FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Canadian Dollars)

CONTENTS

Raymond Chabot Grant Thornton

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
2505 St-Laurent Blvd.
Ottawa, Ontario K1H 1E4

Telephone: 613-236-2211
Fax: 613-236-6104
www.rcgt.com

To the Shareholders of
Frontenac Mortgage Investment Corporation

We have audited the accompanying financial statements of Frontenac Mortgage Investment Corporation, which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements comprehensive income, the statements of changes in shareholder's equity and the statements of cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Frontenac Mortgage Investment Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
March 14, 2016

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

(In Canadian Dollars)

	As at December 31, 2015 $	As at December 31, 2014 $
ASSETS		
Cash and cash equivalents	38,090	8,007
Due from administrator in trust (Note 5)	396,546	65,932
Accrued interest receivable	3,657,636	5,162,051
Mortgage investments (Note 6)	180,530,085	143,856,080
Prepaid expenses	26,550	17,005
Properties held for sale under foreclosure (Note 7)	-	789,680
	184,648,907	149,898,755
LIABILITIES		
Bank line of credit (Note 8)	14,860,000	9,540,000
Dividends payable	119,155	289,510
Accounts payable and accrued expenses	61,745	66,154
Prepaid mortgage payments	71,465	1,701,452
	15,112,365	11,597,116
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (Note 9)	169,536,542	138,301,639
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 9)	5,651,215	4,610,052
NET ASSETS PER SHARE	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

Robert Barnes (signed) Director

Eric Dinelle (signed) Director

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

(In Canadian Dollars)

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
INTEREST INCOME	14,485,507	13,139,636
EXPENSES		
Management and administration fees (Note 10)	3,531,737	3,062,237
Audit fees	52,658	52,749
Director fees	79,333	86,769
General and operating expenses	502,240	491,213
Interest on bank line of credit	276,332	226,764
Legal fees	54,609	56,457
Custodian fees	11,300	11,300
Trustee account fees	68,789	86,600
Realized losses on mortgage investments	1,175,062	274,617
Allowance for impairment losses on mortgages	131,951	603,555
	5,884,011	4,952,261
NET INVESTMENT INCOME	8,601,496	8,187,375
Change in fair value of property held for sale under foreclosure	(20,479)	36,000
NET INCOME AND COMPREHENSIVE INCOME	8,581,017	8,223,375
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	5,232,327	4,493,648
NET INCOME PER SHARE	$ 1.64	$ 1.83

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Canadian Dollars)

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
NET ASSETS, beginning of year	138,301,639	123,080,458
Net income from operations	8,581,017	8,223,375
Share capital transactions		
Proceeds from issuance of shares for cash	32,637,365	19,116,464
Reinvested dividends	5,468,128	5,610,900
Shares redeemed	(6,870,590)	(9,506,183)
	31,234,903	15,221,181
Distributions to shareholders		
Dividends to shareholders	(8,581,017)	(8,223,375)
NET ASSETS, end of year	169,536,542	138,301,639

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CASH FLOW

(In Canadian Dollars)

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
CASH FROM OPERATING ACTIVITIES		
Net income	8,581,017	8,223,375
Items not requiring an outlay of cash:		
Realized losses on mortgage investments	1,175,062	274,617
Allowance for impairment losses on mortgages	131,951	603,555
Unrealized change in fair value of property held for sale under foreclosure	20,479	(36,000)
Net changes in non-cash working capital balances:		
(Increase) decrease in due from administrator in trust	(330,614)	1,879,188
Decrease (increase) in accrued interest receivable	1,504,415	(539,673)
(Increase) in prepaid expenses	(9,545)	(1,434)
(Decrease) / increase in accounts payable and accrued expenses	(4,409)	14,464
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,068,356	10,418,092
FINANCING ACTIVITIES		
Increase in bank line of credit	5,320,000	7,620,000
Proceeds from issuance of common shares for cash	32,637,365	19,116,464
Cash dividends	(3,283,244)	(2,475,129)
Redemption of common shares	(6,870,590)	(9,506,183)
NET CASH PROVIDED BY FINANCING ACTIVITIES	27,803,531	14,755,152
INVESTING ACTIVITIES		
(Decrease) increase in prepaid mortgage payments	(1,629,987)	1,520,543
Mortgage investments	(105,585,867)	(81,689,539)
Repayment of mortgage investments	67,604,849	54,838,065
Investment in property held for sale under foreclosure	-	(24,109)
Proceeds from disposal of property held for sale under foreclosure	769,201	187,512
NET CASH USED IN INVESTING ACTIVITIES	(38,841,804)	(25,167,528)
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,083	5,716
CASH AND CASH EQUIVALENTS, beginning of year	8,007	2,291
CASH AND CASH EQUIVALENTS, end of year	38,090	8,007
Additional information:		
Interest received	15,989,922	12,599,963

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

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2015

INVESTMENT PORTFOLIO

		Principal Value	Amortized Cost	Fair Value
Private mortgages	106.48%	$ 181,278,833	$ 180,530,085	$ 180,530,085
Cash & other net assets	2.28%			3,866,457
Bank line of credit	(8.77)%			(14,860,000)
Net assets	100.00%			$ 169,536,542

