MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2023

FRONTENAC MORTGAGE INVESTMENT CORPORATION
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BASIS OF PRESENTATION

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

This Management Discussion & Analysis ("MD&A") is dated April 29, 2024 and should be read in conjunction with the audited financial statements of the Company and the notes thereto for the year ended December 31, 2023 (the "2023 Annual Financial Statements") and December 31, 2022.

OUR BUSINESS

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

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

The Company achieves its investment objective predominantly by lending on the security of short-term residential first mortgages in the province of Ontario. The mortgage loans transacted by the 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.

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

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

HIGHLIGHTS

The Company has filed amended and restated annual audited financial statements for the year ended December 31, 2022 and will be filing amended and restated interim unaudited financial statements for the quarters ended March 31, 2023, June 30, 2023 and September 30, 2023 and management's discussion and analysis ("MD&A") thereof (collectively, the "Restatement"). The Restatement is being filed with the agreement of the Ontario Securities Commission (the "OSC") following a review by the OSC and relates to the measurement of mortgage impairment provisions in accordance with International Financial Reporting Standards ("IFRS") for a loan package (the "Loans") that had been made to a borrower in relation to a large residential development property (the "Property") and has been impaired. The Restatement corrects an error in the application of IFRS to the measurement of the expected credit losses of the Loans (the "Error"). In general terms, it involves reducing the estimated proceeds from the sale of the Property, increasing the estimated expenses and liabilities associated with selling the Property pursuant to the Company's mortgage rights and increasing the estimated time that it would take to sell the Property under the Company's mortgage rights. The effect of the Restatement will be an increase in the provision for mortgage impairment losses, and a reduction in assets, net income and share value for the year ended December 31, 2022. As a result of the Restatement, the carrying value per share for the year-ended December 31, 2022 is $29.44 (as restated) compared to carrying value per share of $30 as originally reported as at December 31, 2022.

As at December 31, 2023, the Company's assets totaled $204 million including a mortgage investment portfolio totaling $194.8 million and shareholder's equity of $202.9 million. Total assets, mortgage investments and shareholders' equity are down from December 31, 2022, when the Company's assets totaled $222 million (as restated) including a mortgage investment portfolio of $213.1 million (as restated) while shareholders' equity was $198 million (as restated).

In 2023, the Company's financial outcomes were significantly influenced by the dynamics of the Canadian mortgage and real estate markets. Net income and comprehensive income for the Company for the year ended December 31, 2023, increased to $12.2 million from $8.5 million (as restated) for the year ended December 31, 2022, while, on a per share basis, net earnings increased to $1.82 from $1.22 (as restated) per common share. However, the year was not without its challenges. The significant increase in net income was primarily attributable to higher weighted interest rates throughout the year and the prior year having a significantly higher impairment provision due the stage 3 net remeasurement of loans for the large residential development project described above. This situation highlights the sensitivity of our portfolio to specific large-scale projects and underscores the importance of diversified risk management strategies in mitigating impacts from adverse developments within the real estate sector.

The carrying value per share increased to $30.43 as at December 31, 2023 ($29.44 as at December 31, 2022 as restated). The carrying value per share increased in the quarter as a result of the Company's decision to defer the monthly dividend payment scheduled to be paid on or before July 30, 2023 through to December 31, 2023.

Purchasers who overpaid for shares of the Company in 2023 as a result of the Error will be reimbursed in respect of the full amount of their overpayment. Additionally, the applicable management fee and administration fee (the "Fees") paid to W.A. Robinson Asset Management Ltd., as manager, and Pillar Financial Services ("Pillar"), as administrator will be repaid to reflect the impact of the Restatement on FMIC's assets under management ("AUM").

In addition, during the preparation of the current year's financial statements, management noted an error in the prior year's classification of certain mortgages within our portfolio, as detailed in Note 9 of the 2023 Annual Financial Statements. It was found that gross mortgages worth $28,260,000, pertaining to multi-unit residential buildings with four or more units, had been mistakenly categorized under "Residential Construction." The appropriate classification for these is "Residential Developments." Additionally, gross mortgages amounting to $1,630,000 for vacant land were previously misclassified as "Residential" when they should have been recorded under "Vacant Land." These discrepancies have been corrected in the prior year's financial statements and rectified in the current financial statements to accurately reflect the nature of our mortgage investments, as elaborated on Note 4 of the 2023 Annual Financial Statements.

Beginning July 2023 and continuing to present date, the Company escrowed monthly sales of common shares, and deferred processing regular monthly dividend payments as well as redemption requests. These measures were put in place pending resolution of certain accounting issues raised in the Ontario Securities Commission's continuous disclosure review, focusing on the measurement of expected credit losses in respect of four loans related to the single large development property in Stage 3 as described above. The Company intends, following the Restatement, to resume distributions, redemptions and sales of its shares. Sales will be limited to qualified purchasers in the exempt market.

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 interest 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. Our conservative lending approach coupled with our professional underwriting expertise, and our focus on high quality lending opportunities will serve our loan portfolio well.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Company's mortgage investment portfolio totaled $194.8 million as at December 31, 2023 as compared to $213.2 million (as restated) as at December 31, 2022. A significant factor in the reduction of the mortgage portfolio was the decision by the Company to significantly reduce lending in Q4 2023 while the Ontario Securities Commission's continuous review referenced above is ongoing, as well as to reduce its line of credit borrowings and move to a cash position.

	Dec 31, 2023	Dec 31, 2022 Restated
	$ (000's)	$ (000's)
Mortgages	202,863	218,986
Allowance for impairment losses	8,026	5,829
Total	194,837	213,157

Key metrics related to the mortgage investment portfolio include the following.

Breakdown of the mortgage investment portfolio by type

	Dec 31, 2023			Dec 31, 2022 Restated		
	#	$ (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%

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 comprised of larger construction projects involving the construction of multiple unit projects of four or more units, including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

During the preparation of the current year's financial statements, management identified an error in the classification of certain mortgage types within our mortgage portfolio as disclosed in Note 9 of the Company's 2023 Annual Financial Statements. 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. However, it incorrectly included in the “Residential Construction” category $28,260,000 on a gross basis for residential buildings of four or more units that should have been classified under "Residential Developments." Consequently, the "Residential Developments" category, which the Company reports as including larger construction projects comprising four or more units, including multiple-unit projects such as subdivision developments or multi-unit housing builds, was understated by $28,260,000 on a gross basis in the prior year financial statements. In addition, the "Residential" category was overstated by $1,630,000 on 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 2023 Annual Financial Statements 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" and "Residential" and a corresponding increase in the value reported under "Residential Development" and "Vacant Land" in Note 9 of the 2023 Annual Financial Statements.

The persistent issue of affordability remains a significant challenge for numerous individuals and families throughout Ontario. The scarcity of affordable housing options continues to exert pressure on the market, leading to increased housing costs and limited accessibility for prospective buyers and renters alike. In response to these challenges, a segment of our portfolio has been allocated to meet the heightened demand for multi-unit residential construction. These housing units offer several benefits, including increased housing density, utilization of existing infrastructure, and the potential for more affordable rental and homeownership opportunities.

Currently, there is one last large loan development legacy project (i.e. over $10 million in combined principal value) remaining for a single project in the residential development category. As at December 31, 2023 the four loans with the same borrower for a single large residential development project loan had a total principal value of $14.2 million, accrued interest of $4.4 million and is included in stage 3 with an expected credit loss provision of $6.6 million (As at December 31, 2022, the total principal value was $13.6 million, accrued interest of $4.6 and the restated stage 3 expected credit loss provision was $5.3 million as restated). The total principal amount increased year over year because of legal fees incurred related to impairment status of the loans and property taxes paid. The Company is actively working with the borrower to sell the underlying real estate properties in order to discharge these loans and has revised its weighting with more likelihood placed on a sales timeline to occur in approximately 12 months after the reporting date. Please refer to the breakdown of the mortgage investment portfolio by mortgage type and related provision for impairment losses section of the Management and Discussion Analysis for further information about the loan impairment of the four loans for the single large residential development project.

