FRONTENAC MORTGAGE INVESTMENT CORPORATION

AMENDED AND RESTATED
INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(In Canadian Dollars)

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

Notice to Reader

Please be advised that the following changes were made to the Unaudited Interim Financial statements for the period ended March 31, 2023.

- Correction of an error in the application of IFRS to the measurement of the expected credit losses for a loan package that had been made to a borrower in relation to a large residential development property
- Correction of an error in the classification of certain mortgages in the breakdown of the mortgage investment portfolio by type

The impact on the financial statements is further described in Note 4.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

AMENDED AND RESTATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(In Canadian Dollars)

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FRONTENAC MORTGAGE INVESTMENT CORPORATION

AMENDED AND RESTATED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(In Canadian Dollars)

	As at March 31, 2023 Restated (Note 4)	As at December 31, 2022 Restated (Note 4)
	$	$
ASSETS		
Cash and cash equivalents (Note 7)	130,692	122,558
Due from administrator in trust (Note 8)	532,325	1,436,778
Accounts receivable (Note 13)	25,722	6,700
Prepaid expenses	75,420	57,944
Accrued interest receivable (Note 9)	7,305,623	7,268,932
Mortgage investments (Note 9)	204,040,605	213,157,242
Total assets	212,110,387	222,050,154
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank line of credit (Note 11)	16,770,000	23,210,000
Dividends payable	450,199	410,922
Accounts payable and accrued liabilities	377,861	357,720
Liability to certain investors (Note 12)	158,421	-
Prepaid mortgage payments	37,488	121,450
Total liabilities	17,793,969	24,100,092
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	197,890,024	197,841,062
Retained earnings (deficit)	(3,573,606)	109,000
Total shareholders' equity	194,316,418	197,950,062
Total liabilities and shareholders' equity	212,110,387	222,050,154
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 12)	6,605,249	6,723,982
CARRYING VALUE PER SHARE	29.42	29.44

APPROVED ON BEHALF OF THE BOARD:

___*Jody Becker (signed)*__ Director

___*Ryan Seeds (signed)*____ Director

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Three months ended March 31, 2023 Restated (Note 4) $	Three months ended March 31, 2022 $
INTEREST INCOME	5,355,511	4,016,007
EXPENSES		
Management and administration fees (Note 13)	1,166,550	1,141,162
Professional fees	152,871	95,666
Director fees (Note 14)	47,399	45,548
General and operating expenses	113,051	83,702
Interest on bank line of credit	371,168	-
Provision for mortgage impairment losses	310,224	156,165
	2,161,263	1,522,243
NET INCOME AND COMPREHENSIVE INCOME	3,194,248	2,493,764
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,770,122	7,044,531
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.47	$ 0.35

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

AMENDED AND RESTATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(In Canadian Dollars)

Three months ended March 31, 2023

	Share Capital, (Note 12) $	Retained Earnings (Deficit) $	Total $
Shareholders' equity - December 31, 2022	201,610,430	(3,660,368)	197,950,062
Net income and comprehensive income *(As restated - Note 4)*	-	3,194,248	3,194,248
Proceeds from issuance of shares for cash	6,801,249	-	6,801,249
Reinvested dividends	1,780,560	-	1,780,560
Shares redeemed	(12,143,794)	-	(12,143,794)
Dividends to shareholders	-	(3,107,486)	(3,107,486)
Liability to certain investors	(158,421)	-	(158,421)
Shareholders' equity - March 31, 2023 *(As Restated - Note 4)*	197,890,024	(3,573,606)	194,316,418
Dividends per share			0.46

Three months ended March 31, 2022

	Share Capital, (Note 12) $	Retained Earnings $	Total $
Shareholders' equity - December 31, 2021	202,609,406	109,000	202,718,406
Net income and comprehensive income	-	2,493,764	2,493,764
Proceeds from issuance of shares for cash	17,221,446	-	17,221,446
Reinvested dividends	1,101,154	-	1,101,154
Shares redeemed	(8,302,354)	-	(8,302,354)
Dividends to shareholders	-	(2,493,764)	(2,493,764)
Shareholders' equity - March 31, 2022	212,629,652	109,000	212,738,652
Dividends per share			0.35

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

AMENDED AND RESTATED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In Canadian Dollars)