DISTRIBUTION OF MORTGAGE INVESTMENTS

Interest rate	Number of mortgages	Amortized cost	Fair value
5%	3	$ 8,217,815	$ 8,217,815
6%	4	4,104,147	4,104,147
7%	56	15,215,447	15,215,447
8%	94	17,300,670	17,300,670
9%	136	35,354,309	35,354,309
10%	163	46,743,266	46,743,266
11%	25	9,726,677	9,726,677
12%	101	43,867,754	43,867,754
	582	$180,530,085	$180,530,085

Mortgages are 89% residential and 11% commercial and vacant land. All mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable with terms to maturity ranging from 1 to 2 years.

The accompanying notes form an integral part of these financial statements

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with National Instrument 81-106 Investment Funds Continuous Disclosure ("NI 81-106").

These financial statements were approved for issue by the Board of Directors on March 4, 2016.

(b) Basis of measurement

These 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

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgements

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

2. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (continued)

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. 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 of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occured 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.

(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 11, 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. As explained in more detail in Note 7, management makes its determination of fair value of properties held for sale under foreclosure based on its assessment of the net realizable value of the property taking into consideration appraisals by qualified appraisers and purchase offers received from unrelated third parties.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on a time proportionate basis using the effective interest rate method. Interest is not accrued on mortgage investments that are identified as impaired.

(b) Cash and cash equivalents

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

(c) Mortgage investments

Mortgage investments are financial instruments and are classified as loans and receivables. These investments are recognized initially at fair value plus any attributable transaction costs. Subsequent to intial recognition, the mortgage investments are measured at amortized costs using the effective interest rate method, less any impairment losses. The mortgage investments are assessed on each reporting period date to determine whether there is objective evidence of impairment. A financial asset 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 asset.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of operations 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, assessement 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 taxable income dividends 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) Deferred lender fee revenue

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.

(g) 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.

(h) Net assets

Net assets consists of issued and outstanding common shares of the Company and is classified as equity.

(i) Net assets per share

Net assets per share is calculated by dividing the net assets by the total number of issued and outstanding common shares at the end of the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as loans and receivables. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 6.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued expenses. 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: loans and receivables or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as: held-for-trading or financial liabilities at amortized cost. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as loans and receivables and recorded at cost.

(ii) Financial liabilities:

Bank line of credit, dividends payable, and accounts payable and accrued expenses are classified as financial liabilities at amortized cost.

(k) Accounting pronouncements

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

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

(i) IFRS 9 Financial Instruments ("IFRS 9")

The IASB recently released IFRS 9 Financial Instruments (2014) ("IFRS 9") representing the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces the a new "expected credit loss" model for the impairment of financial assets.

Management has yet to assess the impact of IFRS 9 on the Company's financial statements. The new standard is required to applied for annual reporting periods beginning on or after January 1, 2018.

(In Canadian Dollars)

4. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes net assets 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 is required to maintain approximately 5% of its net assets in cash or near cash assets 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 the 5% cash reserve is maintained. As at December 31, 2015 and 2014, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

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

5. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and adminsitration 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.

6. MORTGAGE INVESTMENTS

There are 582 mortgages (December 31, 2014 - 470) held which are a combination of mainly first and second mortgages secured by residential and commercial property. Mortgage investments consist of the following:

	As at December 31, 2015	As at December 31, 2014
	$	$
Mortgages	181,278,833	144,472,877
Allowance for impairment losses	(748,748)	(616,797)
	180,530,085	143,856,080

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at December 31, 2015, there are 17 mortgages totaling $8,070,000 (December 31, 2014 - 8 mortgages totaling $9,036,000) 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.

(In Canadian Dollars)

6. MORTGAGE INVESTMENTS (Continued)

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

	2015	2014
	$	$
Balance - beginning of year	616,797	13,242
Provision for impairment losses for year	131,951	603,555
Mortgage investments - end of year	748,748	616,797

Principal repayments based on contractual maturity dates are as follows:

	$
2015	148,442,570
2016	28,998,673
Thereafter	3,088,842
Total	180,530,085

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at December 31, 2015 was 9.45% (December 31, 2014 - 9.55%).

Mortgages past due but not impaired are as follows:

	2015	2014
	$	$
1 to 30 days	2,933,884	519,796
31 - 90 days	4,080,807	7,683,703
over 90 days	2,973,399	4,036,406
Total	9,988,090	12,239,905

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfil their mortgage commitments. 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. The maximum exposure to credit risk at December 31, 2015 is the carrying values of its mortgage investments, including accrued interest receivable, which total $184,187,721 (December 31, 2014 - $149,036,048). 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. There are no significant concentrations of credit risk as the average mortgage amount as at December 31, 2015 was $312,341 (December 31, 2014 - $307,427) and the largest mortgage was $11,607,119 (December 31, 2014 - $10,248,806).