Breakdown of the mortgage investment portfolio by location

	Dec 31, 2023			Dec 31, 2022 Restated		
	#	$ (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%
Loans - Ontario rural property	193	94,489	48.5%	275	114,459	53.7%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. Rural properties comprise of postal codes designated as rural general delivery.

The Company's mortgage portfolio has been historically centered on the Ontario – East market, which aside from the Ottawa and Kingston markets is primarily a rural and small-town market area. As the Company's assets grow, management is targeting to diversify the mortgage loan portfolio to include a greater allocation to the rural areas of Ontario – Southwest to further mitigate any geographic concentration risk in the mortgage portfolio. There have been no significant changes to the investment portfolio by location from December 31, 2022, to December 31, 2023.

Breakdown of the mortgage investment portfolio by interest rate

	Dec 31, 2023			Dec 31, 2022 Restated		
	#	$ (000's)	% of total	#	$ (000's)	% of total
< 5%	2	2,274	1.2%	1	17	0.1%
6%	1	4,545	2.3%	1	2,850	1.3%
7%	-	-	-	-	-	-
8%	-	-	-	9	8,214	3.9%
9%	12	4,328	2.2%	51	24,353	11.4%
10%	56	40,673	20.8%	277	150,484	70.5%
11%	130	64,478	33.1%	57	19,615	9.2%
12%	103	70,833	36.4%	27	7,624	3.6%
13%	14	7,706	4.0%	-	-	-
Total	318	194,837	100.0%	423	213,157	100.0%

The weighted average interest rate as at December 31, 2023 was 10.71%, up from 9.82% as at December 31, 2022 reflecting mortgages that were originated in 2023 at interest rates higher than those originated in past years and reflective of a higher interest rate market following the Bank of Canada's 5% increase in interest rates in 2022 and 2023. Specifically, significant increases were seen in the 11% and 12% interest rate categories while a significant decrease was seen in the 10% category due to payouts of mortgages originated in prior years.

Breakdown of the gross mortgage investment portfolio by maturity date

	Dec 31, 2023			Dec 31, 2022 Restated		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Within one year	308	200,758	99.0%	399	212,882	97.2%
Within following year	10	2,105	1.0%	24	6,104	2.8%
Total	318	202,863	100.0%	423	218,986	100.0%

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

Breakdown of the mortgage investment portfolio by first mortgage loans

	Dec 31, 2023			Dec 31, 2022 Restated		
	#	$ (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	

Breakdown of the mortgage investment portfolio by mortgage type and related provision for impairment losses:

(All figures $000's)	Dec 31, 2023			Dec 31, 2022 restated		
	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount	Gross loan amount (1)	Allowance for impairment losses	Net carrying amount
Residential	40,220	107	40,113	43,154	90	43,064
Residential construction	101,983	748	101,235	113,089	253	112,836
Residential developments	42,264	7,091	35,173	42,228	5,438	36,790
Commercial	2,617	6	2,611	429	3	426
Vacant land	15,779	74	15,705	20,086	45	20,041
Total	202,863	8,026	194,837	218,986	5,829	213,157

(1) Gross amount shown at amortized cost

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

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 originally developing the loan loss provision for December 31, 2022 for the large residential development property, the Company considered and 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 (collectively, the "Parcels") to estimate the expected proceeds from a sale of the property, and estimated the time it would take to sell the property as well as the selling costs that would be incurred.

When developing the restated loan loss provision for the large residential development property as part of the Restatement, the Company reduced the estimated expected proceeds of the Parcels to account for information and factors existing as of December 31, 2022 that were not reflected in the above-noted third party appraisals for the Parcels and the Company's overall assessment of the expected proceeds. In particular, the Company's revised assessment of the expected proceeds considered a higher probability that the partially completed retirement building would need to be demolished and that the Parcel would not have any value to a purchaser beyond the value of the underlying land. The Company's revised expected proceeds of the Parcels also took into account additional, previously omitted recurring expenses, including expenses related to the common elements condominium reserve which oversees a water treatment plant, and common elements expenses such as road maintenance. Further, the Company increased the estimated liabilities and expenses associated with selling the properties and increased the estimated time to sell the properties. In the restated loan loss provision, the Company also enhanced the possible range of sale outcomes and increased the possible time horizons to sell the properties, which further reduced the estimated net realizable value for the Parcels and increased the loan loss provision recorded in respect of the Loans. 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 through the Restatement.

As at December 31, 2023 the allowance for impairment losses was $8.0 million ($5.8 million as at December 31, 2022 as restated) which represents an increase in the allowance for loan losses of $2.2 million year over year.

As at December 31, 2023, there were 14 impaired mortgages totaling $23.8 million (December 31, 2022 – 10 mortgages totaling $14.5 million) which were considered by management to be impaired with a total provision for impairment losses of $7.2 million (December 31, 2022 – $5.3 million) against those loans.

Of the 14 impaired mortgages, four of the mortgages were related to a single large residential development project loan with the same borrower and during the year ending December 31, 2023,

remained in stage 3 in the residential development category. Properties held as collateral in connection with the large residential development project include the four Parcels outlined above. The principal dollar value, accrued interest and expected credit loss of the loans was $14.2 million, $4.4 million and $6.6 million respectively as of December 31, 2023, as compared to $13.6 million, $4.6 million and $5.3 million (as restated) respectively as of December 31, 2022. The total principal amount increased from December 2022 to December 2023 because of legal fees incurred related to impairment status of the loans and funds paid for property taxes.

The Company obtained updated appraisal reports during the period for the properties held as collateral in connection with 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 as compared to the restated amounts as of December 31, 2022 was due to the appraisal value reductions (e.g. market condition changes resulted in capitalization rate change and changes to the fair value of comparable properties), revised weightings for alternate sale scenarios, increased selling costs and additional liabilities 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. The ECL provision is subject to significant estimation and actual results could differ from these estimates and judgements.

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 the Company did not see any further benefit of renewing the agreement. Subsequent to December 31, 2023, the Company made the decision to engage a court appointed sales agent in order to effectively market and sell the properties, and a court appointed sales agent was appointed on March 21, 2024. The Company is actively working with the court appointed sales agent to sell the underlying real estate properties in order to discharge these loans. The Company extended the estimated date to recover these loans to Q4 2024 after taking into consideration current market conditions as well as the expected time frame for interest rates to decrease.

In addition to a single large residential development project loan with the same borrower, there were 2 additional mortgage loans in the residential mortgage category that had a combined gross loan value of $4.4 million and a combined impairment provision of $0.4 million as at December 31, 2023 related to housing over 3 units (as at December 31, 2022 there were no impaired loans). In the residential construction category, there were 3 impaired loans with a combined gross loan value of $3.3 million and a combined impairment provision of $0.2 million (as at December 31, 2022 there were no impaired loans). In addition, there was an increase of $0.5 million in the remeasurement of Stage 2 provision for impairment losses which was primarily due to the to the enhancement of the Significant Increase in Credit Risk (“SICR”) framework for construction mortgages (see Note 3(d)(i) in the 2023 Annual Financial Statements). 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 seeing significant increases in credit risk. However, our conservative lending approach coupled with our professional underwriting expertise, and our focus on high quality lending opportunities will serve our loan portfolio well.

