FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2024 AND 2023
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

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CONTENTS

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(In Canadian Dollars)

	As at June 30, 2024	As at December 31, 2023
	$	$
ASSETS		
Cash and cash equivalents (Note 7)	32,899,059	1,476,986
Due from administrator in trust (Note 8)	2,699,320	-
Accounts receivable (Note 13)	515,380	59,521
Prepaid expenses	9,070	13,685
Accrued interest receivable (Note 9)	7,700,134	7,604,620
Mortgage investments (Note 9)	146,240,195	194,836,580
Total assets	190,063,158	203,991,392
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	404,270	557,863
Liability to certain investors (Note 12)	-	312,205
Prepaid mortgage payments	48,620	233,221
Total liabilities	452,890	1,103,289
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	189,590,720	199,626,864
Retained earnings	19,548	3,261,239
Total shareholders' equity	189,610,268	202,888,103
Total liabilities and shareholders' equity	190,063,158	203,991,392
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 12)	6,334,857	6,668,270
CARRYING VALUE PER SHARE	29.93	30.43

APPROVED ON BEHALF OF THE BOARD:

___*Ryan Seeds (signed)*__ Director

___*Meghan Davis (signed)*____ Director

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)
(In Canadian Dollars)

	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
INTEREST INCOME	9,281,219	10,528,916
EXPENSES		
Management and administration fees (Note 13)	1,790,793	2,251,013
Professional fees	1,416,645	343,916
Director fees (Note 14)	99,731	95,508
General and operating expenses	180,340	227,386
Interest on bank line of credit	-	512,646
Provision for mortgage impairment losses	2,211,795	656,367
	5,699,304	4,086,836
NET INCOME AND COMPREHENSIVE INCOME	3,581,915	6,442,080
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,556,522	6,753,458
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.55	$ 0.95

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (CONTINUED)
(UNAUDITED)
(In Canadian Dollars)

	Three months ended June 30, 2024 $	Three months ended June 30, 2023 $
INTEREST INCOME	4,151,108	5,173,404
EXPENSES		
Management and administration fees (Note 13)	700,998	1,084,484
Professional fees	564,817	191,046
Director fees (Note 14)	50,510	48,109
General and operating expenses	83,295	114,334
Interest on bank line of credit	-	141,478
Provision for mortgage impairment losses	1,595,547	346,143
	2,995,167	1,925,594
NET INCOME AND COMPREHENSIVE INCOME	1,155,941	3,247,810
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,444,773	6,734,618
BASIC AND DILUTED EARNINGS PER SHARE	0.18	0.48

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(In Canadian Dollars)

Six months ended June 30, 2024

	Share Capital, (Note 12) $	Retained Earnings $	Total $
Shareholders' equity - December 31, 2023	199,626,864	3,261,239	202,888,103
Net income and comprehensive income	-	3,581,915	3,581,915
Proceeds from issuance of shares for cash	-	-	-
Reinvested dividends	-	-	-
Shares redeemed	(10,002,403)	-	(10,002,403)
Dividends to shareholders	-	(6,823,606)	(6,823,606)
Liability to Certain Investors	(33,741)	-	(33,741)
Shareholders' equity - June 30, 2024	189,590,720	19,548	189,610,268
Dividends paid per share			1.04

Six months ended June 30, 2023

	Share Capital, (Note 12) $	Retained Earnings $	Total $
Shareholders' equity - December 31, 2022	201,610,430	(3,660,368)	197,950,062
Net income and comprehensive income	-	6,442,080	6,442,080
Proceeds from issuance of shares for cash	13,900,243	-	13,900,243
Reinvested dividends	3,010,192	-	3,010,192
Shares redeemed	(18,581,796)	-	(18,581,796)
Dividends to shareholders	-	(5,285,324)	(5,285,324)
Liability to certain investors	(312,205)	-	(312,205)
Shareholders' equity - June 30, 2023	199,626,864	(2,503,612)	197,123,252
Dividends per share			0.78

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In Canadian Dollars)

