

# **FRONTENAC MORTGAGE INVESTMENT CORPORATION**

## **INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**THREE MONTHS ENDED MARCH 31, 2020 AND 2019  
(In Canadian Dollars)**

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM FINANCIAL STATEMENTS (UNAUDITED) THREE MONTHS ENDED MARCH 31, 2020 AND 2019

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# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	As at March 31, 2020 \$	As at December 31, 2019 \$
<b>ASSETS</b>		
Cash and cash equivalents (Note 6)	58,479	56,779
Due from administrator in trust (Note 7)	737,443	658,402
Accrued interest receivable	12,814,885	12,240,090
Mortgage investments (Note 8)	167,262,298	173,315,185
Prepaid expenses	18,605	16,200
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Total assets	180,891,710	186,286,656
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<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Bank line of credit (Note 9)	1,600,000	11,330,000
Dividends payable	275,492	209,704
Accounts payable and accrued liabilities	129,084	114,786
Prepaid mortgage payments	55,934	101,614
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Total liabilities	2,060,510	11,756,104
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<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	178,722,200	174,421,552
Retained earnings	109,000	109,000
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Total shareholders' equity	178,831,200	174,530,552
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Total liabilities and shareholders' equity	180,891,710	186,286,656
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<b>NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 10)</b>		
	5,961,040	5,817,686
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<b>CARRYING VALUE PER SHARE</b>		
	30.00	30.00
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### APPROVED ON BEHALF OF THE BOARD:

\_\_\_\_\_*Robert Barnes* (signed) \_\_\_\_\_ Director

\_\_\_\_\_*Eric Dinelle* (signed) \_\_\_\_\_ Director

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Three months ended March 31, 2020 \$	Three months ended March 31, 2019 \$
<b>INTEREST INCOME</b>	3,848,376	3,768,868
<b>EXPENSES</b>		
Management and administration fees (Note 11)	965,293	996,981
Audit fees	54,068	30,025
Director fees	29,070	25,567
General and operating expenses	81,540	82,121
Interest on bank line of credit	73,466	55,607
Legal fees	75,222	38,067
Provision for mortgage impairment losses (Note 8)	280,866	187,166
	1,559,525	1,415,534
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	2,288,851	2,353,334
<b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING</b>	5,914,344	6,080,966
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	\$ 0.39	\$ 0.39

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

### Three months ended March 31, 2020

	Share Capital, (Note 10) \$	Retained earnings, (deficit) \$	Total \$
Shareholders' equity - December 31, 2019	174,421,552	109,000	174,530,552
Net income and comprehensive income	-	2,288,851	2,288,851
Proceeds from issuance of shares for cash	3,691,392	-	3,691,392
Reinvested dividends	1,469,588	-	1,469,588
Shares redeemed	(860,332)	-	(860,332)
Dividends to shareholders	-	(2,288,851)	(2,288,851)
<b>Shareholders' equity - March 31, 2020</b>	<b>178,722,200</b>	<b>109,000</b>	<b>178,831,200</b>
Dividends per share			0.39

### Three months ended March 31, 2019

	Share Capital, (Note 10) \$	Retained earnings (deficit) \$	Total \$
Shareholders' equity - December 31, 2018	177,678,465	109,000	177,787,465
Net income and comprehensive income	-	2,353,334	2,353,334
Proceeds from issuance of shares for cash	7,724,252	-	7,724,252
Reinvested dividends	1,397,219	-	1,397,219
Shares redeemed	(332,666)	-	(332,666)
Dividends to shareholders	-	(2,353,334)	(2,353,334)
<b>Shareholders' equity - March 31, 2019</b>	<b>186,467,270</b>	<b>109,000</b>	<b>186,576,270</b>
Dividends per share			0.39

