FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2014

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Corporation. You can obtain a copy of the annual financial statements at your request, at no cost, by any of the following methods:

By telephone:	(877) 279-2116
By Internet:	SEDAR at www.sedar.com or on the Corporation's website at www.fmic.ca
By mail:	Frontenac Mortgage Investment Corporation 14216 Road #38 Sharbot Lake, Ontario K0H 2P0

Shareholders may also contact us using one of these methods to request a copy of the Corporation's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategy

Investment objective

The Corporation's objective is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Corporation 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 Corporation.

Investment strategy

The Corporation will achieve its investment objective by lending on the security of mortgages on real property located primarily in the province of Ontario. The mortgages transacted by the Corporation 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 Corporation's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

Risks

The business operations of the Corporation are subject to the following risks, amongst others, that could affect shareholders' equity and the Corporation's ability to generate returns: relative illiquid nature of mortgage investments, ability of borrowers to make mortgage payments, inability of the Corporation to find suitable mortgage investments, changes in land value, ranking of mortgages, no guarantees to investor on returns or lack of losses, and reliance on third parties.

These risk factors are described in greater detail in the Corporation's prospectus, a copy of which may be obtained through SEDAR at www.sedar.com.

During the 2014 year, management did not make any operational changes which had an impact on the overall risk of an investment in the Corporation.

Results of Operations

For the year ended December 31, 2013 and later year, the financial statements of Frontenac Mortgage Investment Corporation are prepared in accordance with International Financial Reporting Standards and National Instrument 81-106 Investment Funds Continuous Disclosure. Prior to December 31, 2013, the financial statements of the Corporation were prepared in accordance with Canadian generally accepted accounting principles (CGAAP), included in Part V of the CPA Canada Handbook – Pre-Changeover Accounting Standards including Accounting Guideline 18 Investment Companies and with National Instrument 81-106 Investment Funds Continuous Disclosure.

All amounts for all years are expressed in Canadian dollars.

Operating Results for the Period

The following table presents the results from operations for the year ended December 31:

	2014	**2013**	**2012**(1)	**2011**	**2010**
	$	**$**	**$**	**$**	**$**
Total revenues	13,139,636	10,582,028	7,187,719	3,771,220	2,851,989
- per issued common share	2.92	2.86	2.69	3.08	2.87
Net increase in net assets from operations	8,223,375	6,502,045	4,405,231	2,388,163	1,470,262
- per issued common share	1.83	1.76	1.65	1.95	1.48

Notes:

(1) On July 1, 2012, the Corporation amalgamated (the "Amalgamation") with Mortgage Investment Corporation of Eastern Ontario ("MICEO") which effectively doubled the net assets of the Corporation. Further information on the amalgamation is presented in the Recent Development section of the Management Report on Fund Performance for the Corporation for the year ended December 31, 2012, a copy of which may be obtained on www.sedar.com.

In 2014, the Corporation generated revenues of $13,139,636 or $2.92 per Common Share and a net increase in net assets from operations of $8,223,375 or $1.83 per Common Share.

The revenues of the Corporation represent interest from investments, substantially all of which is earned on its investment in mortgages. Increases in gross dollar revenues were a reflection of an increase in the amount of net assets available for investment both as a result of the Amalgamation and as a result of net new investment by shareholders. Revenue per share was relatively unchanged; increasing slightly to $2.92 per share in 2014 from $2.86 per share in 2013. Despite the continuing low interest rate environment that prevailed throughout both 2013 and 2014, the Corporation was able to underwrite new mortgages in 2014 at similar rates to those underwritten in 2013 without increasing the underlying risk profile of the borrower. Continued tightening of lending critieria both by CMHC and by the major Canadian banks has presented the Corporation with a steady stream of good mortgage lending opportunities.

Total operating expenses, excluding realized and unrealized gains and losses, for 2014 increased to $4,110,089 from $3,206,740 for 2013. The dollar increase in expenses is attributable to the increase in the size of the net assets of the Corporation. The gross value of administration and management fees, both of which are calculated based on a percentage of net assets, increased as a result of the increase in net assets. Operating expenses per share were relatively unchanged at $0.90 per share in 2014 compared to $0.87 per share in 2013.