	Six months ended June 30, 2024 $	Six months ended June 30, 2023 $
CASH FROM OPERATING ACTIVITIES		
Net income	3,581,915	6,442,080
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	2,211,795	656,367
Net changes in non-cash operating items:		
Increase in due from administrator in trust	(2,699,320)	(441,139)
Decrease (increase) in accrued interest receivable	(95,514)	250,382
Decrease in prepaid expenses	4,615	48,239
Decrease in accounts payable and accrued liabilities	(153,594)	(79,687)
Increase in accounts receivable	(455,859)	(36,773)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,394,038	6,839,469
FINANCING ACTIVITIES		
Decrease in bank line of credit	-	(15,810,000)
Proceeds from issuance of common shares for cash	-	13,900,243
Cash dividends	(6,823,606)	(2,686,054)
Redemption of common shares	(10,002,403)	(18,581,796)
Cash payment to settle liability to certain investors	(345,946)	-
NET CASH USED IN FINANCING ACTIVITIES	(17,171,955)	(23,177,607)
INVESTING ACTIVITIES		
Decrease in prepaid mortgage payments	(184,601)	(15,618)
Mortgage investments	(23,653,712)	(62,876,528)
Repayment of mortgage investments	70,038,303	79,234,514
NET CASH PROVIDED BY INVESTING ACTIVITIES	46,199,990	16,342,368
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,422,073	4,230
CASH AND CASH EQUIVALENTS, beginning of period	1,476,986	122,558
CASH AND CASH EQUIVALENTS, end of period (Note 7)	32,899,059	126,788
Additional information:		
Interest received	9,185,705	10,779,298
Interest paid	-	512,646

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act* and operates as a Canadian mortgage investment corporation as defined under the *Income Tax Act* of Canada. The registered head office of the Company is 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. W.A. Robinson Asset Management Ltd. is the Company's manager (the "Manager").

2. GOING CONCERN

These financial statements have been prepared on a going concern basis which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company has announced that it will undertake, in consultation with its financial and legal advisors, a review of the strategic alternatives that may be available to the Company to maximize value for shareholders and other stakeholders of the Company. Alternatives may include the sale of some or all assets, a wind down of the portfolio, as well as other strategic options.

Until the completion of the review of strategic alternatives is concluded it is expected that the Company will withhold from settling redemption requests and will not be selling new shares. Redemption requests are $98.9 million with cash available of $32.9 million as at June 30, 2024. These redemption requests would ordinarily be settled through the collection of proceeds on maturity of mortgage investments and the available bank line of credit.

The Company will generally not redeem common shares for which a notice of redemption is received if (i) the requested redemption, together with other requested redemptions and the aggregate number of common shares redeemed in the prior 12 months would result in the Company redeeming a number of common shares which is greater than 25% of the common shares issued and outstanding as at the beginning of such 12 month period, or (ii) redemption orders received in respect of any redemption date exceed 5% of FMIC’s NAV calculated as of the redemption date.

These conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the resolution of the strategic review and the ability of the Company to resume the issuance and subscriptions of shares in the normal course of business. If the going concern assumption was not appropriate for these financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and statement of financial position classifications could result. These adjustments could be material.

3. ECONOMIC ENVIRONMENT

The Bank of Canada rapidly increased interest rates in 2022 and 2023 an effort to reduce inflation rates which in turn negatively impacted the housing market through lower prices and sales volumes as well as consumers looking to purchase real estate who are now faced with additional higher debt service payments. In June 2024, the Bank of Canada lowered interest rates by 25 bps as inflation rates have decreased. The restrictive financial lending environment is making it more difficult for borrowers to find alternative financing. Elevated interest rates, increased construction costs, labour shortages and financial stress on borrowers continue to create economic uncertainties. Given the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of credit losses. There remains uncertainty associated with the estimates, judgments and assumptions made by management in the preparation of the financial statements.

4. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim financial statements of the Company have been prepared by management in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The preparation of these unaudited interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards ("IFRS"). These accounting policies have been used throughout all periods presented in the financial statements.

These financial statements were approved for issue by the Board of Directors on August 29, 2024.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

4. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements

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 period, 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 Company 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 Company considers a number of factors when assessing if there has been a significant increase in credit risk. Conventional mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company 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, issuance of demand letter requesting loan repayment, and other borrower or property specific information that may be available.

Given the change in the economic environment and housing market as a result of Canada's Central Bank increasing interest rates by approximately 5% in a short period of time, the overall restrictive financial lending environment, and a higher focus on construction mortgages in the mortgage portfolio, the Company updated its Significant Increase in Credit Risk ("SICR") criteria for construction mortgages as at December 31, 2023. The enhancement of the SICR framework now incorporates additional specific guidelines for transferring mortgages to a higher credit risk stage. Under the revised criteria, except as otherwise disclosed in this note to the financial statements, a construction mortgage is assessed for SICR and considered to be moved to Stage 2 if:

- The borrower is unable to secure alternative financing by a specific benchmark date, indicating heightened liquidity risk.
- The mortgage is 6 months past its maturity date, reflecting a significant delay in the expected cash flows.
- The loan to value ratio exceeds 70%, suggesting increased exposure compared to the collateral's current market valuation

4. BASIS OF PRESENTATION (Continued)

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 Company 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 Company 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 Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company 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 Company’s Finance and Risk management groups.

