FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2018

NOTICE TO READER

Frontenac Mortgage Investment Corporation (the "Company") is re-filing its interim management report on fund performance ("MRFP") for the six months ended June 30, 2018 and 2017 as a result of a review by staff of the Ontario Securities Commission (the "OSC") to correct and enhance certain disclosures made substantially related to the Company's adoption and implementation of *International Financial Reporting Standard 9 – Financial Instruments* ("IFRS 9"). This MRFP was amended to include enhanced disclosure under "Recent Developments / Accounting Changes" to contain and discuss enhanced disclosures contained in Company's interim condensed financial statements for the six months ended June 30, 2018 and 2017..

All other information contained in this MRFP remains materially unchanged. There has been no change in the financial results reported.

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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 unaudited interim condensed 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, 2018 increased on a gross basis to $9,262,829 from $7,620,241 from the same period in 2017 while, on a per share basis, revenues increased to $1.41 from $1.16 per common share. Revenue per share in 2017 was lower than historical normal due to 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 Corporation targets to have its cash fully deployed into mortgage loans with its credit line available to meet redemptions. In 2017, with higher than normal cash balances, the overall revenue of the Corporation decreases accordingly. In 2017,

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. As the Corporation's cash balances were fully deployed back into mortgage loans by the end of 2017 and throughout 2018, revenues per share have returned to historical norms for the first six months of 2018.

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, 2018, the Corporation has averaged 4.93% of its net assets as impaired mortgages, which is considered to be within expectations. For six months ended June 30, 2017, the Corporation averaged 5.9% of its net assets as impaired mortgages.

Total expenses for the Corporation for the six months ended June 30, 2018 increased to $3,021,029 as compared to $2,470,178 for the same period in 2017. 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. In addition, the Corporation's utilization of its credit line has been higher in 2018 resulting in interest costs of $405,372 for the first six months of 2018 as compared to $643 in the same period in 2017. Overall, operating expenses per share of the Corporation increased to $0.46 per share for the six months ended June 30, 2018 compared to $0.38 per share for the same period in 2017. The increase in the per share operating expenses reflects higher interest costs from higher utilization of the Company's credit line during the period as compared the prior year.

Overall, earnings per share increased to $0.84 per share for the six months ended June 30, 2018 compared to $0.71 per share for the same period in 2017.

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

	Six months ended June 30, 2018 (Unaudited) $	**2017 $**	**2016 $**	**2015 $**	**2014 $**
Total revenues	9,262,829	16,178,501	17,580,995	14,485,507	13,139,636
- per issued common share	1.41	2.47	2.82	2.77	2.92
Net earnings	5,512,383	8,346,668	10,911,248	8,581,017	8,223,375
- per issued common share	0.84	1.27	1.75	1.64	1.83

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, 2018, 6,662,955 common shares (June 30, 2017 – 6,636,011) 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, 2018 (Unaudited)	**2017**	**2016**	**2015**	**2014**
Number of shares:	#	#	#	#	#
Balance – beginning of period	6,141,401	6,396,798	5,651,215	4,610,052	4,102,680
Issued for cash	439,157	187,160	973,403	1,087,912	637,215
Issued under dividend re-investment plan	98,859	172,746	213,698	182,271	187,030
Redeemed	(16,462)	(615,303)	(441,518)	(229,020)	(316,873)
Balance – end of period	6,662,955	6,141,401	6,396,798	5,651,215	4,610,052
Dollars:	$	$	$	$	$
Balance – beginning of period	183,226,117	191,904,019	169,536,542	138,301,639	123,080,458
Issued for cash	13,104,441	5,614,809	29,202,078	32,637,365	19,116,464
Issued under dividend re-investment plan	2,957,292	5,182,391	6,410,931	5,468,128	5,610,900
Redeemed	(491,213)	(18,459,102)	(13,245,532)	(6,870,590)	(9,506,183)
Undistributed net earnings / (Excess distributions)	100,000	(1,016,000)			
Balance – end of period	198,896,637	183,226,117	191,904,019	169,536,542	138,301,639

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, 2018, 16,462 shares (June 30, 2017 – 29,915) were redeemed at the net asset value per share as at the date redeemed.