RESULTS OF OPERATIONS

Financial Summary (000's)

	2023	2022 Restated	2021
Interest income	21,599	19,571	15,671
Management & administration fees	4,464	4,650	4,133
Interest on credit line	724	495	1
Provision for impairment losses	2,317	4,924	249
Other operating expenses	1,887	1,020	886
Total operating expenses	9,392	11,089	5,269
Net income and comprehensive income	12,207	8,482	10,402
Earnings per share – basic and fully diluted	1.82	1.22	1.62
Dividends paid	5,285	12,251	10,402
Mortgage Investments, end of year	194,837	213,157	183,318
Total Assets, end of year	203,991	222,050	203,551
Total shareholders' equity, end of year	202,888	197,950	202,718
Carrying Value per share	30.43	29.44	30.00

	Q4 2023	Q3 2023 Restated	Q2 2023 Restated	Q1 2023 Restated	Q4 2022 Restated	Q3 2022	Q2 2022	Q1 2022
Interest income	5,627	5,443	5,173	5,356	5,360	5,230	4,965	4,016
Management & admin fees	1,109	1,104	1,084	1,167	1,227	1,143	1,139	1,141
Interest on credit line	96	116	141	371	372	119	4	-
Provision for impairment losses	681	979	346	311	4,271	270	227	156
Other operating expenses	690	530	355	312	253	274	268	225
Total operating expenses	2,576	2,729	1,926	2,161	6,123	1,806	1,638	1,522
Net income and comprehensive income	3,051	2,714	3,247	3,195	(763)	3,424	3,327	2,494
Earnings per share – basic and fully diluted	0.46	0.40	0.48	0.48	(0.09)	0.49	0.47	0.35

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

Results of operations – Year ended December 31, 2023

Revenues for the Company for the twelve months ended December 31, 2023 increased on a gross basis to $21.6 million as compared to $19.6 million for the twelve months ended December 31, 2022 while, on a per share basis, revenues increased to $3.22 from $2.81 per common share. The increase in revenue is attributable primarily to mortgages that were originated in 2023 at interest rates higher than those originated in past years. The weighted average interest rate as at December 31, 2023 was 10.71%, up from 9.82% as at December 31, 2022 which is reflective of strong market demand. A variety of other factors can also affect the changes in the weighted average interest rate of our mortgage portfolio from year to year. Such factors include, but are not limited to, the timing of changes in the prime rate of interest, the timing and dollar amount of mortgages advanced and/or repaid in the period, the types of properties on which mortgage loans are advanced and/or repaid in the year, the location of the underlying properties on which mortgage loans are advanced and/or repaid, the types of mortgage loans advanced and/or repaid during the year and whether the mortgage loans advanced and/or repaid during the year are conventional or non-conventional mortgages.

Total operating expenses, excluding provision for impairment losses, for the twelve months ended December 31, 2023 increased to $7.1 million from $6.2 million for the twelve months ended December 31, 2022 while, on a per share basis, these expenses increased to $1.05 from $0.89 per common share. Professional fees increased significantly year over year by $0.8 million due to legal and audit expenses related to the Ontario Securities Commission continuous disclosure review. Management and administration fees decreased by $0.2 million as total assets decreased from $222 million to $204 million. Interest expense on the bank line of credit increased by $0.2 million year over year as the Company utilized its line of credit more in 2023 in order to balance out cash from share sales and mortgage payouts with share redemptions and mortgage advances.

For the year ended December 31, 2023 the provision for mortgage impairment losses decreased to $2.3 million from $4.9 million in the year ended December 31, 2022 as restated primarily due to a single large residential development project whereby four loans became impaired. 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 seeing significant increases in credit risk year over year. Please refer to the Mortgage impairments and provision for impaired losses section of the Management Discussion and Analysis for more details.

Purchasers who overpaid for shares of FMIC in 2023 as a result of the Error will be reimbursed in respect of the full amount of their overpayment. This is reflected in the 2023 financial statements as a liability to certain investors. Additionally, the applicable management fee and administration fee paid to W.A. Robinson Asset Management Ltd., as manager, and Pillar Financial Services, as administrator will be adjusted to reflect the impact of the Restatement on FMIC's assets under management. This is reflected in the 2023 financial statements as an amount receivable.

Net income and comprehensive income for the Company for the twelve months ended December 31, 2023 increased to $12.2 million from $8.5 million for the twelve months ended December 30, 2022 while, on a per share basis, net earnings increased to $1.82 from $1.22 (as restated) per common share. The significant increase in net income was primarily attributable to higher weighted interest rates throughout the year and the prior year having a significantly higher impairment provision due the stage 3 net

remeasurement of loans for the large residential development project described above.

Year over year, mortgage investments decreased from $213 million (as restated) as at December 31, 2022 to $195 million as at December 31, 2023. This decrease is primarily attributable to the decision to use cash received from mortgage payouts and paid down its revolving line of credit. In addition, total assets decreased year over year from $222 million (as restated) as at December 31, 2022 to $204 million as at December 31, 2023.

Results of Operations – Three Months ended December 31, 2023

For the three months ended December 31, 2023, interest income was $5.6 million compared to $5.4 million for the comparative restated period. Interest income increased primarily as a result of mortgages that matured and paid out 2023 that were replaced with new mortgages at higher, market interest rates even though the mortgage portfolio decreased by $18.3 million ($194.8 million as at December 31, 2023 compared to $213.1 million as at December 31, 2022 restated). The weighted average interest rate as at December 31, 2023 was 10.71%, up from 9.82% as at December 31, 2022. The increase in interest rates is being driven by significant increase in interest rates in the marketplace due to the Bank of Canada's overnight lending over the past 15 months as well as an increase in demand for mortgages outside of traditional financial institutions. The Company's loans are short-term allowing for interest rates on mortgage loans to be reassessed against current market conditions. A variety of other factors can also affect the changes in the weighted average interest rate of our mortgage portfolio from year to year. Such factors include, but are not limited to, the timing of changes in the prime rate of interest, the timing and dollar amount of mortgages advanced and/or repaid in the period, the types of properties on which mortgage loans are advanced and/or repaid in the year, the location of the underlying properties on which mortgage loans are advanced and/or repaid, the types of mortgage loans advanced and/or repaid during the year and whether the mortgage loans advanced and/or repaid during the year are conventional or non-conventional mortgages.

Management and administration fees are based on a fixed percentage of total assets of the Company with 1% per annum paid to the Manager and 1% per annum paid to the Administrator calculated and paid on a monthly basis. Management and administration fees decreased because total assets decreased year over year.

The Company does not use leverage as a long-term strategy but does utilize its line of credit in the short term to smooth out its cash inflows and outflows related to mortgage advances and repayments as well as share sales and redemptions. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line. The bank line of credit was utilized more in the first three quarters in 2023 as well as Q4 2022 and was nil as December 31, 2023.

The provision for impairment losses in Q4 2022 increased significantly due to the restatement of $3.7 million related to large residential development property (see Mortgage impairments and provision for impairment losses). In Q4 2023, the provision for the large residential development property increased by $0.2 million to $6.6 million. In addition, 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 seeing a significant increase in credit risk in Q4 2023. Please refer to the Mortgage impairments and provision for impaired losses section of the Management Discussion

and Analysis for more details.

Other operating expenses comprise of legal, audit, directors' fees and expenses, and other operating costs of the Company and may fluctuate based on the timing of these expenses throughout the year. Other operating expenses increased in Q4 2023 to $691 thousand from $253 thousand in Q4 2022 primarily due to higher legal and audit expenses incurred that were associated with the Ontario Securities Commission continuous disclosure review.

Net income and comprehensive income for the Company for the three months ended December 31, 2023 increased to $3.1 million from a loss of $0.8 million (as restated) for the three months ended December 30, 2022 primarily due to an increase in the stage 3 net remeasurement of loans for the large residential development project described above. The effect of the Restatement in December 2022 was an increase in the provision for mortgage impairment losses and a reduction in net income of $3.8 million. In Q4 2023, the provision for the large residential development property was increased by $0.2 million to $6.6 million. On a per share basis, net earnings increased to $0.45 for the three months ended December 31, 2023 compared to a loss of $0.12 (as restated) for the three months ended December 30, 2022.

RECENT DEVELOPMENTS

Inflation and Rising Interest Rates

The annual inflation rate in Canada was 3.4% in December 2023 on a year-over-year basis according to Statistics Canada and has continued its downward trend since hitting a peak of 8.1% in September 2022.

