FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Canadian Dollars)

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Independent Auditor's Report

MNP

To the Shareholders of Frontenac Mortgage Investment Corporation:

Opinion

We have audited the financial statements of Frontenac Mortgage Investment Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2023 and December 31, 2022, and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and December 31, 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Restated Comparative Information

We draw attention to Note 4 of the financial statements, which explains that certain comparative information presented for the year ended December 31, 2022 has been restated. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

MNP LLP

Ottawa, Ontario

Chartered Professional Accountants

April 29, 2024

Licensed Public Accountants

MNP LLP

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION
(In Canadian Dollars)

	As at December 31, 2023	As at December 31, 2022 Restated (Note 4)
	$	$
ASSETS		
Cash and cash equivalents (Note 7)	1,476,986	122,558
Due from administrator in trust (Note 8)	-	1,436,778
Accounts receivable (Note 13)	59,521	6,700
Prepaid expenses	13,685	57,944
Accrued interest receivable (Note 9)	7,604,620	7,268,932
Mortgage investments (Note 9)	194,836,580	213,157,242
Total assets	203,991,392	222,050,154
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank line of credit (Note 11)	-	23,210,000
Dividends payable	-	410,922
Accounts payable and accrued liabilities	557,863	357,720
Liability to certain investors (Note 12)	312,205	-
Prepaid mortgage payments	233,221	121,450
Total liabilities	1,103,289	24,100,092
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	199,626,864	201,610,430
Retained earnings (deficit)	3,261,239	(3,660,368)
Total shareholders' equity	202,888,103	197,950,062
Total liabilities and shareholders' equity	203,991,392	222,050,154
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 12)	6,668,270	6,723,982
CARRYING VALUE PER SHARE	30.43	29.44

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

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In Canadian Dollars)

	Year ended December 31, 2023 $	Year ended December 31, 2022 Restated (Note 4) $
INTEREST INCOME	21,598,601	19,571,337
EXPENSES		
Management and administration fees (Note 13)	4,463,692	4,650,449
Professional fees	1,208,966	422,619
Director fees (Note 14)	192,027	186,278
General and operating expenses	486,693	411,114
Interest on bank line of credit	723,721	494,532
Provision for mortgage impairment losses	2,316,571	4,924,253
	9,391,670	11,089,245
NET INCOME AND COMPREHENSIVE INCOME	12,206,931	8,482,092
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,710,792	6,965,014
BASIC AND DILUTED EARNINGS PER SHARE	$ 1.82	$ 1.22

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

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

Year ended December 31, 2023

	Share Capital, (Note 12) $	**Retained Earnings $**	**Total $**
Shareholders' equity - December 31, 2022	201,610,430	(3,660,368)	197,950,062
Net income and comprehensive income	-	12,206,931	12,206,931
Proceeds from issuance of shares for cash	13,900,243	-	13,900,243
Reinvested dividends	3,010,192	-	3,010,192
Shares redeemed	(18,581,796)	-	(18,581,796)
Dividends to shareholders	-	(5,285,324)	(5,285,324)
Liability to certain investors	(312,205)	-	(312,205)
Shareholders' equity - December 31, 2023	199,626,864	3,261,239	202,888,103
Dividends paid per share			0.79

Year ended December 31, 2022

	Share Capital, (Note 12) $	**Retained Earnings $**	**Total $**
Shareholders' equity - December 31, 2021	202,609,406	109,000	202,718,406
Net income and comprehensive income *(As restated - Note 4)*	-	8,482,092	8,482,092
Proceeds from issuance of shares for cash	48,212,723	-	48,212,723
Reinvested dividends	6,230,020	-	6,230,020
Shares redeemed	(55,441,719)	-	(55,441,719)
Dividends to shareholders	-	(12,251,460)	(12,251,460)
Shareholders' equity - December 31, 2022 (*As Restated - Note 4)*	201,610,430	(3,660,368)	197,950,062
Dividends per share			1.76

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CASH FLOWS
(In Canadian Dollars)