	Three months ended March 31, 2023 (Restated - Note 4) $	Three months ended March 31, 2022 $
CASH FROM OPERATING ACTIVITIES		
Net income	3,194,248	2,493,764
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	310,224	156,165
Net changes in non-cash operating items:		
Decrease/(Increase) in due from administrator in trust	904,453	(534,679)
Decrease/(Increase) in accrued interest receivable	(36,691)	115,402
Decrease/(Increase) in prepaid expenses	(17,476)	11,822
Increase/(Decrease) in accounts payable and accrued liabilities	20,141	(18,518)
Increase in accounts receivable	(19,023)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,355,876	2,223,956
FINANCING ACTIVITIES		
Decrease in bank line of credit	(6,440,000)	-
Proceeds from issuance of common shares for cash	6,801,249	17,221,446
Cash dividends	(1,287,649)	(1,498,592)
Redemption of common shares	(12,143,794)	(8,302,354)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(13,070,194)	7,420,500
INVESTING ACTIVITIES		
Increase/(Decrease) in prepaid mortgage payments	(83,962)	77,556
Mortgage investments	(30,137,921)	(42,830,605)
Repayment of mortgage investments	38,944,335	49,111,432
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,722,452	6,358,383
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,134	16,002,839
CASH AND CASH EQUIVALENTS, beginning of period	122,558	14,114,425
CASH AND CASH EQUIVALENTS, end of period (Note 7)	130,692	30,117,264
Additional information:		
Interest received	5,318,820	4,131,409
Interest paid	371,168	-

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

NOTES TO THE AMENDED AND RESTATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

(In Canadian Dollars)

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

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

2. ECONOMIC ENVIRONMENT

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

3. BASIS OF PRESENTATION

(a) Statement of compliance

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

These amended and restated financial statements were approved for issue by the Board of Directors on May 3, 2024.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments:

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 amended and restated 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 amended and restated financial statements are as follows:

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

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

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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

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

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

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

The Company determines the net realizable proceeds of selling the property and discounts the proceeds to the current period using a discount rate. After subtracting the outstanding principal and interest amounts receivable, the shortfall is recorded as a stage 3 provision. Key inputs required in this analysis are estimated selling proceeds and selling costs. To estimate the selling proceeds, management generally obtains a third-party appraisal report and estimated selling costs are determined based on past experience and management's knowledge of the transaction and market. The discount rate is determined considering market rates and the existing loan interest rate. If the selling costs and underlying security fair value of the mortgage investments included within stage 3 increased (decreased) by +/- 10%, the impact to the Company's expected credit loss would be +$1.2/-$1.2 million as at March 31, 2023 (March 31, 2022 - $nil).

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

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

3. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (Continued)

(i) Mortgage investments (Continued):

Loan Modification

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

(ii) Fair value measurements:

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

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

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

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

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

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

(In Canadian Dollars)

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS

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

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

Impact on Statement of Financial Position

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

Impact on Statement of Income and Comprehensive Income

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

Impact on Statement of Changes in Shareholders' Equity

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

(In Canadian Dollars)

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

Impact on Statement of Cash Flows

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

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

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

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

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

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

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

To address this misclassification, we have adjusted the classification in our financial reporting system to align with the Company's continuous disclosure and correctly reflect these mortgages under the "Residential Development" and "Vacant Land" categories.

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

(In Canadian Dollars)

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

For the three months ended March 31, 2023, the value of the increase in the expected credit loss allowance related to the single large residential development project was $3,708,328. With the continued changes in the expected credit loss, the total overpayment to the Manager and the Administrator was $25,722 for three months ended March 31, 2023, inclusive of $6,700 for the month of December 2022. Included in the impact on the statement of financial position as at March 31, 2023 is a liability to certain investors for $158,421 which represents the amounts owing to shareholders for the difference in the amounts paid on share issuances by shareholders and the restated carrying value subsequent to the revisions made in these amended and restated interim financial statements.

Please see below for the impact on the statement of income and comprehensive income for the period ended March 31, 2023.