Upon initial recognition of financial assets, the Company 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 Company 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 conventional contractual payments are more than 30 days past due, issuance of a demand letter requesting loan payment, and specific to completed construction mortgages, the borrower being unable to secure alternative financing, being 6 months past maturity date with a loan to value ratio exceeding 70%. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company’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.

4. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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. The Company believes loans in stage 1 all fall within a normal/moderate risk rating, stage 2 loans reflect increased risk and stage 3 loans reflect loans that are impaired.

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 Company, such as significant financial difficulty of the borrower. The Company 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.

4. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

In order to determine the expected credit losses on stage 3 credit impaired financial assets, the Company measures the loss provision on an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. These scenarios incorporate a discounting to reflect the time value of money and is based on reasonable and supportable information that is available without undue cost or effort at reporting date about past events, current conditions and forecasts of future economic conditions. The Company estimates the net realizable proceeds of underlying collateral held on its mortgage investments and discounts the proceeds to the reporting date at the original effective interest rate of the mortgage based on estimated date of collection. After subtracting the outstanding principal and interest amounts receivable, the shortfall is recorded as a stage 3 provision. Key inputs required in this analysis are estimated selling proceeds, selling costs and timing of collection of the proceeds. To estimate the selling proceeds, management generally obtains a third-party appraisal report. Estimated selling costs and timing of collection of the proceeds are determined based on past experience and management's knowledge of the transaction and market. The discount rate is the original effective interest rate of the loan.

The company estimates that the net realizable proceeds of underlying collateral held on its mortgage investments and discounts the proceeds to the reporting date at the original effective interest rate of the mortgage based on estimated date of collection. After subtracting the outstanding principal and interest amounts receivable, the shortfall is recorded as a stage 3 provision. Key inputs required in this analysis are estimated selling proceeds, selling costs and timing of collection of the proceeds. To estimate the selling proceeds, management generally obtains a third-party appraisal report. Estimated selling costs and timing of collection of the proceeds are determined based on past experience and management's knowledge of the transaction and market. The discount rate is the original effective interest rate of the loan.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Company 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 Company 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 Company 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 origination. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

4. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

(ii) Fair value measurements:

In accordance with IFRS, the Company 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 Company'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. There were no properties held for sale under foreclosure as at June 30, 2024 or 2023. As explained in more detail in Note 10, management makes its determination of fair value of mortgages by discounting future cash flows at the Company'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.

(iii) Current and deferred income taxes:

In accordance with IFRS, a reporting entity is required to recognize current and deferred income taxes which includes disclosure of information relating to income taxes, including the presentation and disclosure of income taxes, with certain limited exemptions.

Management has made the judgment that it will continue to meet the requirements under the relevant tax laws and distribute sufficient dividends to reduce taxable income to $Nil and maintain an effective tax exempt status. In the event that the Company does not ultimately pay sufficient dividends to reduce its taxable income to $Nil the Company would be subject to income taxes and related current and deferred income tax disclosure.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on a time proportionate basis using the effective interest rate method. Interest is calculated on the gross carrying amount for each mortgage receivable in Stage 1, Stage 2, and on the net carrying value for each mortgage receivable in Stage 3.

Some mortgagors may be required to pay a one time fee, referred to as a lender fee, upon initiation of their mortgage. These lender fees are netted against the related mortgages and recognized into revenue using the effective interest method.

(b) Cash and cash equivalents

The Company considers highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash equivalents are initially recognized at their fair value plus any attributable transaction costs. Any changes in the fair value of the cash equivalents are recorded in the statement of income and comprehensive income for the period.

(c) Mortgage investments

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The Company's business model is to hold mortgages receivable to collect cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgages losses on the statement of financial position.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless if there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition. Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date. Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The Company considers a number of factors (see Note (4)(d)(i)) when assessing if there has been a significant increase in credit risk.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(c) Mortgage investments (continued)

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible defaults events over the life of the financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default, loss given default and exposure at default. These factors are used to estimate the ECLs for mortgages receivable classified at Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan category is assessed and the ECL estimated (on an individual basis for those mortgages in Stage 3). A loan is considered 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 the loan.

When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of income and comprehensive income for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessment of market conditions, and other various factors.