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	<b>Three months ended March 31, 2020 \$</b>	<b>Three months ended March 31, 2019 \$</b>
<b>CASH FROM OPERATING ACTIVITIES</b>		
Net income	2,288,851	2,353,334
<b>Items not requiring an outlay of cash:</b>		
Provision for mortgage impairment losses	280,866	187,166
<b>Net changes in non-cash operating items:</b>		
Increase in due from administrator in trust	(79,041)	(453,661)
Increase in accrued interest receivable	(574,795)	(36,903)
Increase in prepaid expenses	(2,405)	(2,405)
Increase/(Decrease) in accounts payable and accrued liabilities	14,298	(108,241)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,927,774</b>	<b>1,939,290</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of bank line of credit	(9,730,000)	(13,880,000)
Proceeds from issuance of common shares for cash	3,691,392	7,724,252
Cash dividends	(753,475)	(941,469)
Redemption of common shares	(860,332)	(332,666)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(7,652,415)</b>	<b>(7,429,883)</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in prepaid mortgage payments	(45,680)	(80,884)
Mortgage investments	(15,873,785)	(13,186,424)
Repayment of mortgage investments	21,645,806	27,621,014
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>5,726,341</b>	<b>14,353,706</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,700</b>	<b>8,863,113</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>56,779</b>	<b>45,324</b>
<b>CASH AND CASH EQUIVALENTS, end of period (Note 6)</b>	<b>58,479</b>	<b>8,908,437</b>
<b>Additional information:</b>		
Interest received	3,273,581	3,731,965
Interest paid	73,466	55,607

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 1. IMPACT OF COVID-19 OUTBREAK

The coronavirus disease 2019 (“COVID-19”) outbreak was declared a pandemic by the World Health Organization in March, 2020. Steps taken by governments around the world to contain the spread of the COVID-19 virus including legislated closures of non-essential businesses and services and social distancing measures have slowed economic activity and have resulted in layoffs and lost jobs as businesses struggle with the economic effects. The Province of Ontario, Frontenac’s primary lending market, did not implement the closure of non-essential businesses until late March 2020. Accordingly, the operating results of Frontenac for the period ended March 31, 2020 were largely unaffected by COVID-19 related issues.

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

As at March 31, 2020, the Company had not experienced any loan impairments resulting from COVID-19 economic effects for the following reasons: (i) the majority of Frontenac’s loans relate to owner-occupied principal residences and, in down economic times, cash outflows related to personal housing are among the last to be cut by , (ii) there are unprecedented government financial supports available that will assist borrowers in staying current with their mortgage obligations; and (iii) the current situation has created an industry-wide willingness to work with borrowers under deferred payment programs for qualified borrowers.

The impact of COVID-19 on the future performance of the Company will depend largely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. While the operations and performance of the Company have not been significantly impacted as at March 31, 2020, given the significant uncertainty, management’s judgment regarding COVID-19 impacts on Company performance could change in the future as it is dependent on the outbreak’s impact on borrowers ability to meet their mortgage obligations and, failing that, on any change in the value of the underlying real estate security for those loans, the outcomes of which cannot be reasonably estimated at this time.

### 2. 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").

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim financial statements of the Company have been prepared by management in accordance with the International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International 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 May 07, 2020.

(b) Change in Accounting Policy

Effective January 1, 2020 the IASB implemented amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarified the definition of "material" and aligned the definition used in the Conceptual Framework and the standards themselves. The information provided in the Company financial statements is compliant with the issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(c) 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.

(d) Functional and presentation currency

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

(e) 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 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. 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:



# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

#### (e) Use of estimates and judgements (Continued)

##### (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. 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, 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 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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

#### (e) Use of estimates and judgements (Continued)

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 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 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.

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

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

As at March 31, 2020, the Company has not made any adjustments to its ECL modelling to account for potential impacts arising from the COVID-19 pandemic. As at March 31, 2020, the Company had not experienced any significant increases in credit risk resulting from COVID-19 economic effects nor had any deferral arrangements been made with borrowers on account of COVID-19. The impact of COVID-19 on the ECL model of the Company will depend entirely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. Further commentary on the impact of COVID-19 is provided in Note 1 to these financial statements.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

#### (e) Use of estimates and judgements (Continued)

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.

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 modification. If the Company 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 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. As explained in more detail in Note 12, 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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 4. SUMMARY OF SIGNIFICANT 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 and Stage 2.

(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 (3)(e)(i)) when assessing if there has been a significant increase in credit risk.

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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Mortgage investments (Continued)

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 of 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 taxable income dividends 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 intends to distribute sufficient dividends in the year and in future years to ensure the Company is not subject to income taxes. 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.