	Year ended December 31, 2023	Year ended December 31, 2022 (Restated - Note 4)
	$	$
CASH FROM OPERATING ACTIVITIES		
Net income	12,206,931	8,482,092
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	2,316,571	4,924,253
Net changes in non-cash operating items:		
Decrease/(Increase) in due from administrator in trust	1,436,778	(1,430,503)
Increase in accrued interest receivable	(335,688)	(1,187,966)
Decrease/(Increase) in prepaid expenses	44,259	(27,517)
Increase/(Decrease) in accounts payable and accrued liabilities	200,143	198,464
Increase in accounts receivable	(52,821)	(6,700)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,816,173	10,952,123
FINANCING ACTIVITIES		
Increase/(Decrease) in bank line of credit	(23,210,000)	23,210,000
Proceeds from issuance of common shares for cash	13,900,243	48,212,723
Cash dividends	(2,686,054)	(6,199,612)
Redemption of common shares	(18,581,796)	(55,441,719)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(30,577,607)	9,781,392
INVESTING ACTIVITIES		
Increase/(Decrease) in prepaid mortgage payments	111,771	37,673
Mortgage investments	(137,644,949)	(192,420,070)
Repayment of mortgage investments	153,649,040	157,657,015
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	16,115,862	(34,725,382)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,354,428	(13,991,867)
CASH AND CASH EQUIVALENTS, beginning of period	122,558	14,114,425
CASH AND CASH EQUIVALENTS, end of period (Note 7)	1,476,986	122,558

Additional information:

Interest received	21,262,913	18,383,371
Interest paid	723,721	494,532

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

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

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

2. ECONOMIC ENVIRONMENT

Financial markets continue to be volatile in part due to continued high levels of inflation as well as higher interest rates. Significant supply chain imbalances resulted in higher levels of inflation over the past two years. The Bank of Canada rapidly increased interests in an effort to reduce inflation rates which in turn negatively impacted the housing market through lower prices and sales volumes as well as consumers looking to purchase real estate who are now faced with additional higher debt service payments. Given the economic uncertainty, it is difficult to predict with certainty the impact these will have on the Company's estimate of credit losses. There remains uncertainty associated with the estimates, judgments and assumptions made by management in the preparation of the financial statements.

3. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements of the Company have been prepared by management in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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 April 29, 2024.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(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.

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

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

(i) Mortgage investments:

The Company is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Company considers a number of factors when assessing if there has been a significant increase in credit risk. Conventional mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, issuance of demand letter requesting loan repayment, and other borrower or property specific information that may be available.

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

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

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.

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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

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

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

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk (“SICR”), the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default (“PD”) since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when conventional contractual payments are more than 30 days past due, issuance of a demand letter requesting loan payment, and specific to completed construction mortgages, the borrower being unable to secure alternative financing, being 6 months past maturity date with a loan to value ratio exceeding 70%. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company’s credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date. The Company believes loans in stage 1 all fall within a normal/moderate risk rating, stage 2 loans reflect increased risk and stage 3 loans reflect loans that are impaired.

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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

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

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

Loan Modification

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

(ii) Fair value measurements:

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

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

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

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

The Company's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. There were no properties held for sale under foreclosure as at December 31, 2023 or 2022. As explained in more detail in Note 10, management makes its determination of fair value of mortgages by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

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

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

Subsequent to the year ended December 31, 2022, the Company determined that an error had been made with respect to the estimate of the measurement of the expected credit losses for the year ended December 31, 2022 on a group of loans to a borrower which were assessed collectively related to a single large residential development project. The value of the increase in the expected credit loss allowance related to the single large residential development project was $3,776,068. As a result of the change in the expected credit loss, total assets were reduced which resulted in an overpayment to the Manager and the Administrator totaling $6,700 for the month of December 2022.

The effect of the restatement on the restated annual financial statements for the year ended December, 31, 2022 is as follows:

Impact on Statement of Financial Position

Year Ended December 31, 2022	Previously Reported $	Adjustment $	Restated $
Mortgage investments	216,933,310	(3,776,068)	213,157,242
Accounts Receivable	-	6,700	6,700
Total Assets	225,819,522	(3,769,368)	222,050,154
Retained Earnings/(Deficit)	109,000	(3,769,368)	(3,660,368)
Total shareholders' equity	201,719,430	(3,769,368)	197,950,062
Total liabilities and shareholders' equity	225,819,522	(3,769,368)	222,050,154
Carrying Value per Share	30.00	(0.56)	29.44