(e) Income taxes

The Company is considered a mortgage investment corporation under the Income Tax Act (Canada). As such, the Company is entitled to deduct from its income for tax purposes paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and distribute sufficient dividends to ensure the Company is not subject to income taxes. As described in Note 2 to the financial statements, the Company is undergoing a strategic review to assess strategic alternatives in order to maximize value for shareholders and other stakeholders. The Company currently intends to continue to distribute dividends in the year, however, upon conclusion of the strategic review this intention could change. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(f) Prepaid mortgage payments

Some mortgagors may prepay or may be required to prepay a portion of their periodic payments. These prepaid mortgage payments are applied against the related mortgage receivable balance in the period for which they relate.

(g) Carrying value per share

Carrying value per share is calculated by dividing the shareholders' equity by the total number of issued and outstanding common shares at the end of the period.

(h) Earnings per share

Basic earnings per share is computed by dividing net income and comprehensive income by the weighted average shares outstanding during the year. There are no dilutive shares issued by the Company as at June 30, 2024 or 2023.

(i) Share capital

Share capital represents amounts received on the issuance of share and amounts reinvested by shareholders through the dividend reinvestment plan.

(j) Financial assets and liabilities

The Company'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 Company's mortgage investments and the Company's management of those risks are discussed in Note 10.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, accounts receivable, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, accounts payable and accrued liabilities, and liability to certain investors. Unless otherwise noted, it is management's opinion that the Company 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 Company 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 Company 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, accounts receivable, 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, liability to certain investors and accrued liabilities are classified as financial liabilities at amortized cost.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(k) Liability to certain investors

Liability to certain investors represents the amounts owing to shareholders for the difference in the amounts paid on the share issuances by shareholders and the restated carrying value per share subsequent to the revisions made in previous financial statements.

(l) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

A present obligation that arises from past events but is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability

(m) Accounting pronouncements

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company'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 are not expected to have a material impact on the Company'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. The effective date of these amendments was deferred to January 1, 2024, with early adoption permitted. The Company has adopted the amendments in its financial statements for the annual period beginning January 1, 2024. The adoption of this standard has had no material impact on the financial statements.

♦ IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

On May 30 2024, the IASB issued an amendment to IFRS 9 and IFRS 7, Classification and Measurement of Financial Instruments, to come into effect January 1, 2026. The amendment is to address matters identified during the post-implementation review of the classification and measurement of requirements of IFRS 9 Financial Instruments. The Company will adopt the amendments in its financial statements for the annual period beginning January 1, 2026. The company believes that the adoption of this standard will have no material impact on the financial statements.

(In Canadian Dollars)

6. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes shareholders' equity and bank line of credit.

The Company's objective when managing its capital is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Company expects to derive its earnings principally from the receipt of mortgage interest payments and of interest or interest-like distributions on the cash reserves of the Company.

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company 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 Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

In order to provide some liquidity to its shareholders, the Company targets to maintain a cash reserve (consisting of cash, cash equivalents, and the Company's approved credit line) of approximately 5% of its shareholders' equity and such levels of cash reserves have been adequate to meet the needs of normal share redemption levels during the year. Management regularly monitors its available cash and credit line facility to ensure that sufficient cash reserves are maintained to meet shareholder redemption requests. The Company has increased its cash reserve in excess of the 5% target in order to fund outstanding redemption requests. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemptions to 5% of the Company's net asset value (see 'Liquidity Risk' - Note 10).

As described in Note 2 to the financial statements, the Company is undergoing a strategic review to assess strategic alternatives in order to maximize value for shareholders and other stakeholders. Currently, the Company has temporarily suspended quarterly redemption payments relating to its common shares and continues to escrow common share purchases. Upon conclusion of the strategic review this could change.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is composed of:

	As at June 30, 2024	As at December 31, 2023
	$	$
Cash	32,899,059	1,476,986
	32,899,059	1,476,986

Subsequent to the period end, the Company invested $55 million in 30-day redeemable guaranteed investment certificates.

8. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and administration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic repayments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

9. MORTGAGE INVESTMENTS

There are 205 mortgages (December 31, 2023 - 318) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at June 30, 2024	As at December 31, 2023
	$	$
Mortgages	156,473,097	202,862,604
Allowance for impairment losses	(10,232,902)	(8,026,024)
	146,240,195	194,836,580

Breakdown of the mortgage investment portfolio by type:

	June 30, 2024			December 31, 2023		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Residential	66	30,842	21.1%	89	40,113	20.6%
Residential construction	92	72,310	49.4%	158	101,235	52.0%
Residential developments	19	33,169	22.7%	26	35,173	18.1%
Commercial	2	394	0.3%	3	2,611	1.3%
Vacant land	26	9,525	6.5%	42	15,705	8.0%
Total	205	146,240	100.0%	318	194,837	100.0%

9. MORTGAGE INVESTMENTS (Continued)

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 comprise larger construction projects involving the construction of multiple unit projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but also involve a residential component

Breakdown of the mortgage investment portfolio by location:

		June 30, 2024			December 31, 2023	
	#	$ (000's)	% of total	#	$ (000's)	% of total
Ontario – East	122	89,543	61.2%	194	117,031	60.1%
Ontario – Southwest	18	14,642	10.0%	27	18,510	9.5%
Ontario – Central	31	29,230	20.0%	47	39,563	20.3%
Ontario – North	34	12,825	8.8%	50	19,733	10.1%
Total	205	146,240	100.0%	318	194,837	100.0%

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. As at June 30, 2024, one of the Ontario – Central allocation were for properties located in the Toronto market (postal code M - one in December 31, 2023).

Other key metrics related to the mortgage investment portfolio:

		June 30, 2024			December 31, 2023	
	#	$ (000's)	% of total	#	$ (000)'s	% of total
First mortgage loans	205	146,240	100%	317	194,734	99.9%
Average gross loan balance		763			638	

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

The allowance for impairment losses is broken down by mortgage investments as follows:

Gross investments at amortized cost	**As at June 30, 2024**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	396,966	-	-	396,966
Residential	24,205,394	1,709,479	5,242,217	31,157,090
Residential construction	46,724,248	10,662,535	17,372,965	74,759,748
Residential developments	19,268,702	1,692,870	19,347,102	40,308,674
Vacant land	7,657,368	-	2,193,251	9,850,619
	98,252,678	14,064,884	44,155,535	156,473,097

Allowance for credit losses on loans	**As at June 30, 2024**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	2,766	-	-	2,766
Residential	69,463	13,042	233,065	315,570
Residential construction	119,694	119,042	2,211,347	2,450,083
Residential developments	76,032	8,500	7,053,953	7,138,485
Vacant land	20,121	-	305,877	325,998
	288,076	140,584	9,804,242	10,232,902

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

The allowance for impairment losses is broken down by mortgage investments as follows:

Gross investments at amortized cost	As at December 31, 2023			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	2,616,723	-	-	2,616,723
Residential	38,467,262	782,335	970,077	40,219,674
Residential construction	80,322,472	17,979,316	3,681,359	101,983,147
Residential developments	20,903,163	2,835,004	18,525,580	42,263,747
Vacant land	14,212,937	913,637	652,739	15,779,313
	156,522,557	22,510,292	23,829,755	202,862,604

Allowance for credit losses on loans	As at December 31, 2023			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	5,885	-	-	5,885
Residential	85,694	20,848	-	106,542
Residential construction	185,593	389,842	172,681	748,116
Residential developments	68,895	60,904	6,961,348	7,091,147
Vacant land	34,450	14,146	25,738	74,334
	380,517	485,740	7,159,767	8,026,024

The corresponding stage in the ECL analysis for the accrued interest receivable on mortgage investments is as follows:

	As at June 30, 2024 $	As at December 31, 2023 $
Stage 1	952,639	1,395,757
Stage 2	632,995	1,228,519
Stage 3	6,114,500	4,980,344
Total	7,700,134	7,604,620

As at June 30, 2024, there are 38 mortgages totaling $44,155,535 (December 31, 2023 - 14 mortgages totaling $23,829,755) that are past due and considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage loss is made.

9. MORTGAGE INVESTMENTS (Continued)

As at June 30, 2024, four of the thirty-eight impaired loans relate to a single large residential development project with the same borrower (December 31, 2023 - four of fourteen impaired loans). These loans were assessed for credit loss provision on a collective basis. As at June 30, 2024, the gross carrying value of the loans related to a single large residential development project was $14.7 million and the expected credit loss was $6.7 million (December 31, 2023 - gross carrying value of $14.2 million and expected credit loss of $6.6 million).

During the six months ended June 30, 2024, the Company incurred residual closing costs related to mortgage investments that were discharged prior to the beginning of the period resulting in mortgage write-offs of $988, and $3,929 in mortgage write-offs for mortgages discharged in the current period (six months ended June 30, 2023 - $95,415 in write-offs related to mortgage investments discharged prior to the beginning of the period, and recoveries of $21,310 for the current period). During the 3 months ended June 30, 2024 the Corporation incurred an additional write off of $3,668 (June 30, 2023 - $726 in mortgage write-offs related to mortgage investments discharged prior to the beginning of the period, and $95,431 in mortgage write-offs in the current period). Additional costs and recoveries related to previously impaired mortgage investments have been included in the provision for mortgage impairment losses on the statement of income and comprehensive income.

