FRONTENAC MORTGAGE INVESTMENT CORPORATION INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE FOR THE SIX MONTHS ENDED JUNE 30, 2019

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, 2019 decreased on a gross basis to $7,468,040 from $9,262,829 from the same period in 2018 while, on a per share basis, revenues decreased to $1.19 from $1.41 per common share. The reduction in revenue per share is, as explained in further detail in the paragraphs following, a reflection of two factors: higher year-over-year cash balances and a higher year-over-year level of impairments.

The Corporation maintained higher average cash balances for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018. New mortgage loan originations were largely curtailed in the last fiscal quarter of 2018 to ensure the Corporation had sufficient cash reserves to meet annual redemptions requests in December 2018. Beginning in January 2019, the Corporation resumed normal lending operations; however, there was a lag period of two to three months for new mortgage applications to be processed and achieve normal monthly levels of mortgage advances.

Based on its risk profile of the mortgage loan borrowers for its niche in the mortgage marketplace, the Corporation expects 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, 2019, the Corporation averaged 10.67% of its net assets as impaired mortgages and incurred mortgage provisions and realized losses of $0.05 per share as compared to average impairments of 4.93% of its net assets and $0.11 per share losses for the six months ended June 30, 2018. As at June 30, 2019, there were 24 mortgages totaling $19,629,865 which were considered by management to be impaired as compared to 27 mortgages totaling $22,043,064 as at December 31, 2018. The impairments include a group of mortgages totaling $14,427,481 related to a single development project. The Corporation has recognized provisions for losses totaling $1,566,000 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 June 30, 2019, there were 23 impaired mortgages totaling $5,202,384 (2.6% of net assets) and the largest impaired mortgage was $567,561 as compared to December 31, 2018 with 26 impaired mortgages totaling $8,024,197 (4.5% of net assets) and the largest impaired mortgage was $2,124,006.

Total expenses for the Corporation for the six months ended June 30, 2019 decreased to $2,327,883 as compared to $3,021,029 for the same period in 2018. Administration and management fees are charged to the Corporation as a percentage of total assets and, accordingly, the dollar amount of those fees decreased as the assets of the Corporation decreased. In addition, the Corporation's utilization of its credit line had been higher in 2018 resulting in interest costs of $405,372 for the first six months of 2018 as compared to $55,607 in the same period in 2019. Overall, operating expenses per share of the Corporation decreased to $0.37 per share for the six months ended June 30, 2019 compared to $0.46 per share for the same period in 2018.

Overall, earnings per share decreased to $0.77 per share for the six months ended June 30, 2019 compared to $0.84 per share for the same period in 2018.

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

	Six months Ende June 30, 2019 (Unaudited) $	**2018 $**	**2017 $**	**2016 $**	**2015 $**
Total revenues	7,468,040	18,134,892	16,178,501	17,580,995	14,485,507
- per issued common share	1.19	2.74	2.47	2.82	2.77
Net earnings	4,832,912	11,332,989	8,346,668	10,911,248	8,581,017
- per issued common share	0.77	1.71	1.27	1.75	1.64

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, 2019, 6,549,556 common shares (June 30, 2018 – 6,662,955) 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, 2019 (Unaudited)	**2018**	**2017**	**2016**	**2015**
Number of shares:		#	#	#	#
Balance – beginning of period	5,926,249	6,141,401	6,396,798	5,651,215	4,610,052
Issued for cash	564,448	769,862	187,160	973,403	1,087,912
Issued under dividend re-investment plan	96,135	188,184	172,746	213,698	182,271
Redeemed	(37,276)	(1,173,198)	(615,303)	(441,518)	(229,020)
Balance – end of period	6,549,556	5,926,249	6,141,401	6,396,798	5,651,215

	Six months ended June 30, 2019 (Unaudited)	**2018**	**2017**	**2016**	**2015**
Dollars:		$	$	$	$
Balance – beginning of period	177,787,465	183,226,117	191,904,019	169,536,542	138,301,639
Issued for cash	16,933,428	22,998,073	5,614,809	29,202,078	32,637,365
Issued under dividend re-investment plan	2,884,039	5,631,065	5,182,391	6,410,931	5,468,128
Redeemed	(1,118,283)	(35,192,790)	(18,459,102)	(13,245,532)	(6,870,590)
Distributions in excess of earnings		-	(1,016,000)	-	-
Balance – end of period	196,486,649	177,787,465	183,226,117	191,904,019	169,536,542

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, 2019, 37,276 shares (June 30, 2018 – 16,462) were redeemed at the net asset value per share as at the date redeemed.

