FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2017

This interim management report of fund performance contains financial highlights but does not contain either complete annual or interim financial statements of the investment fund. You can obtain a copy of the annual or interim 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
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

The discussion contained in this interim Management Report on Fund Performance ("MRFP") is intended to update readers on material developments since the date of the most recent annual MRFP and does not restate all the information contained in the annual MRFP. This interim MRFP should be read in conjunction with the annual MRFP, financial statements, and company prospectus – copies of which are available on SEDAR at www.sedar.com.

Results of Operations

The financial statements of Frontenac Mortgage Investment Corporation are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with National Instrument 81-106 "Investment Funds Continuous Disclosure". All amounts are expressed in Canadian dollars.

Revenues for the Corporation for the six months ended June 30, 2017 decreased on a gross basis to $7,620,241 from $8,584,159 from the same period in 2016 while, on a per share basis, revenues decreased to $1.16 from $1.44 per common share. The overall decreases in gross revenues and revenues per share are attributable to two factors: higher than normal cash balances in the Corporation combined with a year-over-year decrease in the lending interest rates on new mortgage loans. Competitive market pressures in the Corporation's traditional Eastern Ontario lending area led to a reduction in lending interest rates for new mortgage loans beginning in the second half of 2016. Cash balances increased as the Corporation was unable to fund new mortgage loans at historical rates and cash balances peaked at approximately 12% of net assets in the March 2017. As cash balances earn little to no return, the overall revenue of the Corporation decreases accordingly. Management decided to lower the Corporation's lending rates to meet market conditions rather than seek higher yield by increasing the risk profile of the Corporation's mortgage loan portfolio. Underwriting activity has increased as a result of the change in lending rates. In addition, the Corporation has focused on expanding its geographic lending area to include Southwestern Ontario. The decreases in lending rates is expected to lower the overall return of the Corporation by approximately 0.50% (or approximately $0.15 per share) in 2017. As at June 30, 2016, cash balances had decreased to 7.46% of net assets.

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 the six months ended June 30, 2017, the Corporation has averaged 5.9% of its net assets as impaired mortgages, which is considered to be within expectations. For 2016, the Corporation averaged 4.6% of its net assets as impaired mortgages. As at June 30, 2017, there were 35 mortgages totaling $12,180,000 (6.1% of net assets) and the largest impaired mortgage was $2,019,000. As at December 31, 2016, there were 27 mortgages totaling $10,278,000 (5.4% of net assets) and the largest impaired mortgage was $1,990,000.

Total expenses for the Corporation for the six months ended June 30, 2017 were relatively unchanged at $2,470,178 compared to $2,523,141 for the same period in 2016. Administration and management fees are charged to the Corporation as a percentage of total assets and, accordingly, the dollar amount of those fees increase as the assets of the Corporation increase. Overall, operating expenses per share of the Corporation decreased slightly to $0.38 per share for the six months ended June 30, 2017 compared to $0.42 per share for the same period in 2016.

Overall, earnings per share decreased to $0.71 per share for the six months ended June 30, 2017 compared to $0.91 per share for the same period in 2016.

The following table presents the operating results of the Corporation (for the year ended December 31 unless otherwise stated):

	Six months ended June 30, 2017 (Unaudited) $	**2016 $**	**2015 $**	**2014 $**	**2013 $**
Total revenues	7,620,241	17,580,995	14,485,507	13,139,636	10,582,028
- per issued common share	1.16	2.82	2.77	2.92	2.86
Net earnings	4,651,002	10,911,248	8,581,017	8,223,375	6,502,045
- per issued common share	0.71	1.75	1.64	1.83	1.76

Outstanding Share Data and Transactions for the Period

The Corporation is authorized to issue an unlimited number of common shares and, as at June 30, 2017, 6,636,011 common shares (June 30, 2016 – 6,222,924) of the Corporation were issued and outstanding.

The following table presents a comparative summary of share transactions (for the year ended December 31 unless otherwise stated):

	Six months ended June 30, 2017 (Unaudited)	**2016**	**2015**	**2014**	**2013**
Number of shares:	#	#	#	#	#
Balance – beginning of period	6,396,798	5,651,215	4,610,052	4,102,680	3,328,364
Issued for cash	182,803	973,403	1,087,912	637,215	878,327
Issued under dividend re-investment plan	86,325	213,698	182,271	187,030	157,292
Redeemed	(29,915)	(441,518)	(229,020)	(316,873)	(261,303)
Balance – end of period	6,636,011	6,396,798	5,651,215	4,610,052	4,102,680
Dollars:	$	$	$	$	$
Balance – beginning of period	191,901,019	169,536,542	138,301,639	123,080,458	99,850,975
Issued for cash	5,484,090	29,202,078	32,637,365	19,116,464	26,349,820
Issued under dividend re-investment plan	2,589,745	6,410,931	5,468,128	5,610,900	4,718,760
Redeemed	(897,438)	(13,245,532)	(6,870,590)	(9,506,183)	(7,839,097)
Balance – end of period	199,080,416	191,901,019	169,536,542	138,301,639	123,080,458

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. During the six month period ended June 30, 2017, 29,915 shares (June 30, 2016 – 66,320) were redeemed.

