No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell such securities.

*These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or any state securities laws. Accordingly, these securities may only be offered or sold within the United States pursuant to exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. See "Plan of Distribution".*

PROSPECTUS

Continuous Monthly Offering May 26, 2020

Frontenac Mortgage Investment Corporation

Unlimited Number of Common Shares

Price: $30.00 per Common Share

This prospectus qualifies the distribution (the "**Offering**") of common shares (the "**Common Shares**") of Frontenac Mortgage Investment Corporation ("**FMIC**") to be issued as and when subscriptions therefor are received at the price of $30.00 per Common Share (the "**Offering Price**") together with Common Shares issued pursuant to FMIC's dividend reinvestment program at the price of $30.00 per Common Share. The Common Shares are being offered pursuant to the Offering on a continuous monthly basis and there is no maximum number of Common Shares that may be issued. See "Description of the Securities Being Distributed" and "Plan of Distribution". No underwriter has been retained to assist in the distribution of the Common Shares.

	Price to Public(1)	**Underwriting discounts or commissions(2)**	**Proceeds to FMIC(3)**
Per Share	$30.00	nil	$30.00

Notes:

(1) The Offering Price is equal to the Share Value as calculated by FMIC's Manager (see definitions of capitalized terms in Glossary below). FMIC will sell its Common Shares at the Share Value of $30.00, as confirmed by the relevant IERR (see '*Requirement to Sell at $30.00 per Common Share*', and see '*Plan of Distribution – Pricing of Offering and Processing Purchases of Common Shares*').

(2) FMIC does not retain, and has never retained, an underwriter to sell its Common Shares. FMIC does not pay commissions to registrants who place orders for Common Shares for their client accounts.

(3) Before deducting expenses of the Offering estimated at $95,000 per annum, which will be paid from the proceeds of the Offering.

An investment in the Common Shares is subject to a number of risks. These risks include the higher risk associated with FMIC's non-conventional rather than conventional mortgage lending activities, the inability of the Manager to find mortgage investments, changes in the value of the mortgaged property, FMIC's reliance on third parties, the fact that the targeted dividend payments are not guaranteed, the absence of governmental and other guarantees, potential environmental liabilities, the fact that an investment in the Common Shares is not insured, the fact that the shareholders' ability to redeem Common Shares at their option is limited, the illiquid nature of mortgages, the relative ranking of mortgages other than first mortgages held by FMIC, unexpected changes in legislation, the inability of borrowers to make mortgage payments, potential conflicts of interest and income tax liabilities. A prospective purchaser should review this prospectus in its entirety and carefully consider the risk factors described under "Risk Factors" herein before purchasing securities of FMIC.

Prospective investors are advised to consult their own legal counsel and other professional advisors in order to assess income tax, legal and other aspects of the investment. Purchasers of Common Shares may only be able to liquidate their investment once per year pursuant to the redemption rights. See "Description of the Securities Being Distributed". The Common Shares are not listed on a stock market or quoted on any public market in Canada or elsewhere. There is no market through which the Common Shares may be sold and investors may not be able to resell the Common Shares. This may affect the pricing of the securities in a secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. See "Risk Factors".

No underwriter has been involved in the preparation of this prospectus or performed any review or independent due diligence of the contents of the prospectus.

The head office and registered office of FMIC is located at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0.

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GLOSSARY

In this prospectus, unless otherwise indicated or the context otherwise requires, the following terms shall have the indicated meanings. Words importing the singular include the plural and vice versa and words importing a gender include any genders. A reference to an agreement means the agreement as it may be amended, supplemented or restated from time to time.

"**Administration Agreement**" means the amended and restated administration agreement dated June 21, 2008, between Pre-Amalgamation FMIC and the Administrator.

"**Administrator**" means Pillar Financial Services Inc.

"**Amalgamation**" means the amalgamation of Frontenac Mortgage Investment Corporation and MICEO pursuant to articles of amalgamation filed on July 1st, 2012 under the *Canada Business Corporations Act.*

"**Board of Directors**" means the Board of Directors of FMIC.

"**Book Value**" means the carrying value of FMIC's net assets as presented in its financial statements, determined in accordance with IFRS.

"**Cash Election**" means an election made by a Shareholder under FMIC's dividend reinvestment program to have dividends paid to them in cash.

"**CBCA**" means the *Canada Business Corporations Act*.

"**Chartered Business Valuator**" or "**CBV**" means the professional designation of a person who has met the requirements of and is a member of The Canadian Institute of Chartered Business Valuators.

"**Common Shares**" means the common shares in the capital of FMIC.

"**COVID-19**" means the coronavirus disease 2019.

"**CRA**" means Canada Revenue Agency.

"**CSA**" means Canadian Securities Administrators.

"**Custodian**" means Computershare Trust Company of Canada, custodian for the property of FMIC.

"**Custodian Agreement**" means the custodian agreement made between FMIC, Computershare Trust Company of Canada and the Manager pursuant to which Computershare Trust Company of Canada acts as custodian for the property of FMIC.

"**Dividend Shares**" means Common Shares received by a Shareholder pursuant to dividends declared under FMIC's dividend reinvestment program.

"**DPSP**" means deferred profit sharing plan established in accordance with the Tax Act.

"**FMIC**" means Frontenac Mortgage Investment Corporation.

"**IERR**" means Investment Entity Review Report, a report of a Chartered Business Valuator containing a conclusion as to the reasonableness of the Share Value as determined by FMIC's manager, prepared in accordance with Practice Standards No. 610, 620 and 630 of The Canadian Institute of Chartered Business Valuators.

"**IFRS**" means International Financial Reporting Standards, a set of financial reporting standards issued by The International Financial Reporting Standards Foundation and The International Accounting Standards Board.

"**Investment Advisory Agreement**" means the investment advisory agreement between the Manager and Pre-Amalgamation FMIC dated December 20, 2004 which was superseded by the Management Agreement.

"**Management Agreement**" means the Investment Advisory and Management Agreement made between the Manager and FMIC.

"**Manager**" means W. A. Robinson Asset Management Ltd.

"**MBLAA**" means the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario).

"**MIC**" means mortgage investment corporation, as defined in the Tax Act.

"**MICEO**" means Mortgage Investment Corporation of Eastern Ontario.

"**NEO**" means named executive officer, as such term is defined in Form 51-102F6V – *Statement of Executive Compensation – Venture Issuers*.

"**Net Asset Value**" means, in relation to FMIC, the total value of its assets less the total value of its liabilities, as at a specific date, determined in accordance with IFRS and Part 14 of National Instrument 81-106 – *Investment Fund Continuous Disclosure*.

"**Net Asset Value Per Share**" means the Net Asset Value of FMIC computed on a Valuation Date, divided by the number of issued and outstanding Common Shares on such Valuation Date.

"**NBIN**" means National Bank Independent Network, a division of National Bank Financial Inc.

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*.

"**NI 58-101**" means National Instrument 58-101 – *Disclosure of Corporate Governance Practices*.

"**NI 81-101**" means National Instrument 81-101 – *Investment Fund Distributions*.

"**Offering**" means the offering of Common Shares pursuant to this prospectus.

"**Offering Price**" means $30.00 per Common Share.

"**OSC**" means the Ontario Securities Commission.

"**Plan**" means any trust governed by an RRSP, RRIF, DPSP, RDSP, TFSA or an RESP in accordance with the Tax Act.

"**Pre-Amalgamation FMIC**" means Frontenac Mortgage Investment Corporation as it existed prior to the Amalgamation.

"**Qualifying Property**" means FMIC's property consisting of money, debts secured (whether by mortgages, hypothecs, or in any other manner) on houses or on property included within a housing project (as those terms are defined in the *National Housing Act* (Canada), and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation, the Régie de l'assurance-dépots du Québec, or with a credit union

"**QMV**" means quoted market value figures for securities as published by the TMX and as defined in the TMX' 'Stock Market Terms'.

"**Qualified Investors**" means clients of the Manager who participate in the Offering.

"**Record Date**" means the last Business Day of the applicable month in relation to the payment of dividends on Common Shares.

"**Redemption Date**" means November 30 of each year.

"**Regulations**" means the regulations under the Tax Act.

"**RDSP**" means a registered disability savings plan established pursuant to the *Canada Disability Savings Act*.

"**RESP**" means a registered education savings plan established in accordance with the *Canada Education Savings Act*.

"**RRIF**" means a registered retirement income fund established in accordance with the Tax Act.

"**RRSP**" means a registered retirement savings plan established in accordance with the Tax Act.

"**SEDAR**" means System for Electronic Document Analysis and Retrieval at www.sedar.com.

"**Services and Brokerage Agreement**" means the agreement made March 25, 2010 between the Manager and NBIN pursuant to which NBIN agreed to provide certain services to clients of the Manager.

"**Share Value**" means the Book Value divided by the number of outstanding Common Shares.

"**Size Limit**" means the point at which FMIC first reaches an aggregate Book Value that is equal to CDN$457,000,000.

"**Tax Act**" means the *Income Tax Act* (Canada).

"**Tax Proposals**" means specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

"**TFSA**" means a tax-free savings account established in accordance with the Tax Act.

"**The Canadian Institute of Chartered Business Valuators**" is a Canadian not-for-profit professional valuation organization that establishes the practice standards, educational requirements, and ethical guidelines, which support and promote the integrity of the CBV profession for the benefit of its members.

"**Transition**" means FMIC's transition from being governed by securities legislation applicable to an investment fund to being governed by securities legislation applicable to a corporate finance issuer, completed upon the issuance of a receipt in respect of this prospectus in final form.

