



MANAGEMENT DISCUSSION & ANALYSIS

QUARTER ENDED JUNE 30, 2023

AMENDED AND RESTATED

**FRONTENAC MORTGAGE INVESTMENT CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
QUARTER ENDED JUNE 30, 2023 AMENDED AND RESTATED**

NOTICE TO READER – AMENDMENT AND RESTATEMENT OF FINANCIAL STATEMENTS

The Corporation has filed audited annual financial statements and related management’s discussion and analysis (“MD&A”) for the year ended December 31, 2023 (the “2023 Audited Annual Financial Statements”). The 2023 Audited Annual Financial Statements include amended and restated audited annual financial statements for the year ended December 31, 2022 (the “2022 Restated Audited Annual Financial Statements”). FMIC has also filed amended and restated interim unaudited financial statements for the quarters ended March 31, 2023, June 30, 2023 and September 30, 2023 and MD&A thereof (together with the 2022 Restated Audited Annual Financial Statements, the “Restatement”). The Restatement has been filed with the agreement of the Ontario Securities Commission (the “OSC”) following a review by the OSC and relates to the measurement of mortgage impairment provisions in accordance with International Financial Reporting Standards (“IFRS”) for a loan package (the “Loans”) that had been made to a borrower in relation to a large residential development property (the “Property”) and has been impaired. The Restatement corrects an error in the application of IFRS to the measurement of the expected credit losses of the Loans (the “Error”). In general terms, it involves reducing the estimated proceeds from the sale of the Property, increasing the estimated expenses and liabilities associated with selling the Property pursuant to the Corporation’s mortgage rights and increasing the estimated time that it would take to sell the Property under the Corporation’s mortgage rights. The effect of the Restatement is a decrease in the provision for mortgage impairment losses of \$495,826, and an increase in net income and comprehensive income of \$513,555 during the three month period ended June 30, 2023; decrease in the provision for mortgage impairment losses of \$563,566, and an increase in net income and comprehensive income of \$600,339 during the six month period ended June 30, 2023 and an increase to liability to certain investors of \$312,205 and a reduction in the total assets by \$3,169,029 along with a reduction in the carrying value per share to \$29.56 as at June 30, 2023.

In addition, during the preparation of the 2023 Annual Financial Statements, management noted an error in the prior year’s classification of certain mortgages within our portfolio. It was found that gross mortgages worth \$29,972,000, pertaining to multi-unit residential buildings with four or more units, had been mistakenly categorized under "Residential Construction." The appropriate classification for these is "Residential Developments." Gross mortgage totaling \$465,000 for a multi-unit residential building was incorrectly classified as "Residential" instead of the correct category, "Residential Developments". Gross mortgages totaling \$2,089,000 for vacant land was incorrectly classified as "Residential" instead of the correct category, "Vacant Land".

These discrepancies have been corrected in the prior year’s financial statements and rectified in the current financial statements to accurately reflect the nature of our mortgage investments, as elaborated on Note 4 of the amended and restated interim financial statements for the six months ended June 30, 2023.

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 May 3, 2024 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the year ended December 31, 2022 and the unaudited amended and restated interim financial statements for the six months ended June 30, 2023 and 2022.

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. As at June 30, 2023, the Corporation's assets totaled \$205.2 million (as restated) including a mortgage investment portfolio totaling \$196.1 million (as restated) and shareholder's equity of \$197.1 million (as restated). Total assets, mortgage investments and shareholders' equity are down slightly from December 31, 2022, when the Corporation's assets totaled \$222.0 million (as restated) including a mortgage investment portfolio of \$213.1 million (as restated) while shareholders' equity was \$201.7 million (as restated).

Net income and comprehensive income for the Corporation for the three months ended June 30, 2023 decreased on a gross basis to \$3.2 million (as restated) from \$3.3 million for the three months ended June 30, 2022 while, on a per share basis, net earnings increased to \$0.48 (as restated) from \$0.41 per common share. The carrying value per share increased to \$29.56 (as restated) as at June 30, 2023 (\$29.42 as at March 31 2023 as restated and \$29.44 as at December 31, 2022 as restated) with an annualized dividend yield, assuming dividends are re-invested under the Corporation's dividend re-investment plan, of 7.36% (calculated using restated net income and comprehensive income and the restated carrying value per share) for the first six months ended June 30 2023. The carrying value per share increased primarily due to the Restatement which corrected an error in the application of IFRS to the measurement of the expected credit losses for a loan package that had been made to a borrower in relation to a large residential development property.