Unless a shareholder elects to receive dividends in cash, dividends paid to shareholders are re-invested into additional shares of the Corporation under its dividend re-investment plan. During the year, the Corporation paid cash dividends totaling $2,612,475 (2013 - $1,783,285) and $5,610,900 (2013 - $4,718,760) of the earnings was re-invested by shareholders in additional shares of the Corporation.

In addition to the aforementioned dividend re-investment, for the year ended December 31 2014, the net assets of the Corporation increased as a result of net new investments totaling $9,610,821. For the year ended December 31, 2013, the net assets of the Corporation increased by net new investments totaling $18,510,723. Proceeds from Common Shares issued in 2014, excluding dividend re-investment, totaled $19,116,464 (2012 - $26,349,820) while redemptions during the year totaled $9,506,183 (2012 - $7,839,097). Substantially all of the 2014 share redemptions occurred in November 2014.

The Corporation has a revolving line of credit with a Canadian chartered bank and, in September 2014, the limit of the credit line was increased from $15.0 million to $21.0 million. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Company to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2014 and December 31, 2013, the Corporation was in compliance with the bank's financial covenants.

The line of credit is used to smooth out the cash flows of the Corporation and is not used to extend the Corporation's investment capacity beyond its available equity. As at December 31, 2014, the Corporation was using $9,540,000 of this credit line. The maximum borrowings at any one time in the year was $12,840,000.

Outstanding Share Data and Transactions for the Period

The Corporation is authorized to issue an unlimited number of common shares. The following table presents a summary of share data and transactions for the year ended December 31:

	2014	2013	2012	2011	2010
Number of shares:	#	#	#	#	#
Balance – beginning of period	4,102,680	3,328,364	1,534,943	1,032,446	938,428
Issued on amalgamation (1)			1,538,423		
Issued for cash	637,215	878,327	616,480	466,586	97,639
Issued under dividend re-investment plan	187,030	157,292	110,843	72,531	47,526
Redeemed	(316,873)	(261,303)	(472,325)	(36,440)	(51,147)
Balance – end of period	4,610,052	4,102,680	3,328,364	1,534,943	1,032,446

	2014	2013	2012	2011	2010
Dollars:	$	$	$	$	$
Balance – beginning of period	123,080,458	99,850,975	46,048,317	30,973,376	28,152,846
Issued on amalgamation (1)			46,152,700		
Issued for cash	19,116,464	26,349,820	18,494,413	13,997,592	2,929,163
Issued under dividend re-investment plan	5,610,900	4,718,760	3,325,297	2,170,541	1,425,783
Redeemed	(9,506,183)	(7,839,097)	(14,169,752)	(1,093,192)	(1,534,416)
Balance – end of period	138,301,639	123,080,458	99,850,975	46,048,317	30,973,376

Notes:

(1) On July 1, 2012, the Corporation amalgamated with Mortgage Investment Corporation of Eastern Ontario, a "sister" mortgage investment corporation managed by the same manager and with the same investment objectives and strategy.

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

Under the terms of the Corporation's prospectus, shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances.

Recent Developments

Since December 31, 2013, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

Adoption of International Financial Reporting Standards ("IFRS")

In February 2009, the Accounting Standards Board of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. Implementation of IFRS was deferred for investment companies that apply the provisions of Accounting Guideline 18 "Investment Companies" (AcG-18) to January 1, 2014. As the Corporation meets the definition of a publically accountable enterprise and is classified as an investment company, the Corporation adopted IFRS beginning on January 1, 2014. Accordingly, the Corporation's financial statements for the year ended December 31, 2014 were prepared using IFRS.