"**U.S. Securities Act**" means the United States Securities Act of 1933, as amended.

"**Valuation Date**" means the last Business Day of each calendar month on which the Share Value is computed.

NOTICE TO INVESTORS

General

Investors should read the entire prospectus and consult their own professional advisors to assess the income, tax, legal, risk factors and other aspects of their investment in the Common Shares. An investor should rely only on the information contained or incorporated by reference in this prospectus and is not entitled to rely on parts of the information contained or incorporated by reference in this prospectus to the exclusion of others. FMIC has not authorized anyone to provide investors with additional or different information than that contained in this prospectus. If anyone provides an investor with additional, different or inconsistent information, including statements in media articles about FMIC, the investor should not rely on such information when deciding whether or not to invest in Shares. FMIC is not making an offer to sell in any jurisdiction where an offer or sale is not permitted by applicable law.

For investors outside Canada, FMIC has not done anything that would permit the Offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about and to observe any restrictions relating to the Offering and the distribution of this prospectus.

Subject to FMIC's obligations under applicable securities laws, the information contained in this prospectus is accurate only as of the date of the applicable document or any earlier date expressly stated within the applicable document, regardless of the time of delivery of this prospectus or any sale of Common Shares under this prospectus. The information contained on FMIC's corporate website is not included or incorporated by reference in this prospectus and prospective investors should not rely on such information when deciding whether or not to invest in the Common Shares.

In this prospectus, references to "$" are to Canadian dollars. Amounts are stated in Canadian dollars unless otherwise indicated. Certain totals, subtotals and percentages throughout this prospectus may not reconcile due to rounding.

This prospectus includes summary descriptions of certain material agreements of FMIC. The summary descriptions disclose all attributes material to an investor in Common Shares, but are not complete and are qualified by reference to the terms of the material agreements filed with the Canadian securities regulatory authorities and available on the System for Electronic Document Analysis and Retrieval ("**SEDAR**"), at www.sedar.com, under FMIC's profile. Investors are encouraged to read the full text of such material agreements.

Forward-Looking Statements

Certain statements contained in this prospectus constitute "forward-looking information" within the meaning of applicable securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this prospectus. The words "plan", "expect", "project", "estimate", "forecast", "anticipate", "indicative", "intend", "guidance", "outlook", "potential", "prospect", "seek", "strategy", "target" or "believe", or the negative of these terms or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

All statements other than statements of historical fact are forward-looking statements which include, without limitation, statements of FMIC with respect to:

- the completion, size and expenses of the Offering;
- the execution of ancillary agreements made in connection with the Offering;
- the business plans and strategies;
- intentions with respect to, and the ability to execute, its growth strategies;
- the competitive position in the industry;
- anticipated trends and challenges in FMIC's business and the markets in which it operates;
- FMIC's transition from an investment fund issuer to a corporate finance issuer; and
- FMIC's anticipated use of the net proceeds of the Offering.

Forward-looking statements are based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this prospectus, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect.

With respect to forward-looking statements contained in this prospectus, FMIC has made assumptions regarding, among other things:

- the legislative and regulatory environment; and
- changes in general economic conditions,

as well as those factors discussed under the "Risk Factors" section of this prospectus.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of FMIC, could cause actual results to differ materially from the forward-looking information in this prospectus. These risk factors are not intended to represent a complete list of the factors that could affect FMIC and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

Prospective investors are cautioned that the foregoing list of important factors is not exhaustive and they should not unduly rely on the forward-looking statements included in this prospectus or in any of the documents incorporated by reference herein. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. FMIC and the Agent disclaim any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All forward looking statements contained in this prospectus are expressly qualified by this cautionary statement. Readers should refer to FMIC's filings under its SEDAR profile at www.sedar.com for further information about the factors affecting forward looking statements and management's assumptions and analysis thereof.

Eligibility for Investment

In the opinion of Torkin Manes LLP, counsel to FMIC, based on the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder (the "**Tax Act**"), the Common Shares, if issued on the date hereof, will be qualified investments under the Tax Act for a trust governed by a RRSP, a RRIF, a DPSP, a RDSP, a TFSA and a RESP (the "**Plan**"), provided that FMIC qualifies as a mortgage investment corporation throughout a taxation year and further provided that at any time in the relevant calendar year, FMIC does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, or a subscriber under the particular registered Plan, or of any other person who does not deal at arm's length with that person.

Notwithstanding that the Common Shares may be qualified investments for a trust governed by a Plan, the holder of a TFSA or a RDSP or annuitant under the RRSP or RRIF or a subscriber of a RESP will be subject to a penalty tax if such securities are a ''prohibited investment'' for the Plan. The Shares will generally be a ''prohibited investment'' if: (i) the holder of a TFSA or RDSP or annuitant under the RRSP or RRIF or subscriber of a RESP, as the case may be, does not deal at arm's length with FMIC for purposes of the Tax Act or; (ii) the holder of the TFSA or a RDSP or annuitant under the RRSP or RRIF or subscriber of a RESP has a ''significant interest'' (within the meaning of the Tax Act) in FMIC or a corporation, partnership or trust with which FMIC does not deal at arm's length for purposes of the Tax Act. A ''significant interest'' in a corporation generally means ownership of 10% or more of the issued shares of any class of the capital stock of FMIC (or of any related corporation), either alone or together with persons with which the shareholder does not deal at arm's length for purposes of the Tax Act. Holders of a Plan should consult their own advisors in this regard.

Purchasers who intend to hold Common Shares should consult their own tax advisors in regard to the application of these rules in their particular circumstances.

Market, Independent Third Party and Industry Data

Certain market, independent third party and industry data contained in this prospectus is based upon information from government or other independent industry publications and reports or based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy or completeness of their information. This prospectus also includes certain data, capital expenditures and other operational results derived from public filings made by independent third parties. While FMIC believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. FMIC has not independently verified any of the data from independent third party sources referred to in this prospectus or ascertained the underlying assumptions relied upon by such sources and, accordingly, investors should not place undue reliance on such information.

Marketing Materials

Any “template version” of any “marketing materials” (as such terms are defined under applicable securities laws) that are utilized in connection with the Offering are not part of this prospectus to the extent that the contents of the template version of the marketing materials have been modified or superseded by a statement contained in this prospectus. Any template version of any marketing materials that has been, or will be, filed with the Canadian securities regulatory authorities and available on www.sedar.com before the termination of the distribution under the Offering (including any amendments to, or an amended version of, any template version of any marketing materials) is deemed to be incorporated into this prospectus.

SUMMARY

The following is a summary of the principal features of this Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.

Business of FMIC

FMIC was formed by the amalgamation of Frontenac Mortgage Investment Corporation and the Mortgage Investment Corporation of Eastern Ontario pursuant to articles of amalgamation filed on July 1st, 2012 under the *Canada Business Corporations Act*. FMIC's head and registered office is located at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. FMIC is a "mortgage investment corporation" as defined under the Tax Act. As such, its business consists of the lending of money, principally to individuals, for the purposes of acquiring, developing, maintaining or upgrading residential real estate and other real property, against the security of a mortgage granted on such property. See "Business of FMIC".

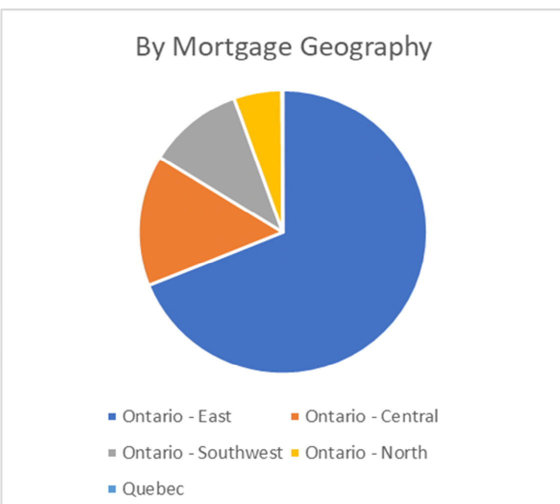
FMIC's objective is to generate income while preserving for its shareholders capital for re-investment. FMIC makes loans which do not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas typically not well serviced by major lenders. As a result, the non-prime mortgages held by FMIC are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities. Generally unlike mortgage mutual funds, FMIC engages in direct mortgage lending activities instead of acquiring mortgages, or fractional interests in mortgages, in the secondary market. Also unlike many mortgage mutual funds, FMIC does not use derivatives and does not participate in mortgage syndications. See "Narrative Description of the Business — Investment Objectives" and "— Investment Strategies".