Subsequent to the reporting period, the Corporation escrowed monthly sales of common shares in July and August 2023 and deferred dividend payments in July 2023 pending resolution of certain issues raised in the Ontario Securities Commission continuous disclosure review in respect of four loans related to the single development property in Stage 3 as described under the mortgage impairments and provisions. Following resolution of questions relating to the value of the loans on a property securing a large development loan, the Corporation intends to process the sales of common shares and pay the monthly dividend. In addition, the Corporation declared a special cash dividend of \$0.8247974 per share or \$5.5 million, payable on March 28, 2024 to shareholders of record as of March 26, 2024. In addition, the Corporation entered into discussions with its bank that lowered the maximum revolving line to \$5,000,000. The effective date of the change was March 11, 2024.

Global financial markets continue to be volatile in part due to high levels of inflation and rising interest rates. There remains uncertainty associated with the estimates, judgements and assumptions made by management in the preparation of the financial statements. Given the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of credit losses. Our conservative lending approach coupled with our professional underwriting expertise, and our focus on high quality lending opportunities will serve our loan portfolio well.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation's mortgage investment portfolio totaled \$196.1 million (as restated) as at June 30, 2023 as compared to \$213.2 million (as restated) as at December 31, 2022. Key metrics related to the mortgage investment portfolio include the following.

Breakdown of the mortgage investment portfolio by type

	Jun 30, 2023 Restated			Dec 31, 2022 Restated		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Residential	94	36,981	18.8%	132	43,064	20.2%
Residential construction	167	102,361	52.2%	197	112,836	52.9%
Residential developments	27	38,787	19.8%	31	36,790	17.3%
Commercial	2	421	0.2%	2	426	0.2%
Vacant land	48	17,593	9.0%	61	20,041	9.4%
Total	338	196,143	100.0%	423	213,157	100.0%

Subsequent to the six months ended June 30, 2023, management identified an error in the classification of certain mortgage types within our mortgage portfolio as disclosed in Note 9 of the amended and restated financial statements for the six months ended June 30, 2023. Specifically:

- Gross mortgages totaling \$29,972,000 for multi-unit residential buildings housing four units or greater were incorrectly classified as "Residential Construction" instead of the correct category, "Residential Developments"
- Gross mortgage totaling \$465,000 for a multi-unit residential building was incorrectly classified as "Residential" instead of the correct category, "Residential Developments".
- Gross mortgages totaling \$2,089,000 for vacant land was incorrectly classified as "Residential" instead of the correct category, "Vacant Land".

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

The Corporation has strategically decided for the long term that the percentage of the portfolio dedicated to legacy projects (i.e. over \$10 million in combined principal value) will be reduced over the next year to instead focus on its rural residential and residential construction core business. Currently, there is one last large development legacy project remaining in Residential Developments. As at June 30, 2023, loans reported in this category represented 19.8% of the mortgage loan portfolio which is up slightly from 17.3% as at December 31, 2022. As at December 31, 2021, there were two outstanding

legacy projects in the mortgage portfolio while as at December 31, 2022 there was one outstanding residential development with 4 related loans that have a total principal value of \$13.6 million. As at June 30, 2023 the same residential development with 4 related loans was outstanding with a total principal value of \$14.1 million and is included in stage 3 with an expected credit loss provision of \$6.0 million (as restated). The total principal amount increased from December 2022 to June 2023 because of legal fees incurred related to impairment status of the loans and funds advanced to the Borrower in order to pay property taxes. The Corporation is actively working with the borrower to sever and sell the underlying real estate properties in order to discharge these loans. The expected credit loss provision is subject to significant estimation and actual results could differ from these estimates and judgements.

