

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(In Canadian Dollars)

Notice Under National Instrument 81-106 (para 2.12): The independent external auditor, MNP LLP, has not performed a review of these financial statements for the six months ended June 30, 2016 and 2015.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) SIX MONTHS ENDED JUNE 30, 2016 AND 2015

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FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION (UNAUDITED) (In Canadian Dollars)

	As at June 30, 2016 \$	As at December 31, 2015 \$
ASSETS		
Cash and cash equivalents	1,758,671	38,090
Due from administrator in trust (Note 5)	1,177,028	396,546
Accrued interest receivable	5,925,101	3,657,636
Mortgage investments (Note 6)	178,284,296	180,530,085
Prepaid expenses	9,660	26,550
	<hr/>	<hr/>
	187,154,756	184,648,907
	<hr/>	<hr/>
LIABILITIES		
Bank line of credit (Note 7)	-	14,860,000
Dividends payable	369,369	119,155
Accounts payable and accrued expenses	61,700	61,745
Prepaid mortgage payments	35,891	71,465
	<hr/>	<hr/>
	466,960	15,112,365
	<hr/>	<hr/>
NET ASSETS REPRESENTING		
SHAREHOLDERS' EQUITY (Note 8)	186,687,796	169,536,542
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NUMBER OF SHARES ISSUED AND		
OUTSTANDING (Note 8)	6,222,924	5,651,216
	<hr/>	<hr/>
NET ASSETS PER SHARE	30.00	30.00
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APPROVED ON BEHALF OF THE BOARD:

_____*Robert Barnes* (signed) _____ Director

_____*Eric Dinelle* (signed) _____ Director

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) (In Canadian Dollars)

	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
INTEREST INCOME	8,584,159	6,533,694
EXPENSES		
Administration and management fees (Note 9)	2,027,655	1,644,807
Audit fees	25,338	23,748
Director fees	35,891	40,804
General and operating expenses	240,384	274,308
Interest on credit line	168,271	112,175
Legal fees	25,602	16,166
Trustee fees	-	46,888
	2,523,141	2,158,896
NET INVESTMENT INCOME	6,061,018	4,374,798
Realized losses on mortgages	(450,259)	(64,849)
Allowance for impairment losses on mortgages	(183,083)	(150,000)
Change in fair value of properties held for sale under foreclosure	-	(20,479)
NET INCOME AND COMPREHENSIVE INCOME	5,427,676	4,139,470
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	5,964,479	4,321,915
NET INCOME PER SHARE	\$ 0.91	\$ 0.84

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) (In Canadian Dollars)

	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
NET ASSETS , beginning of period	169,536,542	138,301,639
Increase in net assets from operations	5,427,676	4,139,470
Share capital transactions		
Proceeds from issuance of shares for cash	15,904,163	15,513,574
Reinvested distributions	3,236,678	2,679,662
Cost of shares redeemed	(1,989,587)	(53,425)
	17,151,254	18,139,811
Distributions to shareholders		
Dividends to shareholders	(5,427,676)	(4,139,469)
NET ASSETS , end of period	186,687,796	156,441,451

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENTS OF CASH FLOW (UNAUDITED) (In Canadian Dollars)

