

# **FRONTENAC MORTGAGE INVESTMENT CORPORATION**

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

**SIX MONTHS ENDED JUNE 30, 2023 AND 2022  
(In Canadian Dollars)**

**Notice of No Auditor Review of Interim Financial Statements:** In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor. The accompanying interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## INTERIM FINANCIAL STATEMENTS (UNAUDITED) SIX MONTHS ENDED JUNE 30, 2023 AND 2022 (In Canadian Dollars)

### CONTENTS

<b>INTERIM FINANCIAL STATEMENTS</b>	<b><u>Page</u></b>
Statements of Financial Position	1
Statements of Income and Comprehensive Income	2-3
Statements of Changes in Shareholders' Equity	4
Statements of Cash Flows	5
Notes to Interim Financial Statements	6-27

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	As at June 30, 2023 \$	As at December 31, 2022 \$
<b>ASSETS</b>		
Cash and cash equivalents (Note 6)	126,788	122,558
Due from administrator in trust (Note 7)	1,877,917	1,436,778
Accrued interest receivable (Note 8)	7,018,550	7,268,932
Mortgage investments (Note 8)	199,355,391	216,933,310
Prepaid expenses	9,705	57,944
<b>Total assets</b>	<b>208,388,351</b>	<b>225,819,522</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Bank line of credit (Note 10)	7,400,000	23,210,000
Dividends payable	-	410,922
Accounts payable and accrued liabilities	278,033	357,720
Prepaid mortgage payments	105,832	121,450
<b>Total liabilities</b>	<b>7,783,865</b>	<b>24,100,092</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	199,939,069	201,610,430
Retained earnings	665,417	109,000
<b>Total shareholders' equity</b>	<b>200,604,486</b>	<b>201,719,430</b>
<b>Total liabilities and shareholders' equity</b>	<b>208,388,351</b>	<b>225,819,522</b>
<b>NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 11)</b>		
	6,668,270	6,723,982
<b>CARRYING VALUE PER SHARE</b>	<b>30.08</b>	<b>30.00</b>

### APPROVED ON BEHALF OF THE BOARD:

\_\_\_ Jody Becker (signed) \_\_\_ Director

\_\_\_ Ryan Seeds (signed) \_\_\_ Director

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Six months ended June 30, 2023 \$	Six months ended June 30, 2022 \$
<b>INTEREST INCOME</b>	10,528,916	8,981,473
<b>EXPENSES</b>		
Management and administration fees (Note 12)	2,287,786	2,280,485
Professional fees	343,916	206,710
Director fees (Note 13)	95,508	90,891
General and operating expenses	227,386	195,498
Interest on bank line of credit	512,646	3,575
Provision for mortgage impairment losses	1,219,933	382,798
	4,687,175	3,159,957
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	5,841,741	5,821,516
<b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING</b>	6,753,458	7,064,947
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	\$ 0.87	\$ 0.82

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Three months ended June 30, 2023 \$	Three months ended June 30, 2022 \$
<b>INTEREST INCOME</b>	5,173,404	4,965,466
<b>EXPENSES</b>		
Management and administration fees (Note 12)	1,102,213	1,139,323
Professional fees	191,046	111,044
Director fees (Note 13)	48,109	45,343
General and operating expenses	114,334	111,796
Interest on bank line of credit	141,478	3,575
Provision for mortgage impairment losses	841,969	226,633
	2,439,149	1,637,714
<b>NET INCOME AND COMPREHENSIVE INCOME</b>	2,734,255	3,327,752
<b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING</b>	6,734,618	7,080,323
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	0.41	0.47

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

### Six months ended June 30, 2023

	Share Capital, (Note 11) \$	Retained Earnings \$	Total \$
Shareholders' equity - December 31, 2022	201,610,430	109,000	201,719,430
Net income and comprehensive income	-	5,841,741	5,841,741
Proceeds from issuance of shares for cash	13,900,243	-	13,900,243
Reinvested dividends	3,010,192	-	3,010,192
Shares redeemed	(18,581,796)	-	(18,581,796)
Dividends to shareholders	-	(5,285,324)	(5,285,324)
<b>Shareholders' equity - June 30, 2023</b>	<b>199,939,069</b>	<b>665,417</b>	<b>200,604,486</b>
Dividends per share			0.78