Breakdown of the mortgage investment portfolio by location

	Jun 30, 2023 Restated			Dec 31, 2022 Restated		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Ontario – East	214	127,563	65.0%	273	136,847	64.2%
Ontario – Southwest	25	14,898	7.6%	31	15,939	7.5%
Ontario – Central	42	32,594	16.6%	49	36,120	16.9%
Ontario – North	57	21,088	10.8%	70	24,251	11.4%
Total	338	196,143	100.0 %	423	213,157	100.0%
Loans - Ontario rural property	215	97,060	49.5%	275	114,459	53.7%

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. There have been no significant changes to the investment portfolio by location from December 31, 2022 to June 30, 2023.

As at June 30, 2023, only one of the Ontario – Central loans was for properties located in the Toronto market (postal code M – two in December 31, 2022).

Breakdown of the mortgage investment portfolio by interest rate

	Jun 30, 2023 Restated			Dec 31, 2022 Restated		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
< 5%	2	2,433	1.2%	1	17	0.1%
6%	1	4,816	2.5%	1	2,850	1.3%
7%	-	-	-	-	-	-
8%	1	2,832	1.4%	9	8,214	3.9%
9%	23	9,167	4.7%	51	24,353	11.4%
10%	122	85,227	43.5%	277	150,484	70.5%
11%	90	33,292	17.0%	57	19,615	9.2%
12%	93	54,764	27.9%	27	7,624	3.6%
13%	6	3,612	1.8%	-	-	-
Total	338	196,143	100.0%	423	213,157	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 as at June 30, 2023 was 10.32%, up from 9.82% as at December 31, 2022 reflecting mortgages that were originated in 2023 at interest rates higher than those originated in 2022 and reflective of a higher interest rate market following the Bank of Canada's 5% increase in interest rates in 2022 and 2023.

Breakdown of the gross mortgage investment portfolio by maturity date

	Jun 30, 2023 Restated			Dec 31, 2022 Restated		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Within one year	322	194,796	96.2%	399	212,882	97.2%
Within following year	16	7,711	3.8%	24	6,104	2.9%
Total	338	202,507	100.0%	423	218,986	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 at one-year terms. The Corporation targets borrowers that do not meet the underwriting criteria of the major banks and that require short-term financing. 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.

Breakdown of the mortgage investment portfolio by first mortgage loans

	Jun 30, 2023 Restated			Dec 31, 2022 Restated		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
First mortgage loans	337	196,039	99.9%	422	213,054	99.9%
Average gross loan balance		599			518	

Mortgage impairments and provision for impairment losses

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

(All figures \$000's)

	Jun 30, 2023 Restated			Dec 31, 2022		
	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount
Residential	37,061	79	36,982	43,154	90	43,064
Residential construction	102,546	185	102,361	113,089	253	112,836
Residential developments	44,855	6,067	38,788	42,228	5,438	36,790
Commercial	422	2	420	429	3	426
Vacant land	17,623	31	17,592	20,086	45	20,041
Total	202,507	6,364	196,143	218,986	5,829	213,157

(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 recognizes interest revenue using the effective interest method at the net carrying amount of the impaired loan which in turn may reduce revenue per share.

As at June 30, 2023, there were 7 mortgages totaling \$15.8 million (December 31, 2022 – 10 mortgages totaling \$14.5 million) which were considered by management to be impaired with a total provision for impairment losses of \$6.0 million as restated (December 31, 2022 – \$5.3 million as restated) against those loans. As discussed above under the "Portfolio by Type" section, 4 of the 7 impaired loans related to a single large residential development project with the same borrower. The remaining 3 impaired mortgage loans have a total provision of \$nil.

As at June 30, 2023 the Company originally reported an estimated expected credit loss amount of \$2.8 million for this large residential development property. When originally developing the loan loss provision for the property, the Company considered and relied on third party appraisal reports for each of the properties including vacant development land, a fully rented apartment building, leased land comprised of 92 townhomes occupied by life tenants and a partially completed retirement building (collectively, the "Parcels") to estimate the expected proceeds from a sale of the property, and estimated the time it would take to sell the property as well as the selling costs that would be incurred.