Impact on Statement of Income and Comprehensive Income

Year Ended December 31, 2022	Previously Reported $	Adjustment $	Restated $
Management and administration fees	4,657,149	(6,700)	4,650,449
Provision for mortgage impairment losses	1,148,185	3,776,068	4,924,253
Net Income and Comprehensive Income	12,251,460	(3,769,368)	8,482,092
Basic and Diluted Earnings per Share	1.76	(0.54)	1.22

Impact on Statement of Changes in Shareholders' Equity

Year Ended December 31, 2022	Previously Reported $	Adjustment $	Restated $
Net Income and Comprehensive Income	12,251,460	(3,769,368)	8,482,092
Shareholders' equity - December 31, 2022	201,719,430	(3,769,368)	197,950,062

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

Impact on Statement of Cash Flows

Year Ended December 31, 2022	Previously Reported $	Adjustment $	Restated $
Net Income and Comprehensive Income	12,251,460	(3,769,368)	8,482,092
Provision for mortgage impairment losses	1,148,185	3,776,068	4,924,253
Increase in accounts receivable	-	(6,700)	(6,700)

As at December 31, 2022 the Company originally reported an estimated expected credit loss amount of $1,531,594 for the large residential development property. When developing the loan loss provision for December 31, 2022 for the large residential development property, the Company relied on third party appraisal reports for each of the properties including vacant development land, a fully rented apartment building, leased land comprised of 92 townhomes occupied by life tenants and a partially completed retirement building and estimated the time it would take to sell the properties as well as the selling costs that would be incurred.

When developing the restated loan loss provision for the large residential development project, for the year ended December 31, 2022, the Company reduced the value of the apartment building, retirement home, leased land comprised of 92 townhomes, and vacant land, increased the selling expenses and liabilities associated with selling the properties and increased the time to sell the properties. The value of the apartment building was reduced, in part, due to an omitted operating expense which when taken into account reduced the stabilized operating income and corresponding value of the apartment building. In the restated loan loss provision, the Company enhanced the possible range of sale outcomes and increased the possible time horizons to sell the properties which lead to reduced values for the apartment building, retirement home and leased land comprised of 92 townhomes. Lastly, the Company considered additional expenses of the properties including costs relating to the common elements of the property such as roads maintenance. As a result of the above noted items, the loan loss provision for the large residential development property increased by $3,776,068 from $1,531,594 to $5,307,662.

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

As a result of the increased loan loss provision recorded in December 31, 2022, the Corporation's carrying value per share will change by $0.56 from $30.00 to $29.44.

During the preparation of the financial statements for the year ended December 31, 2023, management identified an additional error in the classification of certain mortgage types within our mortgage portfolio as disclosed in Note 9, "Mortgage Investments," of the financial statements for the year ended December 31, 2022. Specifically, gross mortgages totaling $28,260,000, for multi-unit residential buildings housing four units or greater were incorrectly classified as "Residential Construction" instead of the correct category, "Residential Developments" and gross mortgages totaling $1,630,000, for vacant land were incorrectly classified as "Residential" instead of the correct category, "Vacant Land".

The error occurred in the "Residential Construction" category, which the Company reports in its continuous disclosure as including construction loans for single residential buildings housing one to three units. The Company incorrectly in the "Residential Construction" category included $28,260,000 on a gross basis for residential buildings of four or more units that should have been classified under "Residential Developments", which the Company reports as including larger construction projects comprising of four or more units, including subdivision developments or multi-unit housing builds. Consequently, the "Residential Developments" category, was understated by $28,260,000 on a gross basis in the financial statements for the year ended December 31, 2022. In addition, the "Residential" category was overstated by $1,630,000 on a gross basis and "Vacant Land" was understated by the same amount in the prior year financial statements.

To address this misclassification, we have adjusted the classification in our financial reporting system to align with the Company's continuous disclosure and correctly reflect these mortgages under the "Residential Development" and "Vacant Land" categories. The financial statements for the year ended December 31, 2023 have been revised to reflect this reclassification, and comparative figures for prior periods have also been restated to correct this misclassification.

