

FRONTENAC MORTGAGE INVESTMENT CORPORATION

Investment Entity Review Report
April 30, 2023

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INVESTMENT ENTITY REVIEW REPORT

AS AT APRIL 30, 2023

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May 30, 2023

Mr. Dan Komorowski, MAcc, CPA, CA
Chief Financial Officer
W.A. Robinson Asset Management Ltd.
14216 Road 38, P.O. Box 208
Sharbot Lake, Ontario
K0H 2P0

Mr. Komorowski:

**RE: Investment Entity Review Report as at April 30, 2023
Frontenac Mortgage Investment Corporation**

You have requested our services, as independent Chartered Professional Accountants experienced in business and securities valuation, for the preparation of an Investment Entity Review Report (hereinafter, the "**Report**") with respect to the fair value of the net assets of Frontenac Mortgage Investment Corporation ("**Frontenac**" or the "**Company**") and the net asset value per share, as at April 30, 2023 (the "**Valuation Date**").

1. PURPOSE OF THE REPORT

We understand that our Report is requested in connection with the requirements of the Ontario Securities Commission for corporate finance issuers under applicable securities laws. In that context, we understand that our Report will form part of the Company's public filings, and we hereby provide our consent to its filing.

Our Report was prepared in conformity with Practice Standards No. 610, 620 and 630 of The Canadian Institute of Chartered Business Valuators ("**CICBV**") for Investment Entity Review Reports.

In the course of our analysis, we reviewed the determination of fair value prepared by the management of Frontenac ("**Management**") for the mortgage investments held by the Company. We also reviewed the assumption that the fair values of all other assets and liabilities were approximately equal to their book values at the Valuation Date.

2. INDEPENDENCE

MNP is not an insider, associate, or affiliate of the Company or any of its affiliates, associates, or shareholders, to the best of our knowledge. The members of the professional team who were involved in the preparation of this Report have no conflict of interest as regards their independence or objectivity, considering also that **MNP** is the current auditor of the Company ("**MNP assurance team**").

MNP's professional fees for services rendered in preparing this Report were not contingent, in whole or in part, on the conclusions reached herein.

3. DEFINITION OF FAIR VALUE

For the purposes of this Report, the term "fair value" is defined as:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

This definition is consistent with International Financial Reporting Standards ("**IFRS**") which form the basis for the preparation of the Company's financial statements.

Mortgage investments held by the Company are investments for which a public market does not exist. Therefore, Management established their fair value based on recent arm's length mortgage issuance transactions by the Company.

Due to the inherent uncertainties in the valuation process and the lack of market or observable fair value inputs, the price ultimately received in a sale of the mortgage investments might differ from the fair value determined by Management. Further, a forced liquidation of the mortgage investments may result in realizable values different from Management's estimates of fair value.

4. SCOPE OF REVIEW

For the purposes of our Report, we have considered and relied upon, among others, the information contained in the following documents:

- Draft internal financial statements of FMIC as at April 30, 2023, prepared by Management (unaudited);
- Mortgage portfolio listing as prepared by Management;
- Fair value estimate of mortgage investments as prepared by Management as at April 30, 2023;
- The Company's Mortgage Scoring System;
- Information related to historical variable mortgage rates per the Bank of Canada; and
- Mortgage details and other documents setting out the characteristics of the mortgages and their counterparties as at the Valuation Date.

In addition, the MNP assurance team held discussions with Management, in particular Mr. Dan Komorowski, MAcc, CPA, CA, Chief Financial Officer. We also had internal discussions between the MNP valuations and assurance teams regarding the mortgage investments and other assets and liabilities included in the Company's financial statements.

5. RESTRICTIONS AND LIMITATIONS

We have prepared an Investment Entity Review Report with respect to the reasonableness of the fair value of the net assets of the Company, which is not a valuation report under Practice Standard No. 110 of the CICBV. The scope of our review is inherently limited by the nature of our Report and the conclusion expressed may have been different, had you requested a valuation report or a fairness opinion.

This Report is not intended to be used for any purpose other than as outlined above. We do not assume any responsibility or liability for losses sustained by the Company, current or future shareholders, investors, employees or any third parties as a result of the circulation, publication, reproduction or use of this Report

contrary to the provisions of this paragraph. In addition, our conclusion should not be considered as a recommendation to invest in/divest from the Company and we do not assume any responsibility or liability for losses sustained by potential investors as a result of the use of this Report. Many other factors must be considered before making an investment which would require that appropriate due diligence procedures be performed, which exceeds the scope of our work and the purpose of this Report.