Recent Developments

Since December 31, 2017, the Corporation has not adopted any changes that have a material effect on its operations, except as noted in this section.

Accounting Changes – IFRS 9

Effective January 1, 2018, the Corporation adopted IFRS 9 Financial Instruments ("IFRS 9") which replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and liabilities, as well as the impairment of financial assets. As a result of the application of IFRS 9, the Corporation changed its accounting policies for mortgages receivable effective January 1, 2018. As permitted by the transition provisions of IFRS 9, prior periods have not been restated. They are reported under IAS 39 and therefore not comparable to the information presented for 2018. It was opted for that any measurement difference in the carrying amounts on January 1, 2018 would be recognized through an adjustment to retained earnings on that date. The statistical analysis prepared to- date indicates an immaterial difference, primarily due to the short-term duration of the financial assets held.

IFRS 9 uses an expected credit loss ("ECL") model to determine the provision for credit losses in the Corporation's financial assets, primarily its mortgages receivable. The ECL model uses a three-stage impairment approach based on changes in the credit risk of the financial asset since initial recognition. The three stages are as follows: Stage 1 – financial assets that have not experienced a significant increase in credit risk since initial recognition. Stage 2 – financial assets that have experienced a significant increase in credit risk between initial recognition and the reporting date. Stage 3 – financial assets for which there is objective evidence of impairment at the reporting date. The company considers a number of factors, both quantitative and qualitative when assessing if there has been a significant increase in credit risk.

The quantitative aspect of the expected credit loss is derived through the use of an Autoregressive Distributed Lag (ARDL) model. ARDL models allow the Company to forecast various statistics and assess the material impact, or lack thereof, of certain information on its performance. Information was selected for inclusion in the model based on evidence that it materially explains the likelihood of mortgage impairment as well as operating statistics specific to the Company's mortgage portfolio which proxy the lending environment in the Company's target market. Specifically, the Company included information on borrower credit score, loan to value ratio, debt servicing ratio, borrower age, portfolio net cash position, current portfolio impairment levels, and current portfolio net return. National statistics and macroeconomic forecasts were not included as they are not statistically significant indicators of future performance due to the geographically restricted and relatively small size of the Company's lending business.

The model is forward- looking and results in a provision for mortgage losses being recorded on the financial statements regardless of if there has been a loss event. ECLs are the difference between the present value of all contractual cash flows that are due under the original terms of the contract and the present value of all cash flows expected to be received.

The statistical analysis results prepared to-date can be summarized in the following table:

Gross investments at amortized cost		As at June 30, 2018		
	Stage 1	Stage 2	Stage 3	Total
Commercial	3,695,506	363,261	519,814	4,578,581
Residential	99,897,384	1,367,704	3,969,253	105,234,341
Residential construction	41,185,853	168,535	618,897	41,973,285
Residential developments	31,111,820		16,364,246	47,476,066
Vacant land	12,026,494	1,058,092	259,094	13,343,680
	187,917,057	2,957,592	21,731,304	212,605,953

Allowance for credit losses on loans		As at June 30, 2018		
	Stage 1	Stage 2	Stage 3	Total
Commercial	1,410			1,410
Residential	111,839	13,115	495,298	620,252
Residential construction	56,545	14,571		71,115
Residential developments	1,346		2,693,669	2,695,015
Vacant land	10,058	13,231	143,280	166,569
	181,198	40,917	3,332,247	3,554,362

As at June 30, 2018, there were 21 mortgages totaling $21,731,000 which were considered to be impaired by management. The impairments include a group of mortgages totaling $14,311,000 related to a single development project. The Corporation has recognized, in prior periods, provisions for losses totaling $1,790,000 related to these loans which represent management's comparison of the discounted expected net proceeds from the sale of the underlying real estate security against the loan amounts outstanding. The power-of-sale process for this group of loans is expected to be complete by the end of September 2018 at which time the related properties will be available for sale. If this single large loan is excluded, as at June 30, 2018, there were 20 impaired mortgages totaling $7,420,000 (3.7% of net assets) and the largest impaired mortgage was $2,052,920. As at December 31, 2017, there were 24 impaired mortgages totaling $7,930,370 (4.3% of net assets) and the largest impaired mortgage was $2,020,465.

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.