When developing the restated loan loss provision for the property as of June 30, 2023 as part of the Restatement, the Company reduced the estimated expected proceeds of the Parcels to account for information and factors that were not reflected in the above-noted third party appraisals for the Parcels and the Company's overall assessment of the expected proceeds as of June 30, 2023. In particular, the Company's revised assessment of the expected proceeds considered a higher probability that the partially completed retirement building would need to be demolished and that the Parcel would not have any value to a purchaser beyond the value of the underlying land. The Company's revised expected proceeds of the Parcels also took into account additional, previously omitted recurring expenses, including expenses related to the common elements condominium reserve which oversees a water treatment plant, and common elements expenses such as road maintenance. Further, the Company increased the estimated liabilities and expenses associated with selling the properties and increased the estimated time to sell the properties. In the restated loan loss provision, the Company also enhanced the possible range of sale outcomes and increased the possible time horizons to sell the properties, which further reduced the estimated net realizable value for the Parcels and increased the loan loss provision recorded in respect of the Loans. As a result of the above noted items, the loan loss provision for the large residential development property as of June 30, 2023 increased by \$3.2 million from \$2.8 million to \$6.0 million through the Restatement.

During the six-month period ending June 30, 2023, the four loans with the same borrower for a single large residential development project loan remained in stage 3. The principal dollar value, accrued interest and expected credit loss of the loans was \$14.1 million, \$4.6 million and \$6.0 million respectively as of June 30, 2023 (as restated). On May 29, 2023, the Corporation extended the forbearance agreement with the borrower to June 30, 2023. The forbearance agreement which expired on June 30, 2023 has not been

renewed as the Corporation did not see any further benefit of renewing the agreement. The Corporation will continue to receive all the benefits that were obtained under the agreement even though the forbearance agreement was not extended. The Corporation is actively working with the borrower to recover these loans. As at the period ended June 30, 2023, the Corporation extended the estimated date to recover these loans from Q3 2023 to Q2 2024 based on current market conditions and lowered the expected recoverable amount of the loans based on third-party appraisal reports. As a result of the Q4 2022 restatement, there was a decrease in the loan loss provision of \$0.6 million for the six months ended June 30, 2023 and \$0.5 million for the three months ended June 30, 2023.

This represents the last large legacy loan residential development project in excess of \$10 million in a business line the Company strategically decided to exit. As at June 30, 2023 the Company's next largest loan value was \$3.2 million.

RESULTS OF OPERATIONS

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)

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
	Restated	Restated	Restated					
Interest income	5,173	5,356	5,360	5,230	4,965	4,016	4,396	3,870
Management & admin fees	1,084	1,167	1,227	1,143	1,139	1,141	1,094	1,084
Interest on credit line	141	371	372	119	4	-	-	-
Provision for impairment losses	346	311	4,271	270	227	156	217	66
Other operating expenses	355	312	253	274	268	225	224	180
Total operating expenses	1,926	2,161	6,123	1,806	1,638	1,522	1,535	1,330
Net income and comprehensive income	3,247	3,195	(763)	3,424	3,327	2,494	2,861	2,540
Earnings per share – basic and fully diluted	0.48	0.47	(0.09)	0.49	0.47	0.35	0.42	0.38

Interest income increased by \$1.5 million for the six months ended June 30, 2023 compared to the prior period primarily as a result of mortgages that matured and paid out in 2023 that were replaced with new mortgages at higher, market interest rates. The weighted average interest rate as at June 30, 2023 was 10.32%, up from 9.60% as at June 30, 2022. The increase in interest rates is being driven by significant increase in the Bank of Canada’s overnight lending over the past 15 months as well as an increase in demand for mortgages outside of traditional financial institutions. The Corporation’s loans are short-term, generally offered for 12-month terms, allowing for interest rates on mortgage loans to be reassessed against current market conditions.

Management and administration fees are based on a fixed percentage of total assets of the Corporation with 1% per annum paid to the Manager and 1% per annum paid to the Administrator calculated and paid on a monthly basis. Management and administration fees decreased because total assets have decreased.

The Corporation does not use leverage as a long-term strategy but does utilize its line of credit in the short term to smooth out its cash inflows and outflows related to mortgage advances and repayments as well as share sales and redemptions. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line.

