FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2015

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 2015 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:

	2015	**2014**	**2013**	**2012**(1)	**2011**
	$	**$**	**$**	**$**	**$**
Total revenues	14,485,507	13,139,636	10,582,028	7,187,719	3,771,220
- per issued common share	2.77	2.92	2.86	2.69	3.08
Net increase in net assets from operations	8,581,017	8,223,375	6,502,045	4,405,231	2,388,163
- per issued common share	1.64	1.83	1.76	1.65	1.95

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 2015, the Corporation generated revenues of $14,485,507 or $2.77 per Common Share and a net increase in net assets from operations of $8,581,017 or $1.64 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 as a result of net new investment by shareholders. Revenue per share was decreased to $2.77 per share in 2015 from $2.92 per share in 2014.

Despite the continuing low interest rate environment that prevailed throughout both 2014 and 2015, the Corporation was able to underwrite new mortgages in 2014 at similar rates to those underwritten in 2014 without increasing the underlying risk profile of the borrower. Continued tightening of lending criteria both by CMHC and by the major Canadian banks has presented the Corporation with a steady stream of good mortgage lending opportunities.

Based on its risk profile of the mortgage loan borrowers for its niche in the mortgage marketplace, the Corporation expects that and would consider normal that, on average in any given year, 5% of the Corporation's mortgage portfolio would be considered impaired. On those impaired loans, the Corporation would project losses of capital of 0.50% of net assets or $0.15 per share based on the Corporation's historical net asset value per share of $30. Once a mortgage is considered impaired, the Corporation ceases to accrue interest revenue on that mortgage which in turn reduces total revenue per share. For 2015, the Corporation averaged 6.5% of its net assets as impaired mortgages and incurred mortgage provisions and realized losses of $0.26 per share compared to 4.0% in impairments and $0.19 per share for losses for 2014. The higher than expected level of impairments and mortgage losses in 2015 was impacted by single large mortgage that was considered impaired for the last fiscal quarter of 2014 and first half of 2015. The underlying property was sold to new developers in July 2015 and the mortgage loan transferred to these new borrowers. The Corporation incurred a loss of $780,000 on the transfer of this mortgage loan. Outside of the impact of this loan, the Corporation is operating within expectations for its loan impairments and loan losses. As at December 31, 2015, there were 17 mortgages totaling $8,070,000 (4.7% of net assets) and the largest impaired mortgage was $3,531,000. As at December 31, 2014, there were 8 mortgages totaling $9,036,000 (6.5% of net assets) and the largest impaired mortgage was $6,054,000.

Total operating expenses, excluding realized and unrealized gains and losses, for 2015 increased to $4,576,998 from $4,110,089 for 2014. 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 $0.87 per share in 2015 compared to $0.90 per share in 2014.

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 $3,049,889 (2014 - $2,612,475) and $5,468,128 (2013 - $5,610,900) 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 $25,766,775 (2014 - $9,610,821). Proceeds from Common Shares issued in 2014, excluding dividend re-investment, totaled $32,637,365 (2014 - $19,116,464) while redemptions during the year totaled $6,870,590 (2014 - $9,506,183). Substantially all of the 2015 share redemptions occurred in November 2015. Under the Corporation's treasury management system, the growth of the fund is constricted by the Corporation's ability to generate new mortgage loans without increasing the risk profile to the investor. The increased flow of good mortgage deals in the Corporation's market niche allowed the Corporation to take on the large increase in net new investment in 2015.

The Corporation has a revolving line of credit with a Canadian chartered bank and, in December 2015, the limit of the credit line was increased from $21.0 million to $23.0 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, 2015 and December 31, 2014, 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, 2015, the Corporation was using $14,860,000 of this credit line. The maximum borrowings at any one time in the year was $19,380,000.

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:

	2015	**2014**	**2013**	**2012**	**2011**
Number of shares:	#	#	#	#	#
Balance – beginning of period	4,610,052	4,102,680	3,328,364	1,534,943	1,032,446
Issued on amalgamation (1)				1,538,423	
Issued for cash	1,087,912	637,215	878,327	616,480	466,586
Issued under dividend re-investment plan	182,271	187,030	157,292	110,843	72,531
Redeemed	(229,020)	(316,873)	(261,303)	(472,325)	(36,440)
Balance – end of period	5,651,215	4,610,052	4,102,680	3,328,364	1,534,943