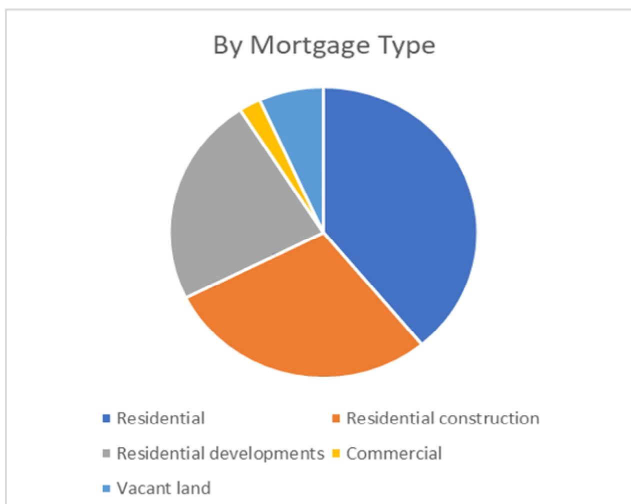
FMIC's manager and portfolio advisor is W.A. Robinson Asset Management Ltd. (the "**Manager**") The Manager will manage the overall business and operations of FMIC and provide investment advice and portfolio management services in respect of FMIC's investment portfolio. The Manager is also responsible for acting as transfer agent and registrar of the Common Shares of FMIC to ensure these are services are provided. In March 2012, the transfer agent and registrar functions were subcontracted to SGGG Fund Services Inc., under contract with the Manager. All of the outstanding voting shares of the Manager are owned indirectly by Matthew Robinson, FMIC's Chief Executive Officer. The board of directors of FMIC are independent of the Manager in accordance with the meaning of independent as set out in National Instrument 52-110 – *Audit Committees*. None of the Manager nor its officers, directors or shareholders exercise control over FMIC. See "Organization and Management of FMIC — Manager of FMIC".

FMIC has an exclusive agreement with Pillar Financial Services Inc. (the "**Administrator**") for the sourcing and administration of mortgages. The Administrator is also responsible for the underwriting and approval of prospective mortgage applications, collection of payments and, where necessary, commencing enforcement proceedings against delinquent mortgagors. All of the outstanding voting shares of the Administrator are owned indirectly by Matthew Robinson, FMIC's Chief Executive Officer, and, as such, the Administrator is an affiliate of the Manager. See "Organization and Management of FMIC — Administrator of FMIC".

Summary of Mortgage Portfolio

The tables and graphics set out below describe certain characteristics of FMIC's loan portfolio as at March 31, 2020.





Time to Maturity	1 Year or less	91.9%
Mortgage Portfolio – Geography	Ontario – East	68.9%
	Ontario – Central	10.7%
	Ontario – Southwest	14.9%
	Ontario – North	5.4%
	Quebec	0.1%
Mortgage Portfolio – Type	Residential	39%
	Residential Construction[1]	28.6%
	Residential Development (pre-construction surveying, permitting, zoning and servicing)[1]	23.2%
	Vacant Land	6.8%
	Commercial[1]	2.3%
Mortgage Rank	1st Mortgage	99.9%
Average Mortgage		$355,000
Number of Mortgages Outstanding		480

Notes:

(1) Residential construction comprises construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger construction projects involving the construction of multiple unit projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

Terms of the Offering

Issuer: Frontenac Mortgage Investment Corporation, a corporation amalgamated under, and subject to, the *Canada Business Corporations Act.*

Offering: Common Shares at a price of $30.00 per Common Share.

Continuous Distribution: The Common Shares are being offered on a continuous monthly basis and there is no maximum number of Common Shares that may be issued.

Description of the Common Shares:	Dividend Rights Holders of Shares will be entitled to receive dividends as and when declared by the board of directors of FMIC (the "**Board of Directors**"). FMIC intends to declare and pay monthly dividends in an amount sufficient to reduce its taxable income each year to nil. All such dividends will be automatically reinvested in Common Shares, which are also qualified by this prospectus, unless the shareholder has elected to receive a cash payment. The amount of monthly dividends declared is not guaranteed and will fluctuate with the operating results of FMIC. Voting Rights Common Shares will carry one vote in respect of each whole share. Rights Upon Dissolution or Winding Up In the event of the liquidation, dissolution or winding-up of FMIC, whether voluntary or involuntary, or other distribution of its assets or property among shareholders for the purpose of winding-up its affairs, the holders of the Common Shares shall be entitled to share rateably in the assets of FMIC remaining available for distribution after payment of FMIC's creditors Redemption The Common Shares are redeemable only once per year, on November 30 (the "**Redemption Date**"). FMIC may, at its sole discretion, accept instructions for the redemption of Shares on a day other than the Redemption Date: (i) in the event of the death of the holder of Shares; (ii) in situations of marital breakdown in order to facilitate compliance by the shareholder with the terms of a separation agreement or court order; or (iii) in situations of personal hardship where, in the opinion of the Board of Directors, early redemption is warranted. See "Description of the Securities Being Distributed" and "Risk Factors".
Underwriter:	FMIC does not retain an underwriter to assist in the distribution of the Common Shares. The Common Shares are sold only through a single channel of distribution via Fundserv, an OSC recognized clearing agency, with sales processed no more frequently than once a month, on the Valuation Date. Only registrants, and not retail investors, may purchase securities through the Fundserv platform. See "Plan of Distribution".
Use of Proceeds:	Net proceeds received from subscribers of Common Shares will be principally used for the purpose of making loans secured by mortgages on real properties. See "Use of Proceeds".
Market for the Common Shares:	The Common Shares are not listed on a stock market or quoted on any public market in Canada or elsewhere. There is currently no market through which the Common Shares may be sold and purchasers may not be able to resell the Common Shares purchased under this prospectus. This may affect the pricing of the Common Shares in a secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See "Risk Factors".

Selected Financial Information

The following table summarizes selected financial information as of the three months ended March 31, 2020, the financial year ended December 31, 2019 and the financial year ended December 31, 2018 and should be read in conjunction with the unaudited financial statements of FMIC for the interim period ended March 31, 2020 attached hereto as Exhibit 3, the annual audited financial statements of FMIC for the year ended December 31, 2019 attached hereto as Exhibit 2 and the annual audited financial statements of FMIC for the year ended December 31, 2018 attached hereto as Exhibit1. The following table contains financial information derived from the audited financial statements that have been prepared in accordance with IFRS:

Statement of Financial Position
Selected Financial Information

	Three months ended March 31, 2020	**Year ended December 31, 2019**	**As at Year ended December 31, 2018**
Total assets	$180,891,710	$186,286,656	$192,344,235
Total mortgage investments (included in total assets)	$167,262,298	$173,315,185	$180,967,671
Total shareholders' equity	$178,831,200	$174,530,552	$177,787,465
Per share data:			
Earnings – basic & fully diluted	$0.39	$1.50	$1.71
Dividends	$0.39	$1.50	$1.54
Carrying value	$30.00	$30.00	$30.00

Risk Factors

Prospective purchasers should carefully review and evaluate certain risk factors relating to an investment in the Common Shares including the following:

- Impact of COVID-19 on FMIC's mortgage portfolio
- Specific investment risk for non-conventional mortgage investments
- Inability to find mortgage investments
- Renewal of mortgages
- Changes in property values
- Concentration of FMIC's portfolio
- Reliance on third parties
- Sensitivity to interest rates
- No guarantees
- Environmental liability of a mortgagee
- Investment not insured
- Nature of the investments
- Absence of market, limited redemption rights, risk of significant redemptions
- Specific investment risk for second and third mortgage investments
- Changes in legislation
- Potential conflicts of interest
- Transition
- FMIC may be restricted from paying dividends;
- Results may fluctuate significantly;
- FMIC cannot be certain that additional financing will be available on reasonable terms when required; and

- The requirements of being a reporting issuer may strain FMIC's resources and divert management's attention.

These risk factors and those discussed in greater detail in the section entitled "Risk Factors" are not an exhaustive list of all risks associated with an investment in the Common Shares and should be read in conjunction with the information set forth elsewhere in this prospectus. See "Risk Factors".

Certain Income Tax Considerations

This summary only applies to an investor who, for the purposes of the Tax Act, is a resident of Canada, will hold the Common Shares as capital property and deals at arm's length and is not affiliated with FMIC. The Common Shares will generally be considered to constitute capital property to an investor unless the investor either holds such securities in the course of carrying on a business of trading or dealing in securities or has acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade.

Taxation of Shareholders

Provided FMIC qualifies as a mortgage investment corporation (a "**MIC**") under the Tax Act throughout the taxation year, any dividends, other than capital gains dividends, received from FMIC by a shareholder (whether paid in cash or reinvested in Common Shares) who is a resident of Canada will be deemed to be interest income for income tax purposes. Shareholders will therefore be required to include in their income as interest all amounts received as, or on account of, any ordinary dividends. The provisions of the Tax Act providing for interest accrual, the gross-up and dividend tax credit in respect of taxable dividends received by individuals from taxable Canadian corporations, and for the deduction generally available to corporations for inter-corporate dividends received, will not apply in respect of ordinary dividends received from FMIC. Similarly, the provisions of Part IV of the Tax Act will not be applicable to the receipt of ordinary dividends by a corporate shareholder.

Any capital gains dividends paid by FMIC to a shareholder (whether paid in cash or reinvested in Common Shares) will be treated as a capital gain of the shareholder from the disposition in the year of capital property for the year in which the capital gains dividend is received.

The reinvestment of an ordinary dividend or capital gains dividend in additional Common Shares will have the same consequence for determining the adjusted cost base of a shareholder's Common Shares as any other purchase of Common Shares. In particular, if a dividend is paid in Common Shares, or paid in cash and reinvested in Common Shares, the adjusted cost base of such Common Shares acquired by a shareholder will be equal to the amount of the dividend, or the amount of cash so reinvested, as the case may be.

Where a shareholder is a Canadian-controlled private corporation (as defined in the Tax Act), capital gains dividends and ordinary dividends received on the Common Shares will be subject to an additional refundable tax on its "aggregate investment income".

A sale or other disposition of Common Shares by a shareholder (other than redemption by FMIC), including deemed dispositions, will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Common Shares exceed (or are exceeded by) the shareholder's adjusted cost base of the Common Shares disposed of and any reasonable disposition costs.