Controlling inflation is the Bank of Canada's primary concern. The Bank of Canada rapidly increased interest rates in 2022 by a total of 400 bps from March to December taking the overnight rate to 4.25%. In 2023 the Bank of Canada further increased rates by another 75 bps taking the overnight lending rate to its current rate 5.00%. The Bank of Canada has left interest rates unchanged since its meeting in September 2023. The prime interest rate charged by banks and credit unions has increased at the same rate as the Bank of Canada's policy rate increases and the current prime rate at most traditional financial institutions is 7.20%. Most economic forecasts show inflation staying above 2% in 2024 and interest rates being reduced in the latter half of 2024. Interest rate changes by the Bank of Canada will be dependent on the rate of inflation, the state of economy and labour market. Any decreases in interest rates would be positive for the housing market because the cost of financing a home will decrease.

If interest rates decrease, the interest expense on our line of credit facility will also decrease as it is tied to the bank's prime rate. In addition, the mortgage rate charged by financial institutions to consumers will also decrease. The full impact of mortgage originations in 2024 on the average interest rate on the mortgage portfolio will depend on the quantum of interest rate decreases and on the supply and demand characteristics of the housing market.

The real estate market is highly influenced by interest rate changes by the Bank of Canada. Per the Ontario Real Estate Association, on a year-to-date basis, Ontario home sales totaled 161,696 units for the year ended December 31, 2023. This was down by 12.3% from the same period in 2022. The December year-to-date residential average price was $872,312, a decrease of 6.3% compared to 2022. Overall, the housing market continues to adjust to higher interest rates and inflation as well as high indebtedness of consumers and affordability issues. Factors contributing to the stability of prices include a chronic housing shortage, supply chain delays, skilled labour shortages and increased levels of immigration. According to RBC's March 18, 2024, housing market outlook "We believe sellers and buyers will approach the spring season with very different perspectives. We suspect sellers will come in with firm price expectations, seeing tighter demand-supply conditions and the end of the price correction as evidence they hold a stronger hand in negotiations. Buyers remain very much budget-constrained, however, and will have limited capacity to bid up prices. We expect these positions will lead to a standoff between the two parties in many markets, keeping deal making subdued until interest rate cuts boost buyers' purchasing budget later this year."

The Canadian economy is slowing as a result of interest rates increases by the Bank of Canada in 2022 and 2023. In addition, Canada's unemployment rate increased from 5.00% in December 2022 to 5.8% in December 2023. TD bank forecasts unemployment rising to 6.7% in Q4 2024 while CIBC forecasts unemployment rising to 6.2% in Q4 2024. The general trend is rising unemployment.

Higher unemployment may lead to the Company experiencing an increase in impairments and as such, an increase would translate into lower earnings due to the unlikely collectability of further interest on those loans. The curtailment of real estate development may lead the Company to experience lower construction mortgage origination volumes. Significant decreases in housing market values may lead to home values below the carrying value of the loan.

The potential for an increase in losses on impaired loans requires a decline in home values below the carrying value of the related loans or inability by the borrower to pay the interest and loan payments. Frontenac's underwriting policies of focusing on first mortgage loans to a maximum loan-to-value at origination of 80% or less provides some room for a decline in home values. In addition, the Company's loans are short-term allowing for loan-to-value ratios on mortgage loans to be reassessed against current market conditions. Lastly, in down economic times, cash outflows related to personal housing are among the last to be cut by people. Essentially, impairment or default is several steps down the road for most borrowers only after they have exhausted cash reserves, cut down on other expenses, and worked with government assistance.

Due to the tightening of lending criteria at most financial institutions over the past two years, higher quality borrowers have been forced to turn to alternative lending options to get financing. Additionally, these restrictions have created challenges for existing borrowers to find exit financing options and in some cases created the need for the borrower to sell their property. The pressure from past interest rate increases by the Bank of Canada has led to an increase in loan impairments in the latter half of 2023. Having been through past real estate cycles, the administrator's team is experienced in dealing with these situations. Overall, market demand for the Company's loans remains strong. Our conservative lending approach coupled with our professional underwriting expertise, and our focus on high quality lending opportunities will serve our loan portfolio well.

LIQUIDITY AND CAPITAL RESOURCES

The Company is authorized to issue an unlimited number of common shares. Shareholders may redeem shares in the Company on a quarterly basis, subject to a 30-day notice period and certain other redemption limitations. The price at which common shares will be redeemed will be the share value established for the end of the month in which each redemption date falls. Redemption proceeds will be paid out within ten days of the redemption date. Shareholders who redeem common shares which have been held for less than one year will be charged a redemption fee equal to 2% of the aggregate share value of the common shares redeemed, provided that the Board of Directors may, in its sole discretion, waive such redemption fee if the redemption order is as a consequence of hardship circumstances (in the event of the death of the holder of common shares; in situations of marital breakdown in order to facilitate compliance by the holder of common shares with the terms of a separation agreement or court order; or in situations of personal hardship in relation to a holder of common shares where, in the opinion of the Board of Directors, redemption is warranted). The Company will generally not redeem common shares for which a notice of redemption is received if (i) the requested redemption, together with other requested redemptions and the aggregate number of common shares redeemed in the prior 12 months would result in the Company redeeming a number of common shares which is greater than 25% of the common shares issued and outstanding as at the beginning of such 12 month period, or (ii) redemption orders received in respect of any redemption date exceed 5% of FMIC's NAV calculated as of the redemption date. The Board of Directors may, in its sole discretion, waive the aforementioned limitations

in respect of any redemption date. Failing such waiver, common shares which are earmarked for redemption will be redeemed on a pro rata basis up to the maximum aggregate amount allowable in application of the above thresholds. As at December 31, 2023, there were 6.7 million common shares issued and outstanding with a total book value of $199.7 million.

Growth in the mortgage portfolio is financed by the issuance of common shares. We expect to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only. The Company has not historically, and does not intend in the future, to supplement this funding using leverage. In addition, the Company is anticipating the mortgage portfolio to decline in 2024 due to pending redemptions requests.

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

The Company had a maximum revolving line of credit was $40 million as at December 31, 2023. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Company to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2023, the Company was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward. As at December 31, 2023, the Company was using $nil million (December 31, 2022 - $23.2 million) of its available credit line and had access to its unused revolving line of credit based on its current borrowing base of the amount of $24.0 million (December 31, 2022 - $6.8 million). Subsequent to the reporting period, the Company has entered into discussions with its bank that lowered the maximum limit of revolving line of credit limit to $5 million effective March 11, 2024. 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.

The line of credit is used to smooth out the cash flows of the Company and as a reserve for unexpected share redemptions and is not used to leverage the mortgage portfolio. The Company's cash resources come from (1) sales of Shares (2) payouts of maturing mortgage loans, and (3) the Company's line of credit. The Company's cash requirements are principally used for (1) mortgage loans, (2) the Company's expenses, and (3) redemptions. Based on the Company's anticipated cash availability and cash requirements the Manager can adjust, on a monthly basis, one or more of the Company's (1) cash reserves (2) funded loans, and/or (3) utilization of its line of credit. As part of its cash management function the Manager reviews quarterly redemption requests and determines whether adequate cashflow is available to fund redemption requests.

The Company escrowed monthly sales of common shares and deferred processing of regular dividend distributions and redemption requests since June 2023 to the current date pending the resolution of certain accounting issues raised in the Ontario Securities commission continuous disclosure review focusing on the measurement of expected credit losses in respect of the four loans relating to the single development property in Stage 3 as described under 'Mortgage impairments and provision for impairment losses' above. As at April 29, 2024, the value of funds held in escrow was $1.0 million and pending redemption requests were $50.2 million. The Company intends, following the Restatement, to resume

regular dividend distributions as well as redemptions and sales of its shares in the exempt market.

CHANGES IN FINANCIAL POSITION

The Company is authorized to issue an unlimited number of common shares. Under the terms of its Offering Documents, the Company issues common shares on a monthly basis and redeems commons shares quarterly (up to November 30, 2021, shareholders had the ability to redeem shares in the Company only once per year).

