# FRONTENAC MORTGAGE INVESTMENT CORPORATION
# ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
# FOR THE YEAR ENDED DECEMBER 31, 2018

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Corporation. You can obtain a copy of the annual 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 or on the Corporation's website at www.fmic.ca |
| By mail: | Frontenac Mortgage Investment Corporation<br>14216 Road #38<br>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

### Investment Objective and Strategy

*Investment objective*

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

*Investment strategy*

The Corporation will achieve its investment objective by lending on the security of mortgages on real property located primarily in the province of Ontario. The mortgages transacted by the Corporation 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 Corporation's investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

### Risks

The business operations of the Corporation are subject to the following risks, amongst others, that could affect shareholders' equity and the Corporation's ability to generate returns: relative illiquid nature of mortgage investments, ability of borrowers to make mortgage payments, inability of the Corporation to find suitable mortgage investments, changes in land value, ranking of mortgages, no guarantees to investor on returns or lack of losses, and reliance on third parties. These risk factors are described in greater detail in the Corporation's prospectus, a copy of which may be obtained through SEDAR at www.sedar.com.

During the 2018 year, management did not make any operational changes which had an impact on the overall risk of an investment in the Corporation.

## Results of Operations

The financial statements of Frontenac Mortgage Investment Corporation are prepared in accordance with International Financial Reporting Standards and National Instrument 81-106 Investment Funds Continuous Disclosure.

All amounts for all years are expressed in Canadian dollars.

### *Operating Results for the Period*

The following table presents the results from operations for the year ended December 31:

| | **2018** | **2017** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Total revenues | 18,134,892 | 16,178,501 | 17,580,995 | 14,485,507 | 13,139,636 |
| - per issued common share | 2.74 | 2.46 | 2.82 | 2.77 | 2.92 |
| Net increase in net assets from operations | 11,332,989 | 8,346,668 | 10,911,248 | 8,581,017 | 8,223,375 |
| - per issued common share | 1.71 | 1.27 | 1.75 | 1.64 | 1.83 |

Revenues for the Corporation for the 2018 year increased on a gross basis to $18,134,892 from $16,178,501 for 2017 while, on a per share basis, revenues increased to $2.74 from $2.46 per common share. Revenue per share for 2018 is consistent with historical levels, while the revenue per share for 2017 was significantly lower than historical results. In 2017, 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 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 increased as a result of the change in lending rates. In addition, the Corporation focused on expanding its geographic lending area to include Southwestern Ontario. By the end of 2017, excess cash balances had been fully absorbed into new mortgage loans resulting in a return to historical levels in revenue per share in 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 2018, the Corporation averaged 7.90% of its net assets as impaired mortgages and incurred mortgage provisions and realized losses of $0.11 per share compared to 5.04% in impairments and $0.27 per share for losses for 2017. As at December 31, 2018, there were 27 mortgages totaling $22,043,064 which were considered by management to be impaired. The impairments include a group of mortgages totaling $14,018,867 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 was completed in October 2018 and the related properties are listed for sale. If this single large group of loans is excluded, as at December 31, 2018, there were 26 impaired mortgages totaling $8,024,197 (4.5% of net assets) and the largest impaired mortgage was $2,124,006. 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.

Total operating expenses, excluding realized and unrealized gains and losses, increased to $6,063,719 for 2018 compared to $5,014,406 for 2017. Operating expenses per share was $0.92 per share in 2018 as compared to $0.76 per share in 2017. The increase in operating expenses both in total and per share is largely attributable to an increase in interest costs on the Corporation's bank credit line from $54,372 in 2017 to $707,639 in 2018. This increase in interest costs is reflective of the Corporation's higher utilization of its credit line throughout 2018.

Unless a shareholder elects to receive dividends in cash, dividends paid to shareholders are re-invested into additional shares of the Corporation under its dividend re-investment plan. During the year, the Corporation paid or accrued cash dividends totaling $4,576,924 (2017 - $4,180,277) and $5,631,065 (2017 - $5,182,391) of the earnings was re-invested by shareholders in additional shares of the Corporation.

In addition to the aforementioned dividend re-investment, for the year ended December 31 2018, the net assets of the Corporation decreased as a result of net redemptions totaling $12,194,717 (2017 - $12,844,293 net redemptions). Proceeds from Common Shares issued in 2018, excluding dividend re-investment, totaled $22,998,073 (2017 - $5,614,809) while redemptions during the year totaled $35,192,790 (2017 - $18,459,102 ). Substantially all of the 2018 share redemptions occurred in November 2018. In 2017, new investment was down year-over-year as Management decided, due to higher than normal cash balances, to temporarily halt the inflow of new investment to the Corporation effective April 2017. The Corporation began to again accept new investment into the Corporation starting in January 2018.

