FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2016

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, 2016 increased on a gross basis to $8,584,159 from $6,533,694 from the same period in 2015 while, on a per share basis, revenues increased to $1.44 from $1.33 per common share. The overall increase in gross revenues is attributable to the increased net asset base available for investment. The overall increase in revenues per share is attributable to lower levels of impaired mortgages compared to the same period in 2015. When a mortgage becomes impaired, the Corporation ceases to accrue interest revenue on that mortgage.

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, 2016, the Corporation has averaged 4.3% of its net assets as impaired mortgages, which is considered to be within expectations. For 2015, the Corporation averaged 6.5% of its net assets as impaired mortgages. 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 was refinanced with these new borrowers. The Corporation incurred a loss of $780,000 on the refinancing of this mortgage loan. Outside of the impact of this loan, the Corporation was operating within expectations for its loan impairments and loan losses. As at June 30, 2016, there were 24 mortgages totaling $6,335,000 (3.4% of net assets) and the largest impaired mortgage was $708,000. 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.

Total expenses for the Corporation for the six months ended June 30, 2016 increased to $2,523,141 from $2,158,896 for the same period in 2015. The increase in expenses is attributable to an increase in the net asset base as result of new investment received. 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 were relatively unchanged at $0.42 per share for the six months ended June 30, 2016 compared to $0.44 per share for the same period in 2015.

Overall, earnings per share increased to $0.91 per share for the six months ended June 30, 2016 compared to $0.84 per share for the same period in 2015.

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

	Six months ended June 30, 2016 (Unaudited) $	**2015 $**	**2014 $**	**2013 $**	**2012 $**
Total revenues	8,584,159	14,485,507	13,139,636	10,582,028	7,187,719
- per issued common share	1.44	2.77	2.92	2.86	2.69
Net earnings	5,427,676	8,581,017	8,223,375	6,502,045	4,405,231
- per issued common share	0.91	1.64	1.83	1.76	1.65

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, 2016, 6,222,924 common shares (June 30, 2015 – 5,214,712) 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, 2016 (Unaudited)	**2015**	**2014**	**2013**	**2012**
Number of shares:	#	#	#	#	#
Balance – beginning of period	5,651,215	4,610,052	4,102,680	3,328,364	1,534,943
Issued on amalgamation (1)					1,538,423
Issued for cash	530,139	1,087,912	637,215	878,327	616,480
Issued under dividend re-investment plan	107,889	182,271	187,030	157,292	110,843
Redeemed	(66,320)	(229,020)	(316,873)	(261,303)	(472,325)
Balance – end of period	6,222,924	5,651,215	4,610,052	4,102,680	3,328,364
Dollars:	$	$	$	$	$
Balance – beginning of period	169,536,542	138,301,639	123,080,458	99,850,975	46,048,317
Issued on amalgamation (1)					46,152,700
Issued for cash	15,904,163	32,637,365	19,116,464	26,349,820	18,494,413
Issued under dividend re-investment plan	3,236,678	5,468,128	5,610,900	4,718,760	3,325,297
Redeemed	(1,989,587)	(6,870,590)	(9,506,183)	(7,839,097)	(14,169,752)
Balance – end of period	186,687,796	169,536,542	138,301,639	123,080,458	99,850,975

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 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, 2016, 66,320 shares (June 30, 2015 – 1,781) were redeemed.

Recent Developments

Since December 31, 2015, the Corporation 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

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 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.

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, 2016. 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, 2016 were $951,896 (six months ended June 30, 2015 - $772,210)

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, 2016 were $1,075,642 (June 30, 2015 - $872,597) 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, 2016 (Unaudited) $	**2015 $**	**2014 $**	**2013 $**	**2012 $**
Net assets, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.44	2.77	2.92	2.86	2.69
Total expenses [excluding distributions]	(0.42)	(0.87)	(0.90)	(0.87)	(0.88)
Realized gains (losses) during period	(0.08)	(0.23)	(0.06)	(0.06)	(0.25)
Unrealized gains (losses) during period	(0.03)	(0.03)	(0.13)	(0.17)	0.09
Total increase (decrease) from operations	0.91	1.64	1.83	1.76	1.65
Distributions:					
From net income (excluding dividends)	(0.91)	(1.64)	(1.83)	(1.76)	(1.65)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.91)	(1.64)	(1.83)	(1.76)	(1.65)
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). 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 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, 2016, the Corporation paid cash dividends of $2,190,998.

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

	Six months ended June 30, 2016 (Unaudited)	**2015**	**2014**	**2013**	**2012**
Net assets	$186,687,796	$169,536,542	$138,301,639	$123,080,458	$99,850,975
Number of shares outstanding	6,222,924	5,651,215	4,610,052	4,102,680	3,328,364
Management expense ratio (annualized)	2.84%	2.93%	3.02%	2.89%	2.94%
Management expense ratio before waivers or absorptions (annualized)	2.84%	2.93%	3.02%	2.89%	2.94%
Portfolio turnover rate	20.26%	47.90%	47.29%	48.85%	71.37%
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, 2016 were $1,075,642 (six months ended June 30, 2015 - $872,597) including applicable sales taxes.

