020, only one of the Ontario – Central allocations was for a property located in the Toronto market (postal code M).

Breakdown of the mortgage investment portfolio by interest rate as at December 31, 2021 and December 31, 2020:

	Dec 31, 2021			**Dec 31, 2020**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
5%	1	618	0.3%	2	1,057	0.6%
6%	1	7,528	4.1%	1	7,529	4.7%
7%				3	1,080	0.7%
8%	13	8,964	4.9%	17	16,886	10.5%
9%	83	28,447	15.5%	85	26,594	16.5%
10%	301	114,093	62.3%	267	81,938	51.0%
11%	23	5,147	2.8%	37	23,877	14.8%
12%	11	18,321	10.0%	13	1,259	0.8%
13%	1	200	0.1%	4	590	0.4%
Total	434	183,318	100.0%	429	160,810	100.0%

Substantially all of the mortgage loans are issued with either 1 or 2 year terms, have fixed interest rates and can be repaid in full before maturity without penalty. The weighted average interest rate of the mortgage loans as at December 31, 2021 was 9.78%, up from 9.54% as at December 31, 2020.

Breakdown of the mortgage investment portfolio by maturity date:

	Dec 31, 2021			**Dec 31, 2020**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Within one year	414	176,419	96.2%	403	159,835	97.2%
Within following year	19	6,885	3.7%	26	4,623	2.8%
Thereafter	1	14	0.1%			
Total	434	183,318	100.0%	429	164,458	100.0%

The amounts shown in the table represent principal repayments based on contractual maturity dates at their gross amounts before any provisions for impairment losses. The new mortgage loans are offered under terms of one to two years with the vast majority of loans offered under a one year term. The Corporation targets borrowers that do not meet the underwriting criteria of the major banks and that require short-term financing in order to do so. The Corporation benefits from this short-term financing strategy as it allows the mortgage portfolio of the Corporation to be repriced frequently to current market interest rates, allows loan-to-value figures to be reset to current real estate market prices, and mitigates duration risk with borrowers.

Other key metrics related to the mortgage investment portfolio as at December 31, 2021 and December 31, 2020:

	Dec 31, 2021			Dec 31, 2020		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
First mortgage loans	432	183,180	99.9%	427	160,667	99.9%
Average gross loan balance		424			383	

Mortgage impairments and provision for impairment losses:

As at December 31, 2021, there were 5 mortgages totaling $2,672,805 (December 31, 2020 – 9 mortgages totaling $17,060,636) which were considered by management to be impaired with a total provision for impairment losses of $528,130 and $3,202,839 against those loans as at December 31, 2021 and December 31, 2020 respectively.

The breakdown of the impaired loans and related provision for impairment losses by mortgage type is as follows:

(All figures $000's)	Dec 31, 2021			Dec 31, 2020		
	Gross loan amount (1)	**Allowance for impairment losses**	**Net carrying amount**	**Gross loan amount (1)**	**Allowance for impairment losses**	**Net carrying amount**
Residential	2,478	360	2,118	3,012	453	2,559
Residential construction				149	-	149
Residential developments		120	(120)	13,714	2,750	10,964
Commercial				-	-	-
Vacant land	195	48	147	186	-	186
Total	2,673	528	2,145	17,061	3,203	13,858

(1) Gross amount shown at amortized cost

Based on its risk profile of the mortgage loan borrowers for its niche in the mortgage marketplace, the Corporation expects that and would consider normal that, on average in any given year, 5% of the Corporation's mortgage portfolio would be considered impaired. A definition of impairment is included in the section "Critical Accounting Estimates and Policies – (i) Mortgage Investments" of this MD&A. On those impaired loans, the Corporation would project losses of capital of 0.50% of shareholders' equity or $0.15 per share based on the Corporation's historical carrying value per share of $30. Once a mortgage is considered impaired, the Corporation ceases to accrue additional interest revenue on that mortgage which in turn reduces total revenue per share. For the 2021 year, the Corporation averaged 5.6% of its shareholders' equity as impaired mortgages and recognized a net of prior mortgage provisions and realized losses of $0.04 per share. For 2020, the Corporation averaged 10.88% of its shareholders' equity as impaired mortgages and incurred mortgage provisions and realized losses of $0.18 per share.