	2015	**2014**	**2013**	**2012**	**2011**
Dollars:	$	$	$	$	$
Balance – beginning of period	138,301,639	123,080,458	99,850,975	46,048,317	30,973,376
Issued on amalgamation (1)				46,152,700	
Issued for cash	32,637,365	19,116,464	26,349,820	18,494,413	13,997,592
Issued under dividend re-investment plan	5,468,128	5,610,900	4,718,760	3,325,297	2,170,541
Redeemed	(6,870,590)	(9,506,183)	(7,839,097)	(14,169,752)	(1,093,192)
Balance – end of period	169,536,542	138,301,639	123,080,458	99,850,975	46,048,317

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, 2014, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

Increase in Bank Line of Credit

Subsequent to year end, in March 2016, the Corporation increased its credit line limit with its Canadian Chartered Bank from $23 million to an amount equal to 15% of the Corporation's net assets to a maximum limit of $29 million. There were no changes in the other terms and conditions of the bank line of credit. The increase is consistent with management's strategy of maintaining a bank line of credit up to 15% of net assets. The bank line of credit is used to maintain an adequate reserve for share redemptions and for the management of differences in timing between the Corporation's day-to-day cash inflows and outflows.

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. As part recent finalization of that agreement to transition, the Manager has accepted certain changes to its stated operating policies, such changes designed to provide comfort to the Commission that the operations and investments of the Corporation during the transition will be consistent with past practices. Specifically, the Manager has accepted that during this transition period: (i) the credit line facilities of the Corporation will not exceed 15% of its net assets, (ii) no more than 25% of the Corporation's mortgage loans will be on commercial properties, and (iii) no more than 10% of the Corporation's mortgage loans will be second mortgages. As the Corporation has historically operated well within these guidelines, the Manager does not foresee any negative impact to its future operations or expected results of the Corporation as a result of these restrictions.

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. These contracts were renewed for a further five year period in 2013.

Administration and management fees paid under these agreements totaled $3,532,405 for the year ended December 31, 2015 (year ended December 31, 2014 - $3,062,237) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2014 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:

	2015 $	2014 $	2013 $	2012 $	2011 $
Net assets, beginning of year	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	2.77	2.92	2.86	2.69	3.08
Total expenses [excluding distributions]	(0.87)	(0.90)	(0.87)	(0.88)	(1.03)
Realized gains (losses) during period	(0.23)	(0.06)	(0.06)	(0.25)	(0.22)
Unrealized gains (losses) during period	(0.03)	(0.13)	(0.17)	0.09	0.12
Total increase (decrease) from operations	1.64	1.83	1.76	1.65	1.95
Distributions:					
From net income (excluding dividends)	(1.64)	(1.83)	(1.76)	(1.65)	(1.95)
From dividends	-	-	-	-	-
From capital gains	-	-	-	-	-
Return of capital	-	-	-	-	-
Total Distributions	(1.64)	(1.83)	(1.76)	(1.65)	(1.95)
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):

	2015	2014	2013	2012	2011
Net assets	$169,536,542	$138,301,639	$123,080,458	$99,850,975	$46,048,317
Number of shares outstanding	5,651,215	4,610,052	4,102,680	3,328,364	1,534,943
Management expense ratio	2.93%	3.02%	2.89%	2.94%	3.42%
Management expense ratio before waivers or absorptions	2.93%	3.02%	2.89%	2.94%	3.42%
Portfolio turnover rate	47.90%	47.29%	48.85%	71.37%	74.63%
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.

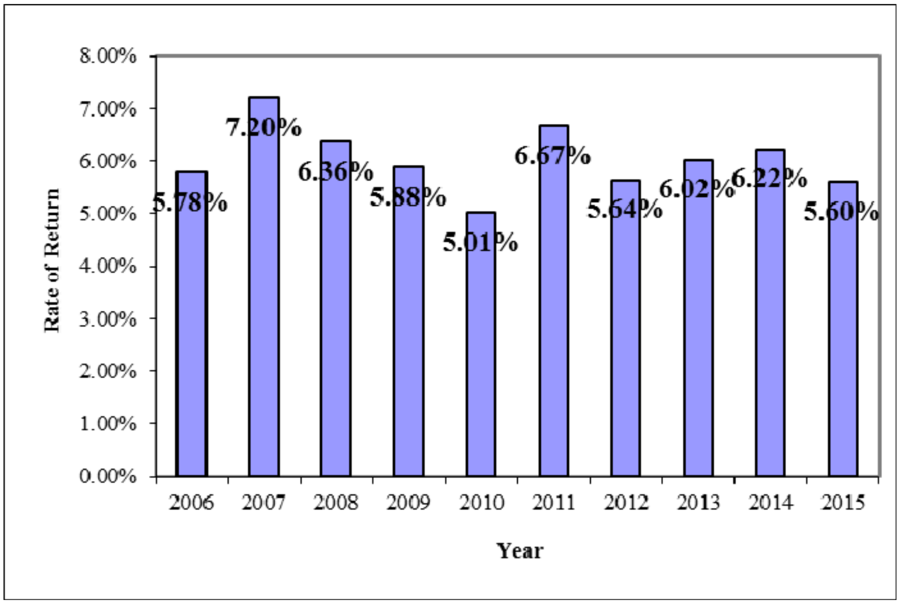
Administration and management fees paid under these agreements totaled $3,532,405 for the year ended December 31, 2015 (year ended December 31, 2014 - $3,062,237) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2014 is a reflection of 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 past ten years 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 assuming monthly dividends were re-invested under the Corporation's dividend re-investment plan.