### Six months ended June 30, 2022

	Share Capital, (Note 11) \$	Retained Earnings \$	Total \$
Shareholders' equity - December 31, 2021	202,609,406	109,000	202,718,406
Net income and comprehensive income	-	5,821,516	5,821,516
Proceeds from issuance of shares for cash	28,498,607	-	28,498,607
Reinvested dividends	2,692,862	-	2,692,862
Shares redeemed	(29,313,180)	-	(29,313,180)
Dividends to shareholders	-	(5,821,516)	(5,821,516)
<b>Shareholders' equity - June 30, 2022</b>	<b>204,487,695</b>	<b>109,000</b>	<b>204,596,695</b>
Dividends per share			0.82

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Six months ended June 30, 2023 \$	Six months ended June 30, 2022 \$
<b>CASH FROM OPERATING ACTIVITIES</b>		
Net income	5,841,741	5,821,516
<b>Items not requiring an outlay of cash:</b>		
Provision for mortgage impairment losses	1,219,933	382,798
<b>Net changes in non-cash operating items:</b>		
Decrease/(Increase) in due from administrator in trust	(441,139)	(27,448)
Decrease/(Increase) in accrued interest receivable	250,382	(1,285,432)
Decrease/(Increase) in prepaid expenses	48,239	20,717
Increase/(Decrease) in accounts payable and accrued liabilities	(79,687)	(19,430)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,839,469</b>	<b>4,892,721</b>
<b>FINANCING ACTIVITIES</b>		
Increase/(Decrease) in bank line of credit	(15,810,000)	4,400,000
Proceeds from issuance of common shares for cash	13,900,243	28,498,607
Cash dividends	(2,686,054)	(3,018,420)
Redemption of common shares	(18,581,796)	(29,313,180)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(23,177,607)</b>	<b>567,007</b>
<b>INVESTING ACTIVITIES</b>		
Increase/(Decrease) in prepaid mortgage payments	(15,618)	213,698
Mortgage investments	(62,876,528)	(105,816,804)
Repayment of mortgage investments	79,234,514	86,153,445
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>16,342,368</b>	<b>(19,449,661)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,230</b>	<b>(13,989,933)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>122,558</b>	<b>14,114,425</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b> (Note 6)	<b>126,788</b>	<b>124,492</b>
<b>Additional information:</b>		
Interest received	10,779,298	7,696,041
Interest paid	512,646	3,575

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

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

### 2. ECONOMIC ENVIRONMENT

Global financial markets continue to be volatile in part due to high levels of inflation and rising interest rates. There remains uncertainty associated with the estimates, judgments and assumptions made by management in the preparation of the financial statements. Given the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of credit losses.

### 3. BASIS OF PRESENTATION

#### (a) Statement of compliance

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

These financial statements were approved for issue by the Board of Directors on August 30, 2023.

#### (b) Basis of measurement

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

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

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

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



# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

#### (d) 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 FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

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

##### (i) Mortgage investments (Continued):

FMIC determines the net realizable proceeds of selling the property and discounts the proceeds to the current period using a discount rate. After subtracting the outstanding principal and interest amounts receivable, the shortfall is recorded as a stage 3 provision. Key inputs required in this analysis are estimated selling proceeds and selling costs. To estimate the selling proceeds, management generally obtains a third-party appraisal report and estimated selling costs are determined based on past experience and management's knowledge of the transaction and market. The discount rate is determined considering market rates and the existing loan interest rate. If the selling costs and underlying security fair value of the mortgage investments included within stage 3 increased (decreased) by +/- 10%, the impact to FMIC's expected credit loss would be +\$1.5/-\$1.5 million as at June 30, 2023 (June 30, 2022 - \$nil).

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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 3. BASIS OF PRESENTATION (Continued)

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

##### (ii) Fair value measurements:

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

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. There were no properties held for sale under foreclosure as at June 30, 2023 or 2022. As explained in more detail in Note 9, 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.

### 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, Stage 2, and on the net carrying value for each mortgage receivable in Stage 3.

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

#### (b) Cash and cash equivalents

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

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

#### (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)(d)(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.

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

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

(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 income for tax purposes paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and 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) Earnings per share

Basic earnings per share is computed by dividing net income and comprehensive income by the weighted average shares outstanding during the year. There are no dilutive shares issued by the Company as at June 30, 2023 or 2022.

(i) Share capital

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

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

(j) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 9.

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.