Loans considered impaired under Stage 3 as at December 31, 2020 include a group of mortgages totaling $13,713,369 related to a single development project. As at December 31, 2020, the Corporation had recognized provisions for losses totaling $2,750,000 in Stage 3 related to these loans which represent

management's comparison of the discounted expected net proceeds from the sale of the underlying real estate security against the loan amounts outstanding. During 2021, in October 2021, the remaining real estate related to this loan was sold and closed for cash under power-of-sale.

As at December 31, 2021, the the mortgage portfolio was performing within normal expectations as there were 5 impaired mortgages totaling $2,672,805 (1.31% of shareholders' equity) and the largest impaired mortgage was $2,017,170. If the single large group of impaired development loans is excluded as at December 31, 2020, there were 8 impaired mortgages totaling $3,347,267 (1.95% of shareholders' equity) and the largest impaired mortgage was $1,622,014.

The COVID pandemic has resulted in significantly stronger demand for housing away from the Toronto and other large urban markets into rural areas and smaller centres. Since the Fall 2020, many of the housing markets within the Corporation's traditional lending areas have been experiencing record volumes of home sales and year-over-year increases in home prices of 20%-30%. This increase demand has had a positive impact on the Corporation's ability to dispose of the properties securing impaired loans in its mortgage portfolio. Properties have been selling much more quickly and for much higher proceeds resulting in significantly lower loss provisions on the Corporation's Stage 3 loans.

RESULTS OF OPERATIONS

Financial Summary

(all figures presented are for year ended December 31)

	2021 **$**	**2020** **$**	**2019** **$**
Interest income	15,671,183	15,086,513	15,810,099
Management & administration fees	4,133,054	3,880,095	4,117,383
Interest on credit line	795	87,574	124,846
Provision for mortgage impairment losses	249,018	1,071,835	1,292,201
Other operating expenses	886,073	910,690	618,686
Total operating expenses	5,268,940	5,950,194	6,153,116
Net income and comprehensive income	10,402,243	9,136,319	9,656,983
Total mortgage investments – at Dec 31	183,318,440	160,810,418	173,315,185
Total assets – at Dec 31	203,550,532	172,300,744	186,286,656
Total shareholders' equity – at Dec 31	202,718,405	171,641,472	174,530,552
Per share data:			
Revenue	2.44	2.51	2.46
Earnings – basic & fully diluted	1.62	1.52	1.50
Dividends per common share	1.62	1.52	1.50
Carrying value per common share – at Dec 31	30.00	30.00	30.00

Results of Operations – Year Ended December 31, 2021

Net income and comprehensive income for the Corporation for the year ended December 31, 2021 increased on a gross basis to $10,402,243 from $9,136,319 for the year ended December 31, 2020 while, on a per share basis, net earnings increased to $1.618 from $1.52 per common share.

Revenues for the Corporation for the year ended December 31, 2021 increased slightly on a gross basis to $15,671,183 from $15,086,513 for the year ended December 31, 2020 while, on a per share basis, revenues decreased to $2.44 from $2.51 per common share. The decrease in revenue per share is a reflection of the Corporation carrying higher average cash balances as compared to the same period in 2020. Cash balances earn little to no return.

Total operating expenses, excluding provision for impairment losses, for the year ended December 31, 2021 increased on a gross basis to $5,019,922 from $4,878,359 for the year ended December 31, 2020 while, on a per share basis, these expenses decreased to $0.781 from $0.812 per common share.

A detailed discussion of impairments and impairment losses in 2021 is presented in the Mortgage Impairments section of the “Mortgage Investment Portfolio” section of this MD&A.