Recent Developments

Since December 31, 2018, the Corporation has not adopted any changes that have a material effect on its operations, except as noted in this section.

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, 2019. 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, 2019 were $919,761 six months ended June 30, 2018 - $1,073,680)

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, 2019 were $1,039,318 (June 30, 2018- $1,213,320) 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, 2019 (Unaudited) $	2018	2017 $	2016 $	2015 $
Net assets, beginning of period	30.00	29.84	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.19	2.74	2.47	2.82	2.77
Total expenses [excluding distributions]	(0.37)	(0.92)	(0.77)	(0.80)	(0.87)
Realized gains (losses) during period	(0.17)	(0.17)	(0.16)	(0.11)	(0.23)
Unrealized gains (losses) during period	0.12	0.06	(0.27)	(0.16)	(0.03)
Total increase (decrease) from operations	0.77	1.71	1.27	1.75	1.64
Distributions:					
From net income (excluding dividends)	(0.77)	(1.65)	(1.43)	(1.75)	(1.64)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.77)	(1.65)	(1.43)	(1.75)	(1.64)
Net assets, end of period	30.00	30.00	29.84	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, 2015 and later years, the financial statements of the Corporation were prepared using International Financial Reporting Standards (IFRS).

The Corporation 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, 2019, the Corporation paid cash dividends of $1,948,873.

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

	Six months ended June 30, 2019	**2018**	**2017**	**2016**	**2015**
Net assets	$196,486,649	177,787,465	$183,226,117	$191,904,019	$169,536,542
Number of shares outstanding	6,549,556	5,926,249	6,141,401	6,396,798	5,651,215
Management expense ratio (annualized)	2.50% (1)	3.05%	2.55%	2.67%	2.93%
Management expense ratio before waivers or absorptions (annualized)	2.50% (1)	3.05%	2.55%	2.67%	2.93%
Portfolio turnover rate	31.26%	51.80%	46.88%	39.61%	47.90%
Trading expense ratio	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per share	$30.00	$30.00	$29.84	$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, 2019 were $1,039,318 (six months ended June 30, 2018 - $1,213,320) including applicable sales taxes.

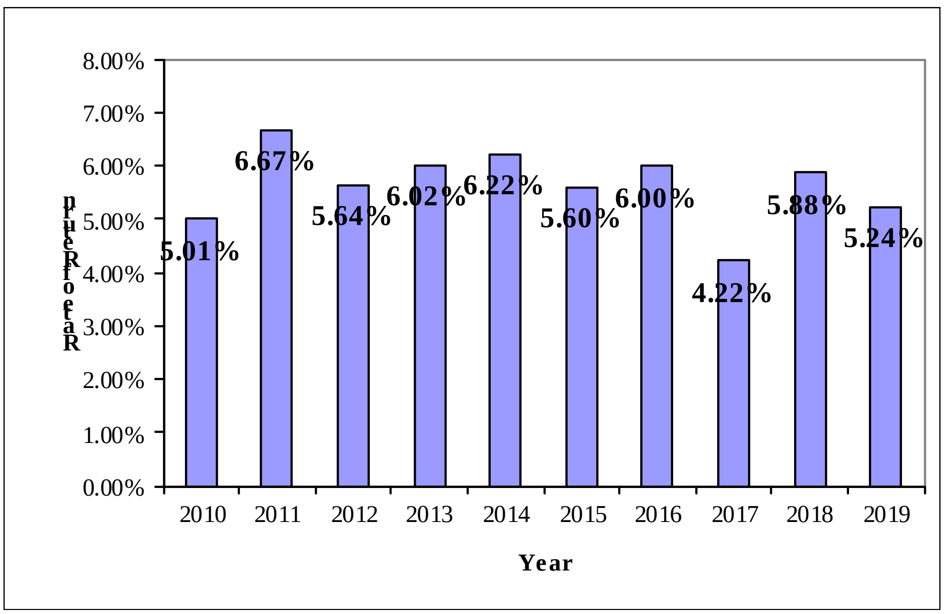
In addition, as detailed under the "Related Parties" section above, for the six months ended June 30, 2019, the Company paid fees totaling $919,761 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2018 - $1,073,680).