For the purpose of determining the adjusted cost base to the shareholder of a Common Share, when a Common Share is acquired, the cost of the newly acquired Common Share will be averaged with the adjusted cost base of all identical shares owned by the shareholder as capital property immediately before that acquisition. The adjusted cost base of a Common Share to a shareholder will be the cost to the shareholder of the Common Share, with certain adjustments.

Generally, one-half of a capital gain realized in the year by a shareholder on the disposition of Common Shares will be included in the shareholder's income for the year, and one-half of a capital loss realized in the year on such a disposition of common shares will be deducted from the shareholder's taxable capital gains, if any, realized in the same year. Allowable capital losses in excess of taxable capital gains in a particular year may, in general, be carried back three years or forward indefinitely and deducted against taxable capital gains, subject to the rules in the Tax Act.

On a redemption or acquisition of Common Shares by FMIC, the shareholder will be deemed to have received, and FMIC will be deemed to have paid, a dividend in an amount equal to the amount by which the redemption price exceeds the paid-up capital of the Common Shares. This deemed dividend will be treated in the same manner as other dividends received by the shareholder from FMIC, and will depend on whether FMIC elects that the entire dividend be a capital gains dividend. The balance of the redemption price will constitute the proceeds of disposition of the Common Shares for purposes of the capital gains rules.

In general terms, capital gains dividends to a shareholder who is an individual or trust (other than certain specified trusts), and capital gains realized on the disposition of Common Shares by such shareholder may increase the shareholder's liability for alternative minimum tax.

Prospective purchasers are urged to consult with their own tax adviser regarding the income tax considerations to them of acquiring, holding and disposing of the Common Shares, including, the application and effect of the income and other tax laws of any country, province, state or local tax authority.

See "Certain Income Tax Considerations".

Summary of Expenses Related to the Offering

The following table contains a summary of the expenses payable by FMIC, which will therefore reduce the value of an investment in FMIC. For further particulars, see "Plan of Distribution – Expenses Related to the Offering".

Type of Fee	Amount and Description
Expenses of the Offering	The expenses of the Offering (including professional fees, regulatory fees and printing costs), estimated at approximately $95,000 per annum, will be paid by FMIC out of the proceeds of the Offering.

THE CORPORATION

Name, Address and Incorporation

FMIC is governed by the *Canada Business Corporations Act* (the "**CBCA**"). The registered and head office of FMIC is located at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. FMIC is a reporting issuer in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Nova Scotia and Newfoundland.

FMIC was formed by the amalgamation of Frontenac Mortgage Investment Corporation ("**Pre-Amalgamation FMIC**") and the Mortgage Investment Corporation of Eastern Ontario ("**MICEO**") pursuant to articles of amalgamation filed on July 1, 2012 under the CBCA. Pre-Amalgamation FMIC was formed by articles of incorporation filed under the CBCA on October 26, 2004. Pursuant to the amalgamation agreement made between Pre-Amalgamation FMIC and MICEO, the general by-law of Pre-Amalgamation FMIC was adopted as the general by-law of FMIC. FMIC also adopted, and continues to operate under, the principal agreements of Pre-Amalgamation FMIC, being the Management Agreement, Amended and Restated Administration Agreement, the Services and Brokerage Agreement and the Custodian Agreement. See "Material Contracts". Both of Pre-Amalgamation FMIC and MICEO were a "mortgage investment corporation" as defined in the Tax Act and FMIC is a "mortgage investment corporation" as defined in the Tax Act.

FMIC's authorized capital consists of a single class of shares without par value denominated as common shares.

Intercorporate Relationships

FMIC has no subsidiaries.

BUSINESS OF THE CORPORATION

Overview

FMIC is a "mortgage investment corporation" as defined under the Tax Act. As such, its business consists of the lending of money, principally to individuals, for the purposes of acquiring, developing, maintaining or upgrading residential real estate and other real property, against the security of a mortgage granted on such property.

FMIC's objective is to generate income while preserving for its shareholders capital for re-investment. FMIC makes loans which do not generally meet the underwriting criteria of conventional lenders and/or involve borrowers in rural areas typically not well serviced by major lenders. As a result, the non-prime mortgages held by FMIC are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities. Generally unlike mortgage mutual funds, FMIC engages in direct mortgage lending activities instead of acquiring mortgages, or fractional interests in mortgages, in the secondary market. Also unlike many mortgage mutual funds, FMIC does not use derivatives and does not participate in mortgage syndications. See "Narrative Description of the Business — Investment Objectives" and "— Investment Strategies".

Although FMIC has established a line of credit it does not intend to use leverage to fund mortgage loans. FMIC targets that its loans will be secured by first mortgages and that second mortgages will be done on an exceptional basis only. As at March 31, 2020, 99% of the dollar value of FMIC's mortgage loans were secured by first mortgages. FMIC targets to hold a widely diversified portfolio of mortgage loans. As at March 31, 2020, FMIC held 480 mortgage loans with an average balance outstanding of $355,000 and the largest mortgage loan represented 7.4% of FMIC's total net assets. See '*Summary of Mortgage Portfolio*'.

Organization and Management of FMIC

Manager of FMIC

W.A. Robinson Asset Management Ltd. (the "**Manager**") was incorporated pursuant to the *Business Corporations Act* (Ontario) on September 29, 1980. The corporation changed its name to "W.A. Robinson Asset Management Ltd." from "W.A. Robinson & Associates Ltd." by articles of amendment dated June 11, 2012. The Manager is registered with the Ontario Securities Commission as an exempt market dealer, portfolio manager and investment fund manager, with the securities regulatory bodies for the Provinces British Columbia, Alberta, Saskatchewan and Manitoba as a portfolio manager and exempt market dealer, and with the securities regulator in Quebec as a portfolio manager. The head and registered office of the Manager is located at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. As at the date hereof the Manager has fifteen employees, five of which are also employed by the Administrator.

All of the outstanding voting shares of the Manager are owned indirectly by Matthew Robinson, FMIC's Chief Executive Officer. The board of directors of FMIC are independent of the Manager in accordance with the meaning of independent as set out in National Instrument 52-110 – *Audit Committees*. None of the Manager nor its officers, directors or shareholders exercise control over FMIC.

Duties and Services to be provided by the Manager

The Manager is responsible for directing the affairs and managing the business of FMIC. The Manager also retains responsibility for the management of FMIC's portfolio, providing investment analysis and recommendations in conformance with FMIC's investment policies and restrictions and making investment decisions, and for making brokerage arrangements. The services provided by the Manager include, without limitation, calculating the Book Value and Share Value, keeping the accounts and financial records, preparing the annual audit file and liaising with the auditor, preparing reports on performance, preparing the prospectus of FMIC and arranging for the annual refiling thereof, liaising with portfolio managers in relation to their purchase of Common Shares on behalf of their clients, arranging FMIC's annual and general meeting of shareholders and preparing FMIC's shareholder meeting materials, calculating, confirming and arranging payment of all subscriptions, redemptions, fees and expenses, and arranging for the payment of all dividends, liaising with FMIC's Administrator, Custodian, Transfer Agent and Registrar and legal counsel, arranging for the enforcement of mortgage security where required, liaising with investors, ensuring compliance with legislative requirements including SEDAR filings, liaising with securities regulators on matters relating to FMIC and providing office amenities required for the operation of FMIC. See "Material Contracts — Investment Advisory and Management Agreement".

The Manager is also responsible for acting as transfer agent and registrar of the Common Shares of FMIC or to ensure these services are provided. In March 2012, the Manager subcontracted the transfer agent and registrar functions to SGGG Fund Services Inc.

Administrator of FMIC

Pillar Financial Services Inc. (the "**Administrator**") was incorporated under the Business Corporations Act (Ontario) on September 17, 1986. The Administrator is a licensed mortgage broker and administrator. Its registered office is located at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. Matthew J. Robinson is the President, a director and the sole voting shareholder of the Administrator, Kevin Cruickshank is Chief Financial Officer of the Administrator and Wayne Robinson is a director of the Administrator. The Administrator has for over twenty years been underwriting, brokering and administering mortgages on behalf of individual lenders or mortgage pools. It has, at the date hereof, twenty employees, five of which are also employed by the Manager.

The decision to underwrite a particular loan involves an analysis of both the prospective borrower and the proposed real estate collateral. The Administrator has adopted policies and procedures based upon the Canadian Institute of Mortgage Brokers and Lenders' Consolidated Mortgage Best Practices, which permit it to consider mortgage lending opportunities with more flexibility than traditional lenders while still observing the "Four C's" of lending (collateral, cash-flow, character and credit) which are adhered to by prudent and diligent lenders and also guarding against mortgage fraud.

The Administrator currently principally conducts business in the province of Ontario. Should FMIC require it, or should the Administrator otherwise wish to expand its business to other jurisdictions, it will apply, if necessary, to become registered under applicable legislation to carry on business as a mortgage broker or equivalent in such other jurisdictions.

Duties and Services to be provided by the Administrator

In Ontario, mortgage brokers are regulated by the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (Ontario) (the "**MBLAA**"). The MBLAA not only regulates those who arrange, negotiate or trade in mortgages but also those who administer them. For instance, persons who take steps, on behalf of another person or entity, to enforce payment by a borrower under a mortgage are required to be licensed.

Since neither FMIC nor the Manager is licensed as mortgage brokers or administrators, they must therefore conduct their mortgage investment activities through a licensed mortgage broker such as the Administrator. FMIC has therefore entered into an administration agreement with the Administrator, pursuant to which the Administrator has agreed to service FMIC's mortgage portfolio, including the sourcing and administration of mortgages.