We reserve the right, but will be under no obligation, to make revisions and/or further support our conclusions contained in this Report and, if we deem it necessary, to revise our conclusions in light of any information, facts, trends, or conditions existing at, or prior to, the Valuation Date and which become apparent to us subsequent to the date of this Report. We have no obligation to revise our conclusion in light of any results or events arising subsequent to the Valuation Date.

The preparation of an Investment Entity Review Report is a complex process and selecting portions thereof and of the factors considered by us, without considering all factors and analyses together, could result in a misinterpretation of the comments and analyses concerning value. Any attempt to partially analyze or summarily describe the content of this Report could lead to undue emphasis on any particular factor or analysis.

6. DESCRIPTION OF WORK PERFORMED BY THE COMPANY

Management calculated the fair value of all mortgage investments held by the Company, concluding that the fair value of the mortgage investments was equal, in all material respects, to their book value. The book value of all other assets and liabilities on the balance sheet was deemed to equal fair value. Management calculated the fair value of the net assets of the Company based on its balance sheet as at the Valuation Date.

The net asset value calculation and the fair value of the mortgage investments were prepared by and under the supervision of Mr. Dan Komorowski, MAcc, CPA, CA, Chief Financial Officer of the Company.

The Company is a financial services provider that manages mortgage-based investments sold to individual investors through financial advisors. The underlying securities are mortgages that generally do not meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas that are not well-served by major lenders. The mortgages are sourced from Pillar Financial Services Inc. that lends capital to individuals and businesses through independent mortgage brokers.

Each mortgage investment was classified into one of five types, described as follows:

1. ***Impaired Mortgages.*** Impaired mortgages are mortgages that are in default by the counterparty and for which the entirety of the capital and interest is not expected to be recovered by Frontenac. These impaired values were determined on an individual basis and were subject to testing by the MNP assurance team.
2. ***Renewed maturity (Matured).*** These mortgages include mortgages that have a maturity date before month-end. However, Frontenac allows counterparties to extend the maturity of their loans if in good standing on a month-to-month basis. Management has estimated a one-year maturity for those investments.
3. ***Maturity within 3 months after month end.*** These mortgages come to maturity within three months following month-end, and thus their fair value is assumed to be equal to their book value (or amortized cost). These investments were reviewed to ensure that their amortized cost was representative of fair value at the Valuation Date. The principal balance was verified, on a sampling basis, by the MNP assurance team.
4. ***Booked within 3 months before month end.*** These mortgage loans were issued by the Company within three months immediately preceding the Valuation Date. These loans, serving as the basis for the discount rates used by Management in its Discounted Cash Flow analysis (see below), are deemed to be at fair value unless otherwise noted, and are thus valued at amortized cost at the Valuation Date.
5. ***Loans subject to fair value fluctuations.*** Where applicable, we assessed the reasonableness of the valuation approach and assumptions used by Management, along with the reasonableness of the valuation of the mortgage investments held by Frontenac.

7. VALUATION METHODOLOGY AND ASSUMPTIONS

7.1 Valuation Approach and Methodology

Management used an Income Approach, applying the Discounted Cash Flow method, to calculate the fair value of the mortgage investments. We considered this methodology to be appropriate. We also reviewed the mathematical accuracy of Management's calculations and did not find any material miscalculations.

Management concludes that the carrying amount (as reported in the financial statements of the Company under the amortized cost method) of the mortgage investments does not differ significantly from their fair value as determined by the Discounted Cash Flow method.

Management also concluded that the fair value of all other assets and liabilities included in the net asset calculation equals their book value. We found this assumption to be reasonable.

For purposes of validating the calculation of the net asset value per share, we corroborated the number of shares outstanding to the Company's internal reconciliation of share capital as at the Valuation Date.