The change to IFRS mainly resulted in changes to the financial statement presentation and additional disclosure. The following accounting policies differed under IFRS from previous CGAAP and had a significant impact on the financial statements:

(i) Mortgage investments: Under previous Canadian GAAP including AcG-18, the Corporation presented its mortgage investments at fair value. Under IFRS, because it is the Corporation's intention to hold its mortgage investments until repaid in full by the borrower, mortgage investments are classified as loans and receivables. As loans and receivables, mortgage investments are initially recognized at their fair value and subsequently measured at their amortized cost using the effective interest rate method. Mortgage investments will be reviewed at each reporting date for impairment with impairment losses recognized into profit or loss.

The current accounting policies for other financial assets and liabilities of the Corporation remained substantially unchanged after the transition to IFRS.

Transition to IFRS required that the opening financial position of the Corporation, in this case January 1, 2013, in the year of transition be restated to reflect the adoption of new IFRS conforming accounting policies. As at December 31, 2013, the fair value of the Corporation's mortgage investments was not materially different from their amortized cost less impairment losses and, accordingly, no dollar adjustment to the Corporation's financial resulted from the change in the accounting policy.

With the adoption of IFRS, the net asset value per share ("NAVPS") calculated for purposes of issuing and redeeming the Corporation's shares may differ from the accounting value presented per share as NAVPS is based on fair value measurements while the financial statements are presented on a historical cost basis. As at December 31, 2014 and 2013, there was no difference between the net asset value based on fair value used for redemption and from accounting values as the fair value of the Corporation's assets approximated their carrying values under IFRS.

Changes in Securities Regulations

During 2014, the Canadian Securities Administrators (CSA) amended the legislation governing non-redeemable investment funds, including the Corporation. The amendments impose specific restrictions on investments in “non-guaranteed mortgages”. Non-guaranteed mortgages are mortgage loans that are not fully and unconditionally guaranteed, or insured, either by the Government of Canada or by an authorized corporation, such as Canadian Mortgage and Housing Corporation (CMHC). Historically, the mortgage loans offered by the Corporation do not qualify for CMHC insurance and accordingly, the Corporation’s mortgage loans meet the definition of a “non-guaranteed mortgage”. Consequently, the Corporation is taking steps to cease being regulated as an investment fund and instead be regulated as a corporate issuer. The Manager has committed to the Ontario Securities Commission that the transition from an investment fund issuer to a corporate issuer will be completed upon the earlier of (i) the net assets of the Corporation reaching $250 million; and (ii) September 26, 2019 being five (5) years from the date of the Corporation’s most recent prospectus, September 26, 2014.

Related Party Transactions

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

Administration and management fees paid under these agreements totaled $3,062,237 for the year ended December 31, 2014 (year ended December 31, 2013 - $2,409,867) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2013 is a reflection of the year-over-year increase in the total assets of the Corporation.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Corporation and are intended to help you understand the Corporation's financial performance for the past five years. This information is derived from the Corporation's audited annual financial statements.

Net Assets of the Corporation per Share:

	2014 $	2013 $	2012 $	2011 $	2010 $
Net assets, beginning of year	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	2.92	2.86	2.69	3.08	2.87
Total expenses [excluding distributions]	(0.90)	(0.87)	(0.88)	(1.03)	(1.08)
Realized gains (losses) during period	(0.06)	(0.06)	(0.25)	(0.22)	(0.33)
Unrealized gains (losses) during period	(0.13)	(0.17)	0.09	0.12	0.02
Total increase (decrease) from operations	1.83	1.76	1.65	1.95	1.48
Distributions:					
From net income (excluding dividends)	(1.83)	(1.76)	(1.65)	(1.95)	(1.48)
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Distributions	(1.83)	(1.76)	(1.65)	(1.95)	(1.48)
Net assets, end of year	30.00	30.00	30.00	30.00	30.00

(1) Book value and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(2) The data in this table is based on the information presented in the Corporation's financial statements. For the year ended December 31, 2013 and later years, the financial statements of the Corporation were prepared using International Financial Reporting Standards (IFRS). For earlier years, the financial statements of the Corporation were prepared using Canadian generally accepted accounting principles included in Part V of the CPA Canada Handbook – Pre-Changeover Accounting Standards, including Accounting Guideline 18 Investment Companies.

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless a shareholder elects to receive their monthly dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation.