The provision for impairment losses in the six months ended June 30, 2023 increased compared to the comparative period primarily due an increase in the stage 3 remeasurement of four loans for a large residential development project (see Mortgage impairments and provision for impairment losses).

Other operating expenses comprise of 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. Other operating expenses increased in the six months ended June 30, 2023 increased compared to the comparative period primarily due primarily due to higher legal and audit expenses incurred that were associated with an Ontario

Securities commission continuous disclosure review. The Corporation expects to incur continued higher legal and audit expenses in Q3 2023 as the continuous disclosure review continues.

Results of Operations – Three Months Ended June 30, 2023

Net income and comprehensive income for the Corporation for the three months ended June 30, 2023 decreased on a gross basis to \$3.2 million (as restated) from \$3.3 million for the three months ended June 30, 2022 while, on a per share basis, net earnings increased to \$0.48 (as restated) from \$0.47 per common share.

Revenues for the Corporation for the three months ended June 30, 2023 increased on a gross basis to \$5.2 million as compared to \$5.0 million for the three months ended June 30, 2022 while, on a per share basis, revenues increased to \$0.77 from \$0.70 per common share. The quarter-over-quarter increase in the gross amount of interest revenue and the revenue per share is attributable to mortgages that matured being replaced with higher market interest rates. The Corporation earns little to no return on its cash balances.

Total operating expenses for the three months ended June 30, 2023 increased on a gross basis to \$1.9 million (as restated) from \$1.6 million for the three months ended June 30, 2022 while, on a per share basis, these expenses increased to \$0.29 (as restated) from \$0.23 per common share. The period over period increase in expenses is primarily due to an increase in bank line of credit interest \$138 thousand, provision for impaired mortgage losses \$120 thousand (as restated) and other operating expenses \$30 thousand. The Corporation utilizes its line of credit in the short term to smooth out its cash inflows and outflows related to mortgage advances and repayments as well as share sales and redemptions. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line. The provision for impairment losses increased primarily due an increase in the stage 3 remeasurement of four loans for a large residential development project (see Mortgage impairments and provision for impairment losses). Other operating expenses increased primarily due to higher legal and audit expenses incurred that were associated with an Ontario Securities commission continuous disclosure review.

RECENT DEVELOPMENTS

Inflation and Rising Interest Rates

The annual inflation rate in Canada was 3.3% in July 2023 on a year-over-year basis according to Statistics Canada and has continued its downward trend since hitting a peak of 8.1% in June 2022. The rate in July is also down from the March inflation rate of 4.3% and but increased slightly from 2.8% in June 2023. Global factors such as the war in Ukraine, supply chain issues, and domestic price pressures continue to put pressure on inflation and most economists believe inflation will be higher than the Bank of Canada's target rate of 2% until 2024 or 2025.

Controlling inflation is the Bank of Canada's primary concern. The Bank of Canada rapidly increased interest rates in 2022 by a total of 400 bps from March to December taking the overnight rate to 4.25%. In 2023 the Bank of Canada further increased rates by another 25 bps in each of the months of January, June and July taking the overnight lending rate to its current rate 5.00%. The prime interest rate charged by banks and credit unions has increased at the same rate as the Bank of Canada's policy rate increases and the current prime rate at most traditional financial institutions is 7.20%. Most economists believe interest rates will continue to stay at current levels or possibility go higher by another 25 basis points by the end of the year as well as stay at higher levels for longer into 2024. Further increases or decreases in 2023 will be dependent on the rate of inflation, the state of economy and labour market. The principal risk cited by most economists is that the Bank of Canada increases interest rates too much and risks having the economy fall into a hard recession. Any decreases in interest rates would be positive for the housing market. In addition to interest rate increases, the Bank of Canada announced in April 2022 that it was ending the reinvestment phase of its asset purchase program and beginning quantitative tightening where maturing Government of Canada bonds will no longer be replaced. In a speech on March 29, 2023, Deputy Governor Toni Gravelle said quantitative tightening will likely end in late 2024 or the first half of 2025 per a Bloomberg article (Randy Thanthong-Knight and Erik Hertzberg. "Bank of Canada Sees Quantitative Tightening Ending by 2025." March 29, 2023)

As interest rates increase, the interest expense on our line of credit facility will also increase as it is tied to the bank's prime rate. In addition, it affords the Corporation the opportunity to increase interest rates on new mortgage loan originations to higher, current market rates and improve the average interest rate on the mortgage portfolio.