#### (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) 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 8.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Financial assets and liabilities (Continued)

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

#### (ii) Financial liabilities:

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

### 5. 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. As at March 31, 2020 and 2019, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

The Company's capital management objectives and strategies are unchanged from prior periods.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 6. CASH AND CASH EQUIVALENTS

	As at March 31, 2020	As at December 31, 2019
	\$	\$
Cash (Bank indebtedness)	(3,266)	(4,739)
Short-term investments	61,745	61,518
	<u>58,479</u>	<u>56,779</u>

### 7. 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.

### 8. MORTGAGE INVESTMENTS

There are 480 mortgages (December 31, 2019 - 505) 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 March 31, 2020	As at December 31, 2019
	\$	\$
Mortgages	170,441,228	176,464,087
Allowance for impairment losses	(3,178,930)	(3,148,902)
	<u>167,262,298</u>	<u>173,315,185</u>

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

Breakdown of the mortgage investment portfolio by type:

	March 31, 2020			December 31, 2019		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Residential	298	65,244	39.0%	309	69,254	39.9%
Residential construction	115	47,892	28.6%	128	49,443	28.5%
Residential developments	11	39,038	23.3%	11	39,110	22.6%
Commercial	9	3,759	2.3%	10	4,087	2.4%
Vacant land	47	11,329	6.8%	47	11,421	6.6%
<b>Total</b>	<b>480</b>	<b>167,262</b>	<b>100.0%</b>	<b>505</b>	<b>173,315</b>	<b>100.0%</b>

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

Breakdown of the mortgage investment portfolio by location:

	March 31, 2020			December 31, 2019		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Ontario – East	344	115,306	68.9%	366	116,774	67.4%
Ontario – Southwest	45	25,004	14.9%	42	27,755	16.0%
Ontario – Central	39	17,843	10.7%	45	19,007	11.0%
Ontario – North	51	9,077	5.4%	51	9,747	5.5%
Quebec	1	32	0.1%	1	32	0.1%
<b>Total</b>	<b>480</b>	<b>167,262</b>	<b>100.0%</b>	<b>505</b>	<b>173,315</b>	<b>100.0%</b>

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 March 31, 2020 and December 31, 2019, substantially none of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).



# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

Other key metrics related to the mortgage investment portfolio:

	March 31, 2020			December 31, 2019		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
First mortgage loans	479	167,003	99.9%	504	173,053	99.9%
Average gross loan balance		355			349	

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

Gross investments at amortized cost	As at March 31, 2020			
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Commercial	2,393,465	380,850	992,933	3,767,248
Residential	59,576,496	2,112,144	3,884,359	65,572,999
Residential construction	46,538,153	56,815	1,423,184	48,018,152
Residential developments	26,914,084		14,511,789	41,425,873
Vacant land	10,690,637	203,828	762,491	11,656,956
	146,112,835	2,753,637	21,574,756	170,441,228

Allowance for credit losses on loans	As at March 31, 2020			
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Commercial	3,861	3,940		7,801
Residential	104,899	61,604	162,771	329,274
Residential construction	96,588	21,137	8,091	125,816
Residential developments	20,097		2,367,611	2,387,708
Vacant land	22,321	2,981	303,029	328,331
	247,766	89,662	2,841,502	3,178,930

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

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

<b>Gross investments at amortized cost</b>	<b>As at December 31, 2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Commercial	2,408,779	1,698,655		4,107,434
Residential	65,714,923	1,243,996	2,635,674	69,594,593
Residential construction	49,168,879	56,815	339,699	49,565,393
Residential developments	26,975,258		14,475,541	41,450,799
Vacant land	10,992,141	48,734	704,993	11,745,868
	<b>155,259,980</b>	<b>3,048,200</b>	<b>18,155,907</b>	<b>176,464,087</b>

<b>Allowance for credit losses on loans</b>	<b>As at December 31, 2019</b>			
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Commercial	3,459	16,834		20,293
Residential	113,974	12,741	214,283	340,998
Residential construction	105,065	9,762	7,752	122,579
Residential developments	23,735		2,316,614	2,340,349
Vacant land	22,516	2,163	300,004	324,683
	<b>268,749</b>	<b>41,500</b>	<b>2,838,653</b>	<b>3,148,902</b>

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at March 31, 2020, there are 19 mortgages totaling \$21,574,756 (December 31, 2019 - 16 mortgages totaling \$18,155,907) 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.