	Year Ended December 31, 2023		**Year ended December 31, 2022**	
Common shares:	#	$	#	$
Balance – beginning of period	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 under dividend re-investment plan	100,340	3,010,192	207,667	6,230,020
Redeemed	(619,393)	(18,581,796)	(1,848,057)	(55,441,719)
Liability to certain investors		(312,205)		
Balance – end of period	6,668,270	199,626,864	6,723,982	201,610,430

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

During the months of July to December 2023, total common shares sales totaled nil as compared to $7.1 million in Q2 and $6.8 million in Q1 2023. This is due to the Company having escrowed sales of common shares and deferred processing dividend payments and redemption requests from June to the current date pending the resolution of certain issues raised in the Ontario Securities commission continuous disclosure review.

The Company escrowed subscription funds received in relation to the monthly sale of common shares from June to the current date and offered to reverse pending sales, if requested by investors. The amount of funds in escrow as of December 31, 2023, is $3.9 million. As at April 26, 2024, the value of funds held in escrow was $1.0 million.

During 2022, the Company experienced an increase in redemptions, year over year. For reference purposes, aggregate redemptions for the year ended December 31, 2021, were $11,216,252 and for the year ended December 31, 2022, were $55,441,7191. In February 2022, the Manager gave notice to its advisory clients that it would be exiting its managed accounts business and that they would need to transition their accounts to other advisers. This resulted in significant redemptions in 2022.

During 2023, the Company received and processed redemption requests totaling $18.6 million as compared to $55.4 million in the year ended December 31, 2022. In addition, as at April 26, 2024 the aggregate value of redemption requests was $50.2 million. The Company has escrowed share issuances and deferred processing regular dividend distributions and redemption requests from June 2023 to the current date pending the conclusion of the Ontario Securities Commission's continuous disclosure review.

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

CONTRACTUAL OBLIGATIONS

Contractual obligations due at December 31, 2023 are all due within one year and are as follows:

Bank line of credit	nil
Dividends Payable	nil
Accounts payable and accrued liabilities	$557,863
Liability to certain investors	$312,205
	$870,068

As at December 31, 2023, the Company has commitments to advance additional funds of $41.2 million under existing mortgages (Dec 31, 2022 - $77.9 million). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any material off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson Asset Management Ltd. ("W.A.") is the manager for the Company. These companies are related parties in that they share common management. The Company signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. These contracts were renewed for further five-year periods in 2013, 2018 and 2023.

Administration and management fees paid under these agreements totaled $4.5 million for the year ended December 31, 2023 (year ended December 31, 2022 - $4.7 million) including applicable sales taxes. Included in accounts receivable is an amount of $27,944 (December 31, 2022 - $3,145 as restated) and $31,577 (December 31, 2022 - $3,555 as restated) due from Pillar and the Manager, respectively, for the 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. 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 in Note 12 of the 2023 annual financial statements.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. 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 the 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.

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 determined 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 borrowing 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.

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 determined 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.

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.

(ii) Fair value measurements:

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

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

The Company's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 10 of the financial statements, 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.

FINANCIAL INSTRUMENTS

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 of the 2023 Annual Financial Statements.

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

The tables in note 10 of the 2023 Annual Financial Statements for December 31, 2023 present the fair values of the Company's financial instruments as at December 31, 2023 and December 31, 2022.

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies are described in note 5 of the Company's 2023 Annual Financial Statements.

At the date of authorization of this MD&A, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB"). Information on those expected to be relevant to the 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 did not 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.

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 Materiality 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.

RISKS AND UNCERTAINTIES

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

See "Forward-Looking Information" below and the Risk Factors at Appendix "A" for further information on risks and uncertainties faced by the Company.

FORWARD-LOOKING INFORMATION

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

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

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management

and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at December 31, 2023.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the audited financial statements for the year ended December 31, 2023 are available on SEDAR+ at www.sedarplus.com or on our website at www.fmic.ca. You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (877) 279-3061 or by email at amber.kehoe@robinsonam.com.

APPENDIX "A" – RISK FACTORS

The following information describes certain significant risks and uncertainties inherent in FMIC's business. This section does not describe all risks applicable to FMIC, its industry or its business, and it is intended only as a summary of certain material risks. If any of such risks or uncertainties actually occur, FMIC's business, financial condition or operating results could be harmed substantially and could differ materially.

The directors of FMIC believe that the following risk factors should be considered. This list is not exhaustive and there are additional risks and uncertainties which are not currently known to the directors or the directors may currently deem certain risks immaterial. Any of these unknown or immaterial risks may cause the price of the securities of FMIC to decline and may have an adverse effect on FMIC's business, financial condition and the results of FMIC's operations.

In the event that any of the risks outlined below materialize, FMIC's business, financial condition and results of operations may suffer significantly and a purchaser may lose all or most of his or her investment.

Specific investment risk for non-conventional mortgage investments

Non-conventional mortgage investments attract higher loan loss risk due to the borrower's credit situation and sometimes high loan-to-value ratio. This higher risk is compensated for by a higher rate of return. The failure of one or more borrowers to make payments according to the terms of their loan could result in FMIC exercising its rights as mortgagee and may adversely affect FMIC's rate of return, which is directly correlated to the receipt of mortgage payments. Also, the recovery of a portion of FMIC's assets, i.e. the property put up as collateral by the defaulting mortgagor, would be tied up for a period of time, diverting resources away from the funding of new investments. Legal fees and other costs incurred by FMIC in enforcing its rights as mortgagee against a defaulting borrower are borne by the shareholders collectively. Although a portion of these fees and costs are often recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, there is no assurance that they will actually be recovered. As the number of mortgages held by FMIC increases, the potential impact of one or more mortgage loans going into default will diminish. Due to fluctuations in the market and the economy generally, there is a possibility that historical loan default rates may increase, resulting in increased fees and costs and lower profits, and that in any power of sale, FMIC could lose some or a substantial portion of the principal amount loaned to the borrower.

Inability to find mortgage investments

FMIC is competing with many third parties, many of whom have greater financial and technical resources than FMIC, including other mortgage brokers and financial institutions, seeking investment opportunities similar to those sought by FMIC. An increase in the availability of investment funds and an increase in interest in mortgage investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on investments. There is no assurance that the number of mortgages required to maintain an optimal level of investment will be identified, qualified and funded. To the extent that FMIC is unable to source sufficient mortgage loan requirements to match its available cash to fund mortgage loans FMIC may have excess undeployed cash which may earn nominal or no interest, which would have a negative effect on investor returns.

Renewal of mortgages

There can be no assurances that any of the mortgages held by FMIC from time to time can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each mortgage held by FMIC, it is possible that either of the mortgagor (i.e. the borrower) or the mortgagee (i.e. FMIC) or both will elect not to renew such mortgage. In addition, if the mortgages in FMIC's mortgage portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such mortgages will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal and the terms of a refinancing may therefore not be as favourable as the terms of existing indebtedness.

An impairment of liquidity within the financial markets, such as the extraordinary credit crisis which commenced in 2008, could affect the ability of borrowers to refinance and pay out mortgage loans when due. If a similar crisis were experienced, FMIC expects that an impairment of liquidity will occur within the financial markets and this lack of liquidity may require that FMIC suspend redemptions of Common Shares that may be requested by shareholders.

General economic and market conditions

The success of FMIC's loan program may be affected by general economic and market conditions, including interest rates, availability of credit, competition among investors, inflation rates, economic uncertainty, changes in laws, national and international political and economic circumstances, natural or man-made disasters, terrorism, pandemics, epidemics or similar health outbreaks, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention often is intended directly to influence prices and may, together with other factors, cause all such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. These factors may affect the market for mortgage loans and the default or impairment rate of FMIC's loan portfolio. Unexpected volatility or illiquidity could impair FMIC's profitability or result in losses.

Changes in property values

FMIC's mortgage loans will be secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real property may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants. Changes in market conditions may decrease the value of the secured property and reduce the cash flow from the property, where applicable, thereby impacting on the ability of the borrower to service the debt and/or repay the mortgage loan.