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

The following table presents a continuity of the provision for impairment losses:

As at June 30, 2024	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance - beginning of year	380,518	485,739	7,159,767	8,026,024
Movement (1):				
Stage 1	92,527	-	-	92,527
Stage 2	-	(369,300)	-	(369,300)
Stage 3	-	-	276,773	276,773
Net Remeasurement (2)	(108,371)	24,145	2,367,702	2,283,476
Mortgage Advances (3)	103,976	-	-	103,976
Mortgage Repayments (4)	(180,574)	-	-	(180,574)
Balance - end of period	288,076	140,584	9,804,242	10,232,902

As at December 31, 2023	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Balance - beginning of year	511,967	9,100	5,307,662	5,828,729
Movement (1):				
Stage 1	(51,692)	-	-	(51,692)
Stage 2	-	26,119	-	26,119
Stage 3	-	-	25,573	25,573
Net Remeasurement (2)	(855)	450,520	1,826,532	2,276,197
Mortgage Advances (3)	178,322	-	-	178,322
Mortgage Repayments (4)	(257,224)	-	-	(257,224)
Balance - end of year	380,518	485,739	7,159,767	8,026,024

Notes to table

(1) Transfers between stages are presumed to occur before any corresponding remeasurement of the allowance.
(2) Net remeasurement represents the change in the expected credit loss related to changes in model inputs or assumptions and changes in measurement following a transfer between stages. It also includes post-model overlays, loan recoveries and adjustments as a result of economic uncertainty or macro-economic conditions.
(3) Mortgage advances includes expected credit loss on origination of new mortgages during the period
(4) Mortgage repayments includes expected credit loss on mortgages discharged, prior to any re-measurement adjustments.

9. MORTGAGE INVESTMENTS (Continued)

During the six months ended June 30, 2024, there was an increase in the stage 3 net remeasurement of $2,367,702 and the number of stage 3 mortgages increased from 14 for the year ended December 31, 2023 to 38 for the six months ended June 30, 2024. The increase in the stage 3 provisions for the six months ended June 30, 2024 was primarily due to an increase in the amount and number of residential construction and vacant land loan loss provisions. The decrease in stage 2 provisions was a result of an increase in mortgages moving from stage 2 to stage 3 compared to December 31, 2023.

During the six months ended June 30, 2024, there was an increase in the stage 3 net remeasurement of $2.4 million. The reason for the increase was primarily due to an increase in impaired residential construction loans as a result of the restrictive financial lending environment and economic uncertainties described in Note 3. The total gross loan amount as at June 30, 2024 for credit impaired residential construction loans was $17.4 million and the related expected credit loss was $2.2 million. The estimated ECL was determined based on a weighting of possible outcomes in connection with the loans. The Company estimates net realizable proceeds of the underlying collateral and discounts the proceeds to the reporting date.

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

If the underlying estimated security value, costs to sell or estimated date of collection of the proceeds changed by the following amount for all loans included within stage 3, the impact on the expected credit loss is as follows:

As at June 30, 2024

Key Input	Change used in Analysis	ECL Impact
Underlying Security Value	+/- 10%	$2,983,370/ -$3,477,104
Estimated Selling Costs	+/- 10%	-$381,459/ $381,459
Estimated Date of Collection of Proceeds	+/- 6 months	-$2,091,720/ $1,309,374

As at December 31, 2023

Key Input	Change used in Analysis	ECL Impact
Underlying Security Value	+/- 10%	$1,877,151/ -$2,175,796
Estimated Selling Costs	+/- 10%	-$229,841/ $229,841
Estimated Date of Collection of Proceeds	+/- 6 months	-$1,031,180/ $865,773

As of June 30, 2024, there are 17 loans totaling $9,552,000 (December 31, 2023 - 4 loans totaling $1,370,000) included in Stage 3 for which no provision for loss was considered necessary based on management's estimate that the expected net proceeds from sale of the related collateral will exceed the loan amounts outstanding.

Principal repayments based on contractual maturity dates are as follows:

	$
Within one year	155,897,802
Within following year	575,295
Total	156,473,097

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at June 30, 2024 was 10.50% (December 31, 2023 - 10.71%).