	Six months ended June 30, 2016 \$	Six months ended June 30, 2015 \$
CASH FROM OPERATING ACTIVITIES		
Net income	5,427,676	4,139,470
Items not requiring an outlay of cash:		
Allowance for impairment losses on mortgages	183,083	150,000
Realized losses on mortgages	450,259	64,849
Changes in non-cash balances:		
(Increase)/decrease in due from administrator in trust	(780,482)	(462,745)
Decrease/(increase) in accrued interest receivable	(2,267,465)	2,409,709
Decrease in prepaid expenses	16,890	4,328
(Decrease)/increase in dividends payable	250,214	(31,646)
Increase in accounts payable and accrued expenses	(45)	20,757
(Decrease)/increase in prepaid mortgage payments	(35,574)	(1,137,101)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,244,556	5,178,100
FINANCING ACTIVITIES		
Proceeds from issuance of shares for cash	15,904,163	15,513,574
(Decrease)/increase in bank line of credit	(14,860,000)	(7,380,000)
Redemption of common shares	(1,989,587)	(53,425)
Cash dividends	(2,190,998)	(1,459,807)
NET CASH PROVIDED BY FINANCING ACTIVITIES	(3,136,422)	6,620,342
INVESTING ACTIVITIES		
Investment in mortgages	(34,337,266)	(41,659,492)
Repayment of mortgages	35,949,713	29,051,879
Proceeds from sale of properties held for sale under foreclosure	-	769,201
NET CASH USED IN INVESTING ACTIVITIES	1,612,447	(11,838,412)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,720,581	(39,970)
CASH AND CASH EQUIVALENTS, beginning of period	38,090	8,007
CASH AND CASH EQUIVALENTS / (BANK INDEBTEDNESS), end of period	1,758,671	(31,963)
Additional information:		
Interest received	6,316,694	8,943,403

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO (UNAUDITED) AS AT JUNE 30, 2016 (In Canadian Dollars)

INVESTMENT PORTFOLIO

	Percentage of Portfolio	Principal value \$	Amortized Cost \$	Fair Value \$
Private mortgages	95.50 %	179,216,127	178,284,296	178,284,296
Cash & other assets	4.50 %			8,403,500
Bank line of credit	- %			-
Net assets	100.00 %			186,687,796

DISTRIBUTION OF MORTGAGES

Interest Rate	Number of Mortgages	Amortized Cost \$	Current Value \$
5% or less	6	10,752,453	10,752,453
6%	3	2,733,813	2,733,813
7%	47	12,904,001	12,904,001
8%	98	18,962,788	18,962,788
9%	137	30,475,183	30,475,183
10%	160	46,360,413	46,360,413
11%	26	10,014,311	10,014,311
12%	99	46,081,334	46,081,334
Totals	576	178,284,296	178,284,296

Mortgages are 89% residential and 6% commercial and 5% vacant land. All of the mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable with terms to maturity ranging from 1 to 2 years.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act* and operates as a Canadian mortgage investment corporation as defined under the *Income Tax Act* of Canada. The registered head office of the Company is 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. W.A. Robinson Asset Management Ltd. is the Company's manager (the "Manager").

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") using policies expected to be in effect when the Company prepares its annual financial statements for the year ended December 31, 2016 and with National Instrument 81-106 Investment Funds Continuous Disclosure ("NI 81-106"). These accounting policies have been used throughout all periods presented in the financial statements.

The unaudited interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

These financial statements were approved for issue by the Board of Directors on August 19, 2016.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make assumptions and estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenue and expenses for the year, as well as the disclosure of contingent assets and liabilities at the date of the financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

2. BASIS OF PRESENTATION (Continued)

(d) Use of estimates and judgements (continued)

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events, or certainties that are believed to materially affect the methodology or assumptions utilized in making those estimates in these financial statements. Actual amounts could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

(i) Mortgage investments:

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

(ii) Fair value measurements:

In accordance with IFRS, the Company must classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making its fair value measurements. The following hierarchy has been used in determining and disclosing fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Company's cash and cash equivalents are valued using Level 1 measures. As explained in more detail in Note 6, management makes its determination of fair value of mortgages by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, measurements of fair value are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimates could vary.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on a time proportionate basis using the effective interest rate method. Interest is not accrued on mortgage investments that are identified as impaired.

(b) Cash and cash equivalents

The Company considers highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents. Cash equivalents are initially recognized at their fair value plus any attributable transaction costs. Any changes in the fair value of the cash equivalents are recorded in the statement of comprehensive income for the period.

(c) Mortgage investments

Mortgage investments are financial instruments and are classified as loans and receivables. These investments are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized costs using the effective interest rate method, less any impairment losses. The mortgage investments are assessed on each reporting period date to determine whether there is objective evidence of impairment. A financial asset is considered impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

(e) Prepaid mortgage payments

Some mortgagors may prepay or may be required to prepay a portion of their periodic payments. These prepaid mortgage payments are applied against the related mortgage receivable balance in the period for which they relate.