The fair value of collateral held against impaired mortgages at March 31, 2020 was approximately \$26,433,500 (December 31, 2019 - \$21,317,000).

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

	<b>Three months ended March 31, 2020 \$</b>	<b>Three months ended March 31, 2019 \$</b>
Balance - beginning of period	3,148,902	3,095,688
Deduct: realized losses for period	(250,838)	(726,664)
Add: provision for credit losses for period	280,866	187,166
Balance - end of period	<b>3,178,930</b>	<b>2,556,190</b>

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

Principal repayments based on contractual maturity dates are as follows:

	\$
Next 12 months to March 31, 2021	156,728,000
Following 12 months to March 31, 2022	13,713,000
Thereafter	228
<b>Total</b>	<b>170,441,228</b>

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 March 31, 2020 was 9.43% (December 31, 2019 - 9.44%).

Mortgages past due but not impaired are as follows:

	March 31, 2020	December 31, 2019
	\$	\$
1 to 30 days	3,438,229	2,603,431
31 - 90 days	1,899,725	2,258,383
over 90 days	853,912	789,817
<b>Total</b>	<b>6,191,866</b>	<b>5,651,631</b>

#### 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. The maximum exposure to credit risk at March 31, 2020 is the carrying values of its mortgage investments, including accrued interest receivable, which total \$180,077,183 (December 31, 2019 - \$185,555,275). 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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

#### 8. MORTGAGE INVESTMENTS (Continued)

##### Credit risk (Continued)

There are no significant concentrations of credit risk as the average mortgage amount as at March 31, 2020 was \$355,086 (December 31, 2019 - \$349,434) and the largest mortgage was \$13,432,040 (December 31, 2019 - \$13,432,040) with a recorded impairment of \$0 (December 31, 2019 - \$0).

The impact of the current COVID-19 outbreak is discussed in Note 1 to these financial statements.

##### Fair values

The fair value of the mortgage investments approximates its carrying value as substantially all of the loans are short-term in nature and repayable in full at any time at the option of the borrower.

Fair value is the price that would be received to sell an assets 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.

##### 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. 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 March 31, 2020, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling \$129,084 (December 31, 2019 - \$114,786) and dividends payable totaling \$275,492 (December 31, 2019 - \$209,704). 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 balance outstanding of \$1,600,000 as at March 31, 2020 (December 31, 2019 - \$11,330,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of \$21,280,000 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 March 31, 2020, the Company's committed borrowing facilities represented approximately 15% of shareholders' equity (December 31, 2019 - 15% of shareholders' equity). In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 9. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank with a limit of an amount equal to 15% of assets under administration of the Company subject to a maximum limit of \$29,000,000. The line of credit 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 3.45% (December 31, 2019 - 3.95%) plus 1%.

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.

### 10. 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:**

	Three months ended March 31, 2020		Year ended December 31, 2019	
	Number of shares issued	\$	Number of shares issued	\$
Balance, beginning of period	5,817,686	174,421,552	5,926,249	177,678,465
Issued for cash	123,046	3,691,392	861,616	25,848,472
Issued through dividend reinvestment plan	48,986	1,469,588	192,263	5,767,877
Redeemed for cash	(28,678)	(860,332)	(1,162,442)	(34,873,262)
Balance, end of period	5,961,040	178,722,200	5,817,686	174,421,552

#### **Dividend reinvestment plan and direct share purchase plan**

Unless a shareholder elects to receive their dividends as cash, the dividends issued to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

#### **Redemptions**

Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the period ended March 31, 2020, the Company redeemed for cash 28,678 common shares at the price of \$30.00 per share for total proceeds of \$860,332. During the period ended March 31, 2019, the Company redeemed 11,089 common shares at \$30.00 per share for total proceeds of \$332,667.