Residential mortgages past due but not impaired are as follows:

	June 30, 2024 $	December 31, 2023 $
1 to 30 days	2,301,718	3,797,803
31 - 90 days	-	-
over 90 days	-	-
Total	2,301,718	3,797,803

10. FINANCIAL INSTRUMENTS

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. FMIC is not materially exposed to equity, currency or commodity risk. FMIC is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under the credit facility being set a variable rate. The financial structure of the company results in relatively moderate interest rate risk because mortgages receivable are set at fixed rates and the majority of FMIC's financing is through common shares. As at June 30, 2024, a change in interest rates of +/- 1% would have an impact on the fair value of the mortgage investments of $(354,258)/$354,258 (June 30, 2023 - $(728,027)/$728,027). If interest rates would have been 1% higher and all loans were entered into higher interest rates, interest revenue would have increased by $916,193 for the six months ended June 30, 2024 (June 30, 2023 - $1,038,653), and increased by $426,577 for the three months ended June 30, 2024 (June 30, 2023 - $507,693). If interest rates on the line of credit had been 1% higher, interest expense would remain at $nil for the six months ended June 30, 2024 (June 30, 2023 - $66,964), and would remain $nil for the three months ended June 30, 2024 (June 30, 2023 - $18,309). The change to net income would have been $916,193 for the six months ended June 30, 2024 (June 30, 2023 - $971,689), and $426,577 for the three months ended June 30, 2024 (June 30, 2023 - $489,384). The Manager regularly forecasts cash flows under different scenarios to monitor interest rate risk.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. However, during 2023 and 2024 there has been significant market volatility which has seen reduction in sales volumes and declining sales prices in the lenders market which increases the Company's credit risk. In addition, the restrictive financial lending environment is making it more difficult for borrowers to find alternative financing which increases credit risk. The maximum exposure to credit risk at June 30, 2024 is the carrying values of its mortgage investments, including accrued interest receivable, which total $ 153,940,329 (December 31, 2023 - $202,441,200). The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying security. When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

10.FINANCIAL INSTRUMENTS (Continued)

With the declining mortgage investment portfolio, the four loans related to the single large residential development project represents 9.4% of the gross mortgage investment value as at June 30, 2024. The four loans have a principal value of $14.7 million, accrued interest of $4.2 million and an expected credit loss provision of $6.7 million as at June 30, 2024.

Outside of these loans assessed on a collective basis the next largest mortgage as at June 30, 2024 is $3.4 million and management does not consider there to be any further significant concentrations of credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. Liquidity risk arises primarily from abnormal increases in share redemptions as well as mortgage advances in a short period of time. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at June 30, 2024, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $404,270 (December 31, 2023 - $557,863). Accounts payable and accrued liabilities along with dividends payable are all due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a $nil balance as at June 30, 2024 (December 31, 2023 - $nil).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of $11,207,000 which are expected to be funded within 1 year. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed. It is the Company’s experience that a portion of the unfunded commitments on existing mortgages will never be drawn.

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of shareholders' equity. As at June 30, 2024, the Company's revolving line of credit was $5 million (December 31, 2023 - $40 million). The Company had a $nil balance as at June 30, 2024 for its bank line of credit.

As at the date of authorization of the financial statements, the value of funds held in escrow was $834,021 and the aggregate value of redemption requests was $131,460,646. Given the short term duration of the mortgage investments, a significant portion of the mortgage investments will pay out in 2024 which will enable the Company to fund contractually committed loans as well as redemption requests. In addition, the Company has policies in place that can restrict the total amount of share redemptions to 5% of shareholders' equity in order to allow share redemptions to be funded through the normal repayment of the mortgages receivable.

(In Canadian Dollars)

10. FINANCIAL INSTRUMENTS (Continued)

Fair values

The fair value of the mortgage investments approximates its carrying value as all of the loans are short-term in nature.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the Company and its borrowers are unrelated third parties under no compulsion to act, the initial terms of the mortgage represents their fair value at the time of mortgage origination. For subsequent reporting periods, as there are no quoted prices in an active market for the Company's mortgages, management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

Fair value measurements

The following table shows the carrying amounts and fair values of assets and liabilities:

As at June 30, 2024	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	32,899,059	32,899,059
Due from administrator in trust	Measured at amortized cost	2,699,320	2,699,320
Accounts receivable	Measured at amortized cost	515,380	515,380
Accrued interest receivable	Measured at amortized cost	7,700,134	7,700,134
Mortgage investments	Measured at amortized cost	146,240,195	146,240,195
LIABILITIES:			
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	404,270	404,270