Summary of Quarterly Results - (Unaudited)

(All figures in thousands except per share figures. Q1 is three months ended March 31; Q2 is three months ended June 30; Q3 is three months ended September 30; Q4 is three months ended December 31)

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
			$	$	$	$	$	$
Interest income	4,396	3,870	3,729	3,676	3,778	3,893	3,567	3,848
Management & admin fees	1,094	1,084	1,023	932	974	992	949	965
Interest on credit line			-	1	6	5	3	73
Provision for impairment losses	217	66	(63)	28	348	325	118	281
Other operating expenses	224	180	280	204	160	263	248	240
Total operating expenses	1,535	1,330	1,240	1,165	1,488	1,585	1,318	1,559
Net income and comprehensive income	2,861	2,540	2,489	2,511	2,290	2,308	2,249	2,289
Earnings per share – basic and fully diluted	0.418	0.378	0.394	0.428	0.379	0.378	0.376	0.387

Management and administration fees fluctuate as total assets of the Corporation fluctuate as they are determined based on a fixed percentage of total assets of the Corporation with 1% per annum paid by the Manager and 1% per annum paid to the Administrator calculated and paid on a monthly basis. The Corporation does not use leverage but does maintain a line of credit as a reserve to meet redemption requests and to allow the Corporation to smooth out its cash inflows and outflows related to mortgage advances and repayments. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line. Other operating expenses comprise legal, audit, directors fees and expenses, and other operating costs of the Corporation and may fluctuate based on the timing of these expenses throughout the year.

The loan loss provisioning in each of Q1 2021, Q2 2021 and Q3 2021 was significantly lower than prior quarters. As a result of the COVID-19 pandemic, demand for housing in the Corporation's traditional rural and small centre lending areas significantly increased. This increase in demand allowed the Corporation to dispose of properties securing impaired mortgage loans both more quickly and for higher values resulting in much lower loss provisions for the affected quarters.

Results of Operations – Three Months Ended December 31, 2021

Net income and comprehensive income for the Corporation for the three months ended December 31, 2021 increased on a gross basis to $2,861,054 from $2,290,242 for the three months ended December 31, 2020 while, on a per share basis, net earnings increased to $0.418 from $0.379 per common share.

Revenues for the Corporation for the three months ended December 31, 2021 increased on a gross basis to $4,395,662 as compared to $3,777,951 for the three months ended December 31, 2020 while, on a per share basis, revenues increased to $0.642 from $0.625 per common share. The quarter-over-quarter increase in both the gross amount of interest revenue and the revenue per share is attributable to a slightly higher average gross yield on the mortgages combined with a much lower level of impaired mortgages in 2021 as compared to 2020. The Corporation does not accrue interest on mortgages that are considered impaired.

Total operating expenses, excluding provision for impairment losses, for the three months ended December 31, 2021 increased on a gross basis to $1,317,158 from $1,140,153 for the three months ended December 31, 2020 while, on a per share basis, these expenses decreased slightly to $0.192 from $0.188 per common share.

Impact and Potential Impact of COVID-19 Outbreak

The coronavirus disease 2019 (“**COVID-19**”) outbreak, ongoing as of the date of this MD&A, was declared a pandemic by the World Health Organization in March, 2020. Steps taken over the course of 2020 by governments around the world, including in Frontenac’s primary lending market in the Province of Ontario, to contain the spread of the COVID-19 virus included legislated closures of non-essential businesses and services and social distancing measures slowing economic activity and resulting in layoffs and lost jobs as businesses struggle with the economic effects. What follows is a commentary on how the Corporation has fared during the pandemic and the potential impact of a continuance of the current economic conditions under COVID-19 on the Corporation’s future performance.

Beginning in late March 2020, the Corporation began operating under its business continuity plan with most management and staff of the Corporation, and of the Manager and the Administrator, working remotely pursuant to social distancing guidelines. Despite working remotely, the Manager and Administrator have been able to execute their respective functions effectively under the business continuity plan.

As at December 31, 2021, of the 434 active mortgages in it portfolio, the Corporation had one active deferral arrangement with borrowers and no late but not impaired mortgages as a result of COVID-19 effects. For the year ended December 31, 2021, there have been 11 mortgage deferral arrangements and two impaired mortgages as a result of COVID-19. Over the course of 2020, mortgage deferrals peaked at a maximum of 12 active deferral arrangements, of which, only one impaired mortgage resulted from COVID-19 economic effects. Deferral arrangements are made on a month-to-month basis. Any deferral arrangements offered by the Corporation are not interest-free and therefore do not have a negative impact on interest revenues of the Corporation.