Mortgage transactions for FMIC will generally be sourced by the Administrator from other mortgage brokers. The Administrator has no exclusive arrangement with any particular mortgage broker for the origination of mortgages. The Administrator does not remunerate the mortgage broker who originated the loan. Rather, mortgage brokers are paid a commission by the borrower at the time of closing of a loan transaction. The Administrator also charges a commission to the borrower. See “Interests of Management and Others in Material Transactions”.

In concert with the Manager, the Administrator will review mortgage loan applications to ensure that they meet FMIC's lending criteria and that adequate supporting documentation has been provided by a prospective borrower. Staff of the Administrator will conduct an inspection of the property to be granted as collateral and secure a third-party appraisal thereof. The Administrator will coordinate with legal counsel the registration of mortgages and, upon the payout thereof, their discharge.

In the event of a mortgagor’s default, the Administrator is responsible for instructing legal counsel to take legal action against the mortgagor and, where such action includes enforcing against the mortgaged property, for retaining an independent appraiser to obtain a more recent valuation of the mortgaged property if required.

See “Material Contracts — Amended and Restated Administration Agreement”.

Custodian of FMIC

Computershare Trust Company of Canada (the “**Custodian**”) is a federally regulated trust company retained to provide safekeeping services for the assets of FMIC. See “Material Contracts — Custodian Agreement”.

General Development of the Business

FMIC has been a reporting issuer since 2005, having filed its first prospectus in Ontario in 2005 and thereafter annually until May, 2020 as a non-redeemable investment fund under a continuous offering in Ontario and other provinces. FMIC is a reporting issuer in the provinces of Ontario, British Columbia, Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick and Newfoundland and Labrador and its principal regulator is the OSC. In 2015, pursuant to changes in NI 81-102 – Investment Funds (“NI 81-102”) and positions taken by Canadian Securities Regulators that certain mortgage investment entities were not investment funds, and following discussions with Investment Funds Staff of the OSC, FMIC agreed to transition from being regulated as an investment fund to being regulated as a corporate finance issuer under securities legislation.

As a corporate finance issuer FMIC is subject to certain different securities law requirements as compared to those applicable to an investment fund, some of which are highlighted below under ‘*Transition to Corporate Finance*’. In preparation for the Transition, and in consultation with staff of the OSC, FMIC changed certain of its practices and procedures as detailed in ‘*Transition to Corporate Finance*’ below, though it otherwise continues to offer its Common Shares on a continuous monthly basis, as it has since 2005.

Narrative Description of the Business

Investment Objective

FMIC operates as a mortgage investment corporation and its fundamental investment objective is to generate as much income as possible while preserving capital for re-investment through the making of commercial and residential mortgage loans secured against real property located in Canada and principally in Ontario. As a mortgage investment corporation, FMIC expects to derive its earnings principally from the receipt of mortgage interest payments and, secondly, from interest or interest-like distributions on the cash reserves of FMIC.

Investment Strategies

FMIC’s business consists in lending money, principally to individuals, for the purposes of acquiring, developing, maintaining or upgrading residential and other real property, against the security of a mortgage granted on such property. The purchase of a single security, namely, the Common Shares, allows an investor to participate with other investors in a common fund holding a variety of loans secured by mortgages.

FMIC, through the Administrator, works closely with retail mortgage brokers throughout Ontario in order to market itself as a lender of choice in the non-prime mortgage market segment. In this manner, it expects to be well positioned to receive referrals on mortgage lending opportunities that do not meet the criteria of the major lending institutions or that involve borrowers in rural areas typically not well serviced by major lenders. As a result, FMIC’s loans secured by non-prime mortgages are expected to earn a higher rate of interest than what is generally obtainable through traditional mortgage lending activities. In furtherance of its strategy, FMIC:

(i) will make loans in amounts up to 80% of the fair market value of the mortgaged property, subject to certain restrictions, as more fully set out under “Narrative Description of the Business — Investment Restrictions”, for initial terms of up to five years;

(ii) may engage in bridge financing activities including the financing of new home construction;

(iii) targets that at least 90% of the value of mortgages held will be first mortgages and no more than 10% of the value of mortgages held will be second mortgages;

(iv) allows for up to 25% of the value of mortgages held to be on commercial or mixed-use properties;

(v) intends to generally invest in open mortgages carrying a fixed rate of interest;

(vi) targets holding a cash position equal to approximately 5% of its total assets (inclusive of funds available under its line of credit) (see "Narrative Description of the Business — Investment Restrictions —- Investment Policies"); and

(vii) will not buy or sell mortgages in the secondary market, hold a fractional interest in a mortgage or participate in mortgage syndications.

FMIC maintains a line of credit with the Royal Bank of Canada which currently allows for FMIC to borrow up to 15% of FMIC's Book Value at the time of borrowing, subject to a maximum borrowing of $29 million. FMIC's line of credit is secured by an assignment of FMIC's receivables, a general security agreement and a hypothec over FMIC's moveable property. FMIC does not pursue a leveraged investment strategy, that is, it does not systematically borrow money (including drawing on its line of credit) in an attempt to increase FMIC's returns by taking advantage of the difference between the interest earned on the loans made by FMIC and the cost of borrowing the money to make such loans. The line of credit is only used to smooth out FMIC's cash flow. In effect, the timing of large cash inflows is unpredictable as mortgage terms permit mortgagors to repay their mortgages at any time while the timing of new equity from investors is generally uncertain. In this regard the line of credit may be used as short-term bridge financing to fund mortgage loans pending the receipt by FMIC of proceeds from the sale of Common Shares. The line of credit allows FMIC to maintain its liquidity requirements within the limits of its investment policies while placing a higher continuous percentage of its assets in its mortgage portfolio. This ultimately enhances the overall return of FMIC. Consistent with the foregoing approach, based on the current approved credit levels, the aggregate amount of borrowing by FMIC will not exceed 15% of FMIC's Book Value at the time of borrowing.

In order to increase the investment return on the cash held by FMIC, FMIC intends to invest a substantial portion of its cash in term deposits, guaranteed investment certificates, money market mutual funds or in other money market securities. From time to time and on a limited basis, FMIC may invest in other securities provided that such investments comply with the restrictions for mortgage investment corporations under the Income Tax Act.

In pursuing its investment strategies, FMIC will be subject to certain limitations. See "Narrative Description of the Business — Investment Restrictions".

Mortgage Origination and Approval Process

FMIC, through the Administrator, sources its mortgage loans primarily through an established network of retail mortgage brokers. Mortgage loan applications are accepted from these mortgage brokers through Filogix, which is the industry-standard secure electronic portal for communication and transaction processing between mortgage brokers and lenders. Mortgage applications are evaluated by the Administrator's underwriters, taking into consideration the quality of the credit rating and history, capital, collateral, character, and cash flow of the borrower (the 'five Cs' of lending'). In evaluating the collateral of the borrower, the underwriter considers the location and marketability, use, and condition of the property to be mortgaged supported by an appraisal of the property by a qualified third-party appraiser. Each of the 'five Cs' of lending criteria has an 'accept' or 'decline' option and an application can be declined at any stage of the process. Mortgage applications are scored based on the evaluation of each of these five criteria and the overall score dictates whether the application can be approved, and the interest rate to be offered.

Pursuant to the Administrator's policies and procedures a mortgage loan application in an amount equal to or less than 0.5% of the Book Value must be reviewed and approved by both the underwriter responsible for the application and by the Administrator's Manager of Mortgage Operations. Mortgage loan applications in an amount of greater than 0.5% of the Book Value must be reviewed and approved by each of the underwriter responsible for the application, the Administrator's Manager of Mortgage Operations and a senior officer of the Administrator. Furthermore, mortgage loan applications in an amount of greater than 2% of the Book Value must also be reviewed and approved by the Board of Directors. Once a mortgage loan is approved, a letter of commitment is issued to the borrower through the mortgage broker and the borrower's lawyer who completes the necessary mortgage loan documentation. This completed documentation is reviewed by the Administrator's lawyer and then the mortgage loans are registered and funds advanced on closing.

Overview of the Investment Structure

FMIC qualifies as a "mortgage investment corporation" under the Tax Act. See "Certain Income Tax Considerations". Mortgage investment corporations were introduced in Canada in 1973 by the enacting of the *Residential Mortgage Financing Act* (Canada). One of the stated objectives of this statute was the improvement of the flow of mortgage funds for middle and moderate income home buyers, a necessary step in order to reach national housing targets. Mortgage investment corporations were intended to encourage and facilitate the investment of private capital into residential mortgages by providing a vehicle through which smaller, non-institutional, investors could place investment funds into mortgages. Recognizing that mortgages are not as liquid as other securities such as stocks and bonds and not as easy to buy and sell or divide into fractional interests so as to facilitate portfolio diversification, the government of the day elected to allow for the creation of corporate entities permitting the pooling of mortgages. The shareholder of these entities would, similarly to mutual fund investors, own a part of FMIC's total portfolio corresponding to his or her own investment and enjoy the benefits of expert advice. The tax treatment of mortgage investment corporations would be comparable to that of direct investments in mortgages. (Source: Notes on a Bill introduced in the House of Commons by the Honourable Ron Besford, Minister of State for Urban Affairs, February 1, 1973).

