



**MANAGEMENT DISCUSSION & ANALYSIS**

**QUARTER ENDED MARCH 31, 2022**

**FRONTENAC MORTGAGE INVESTMENT CORPORATION  
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**BASIS OF PRESENTATION**

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

This Management Discussion & Analysis (“MD&A”) is dated May 30, 2022 and should be read in conjunction with the unaudited interim financial statements of the Corporation and the notes thereto for the three months ended March 31, 2022 and 2021, the audited financial statements and the notes thereto for the years ended December 31, 2021 and 2020.

**OUR BUSINESS**

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

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

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

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

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

**HIGHLIGHTS**

Frontenac Mortgage Investment Corporation continues to meet its primary objective of offering its shareholders capital preservation while providing a stable stream of monthly dividend income. The carrying value per share remained stable at \$30 at March 31, 2022 with an annualized dividend yield,

assuming dividends are re-invested under the Corporation’s dividend re-investment plan, of 4.80% for the first three months of 2022.

As at March 31, 2022, the Corporation’s assets totaled \$213.5 million including a mortgage investment portfolio totaling \$176.8 million with shareholder’s equity of \$212.7 million. Total assets and mortgage investments increased from December 31, 2021, when the Corporation’s assets totaled \$203.5 million including a mortgage investment portfolio of \$183.3 million while shareholders’ equity increased from \$202.7 million as at December 31, 2021.

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

### MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation’s mortgage investment portfolio totaled \$176,881,448 as at March 31, 2022 as compared to \$183,318,440 as at December 31, 2021.

Breakdown of the mortgage investment portfolio by type as at March 31, 2022 and December 31, 2021:

	Mar 31, 2022			Dec 31, 2021		
	#	\$ (000’s)	% of total	#	\$ (000’s)	% of total
Residential	176	52,977	30.0%	181	50,573	27.6%
Residential construction	194	90,961	51.4%	187	84,483	46.1%
Residential developments	5	13,853	7.8%	6	31,409	17.1%
Commercial	5	2,312	1.3%	8	1,654	0.9%
Vacant land	54	16,778	9.5%	52	15,199	8.3%
<b>Total</b>	<b>434</b>	<b>176,881</b>	<b>100.0%</b>	<b>434</b>	<b>183,318</b>	<b>100.0%</b>

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

The Corporation has strategically decided for the long term that the percentage of the portfolio dedicated to residential developments will be reduced over the next few years to instead focus on its rural residential and residential construction core business. As at March 31, 2022, loans reported in this category represented 7.8% of the mortgage loan portfolio; down from 17.1% as at December 31, 2021 and 26.0% as at December 31, 2020. As at March 31, 2022, four of the five remaining loans reported in the residential developments category relate to a single development project and this project represents approximately

6.32% of shareholders' equity. During 2021, the loans related to one project were paid out. This project had been considered impaired and was sold under power-of-sale. Loans related to a second unrelated development project were repaid in January 2022.

Breakdown of the mortgage investment portfolio by location as at March 31, 2022 and December 31, 2021:

	Mar 31, 2022			Dec 31, 2021		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Ontario – East	272	117,619	66.5%	271	109,161	59.5%
Ontario – Southwest	36	12,223	6.9%	44	34,156	18.6%
Ontario – Central	48	27,952	15.8%	45	24,210	13.2%
Ontario – North	78	19,087	10.8%	73	15,761	8.6%
Quebec	0	0	0.0%	1	30	0.1%
<b>Total</b>	<b>434</b>	<b>176,881</b>	<b>100.0%</b>	<b>434</b>	<b>183,318</b>	<b>100.0%</b>
<b>Loans on Ontario rural property</b>	<b>296</b>	<b>105,357</b>	<b>59.6%</b>	<b>289</b>	<b>113,935</b>	<b>62.2%</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. Rural properties comprise postal codes designated as rural general delivery.

The Corporation's mortgage portfolio has been historically centered on the Ontario – East market, which aside from the Ottawa and Kingston markets is primarily a rural and small-town market area. As the Corporation's assets grow, management is targeting to diversify the mortgage loan portfolio to include a greater allocation to the rural areas of Ontario – Southwest to further mitigate any geographic concentration risk in the mortgage portfolio. As discussed above under the "Portfolio by Type" section, in January 2022, loans related to a single large development were repaid. As this development was located in Ontario – Southwest, the repayment of these loans resulted in a decline in the percentage of the portfolio located in Ontario – Southwest as at March 31, 2022.