Impact on Statement of Financial Position

Three Months Ended March 31, 2023	Previously Reported $	Adjustment $	Restated $
Mortgage investments	207,748,933	(3,708,328)	204,040,605
Accounts receivable	-	25,722	25,722
Total assets	215,792,993	(3,682,606)	212,110,387
Liability to certain investors	-	158,421	158,421
Total liabilities	17,635,548	158,421	17,793,969
Retained earnings/(deficit)	109,000	(3,682,606)	(3,573,606)
Share capital	198,048,445	(158,421)	197,890,024
Total shareholders' equity	198,157,445	(3,841,027)	194,316,418
Total liabilities and shareholders' equity	215,792,993	(3,682,606)	212,110,387
Carrying value per share	30.00	(0.58)	29.42

Impact on Statement of Income and Comprehensive Income

Three Months Ended March 31, 2023	Previously Reported $	Adjustment $	Restated $
Management and administration fees	1,185,573	(19,023)	1,166,550
Provision for mortgage impairment losses	377,963	(67,739)	310,224
Net income and comprehensive income	3,107,486	86,762	3,194,248
Basic and diluted earnings per share	0.46	0.01	0.47

(In Canadian Dollars)

4. RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS (Continued)

Impact on Statement of Changes in Shareholders' Equity

Three Months Ended March 31, 2023	Previously Reported $	Adjustment $	Restated $
Net income and comprehensive income	3,107,486	86,762	3,194,248
Liability to certain investors	-	(158,421)	(158,421)
Shareholders' equity - March 31, 2023	198,157,445	(3,841,027)	194,316,418

Impact on Statement of Cash Flows

Three Months Ended March 31, 2023	Previously Reported $	Adjustment $	Restated $
Net Income and Comprehensive Income	3,107,486	86,762	3,194,248
Provision for mortgage impairment losses	377,963	(67,739)	310,224
Increase in accounts receivable	-	(19,023)	(19,023)

The impact of the misclassification of mortgage type as described previously for the period ended March 31, 2023, is as follows:

- Gross mortgages totaling $29,861,000 for multi-unit residential buildings housing four units or greater were incorrectly classified as "Residential Construction" instead of the correct category, "Residential Developments"
- Gross mortgages totaling $2,877,000 for residential buildings was incorrectly classified as "Residential Construction" instead of the correct category, "Residential".
- Gross mortgage totaling $2,404,000 for vacant land was incorrectly classified as "Residential" instead of the correct category, "Vacant Land".

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES

(a) Revenue recognition

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

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(b) Cash and cash equivalents

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

(c) Mortgage investments

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

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

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

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

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(d) Properties held for sale under foreclosure

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

(e) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its income for tax purposes paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

(f) Prepaid mortgage payments

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

(g) Carrying value per share

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(h) Earnings per share

Basic earnings per share is computed by dividing net income and comprehensive income by the weighted average shares outstanding during the year. There are no dilutive shares issued by the Company as at March 31, 2023 or 2022.

(i) Share capital

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

(j) Financial assets and liabilities

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

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

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

(i) Financial assets:

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

(ii) Financial liabilities:

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

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(k) Liability to certain investors

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

(l) Accounting pronouncements

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

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

(In Canadian Dollars)

5. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

(l) Accounting pronouncements (continued)

♦ IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued an amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, to come into effect January 1, 2023. The amendment is to help entities to distinguish between accounting policies and accounting estimates. The Company has adopted the amendments in its financial statements for the annual period beginning January 1, 2023. The adoption of this standard has had no material impact on the financial statements.

6. CAPITAL STRUCTURE AND FINANCIAL POLICIES

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

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

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

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

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

7. CASH AND CASH EQUIVALENTS

	As at March 31, 2023	As at December 31, 2022
	$	$
Cash	8,145	1,362
Short-term investments	122,547	121,196
	130,692	122,558

8. DUE FROM ADMINISTRATOR IN TRUST

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

9. MORTGAGE INVESTMENTS

There are 365 mortgages (December 31, 2022 - 423) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at March 31, 2023 *(As Restated - Note 4)*	**As at December 31, 2022** *(As Restated - Note 4)*
	$	$
Mortgages	210,155,145	218,985,971
Allowance for impairment losses	(6,114,540)	(5,828,729)
	204,040,605	213,157,242

Breakdown of the mortgage investment portfolio by type:

	March 31, 2023 *(Restated - Note 4)*			**December 31, 2022** *(Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Residential	114	39,158	19.2%	132	43,064	20.2%
Residential construction	167	107,628	52.8%	197	112,836	52.9%
Residential developments	28	38,229	18.7%	31	36,790	17.3%
Commercial	2	419	0.2%	2	426	0.2%
Vacant land	54	18,607	9.1%	61	20,041	9.4%
Total	365	204,041	100.0%	423	213,157	100.0%

9. MORTGAGE INVESTMENTS (Continued)

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

Breakdown of the mortgage investment portfolio by location:

	March 31, 2023 *(Restated - Note 4)*			December 31, 2022 *(Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Ontario – East	237	135,767	66.5%	273	136,847	64.2%
Ontario – Southwest	26	15,290	7.6%	31	15,939	7.5%
Ontario – Central	42	30,470	14.9%	49	36,120	16.9%
Ontario – North	60	22,514	11.0%	70	24,251	11.4%
Total	365	204,041	100.0%	423	213,157	100.0%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. As at March 31, 2023, two of the Ontario – Central allocation were for properties located in the Toronto market (postal code M - two in December 31, 2022).