A decline in value of real property provided as security for a mortgaged property include in FMIC's portfolio may cause the value of the property to be less than the outstanding principal amount of the mortgage loan. Foreclosure by FMIC on any such mortgage loan generally would not provide FMIC with proceeds sufficient to satisfy the outstanding principal amount of the mortgage loan.

While independent appraisals are required before FMIC may make any mortgage investment, the appraised values, even where reported on an "as is" basis, are not necessarily reflective of the market

value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion, rehabilitation or making of leasehold improvements on the real property providing security for the loan. There can be no assurance that these conditions will be satisfied and, if, and to the extent they are not satisfied; the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

Sensitivity to interest rates

It is anticipated that the value of FMIC's investment portfolio at any given time may be affected by the level of interest rates prevailing at such time. FMIC's income will consist primarily of interest payments on the mortgages comprising FMIC's investment portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of FMIC's mortgage assets are based), FMIC may find it difficult to make additional mortgage loans bearing rates sufficient to achieve the targeted payment of dividends on the Common Shares. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect FMIC's ability to maintain dividends on the Common Shares at a consistent level.

Due to the relatively short term of the mortgage loans made by FMIC and the inability to accurately predict the extent to which FMIC's mortgages may be prepaid, it is possible that FMIC may not be able to sufficiently reduce interest rate risk associated with the replacement of such mortgages through new investments in mortgages. If interest rates increase, the value of the FMIC's mortgage portfolio may be negatively impacted.

Concentration of FMIC's portfolio

FMIC's portfolio is invested almost exclusively in mortgage loans and the investment objectives and investment strategies of FMIC do not permit the composition of FMIC's portfolio to vary widely. Given the concentration of FMIC's exposure to the mortgage lending sector in the Province of Ontario, FMIC will be more susceptible to adverse economic or regulatory occurrences affecting that sector in Ontario than an investment fund that is not concentrated in a single sector or in Ontario. Due to the relative illiquidity of investments in mortgages, FMIC's ability to vary its investment portfolio promptly in response to changing economic or investment conditions is limited.

Reliance on third parties

In assessing the risk of an investment in FMIC, potential investors should be aware that they will be relying on the good faith, experience, skill, diligence, business contacts and judgement of the Board of Directors and certain key staff of the Manager and Administrator. FMIC's success depends on the continued service of such personnel. Although mortgage loans made by FMIC are carefully chosen by the Manager, there can be no assurance that such investments will earn a positive return in the short or long-term or that losses may not be suffered from such investments. We are exposed to adverse developments in the business and affairs of the Manager and Administrator, to their respective management and financial strength, to their ability to operate their respective businesses profitably, and to the Administrators' ability to retain its licenses issued to it under the*Mortgage Brokerages, Lenders and Administrators Act*. The investment professionals associated with the Manager and the Administrator are actively involved in other investment activities not concerning FMIC and will not be able to devote all their time to FMIC's business and affairs. Key personnel of the Manager or the Administrator may be unable or

unwilling to continue their employment with the Manager or Administrator. The departure of any of the key personnel of the Manager or the Administrator could have a material adverse effect on the FMIC's ability to achieve its investment objectives.

No guarantees

There is no assurance that FMIC will be able to pay dividends at the level targeted by FMIC. The funds available for distribution to shareholders will vary according to many factors, notably the interest and principal payments received in respect of mortgage loans held by FMIC and the rate of return on FMIC's cash balances.

Although mortgage loans made by FMIC are carefully selected by the Manager, there can be no assurance that such loans will have a guaranteed rate of return to investors or that losses will not be suffered on one or more loans. Moreover, at any point in time, the interest rates being charged for mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on mortgage investments will also change.

In the event that additional security is given by the borrower or that a third party guarantees the mortgagor's obligations, there is no assurance that such additional security or guarantee will be sufficient to make FMIC whole if and when resort is to be had to the security or guarantee.

Notwithstanding the past track record of FMIC, there can be no assurances that FMIC will be able to eliminate or minimize fluctuations in its NAV. FMIC makes no representation as to any return that a shareholder will earn on the Common Shares and there can be no assurance that recent returns on the Common Shares are indicative of how they will perform (either in terms of profitability, volatility or low correlation with other investments) in the future.

FMIC's mortgage loan investments are not guaranteed by the Government of Canada, the government of any province or any agency thereof. Further, Common Shares are not "deposits" within the meaning of the *Canadian Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that act or any other legislation.

Environmental liability of a mortgagee

FMIC advances loans secured by various classes of real estate assets that are subject to changing and increasingly stringent environmental and health and safety laws, regulations and permit requirements. There can be no guarantee that all costs and risks regarding compliance with environmental laws and regulations can be identified. New and more stringent environmental and health and safety laws, regulations and permit requirements or stricter interpretations of current laws or regulations could impose substantial additional costs on the properties securing FMIC's mortgage loans. Compliance with such current or future environmental requirements does not ensure that underlying assets will not cause injury to the environment or people under all circumstances or that counterparties will not be required to incur additional unforeseen environmental expenditures. Any noncompliance with these laws and regulations could subject the properties securing FMIC's loans to material administrative, civil or criminal penalties or other liabilities. Under various laws, FMIC could become liable for the costs of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes, where FMIC has exercised its right of re-entry or foreclosure or has otherwise assumed the control, occupation or management of the property. FMIC does not systematically

obtain environmental audits of all properties subject to mortgages. The Administrator only requires an environmental audit on commercial properties or any property which, in its opinion, has the potential of carrying environmental liability.

Investment not insured

Neither the Manager nor FMIC is a member of the Canada Deposit Insurance Corporation and the Common Shares offered hereunder are therefore not insured against loss through the Canada Deposit Insurance Corporation. Moreover, mortgages held by FMIC are not usually insured through the CMHC or otherwise.

Nature of the investments

Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit the Manager's ability to vary the mortgage portfolio promptly in response to changing economic or investment conditions. Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing income or whether mortgage payments are being made. FMIC may be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

Failure to meet commitments

FMIC may commit to making future mortgage investments in anticipation of repayment of principal outstanding under existing mortgage investments. In the event that such repayments of principal are not made, in contravention of the borrowers' obligations, FMIC may be unable to advance some or all of the funds required to be advanced pursuant to the terms of its commitments and may face liability in connection with its failure to make such advances.

Absence of market, limited redemption rights, risk of significant redemptions

There is no public market for the Common Shares. The Common Shares are not listed on a stock market or quoted on any public market in Canada or elsewhere. The lack of an active market may impair an investor's ability to sell their securities of FMIC at the time they wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair market value of an investor's securities of FMIC. Further, an inactive market may also impair FMIC's ability to raise capital by selling securities of FMIC and may impair its ability to enter into collaborations or acquire companies or products by using securities of FMIC as consideration. The market price of securities of FMIC may be volatile, and an investor could lose all or part of its investment.

The ability of shareholders to redeem Common Shares is limited. Conditions may arise which would cause the Manager to suspend the redemption of Common Shares or postpone the day of payment or right of redemption for or during a period during which the Manager determines that conditions exist which render impractical the sale of the assets of FMIC or impair the ability of the Manager to determine the value of the assets held by FMIC. If the Manager receives a redemption request or is required to make a redemption under such circumstances, the Manager may, in its discretion, suspend redemptions. Moreover, in any given year, FMIC may partially or completely suspend shareholders' right of redemption in certain other circumstances, including if the monetary amount of requests for redemption exceeds

certain thresholds (see "Redemption Rights" and "Recent Developments"). Nevertheless, if FMIC experiences large scale redemptions such redemptions may cause FMIC to allocate and make available a significant amount of cash to fund the redemptions which could have an adverse effect on FMIC's returns.