The real estate market is highly influenced by interest rate changes by the Bank of Canada. Per the Ontario Real Estate Association, on a year-to-date basis, Ontario home sales totaled 105,395 units over the first seven months of the year. This was down by 15.5% from the same period in 2022. The July year-to-date residential average price was \$888,891, a decrease of 9.2% from the first seven months of 2022. The housing slowdown has moderated since the fall of 2022. Overall, the housing market continues to adjust to higher interest rates and inflation as well as high indebtedness of consumers. Factors contributing to the stability of prices include a chronic housing shortage, supply chain delays, skilled labour shortages and increased levels of immigration. According to RBC's July 14, 2023 housing market outlook "We believe the slower pace of resales growth in June marks a shift in Canada's market recovery. The strength of this spring's rebound, in our view, wasn't sustainable—especially in light of the Bank of Canada turning up the screw a couple more times, further raising the bar for potential buyers. We expect the overall trajectory to be flatter through the remainder of 2023, as buyers contend with very challenging affordability conditions and an expected recession. This would set aggregate prices on a more moderate appreciation path."

It is unclear whether recent interest rate increases, together with any future interest rate increases, will trigger a recession which could negatively impact the Corporation's financial performance due to recessionary effects such as higher unemployment and the curtailment of real estate development. Higher unemployment may lead to the Corporation experiencing an increase in impairments and as such, an increase would translate into lower earnings due to the unlikely collectability of further interest on those loans. The curtailment of real estate development may lead the Corporation to experience lower construction mortgage origination volumes. The unemployment rate was 5.5% in July 2023 according to Statistics Canada compared to 5.0% in December 2022.

The potential for an increase in losses on impaired loans requires a decline in home values below the carrying value of the related loans or inability by the borrower to pay the interest and loan payments. Frontenac's underwriting policies of focusing on first mortgage loans to a maximum loan-to-value at origination of 80% or less provides some room for a decline in home values. In addition, the Corporation's loans are short-term, generally offered for 12-month terms, allowing for loan-to-value ratios on mortgage loans to be reassessed against current market conditions. Lastly, 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, and worked with government assistance.

Nevertheless, the market demand for Corporation's loans remains strong. Our conservative lending approach coupled with our professional underwriting expertise, and our focus on high quality lending opportunities will serve our loan portfolio well. To the end of 30 June 2023, the Corporation has not experienced any significant loan loss provision increases due to higher interest rates and real estate market changes. The significant increase in loan impairments in 2023 was primarily due an increase in the stage 3 remeasurement of four loans for a large residential development project (see Mortgage impairments and provision for impairment losses).

Continuous Disclosure Review

Subsequent to the reporting period, the Corporation escrowed monthly sales of common shares in July and August 2023 and deferred dividend payments in July 2023 pending resolution of certain issues raised in the Ontario Securities Commission continuous disclosure review in respect of four loans related to the single development property in Stage 3 as described under "Mortgage impairments and provisions" above. The Corporation's review of regulatory questions is ongoing and FMIC is working diligently to complete the review.

As discussed above under the "Portfolio by Type" section, 4 of the 7 impaired loans relate to a single large residential development project with the same borrower. The gross loan amount of the 4 impaired loans related to the single large residential development project is \$14.1 million or 7% of the mortgage portfolio as at June 30, 2023. The remaining 334 mortgage loans totaling \$185.3 represent 93% of the mortgage portfolio, and as at June 30, 2023 had 3 impaired mortgage loans that have a total provision of \$nil. As older mortgages mature and get paid out 2023, they are being replaced with new mortgages at higher, market interest rates. The weighted average interest rate of the Corporation's mortgage portfolio as at June 30, 2023 was 10.32%, up from 10.07% as at March 31, 2023. Outside of the single large development project, the mortgage portfolio is strong; interest rates on new mortgage originations at higher, current market rates are increasing the average weighted interest of the mortgage portfolio, and once expenses normalize with respect to the single large residential development project, the monthly rate of return is expected to increase in parallel.