Other key metrics related to the mortgage investment portfolio:

	March 31, 2023 *(Restated - Note 4)*			December 31, 2022 *(Restated - Note 4)*		
	#	**$ (000's)**	**% of total**	**#**	**$ (000)'s**	**% of total**
First mortgage loans	364	203,938	99.9%	422	213,054	99.9%
Average gross loan balance		576			518	

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

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

Gross investments at amortized cost	**As at March 31, 2023** *(As Restated - Note 4)*			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	423,351	-	-	423,351
Residential	38,633,625	480,327	150,545	39,264,497
Residential construction	107,626,244	-	308,850	107,935,094
Residential developments	30,180,693	-	13,690,251	43,870,944
Vacant land	17,347,461	-	1,313,798	18,661,259
	194,211,374	480,327	15,463,444	210,155,145

Allowance for credit losses on loans	**As at March 31, 2023** *(As Restated - Note 4)*			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	$	**$**	**$**	**$**
Commercial	4,160	-	-	4,160
Residential	104,151	2,257	-	106,408
Residential construction	306,956	-	-	306,956
Residential developments	123,558	-	5,518,847	5,642,405
Vacant land	54,611	-	-	54,611
	593,436	2,257	5,518,847	6,114,540

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

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

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

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

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

	As at March 31, 2023	**As at December 31, 2022**
	$	**$**
Stage 1	2,588,629	2,584,500
Stage 2	10,624	38,379
Stage 3	4,706,370	4,646,053
Total	7,305,623	7,268,932

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at March 31, 2023, there are 8 mortgages totaling $15,463,444 (December 31, 2022 - 10 mortgages totaling $14,484,975) that are past due and considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage loss is made.

The fair value of collateral held against impaired mortgages at March 31, 2023 was approximately $22,097,000 (December 31, 2022 - $19,329,000).

9. MORTGAGE INVESTMENTS (Continued)

As at March 31, 2023, four of the eight impaired loans related to a single large residential development project with the same borrower. These loans were assessed for credit loss provision on a collective basis. On May 29, 2023, the Corporation extended the forbearance agreement with the borrower to June 30, 2023. The extension will help facilitate the sale of the property either as a whole or as individual components.

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

During the three months ended March 31, 2023, the Company incurred residual closing costs and recoveries related to mortgage investments that were discharged prior to the beginning of the period resulting in a net recovery of $22,037, with no closing costs or recoveries in the current period. During the three months ended March 31, 2022, the Company incurred residual closing costs and recoveries related to mortgage investments that were discharged prior to the beginning of the period resulting in a net write-off of $46,877, with an additional write-off of $2,021 in the current period. These additional costs and recoveries related to previously impaired mortgage investments have been included in the provision for mortgage impairment losses on the amended and restated statement of income and comprehensive income.

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

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

As at March 31, 2023 *(As Restated - Note 4)*	**Stage 1** $	**Stage 2** $	**Stage 3** $	**Total** $
Balance - beginning of year	511,967	9,100	5,307,662	5,828,729
Movement (1):				
Stage 1	(4,981)	-	-	(4,981)
Stage 2	-	375	-	375
Stage 3	-	-	4,606	4,606
Net Remeasurement (2)	118,687	(7,218)	206,579	318,048
Mortgage Advances (3)	873	-	-	873
Mortgage Repayments (4)	(33,110)	-	-	(33,110)
Balance - end of year	593,436	2,257	5,518,847	6,114,540

As at December 31, 2022 *(As Restated - Note 4)*	**Stage 1** $	**Stage 2** $	**Stage 3** $	**Total** $
Balance - beginning of year	300,718	6,185	528,130	835,033
Movement (1):				
Stage 1	(5,647)	-	-	(5,647)
Stage 2	-	(3,368)	-	(3,368)
Stage 3	-	-	9,015	9,015
Net Remeasurement (2)	150,556	7,028	4,819,003	4,976,587
Mortgage Advances (3)	193,263	-	-	193,263
Mortgage Repayments (4)	(126,923)	(745)	-	(127,668)
Write-offs	-	-	(48,486)	(48,486)
Balance - end of year	511,967	9,100	5,307,662	5,828,729

Notes to table

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

(In Canadian Dollars)

9. MORTGAGE INVESTMENTS (Continued)

During the three months ended March 31 2023, there was an increase in the stage 3 net remeasurement due to the estimated date to realization on the four loans related to the single large residential development project being extended to Q4 2023.