The majority of Frontenac’s loans relate to owner-occupied principal residences and, in down economic times, cash outflows related to personal housing are among the last to be cut by people. Essentially, impairment or default is several steps down the road for most borrowers only after they have exhausted

cash reserves, cut down on other expenses, worked with government assistance, and worked on potential deferral arrangements. In response to the COVID impacts on the general economy, there have been unprecedented government financial supports introduced and maintained throughout 2020 and 2021 that have helped borrowers in staying current with their mortgage obligations. The Canada Emergency Response Benefit (CERB) that was introduced by the Government of Canada in early 2020 to assist those adversely affected economically by COVID ended in September 2020, but was replaced by the commencement of enhanced Employment Insurance (EI) benefits for people who were still unemployed and other special support programs for those otherwise affected by COVID-19. These government programs extended into 2021.

The expectations for any significant change or increase in the Corporation's impairments over the next four to six months remains uncertain. Government financial supports are expected to continue as necessary. Multiple vaccines have now been approved and vaccinations are proceeding with approximately 90% of Ontarians having received one dose of vaccine and over 85% having received two doses. The Canada-US land border has been reopened for non-essential travel. The economy as a whole has rebounded from the lows experienced during the initial shutdowns in the first half of 2020, but some of this progress toward a return to normal has been offset by the recent emergence of the Omicron variant of COVID-19 with governments responding to the resulting resurgence in COVID cases with renewed restrictions and partial economic lockdowns. There remains the potential for the emergence of further COVID-19 variants and the potential for subsequent waves of new infections that further delay a return to normalcy. If the Corporation experiences an increase in impairments, such an increase would translate into lower earnings due to the unlikely collectability of further interest on those loans.

The potential for increase in capital losses on impaired loans requires a decline in home values below the carrying value of the related loans. Frontenac's underwriting policies of focusing on first mortgage loans (99.9% firsts) to a maximum loan-to-value at origination of 80% or less provides some room for a decline in home values. There has not been a decline in home values in the Corporation's lending area. An increase in consumer demand for rural properties has led to a significant increase in home prices of up to 20% year-over-year in the Corporation's lending areas. Based on these market conditions, the Corporation does not anticipate that the effects of COVID-19 will lead to any unusual capital losses on the Corporation's impaired loans in the near term.

The impact of COVID-19 on the future performance of the Corporation continues to depend largely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty as at the date of this MD&A as to how long the pandemic will last and when people and businesses will be able to fully return to normalcy.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the Corporation's continuous offering prospectus, Frontenac issues common shares on up to a monthly basis. Up to November 30, 2021, shareholders have had the option to redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. After November 30, 2021, shareholders have the option to redeem shares on a quarterly basis. As at December 31, 2021, there were 6,757,281 common shares issued and outstanding with a total book value of $202,609,406.

Growth in the mortgage portfolio is financed by the issuance of common shares. We expect to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only.

The Corporation has not historically, and does not intend in the future, to supplement this funding using leverage.

The Corporation is a public issuer under Canadian securities law and, in May 2020, completed a transition from regulatory oversight as an investment fund to regulatory oversight as a corporate finance issuer. This change did not have any material impact how the Corporation raises new capital through the issuance of new common shares nor its ability to do so.

The Corporation has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity of the Corporation subject to a maximum dollar limit. In December 2021, the maximum dollar limit of the revolving line of credit was increased to $40 million from $29.0 million. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Corporation to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2021 and December 31, 2020, the Corporation was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward.

The line of credit is used to smooth out the cash flows of the Corporation and as a reserve for unexpected share redemptions and is not used to extend the Corporation's investment capacity beyond its available equity. As at December 31, 2021, the Corporation was using $nil (December 31, 2020 - $nil) of its available credit line. The maximum borrowings at any time during 2021 year was $860,000 (2020 year - $11,690,000).