Ratios and Supplemental Data (December 31):

	2014	2013	2012	2011	2010
Net assets	$138,301,639	$123,080,458	$99,850,975	$46,048,317	$30,973,376
Number of shares outstanding	4,610,052	4,102,680	3,328,364	1,534,943	1,032,446
Management expense ratio	3.02%	2.89%	2.94%	3.42%	3.54%
Management expense ratio before waivers or absorptions	3.02%	2.89%	2.94%	3.42%	3.54%
Portfolio turnover rate	47.29%	48.85%	71.37%	74.63%	73.76%
Trading expense ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share	$30.00	$30.00	$30.00	$30.00	$30.00

Notes:

(1) The management expense ratio is based on total expenses (excluding realized and unrealized losses) for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The management expense ratio is calculated by dividing the total expenses for the stated period by the Corporation's daily average net assets during such period.

(2) The Corporation's portfolio turnover rate indicates how actively the Corporation's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Corporation buying and selling all of the securities in its portfolio once in the course of the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. For the Corporation, the portfolio turnover rate is based on the dollar value of the Corporation's mortgages. In the case of the Corporation, because it does not incur any trading expenses, the portfolio turnover rate bears no relationship with the level of trading expenses.

(3) The trading expenses ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Administration and management fees

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson Asset Management Ltd. ("W.A.") is the manager for the Company. The Company signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis.

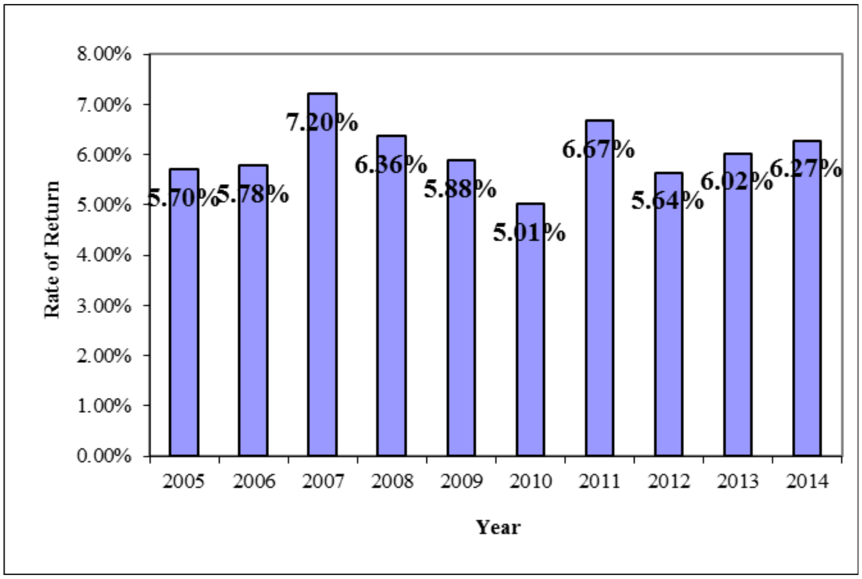
Administration and management fees paid under these agreements totaled $3,062,237 for the year ended December 31, 2014 (year ended December 31, 2013 - $2,409,867) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2013 is a reflection of the year-over-year increase in the total assets of the Corporation.

PAST PERFORMANCE

This section presents information on the Corporation's past performance. Although past performance can help you understand the risks of investing in the Corporation, it is not indicative of future performance. The returns listed in this section include reinvested distributions (which increase returns over time) but do not take into account any income taxes that might reduce returns. The Corporation's returns are reported after accounting for fees and expenses which lower the overall Corporation returns.

Year-by-Year Returns

The bar chart below shows the Corporation's annual performance for each of the years shown and illustrates how the Corporation's performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown as at the last day of each financial year.



(1) The annualized rate of return presented for 2005 represents the results from operations for the initial period of operations from June 22, 2005 until December 31, 2005.