As of March 31, 2023, there are 4 loans totaling $1,773,000 (December 31, 2022 - 6 loans totaling $848,000) included in Stage 3 for which no provision for loss was considered necessary based on management's estimate that the expected net proceeds from sale of the related collateral will exceed the loan amounts outstanding.

Principal repayments based on contractual maturity dates are as follows:

	$
Within one year	205,698,533
Within following year	4,206,612
Thereafter	250,000
Total	210,155,145

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at March 31, 2023 was 10.07% (December 31, 2022 - 9.82%).

Mortgages past due but not impaired are as follows:

	March 31, 2023 $	**December 31, 2022 $**
1 to 30 days	519,529	398,952
31 - 90 days	480,327	199,443
over 90 days	-	56,815
Total	999,856	655,210

10.FINANCIAL INSTRUMENTS

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. FMIC is not materially exposed to equity, currency or commodity risk. FMIC is exposed to interest rate risk in that an increase in interest rates will result in increased interest expense due to its borrowings under the credit facility being set a variable rate. The financial structure of the company results in relatively moderate interest rate risk because mortgages receivable are set at fixed rates and the majority of FMIC's financing is through common shares. As at March 31, 2023, a change in interest rates of +/- 1% would have an impact on the fair value of the mortgage investments of $149,206/$(149,206) (March 31, 2022 - $477,126/$(477,126)). If interest rates would have been 1% higher and all loans were entered into higher interest rates, interest revenue would have increased by $530,960 for the three months ended March 31, 2023 (March 31, 2022 - $420,803). If interest rates on the line of credit had been 1% higher, interest expense would have increased by $48,656 for the three months ended March 31, 2023 (March 31, 2022 - nil). The change to net income would have been $482,304 for the three months ended March 31, 2023 (March 31, 2022 - $420,803). The Manager regularly forecasts cash flows under different scenarios to monitor interest rate risk.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. However, during 2022 and 2023 there has been significant market volatility which has seen reduction in sales volumes and declining sales prices in the lenders market which increases the Company's credit risk. The maximum exposure to credit risk at March 31, 2023 is the carrying values of its mortgage investments, including accrued interest receivable, which total $211,346,228 (Restated - Note 4) (December 31, 2022 - $220,426,174 (Restated - Note 4)). The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying security. When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

There are no significant concentrations of credit risk as the average mortgage amount as at March 31, 2023 was $575,861 (December 31, 2022 - $517,657) and the largest mortgage was $13,690,251 (December 31, 2022 - $13,636,732) with a recorded impairment of $5,518,847 (Restated - Note 4) (December 31, 2022 - $5,307,662 (Restated - Note 4)).

10. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. Liquidity risk arises primarily from abnormal increases in share redemptions as well as mortgage advances in a short period of time. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at March 31, 2023, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $377,861 (December 31, 2022 - $357,720) and dividends payable totaling $450,199 (December 31, 2022 - $410,922). Accounts payable and accrued liabilities along with dividends payable are all due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a $16,770,000 balance as at March 31, 2023 (December 31, 2022 - $23,210,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of $53,954,000 which are expected to be funded within 1 year. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed. It is the Company’s experience that a portion of the unfunded commitments on existing mortgages will never be drawn.

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

As at the date of authorization of the amended and restated financial statements, the value of funds held in escrow was $1,021,205 and the aggregate value of redemption requests was $56,909,569. Given the short term duration of the mortgage investments, a significant portion of the mortgage investments will pay out in 2024 which will enable the Company to fund future mortgage originations as well as redemption requests. In addition, the Company has policies in place that can restrict the total amount of share redemptions to 5% of shareholders' equity in order to allow share redemptions to be funded through the normal repayment of the mortgages receivable.