While the overall value of mortgage investments reported on the statement of financial position remains unchanged, the restatement has resulted in a decrease in the value reported under "Residential Construction" of $28,260,000 on a gross basis and "Residential" of $1,630,000 on a gross basis, with a corresponding increase in the value reported under "Residential Development" and "Vacant Land" in Note 9 of the financial statements.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES

(a) Revenue recognition

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

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

(b) Cash and cash equivalents

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

(c) Mortgage investments

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

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

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(c) Mortgage investments (continued)

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

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

(d) Properties held for sale under foreclosure

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

(e) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its income for tax purposes paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and 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.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(f) Prepaid mortgage payments

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

(g) Carrying value per share

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

(h) Earnings per share

Basic earnings per share is computed by dividing net income and comprehensive income by the weighted average shares outstanding during the year. There are no dilutive shares issued by the Company as at December 31, 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.

(j) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 10.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, accounts receivable, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, accounts payable and accrued liabilities, and investor 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, accounts receivable, accrued interest receivable, and mortgage investments are classified as measured at amortized cost.

(ii) Financial liabilities:

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(k) Liability to certain investors

Liability to certain investors represents the amounts owing to shareholders for the difference in the amounts paid on the share issuances by shareholders and the restated carrying value per share subsequent to the revisions made as described in Note 4.

(l) Contingent liabilities

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

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

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

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

(m) Accounting pronouncements

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

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

- ♦ IAS 1 - Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, to come into effect January 1, 2022. The amendment is to provide clarification on the classification of liabilities as current or non-current. The effective date of these amendments was deferred to January 1, 2024, with early adoption permitted. The Company 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.

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(m) Accounting pronouncements (Continued)

♦ IAS 1 - Presentation of Financial Statements

In February 2021, the IASB issued amendments to IAS 1, Presentation of Financial Statements, which were incorporated into Part I of the CPA Canada Handbook - Accounting and IFRS Practice Statement 2 Making Materialiy Judgements in June 2021, which came into effect January 1, 2023. The amendments help entities provide accounting policy disclosures that are more useful to primary users of financial statements by::

- Replacing the requirement to disclose "significant" accounting policies under IAS 1 with a requirement to disclose "material" accounting policies. Under this, an accounting policy would be material if, when considered together with other information included in an entity's financial statements, it can be reasonably expected to influence decisions that primary users of general purpose financial statements make on the basis of those financial statements.
- Providing guidance in IFRS Practice Statement 2 to explain and demonstrate the application of the four-step materiality process to accounting policy disclosures

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.

6. CAPITAL STRUCTURE AND FINANCIAL POLICIES

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

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

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company will not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas generally not well serviced by major lenders. As a result, the Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

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

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

7. CASH AND CASH EQUIVALENTS

	As at December 31, 2023	As at December 31, 2022
	$	$
Cash	1,476,986	1,362
Short-term investments	-	121,196
	1,476,986	122,558

8. DUE FROM ADMINISTRATOR IN TRUST

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

9. MORTGAGE INVESTMENTS

There are 318 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 December 31, 2023	**As at December 31, 2022**
		(As Restated - Note 4)
	$	$
Mortgages	202,862,604	218,985,971
Allowance for impairment losses	(8,026,024)	(5,828,729)
	194,836,580	213,157,242

Breakdown of the mortgage investment portfolio by type:

	December 31, 2023			**December 31, 2022** *(Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Residential	89	40,113	20.6%	132	43,064	20.2%
Residential construction	158	101,235	52.0%	197	112,836	52.9%
Residential developments	26	35,173	18.1%	31	36,790	17.3%
Commercial	3	2,611	1.3%	2	426	0.2%
Vacant land	42	15,705	8.0%	61	20,041	9.4%
Total	318	194,837	100.0%	423	213,157	100.0%

9. MORTGAGE INVESTMENTS (Continued)

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

Breakdown of the mortgage investment portfolio by location:

	December 31, 2023			**December 31, 2022** *(As Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Ontario – East	194	117,031	60.1%	273	136,847	64.2%
Ontario – Southwest	27	18,510	9.5%	31	15,939	7.5%
Ontario – Central	47	39,563	20.3%	49	36,120	16.9%
Ontario – North	50	19,733	10.1%	70	24,251	11.4%
Total	318	194,837	100.0%	423	213,157	100.0%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. As at December 31, 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:

	December 31, 2023			**December 31, 2022** *(As Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000)'s**	**% of total**
First mortgage loans	317	194,734	99.9%	422	213,054	99.9%
Average gross loan balance		638			518	

9. MORTGAGE INVESTMENTS (Continued)

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

Gross investments at amortized cost **As at December 31, 2023**

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

Allowance for credit losses on loans **As at December 31, 2023**

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

9. MORTGAGE INVESTMENTS (Continued)

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

Gross investments at amortized cost	**As at December 31, 2022** *(As Restated - Note 4)*			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	429,117	-	-	429,117
Residential	42,106,621	199,443	848,243	43,154,307
Residential construction	113,031,783	56,815	-	113,088,598
Residential developments	28,590,759	-	13,636,732	42,227,491
Vacant land	20,086,458	-	-	20,086,458
	204,244,738	256,258	14,484,975	218,985,971

Allowance for credit losses on loans	**As at December 31, 2022** *(As Restated - Note 4)*			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	2,697	-	-	2,697
Residential	86,698	3,224	-	89,922
Residential construction	246,719	5,876	-	252,595
Residential developments	130,311	-	5,307,662	5,437,973
Vacant land	45,542	-	-	45,542
	511,967	9,100	5,307,662	5,828,729

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

	As at December 31, 2023	**As at December 31, 2022**
	$	**$**
Stage 1	1,395,757	2,584,500
Stage 2	1,228,519	38,379
Stage 3	4,980,344	4,646,053
Total	7,604,620	7,268,932

As at December 31, 2023, there are 14 mortgages totaling $23,829,755 (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.

9. MORTGAGE INVESTMENTS (Continued)

As at December 31, 2023, four of the fourteen 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. As at December 31, 2023, the gross carrying value of the loans related to a single large residential development project was $14.2 million and the expected credit loss was $6.6 million (December 31, 2022 - gross carrying value of $13.6 million and expected credit loss of $5.3 million) On May 29, 2023, the Company 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, the Company 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 year ended December 31, 2023, the Company 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 $48,090 inclusive of the power of sale mortgage recovered from 2016, and mortgage write-offs totaling $118,764 in the current period (year ended December 31, 2022 - $81,570 in mortgage write-offs related to mortgage investments discharged prior to the beginning of the period, and $2,038 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.

9. MORTGAGE INVESTMENTS (Continued)

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

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

As at December 31, 2022 *(As Restated - Note 4)*	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)	150,556	7,028	4,819,003	4,976,587
Mortgage Advances (3)	193,263	-	-	193,263
Mortgage Repayments (4)	(126,923)	(745)	-	(127,668)
Write-offs	-	-	(48,486)	(48,486)
Balance - end of year	511,967	9,100	5,307,662	5,828,729

Notes to table

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

9. MORTGAGE INVESTMENTS (Continued)

During the year ended December 31, 2023, there was an increase in the stage 3 net remeasurement of $1,826,532. The majority was in connection with the single large residential development project, predominantly attributable to a partially completed retirement building and a fully completed and rented apartment building. The Company obtained updated appraisal reports during the period for the properties held as collateral in connection to the single large residential development project and updated its scenario analysis. The increase in the provision for the group of loans related to the single large residential development project was due to the appraisal value reductions (e.g. market condition changes resulted in capitalization rate change and fair value of comparable property changes), revised weighting for alternate sale scenarios and revised weighting with more likelihood placed on a sales timeline to occur in approximately 12 months. The impact of this change resulted in a greater discounting impact and ultimately an increased expected credit loss of $1.2 million from December 31, 2022. Given the change in the economic environment and housing market as a result of the Canada's Central Bank increasing interest rates by approximately 5% in a short period of time as well as the overall restrictive financial lending environment, there was an increase in the number of construction mortgages becoming impaired. The impact of this change resulted in an increased expected credit loss of $0.6 million from December 31, 2022. There is significant judgment and uncertainty with respect to the amount and timing of the collection of the proceeds expected to be recovered on the security held as collateral for the single large residential development project. Management has obtained third party appraisal reports on the estimated fair value of this underlying security as management estimates the recoverable amount. The increase of $450,520 in the remeasurement of Stage 2 provision for impairment losses was primarily due to the enhancement of the SICR framework for construction mortgages in Note 3(d)(i).