The Corporation has a revolving line of credit with a Canadian chartered bank with a limit equal to 15% of net assets of the Corporation to a maximum limit of $29.0 million. The line of credit is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Company to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2018 and December 31, 2017, the Corporation was in compliance with the bank's financial covenants.

The line of credit is used to smooth out the cash flows of the Corporation and is not used to extend the Corporation's investment capacity beyond its available equity. The Corporation did not use its credit line for most of the year but used the credit line in December 2017 to fund annual redemptions. As at December 31, 2018, the Corporation was using $13,880,000 of this credit line. The maximum borrowings at any one time in the year was $26,370,000.

### *Outstanding Share Data and Transactions for the Period*

The Corporation is authorized to issue an unlimited number of common shares. The following table presents a summary of share data and transactions for the year ended December 31:

| | 2018 | 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 | 769,862 | 187,160 | 973,403 | 1,087,912 | 637,215 |
| Issued under dividend re-investment plan | 188,184 | 172,746 | 213,698 | 182,271 | 187,030 |
| Redeemed | (1,173,198) | (615,303) | (441,518) | (229,020) | (316,873) |
| Balance – end of period | 5,926,249 | 6,141,401 | 6,396,798 | 5,651,215 | 4,610,052 |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Dollars: | $ | $ | $ | $ | $ |
| Balance – beginning of period | 183,226,117 | 191,904,019 | 169,536,542 | 138,301,639 | 123,080,458 |
| Issued for cash | 22,998,073 | 5,614,809 | 29,202,078 | 32,637,365 | 19,116,464 |
| Issued under dividend re-investment plan | 5,631,065 | 5,182,391 | 6,410,931 | 5,468,128 | 5,610,900 |
| Redeemed | (35,192,790) | (18,459,102) | (13,245,532) | (6,870,590) | (9,506,183) |
| Distributions in excess of earnings | - | (1,016,000) | - | - | - |
| Balance – end of period | 177,787,465 | 183,226,117 | 191,904,019 | 169,536,542 | 138,301,639 |

New investment was down year-over-year as Management decided, due to higher than normal cash balances, to temporarily halt the inflow of new investment to the Corporation. The Corporation began to again accept new investment into the Corporation starting in January 2018.

Under the Corporation's dividend policy and dividend re-investment plan, unless a shareholder elects to receive their dividends in cash, monthly dividends are automatically re-invested into additional shares of the Corporation at the then prevailing book value per share.

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.

## Recent Developments

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

### *Changes in Accounting Standards*

(i) International Financial Reporting Standards 9 "Financial Instruments" ("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. IFRS 9 was applied on a modified retrospective basis. As permitted by the transition provisions of IFRS 9, prior periods have not been restated. Prior periods are reported under IAS 39 and are 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 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 Corporation considers a number of factors, both quantitative and qualitive 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 December 31, 2018 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Commercial | 3,304,349 | 363,261 | 537,996 | 4,205,606 |
| Residential | 72,303,060 | 1,358,354 | 3,615,332 | 77,276,746 |
| Residential Construction | 44,686,344 | 56,815 | 813,584 | 45,556,743 |
| Residential Developments | 28,697,105 | | 16,142,873 | 44,839,978 |
| Vacant land | 10,995,689 | 255,318 | 933,278 | 12,184,286 |
| | 159,986,548 | 2,033,748 | 22,043,064 | 184,063,359 |
| **Allowance for credit losses on loans** | **As at December 31, 2018** | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Commercial | 1,577 | 6,788 | 41,437 | 49,802 |
| Residential | 82,794 | 23,816 | 280,379 | 386,989 |
| Residential Construction | 53,267 | 10,629 | 4,206 | 68,102 |
| Residential Developments | 17,239 | | 2,403,589 | 2,420,828 |
| Vacant land | 16,494 | 7,045 | 146,428 | 169,967 |
| | 171,371 | 48,277 | 2,876,039 | 3,095,688 |

As at December 31, 2018, there were 27 mortgages totaling $22,043,064 which were considered by management to be impaired. The impairments include a group of mortgages totaling $14,018,867 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 was completed in October 2018 and the related properties are listed for sale. If this single large loan is excluded, as at December 31, 2018, there were 26 impaired mortgages totaling $8,024,197 (4.5% of net assets) and the largest impaired mortgage was $2,124,006. 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.