Annual Compound Returns

The following table presents the Corporation's annual compound return for each share:

One year	6.27%
Three year	5.98%
Five year	5.92%
Since inception (2005)	6.04%

Summary of Investment Portfolio

Asset	Market Value $	% of Net Assets
Cash & cash equivalents	8,007	0.01%
Mortgage investments	143,856,080	104.02%
Properties held for sale under foreclosure	789,680	0.57%
Bank credit line	(9,540,000)	(6.90%)
Net accrued receivables/(payables)	3,187,873	2.31%
Total net assets	138,301,640	100.00%

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2014:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	% of NAV
Rural Ontario multi-residential development	ON	10,248,806	55%	12	11.50%	1	7.41%
Rural Ontario multi-residential development	ON	7,455,264	62%	24	10.50%	1	5.39%
Ottawa area multi-residential construction	ON	6,054,131	16%	13	9.50%	1	4.38%
Rural Ontario multi-residential waterfront development	ON	5,436,736	82%	24	12.00%	1	3.93%
Rural Ontario multi-residential development	ON	4,298,234	51%	24	9.00%	1	3.11%
GTA area private residential	ON	3,492,603	41%	45	8.50%	1	2.53%
Rural Ontario multi-residential waterfront development	ON	2,943,921	14%	37	10.00%	1	2.13%
Ottawa area multi-residential construction	ON	2,411,720	88%	12	9.99%	1	1.74%
Rural Ontario multi-residential development	ON	1,993,993	24%	25	12.00%	1	1.44%
Barrie area commercial offices	ON	1,899,197	48%	27	9.75%	1	1.37%
Ottawa area multi-residential development	ON	1,831,511	93%	52	4.99%	1	1.32%
Ottawa area residential	ON	1,499,298	75%	13	5.99%	1	1.08%
Rural Ontario multi-residential waterfront development	ON	1,291,660	22%	60	7.00%	1	0.93%
Kingston area commercial building	ON	1,272,971	36%	120	6.99%	1	0.92%
Barrie area industrial	ON	996,990	61%	24	10.00%	1	0.72%
Eastern Ontario retirement facility	ON	925,000	64%	25	9.00%	1	0.67%
Ottawa multi-unit residential construction	ON	875,875	30%	12	9.99%	1	0.63%
Rural Ontario multi-residential development	ON	867,186	42%	37	9.00%	1	0.63%
Ottawa area residential construction	ON	784,000	80%	12	12.00%	1	0.57%
Rural Ontario multi-residential construction	ON	782,500	63%	12	9.00%	1	0.57%
Quebec property held for sale under foreclosure	QC	768,081					0.56%
Ontario rural tourist commercial	ON	764,166	51%	25	9.25%	1	0.55%
Ottawa area residential	ON	735,986	60%	36	7.99%	1	0.53%
Brockville area commercial building	ON	681,277	76%	12	5.00%	1	0.49%
Ottawa area residential	ON	660,000	80%	13	6.99%	1	0.48%

(1) Loan-to-value determined based on appraisal done by arm's length third party at time of funding

PORTFOLIO ALLOCATIONS	(based on outstanding principal balances)

BY TYPE	
Residential	45.7%
Residential construction	17.9%
Residential developments	22.0%
Commercial	8.8%
Vacant land	5.6%
Other	0.0%
	100.0%

BY REGION	
Ontario	99.4%
Quebec	0.6%
	100.0%

BY INTEREST RATE	
6.49% or lower	4.4%
6.50% to 7.49%	10.4%
7.50% to 8.49%	8.1%
8.50% to 9.49%	19.8%
9.50% to 10.49%	25.0%
10.50% to 11.49%	8.4%
11.50% to 12.49%	23.9%
	100.0%

BY MATURITY	
One year or less	88.9%
1.1 to 2 years	7.5%
2.1 to 3 years	2.5%
3.1 to 5 years	0.3%
more than 5 years	0.8%
	100.0%

BY MORTGAGE POSITION	
First mortgages	99.6%
Other	0.4%
	100.0%

The actual holdings will change following this date due to on-going portfolio transactions in the Corporation. A quarterly portfolio update may be obtained by contacting the Corporate Secretary by telephone toll-free at (877) 279-2116 or by mail at Frontenac Mortgage Investment Corporation, The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0.