FMIC is one of the few mortgage investment corporations which has filed a prospectus in Canada and is therefore a "reporting issuer" under securities legislation. FMIC's structure is unique and therefore unlike other mortgage investment corporations which are generally structured as non-redeemable funds (not in continuous distribution) and whose securities are generally listed on a stock exchange or are sold in Canada by private placement in reliance on exemptions from the prospectus requirements imposed by securities legislation. As a reporting issuer, FMIC has some characteristics that differentiate it from private equity funds. Firstly, as an investment qualified by prospectus, FMIC is available to the general investing public through their portfolio managers and investment dealers. In contrast, an investment in a private placement is made under securities law exemptions, which typically means that an investor must meet minimum annual income tests or net worth requirements to invest. Secondly, as a reporting issuer, FMIC is subject to certain investor protections afforded by securities legislation, such as the extensive initial disclosure provided by a prospectus and the continuous disclosure resulting from, for example, the regular provision of financial information and access to material contracts, none of which is required of private placement investments.

FMIC, through the Custodian, is the mortgagee of record for each of FMIC's mortgages and is thus registered on title to each of the properties which are charged by such mortgages. The right of a mortgagee to make a claim and institute proceedings against a defaulting borrower belongs to FMIC and shareholders may therefore not institute individual legal actions against a borrower. However, shareholders are entitled to share proportionately in the proceeds of any recovery from a borrower. Likewise, any loss on a mortgage investment or other security held by FMIC is borne by all investors in proportion to their shareholdings.

Overview of the Sector that FMIC Invests In

Traditionally, mortgage financing of single dwelling residential real estate has been dominated by Canadian chartered banks, trust companies and loan companies which source mortgages largely through their own branch networks. However, such traditional mortgage lenders are restricted by their rigid lending criteria in their ability to provide certain types of mortgages. For example, traditional lenders do not cater well to those seeking a mortgage loan for a rural property (often having a septic system and a well), real estate situated in smaller agglomerations, properties with large acreages, residential developments, or bridge financing for new home construction. Additionally, traditional lending institutions are generally less willing to offer financing to borrowers who do not fit conventional underwriting standards, such as self-employed individuals, individuals compensated by commission income rather than salary, persons lacking long-term employment history, single parents, small business operators and farmers. It is therefore often difficult for such persons to obtain financing from major lenders, regardless of the loan-to-value ratio (i.e. the value of the loan expressed as a percentage of the value of the property being mortgaged) or additional security offered.

Credit-challenged borrowers and those seeking a mortgage loan for a non-prime property often turn to alternative lenders such as FMIC for mortgage financing. In exchange for assuming additional risk, alternative lenders charge rates of interest which are higher than the going rate charged by traditional lenders on prime mortgage loans.

Alternative lenders, including FMIC, source mortgages primarily through their contacts within the mortgage brokers industry. On behalf of their clients, Mortgage Brokers seek to secure financing for a wide range of needs from a wide range of traditional and alternative lenders. In many cases, alternative lenders will specialize in certain types of properties and borrowers through their underwriting criteria. Mortgage Brokers aid their clients in sourcing the appropriate financing to suit their unique situation and needs.

Since neither FMIC nor the Manager is licensed to trade or administer mortgages, they cannot engage directly in the business of lending money on the security of real estate and must therefore conduct their mortgage investment activities through a licensed mortgage broker such as the Administrator. FMIC has therefore entered into an administration agreement with the Administrator pursuant to which the Administrator has agreed to service FMIC's mortgage portfolio, including the sourcing and administration of mortgages. See "Material Contracts — Amended and Restated Administration Agreement".

Competitive Conditions and Trends

Mortgage brokers serve as the principal source of referrals of mortgage opportunities for FMIC. In the last five years, the mortgage brokering business has remained strong and stable. Over the past couple of years, some major banks have withdrawn from the mortgage broker channel in favour of their own internal lending teams and this withdrawal may result in some future rationalization in the mortgage broker industry in Ontario for those mortgage brokers that depend on the prime lending business. According to MPC's (Mortgage Professionals Canada) 'Annual State of the Mortgage Market in Canada, 2018 MPC Report' (issued January 2019), mortgage brokers have originated 28% of all outstanding mortgage loans in Canada. FMIC continues to focus on maintaining and fostering new relationships with those mortgage brokers that generate lending opportunities in the alternative mortgage market.

Historically, FMIC has faced competition from a wide range of mortgage lenders. FMIC has not historically competed directly with the major banks but has rather competed with private individuals and other mortgage investment corporations in the alternative (or non-prime) mortgage market that consists of borrowers that fall outside of the major banks' lending criteria. Over the past couple of years, opportunities in the alternative mortgage market have been increasing as banks have tightened their lending criteria due to changes imposed by Federal regulators over concerns of overheating in housing prices in Canada. The rural market in which FMIC operates continues to be underserviced by the major banks and, due to the changing criteria of major banks, the market has expanded to include more self-employed individuals and borrowers looking to finance second properties such as a cottage. The tightened lending criteria of banks have also presented FMIC with more opportunities for those borrowers looking for refinancing and debt consolidation.

The low interest rate environment that has existed in the overall economy for the past few years has increased the amount of competition from smaller private lenders as new participants enter the alternative lending market in search of higher yields on their capital. Statistics compiled by Canada Mortgage and Housing Corporation (CMHC) and Fundamental Research Corporation and released in CMHC's Fall 2019 Residential Mortgage Industry Report estimate the total mortgage investment corporation market size at $12-13B at the end of 2018, up from $11-12B in 2017 and $8-10B in 2016.

The size of FMIC, which totalled approximately $175 million at December 31, 2019, provides its mortgage broker partners with a more stable, reliable, and steady source of capital for lending and an ability to offer a higher level of service versus smaller private lenders.

FMIC continues to be open to new geographic areas within Ontario and researches the potential of individual markets on a regular basis to determine the long-term potential of lending in targeted CMA's (Census Metropolitan Areas) and their surrounding rural areas. FMIC is focussed on maintaining and growing its traditional place in the Eastern Ontario market and on expanding the geographic scope of its lending operations within the Province of Ontario. Specifically, FMIC is actively focussed on expanding its lending presence in Southwestern Ontario.

Changes in housing prices affect the underlying security of FMIC's mortgage loans. The national media continues to report concerns of a house price "bubble" in Canada. However, these concerns arise from the rapidly increasing home prices in a select few major markets, especially the Vancouver and Toronto markets. The vast majority of FMIC's mortgage loans are supported by properties located in the more stable Eastern Ontario market and that market has fared much better with home prices remaining steady. In its Third Quarter 2019 Housing Market Assessment, CMHC did not express concern about the Ottawa housing market. These level home prices combined with FMIC's first security position and conservative loan-to-value ratio lending criteria maintain the strength of FMIC's mortgage security. As at March 31, 2020, 99% of FMIC's mortgage portfolio consisted of first mortgages.

Even as larger alternative lenders come and go, the Manager believes that there remains a strong and lucrative market niche consisting in servicing smaller towns, villages and rural areas which lenders generally find economically questionable to service. Potential borrowers in this market niche relate well to experienced smaller-scale lenders such as FMIC with an understanding of their collateral and personal situation.

Investment Restrictions

This section outlines the operating restrictions and the operating and investment policies of FMIC.

Operating Restrictions

FMIC's investment practices are subject to certain operating, lending and other restrictions which have been adopted by the Board of Directors. According to these restrictions, FMIC may not:

(i) make a mortgage loan if, immediately after the closing of the loan transaction, the amount so lent would be greater than 10% of FMIC's Book Value;

(ii) guarantee securities or obligations of any person or company;

(iii) engage in securities lending;

(iv) engage in derivative transactions for any purpose;

(v) lend money on the security of a mortgage unless an independent appraisal by a qualified appraiser of the real estate which is the primary collateral for the loan has been obtained;

(vi) develop, manage or acquire (except by foreclosure or other enforcement of its rights as mortgagee) any real property;

(vii) enter into a forward commitment binding on FMIC unless FMIC has, at the time such commitment is made, sufficient cash or "near cash" securities to fund the loan to which the commitment relates;

(viii) use credit facilities to an extent greater than 15% of FMIC's Book Value at the time of borrowing, or for the purpose of increasing FMIC's mortgage loan portfolio beyond that which is funded by the sale of Common Shares or for purposes other than short term bridge financing;

(ix) hold second mortgages securing loans which exceed 10% of the total value of FMIC's loan portfolio;

(x) hold mortgages on commercial and mixed-use properties which exceed 25% of FMIC's loan portfolio; or

(xi) otherwise conduct its business in a manner that would cause FMIC not to qualify as a "mortgage investment corporation" under the Tax Act or that would result in the Common Shares not being a "qualified investment" for RRSPs and RRIFs under the Tax Act.

Operating Policies

In addition to the foregoing operating restrictions, FMIC adheres to the following operating policies:

(i) FMIC must obtain a Phase I environmental audit where the real estate to be provided as security for a mortgage loan is commercial property. Where the real estate is not commercial property, a Phase I environmental study will not be commissioned unless the Administrator deems such an audit to be necessary;

(ii) FMIC will obtain title insurance in respect of real property provided as security for a mortgage loan in such amounts and on such terms as the Administrator considers appropriate or, in the alternative, will obtain a favourable title opinion from a solicitor;

(iii) FMIC must establish and maintain property tax escrow accounts in respect of real estate property provided as security for a mortgage loan unless the Administrator has determined that the establishment of such an account is not necessary; and

(iv) the legal title to each mortgage and other investments of FMIC must be held by and registered in the name of FMIC or of the Custodian.