(k) Accounting pronouncements

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

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

◆ IAS 1 - Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, to come into effect January 1, 2022. The amendment is to provide clarification on the classification of liabilities as current or non-current. The effective date of these amendments was deferred to January 1, 2024, with early adoption permitted. The Company will adopt the amendments in its financial statements for the annual period beginning January 1, 2024. The Company does not expect the amendments to have a material impact on its financial statements.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

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

(k) Accounting pronouncements (Continued)

◆ 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 January 1, 2023. The amendment is to provide clarification to financial statement preparers on which accounting policies to disclose in the financial statements. The Company has adopted the amendments in its financial statements for the annual period beginning January 1, 2023. The adoption of this standard has had no material impact on the 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 Company has adopted the amendments in its financial statements for the annual period beginning January 1, 2023. The adoption of this standard has had no material impact on the financial statements.

### 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. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemptions to 5% of the Company's net asset value.

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



# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 6. CASH AND CASH EQUIVALENTS

	As at June 30, 2023	As at December 31, 2022
	\$	\$
Cash	2,855	1,362
Short-term investments	123,933	121,196
	126,788	122,558

### 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 338 mortgages (December 31, 2022 - 423) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at June 30, 2023	As at December 31, 2022
	\$	\$
Mortgages	202,507,415	218,985,971
Allowance for impairment losses	(3,152,024)	(2,052,661)
	199,355,391	216,933,310

Breakdown of the mortgage investment portfolio by type:

	June 30, 2023			December 31, 2022		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Residential	98	39,529	19.8%	137	45,163	20.8%
Residential construction	188	132,268	66.4%	222	140,542	64.8%
Residential developments	5	11,629	5.8%	5	12,388	5.7%
Commercial	2	421	0.2%	2	426	0.2%
Vacant land	45	15,508	7.8%	57	18,414	8.5%
Total	338	199,355	100.0%	423	216,933	100.0%

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

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:

	<b>June 30, 2023</b>			<b>December 31, 2022</b>		
	#	\$ (000's)	% of total	#	\$ (000's)	% of total
Ontario – East	214	130,775	67.1%	273	140,623	64.8%
Ontario – Southwest	25	14,898	7.4%	31	15,939	7.3%
Ontario – Central	42	32,594	14.7%	49	36,120	16.7%
Ontario – North	57	21,088	10.8%	70	24,251	11.2%
<b>Total</b>	<b>338</b>	<b>199,355</b>	<b>100.0%</b>	<b>423</b>	<b>216,933</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 June 30, 2023, one of the Ontario – Central allocation were for properties located in the Toronto market (postal code M - two in December 31, 2022).

Other key metrics related to the mortgage investment portfolio:

	<b>June 30, 2023</b>			<b>December 31, 2022</b>		
	#	\$ (000's)	% of total	#	\$ (000)'s	% of total
First mortgage loans	337	199,252	99.9%	422	216,830	99.9%
Average gross loan balance		599			518	

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(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 June 30, 2023</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	422,253	-	-	422,253
Residential	39,418,140	196,064	-	39,614,204
Residential construction	132,209,422	-	308,850	132,518,272
Residential developments	313,927	-	14,103,856	14,417,783
Vacant land	14,119,381	-	1,415,522	15,534,903
	<b>186,483,123</b>	<b>196,064</b>	<b>15,828,228</b>	<b>202,507,415</b>

  

<b>Allowance for credit losses on loans</b>	<b>As at June 30, 2023</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	1,734	-	-	1,734
Residential	76,753	8,451	-	85,204
Residential construction	249,199	-	-	249,199
Residential developments	912	-	2,787,942	2,788,854
Vacant land	27,033	-	-	27,033
	<b>355,631</b>	<b>8,451</b>	<b>2,787,942</b>	<b>3,152,024</b>

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

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

Gross investments at amortized cost	As at December 31, 2022			
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Commercial	429,117	-	-	429,117
Residential	44,208,788	199,443	848,243	45,256,474
Residential construction	140,819,962	56,815	-	140,876,777
Residential developments	330,289	-	13,636,732	13,967,021
Vacant land	18,456,582	-	-	18,456,582
	<u>204,244,738</u>	<u>256,258</u>	<u>14,484,975</u>	<u>218,985,971</u>