## (ii) International Financial Reporting Standard 15 - Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts within the scope of other standards, such as financial instruments, insurance contracts and leases. The Corporation adopted IFRS 15 effective January 1, 2018. As most of its contracts are financial instruments and therefore out of the scope for IFRS 15, the implementation of IFRS 15 did not have a material impact on the Corporation's financial statements.

*Changes in Securities Regulations*

The Corporation has historically complied with securities law requirements relating to non-redeemable investment funds, including using the form of prospectus required for investment funds. Pursuant to the Canadian Securities Administrator's ("CSA") implementation of the "Modernization of Investment Corporation Product Regulation Project" certain changes to the legislation governing non-redeemable investment funds, including the Corporation, took effect in September 2014. Such changes include the imposition of new fundamental investment restrictions and operating requirements including specific restrictions on the investment in non-guaranteed mortgages. The amended legislation also includes provisions which would effectively "grandfather" the Corporation from the specific restrictions on the investment in non-guaranteed mortgages. Notwithstanding the grandfathering provisions in the legislation the CSA have indicated that they will continue to focus on investments in non-guaranteed mortgages in the prospectus reviews of any subsequent issuances of securities by non-redeemable investment funds relying on the grandfathering provided.

Consequently, the OSC indicated to the Corporation that it will require the Corporation to begin to comply with the securities law requirements which relate to corporate reporting issuers generally and to refrain from complying with securities law requirements relating specifically to non-redeemable investment funds. In this regard the Corporation agreed to transition out of the regulatory framework governing investment funds, and into the regulatory framework governing corporate reporting issuers generally, on the earlier of the Corporation exceeding $250 million in Net Asset Value and five (5) years from the date of the 2014 prospectus (i.e. by September 26, 2019). As part of that agreement, the Corporation 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.

The Corporation intends to continue to abide by the foregoing restrictions and independent verification of Net Asset Value following Transition, subject to the Corporation's intention to provide additional verification of Net Asset Value as of each Valuation Date.

Following Transition the Corporation intends to operate in all material respects in the same manner as it has historically operated (i.e. continuous prospectus offering of Common Shares priced at the Net Asset Value per Common Share, no requirement to engage an underwriter in the prospectus offering, shareholders entitled to redeem once annually and no requirement of the Corporation to list the Common Shares on an exchange). Prior to the Transition, the Corporation will be required to apply for exemptive relief from certain applicable securities laws requirements in order to continue to distribute Common Shares as it has done historically since 2005. The Corporation has made a pre-file application to the Ontario Securities Commission for this required relief. However, there is no certainty that it will be granted and, if so granted, on what terms.

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.

## Related Party Transactions

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson Asset Management Ltd. ("W.A.") is the manager for the Corporation. These companies are related parties in that they share common management. The Corporation signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. These contracts were renewed for further five year periods in 2013 and 2018.

Administration and management fees paid under these agreements totaled $4,608,592 for the year ended December 31, 2018 (year ended December 31, 2017 - $4,229,612) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2017 reflects a year-over-year increase in the average total assets of the Corporation.

# 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 audited annual financial statements.

## Net Assets of the Corporation per Share:

| | 2018<br>$ | 2017<br>$ | 2016<br>$ | 2015<br>$ | 2014<br>$ |
|---|---|---|---|---|---|
| Net assets, beginning of year | 29.84 | 30.00 | 30.00 | 30.00 | 30.00 |
| Increase (decrease) from operations: | | | | | |
| Total revenue | 2.74 | 2.47 | 2.82 | 2.77 | 2.92 |
| Total expenses [excluding distributions] | (0.92) | (0.76) | (0.80) | (0.87) | (0.90) |
| Realized gains (losses) during period | (0.17) | (0.16) | (0.11) | (0.23) | (0.06) |
| Unrealized gains (losses) during period | 0.06 | (0.27) | (0.16) | (0.03) | (0.13) |
| Total increase from operations | 1.71 | 1.27 | 1.75 | 1.64 | 1.83 |
| Distributions: | | | | | |
| From net income (excluding dividends) | (1.65) | (1.43) | (1.75) | (1.64) | (1.83) |
| From dividends | - | - | - | - | - |
| From capital gains | - | - | - | - | - |
| Return of capital | - | - | - | - | - |
| Total Distributions | (1.65) | (1.43) | (1.75) | (1.64) | (1.83) |
| Net assets, end of year | 30.00 | 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.

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless a shareholder elects to receive their monthly dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation.