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, 2019 (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 2019 has been annualized based on the number of days in the period.

SUMMARY OF INVESTMENT PORTFOLIO

Ass	Market Value	% of Net
Cash & cash equivalents	9,662,560	4.92%
Short term investments	6,036,535	3.07%
Mortgage investments	169,361,297	86.19%
Net accrued receivables/(payables)	11,426,257	5.82%
Total net assets	196,486,650	100.00%

The following represents the Corporation's twenty-five largest holdings (other than cash) as at June 30, 2019:

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	6.84%
Rural Ontario multi-residential waterfront development	ON	12,861,481	74%	24	8.00%	1st	6.55%
Rural Ontario multi-residential development	ON	12,137,019	66%	12	11.50%	1st	6.18%
RBC Premium Money Market Fund	ON	5,054,570			1.74%		2.57%
NBIN Bridging Income Fund LP CL F		3,018,340			7.60%		1.54%
NBIN Bridging Mid-Market Debt Fund Class F Cdn		3,018,195			7.60%		1.54%
Millbrook single residential	ON	2,025,000	75%	24	7.99%	1st	1.03%
Kincardine area commercial farm	ON	1,870,000	60%	24	8.75%	1st	0.95%
Ottawa area 8 unit multi-residential construction	ON	1,752,500	68%	12	9.99%	1st	0.89%
Ottawa area single residential construction	ON	1,635,000	68%	12	9.99%	1st	0.83%
Niagara single residential	ON	1,620,000	60%	12	10.12%	1st	0.82%
Kemptville area commercial vacant land	ON	1,473,391	27%	12	9.25%	1st	0.75%
Cambridge area single residential construction	ON	1,469,685	61%	12	9.99%	1st	0.75%
Ottawa area single residential construction	ON	1,222,500	77%	12	9.99%	1st	0.62%
Rural Ontario multi-residential waterfront development	ON	1,149,726	80%	23	5.00%	1st	0.59%
Ottawa area single residential construction	ON	1,072,250	80%	12	9.99%	1st	0.55%
Ottawa area multi-residential development	ON	1,010,377	57%	13	9.99%	1st	0.51%
Ottawa area 4 unit multi-residential construction	ON	928,350	75%	12	10.99%	1st	0.47%
Ottawa area vacant land	ON	897,739	51%	22	9.99%	1st	0.46%
Owen Sound area single residential	ON	881,259	70%	12	8.49%	1st	0.45%
Ottawa area residential & vacant land	ON	817,694	28%	25	10.99%	1st	0.42%
Ottawa area single residential construction	ON	776,929	86%	12	9.99%	1st	0.40%
Ottawa area single residential construction	ON	749,416	80%	12	9.99%	1st	0.38%
Almonte single residential	ON	735,059	80%	13	8.99%	1st	0.37%
Barrie area 5 unit multi-residential construction	ON	727,250	72%	12	9.99%	1st	0.37%

(1)

(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 appraisal 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	43.6%	Ontario	99.9%
Residential construction	23.1%	Quebec	0.1%
Residential developments	23.8%		
Commercial	2.8%		
Vacant land	6.7%		
	100.0%		100.0%
BY INTEREST RATE		**BY MATURITY**	
6.49% or lower	5.5%	One year or less	92.5%
6.50% to 7.49%	1.7%	1.1 to 2 years	6.0%
7.50% to 8.49%	14.3%	2.1 to 3 years	1.5%
8.50% to 9.49%	19.9%	3.1 to 5 years	0.0%
9.50% to 10.49%	43.5%	more than 5 years	0.0%
10.50% to 11.49%	5.5%		
11.50% to 12.49%	9.6%		
	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.