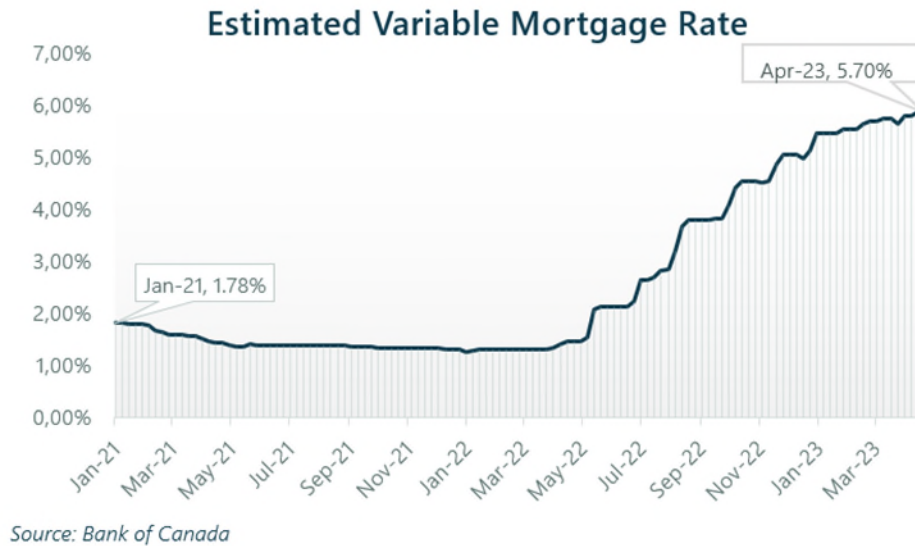
7.2 Valuation Assumption — Effective Interest Rates

Management established the effective interest rates based on recent arm's length mortgage transactions issued by the Company. However, Management did not corroborate these rates with market data, as the Company operates in a relatively opaque market and does not have access to its competitors' rates. The rates on recent mortgages issued by the Company are considered by Management to be representative of market rates since they are negotiated with third parties and the borrowers have the option of repayment at any time before maturity, should a lower rate be available elsewhere. Additionally, considering the short-term nature of the mortgages, as well as the transactions being performed at arm's length, we can assume that there should not be significant differences between the rates established by Management and the market.

We note that the Bank of Canada decreased its target interest rate by 50 basis points twice in March 2020 as a response to the COVID-19 pandemic, bringing it to ¼% as of March 27, 2020. Throughout 2021, the interest rate remained constant. In response to inflationary pressures in 2022, the Bank of Canada increased its target

interest rate by 400 basis points, bringing the overnight rate to 4.25% in December 2022. In January 2023, the interest rate increased by 25 basis points to 4.50%. There was no change from February through April 2023.

Overall, the weekly estimated variable mortgage rate¹ rose between January 2021 and April 2023 by 392 basis points in response to inflationary pressure, as shown in the chart below:



Changes in market interest rates normally are reflected in the discount rates used by Frontenac in the determination of the fair value of the Company's mortgage investments. However, as a secondary and private lender, the Company's mortgage rates are most susceptible to supply and demand for those types of loans, according to Management, which they believe to be relatively unchanged month over month. This is consistent with the fact that Frontenac's rates are often over 650 basis points higher than first-lien mortgages (the "**Credit Spread**"), and therefore the Credit Spread has a greater impact on the Company's mortgage lending rates than the base-rate itself.

We reviewed the reasonableness of the discount rates applied in the fair value measurement of Frontenac's mortgage investments based on Frontenac's recent mortgage issuances, specifically:

(1) Per Bank of Canada — reflects rates of large Canadian banks on senior secured mortgages.

Residential Mortgages

In March 2022, the rate was set to 9.20% based on the rates of recent residential mortgages before increasing by 25 basis points to 9.45% in April 2022. There were successive fluctuations in the following months with an increasing pattern, bringing the discount rate to 10.66% in November 2022 and remaining at that level through February 2023. In March 2023, the discount rate increased by 133 basis points to 11.99%.

At the Valuation Date, the rate on the single residential loan issued in the three prior months was 11.32%, which was used as the discount rate at the Valuation Date. This represents a decrease of 67 basis points and is deemed appropriate as it is consistent with the rate of the recently issued residential loans.

Residential Construction Mortgages

In March 2022, the discount rate on residential construction mortgages was set to 9.88% based on the rates of mortgages issued in the prior three months. The Company adjusted the discount rate in the following months with a general increasing trend, bringing the discount rate in December 2022 to 10.60%. The rate was increased again in January 2023 by 31 basis points to 10.91%; in February 2023, the discount rate was set to 11.24% which was an increase of 33 basis points. The discount rate increased again in March 2023 by 3 basis points to 11.27%.