## Ratios and Supplemental Data (December 31):

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net assets | $177,787,465 | $183,226,117 | $191,904,019 | $169,536,542 | $138,301,639 |
| Number of shares outstanding | 5,926,249 | 6,141,401 | 6,396,798 | 5,651,215 | 4,610,052 |
| Management expense ratio | 3.05% | 2.55% | 2.67% | 2.93% | 3.02% |
| Management expense ratio before waivers or absorptions | 3.05% | 2.55% | 2.67% | 2.93% | 3.02% |
| Portfolio turnover rate | 51.80% | 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 | $30.00 | $29.84 | $30.00 | $30.00 | $30.00 |

Notes:

(1) The management expense ratio is based on total expenses (excluding realized and unrealized losses) 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 the Corporation'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. There is not necessarily a relationship between a high turnover rate and the performance of a fund. For the Corporation, the portfolio turnover rate is based on the dollar value of the Corporation's mortgages. 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.

## Administration and management fees

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson Asset Management Ltd. ("W.A.") is the manager for the Corporation. The Corporation signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis.

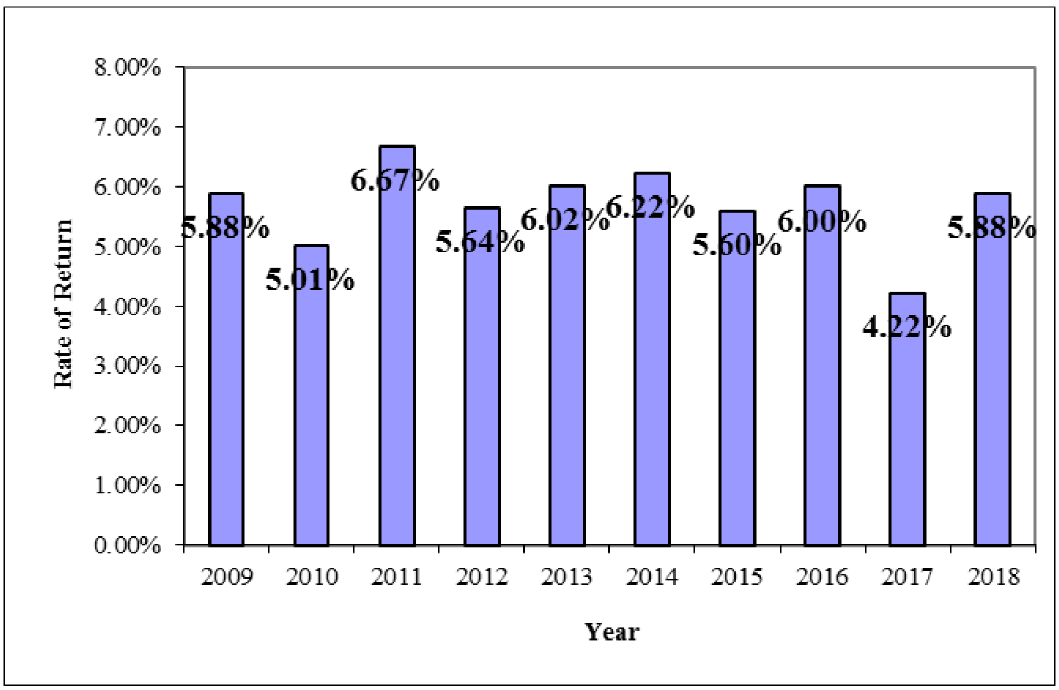
Administration and management fees paid under these agreements totaled $4,608,592 for the year ended December 31, 2018 (year ended December 31, 2017 - $4,229,612) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2017 reflects a year-over-year increase in the average total assets of the Corporation.

## 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 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.




### Annual Compound Returns

The following table presents the Corporation's annual compound return for each share:

| | |
|---|---|
| One year | 5.88% |
| Three year | 5.37% |
| Five year | 5.59% |
| Ten year | 5.72% |

## Summary of Investment Portfolio

| Asset | Market Value $ | % of Net Assets |
|---|---|---|
| Cash & cash equivalents | 45,324 | 0.03% |
| Mortgage investments | 180,967,671 | 101.79% |
| Bank credit line | (13,880,000) | (7.81%) |
| Net accrued receivables/(payables) | 10,654,470 | 5.99% |
| Total net assets | 177,787,465 | 100.00% |