Investment Policies

FMIC has adopted certain policies which establish the investment criteria for FMIC's investments. By entering into the Management Agreement, the Manager has agreed to abide by and apply these policies, which are as follows:

(i) FMIC is required to have at all times approximately 5% of its total assets in cash, "near-cash" securities (such as term deposits, guaranteed investment certificates or money market securities) or have cash readily accessible (for example, through a line of credit) in order to meet redemption requests (see "Description of the Securities Being Distributed") and also to be in a position to redeem a prior mortgagee's interest in a given property if the Manager considers that it would be advantageous for FMIC to do so having regard to the market value of the property and the amount of mortgage debt due to FMIC;

(ii) FMIC may not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is a shareholder of FMIC or of any other person who does not deal at arm's length with the annuitant of an RRSP or RRIF which holds Common Shares;

(iii) FMIC may not make any loan or investment which does not meet the "Canadian content" requirements of paragraph 130.1(6)(c) of the Tax Act;

(iv) FMIC may not make a loan which, together with all other mortgage loans that have priority over or rank *pari passu* with such loan, exceeds 80% of the fair market value of the mortgaged property, except when:

  (a) such mortgage is insured under the *National Housing Act* (Canada) or any similar legislation of a province, or

  (b) the excess over 80% is insured by an insurance company registered or licensed under the *Insurance Companies Act* (Canada) or similar legislation of a Canadian province or territory;

(v) FMIC may not make a loan secured by a mortgage on a property in which:

  (a) any senior officer or director of FMIC, the Administrator or the Manager, or

  (b) any associate or affiliate of a person referred to in (a)

  has an interest as mortgagor;

(vi) FMIC will not hold a fractional interest in a mortgage nor participate in mortgage syndications unless reviewed and approved by the Board of Directors from time to time;

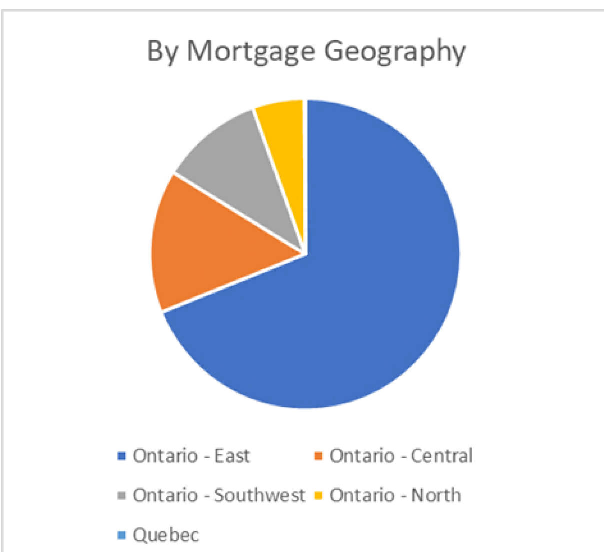
(vii) FMIC will not trade in mortgages in the secondary market although FMIC retains the ability, in exceptional circumstances, to assign a mortgage to a third party;

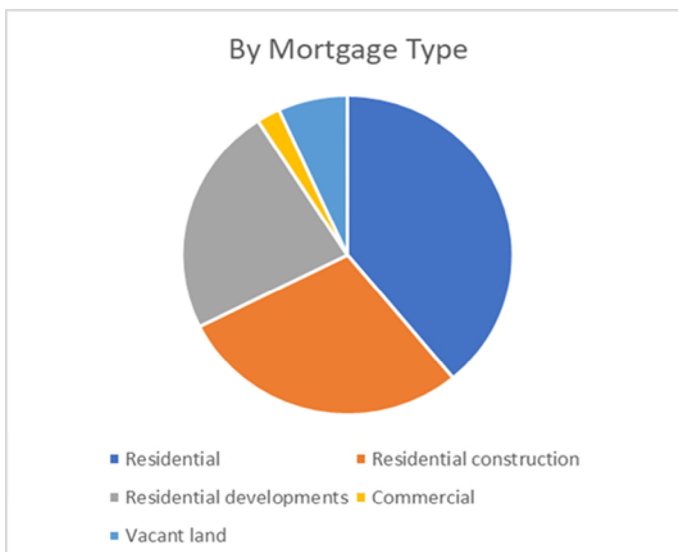
(viii) FMIC may not hold a mortgage the term of which exceeds five years unless reviewed and approved by the Board of Directors from time to time, but mortgages held by FMIC may contain provisions permitting the mortgagor, when not in default, to renew the mortgage for one or more additional terms.

See "Material Contracts — Investment Advisory and Management Agreement".

Summary of Mortgage Portfolio

The tables and graphics set out below describe certain characteristics of FMIC's loan portfolio as at March 31, 2020.





Time to Maturity	1 Year or less	91.9%
Mortgage Portfolio – Geography	Ontario – East	68.9%
	Ontario – Central	10.7%
	Ontario – Southwest	14.9%
	Ontario – North	5.4%
	Quebec	0.1%
Mortgage Portfolio – Type	Residential	39.0%
	Residential Construction[1]	28.6%
	Residential Development [1]	23.3%
	Vacant Land	6.8%
	Commercial[1]	2.3%
Mortgage Rank	1st Mortgage	99.9%
Average Mortgage		$355,000
Number of Mortgages Outstanding		480

Notes:

(1) Residential construction comprises construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger construction projects involving the construction of multiple unit projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

Fees and Expenses

Fees and Expenses Payable by FMIC

Issue Expenses

FMIC pays all fees incurred in connection with the Offering including the cost of preparing, printing, filing and distributing the prospectus.

Management Fee

The Manager manages the affairs of FMIC and is also responsible for providing FMIC with investment advisory services. In consideration for these services, FMIC pays the Manager a monthly management fee equal to one-twelfth of 1% of the value of FMIC's gross assets, calculated on a monthly basis. Assuming constant maximum use throughout the year of FMIC's credit line of 15% of the Book Value of FMIC, the total fees paid by FMIC to the Manager would represent approximately 1.15% of FMIC's Book Value. FMIC also pays non-recoverable HST on the management fee. All of the outstanding voting shares of the Manager are owned indirectly by Matthew Robinson (see

‘*Organization and Management of FMIC – Manager of FMIC*’ above). The aggregate annual fees paid to the Manager in 2019 was $2,184,339 and in 2018 was $2,444,962.

Portfolio Adviser Fee

The fee paid by FMIC for portfolio advice and management forms part of the general management fee. See “**—** Management Fee”.

Mortgage Brokerage and Administration Fee

The Administrator is responsible for servicing FMIC’s mortgage portfolio, including the sourcing and administration of mortgages. In consideration for these services, FMIC pays a monthly fee equal to one-twelfth of 1% of the value of FMIC’s gross assets, calculated on a monthly basis. Assuming constant maximum use throughout the year of FMIC’s credit line of 15% of the Book Value of FMIC, the total fees paid by FMIC to the Administrator would represent approximately 1.15% of FMIC’s Book Value. The aggregate annual fees paid to the Administrator in 2019 was $1,933,044 and in 2018 was $2, 163,630.

Operating Expenses

FMIC pays for all of its operating expenses (except advertising, marketing and promotional costs and expenses, which are shared with the Manager or Administrator, as applicable). These operating expenses include mailing and printing expenses for periodic reports to shareholders; expenses related to shareholder meetings; fees and expenses payable to the custodian of FMIC’s assets; fees payable to the auditor and legal advisors of FMIC; fees payable to, and expenses of, the members of the Board of Directors (see “Directors and Executive Officers”); ongoing regulatory filing fees and other fees payable to Canadian securities regulatory authorities; and directors’ and officers’ liability insurance premiums.

The operating expenses of FMIC include compensation paid to the directors of FMIC. During the fiscal year ended December 31, 2019, the directors of FMIC were paid an aggregate of $102,739 for directors’ fees (see ‘*Executive Compensation*’) and received no other compensation.

The directors’ fees relate to the work that the directors are asked to perform on the Board of Directors and on committees, which includes overseeing the activities of the Manager and the Administrator, reviewing and approving mortgages, financial oversight (review of financial statements), reviewing materials for FMIC at the various Board of Directors meetings and providing advice and approval of the Chief Executive Officer’s strategic direction for FMIC. The Chair of the Board of Directors assumes a greater workload as he meets with the Chief Executive Officer of FMIC on a regular basis to discuss FMIC’s business.

Recent Developments – COVID-19 Pandemic

The coronavirus disease 2019 (“**COVID-19**”) outbreak, ongoing as of the date of this prospectus, was declared a pandemic by the World Health Organization in March, 2020. COVID-19 has had a negative effect on the economy in FMIC’s markets. Steps taken by governments to contain the spread of the COVID-19 virus including legislated closures of non-essential businesses and services and social distancing measures have slowed economic activity and have resulted in layoffs and lost jobs as businesses struggle with the economic effects. Governments have implemented temporary financial support programs for individuals and businesses affected by the pandemic to help stabilize the economy. The rate of spread of the COVID-19 virus and its effects on society is uncertain and changeable. There is also no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. The COVID-19 pandemic presents certain risks to FMIC’s business and financial performance, the effects of which may increase if COVID-19 persists in the longer term and/or its effects become more pervasive and debilitating See ‘*Risk Factors – Covid-19 Pandemic*’ below.

To date, FMIC has not experienced any negative effects of COVID-19 on the rate of new mortgage applications. In fact, mortgage applications have increased in March and April, 2020 as compared to the same months in 2019.