As at March 31, 2022, only two of the Ontario – Central loans were for properties located in the Toronto market (postal code M)(December 31, 2021 – one loan).

Breakdown of the mortgage investment portfolio by interest rate as at March 31, 2022 and December 31, 2021:

	Mar 31, 2022			Dec 31, 2021		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
5%	1	618	0.3%	1	618	0.3%
6%	1	7,552	4.3%	1	7,528	4.1%
7%						
8%	12	9,949	5.6%	13	8,964	4.9%
9%	83	29,878	16.9%	83	28,447	15.5%
10%	310	123,786	70.0%	301	114,093	62.3%
11%	17	4,229	2.4%	23	5,147	2.8%
12%	9	670	0.4%	11	18,321	10.0%
13%	1	199	0.1%	1	200	0.1%
<b>Total</b>	<b>434</b>	<b>176,881</b>	<b>100.0%</b>	<b>434</b>	<b>183,318</b>	<b>100.0%</b>

Substantially all of the mortgage loans are issued with either 1 or 2 year terms, have fixed interest rates and can be repaid in full before maturity without penalty. The weighted average interest rate of the mortgage loans as at March 31, 2022 was 9.56%, down from 9.78% as at December 31, 2021.

Breakdown of the mortgage investment portfolio by maturity date:

	Mar 31, 2022			Dec 31, 2021		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Within one year	401	168,075	95.0%	414	176,419	96.2%
Within following year	31	8,655	4.9%	19	6,885	3.7%
Thereafter	2	151	0.1%	1	14	0.1%
<b>Total</b>	<b>434</b>	<b>176,881</b>	<b>100.0%</b>	<b>434</b>	<b>183,318</b>	<b>100.0%</b>

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

Other key metrics related to the mortgage investment portfolio as at March 31, 2022 and December 31, 2021:

	Mar 31, 2022			Dec 31, 2021		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
First mortgage loans	433	176,779	99.9%	432	183,180	99.9%
Average gross loan balance		410			424	

Mortgage impairments and provision for impairment losses:

As at March 31, 2022, there were 7 mortgages totaling \$3,317,161 (December 31, 2021 – 5 mortgages totaling \$2,672,805) which were considered by management to be impaired with a total provision for impairment losses of \$638,773 and \$528,130 against those loans as at March 31, 2022 and December 31, 2021 respectively.

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

(All figures \$000's)

	Mar 31, 2022			Dec 31, 2021		
	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount
Residential	2,819		2,819	2,478	360	2,118
Residential construction	299		299			
Residential developments		47	(47)		120	(120)
Commercial						
Vacant land	199	75	124	195	48	147
<b>Total</b>	<b>3,317</b>	<b>122</b>	<b>3,195</b>	<b>2,673</b>	<b>528</b>	<b>2,145</b>

(1) Gross amount shown at amortized cost

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

As at March 31, 2022 and as at December 31, 2021, the mortgage portfolio was performing within normal expectations. As at March 31, 2022, there were 7 impaired mortgages totaling \$3,317,161 (1.56% of shareholders' equity) and the largest impaired mortgage was \$2,095,479. As at December 31, 2021, there were 5 impaired mortgages totaling \$2,672,805 (1.31% of shareholders' equity) and the largest impaired mortgage was \$2,017,170.

The COVID pandemic has resulted in significantly stronger demand for housing away from the Toronto and other large urban markets into rural areas and smaller centres. Since the Fall 2020, many of the housing markets within the Corporation's traditional lending areas have been experiencing record volumes of home sales and year-over-year increases in home prices of 20%-30%. This increase demand had a positive impact on the Corporation's ability to dispose of the properties securing impaired loans in its mortgage portfolio. Properties sold much more quickly and for much higher proceeds resulting in significantly lower loss provisions on the Corporation's Stage 3 loans. As at March 31, 2022, housing prices in the Corporation's markets have stabilized, but demand remains strong.