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 a monthly basis. Shareholders may redeem shares in the Corporation on a quarterly basis, subject to a 30-day notice period. As at June 30, 2023, there were 6.7 million common shares issued and outstanding with a total book value of \$199.6 million.

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 reporting 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 the lesser of 15% of shareholders' equity and the borrowing base calculation of risk adjusted mortgages. The maximum limit of the revolving line of credit is \$40 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 June 30, 2023, the Corporation was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward. As at June 30, 2023, the Corporation was using \$7.4 million (December 31, 2022 - \$23.2 million) of its available credit line. Subsequent to the reporting period, Corporation entered into discussions with its bank that lowered the maximum revolving line to \$5,000,000. The effective date of the change was March 11, 2024.

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 leverage the mortgage portfolio. The Corporation's cash resources come from (1) sales of Shares (2) payouts of maturing mortgage loans, and (3) the Corporation's line of credit. The Corporation's cash requirements are principally used for (1) mortgage loans, (2) the Corporation's expenses, and (3) redemptions. Based on the Corporation's anticipated cash availability and cash requirements the Manager can adjust, on a monthly basis, one or more of the Corporation's (1) cash reserves (2) funded loans, and/or (3) utilization of its line of credit. As part of its cash management function the Manager reviews quarterly redemption requests and determines whether adequate cashflow is available to fund redemption requests.

Subsequent to the reporting period, the Corporation escrowed monthly sales of common shares in July and August, 2023 and deferred July 2023 dividend payments pending the resolution of certain issues raised in the Ontario Securities commission continuous disclosure review in respect of the four loans relating to the single development property in Stage 3 as described under 'Mortgage impairments and provision for impairment losses' above. As at August 30, 2023, the value of funds held in escrow was \$4.4 million. The Corporation is responding to the regulator's questions and is working to resolve regulatory issues relating to the single development property. Subsequent to the reporting period the

Frontenac Mortgage Investment Corporation – Quarter ended June 30, 2023 Amended and Restated

Corporation has received higher than normal redemption requests in the aggregate amount of \$11.5 million for Q3 redemption date and \$10.4 million for Q4 redemption date, which the Corporation attributes primarily to uncertainty caused by the escrow of share issuances related to the regulator's ongoing continuous disclosure review.

In addition, the Corporation declared dividends a special cash dividend of \$0.8247974 per share or \$5.5 million, payable on March 28, 2024 to shareholders of record as of March 26, 2024.

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 and redeems common shares quarterly (up to November 30, 2021, shareholders have had the ability to redeem shares in the Corporation only once per year).

	Six Months ended		Year ended	
	June 30, 2023		December 31, 2022	
Common shares:	#	\$	#	\$
Balance – beginning of period	6,723,982	201,610,430	6,757,281	202,609,406
Issued for cash	463,341	13,900,243	1,607,091	48,212,723
Issued under dividend re-investment plan	100,340	3,010,192	207,667	6,230,020
Redeemed	(619,393)	(18,581,796)	(1,848,057)	(55,441,719)
Liability to certain investors	-	(312,205)	-	-
Balance – end of period	6,668,270	199,626,864	6,723,982	201,610,430

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.

During Q2 2023, total common shares sales totaled \$7.1 million as compared to \$6.8 million in Q1 2023. This increase is primarily due to the strengths of the fund and over-coming challenges in the capital markets that include increased volatility, rising interest rates and rising stock and bond markets as well as competition from risk free products offering interest rates that are much higher compared to the last several years.

During 2022, the Corporation experienced an increase in redemptions, year over year. For reference purposes, aggregate redemptions for the year ended December 31, 2021 were \$11,216,252 and for the year ended December 31, 2022 were \$55,441,719 made by the successor adviser and their client. The Manager gave notice to its Qualified Investor clients in February 2022 that it would be exiting its managed accounts business and that they would need to transition their accounts to other advisers.