Allowance for credit losses on loans	As at December 31, 2022			
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Commercial	2,697	-	-	2,697
Residential	90,003	3,224	-	93,227
Residential construction	328,986	5,876	-	334,862
Residential developments	47,361	-	1,531,594	1,578,955
Vacant land	42,920	-	-	42,920
	<u>511,967</u>	<u>9,100</u>	<u>1,531,594</u>	<u>2,052,661</u>

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

	As at June 30, 2023 \$	As at December 31, 2022 \$
Stage 1	2,370,030	2,584,500
Stage 2	4,251	38,379
Stage 3	4,644,269	4,646,053
Total	<u>7,018,550</u>	<u>7,268,932</u>

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at June 30, 2023, there are 7 mortgages totaling \$15,828,228 (December 31, 2022 - 10 mortgages totaling \$14,484,975) 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, 2023 was approximately \$21,697,000 (December 31, 2022 - \$19,329,000).

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

As at June 30, 2023, four of the seven impaired loans related to a single large residential development project with the same borrower. These loans were assessed for credit loss provision on a collective basis. On May 29, 2023, the Corporation extended the forbearance agreement with the borrower to June 30, 2023. The forbearance agreement which expired on June 30, 2023 has not been renewed.

As a result of borrower default, FMIC sold, under power of sale, one property held as collateral in 2016. The fair value of the property sold was \$700,000. In 2023, final payment under judgement was received and resulted in a recovery of \$22,500.

During the six months ended June 30, 2023, the Corporation incurred residual closing costs and recoveries related to mortgage investments that were discharged prior to the beginning of the period resulting in a recovery of \$21,310 inclusive of the power of sale mortgage recovered from 2016, and mortgage write-offs totaling \$95,415 in the current period (six months ended June 30, 2022 - \$43,788 in mortgage write-offs related to mortgage investments discharged prior to the beginning of the period, and \$2,021 in mortgage write-offs in the current period). During the three months ended June 30, 2023, the Corporation incurred residual closing costs and recoveries related to mortgage investments that were discharged prior to the beginning of the period resulting in a net write-off of \$726, with an additional write-off of \$95,431 in the current period (three months ended June 30, 2022 - \$10,099 in mortgage write-offs related to mortgage investments discharged prior to the beginning of the period, and \$17 in mortgage write-offs in the current period). Additional costs and recoveries related to previously impaired mortgage investments have been included in the provision for mortgage impairment losses on the statement of income and comprehensive income.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

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

As at June 30, 2023	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance - beginning of year	511,967	9,100	1,531,594	2,052,661
Movement (1):				
Stage 1	(7,799)	-	-	(7,799)
Stage 2	-	375	-	375
Stage 3	-	-	7,424	7,424
Net Remeasurement (2)	(123,169)	(1,024)	1,248,924	1,124,731
Mortgage Advances (3)	61,904	-	-	61,904
Mortgage Repayments (4)	(87,272)	-	-	(87,272)
Write-offs	-	-	-	-
<b>Balance - end of year</b>	<b>355,631</b>	<b>8,451</b>	<b>2,787,942</b>	<b>3,152,024</b>

As at December 31, 2022	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Balance - beginning of year	300,718	6,185	528,130	835,033
Movement (1):				
Stage 1	(5,647)	-	-	(5,647)
Stage 2	-	(3,368)	-	(3,368)
Stage 3	-	-	9,015	9,015
Net Remeasurement (2)	148,535	7,028	945,963	1,101,526
Mortgage Advances (3)	193,263	-	-	193,263
Mortgage Repayments (4)	(126,923)	(745)	-	(127,668)
Write-offs	2,021	-	48,486	50,507
<b>Balance - end of year</b>	<b>511,967</b>	<b>9,100</b>	<b>1,531,594</b>	<b>2,052,661</b>

#### Notes to table

(1) Transfers between stages are presumed to occur before any corresponding remeasurement of the allowance.

(2) Net remeasurement represents the change in the expected credit loss related to changes in model inputs or assumptions and changes in measurement following a transfer between stages. It also includes post-model overlays, loan recoveries and adjustments as a result of economic uncertainty or macro-economic conditions.

(3) Mortgage advances includes expected credit loss on origination of new mortgages during the period

(4) Mortgage repayments includes expected credit loss on mortgages discharged, prior to any re-measurement adjustments.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 8. MORTGAGE INVESTMENTS (Continued)

During the three and six months ended June 30, 2023, there was an increase in the stage 3 net remeasurement as a result of two primary drivers. The Company obtained updated appraisal reports during the period for the properties held as collateral in connection with the single large residential development project. This resulted in a reduction of the appraisal values by \$475,000. In addition, management updated its scenario analysis with greater likelihood being placed on the collateral being disposed of in Q2 2024. The impact of this change resulted in a greater discounting impact and ultimately an increased expected credit loss.