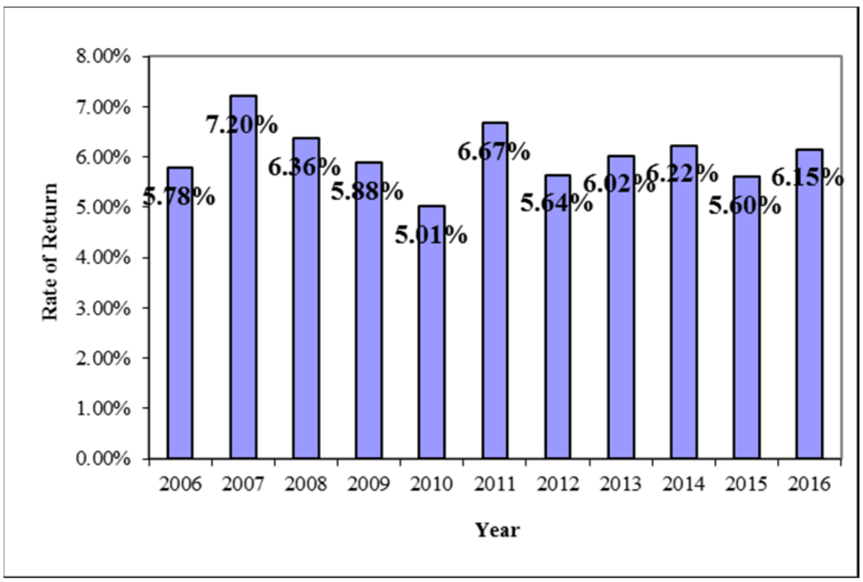
In addition, as detailed under the "Related Parties" section above, for the six months ended June 30, 2016, the Company paid fees totalling $951,896 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2015 - $772,210).

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, 2016 (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 2016 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	1,758,671	0.94%
Mortgage investments	178,284,296	95.50%
Net accrued receivables/(payables)	6,644,829	3.56%
Total net assets	186,687,796	100.00%

The following represents the Corporation's twenty-five largest holdings (other than cash) as at June 30, 2016:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	% of NAV
Rural Ontario multi-residential waterfront development	ON	14,270,170	89%	24	12.00%	1	7.64%
Rural Ontario multi-residential development	ON	11,863,831	64%	12	11.50%	1	6.35%
Ottawa area multi-residential development	ON	11,087,327	73%	24	4.85%	1	5.94%
Rural Ontario multi-residential development	ON	7,317,735	60%	24	10.50%	1	3.92%
Rural Ontario multi-residential development	ON	4,309,372	51%	50	9.99%	1	2.31%
Ottawa area 10 unit apartment construction	ON	2,576,000	80%	12	9.99%	1	1.38%
Rural Ontario multi-residential development	ON	1,988,479	24%	25	12.00%	1	1.07%
Ottawa area multi-residential	ON	1,838,120	94%	52	4.99%	1	0.98%
Ottawa downtown residential triplex	ON	1,579,693	75%	13	7.49%	1	0.85%
Ottawa area 10 unit apartment construction	ON	1,509,399	70%	12	12.00%	1	0.81%
Ottawa area residential single construction	ON	1,381,137	65%	13	9.99%	1	0.74%
Rural Ontario multi-residential waterfront development	ON	1,296,186	80%	60	5.00%	1	0.69%
Ottawa area residential semi-detached construction	ON	1,230,597	75%	24	9.99%	1	0.66%
Kingston area commercial offices	ON	1,185,862	33%	120	6.99%	1	0.64%
Ottawa area residential semi-detached construction	ON	1,143,040	80%	12	9.99%	1	0.61%
Ottawa area multi-residential construction	ON	1,095,813	50%	13	9.99%	1	0.59%
Ontario rural residential & tourist commercial	ON	1,091,982	63%	13	8.99%	1	0.58%
Ottawa area residential triplex construction	ON	1,085,000	70%	12	9.99%	1	0.58%
Barrie area commercial offices	0	1,059,298	27%	27	9.75%	1	0.57%
Barrie area industrial	ON	993,381	61%	72	10.00%	1	0.53%
Rural Ontario multi-residential waterfront development	ON	979,892	70%	37	10.00%	1	0.52%
Ottawa area 4 unit apartment construction	0	966,000	70%	12	9.99%	1	0.52%
Ottawa area residential single construction	ON	899,970	75%	12	9.99%	1	0.48%
Rural Ontario multi-residential development	ON	857,070	42%	37	9.00%	1	0.46%
Ottawa area residential and acreage	ON	836,366	75%	13	6.99%	1	0.45%

(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	38.0%	Ontario	99.9%
Residential construction	21.2%	Quebec	0.1%
Residential developments	30.2%		
Commercial	5.9%		
Vacant land	4.7%		
	100.0%		100.0%
BY INTEREST RATE		**BY MATURITY**	
6.49% or lower	7.6%	One year or less	90.3%
6.50% to 7.49%	7.2%	1.1 to 2 years	8.1%
7.50% to 8.49%	10.6%	2.1 to 3 years	0.3%
8.50% to 9.49%	17.1%	3.1 to 5 years	0.6%
9.50% to 10.49%	26.0%	more than 5 years	0.7%
10.50% to 11.49%	5.6%		
11.50% to 12.49%	25.9%		
	100.0%		100.0%
BY MORTGAGE POSITION			
First mortgages	99.1%		
Other	0.9%		
	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.