## RESULTS OF OPERATIONS

### Summary of Quarterly Results - (Unaudited)

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

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
				\$	\$	\$	\$	\$
Interest income	4,016	4,396	3,870	3,729	3,676	3,778	3,893	3,567
Management & admin fees	1,141	1,094	1,084	1,023	932	974	992	949
Interest on credit line	-	-	-	-	1	6	5	3
Provision for impairment losses	156	217	66	(63)	28	348	325	118
Other operating expenses	225	224	180	280	204	160	263	248
Total operating expenses	1,522	1,535	1,330	1,240	1,165	1,488	1,585	1,318
Net income and comprehensive income	2,494	2,861	2,540	2,489	2,511	2,290	2,308	2,249
Earnings per share – basic and fully diluted	0.354	0.418	0.378	0.394	0.428	0.379	0.378	0.376

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

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

### **Results of Operations – Three Months Ended March 31, 2022**

Net income and comprehensive income for the Corporation for the three months ended March 31, 2022 decreased slightly on a gross basis to \$2,493,764 from \$2,511,131 for the three months ended March 31, 2021 while, on a per share basis, net earnings decreased to \$0.354 from \$0.428 per common share.

Revenues for the Corporation for the three months ended March 31, 2022 increased on a gross basis to \$4,016,007 as compared to \$3,675,837 for the three months ended March 31, 2021 while, on a per share basis, revenues decreased to \$0.570 from \$0.627 per common share. The quarter-over-quarter increase in the gross amount of interest revenue and the revenue per share is attributable to a much lower level of impaired mortgages in 2022 as compared to 2021. The Corporation does not accrue interest on mortgages that are considered impaired. The quarter-over-quarter decrease in revenue per share is attributable to higher quarter-over-quarter cash balances as a percentage of the Corporation's assets. The Corporation earns little to no return on its cash balances.

Total operating expenses, excluding provision for impairment losses, for the three months ended March 31, 2022 increased on a gross basis to \$1,366,078 from \$1,136,711 for the three months ended March 31, 2021 while, on a per share basis, these expenses were unchanged at \$0.194 from \$0.194 per common share. Management and administration fees are assessed as a fixed percentage of Frontenac's total assets. Accordingly, the increase in gross expenses reflects a period-over-period growth in total assets of the Corporation.

### **Impact and Potential Impact of COVID-19 Outbreak**

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

In general, throughout the pandemic period, the number of arrangements made by the Corporation with its borrowers to defer mortgage loan payments has not been significant in relation to the mortgage portfolio as a whole. For the three month period ended March 31, 2022, the Corporation had no active deferral arrangements with borrowers and only one late but not impaired mortgage as a result of COVID-19 impacts of the 434 total active mortgages. As at December 31, 2021, of the 434 active mortgages in its portfolio, the Corporation had one active deferral arrangement with borrowers and no late but not impaired mortgages as a result of COVID-19 effects. For the year ended December 31, 2021, there have been 11 mortgage deferral arrangements and two impaired mortgages as a result of COVID-19. Over the course of 2020, mortgage deferrals peaked at a maximum of 12 active deferral arrangements, of which, only one impaired mortgage resulted from COVID-19 economic effects. Deferral arrangements are made on a month-to-month basis. Any deferral arrangements offered by the Corporation are not interest-free and therefore do not have a negative impact on interest revenues of the Corporation.

The majority of Frontenac's loans relate to owner-occupied principal residences and, in down economic times, cash outflows related to personal housing are among the last to be cut by people. Essentially,



impairment or default is several steps down the road for most borrowers only after they have exhausted cash reserves, cut down on other expenses, worked with government assistance, and worked on potential deferral arrangements. Throughout 2020 and 2021, unprecedented government supports were available to help individuals offset the economic downturn and allowing them to maintain their mortgage payments. Currently, the economy overall has rebounded from the lows experienced during the initial shutdowns in the first half of 2020, with employment levels now back to or exceeding pre-COVID levels.

The expectations for any significant change or increase in the Corporation's impairments over the next four to six months remains uncertain. There remains the potential for the emergence of further COVID-19 variants that could lead governments to renew restrictions or reinstate targeted economic shutdowns, further delaying a return to full pre-COVID normalcy. If the Corporation experiences an increase in impairments, such an increase would translate into lower earnings due to the unlikely collectability of further interest on those loans.

The potential for an increase in capital losses on impaired loans requires a decline in home values below the carrying value of the related loans. Frontenac's underwriting policies of focusing on first mortgage loans (99.9% firsts) to a maximum loan-to-value at origination of 80% or less provides some room for a decline in home values. In addition, the Corporation's loans are short-term, generally offered for 12 month terms, allowing for loan-to-value ratios on mortgage loans to be reassessed against current market conditions frequently. In 2021, an increase in consumer demand for rural properties led to a significant increase in home prices of up to 20% year-over-year in the Corporation's lending areas. As at March 31, 2022, home prices have stabilized and resale inventories remain low. Based on these market conditions, the Corporation does not anticipate that the effects of COVID-19 will lead to any unusual capital losses on the Corporation's impaired loans in the near term.