The repurchase of Common Shares by FMIC decreases FMIC's assets and, therefore, may have the effect of increasing FMIC's expense ratio. Redemptions and the need to fund redemptions may also affect the ability of FMIC to be fully invested or force FMIC to maintain a higher percentage of its assets in cash or to draw upon its credit facilities, which may harm FMIC's investment performance. Moreover, diminution in the size of FMIC through repurchases may limit the ability of FMIC to participate in new mortgage loan investment opportunities. Certain shareholders may from time to time own or control a significant percentage of Common Shares. Redemption requests by these shareholders may cause repurchases to be oversubscribed, with the result that shareholders may only be able to have a portion of their Common Shares repurchased in connection with any redemption cycle. If redemption requests in respect of any Redemption Date are extraordinary and FMIC determines not to repurchase additional Common Shares beyond the repurchase offer amount, or if shareholders tender an amount of Common Shares greater than that which FMIC is entitled to purchase, then FMIC will redeem Common Shares as requested on a pro rata basis and shareholders will have to make another redemption request and wait until the next Redemption Date for payment. Shareholders will be subject to the risk of NAV fluctuations during that period. Thus, there is also a risk that some shareholders, in anticipation of proration, may tender more Common Shares than they wish to have repurchased in a particular quarterly period, thereby increasing the likelihood that proration will occur. The NAV of Common Shares tendered in a repurchase offer may fluctuate between the date a shareholder submits a request for redemption and the redemption cut-off date and to the extent there is any delay between the redemption cut-off date and the pricing date, the NAV on the redemption cut-off date or the pricing date may be higher or lower than on the date a shareholder submits a redemption request.

Legal, tax and regulatory matters

Legal, tax and regulatory changes could occur that may materially adversely affect FMIC, its mortgage loan investments, and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New or revised laws, regulations or requirements may be imposed by securities regulators, mortgage regulators, taxation authorities, corporate authorities or other governmental regulatory authorities or self-regulatory organizations that could pose additional risks to FMIC, could adversely affect FMIC, could decrease the value of mortgage loans held by FMIC and could impair the ability of FMIC to pursue its investment strategies.

The return on a shareholder's investment in Common Shares is subject to changes in Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof will not be changed in a manner which will fundamentally alter the tax consequences to shareholders acquiring, holding or disposing of Common Shares.

If FMIC ceases to qualify as a mortgage investment corporation at any time FMIC may have to pay tax at the full corporate rate which will reduce returns for investors. If FMIC ceases to qualify as a mortgage investment corporation or a registered investment at any time, Common Shares may cease to be qualified investments for Registered Plans. This could result in Registered Plans holding Common Shares becoming liable for a penalty tax under the Income Tax Act (Canada).. There can be no assurance

that FMIC will be able to meet the relevant qualifications at all times.

There can be no assurance that securities legislation or other laws, or their application, or that applicable accounting principles or their application, will not be changed in a manner which, ultimately, adversely affects the holders of Common Shares.

Potential conflicts of interest

The Manager, the Administrator and their officers, directors, employees and affiliates may undertake financial, investment or professional activities which give rise to conflicts of interest with respect to FMIC.

The Manager has sole discretion in determining which mortgages it will make available to FMIC for investment. The Manager and Administrator may also engage in promotion, management, investment management or other services in relation to other investment products, investment vehicles or any other fund or trust which may include transacting in mortgages for private clients, other mortgage investment entities or entities that operate in the same or a related line of business as FMIC (collectively, "**Advised Funds**"). These competing vehicles may have, or include, investment policies similar to those of FMIC or entities through which they make investment allocations, and the Manager may be compensated in a different manner in respect of those vehicles. In the event investment opportunities are allocated among FMIC and the other Advised Funds, FMIC may not be able to structure its investment portfolio in the manner desired. Other Advised Funds may advance similar mortgage loans at different times and on different terms than FMIC. Conflicts may also arise because portfolio decisions regarding FMIC may benefit the other Advised Funds. Certain other Advised Funds may pay the Manager or the Administrator or their affiliates greater fees and performance-based compensation, which could create an incentive for the Manager or Administrator or an affiliate to favour such investment fund or account over FMIC.

The Manager is required to satisfy a standard of care in exercising its duties with respect to FMIC. However, neither the Manager nor its officers, directors, affiliates or employees are required to devote all or any specified portion of their time to their responsibilities relating to FMIC. FMIC's, Manager's and Administrator's respective executive officers and directors, and the employees of the Manager and the Administrator, serve or may serve as officers, directors or principals of Advised Funds entities that operate in the same or a related line of business as FMIC or of investment funds or accounts managed by the Manager or the Administrator or their affiliates. As a result, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of FMIC or its shareholders. Additionally, certain personnel of the Manager and the Administrator may face conflicts in their time management and commitments as between FMIC and other Advised Funds.

FMIC may be restricted from paying dividends

FMIC cannot assure investors that it will achieve financial results that will allow FMIC to make a specified level of cash distributions or year-to-year increases in cash distributions. Distributions may depend on FMIC's net investment income, FMIC's financial condition, compliance with applicable regulations, regulatory interventions and such other factors as FMIC or the Manager may deem relevant from time to time and the payment of distributions can be subject to the discretion of the Manager. Holders of the Common Shares do not have a right to dividends on such shares unless declared by the Board of Directors. FMIC may not declare or pay a dividend if there are reasonable grounds for believing that (i) FMIC is, or would after the payment be, unable to pay its liabilities as they become due, or (ii)

the realizable value of FMIC's assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Liabilities of FMIC will include those arising in the course of its business, indebtedness, including inter-company debt, and amounts, if any, that are owing by FMIC under guarantees in respect of which a demand for payment has been made.

Results may fluctuate significantly

FMIC's financial results may fluctuate from month-to-month, quarter-to-quarter and from year-to-year due to a combination of factors. Accordingly, the timing of the recognition of revenue from a significant transaction can materially affect monthly, quarterly and annual financial results.

FMIC cannot be certain that additional financing will be available

In order to grow its assets FMIC requires additional equity financing as it does not use debt to increase its asset base. From time to time, FMIC may also need additional financing to fund its operations. Certain uninsurable or uninsured events may also occur which can substantially reduce the ability of FMIC to carry on business in a profitable manner, including natural or man-made disasters. FMIC's ability to obtain additional financing, if and when required, will depend on investor demand for Common Shares, FMIC's operating performance, the condition of the capital markets and the economy, and other factors. FMIC cannot be certain that additional financing will be available if and when required, or at all.

Dilution

The number of Common Shares FMIC is authorized to issue is unlimited and the Board of Directors has the sole discretion to issue additional Common Shares. The proceeds of any offering of Common Shares may not be sufficient to accomplish all of FMIC's proposed objectives. In addition to alternate financing sources, FMIC may conduct future offerings of Common Shares in order to raise the funds required which will result in a dilution of the interests of the shareholders in FMIC.

The requirements of being a reporting issuer may strain FMIC's resources and divert management's attention

As a reporting issuer, FMIC is subject to the reporting requirements of applicable securities legislation of the jurisdictions in which it is a reporting issuer and other applicable securities rules and regulations. Compliance with these rules and regulations increases FMIC's legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on its systems and resources. Applicable securities laws require FMIC to, among other things, file certain annual and quarterly reports with respect to its business and results of operations. In addition, applicable securities laws require FMIC to, among other things, maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve its disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. Specifically, due to the increasing complexity of its transactions, it is anticipated that FMIC will improve its disclosure controls and procedures and internal control over financial reporting primarily through the continued development and implementation of formal policies, improved processes and documentation procedures, as well as the continued sourcing of additional financial resources. As a result, management's attention may be diverted from other business concerns, which could harm FMIC's business and results of operations. To comply with these requirements, FMIC may need to hire additional employees in the future or engage

outside consultants, which will increase its costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for reporting issuers, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices and regulatory review of FMIC's disclosure. FMIC intends to continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If its efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies regulatory authorities may initiate legal proceedings against FMIC and FMIC's business may be adversely affected.