As of June 30, 2023, there are 3 loans totaling \$1,724,000 (December 31, 2022 - 6 loans totaling \$848,000) included in Stage 3 for which no provision for loss was considered necessary based on management's estimate that the expected net proceeds from sale of the related collateral will exceed the loan amounts outstanding.

Principal repayments based on contractual maturity dates are as follows:

	\$
Within one year	194,795,676
Within following year	7,711,739
<b>Total</b>	<b>202,507,415</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 June 30, 2023 was 10.32% (December 31, 2022 - 9.82%).

Mortgages past due but not impaired are as follows:

	<b>June 30, 2023</b>	<b>December 31, 2022</b>
	\$	\$
1 to 30 days	-	398,952
31 - 90 days	196,064	199,443
over 90 days	-	56,815
<b>Total</b>	<b>196,064</b>	<b>655,210</b>

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 9. FINANCIAL INSTRUMENTS

#### Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. FMIC is not materially exposed to equity, currency or commodity risk. FMIC is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under the credit facility being set a variable rate. The financial structure of the company results in relatively moderate interest rate risk because mortgages receivable are set at fixed rates and the majority of FMIC's financing is through common shares. As at June 30, 2023, a change in interest rates of +/- 1% would have an impact on the fair value of the mortgage investments of \$717,027/\$(717,027) (June 30, 2022 - \$668,469/\$(668,469)). If interest rates would have been 1% higher and all loans were entered into higher interest rates, interest revenue would have increased by \$1,038,653 for the six months ended June 30, 2023 (June 30, 2022 - \$903,610), and increased by \$507,693 for the three months ended June 30, 2023 (June 30, 2022 - \$482,807). If interest rates on the line of credit had been 1% higher, interest expense would have increased by \$66,964 for the six months ended June 30, 2023 (June 30, 2022 - \$761), and increased by \$18,309 for the three months ended June 30, 2023 (June 30, 2022 - \$761). The change to net income would have been \$971,689 for the six months ended June 30, 2023 (June 30, 2022 - \$902,849), and \$489,384 for the three months ended June 30, 2023 (June 30, 2022 - \$482,046). The Manager regularly forecasts cash flows under different scenarios to monitor interest rate risk.

#### Credit risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. However, during 2022 and 2023 there has been significant market volatility which has seen reduction in sales volumes and declining sales prices in the lenders market which increases the Company's credit risk. The maximum exposure to credit risk at June 30, 2023 is the carrying values of its mortgage investments, including accrued interest receivable, which total \$206,373,941 (December 31, 2022 - \$224,202,242). 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.

There are no significant concentrations of credit risk as the average mortgage amount as at June 30, 2023 was \$599,037 (December 31, 2022 - \$517,657) and the largest mortgage was \$14,103,856 (December 31, 2022 - \$13,636,732) with a recorded impairment of \$2,787,942 (December 31, 2022 - \$1,531,594).



# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 9. FINANCIAL INSTRUMENTS (Continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. Liquidity risk arises primarily from abnormal increases in share redemptions as well as mortgage advances in a short period of time. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at June 30, 2023, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling \$278,012 (December 31, 2022 - \$357,720) and dividends payable totaling \$21 (December 31, 2022 - \$410,922). 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 \$7,400,000 balance as at June 30, 2023 (December 31, 2022 - \$23,210,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of \$51,622,000 which are expected to be funded within 1 year. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed. It is the Company's experience that a portion of the unfunded commitments on existing mortgages will never be drawn.

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of shareholders' equity. As at June 30, 2023, the Company's committed borrowing facilities represented approximately 15% of shareholders' equity (December 31, 2022 - 15% of shareholders' equity). In addition, the Company has policies in place that can restrict the total amount of share redemptions to 5% of shareholders' equity in order to allow share redemptions to be funded through the normal repayment of the mortgages receivable.