During the year ended December 31, 2022, there was an increase in the stage 3 net remeasurement of $4,819,003. The reason for the increase was a result of a group of loans related to a single large residential development project becoming impaired during the year. The total gross loan amount included in mortgage investments at December 31, 2022 for the group of loans related to the single large residential development project was $13.6 million and the related expected credit loss was $5.3 million. The estimated ECL was determined based on a weighting of possible outcomes in connection with the loans. Estimated proceeds were based on third party appraisal reports less selling costs and estimated liabilities.

Properties held as collateral in connection with the large residential development project include, a fully rented apartment building, a partially completed retirement building, vacant development land and leased land comprised of 92 townhomes occupied by life tenants. The appraisal value of the apartment as at December 31, 2023 was $8.95 million ($9.4 million as at December 31, 2022) and the key inputs subject to the greatest amount of estimation uncertainty are the net operating income of the property used in the valuation and the capitalization rate applied. The partially completed building was appraised at $2.8 million as at December 31, 2023 ($3.8 million as at December 31, 2022) and the key input subject to the greatest amount of estimation uncertainty is the value of partially completed structure. The vacant development land which was appraised at $3 million as at December 31, 2023 ($2.8 million as at December 31, 2022). Management has placed a value to the leased land of $0.1 million after reviewing the appraised value.

The four residential development loans are also secured by a leased apartment building for which management obtained third party appraisal reports as at December 31, 2022 and during the year ended December 31, 2023. The key inputs used in the valuation estimate of the apartment building subject to the greatest amount of estimation uncertainty are the net operating income of the property used in the valuation and the capitalization rate applied.

9. MORTGAGE INVESTMENTS (Continued)

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

As at December 31, 2023

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

As at December 31, 2022

Key Input	Change used in Analysis	ECL Impact
Underlying Security Value	+/- 10%	$1,323,351/ -$1,323,351
Estimated Selling Costs	+/- 10%	-$131,651/ $131,651
Estimated Date of Collection of Proceeds	+/- 6 months	-$374,981/ $275,315

As of December 31, 2023, there are 4 loans totaling $1,370,000 (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	200,757,999
Within following year	2,104,605
Total	202,862,604

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 December 31, 2023 was 10.71% (December 31, 2022 - 9.82%).

Residential mortgages past due but not impaired are as follows:

	December 31, 2023 $	December 31, 2022 $
1 to 30 days	3,797,803	398,952
31 - 90 days	-	199,443
over 90 days	-	56,815
Total	3,797,803	655,210

10. FINANCIAL INSTRUMENTS

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. FMIC is not materially exposed to equity, currency or commodity risk. FMIC is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under the credit facility being set a variable rate. The financial structure of the company results in relatively moderate interest rate risk because mortgages receivable are set at fixed rates and the majority of FMIC's financing is through common shares. As at December 31, 2023, a change in interest rates of +/- 1% would have an impact on the fair value of the mortgage investments of $791,825/$(791,825) (December 31, 2022 - $893,431/$(893,431)). If interest rates would have been 1% higher and all loans were entered into higher interest rates, interest revenue would have increased by $2,071,327 for the year ended December 31, 2023 (December 31, 2022 - $1,985,060). If interest rates on the line of credit had been 1% higher, interest expense would have increased by $104,900 for the year ended December 31, 2023 (December 31, 2022 - $74,606). The change to net income would have been $1,966,427 for the year ended December 31, 2023 (December 31, 2022 - $1,910,454). 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 December 31, 2023 is the carrying values of its mortgage investments, including accrued interest receivable, which total $ 202,441,200 (December 31, 2022 - $220,426,174 (Restated - Note 4)). 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 December 31, 2023 was $637,843 (December 31, 2022 - $517,657) and the largest mortgage was $14,174,346 (December 31, 2022 - $13,636,732) with a recorded impairment of $6,553,056 (December 31, 2022 - $5,307,662 (Restated - Note 4)). The collective gross value of the loans increased year over year due to property taxes and legal expenses paid related to the efforts to collect the loans.