CHANGES IN FINANCIAL POSITION

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of its continuous offering prospectus, the Corporation issues common shares on a monthly basis. The following table presents a summary of outstanding share data and transactions for years ended December 31, 2021 and December 31, 2020:

	Year ended December 31, 2021		**Year ended December 31, 2020**	
Common shares:	#	$	#	$
Balance – beginning of period	5,721,384	171,532,472	5,817,686	174,421,552
Issued for cash	1,279,533	38,386,002	441,568	13,247,035
Issued under dividend re-investment plan	130,239	3,907,184	143,821	4,314,616
Redeemed	(373,875)	(11,216,252)	(681,691)	(20,450,731)
Balance – end of period	6,757,281	202,609,406	5,721,384	171,532,472

Under the Corporation's dividend policy and dividend re-investment plan, unless a shareholder elects to receive their dividends in cash, monthly dividends are automatically re-invested into additional shares of the Corporation at the then prevailing carrying value per share.

Under the terms of the Corporation's prospectus, up to November 30, 2021, shareholders have had the ability to redeem shares in the Corporation only once per year, on November 30, except in certain exceptional circumstances. After November 30, 2021, shareholders will have the opportunity to redeem shares on a quarterly basis, with the first quarterly redemption date being February 28, 2022. 96% of the redemptions for 2021 occurred in November of that year (2020 – 90%).

CONTRACTUAL OBLIGATIONS

Contractual obligations due at December 31, 2021 are all due within one year and are as follows:

	$
Dividends payable	589,094
Accounts payable and accrued liabilities	159,256
	748,350

As at December 31, 2021, the Corporation has commitments to advance additional funds of $64,555,000 under existing mortgages (Dec 31, 2020 - $30,477,000). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are in the normal course of business.

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson Asset Management Ltd. ("W.A.") is the manager for the Corporation. These companies are related parties in that they share common management. The Corporation signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. These contracts were renewed for further five-year periods in 2013 and 2018.

Administration and management fees paid under these agreements totaled $1,094,044 for the three months ended December 31, 2021 (three months ended December 31, 2020 - $974,079) including applicable sales taxes. Administration and management fees paid under these agreements totaled $4,133,054 for the year ended December 31, 2021 (year ended December 31, 2020 - $3,880,095) including applicable sales taxes. The increase in the dollar value of the administration and management fees in each of the three month and year periods from 2020 reflects a year-over-year increase in the average total assets of the Corporation.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in accordance with IFRS requires management to make assumptions and estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

In making estimates and judgements, management relies on external information and observable conditions where possible supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events, or certainties that are believed to materially affect the methodology or assumptions utilized in making those estimates in these financial statements. Actual amounts could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

(i) Mortgage investments:

The Corporation is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Corporation considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Corporation considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

The quantitative aspect of the expected credit loss begins with the use of an Autoregressive Distributed Lag (ARDL) model. The ARDL model indicates that expected credit losses are largely explained by borrower specific information such as credit score, debt servicing ratios, borrower equity and age and are not a function of statistics or forecasts of national economic performance. As a result, the firm incorporates borrower specific information to estimate the probability of default over the life of the mortgage to estimate expected credit losses. In instances where qualitative information about a mortgage indicates that the borrower may have experienced an increase in credit risk, the firm incorporates the new information and re-estimates the probability of default. This new estimate is then used to evaluate the probability of default between the occurrence of the increased credit risk and the end of the mortgage term. In all cases, the probability of default is used as a weighting factor in determining expected credit losses on each individual mortgage within the portfolio.

IFRS 9 uses an expected credit loss (“ECL”) model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Corporation is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Corporation is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Corporation's Finance and Risk management groups.