6. MORTGAGE INVESTMENTS (Continued)

Fair values

The fair value of the mortgage investments approximates its carrying value as substantially all of the loans are short-term in nature and repayable in full at any time by the borrower without penalty.

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.

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. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at December 31, 2015, the Company's financial obligations and commitments consisted of accounts payable and accrued expenses totaling $61,745 (December 31, 2014 - $66,154) and dividends payable totaling $119,155 (December 31, 2014 - $289,510) all of which are 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 balance outstanding of $14,860,000 as at December 31, 2015 (December 31, 2014 - $9,540,000).

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 net assets. As at December 31, 2015, the Company's committed borrowing facilities represented approximately 13% of net assets (December 31, 2014 - 15% of net assets). In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In Canadian Dollars)

7. PROPERTIES HELD FOR SALE UNDER FORECLOSURE

As at December 31, 2015, there are no properties (December 31, 2014 - 1 property) held for sale under foreclosure as follows:

	As at December 31, 2015 $	As at December 31, 2014 $
Properties held for sale under foreclosure - at cost	-	564,680
Unrealized change in fair value	-	225,000
Fair value	-	789,680

The following table shows a reconciliation of the opening and closing balance of fair value of properties held for sale under foreclosure:

	Year ended December 31, 2015 $	Year ended December 31, 2014 $
Properties held for sale under foreclosure - beginning of year	789,680	917,083
Additions	-	24,109
Proceeds from disposals	(769,201)	(187,512)
Change in fair value	(20,479)	36,000
Properties held for sale under foreclosure - end of year	-	789,680

8. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank and, in December 2015, the limit of this line of credit was increased from $21,000,000 to $23,000,000. The line of credit 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 2.70% (December 31, 2014 - 3.00%) plus 1%.

Financial covenants require the Company to maintain a minimum level for net assets, debt to net assets ratio, and percentage of residential mortgages.

Subsequent to year end, in March 2016, the Company negotiated an increase in its credit line to be equal to 15% of net assets of the Corporation subject to maximum limit of $29,000,000. The interest rate, financial covenants, and other terms of the previous credit line agreement remained unchanged in the new agreement.

(In Canadian Dollars)

9. CAPITAL STOCK

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 year to issued and outstanding shares of the Company:

	Year ended December 31, 2015		**Year ended December 31, 2014**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	4,610,052	138,301,639	4,102,680	123,080,458
Issued for cash	1,087,912	32,637,365	637,215	19,116,464
Issued through dividend reinvestment plan	182,271	5,468,128	187,030	5,610,900
Redeemed for cash	(229,020)	(6,870,590)	(316,873)	(9,506,183)
Balance, end of year	5,651,215	169,536,542	4,610,052	138,301,639

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
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the year the Company redeemed for cash 229,020 common shares at the price of $30.00 per share for total proceeds of $6,870,590. For the year ended December 31, 2014, 316,873 common shares were redeemed for cash at the price of $30.00 per share for total proceeds of $9,506,183.

10. RELATED PARTIES

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

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

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the year ended December 31, 2015 were $1,658,406 (2014 - $1,435,310) and the total fees paid to the Manager for the year ended December 31, 2015 including applicable sales taxes were $1,873,999 (2014 - $1,626,927) under these contracts. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the parties.

(In Canadian Dollars)

11. FAIR VALUE MEASUREMENTS

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

As at December 31, 2015	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:			
Cash and equivalents	Fair value through profit & loss	38,090	38,090
Due from administrator in trust	Loans and receivables - amortized cost	396,546	396,546
Accrued interest receivable	Loans and receivables - amortized cost	3,657,636	3,657,636
Mortgage investments	Loans and receivables - amortized cost	180,530,085	180,530,085
LIABILITIES:			
Bank line of credit	Other liabilities - amortized cost	14,860,000	14,860,000
Dividends payable	Other liabilities - amortized cost	119,155	119,155
Accounts payable and accrued expenses	Other liabilities - amortized cost	61,745	61,745
Prepaid mortgage payments	Other liabilities - amortized cost	71,465	71,465

As at December 31, 2014	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:			
Cash and equivalents	Fair value through profit & loss	8,007	8,007
Due from administrator in trust	Loans and receivables - amortized cost	65,932	65,932
Accrued interest receivable	Loans and receivables - amortized cost	5,162,051	5,162,051
Mortgage investments	Loans and receivables - amortized cost	143,856,080	143,856,080
Properties held for sale under foreclosure	Fair value through profit & loss	789,680	789,680
LIABILITIES:			
Bank line of credit	Other liabilities - amortized cost	9,540,000	9,540,000
Dividends payable	Other liabilities - amortized cost	289,510	289,510
Accounts payable and accrued expenses	Other liabilities - amortized cost	66,154	66,154
Prepaid mortgage payments	Other liabilities - amortized cost	1,701,452	1,701,452

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. 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.

11. 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, accounts payable and accrued expenses, and prepaid mortgage payments approximate their carrying amounts due to their short-term maturities.

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling $79,333 (2014 - $86,769) 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 10).