



INDEPENDENT REVIEW COMMITTEE

ANNUAL REPORT TO SECURITYHOLDERS

For The Fiscal Year January 1, 2015 through December 31, 2015

Date: February 26, 2016

1. INTRODUCTION

This report is directed to the shareholders of Frontenac Mortgage Investment Corporation (FMIC) as required by *National Instrument 81-107 INDEPENDENT REVIEW COMMITTEE FOR INVESTMENT FUNDS*. This instrument requires that a manager refer all conflict of interest matters to the Independent Review Committee (IRC). FMIC has contracted with W. A. Robinson Asset Management Ltd. to direct the affairs and manage the business of the Corporation and to administer or arrange for the administration of the day-to-day operations of the Corporation. In this capacity W. A. Robinson Asset Management Ltd. is "the Manager" as referenced in the instrument. Pillar Financial Services Inc. ("Pillar") has been contracted to provide mortgage underwriting and administration services. Pillar is owned by Matthew Robinson and therefore enjoys a material relationship with the Manager which is controlled by Matthew Robinson. Therefore, if the Manager or Pillar encounter a conflict of interest matter it must be reported to the IRC. The IRC is required to decide what action is required to resolve the conflict. This report will describe the activities of the Independent Review Committee (IRC) during the 2015 fiscal year.

2. BACKGROUND

On March 20th of 2007 the Board of Directors of FMIC decided to serve as the IRC for the Corporation. This was done to control expenses by avoiding the appointment and payment of professional individuals to a separate IRC. The Board of Directors decided that dealing with conflict of interest matters was part of the oversight responsibilities of the shareholders' elected representatives, i.e.: the Board of Directors. These decisions were made with the input of legal advice obtained by the Manager.

Conflict of interest matters that have arisen in the past have been few. Some examples of the type of matter that might be encountered are:

- a person with a mortgage from the Fund becomes an employee of the Manager
- a relative of an officer of the Manager holds a mortgage from the Fund
- a mortgage is bought (transferred) by Frontenac from another fund managed by the Manager
- a change of Auditor

A matter that potentially puts the Manager in a conflict of interest is the underwriting of mortgages by Pillar for FMIC. The mortgage underwriting process could create a conflict of interest because the compensation of the Manager and Pillar is based on the gross assets of FMIC and Pillar and the Manager could thereby indirectly increase their compensation if Pillar approved more mortgage loan applications, including mortgage loan renewals, whether or not such loans are in the best interests of FMIC. Pillar also receives certain administration fees from borrowers when mortgage loan applications are funded. This potential conflict of interest is mitigated by the fact that Pillar and the Manager are both contractually obliged to adhere to FMIC's investment policies and restrictions and that the Manager is obliged to report to the IRC annually on, among other things, compliance with FMIC's operational restrictions. To further mitigate this potential conflict of interest the IRC has determined that it is appropriate to issue a standing order that all individual mortgage loan applications of an amount of more than 2% of the net assets of FMIC must be approved by the IRC by ordinary resolution.

3. ABOUT THE COMMITTEE

As of December 31, 2015 the members of the Independent Review Committee were comprised of Robert Barnes (Chair and appointed on March 20, 2007) Bill Calvert (appointed on March 20, 2007), Eric Dinelle (appointed on March 20, 2007), Margaret Kelk (appointed on October 17, 2009), Sheldon Jacobs (appointed on July 1, 2012), Andrew Blanchard (appointed on August 25, 2015).

None of these members serve on another fund's Independent Review Committee. All these members are independent members. No members of the IRC hold shares in the Managers' firm or in any company that provides services to the investment fund.

Members of the IRC are not compensated for acting in that capacity. Directors of FMIC receive annual compensation for serving as directors as follows: \$20,000 per annum for the Chair and \$10,000 per annum for each other director.

4. MATTERS BROUGHT BEFORE THE COMMITTEE

During 2015 the Manager did not act in a conflict of interest matter referred to the Independent Review Committee.

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