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 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 | 7.06% | 1st | 7.56% |
| Rural Ontario multi-residential waterfront development | ON | 12,228,867 | 72% | 24 | 8.00% | 1st | 6.88% |
| Rural Ontario multi-residential development | ON | 12,133,374 | 66% | 12 | 11.50% | 1st | 6.82% |
| Ottawa area 8 unit residential construction | ON | 2,072,825 | 67% | 12 | 9.99% | 1st | 1.17% |
| Whitby area single residential construction | ON | 1,900,000 | 59% | 12 | 9.99% | 1st | 1.07% |
| Kemptville Area commercial vacant land | ON | 1,781,758 | 33% | 26 | 9.25% | 1st | 1.00% |
| Ottawa area multi-residential | ON | 1,540,318 | 91% | 12 | 4.99% | 1st | 0.87% |
| Ottawa area 8 unit apartment building construction | ON | 1,490,000 | 68% | 12 | 9.99% | 1st | 0.84% |
| Ottawa area 2 semi-detached residential construction | ON | 1,379,000 | 70% | 12 | 9.99% | 1st | 0.78% |
| Ottawa/Gloucester area residential purchase/constructi | ON | 1,358,071 | 68% | 12 | 9.99% | 1st | 0.76% |
| Pontypool area single residential construction | ON | 1,221,150 | 68% | 12 | 9.99% | 1st | 0.69% |
| Rural Ontario multi-residential waterfront development | ON | 1,149,045 | 80% | 23 | 5.00% | 1st | 0.65% |
| Ottawa area semi-detached residential construction | ON | 1,133,763 | 80% | 12 | 9.99% | 1st | 0.64% |
| Cumberland area single residential refinance/constructi | ON | 1,072,250 | 80% | 12 | 9.99% | 1st | 0.60% |
| Ottawa area multi-residential development | ON | 1,034,053 | 53% | 13 | 9.99% | 1st | 0.58% |
| Manotick single residential construction | ON | 934,430 | 72% | 12 | 9.99% | 1st | 0.53% |
| Rural Ontario multi-residential development | ON | 931,343 | 109% | 12 | 10.50% | 1st | 0.52% |
| Ottawa area vacant land | ON | 894,666 | 51% | 22 | 9.99% | 1st | 0.50% |
| Kanata area single residential | ON | 875,253 | 80% | 13 | 8.24% | 1st | 0.49% |
| Ottawa area semi-detached rental property construction | ON | 830,620 | 70% | 12 | 9.99% | 1st | 0.47% |
| Ottawa area residential & vacant land | ON | 817,694 | 21% | 25 | 10.99% | 1st | 0.46% |
| Picton area single residential construction | ON | 806,250 | 46% | 12 | 9.99% | 1st | 0.45% |
| Stittsville single residential | ON | 800,287 | 70% | 13 | 8.85% | 1st | 0.45% |
| Uxbridge area single residential construction | ON | 774,400 | 80% | 12 | 9.99% | 1st | 0.44% |
| Ottawa area single residential construction | ON | 771,810 | 80% | 22 | 7.49% | 1st | 0.43% |

(1) For fully completed properties, loan-to-value determined based on appraisal done by arm's length third party at time of funding. For construction properties, loan-to-value based on appraised of final value by arm's length third party adjusted for percentage of completion.

| **PORTFOLIO ALLOCATIONS** | | | (based on outstanding principal balances) |
|---|---|---|---|
| **BY TYPE** | | **BY REGION** | |
| Residential | 42.4% | Ontario | 99.9% |
| Residential construction | 25.2% | Quebec | 0.1% |
| Residential developments | 23.4% | | |
| Commercial | 2.3% | | |
| Vacant land | 6.7% | | |
| | 100.0% | | 100.0% |
| **BY INTEREST RATE** | | **BY MATURITY** | |
| 6.49% or lower | 6.0% | One year or less | 95.2% |
| 6.50% to 7.49% | 1.8% | 1.1 to 2 years | 4.8% |
| 7.50% to 8.49% | 15.0% | 2.1 to 3 years | 0.0% |
| 8.50% to 9.49% | 24.2% | 3.1 to 5 years | 0.0% |
| 9.50% to 10.49% | 38.7% | more than 5 years | 0.0% |
| 10.50% to 11.49% | 5.1% | | |
| 11.50% to 12.49% | 9.2% | | |
| | 100.0% | | 100.0% |
| **BY MORTGAGE POSITION** | | | |
| First mortgages | 99.8% | | |
| Other | 0.2% | | |
| | 100.0% | | |

The actual holdings will change following this date due to on-going portfolio transactions in the Corporation. A quarterly portfolio update may be obtained by contacting the Corporate Secretary by telephone toll-free at (877) 279-2116 or by mail at Frontenac Mortgage Investment Corporation, The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0.