#### Fair values

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

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 9. FINANCIAL INSTRUMENTS (Continued)

#### Fair value measurements

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

<b>As at June 30, 2023</b>	<b>Carrying Value Basis</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>ASSETS:</b>		\$	\$
Cash and cash equivalents	Fair value through profit & loss	126,788	126,788
Due from administrator in trust	Measured at amortized cost	1,877,917	1,877,917
Accrued interest receivable	Measured at amortized cost	7,018,550	7,018,550
Mortgage investments	Measured at amortized cost	199,355,391	199,355,391
<b>LIABILITIES:</b>			
Bank line of credit	Financial liabilities - amortized cost	7,400,000	7,400,000
Dividends payable	Financial liabilities - amortized cost	-	-
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	278,033	278,033
<b>As at December 31, 2022</b>	<b>Carrying Value Basis</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>ASSETS:</b>		\$	\$
Cash and cash equivalents	Fair value through profit & loss	122,558	122,558
Due from administrator in trust	Measured at amortized cost	1,436,778	1,436,778
Accrued interest receivable	Measured at amortized cost	7,268,932	7,268,932
Mortgage investments	Measured at amortized cost	216,933,310	216,933,310
<b>LIABILITIES:</b>			
Bank line of credit	Financial liabilities - amortized cost	23,210,000	23,210,000
Dividends payable	Financial liabilities - amortized cost	410,922	410,922
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	357,720	357,720

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.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 9. FINANCIAL INSTRUMENTS (Continued)

#### Fair value measurements (Continued)

(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.

### 10. BANK LINE OF CREDIT

The Company has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity of the Company subject to a maximum dollar limit. The maximum dollar limit of the revolving line of credit is \$40,000,000 and is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 6.95% (December 31, 2022 6.45%) plus 1%. As at June 30, 2023 the Company had access to its unused revolving line of credit in the amount of \$16,480,000 (December 31, 2022 - \$6,840,000).

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

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 11. SHARE CAPITAL

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

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

	Six months ended June 30, 2023		Year ended December 31, 2022	
	Number of shares issued	\$	Number of shares issued	\$
Balance, beginning of year	6,723,982	201,610,430	6,757,281	202,609,406
Issued for cash	463,341	13,900,243	1,607,091	48,212,723
Issued through dividend reinvestment plan	100,340	3,010,192	207,667	6,230,020
Redeemed for cash	(619,393)	(18,581,796)	(1,848,057)	(55,441,719)
<b>Balance, end of year</b>	<b>6,668,270</b>	<b>199,939,069</b>	<b>6,723,982</b>	<b>201,610,430</b>

#### 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

For the three months ended June 30, 2023 the Company redeemed for cash 214,600 common shares at the price of \$30.00 per share for total proceeds of \$6,438,002 (three months ended June 30, 2022, the Company redeemed for cash 700,361 common shares at the price of \$30.00 per share for total proceeds of \$21,010,826). For the six months ended June 30, 2022, the Company redeemed for cash 619,393 common shares at the price of \$30.00 per share for total proceeds of \$18,581,796 (six months ended June 30, 2022, the Company redeemed 977,106 common shares at the price of \$30.00 per share for total proceeds of \$29,313,180)

The Company had no potentially dilutive instruments as at June 30, 2023, December 31, 2021 or June 30, 2022.

Subsequent to the reporting period, the Corporation escrowed monthly sales of common shares in July and August, 2023 and deferred July 2023 dividend payments pending the resolution of certain issues raised in the Ontario Securities commission continuous disclosure review. In addition, the Corporation has received redemption requests in the aggregate amount of \$11.5 million for the Q3 redemption date and \$10.4 million for Q4 redemption date.

# FRONTENAC MORTGAGE INVESTMENT CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022

(In Canadian Dollars)

### 12. 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 quarter ended June 30, 2023 were \$517,471 (June 30, 2022 - \$534,893) and for the six months ended June 30, 2023 were \$1,074,078 (June 30, 2022 - \$1,070,650). Total fees paid to the Manager for the quarter ended June 30, 2023 including applicable sales taxes were \$584,742 (June 30, 2022 - \$604,430) and for the six months ended June 30, 2023 were \$1,213,708 (June 30, 2022 - \$1,209,835) under these contracts. All related party transactions noted above were in the normal course of business.

### 13. KEY MANAGEMENT PERSONNEL COMPENSATION

For the quarter ended June 30, 2023, the Company paid directors fees totaling \$48,109 (period ended June 30, 2022 - \$45,343) and for the six months ended June 30, 2023, the Company paid directors fees totaling \$95,508 (June 30, 2022 - \$90,891) 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 12).