Upon initial recognition of financial assets, the Corporation recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Corporation then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Corporation's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modelling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

As at December 31, 2021, no adjustments were determined to be necessary to its ECL modelling to account for potential impacts arising from the COVID-19 pandemic. As at December 31, 2021, the Corporation had one active deferral arrangement with borrowers on account of COVID-19, which is included with the Stage 1 loans in the ECL model as it is less than 30 days late at the end of the period. The impact of COVID-19 on the ECL model of the Corporation will depend entirely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. Further commentary on the impact of COVID-19 is provided in Note 2 of the financial statements and under the Operating Results section of this MD&A.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Corporation, such as significant financial difficulty of the borrower. The Corporation defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Corporation believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Corporation defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Corporation derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Corporation determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(ii) Fair value measurements:

In accordance with IFRS, the Corporation must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);
Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

The Corporation's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 12 of the financial statements, management makes its determination of fair value of mortgages by discounting future cash flows at the Corporation's prevailing rate of return on new mortgages of similar type, term, and credit risk.

These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, measurements of fair value are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimates could vary.

FINANCIAL INSTRUMENTS

The Corporation's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Corporation's mortgage investments and the Corporation's management of those risks are discussed in note 8 of the financial statements.

The Corporation's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Corporation's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

The Corporation classifies its financial assets as one of the following: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL or financial liabilities at amortized cost. The Corporation has designated its financial assets and financial liabilities as follows:

(i) Financial assets:
Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as measured at amortized cost.
(ii) Financial liabilities:
Bank line of credit, dividends payable, and accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The tables in note 12 of the financial statements present the fair values of the Corporation’s financial instruments as at December 31, 2021 and December 31, 2020.

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies are described in note 4 of the Corporation’s financial statements.

At the date of authorization of this MD&A, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB"). Information on those expected to be relevant to the Corporation's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations, and amendments not either adopted or listed below did not have a material impact on the Corporation's financial statements.

IAS 1 - Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, to come into effect January 1, 2022. The amendment is to provide clarification on the classification of liabilities as current or non-current. On July 15, 2020, the effective date of these amendments was deferred by one year to January 1, 2023, with early adoption permitted. The Corporation will adopt the amendments in its financial statements for the annual period beginning January 1, 2023. The Corporation does not expect the amendments to have a material impact on its financial statements.

IAS 1 - Presentation of Financial Statements

In February 2021, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, to come into effect on January 1, 2023. The amendment is to provide clarification to financial statement preparers on which accounting policies to disclose in the financial statements. The Corporation will adopt the amendments in its financial statements for the annual period beginning January 1, 2023. Based on a preliminary assessment, the Corporation does not expect the amendments to have a material impact on its financial statements.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued an amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, to come into effect January 1, 2023. The amendment is to help entities to distinguish between accounting policies and accounting estimates. The Corporation will adopt the amendments in its financial statements for the annual period beginning January 1, 2023. The Corporation is currently assessing the impact of this amendment on its financial statements. Based on a preliminary assessment, the Corporation does not expect this amendment to have a significant impact on its financial statements.

RISKS AND UNCERTAINTIES

The Corporation is subject to many risks and uncertainties that may limit our ability to execute on our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general economy and general real estate market, a significant change in interest rates, an inability to make mortgage loans at rates consistent with rates historically achieved, and having an insufficient amount of new mortgage loan opportunities presented.

See “Forward-Looking Information” below and the Risk Factors section of the Corporation’s prospectus for further information on risks and uncertainties faced by the Corporation. The Corporation’s prospectus is available on www.sedar.com and on the Corporation’s website at www.fmic.ca.

A discussion of the impact and potential impact on the operations and performance of the Corporation of the on-going COVID-19 outbreak is included in this MDA under Operating Results.

FORWARD-LOOKING INFORMATION

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based on historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue" or other similar expressions suggesting future outcomes or events. Forward looking statements regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and the general economic environment. For other risks and uncertainties, please refer to "Risks and Uncertainties" above and to the "Risk Factors" section of the Corporation's prospectus which is available at www.sedar.com and www.fmic.ca. That list is not exhaustive as other factors could adversely affect our results, performance, or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a results of new information, future events, or otherwise, unless required to do so by law.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at December 31, 2021.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the audited financial statements for the years ended December 31, 2021 and December 31, 2020, is available on

SEDAR at www.sedar.com or on our website at www.fmic.ca. You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (613) 279-2116 or by email at amber.kehoe@robinsonsgroup.com.