Fair values

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

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

(In Canadian Dollars)

10. FINANCIAL INSTRUMENTS (Continued)

Fair value measurements

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

As at March 31, 2023 *(As Restated - Note 4)*	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	130,692	130,692
Due from administrator in trust	Measured at amortized cost	532,325	532,325
Accounts receivable	Measured at amortized cost	25,722	25,722
Accrued interest receivable	Measured at amortized cost	7,305,623	7,305,623
Mortgage investments	Measured at amortized cost	204,040,605	204,040,605
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	16,770,000	16,770,000
Dividends payable	Financial liabilities - amortized cost	450,199	450,199
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	377,861	377,861
Liability to certain investors	Financial liabilities - amortized cost	158,421	158,421

As at December 31, 2022 *(As Restated - Note 4)*	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	122,558	122,558
Due from administrator in trust	Measured at amortized cost	1,436,778	1,436,778
Accounts receivable	Measured at amortized cost	6,700	6,700
Accrued interest receivable	Measured at amortized cost	7,268,932	7,268,932
Mortgage investments	Measured at amortized cost	213,157,242	213,157,242
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	23,210,000	23,210,000
Dividends payable	Financial liabilities - amortized cost	410,922	410,922
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	357,720	357,720

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

There are no quoted prices in an active market for the Company's mortgages. Management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

10.FINANCIAL INSTRUMENTS (Continued)

Fair value measurements (Continued)

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, dividends payable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

11. BANK LINE OF CREDIT

The Company has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity of the Company subject to a maximum dollar limit. The maximum dollar limit of the revolving line of credit is $40,000,000 and is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 6.70% (December 31, 2022 6.45%) plus 1%. As at December 31, 2022 the Company had access to its unused revolving line of credit in the amount of $6,426,000 (December 31, 2022 - $6,840,000).

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

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

(In Canadian Dollars)

12. SHARE CAPITAL

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

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

	Three months ended March 31, 2023 *(As restated - Note 4)*		**Year ended December 31, 2022**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	6,723,982	201,610,430	6,757,281	202,609,406
Issued for cash	226,708	6,801,249	1,607,091	48,212,723
Issued through dividend reinvestment plan	59,352	1,780,560	207,667	6,230,020
Redeemed for cash	(404,793)	(12,143,794)	(1,848,057)	(55,441,719)
Liability to certain investors	-	(158,421)	-	-
Balance, end of year	6,605,249	197,890,024	6,723,982	201,610,430

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

Redemptions

During the period ended March 31, 2023 the Company redeemed for cash 404,793 common shares at the price of $30.00 per share for total proceeds of $12,143,794. During the period ended March 31, 2022, the Company redeemed for cash 276,745 common shares at the price of $30.00 per share for total proceeds of $8,302,354.

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

Subsequent to the reporting period and up to the date of authorization of the financial statements the Company issued 236,633 common shares for total proceeds of $7.1 million, redeemed 214,600 shares for a total of $6.4 million and declared dividends of $2.2 million. In addition, the Company declared a special cash dividend of $0.8247974 per share or $5.5 million, payable on March 28, 2024 to shareholders of record as of March 26, 2024.

The Company has escrowed monthly sales of common shares and deferred monthly dividend payments as well as redemption requests from July 2023 to the current date pending resolution of certain accounting issues raised in the Ontario Securities Commission continuous disclosure review focusing on the calculation of expected credit losses in respect of four loans related to the single development property in Stage 3 as described in Note 4. As at May 3, 2024, the value of funds held in escrow was $1,021,205 and the aggregate value of redemption requests was $56,909,569.

13. RELATED PARTIES

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

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

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees owed to Pillar for the period ended March 31, 2023 were $547,676 (March 31, 2022 - $535,757) and the total fees owed to the Manager for the period ended March 31, 2023 including applicable sales taxes were $618,874 (March 31, 2022 - $605,405) under these contracts. All related party transactions noted above were in the normal course of business.

Included in accounts receivable is an amount of $12,076 (December 31, 2022 - $3,145) and $13,646 (December 31, 2022 - $3,555) due from Pillar and the Manager, respectively, for amounts owing as a result of the adjustments to the assets under management which impacted the total costs of the services provided to the Company as described in Note 4.

14. KEY MANAGEMENT PERSONNEL COMPENSATION

For the period ended March 31, 2023, the Company paid directors fees totaling $47,399 (period ended March 31, 2022 - $45,410) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 13).