As a result of the higher than normal cash balances, Management decided in April 2017 to temporarily halt new investment coming into the Corporation until such time as cash balances are decreased to expected levels. Management expects the Corporation will re-commence accepting new investment in the Fall 2017.

Recent Developments

Since December 31, 2016, the Corporation has not adopted any changes that have a material effect on its operations, except as noted in this section.

Regulatory Environment

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 of that agreement, 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.

Risks

The overall risks of the Corporation are as described in the Corporation's most recent prospectus. As of the date of this Management Report of Fund Performance, management is not aware of any negative risk factor which has adversely affected the return on investments for the six months ended June 30, 2017. All bad or questionable loans have been accounted for in the financial statements and, except as otherwise discussed or disclosed in this report, no trends are known at this time that will likely either affect the capital base of the Corporation, the ability of the Corporation to find and fund mortgage loans or decrease the Corporation's investment income.

Related Party Transactions

Pillar Financial Services Inc. ("Pillar") is the administrator for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company's mortgage portfolio. Total fees charged under this contract for the six month period ended June 30, 2017 were $984,949 (six months ended June 30, 2016 - $951,896)

W.A. Robinson Asset Management Ltd. ("W.A.") is the portfolio manager for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. It provides portfolio management advice and investment counsel to the Company. Total fees charged under this contract for the six month period ended June 30, 2017 were $1,113,722 (June 30, 2016 - $1,075,642) including applicable sales taxes.

Pillar Financial Services Inc. and W.A. Robinson Asset Management Ltd. are related to the Corporation in that they share common management.

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 unaudited interim and audited annual financial statements.

The Net Assets of the Corporation per Share (for year ended December 31 unless otherwise stated)**:**

	Six months ended June 30, 2017 (Unaudited) $	**2016 $**	**2015 $**	**2014 $**	**2013 $**
Net assets, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.16	2.82	2.77	2.92	2.86
Total expenses [excluding distributions]	(0.38)	(0.80)	(0.87)	(0.90)	(0.87)
Realized gains (losses) during period	(0.01)	(0.11)	(0.23)	(0.06)	(0.06)
Unrealized gains (losses) during period	(0.06)	(0.16)	(0.03)	(0.13)	(0.17)
Total increase (decrease) from operations	0.71	1.75	1.64	1.83	1.76
Distributions:					
From net income (excluding dividends)	(0.71)	(1.75)	(1.64)	(1.83)	(1.76)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.71)	(1.75)	(1.64)	(1.83)	(1.76)
Net assets, end of period	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).

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless individual shareholders elect to receive their dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation. During the six months ended June 30, 2017, the Corporation paid cash dividends of $2,061,257.

Ratios and Supplemental Data (for year ended December 31 unless otherwise stated)**:**

	Six months ended June 30, 2017 (Unaudited)	**2016**	**2015**	**2014**	**2013**
Net assets	$199,080,416	$191,901,019	$169,536,542	$138,301,639	$123,080,458
Number of shares outstanding	6,636,011	6,396,798	5,651,215	4,610,052	4,102,680
Management expense ratio (annualized)	2.53%	2.67%	2.93%	3.02%	2.89%
Management expense ratio before waivers or absorptions (annualized)	2.53%	2.67%	2.93%	3.02%	2.89%

Portfolio turnover rate	22.79%	39.61%	47.90%	47.29%	48.85%
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 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 Frontenac'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. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving a capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. 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.

Management fees

W.A. Robinson Asset Management Ltd. (formerly W.A. Robinson & Associates Ltd.) is the portfolio manager for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. It provides portfolio management advice and investment counsel to the Company. Total fees charged under this contract for the six month period ended June 30, 2017 were $1,113,722 (six months ended June 30, 2016 - $1,075,642) including applicable sales taxes.

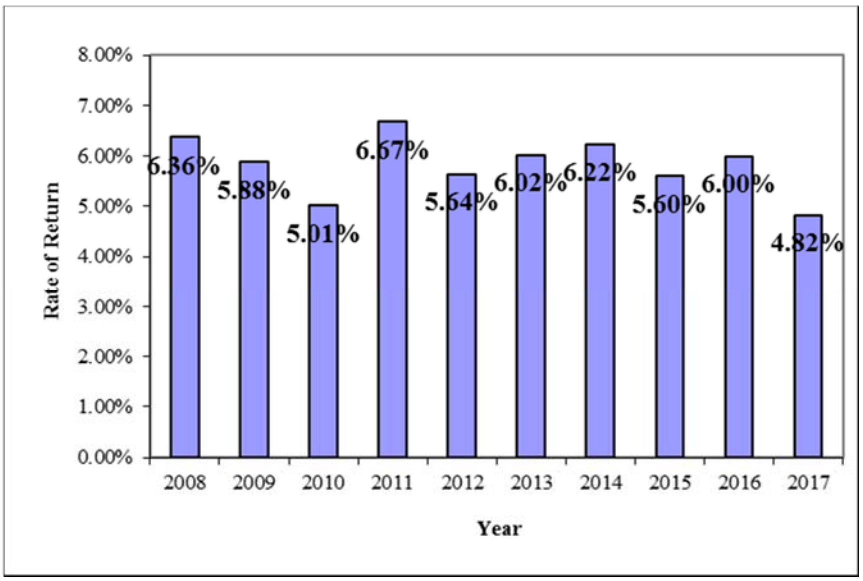
In addition, as detailed under the "Related Parties" section above, for the six months ended June 30, 2017, the Company paid fees totalling $984,949 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2016 - $951,896).