Annual Compound Returns

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

One year	5.60%
Three year	5.96%
Five year	6.04%
Ten year	6.03%

Summary of Investment Portfolio

Asset	Market Value $	% of Net Assets
Cash & cash equivalents	38,090	0.02%
Mortgage investments	180,530,085	106.48%
Bank credit line	(14,860,000)	(8.77%)
Net accrued receivables/(payables)	3,828,368	2.26%
Total net assets	138,301,640	100.00%

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2015:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	% of NAV
Rural Ontario multi-residential waterfront development	ON	14,120,002	86%	12	12.00%	1	8.33%
Rural Ontario multi-residential development	ON	11,607,120	63%	12	11.50%	1	6.85%
Ottawa area multi-residential development	ON	9,877,838	65%	24	6.02%	1	5.83%
Rural Ontario multi-residential development	ON	7,526,735	62%	24	10.50%	1	4.44%
Rural Ontario multi-residential development	ON	4,309,872	51%	50	9.99%	1	2.54%
GTA area private residential	ON	3,530,820	59%	45	8.50%	1	2.08%
Ottawa area 10 unit apartment construction	ON	2,203,320	70%	12	9.99%	1	1.30%
Rural Ontario multi-residential development	ON	1,988,700	24%	25	12.00%	1	1.17%
Ottawa area multi-residential	ON	1,830,247	93%	52	4.99%	1	1.08%
Rural Ontario multi-residential waterfront development	ON	1,483,921	70%	37	10.00%	1	0.88%
Rural Ontario multi-residential waterfront development	ON	1,296,186	80%	60	7.00%	1	0.76%
Kingston area commercial offices	ON	1,219,046	34%	120	6.99%	1	0.72%
Ottawa area residential single construction	ON	1,196,240	65%	13	9.99%	1	0.71%
Ottawa area multi-residential development	ON	1,098,118	50%	13	9.99%	1	0.65%
Ontario rural residential & tourist commercial	ON	1,095,840	63%	13	8.99%	1	0.65%
Barrie area commercial offices	ON	1,069,926	27%	27	9.75%	1	0.63%
Barrie area industrial	ON	994,552	61%	72	10.00%	1	0.59%
Ottawa area residential triplex construction	ON	990,920	70%	12	9.99%	1	0.58%
Eastern Ontario retirement facility	ON	925,000	64%	25	9.00%	1	0.55%
Ottawa area 10 unit apartment construction	ON	922,000	70%	12	12.00%	1	0.54%
Rural Ontario multi-residential construction	ON	861,247	42%	37	9.00%	1	0.51%
Ottawa area residential semi-detached construction	ON	849,964	80%	12	9.99%	1	0.50%
Ottawa area residential and acreage	ON	837,079	75%	13	6.99%	1	0.49%
Ontario rural tourist commercial	ON	830,050	70%	25	8.99%	1	0.49%
Ottawa area residential triplex construction	ON	792,399	77%	12	9.99%	1	0.47%

(1) For fully completed properties, loan-to-value determined based on appraisal done by arm's length third party at time of funding. For construction properties, loan-to-value based on appraised of final value by arm's length third party adjusted for percentage of completion.

PORTFOLIO ALLOCATIONS			(based on outstanding principal balances)

BY TYPE		**BY REGION**	
Residential	39.1%	Ontario	99.9%
Residential construction	20.9%	Quebec	0.1%
Residential developments	28.6%		
Commercial	6.4%		
Vacant land	5.0%		
	100.0%		100.0%

BY INTEREST RATE		**BY MATURITY**	
6.49% or lower	6.8%	One year or less	82.2%
6.50% to 7.49%	8.4%	1.1 to 2 years	16.1%
7.50% to 8.49%	9.6%	2.1 to 3 years	0.5%
8.50% to 9.49%	19.6%	3.1 to 5 years	0.6%
9.50% to 10.49%	25.9%	more than 5 years	0.6%
10.50% to 11.49%	5.4%		
11.50% to 12.49%	24.3%		
	100.0%		100.0%

BY MORTGAGE POSITION	
First mortgages	99.4%
Other	0.6%
	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.