(f) Net assets

Net assets consists of issued and outstanding common shares of the Company and is classified as equity.

(g) Net assets per share

Net assets per share is calculated by dividing the net assets by the total number of issued and outstanding common shares at the end of the period.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as loans and receivables. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 6.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Company's financial liabilities consist of bank line of credit, dividends payable, accounts payable and accrued expenses. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or currency risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying value, unless otherwise noted.

The Company classifies its financial assets as one of the following: loans and receivables or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as: held-for-trading or financial liabilities at amortized cost. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as loans and receivables and recorded at cost.

(ii) Financial liabilities:

Bank line of credit, dividends payable, and accounts payable and accrued expenses are classified as financial liabilities at amortized cost.

(i) Accounting pronouncements

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB") that are not yet effective, and have not been adopted early by the Company. Information on those expected to be relevant to the Company's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations, and amendments not either adopted or listed below are not expected to have a material impact on the Company's financial statements.

(i) IFRS 9 Financial Instruments ("IFRS 9")

The IASB recently released IFRS 9 Financial Instruments (2014) ("IFRS 9") representing the completion of its project to replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets.

Management has yet to assess the impact of IFRS 9 on the Company's financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

4. CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's definition of capital includes net assets and bank line of credit.

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

The Company achieves its investment objective by lending on the security of mortgages on real properties situated in Canada, primarily in Eastern Ontario. The mortgages transacted by the Company 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 Company's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

In order to provide some liquidity to its shareholders, the Company is required to maintain approximately 5% of its net assets in cash or near cash assets and such levels of cash reserves have been adequate to meet the needs of normal share redemption levels during the year. Management regularly monitors its available cash and credit line facility to ensure that the 5% cash reserve is maintained. As at June 30, 2016 and December 31, 2015, the Company has maintained the 5% cash reserve. For unusual circumstances, the Company has redemption policies in place to restrict the payout of share redemption at levels to match the normal repayment of the mortgages receivable.

The company's capital management objectives and strategies are unchanged from prior years.

5. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and administration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic payments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

6. MORTGAGE INVESTMENTS

There are 576 mortgages (December 31, 2015 - 582) held which are a combination of mainly first and second mortgages secured by residential and commercial property. First mortgages represent 99% of outstanding mortgages (December 31, 2015 - 99%) Mortgage investments consist of the following:

	As at June 30, 2016	As at December 31, 2015
	\$	\$
Mortgages	\$179,216,127	\$181,278,833
Allowance for impairment losses	(931,831)	(748,748)
	<u>\$178,284,296</u>	<u>\$180,530,085</u>

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at June 30, 2016, there are 24 mortgages totaling \$6,335,000 (December 31, 2015 - 17 mortgages totaling \$8,070,000) that are considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage impairment loss is made.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

6. MORTGAGE INVESTMENTS (Continued)

The following table presents a continuity of the provision for impairment losses:

	Six months ended June 30, 2016	Six months ended June 30, 2015
	\$	\$
Balance - beginning of period	748,748	616,797
Change in provision for impairment losses for period	183,083	150,000
Balance - end of period	931,831	766,797

Principal repayments based on contractual maturity dates are as follows:

	\$
Next 12 months to June 30, 2017	161,140,000
Following 12 months to June 30, 2018	14,470,000
Thereafter	2,674,296
Total	178,284,296

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity. The weighted average interest rate of the mortgages as at June 30, 2016 was 9.46% (December 31, 2015 - 9.45%).

Mortgages past due but not impaired are as follows:

	June 30, 2016	December 31, 2015
	\$	\$
1 to 30 days	856,373	2,933,884
31 - 90 days	3,005,636	4,080,807
over 90 days	7,532,596	2,973,399
Total	11,394,605	9,988,090

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfill their mortgage commitments. The Company mitigates this risk by having well established lending policies in place that ensure mortgages are well secured and by limiting its exposure to any one mortgagor. The maximum exposure to credit risk at June 30, 2016 is the carrying values of its mortgage investments, including accrued interest receivable, which total \$184,209,397 (December 31, 2015 - \$184,187,721). The Company has recourse under these investments in the event of default by the borrower, in which case, the Company would have a claim against the underlying security.