During Q2 2023, share redemptions totaled \$6.5 million as compared to \$12.1 million in Q1 2023. Management estimates that approximately \$2.0 million of the Q2 redemptions was due to the transition of accounts to new advisors. Share redemptions are due to a number of factors including but not limited to investor asset allocation changes and associated rates of returns, unexpected life situations such as divorce or the passing away of an investor, and the Corporation’s performance.

The liability to certain investors for \$312,205 represents the amounts owing to shareholders for the difference in the amounts paid on share issuances by shareholders and the restated carrying value subsequent to the revisions made in these amended and restated interim financial statements.

The Corporation decided to escrow subscription funds received in relation to the monthly sale of common shares scheduled to close on July 5, 2023 and August 2, 2023 and offered to reverse sales, if requested by investors. The amount of funds currently in escrow as of August 30, 2023 is \$4.4 million. As at May 3, 2024, the value of funds held in escrow was \$1,021,205 and the aggregate value of redemption requests was \$56,909,569.

CONTRACTUAL OBLIGATIONS

Contractual obligations due at June 30, 2023 are all due within one year and are as follows:

Bank line of credit	\$7,400,000
Dividends Payable	nil
Accounts payable and accrued liabilities	\$278,033
Liability to certain investors	\$312,205
	<u>\$7,990,238</u>

As at June 30, 2023, the Corporation has commitments to advance additional funds of \$51.6 million under existing mortgages (Dec 31, 2022 - \$77.9 million). 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. (the “Administrator”) is the administrator and W.A. Robinson Asset Management Ltd. (the “Manager”) 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.

Total fees owed to Pillar for the quarter ended June 30, 2023 were \$509,147 (Restated- Note 4) (June 30, 2022 - \$534,893) and for the six months ended June 30, 2023 were \$1,056,814 (Restated - Note 4) (June 30, 2022 - \$1,070,650). Total fees owed to the Manager for the quarter ended June 30, 2023 including applicable sales taxes were \$575,337 (Restated - Note 4) (June 30, 2022 - \$604,430) and for the six months ended June 30, 2023 were \$1,194,200 (Restated - Note 4) (June 30, 2022 - \$1,209,835) under these contracts. All related party transactions noted above were in the normal course of business.

Included in accounts receivable is an amount of \$20,410 (December 31, 2022 - \$3,145) and \$23,062 (December 31, 2022 - \$3,555) due from Pillar and the Manager, respectively, for amounts owing as a result of the adjustments to the assets under management which impacted the total costs of the services provided to the Company as described in Note 4 of the amended and restated financial statements.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in accordance with IFRS requires management to make assumptions, estimates and judgements. These 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, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. Unless as otherwise disclosed, 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.

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 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 9 of the amended and restated 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 10 of the amended and restated interim financial statements.

The Corporation's other financial assets consist of cash and cash equivalents, due from administrator in trust, accounts receivable and accrued interest receivable. The Corporation's financial liabilities consist of bank line of credit, dividends payable, liability to certain investors 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, accounts receivable and mortgage investments are classified as measured at amortized cost.

(ii) Financial liabilities:

Bank line of credit, dividends payable, liability to certain investors and accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The tables in note 10 of the amended and restated financial statements present the fair values of the Corporation's financial instruments as at June 30, 2023 and December 31, 2022.

CHANGES IN ACCOUNTING POLICIES

Material accounting policies are described in note 5 of the Corporation's amended and restated 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 February 2021, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which were incorporated into Part I of the CPA Canada Handbook - Accounting and IFRS Practice Statement 2 Making Materiality Judgements in June 2021, which came into effect January 1, 2023. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by:

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can be reasonably expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures

The Company has adopted the amendments in its financial statements for the annual period beginning January 1, 2023. The adoption of this standard has had no material impact on the amended and restated 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 has adopted the amendments in its financial statements for the annual period beginning January 1, 2023. The adoption of this standard has had no material impact on the 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 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.sedarplus.ca and on the Corporation’s website at www.fmic.ca.

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.sedarplus.ca 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 result 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 amended and restated financial statements as at June 30, 2023.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the amended and restated interim financial statements for the period ended June 30, 2023 and the audited financial statements for the year ended December 31, 2022, are available on SEDAR+ at www.sedarplus.ca 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 (877) 279-3061 or by email at amber.kehoe@robinsonam.com.