Further information on the status of the transition can be found in the Corporation's prospectus, a copy of which can be obtained on www.sedar.com.

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, 2018. 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, 2018 were $1,073,680 six months ended June 30, 2017 - $984,949)

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, 2018 were $1,213,320 (June 30, 2017 - $1,113,722) 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, 2018 (Unaudited) $	2017	2016 $	2015 $	2014 $
Net assets, beginning of period	29.84	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.41	2.47	2.82	2.77	2.92
Total expenses [excluding distributions]	(0.46)	(0.77)	(0.80)	(0.87)	(0.90)
Realized gains (losses) during period	(0.10)	(0.16)	(0.11)	(0.23)	(0.06)
Unrealized gains (losses) during period	(0.01)	(0.27)	(0.16)	(0.03)	(0.13)
Total increase (decrease) from operations	0.84	1.27	1.75	1.64	1.83
Distributions:					
From net income (excluding dividends)	(0.83)	(1.43)	(1.75)	(1.64)	(1.83)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.83)	(1.43)	(1.75)	(1.64)	(1.83)
Net assets, end of period	29.85	29.84	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 has distributes any net income to shareholders monthly in the form of dividends. As at December 31, 2017, the net asset value per share of the Corporation dropped from $30.00 to $29.84 due to a late adjustment to its provision for losses for a specific group of mortgages

that was made after the monthly dividend distribution for December 2017. For 2018, it is the intention of management to retain earnings on a monthly basis in an amount sufficient to gradually increase the net asset value per share back to $30.00 by November 30, 2018.

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, 2018, the Corporation paid cash dividends of $2,455,091.

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

	Six months ended June 30, 2018	**2017**	**2016**	**2015**	**2014**
Net assets	$198,896,637	183,226,117	$191,904,019	$169,536,542	$138,301,639
Number of shares outstanding	6,662,955	6,141,401	6,396,798	5,651,215	4,610,052
Management expense ratio (annualized)	3.11% (1)	2.55%	2.67%	2.93%	3.02%
Management expense ratio before waivers or absorptions (annualized)	3.11% (1)	2.55%	2.67%	2.93%	3.02%
Portfolio turnover rate	20.09%	46.88%	39.61%	47.90%	47.29%
Trading expense ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share	$29.85	$29.84	$30.00	$30.00	$30.00

Notes:

(1) The management expense ratio ("MER") 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. The MER includes interest costs incurred on the utilization of the Corporation's credit line. If those interest costs are excluded, the MER was 2.70% for the six months ended June 30, 2018.

(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, 2018 were $1,213,320 (six months ended June 30, 2017 - $1,113,722) including applicable sales taxes.

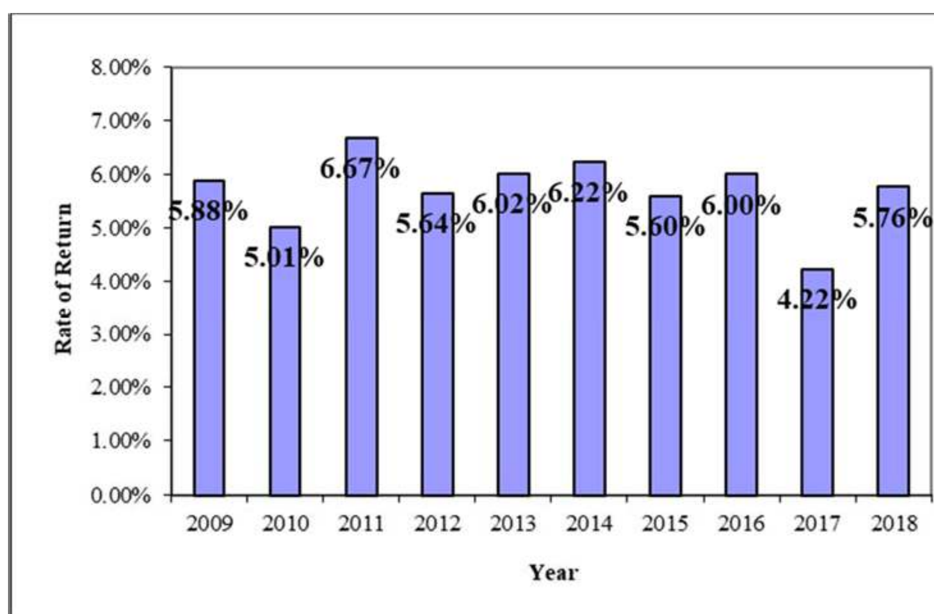
In addition, as detailed under the “Related Parties” section above, for the six months ended June 30, 2018, the Company paid fees totalling $1,073,680 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2017 - $984,949).