There are no significant concentrations of credit risk as the average mortgage amount as at June 30, 2016 was \$313,418 (December 31, 2015 - \$312,341) and the largest mortgage was \$11,863,831 (December 31, 2015 - \$11,607,119).

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

6. MORTGAGE INVESTMENTS (Continued)

Fair Values

The fair value of the mortgage investments approximates its carrying value as substantially all of the loans are short-term in nature and repayable in full at any time by the borrower without penalty.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the Company and its borrowers are unrelated third parties under no compulsion to act, the initial terms of the mortgage represents their fair value at the time of mortgage origination. For subsequent reporting periods, as there are no quoted prices in an active market for the Company's mortgages, management makes its determination of fair value by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they fall due. The Company's approach is to ensure that it will have sufficient cash and credit facilities to meet its liabilities when due, under normal and stressed circumstances. As at June 30, 2016, the Company's liabilities consisted of accounts payable and accrued expenses totaling all \$61,700 (December 31, 2015 - \$61,745) and dividends payable totaling \$369,369 (December 31, 2015 - \$119,155) all of which are due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a balance of \$- as at June 30, 2016 (December 31, 2015 - \$14,860,000).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range of 10% to 15% of net assets. As at June 30, 2016, the Company's committed borrowing facilities represented approximately 15% of net assets (December 31, 2015 - 13% of net assets). In addition, the Company has policies in place that can restrict the total amount of share redemptions. Those restrictions permit share redemptions to be funded through the normal repayment of the mortgages receivable.

7. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian bank and, in March 2016, the limit of this line of credit was increased from \$23,000,000 to an amount equal to 15% of the net assets of the Company subject to a maximum limit of \$29,000,000. It is secured by a General Security Agreement and a first ranking interest in the mortgages and is repayable on demand. The availability of funds may be cancelled or restricted by the bank at any time. The credit facility bears interest at bank prime rate of 2.70% (December 31, 2015 - 2.70%) plus 1%.

Financial covenants require the Company to maintain a minimum level of equity, debt to equity ratio and percentage of residential mortgages. The Company was in compliance with the bank's financial covenants for all periods covered in these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2016

8. CAPITAL STOCK

Authorized capital:

The authorized capital consists of an unlimited number of voting, non-cumulative common shares.

Changes during the periods:

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Number of shares issued	\$	Number of shares issued	\$
Balance, beginning of period	5,651,216	169,536,542	4,610,053	138,301,639
Issued for cash	530,139	15,904,163	1,087,912	32,637,365
Issued through dividend reinvestment plan	107,889	3,236,678	182,271	5,468,128
Redeemed	(66,320)	(1,989,587)	(229,020)	(6,870,590)
Balance, end of period	6,222,924	186,687,796	5,651,216	169,536,542

Dividend reinvestment plan and direct share purchase plan

Unless a shareholder elects to receive their dividends as a cash payment, the dividends paid to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

Redemptions

Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the period ended June 30, 2016, 66,320 common shares were redeemed for cash at the price of \$30 per share for total proceeds of \$1,989,587. During the period ended June 30, 2015, 1,781 common shares were redeemed for cash at the price of \$30 per share for total proceeds of \$53,425. For the year ended December 31, 2015, 229,020 common shares were redeemed for cash at the price of \$30 per share for total proceeds of \$6,870,590.

9. RELATED PARTIES

Pillar Financial Services Inc. ("Pillar") is the Administrator for the Company. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Company.

W.A. Robinson Asset Management Ltd. ("W.A.") is the Manager for the Company and provides portfolio management advice and investment counsel to the Company.

The companies are related in that they share common management. Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the six months ended June 30, 2016 were \$951,896 (six months ended June 30, 2015 - \$672,103) and the total fees paid to W.A. for the six months ended June 30, 2016 were \$1,075,642 (six months ended June 30, 2015 - \$759,476) under these contracts. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the parties.