As at December 31, 2023	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	1,476,986	1,476,986
Accounts receivable	Measured at amortized cost	59,521	59,521
Accrued interest receivable	Measured at amortized cost	7,604,620	7,604,620
Mortgage investments	Measured at amortized cost	194,836,580	194,836,580
LIABILITIES:			
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	557,863	557,863
Liability to certain investors	Financial liabilities - amortized cost	312,205	312,205

10. FINANCIAL INSTRUMENTS (Continued)

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

There are no quoted prices in an active market for the Company's mortgages. Management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, dividends payable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

11. BANK LINE OF CREDIT

The Company has a revolving line of credit with a major Canadian chartered bank. The maximum dollar limit of the revolving line of credit is $5,000,000 and is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 6.95% (December 31, 2023 7.20%) plus 1%. As at June 30, 2024 the Company had access to its unused revolving line of credit in the amount of $5,000,000 (December 31, 2023 - $23,983,000).

Financial covenants require the Company to maintain a minimum level for shareholders' equity, debt to equity ratio, and percentage of residential mortgages. The Company was in compliance with all such covenants for all periods covered in these financial statements.

(In Canadian Dollars)

12. SHARE CAPITAL

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the periods to issued and outstanding shares of the Company:

	Six months ended June 30, 2024		Year ended December 31, 2023	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	6,668,270	199,626,864	6,723,982	201,610,430
Issued for cash	-	-	463,341	13,900,243
Issued through dividend reinvestment plan	-	-	100,340	3,010,192
Redeemed for cash	(333,413)	(10,002,403)	(619,393)	(18,581,796)
Liability to certain investors	-	(33,741)	-	(312,205)
Balance, end of year	6,334,857	189,590,720	6,668,270	199,626,864

Dividend reinvestment plan and direct share purchase plan
In 2024, the dividend reinvestment program has not been available, and all shareholders have received dividends in cash.

Redemptions

For the three months ended June 30, 2024 the Company redeemed 333,413 shares at a price of $30.00 per share for total proceeds of $10,002,403 (three months ended June 30, 2023, the Company redeemed for cash 214,600 common shares at a price of $30.00 per share for total proceeds of $6,438,001). During the six month period ended June 30, 2024, the Company redeemed 333,413 shares at a price of $30.00 per share for total proceeds of $10,002,403. During the six month period ended June 30, 2023, the Company redeemed for cash 619,393 common shares at the price of $30.00 per share for total proceeds of $18,581,796.

The Company had no potentially dilutive instruments as at June 30, 2024, or December 31, 2023.

The Company has escrowed monthly sales of common shares from July 2023 to the current date pending resolution of the Ontario Securities Commission continuous disclosure review as well as the strategic review outcome. As at June 30, 2024, the value of funds held in escrow was $834,021 and the aggregate value of redemption requests was $131,460,646.

Subsequent to the reporting date, the Company declared a special cash dividend of $0.01949296 per share or $123 thousand payable on August 29, 2024 to shareholders of record as of July 31, 2024.

Included in the Statement of Financial Position as at December 31, 2023 is a liability to certain investors totalling $312,205 which represents the amounts owing to shareholders for the difference in the amounts paid on share issuances by shareholders and the restated carrying value per share.

13. RELATED PARTIES

Pillar Financial Services Inc. ("Pillar") is the administrator for the Company. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company.

W.A. Robinson Asset Management Ltd. (the "Manager") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees earned by Pillar for the quarter ended June 30, 2024 were $475,682 (June 30, 2023 - $509,471) and for the six months ended June 30, 2024 were $987,323 (June 30, 2023 - $1,056,813). Total fees earned by the Manager for the quarter ended June 30, 2024 including applicable sales taxes were $225,316 (June 30 2023 - $575,337) and for the six months ended June 30, 2024 were $803,470 (June 30, 2023 - $1,194,200) under these contracts. All related party transactions noted above were in the normal course of business.

The Manager and the Company have agreed to the terms upon which the Manager will reimburse the Company for "Liability to Certain Investors" described above in Note 12. $312,205 has been recorded within management and administrative fees for three and six months ended June 30, 2024. Included in accounts receivable is an amount due from the Manager of $208,137 (December 31, 2023 - $Nil).

14. KEY MANAGEMENT PERSONNEL COMPENSATION

For the quarter ended June 30, 2024, the Company paid director fees totaling $50,510 (quarter ended June 30, 2023 - $48,109) and for the six months ended June 30, 2024, the Company paid directors fees totaling $99,731 (period ended June 30, 2023 - $95,508) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 13).