The Company had no potentially dilutive instruments as at March 31, 2020, December 31, 2019 or March 31, 2019.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 11. 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 paid to Pillar for the three months ended March 31, 2020 were \$453,189 (March 31, 2019 - \$468,066) and the total fees paid to the Manager for the period ended March 31, 2020 including applicable sales taxes were \$512,104 (March 31, 2019 - \$528,915) under these contracts. All related party transactions noted above were in the normal course of business.

### 12. FAIR VALUE MEASUREMENTS

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

<b>As at March 31, 2020</b>		<b>Carrying Value</b>	<b>Fair Value</b>
	<b>Carrying Value Basis</b>	<b>Value</b>	<b>Value</b>
		\$	\$
<b>ASSETS:</b>			
Cash and cash equivalents	Fair value through profit & loss	58,479	58,479
Due from administrator in trust	Measured at amortized cost	737,443	737,443
Accrued interest receivable	Measured at amortized cost	12,814,885	12,814,885
Mortgage investments	Measured at amortized cost	167,262,298	167,262,298
<b>LIABILITIES:</b>			
Bank line of credit	Financial liabilities - amortized cost	1,600,000	1,600,000
Dividends payable	Financial liabilities - amortized cost	275,492	275,492
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	129,084	129,084
<b>As at December 31, 2019</b>		<b>Carrying Value</b>	<b>Fair Value</b>
	<b>Carrying Value Basis</b>	<b>Value</b>	<b>Value</b>
		\$	\$
<b>ASSETS:</b>			
Cash and cash equivalents	Fair value through profit & loss	56,779	56,779
Due from administrator in trust	Measured at amortized cost	658,402	658,402
Accrued interest receivable	Measured at amortized cost	12,240,090	12,240,090
Mortgage investments	Measured at amortized cost	173,315,185	173,315,185
<b>LIABILITIES:</b>			
Bank line of credit	Financial liabilities - amortized cost	11,330,000	11,330,000
Dividends payable	Financial liabilities - amortized cost	209,704	209,704
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	114,786	114,786

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(In Canadian Dollars)

### 12. FAIR VALUE MEASUREMENTS (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.

### 13. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling \$29,070 (March 31, 2019 - \$25,567) 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 11).

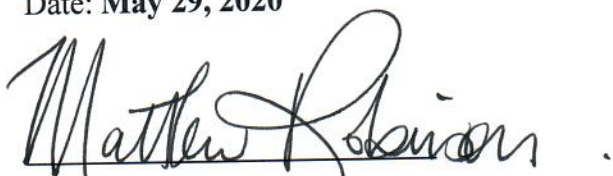
In addition, certain comparative figures on the Statement of Income and Comprehensive Income have been consolidated where separate disclosure is not required under corporate finance regulations and where such consolidation has been considered by management to be immaterial to the users of these financial statements.

**FORM 52-109FV2**  
**CERTIFICATION OF INTERIM FILINGS**  
**VENTURE ISSUER BASIC CERTIFICATE**

I, Matthew Robinson, Chief Executive Officer of Frontenac Mortgage Investment Corporation, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Frontenac Mortgage Investment Corporation (the “issuer”) for the interim period ended March 31, 2020.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: **May 29, 2020**



Matthew Robinson

Chief Executive Officer

**NOTE TO READER**

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and



reported within the time periods specified in securities legislation; and  
a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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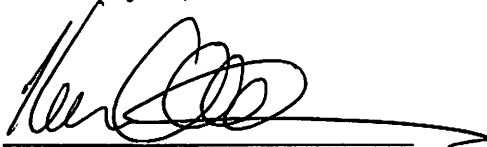
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**FORM 52-109FV2**  
**CERTIFICATION OF INTERIM FILINGS**  
**VENTURE ISSUER BASIC CERTIFICATE**

I, Kevin Cruickshank, Chief Financial Officer of Frontenac Mortgage Investment Corporation, certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the “interim filings”) of Frontenac Mortgage Investment Corporation (the “issuer”) for the interim period ended March 31, 2020.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

Date: May 29, 2020



Kevin Cruickshank  
Chief Financial Officer

**NOTE TO READER**

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of

controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and

reported within the time periods specified in securities legislation; and

a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

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