At the Valuation Date, the average rate of the 14 residential construction loans issued in the three prior months was 11.20%, which was used as the discount rate at the Valuation Date. This represents a decrease of 7 basis points and is deemed appropriate as it is consistent with the rates of recently issued residential construction loans.

Vacant Land Mortgages

In March 2022, the discount rate on vacant land mortgages was set to 9.81% and fluctuated throughout the remaining months of the year, attaining 10.99% in December and remaining at that level through March 2023.

At the Valuation Date, the rate on the single vacant land loan issued in the three prior months was 10.99%, which was used as the discount rate at the Valuation Date. It is deemed appropriate as it is consistent with the rate on the recently issued vacant land loan.

Commercial Mortgages

The Company's discount rate on commercial mortgages was maintained at 10.00% from January 2022 through April 2022, then fluctuated in the remaining months of the year before being set to 10.99% in December 2022 and was maintained at that level through March 2023.

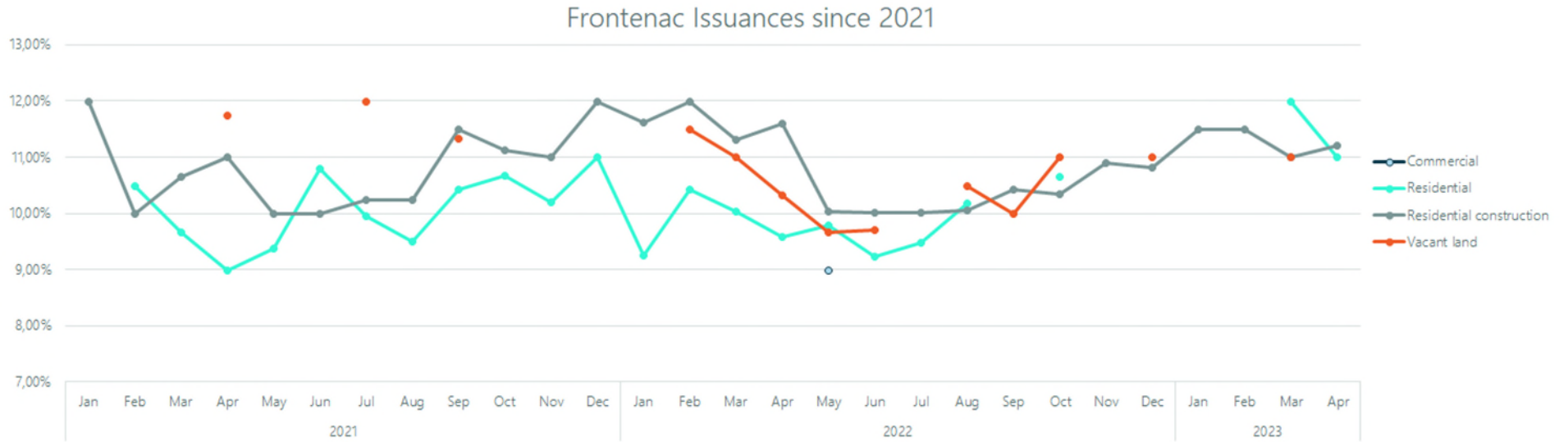
At the Valuation Date, a 10.99% discount rate on commercial mortgages was retained as there were no recently issued commercial loans. We deem the discount rate to be reasonable.