10.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 December 31, 2023, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $557,863 (December 31, 2022 - $357,720) and dividends payable totaling $nil (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 $nil balance as at December 31, 2023 (December 31, 2022 - $23,210,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of $41,229,000 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 December 31, 2023, the Company's revolving line of credit was $40 million (December 31, 2022 - $40 million). Subsequent to the reporting period, the Company entered into discussions with the bank to lower the maximum revolving line to $5 million effective March 11, 2024. The Company had a $nil balance as at December 31, 2023 for it’s bank line of credit.

As at the date of authorization of the financial statements, the value of funds held in escrow was $1,021,205 and the aggregate value of redemption requests was $50,218,427 million. Given the short term duration of the mortgage investments, a significant portion of the mortgage investments will pay out in 2024 which will enable the Company to fund future mortgage originations as well as redemption requests. In addition, the Company has policies in place that can restrict the total amount of share redemptions to 5% of shareholders' equity in order to allow share redemptions to be funded through the normal repayment of the mortgages receivable.

Fair values

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

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

10. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements

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

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

As at December 31, 2022 *(As Restated - Note 4)*	Carrying Value Basis	Carrying Value	Fair Value
ASSETS:		$	$
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
Accounts receivable	Measured at amortized cost	6,700	6,700
Accrued interest receivable	Measured at amortized cost	7,268,932	7,268,932
Mortgage investments	Measured at amortized cost	213,157,242	213,157,242
LIABILITIES:			
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.

10. 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.

11. 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 7.20% (December 31, 2022 6.45%) plus 1%. As at December 31, 2023 the Company had access to its unused revolving line of credit in the amount of $23,983,000 (December 31, 2022 - $6,840,000).

Subsequent to the reporting period, the Company entered into discussions with its bank that lowered the maximum revolving line to $5,000,000. The effective date of the change was March 11, 2024.

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.

12. SHARE CAPITAL

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

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

	Year ended December 31, 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)
Liability to certain investors	-	(312,205)	-	-
Balance, end of year	6,668,270	199,626,864	6,723,982	201,610,430

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 year ended December 31, 2023, the Company redeemed for cash 619,393 common shares at the price of $30.00 per share for total proceeds of $18,581,796 (year ended December 31, 2022, the Company redeemed 1,848,057 common shares at the price of $30.00 per share for total proceeds of $55,441,719)

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

The Company has escrowed monthly sales of common shares and deferred monthly dividend payments as well as redemption requests from July 2023 to the current date pending resolution of certain accounting issues raised in the Ontario Securities Commission continuous disclosure review focusing on the calculation of expected credit losses in respect of four loans related to the single development property in Stage 3 as described under the mortgage impairments and provisions (Note 9). As at April 29, 2024, the value of funds held in escrow was $1,021,205 and the aggregate value of redemption requests was $50,218,427.

Subsequent to the reporting date, the Company declared a special cash dividend of $0.8247974 per share or $5.5 million, payable on March 28, 2024 to shareholders of record as of March 26, 2024.

Included in the Statement of Financial Position as at December 31, 2023 is an liability to certain investors totalling $312,205 (December 31, 2022 - $Nil) which represents the amounts owing to shareholders for the difference in the amounts paid on share issuances by shareholders and the restated carrying value per share subsequent to the revisions made as described in Note 4.

13. RELATED PARTIES

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

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

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees owed to Pillar for the year ended ended December 31, 2023 were $2,095,630 (December 31, 2022 - $2,183,308). Total fees owed to the Manager for the year ended December 31, 2023 including applicable sales taxes were $2,368,062 (December 31 2022 - $2,467,141) under these contracts. All related party transactions noted above were in the normal course of business.

Included in accounts receivable is an amount of $27,944 (December 31, 2022 - $3,145) and $31,577 (December 31, 2022 - $3,555) due from Pillar and the Manager, respectively, for amounts owing as a result of the adjustments to the assets under management which impacted the total costs of the services provided to the Company as described in Note 4.

Subsequent to year end, the Manager and the Company have entered into negotiations regarding the terms upon which the Manager will reimburse the Company for "Liability to Certain Investors" described above in Note 12.

14. KEY MANAGEMENT PERSONNEL COMPENSATION

For the year ended December 31, 2023, the Company paid directors fees totaling $192,027 (year ended December 31, 2022 - $186,278) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 13).