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

### **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the Corporation's continuous offering prospectus, Frontenac issues common shares on up to a monthly basis. Up to November 30, 2021, shareholders have had the option to redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. After November 30, 2021, shareholders have the option to redeem shares on a quarterly basis. As at March 31, 2022, there were 7,091,289 common shares issued and outstanding with a total book value of \$212,629,652.

Growth in the mortgage portfolio is financed by the issuance of common shares. We expect to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only. The Corporation has not historically, and does not intend in the future, to supplement this funding using leverage.

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

The Corporation has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity of the Corporation subject to a maximum dollar limit. In December 2021, the maximum dollar limit of the revolving line of credit was increased to \$40 million from \$29.0 million. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Corporation to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at March 31, 2022 and December 31, 2021, the Corporation was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward.

The line of credit is used to smooth out the cash flows of the Corporation and as a reserve for unexpected share redemptions and is not used to extend the Corporation's investment capacity beyond its available equity. As at March 31, 2022, the Corporation was using \$nil (December 31, 2021 - \$nil) of its available credit line. The maximum borrowings at any time during the first three months of 2022 was \$nil (2021 year - \$860,000).

### CHANGES IN FINANCIAL POSITION

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of its continuous offering prospectus, the Corporation issues common shares on a monthly basis. The following table presents a summary of outstanding share data and transactions for years ended March 31, 2022 and December 31, 2021:

	Three months ended		Year ended	
	March 31, 2022		December 31, 2021	
Common shares:	#	\$	#	\$
Balance – beginning of period	6,757,281	202,609,406	5,721,384	171,532,472
Issued for cash	574,048	17,221,446	1,279,533	38,386,002
Issued under dividend re- investment plan	36,705	1,101,154	130,239	3,907,184
Redeemed	(276,745)	(8,302,354)	(373,875)	(11,216,252)
Balance – end of period	7,091,289	212,629,652	6,757,281	202,609,406

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

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

**CONTRACTUAL OBLIGATIONS**

Contractual obligations due at March 31, 2022 are all due within one year and are as follows:

	\$
Dividends payable	483,112
<u>Accounts payable and accrued liabilities</u>	<u>140,738</u>
	<u>623,850</u>

As at March 31, 2022, the Corporation has commitments to advance additional funds of \$69,699,000 under existing mortgages (Dec 31, 2021 - \$64,555,000). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

**TRANSACTIONS WITH RELATED PARTIES**

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

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

Administration and management fees paid under these agreements totaled \$1,141,162 for the three months ended March 31, 2022 (three months ended March 31, 2021 - \$932,273) including applicable sales taxes. The increase in the dollar value of the administration and management fees in the three month period from 2021 reflects a period-over-period increase in the average total assets of the Corporation.

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

(i) Mortgage investments:

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

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

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

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

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

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

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

As at March 31, 2022, no adjustments were deemed necessary to the ECL modelling to account for potential impacts arising from the COVID-19 pandemic. As at March 31, 2022, the Company had no active deferral arrangements with borrowers on account of COVID-19, which are included with the stage 1 loans in the ECL model as they are less than 30 days late at the end of the period. 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 2 to the financial statements and under the Operating Results section of this MD&A.

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

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

#### Loan Modification

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

#### (ii) Fair value measurements:

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

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

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

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

## **FINANCIAL INSTRUMENTS**

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

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

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

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as measured at amortized cost.

(ii) Financial liabilities:

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

The tables in note 12 of the interim financial statements present the fair values of the Corporation's financial instruments as at March 31, 2022 and December 31, 2021.

## **CHANGES IN ACCOUNTING POLICIES**

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

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

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

#### **IAS 1 - Presentation of Financial Statements**

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

#### **IAS 1 - Presentation of Financial Statements**

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

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

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

### **RISKS AND UNCERTAINTIES**

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

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



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

### **FORWARD-LOOKING INFORMATION**

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

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

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

### **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS**

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at March 31, 2022.

### **ADDITIONAL INFORMATION**

Additional information about Frontenac Mortgage Investment Corporation, including the unaudited financial statements for the three months ended March 31, 2022 and the audited financial statements for

the years ended December 31, 2021, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on our website at [www.fmic.ca](http://www.fmic.ca). You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (613) 279-2116 or by email at [amber.kehoe@robinsonsgroup.com](mailto:amber.kehoe@robinsonsgroup.com).