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 the performance for the six months ended June 30, 2017 (annualized) 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.



Note: Six month return presented for 2017 has been annualized based on the number of days in the period.

Summary of Investment Portfolio

Asset	Market Value $	% of Net Assets
Cash & cash equivalents	14,849,895	7.46%
Mortgage investments	175,181,353	88.00%
Net accrued receivables/(payables)	9,049,168	4.54%
Total net assets	199,080,416	100.00%

The following represents the Corporation's twenty-five largest holdings (other than cash) as at June 30, 2017:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	% of NAV
Rural Ontario multi-residential waterfront development	ON	13,721,145	86%	24	7.77%	1st	6.89%
Ottawa area multi-residential development	ON	12,983,845	81%	24	6.22%	1st	6.52%
Rural Ontario multi-residential development	ON	12,173,802	66%	13	11.50%	1st	6.12%
RBC Premium Money Market Fund	ON	11,818,052			0.60%		5.94%
Rural Ontario multi-residential development	ON	6,286,685	67%	36	10.50%	1st	3.16%
Rural Ontario multi-residential development	ON	4,308,874	51%	50	9.99%	1st	2.16%
Rural Ontario multi-residential development	ON	2,019,228	24%	24	12.00%	1st	1.01%
Ottawa area multi-residential	ON	1,863,067	95%	52	4.99%	1st	0.94%
Toronto area residential	ON	1,700,000	44%	13	6.99%	1st	0.85%
Kemptville Area commercial vacant land	ON	1,598,251	30%	13	9.00%	1st	0.80%
Ottawa area residential & vacant land	ON	1,595,217	42%	25	10.99%	1st	0.80%
Ottawa downtown residential triplex	ON	1,568,613	75%	25	7.99%	1st	0.79%
Rural Ontario multi-residential waterfront development	ON	1,295,994	80%	60	5.00%	1st	0.65%
Ottawa residential duplex construction	ON	1,260,960	80%	12	10.50%	1st	0.63%
Ontario rural residential & tourist commercial	ON	1,143,631	66%	13	8.99%	1st	0.57%
Ottawa area multi-residential development	ON	1,092,708	50%	13	9.99%	1st	0.55%
Pontypool area single residential construction	ON	1,071,906	68%	12	9.99%	1st	0.54%
Barrie area industrial	ON	990,586	60%	72	10.00%	1st	0.50%
Ottawa area 8 unit rental construction	ON	914,322	70%	13	9.99%	1st	0.46%
Westborough area residential triplex construction	ON	910,141	80%	12	9.99%	1st	0.46%
Ottawa area residential single construction	ON	879,510	80%	12	9.99%	1st	0.44%
Rural Ontario multi-residential development	ON	852,536	54%	61	9.00%	1st	0.43%
Ottawa residential single construction	ON	800,000	80%	12	9.99%	1st	0.40%
Ottawa area residential vacant land	ON	800,000	46%	13	7.99%	1st	0.40%
Hamilton area single residential	ON	796,544	66%	13	7.90%	1st	0.40%

(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		**BY REGION**	
Residential	41.8%	Ontario	99.9%
Residential construction	17.3%	Quebec	0.1%
Residential developments	30.7%		
Commercial	3.7%		
Vacant land	6.5%		
	100.0%		100.0%
BY INTEREST RATE		**BY MATURITY**	
6.49% or lower	6.4%	One year or less	93.7%
6.50% to 7.49%	3.1%	1.1 to 2 years	5.5%
7.50% to 8.49%	21.7%	2.1 to 3 years	0.8%
8.50% to 9.49%	20.7%	3.1 to 5 years	0.0%
9.50% to 10.49%	27.8%	more than 5 years	0.0%
10.50% to 11.49%	6.8%		
11.50% to 12.49%	13.5%		
	100.0%		100.0%
BY MORTGAGE POSITION			
First mortgages	99.8%		
Other	0.2%		
	100.0%		

The actual holdings may change following this date due to on-going portfolio transactions in the Corporation. A quarterly update is available on the Corporation's website at www.fmic.ca or by contacting the Corporate Secretary by telephone toll-free at (877) 279-2116 or by mail at: Frontenac Mortgage Investment Corporation, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0.