Commercial Construction Mortgages

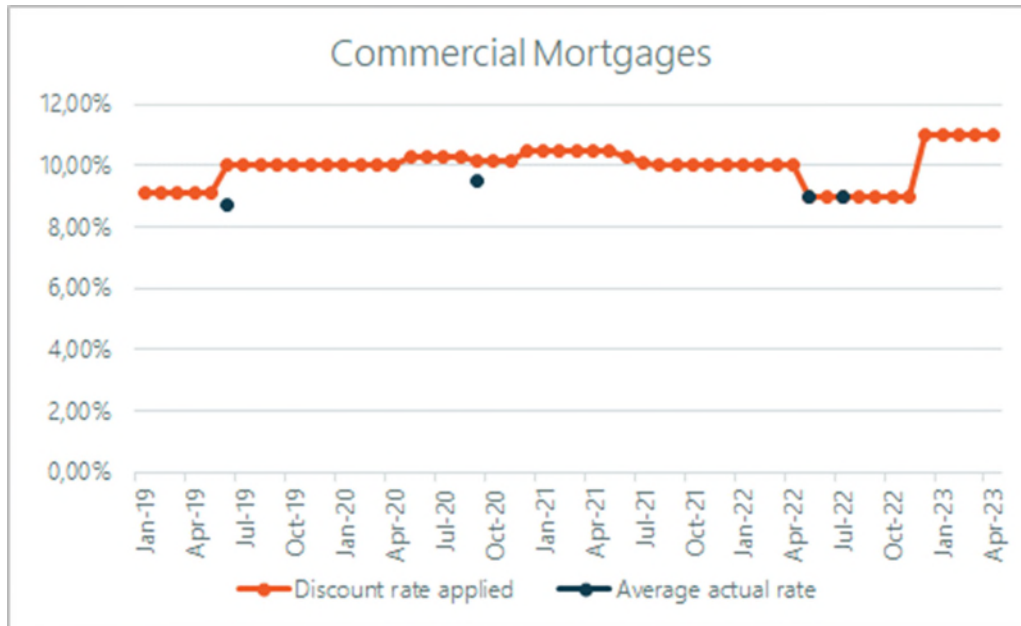
In the 2020 fiscal year, and until August 2021, no commercial construction loans were issued by the Company. In September 2021, the Company issued one commercial construction loan at a rate of 9.99%. This is the only commercial construction loan in the Company's portfolio at the Valuation Date. The discount rate on this loan was therefore set at 9.99% in September 2021. In October 2021, the Company increased the discount rate by 1 basis point to 10.00% to align it with the residential construction rate of that month. This 10.00% discount rate was maintained through March 2023.

At the Valuation Date, there were no commercial construction loans in the Company's portfolio.

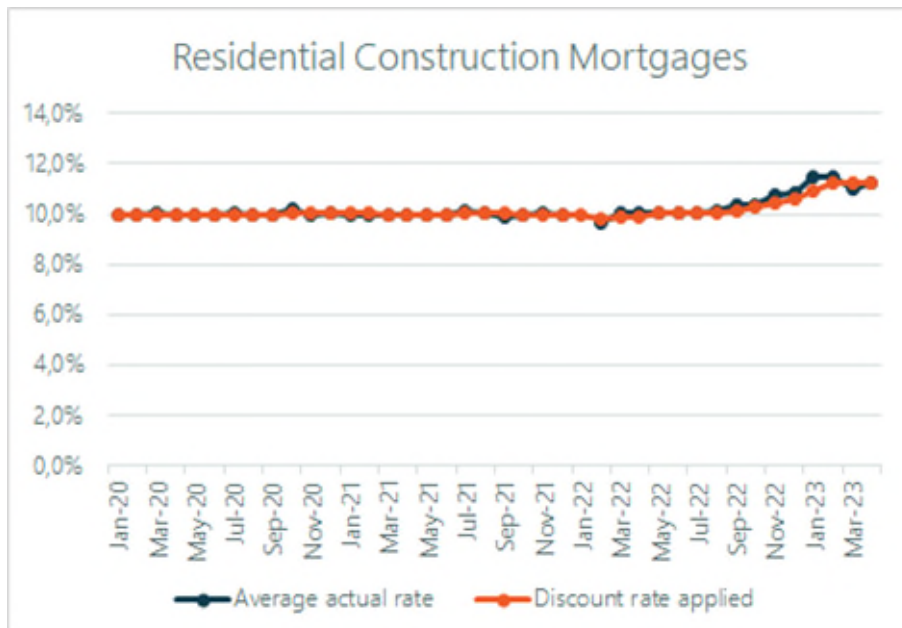
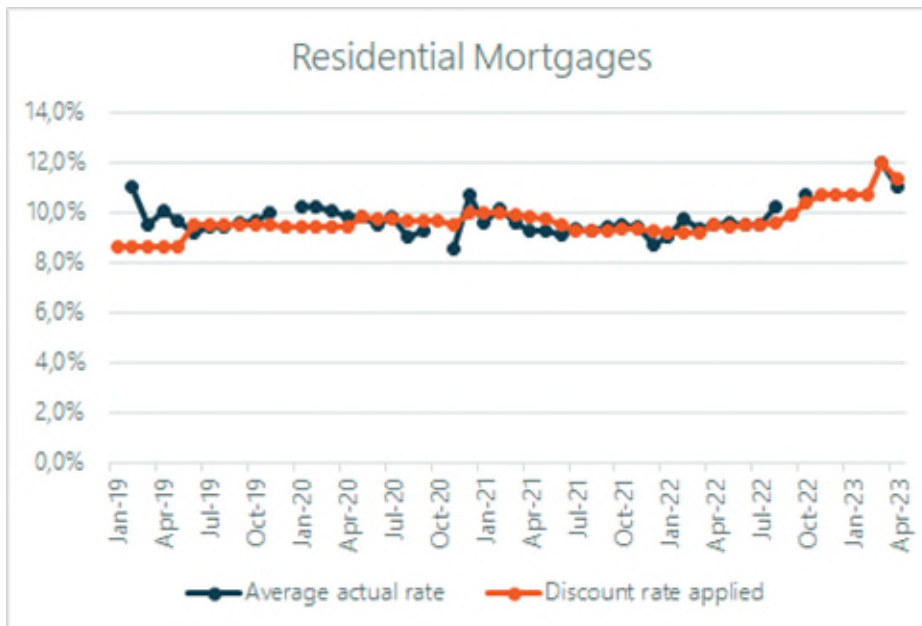
In determining the reasonability of the rates applied by Frontenac, we have considered the history of issuances since 2021, as depicted in the following chart:

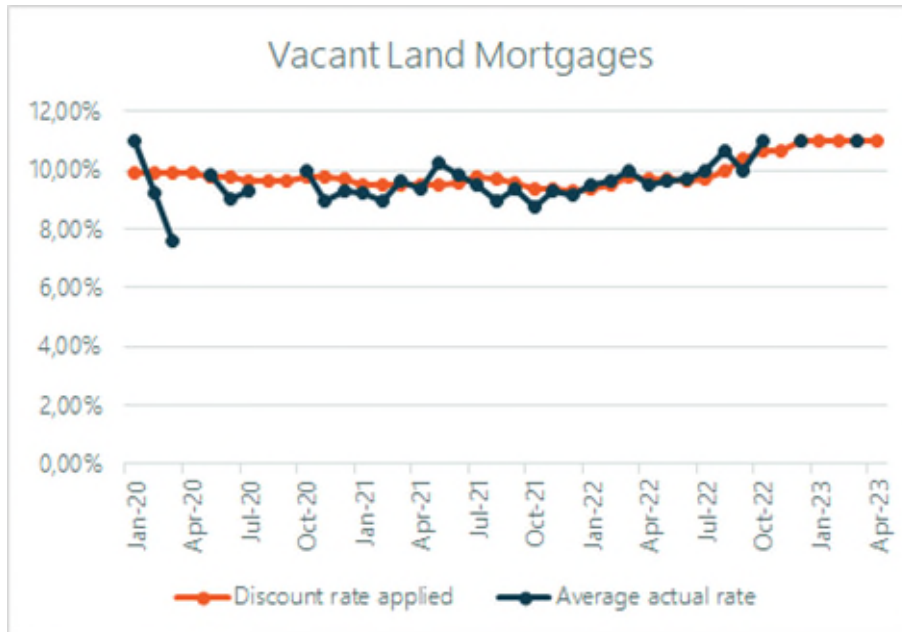


We have also compared the average monthly actual rates with the discount rate applied in the period (we note that monthly reporting only commenced in January 2020 and therefore previous actual rates applied were only measured bi-annually):²



(2) We did not present a chart for commercial construction loans since there was no such loan in the portfolio at the Valuation Date.





To the extent of available information and in light of the above, we have found Management’s discount rates used in the fair value measurement of the mortgage investments to be reasonable.

8. CONCLUSION — FAIR VALUE OF NET ASSETS

Based on our review of the documents and information provided to us, the explanations received, the analysis performed and subject to the assumptions and restrictions noted in this Report, we conclude that the fair value of the net assets of \$201,352,625 as determined by the Management of the Company as at the Valuation Date, is reasonable. We also conclude that the net asset value of \$30.00 per share, as calculated by Management, is reasonable.

We trust that our Report will be of assistance.

Yours very truly,

MNP SENCRL, srl/LLP

MNP SENCRL srl/LLP

Per: Catherine Tremblay, CPA, CBV, ASA, CFF
Partner, Valuation & Litigation Support



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