As a reporting issuer subject to these rules and regulations, FMIC may find it more expensive for it to obtain director and officer liability insurance, and it may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for FMIC to attract and retain qualified members of its board of directors, particularly to serve on its audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a reporting issuer, FMIC's business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, FMIC's business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in FMIC's favor, these claims, and the time and resources necessary to resolve them, could divert the resources of FMIC's management and harm its business and results of operations.

Specific investment risk for second mortgage investments

FMIC may from time to time make a loan in return for a second charge on the property. Second mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and typically higher aggregate loan-to-value ratio. This higher risk is generally compensated for by a higher rate of return. Also, any real property may be subject to one or more liens which will take priority over a mortgage, even a first-ranking one. Such liens may arise, for example, as a result of unpaid municipal taxes or utility bills.

When a charge on real property is in a position other than the first rank, it is possible for the holder of a prior charge, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the underlying real property. Such actions may include foreclosure, the exercising of a giving-in-payment clause or an action forcing the underlying real property to be sold (known as a "power of sale"). Foreclosure or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person, other than the holder of a first-ranking charge on the underlying real property, of the security of such real property. If an action is taken to sell the underlying real property and sufficient proceeds are not realized from such sale to pay off all creditors who have charges on the property (including a lien holder) ranking prior to FMIC, FMIC may lose all or part of its investment to the extent of such deficiency, unless it can otherwise recover such

deficiency from other property owned by the borrower. If FMIC loses all or part of its investment, this would adversely affect returns to holders of the Common Shares.

In order to mitigate this risk, FMIC's investment strategy limits the amount of non-first mortgage investments to 10% of the mortgages held by FMIC. In practice, FMIC does not generally invest in mortgages other than first mortgages. As at December 31, 2023, 99.9% of the dollar value of FMIC's mortgage loans were secured by first mortgages.

Indemnification obligations

Pursuant to the Management Agreement and the Administration Agreement, the Manager and the Administrator are entitled to be is indemnified by FMIC out of the assets of FMIC from and against certain costs, charges and expenses reasonably incurred in respect of actions or proceedings to which the Manager and/or the Administrator is made a party pursuant to the services provided by the Manager and the Administrator under the Management Agreement and Administration Agreement, respectively. Any such indemnification obligations may reduce FMIC's assets and adversely affect shareholder returns.

Cybersecurity risks

Cybersecurity incidents and cyber-attacks have been occurring globally at a more frequent and severe level and could continue to increase in frequency in the future. The Manager and Administrator face various security threats on a regular basis, including ongoing cybersecurity threats to and attacks on their information technology infrastructure that are intended to gain access to its proprietary information, destroy data or disable, degrade or sabotage its systems. These security threats could originate from a wide variety of sources, including unknown third parties outside of the Manager and Administrator. Although the Manager and Administrator are not currently aware that they have been subject to cyber-attacks or other cyber incidents which, individually or in the aggregate, have materially affected their operations or financial condition, there can be no assurance that the various procedures and controls utilized to mitigate these threats will be sufficient to prevent disruptions to their systems. The Manager's and Administrator's and their counterparties' information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes.

In addition, FMIC relies on the Manager's, Administrator's and third parties' financial, accounting, information and other data processing systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in FMIC's activities. If any of these systems do not operate properly or are disabled for any reason or if there is any unauthorized disclosure of data, whether as a result of tampering, a breach of FMIC's network security systems, a cyber-incident, attack or otherwise, FMIC could suffer substantial financial loss, increased costs, a disruption of its businesses, liability to its investors, regulatory intervention or reputational damage. In addition, the Manager and the Administrator operate in businesses that are highly dependent on information systems and technology. The information systems and technology that the Manager and the Administrator rely on may not continue to be able to accommodate their growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on FMIC.

A cybersecurity incident could have numerous material adverse effects, including on the operations, liquidity and financial condition of the Manager and the Administrator. Cyber threats and/or incidents could interrupt FMIC's operations and cause financial costs from the theft of FMIC's assets as well as numerous unforeseen costs including, but not limited to: litigation costs, preventative and protective costs, remediation costs and costs associated with reputational damage, any one of which could be materially adverse to FMIC. There can be no guarantee that the Manager or the Administrator will be able to prevent or mitigate such incidents. If systems and measures to manage risks relating to these types of events are compromised, become inoperable for extended periods of time or cease to function properly, the Manager or the Administrator may have to make a significant investment to fix or replace them. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in FMIC's and/or a counterparty's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to borrowers and shareholders (and the beneficial owners of investors). In addition, FMIC may not be in a position to verify the risks or reliability of third parties with which the Manager's and the Administrator's operations interface with and/or depend. The Manager and the Administrator may suffer adverse consequences from actions, errors or failure to act by such third parties, and will have obligations, including indemnity obligations, and limited recourse against them.

Prepayment risks

FMIC's mortgage loans may generally be repaid at any time. Any prepayment bonus or penalty, if applicable, may not fully compensate FMIC for the total amount of the return foregone had the mortgage been held to term. The Manager is generally unable to predict the rate and frequency of such repayments. Whether a loan is prepaid will depend both on the circumstances of the borrower and the existence of favorable financing market conditions that allow such borrower the ability to replace existing financing with less expensive capital. As market conditions change frequently, FMIC will often be unable to predict when, and if, this may be possible for each of FMIC's borrowers. In the case of some of these mortgages, having the loan repaid early may have the effect of reducing FMIC's actual interest income below its expected interest income if the capital returned cannot be invested in mortgage loans with equal or greater yields.

Increased competition in mortgage loan market

FMIC faces competition from a wide range of mortgage lenders including individuals and other mortgage investment corporations in the alternative (or non-prime) mortgage market. Competition for mortgage loan opportunities may intensify. Some competitors may be larger and may have considerably greater financial, technical and marketing resources than FMIC. Some competitors may have a lower cost of capital and access to more funding than FMIC. In addition, some of FMIC's competitors may have higher risk tolerances or different risk assessments than FMIC has. These characteristics could allow FMIC's competitors to establish more relationships and charge more competitive interest rates for loans than FMIC is able to do. FMIC may lose investment opportunities if it does not match its competitors' interest rates. If FMIC is forced to match its competitors' pricing, it may not be able to achieve acceptable returns on its investments or may bear substantial risk of capital loss. A significant increase in the number and/or the size of FMIC's competitors could force it to accept less attractive interest rates on its loans.

Portfolio fair value risk

FMIC will carry its loan portfolio at fair value. The Manager is responsible for the valuation of FMIC's loan portfolio. Valuations of FMIC's loan portfolio will be disclosed in FMIC's financial statements. The determination of fair value under applicable accounting principles may be based on estimates and judgements made by the Manager at a particular point in time and based upon the relevant circumstances at such time. Such valuation is inherently uncertain and may fluctuate over short periods of time as circumstances change. Due to this uncertainty, FMIC's fair value determinations may cause FMIC's NAV on a given date to materially understate or overstate the value of FMIC's loan portfolio.

Targeted returns

Estimates of certain targeted returns of FMIC provided herein, whether express or implied, may be based on past performance, and/or the result of the comprehensive internal projections, assumptions and experience of the Manager and Administrator. Actual results may materially and adversely vary. No guarantee is made that any such targeted returns will be achieved. In fact, investors may lose some or all of their investment. Shareholders are encouraged to consult with their own financial, tax and legal advisors regarding the use of targeted returns and to ask questions of the Manager regarding the derivation of such projections.

Limits of risk disclosures

The above discussions of the various risks that are associated with FMIC and its common shares are not, and are not intended to be, a complete enumeration or explanation of the risks involved in an investment in common shares. In addition, over time an investment in FMIC may be subject to risk factors not currently contemplated herein. **In view of the risks noted above, common shares should be considered a speculative investment and investors should invest in FMIC only if they can sustain a complete loss of their investment. Notwithstanding past performance of FMIC, no guarantee or representation is made that the investment program of FMIC will continue to be successful or that FMIC will continue to achieve its investment objectives.**