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, 2018 (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 2018 has been annualized based on the number of days in the period.

SUMMARY OF INVESTMENT PORTFOLIO

Asset	Market Value $	% of Net Assets
Mortgage investments	209,051,591	105.11%
Bank indebtedness and credit line	(22,584,646)	(11.36%)
Net accrued receivables/(payables)	12,429,692	6.25%%
Total net assets	198,896,637	100.00%

The following represents the Corporation's twenty-five largest holdings (other than cash) as at June 30, 2018:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	% of NAV
Ottawa area multi-residential development	ON	13,432,040	84%	24	6.44%	1st	6.75%
Rural Ontario multi-residential waterfront development	ON	12,521,326	78%	24	8.00%	1st	6.30%
Rural Ontario multi-residential development	ON	12,081,067	65%	12	11.50%	1st	6.07%
Rural Ontario multi-residential development	ON	3,350,360	61%	12	10.50%	1st	1.68%
Kemptville Area commercial vacant land	ON	1,588,731	29%	13	9.00%	1st	0.80%
Ottawa area residential & vacant land	ON	1,587,134	41%	25	10.99%	1st	0.80%
Ottawa area 4 unit residential construction	ON	1,489,606	64%	12	9.99%	1st	0.75%
Ottawa area 4 unit student housing construction	ON	1,448,000	61%	12	9.99%	1st	0.73%
Ottawa area multi-residential	ON	1,445,682	90%	12	4.99%	1st	0.73%
Ottawa area 2 semi-detached residential construction	ON	1,375,206	70%	12	9.99%	1st	0.69%
Ottawa residential duplexconstruction	ON	1,328,864	80%	28	9.99%	1st	0.67%
Whitby area single residential construction	ON	1,275,880	59%	12	9.99%	1st	0.64%
Pontypool area single residential construction	ON	1,221,150	68%	12	9.99%	1st	0.61%
Rural Ontario multi-residential waterfront development	ON	1,149,045	80%	23	5.00%	1st	0.58%
Ontario rural residential & tourist commercial	ON	1,135,421	65%	13	8.99%	1st	0.57%
Ottawa area 8 unit residential construction	ON	1,079,713	67%	12	9.99%	1st	0.54%
Ottawa area multi-residential development	ON	1,072,114	49%	13	9.99%	1st	0.54%
Niagara Falls single residential	ON	1,006,216	66%	13	9.99%	1st	0.51%
Ottawa area semi-detached residential construction	ON	988,390	80%	12	9.99%	1st	0.50%
Ottawa area 8 unit rental construction	ON	972,275	70%	13	9.99%	1st	0.49%
Ottawa area single residential construction	ON	937,746	74%	12	10.99%	1st	0.47%
Ottawa area vacant land	ON	898,278	51%	13	7.99%	1st	0.45%
Ottawa area 8 unit apartment building construction	ON	882,500	68%	12	9.99%	1st	0.44%
Kanata area single residential	ON	880,000	80%	13	8.24%	1st	0.44%
Buckhorn ON single residential waterfront	ON	852,797	70%	12	9.25%	1st	0.43%

(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	49.8%	Ontario	99.9%
Residential construction	20.1%	Quebec	0.1%
Residential developments	21.6%		
Commercial	2.2%		
Vacant land	6.3%		
	100.0%		100.0%
BY INTEREST RATE		**BY MATURITY**	
6.49% or lower	5.2%	One year or less	92.8%
6.50% to 7.49%	2.9%	1.1 to 2 years	6.7%
7.50% to 8.49%	18.5%	2.1 to 3 years	0.5%
8.50% to 9.49%	28.2%	3.1 to 5 years	0.0%
9.50% to 10.49%	30.8%	more than 5 years	0.0%
10.50% to 11.49%	6.3%		
11.50% to 12.49%	8.1%		
	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.