The rate of mortgage loan closing has, however, slowed down for FMIC in part because of government restrictions on the issuance of new building permits and also because of prudent underwriting and cash management practices in the face of COVID-19. Over the next quarter, FMIC may start to build cash as it becomes more difficult to close new mortgage loans as a result of: (i) slowdowns in applications for new home purchases due to the dramatic decline in housing sales, (ii) delays in closing new residential construction loans due to a government restrictions on the issuance of new building permits, (iii) delays in closing deals due to processing slowdowns by appraisers and outside legal firms and other key suppliers in the mortgage process, and (iv) delays in or cancellation of closings due to changes on new mortgages due to changes in the employment status of otherwise approved borrowers. Any increase in the holding of cash balances over time would translate into lower earnings as cash reserves earn little to no income.

To date, FMIC has not experienced any impaired or defaulted mortgages as a consequence of COVID-19. In any case, assuming no change to current economic circumstances, any COVID-19 related increase in impairments is not likely to be noticeable for a period of four to six months in the future for the following reasons: (i) the majority of FMIC's loans relate to owner-occupied principal residences and, in difficult economic times, cash outflows related to personal housing are among the last to be cut by people, (ii) there are unprecedented government financial supports available that will assist borrowers in staying current with their mortgage obligations; and (iii) the potential availability of deferral arrangements to some borrowers. FMIC expects that impairment or default in a mortgage loan as a result of a COVID-19 would be several steps down the road for most borrowers after they have exhausted cash reserves, cut down on other expenses, worked with government assistance, and worked on potential deferral arrangements. Any increase in impairments would translate into lower earnings for FMIC due to the unlikely collectability of further interest on those loans.

The potential for capital losses on impaired loans requires a decline in home values below the carrying value of the related loans. Real estate values in FMIC's markets remain stable and to date shows no negative effect from the COVID-19 pandemic. Based on the most recent available CREA data, for March 2020, although the volume of home sales has declined dramatically, there has not yet been a decline in home values in FMIC's lending markets. The real property securing FMIC's mortgage portfolio is concentrated in rural markets and FMIC has made a conscious decision to avoid the greater Toronto area ("**GTA**"). The value of the real property in FMIC's markets is generally less volatile than in large urban centres such as the GTA and less affected by variations in demand caused by factors such as speculation which can have a significant impact on real estate values in larger urban centres such as the GTA. In any case, because FMIC's mortgage portfolio is comprised of of 99.9% first mortgages, and because FMIC does not lend in excess of 80% of property value at origination, FMIC believes that its loan capital is significantly insulated against potential declines in real estate values.

FMIC's Share Value, which is based on the value of FMIC's underlying assets, remains unaffected by COVID-19. By contrast, the price of other MICs whose shares are listed on an exchange can be impacted by public market dynamics unrelated to the underlying asset values of those MICs, including but not limited to general market declines triggered by COVID-19.

Because of the financial stresses resulting from COVID-19 some of FMIC's borrowers have enquired about the possibility of deferring their mortgage payments. FMIC's loan agreements do not provide for mortgage payment deferrals and FMIC is not legally obliged to offer deferrals. Nevertheless, to date FMIC has permitted less than five deferrals. Deferral arrangements are not interest-free and therefore do not have a negative impact on interest revenues of FMIC.

FMIC investors and their advisers understand that FMIC generally permits redemptions only once per year, in November. Nevertheless FMIC does permit early redemptions at other times in situations of personal hardship where, in the opinion of the Board of Directors, early redemption is warranted. To date FMIC has permitted early redemptions in the aggregate amount of less than $1 million for reasons of personal hardship caused by the effects of COVID-19.

Neither the Manager nor the Administrator have suffered the loss of any key management personnel for health reasons as a result of contracting COVID-19. To ensure personal and public safety, beginning in late March 2020 FMIC, the Manager and the Administrator began operating under their business continuity plans with most management and staff working remotely pursuant to social distancing guidelines. Despite working remotely FMIC, the Manager and the Administrator have been able to execute their respective functions effectively under their business continuity plans.

TRANSITION TO CORPORATE FINANCE

Between 2005 and May, 2020 FMIC complied with securities law requirements relating to non-redeemable investment funds including, until May 15, 2020, selling its Common Shares under the form of prospectus required for investment funds (Form 41-101F2). Pursuant to the CSA's implementation of the 'Modernization of Investment Corporation Product Regulation Project' certain changes to the legislation governing non-redeemable investment funds, including FMIC, 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.

Consequently the OSC indicated to FMIC that it required FMIC to comply with the securities law requirements relating to corporate reporting issuers generally and to refrain from complying with securities law requirements relating specifically to non-redeemable investment funds. In this regard FMIC agreed to Transition and adopt the following practices (the "**Transition Requirements**"):

1. Use of Leverage: Continue FMIC's practice of restricting the use of credit facilities to a maximum of not more than 15% of FMIC's Net Asset Value at the time of borrowing, continue to refrain from using such credit facilities to increase the size of FMIC's mortgage loan portfolio beyond that which is funded by the sale of FMIC's Common Shares and continue to use such credit facilities only as short-term bridge financing to fund mortgage loan requirements pending the receipt by FMIC of proceeds from the sale of its Common Shares;

2. Limit on Second Mortgages: Limit the maximum value of loans secured by second mortgages to 10% of the total value of FMIC's loan portfolio, which was consistent with FMIC's historical loan experience;

3. Limit on Mortgages on Commercial Property: Limit the maximum value of loans secured by mortgages on commercial and mixed-use properties to 25% of the total value of FMIC's loan portfolio, which was consistent with FMIC's historical loan experience; and

4. Independent Report of Net Asset Value: Instruct a Chartered Business Valuator to prepare a separate report as at each financial year-end of FMIC, in respect of the calculation of FMIC's Net Asset Value determined in accordance with IFRS, which will take the form of an Investment Entity Review Report ("**IERR**") as per Canadian Institute of Chartered Business Valuators Standards. Furthermore, FMIC will file such report on SEDAR at the same time as FMIC files its annual audited financial statements on SEDAR. As indicated below, FMIC subsequently agreed that following its Transition an IERR would be prepared and filed in relation to each monthly sale of Common Shares.

Independent Report on Pricing of Common Shares at Share Value

In connection with the Transition FMIC undertook to implement a system for confirming the reasonableness of its Share Value, as often as monthly, as of each Valuation Date. In relation to each distribution of Common Shares following Transition, FMIC has arranged for independent chartered business valuators to prepare an IERR, prepared in accordance with Practice Standards No. 610, 620 and 630 of The Canadian Institute of Chartered Business Valuators, in order to confirm the reasonableness of the $30.00 calculation of FMIC's Share Value as calculated by the Manager. Practice Standard No. 610 prescribes the minimum requirements, and recommendations, regarding the information in an IERR including, without limitation, the scope of the CBV's review, factors relevant to the reasonableness conclusion and any restrictions or qualifications. Practice Standard No. 620 prescribes the minimum requirements, and recommendations, for procedures that must be followed by a CBV in preparing an IERR. Practice Standard No. 630 prescribes the minimum requirements, and recommendations, regarding the documents and working papers relating to the IERR. The IERR is not a valuation report or fairness opinion prepared by a CBV; it is a written report prepared by a CBV which contains a conclusion as to the reasonableness of FMIC's $30.00 Share Value as prepared by FMIC's Manager. An IERR will be filed on SEDAR in relation to each distribution of Common Shares following Transition, as often as monthly, together with the consent of the firm of independent chartered business valuators, pursuant to s.10.1 of NI 41-101 (see '*Pricing of Offering*'). Corresponding with the publication of each IERR FMIC intends to file an amendment to its prospectus to refer to the IERR having confirmed the reasonableness of the $30.00 calculation of FMIC's Share Value as calculated by the Manager.

FMIC has retained MNP SENCRL, srl/LLP as its CBV to prepare the IERRs. FMIC's audit committee will oversee the IERR process. In relation to any change of FMIC's CBV FMIC will follow a process which is consistent with the process prescribed by section 4.11 of National Instrument 51-102 – *Continuous Disclosure Obligations* for any change of FMIC's auditor.

OSC Concerns

The OSC has indicated to FMIC that beyond FMIC reaching a certain size, the OSC may have public interest concerns with FMIC's offering structure. As a result, FMIC agreed to adopt the Transition Requirements and undertook as follows:

1. FMIC will monitor its Book Value and advise the OSC when its aggregate Book Value is equal to CDN$457,000,000 (the "**Size Limit**").

2. FMIC will refrain from selling any further Common Shares once it has determined that the Size Limit has been reached, unless and until it has received regulatory approval for doing so.

For purposes of the foregoing undertaking, FMIC and the OSC agreed that the Size Limit would be the number that is the average of the market capitalization of the largest and smallest Canadian exchange-listed mortgage investment corporations, measured by the average market capitalization taken at the end of the last 4 calendar quarters and rounded-up to the nearest $1 million, calculated on the date of the receipt issued by the OSC for FMIC's initial final prospectus in Form 41-101F1. Further, market capitalization would be calculated using the Quoted Market Value ("**QMV**") figures as published by the TMX and as defined in the TMX' 'Stock Market Terms' and Book Value would be calculated based on the number of Common Shares outstanding multiplied by FMIC's Share Value, as independently confirmed to be reasonable by the relevant IERR.

Requirement to Sell at $30.00 per Common Share

FMIC offers its Common Shares at the fixed price of $30.00 per share and will refrain from selling Common Shares hereunder if its Share Value is less than or greater than $30.00, calculated as herein described, or if the Manager's calculation of FMIC's Share Value at $30.00 per Common Share is not deemed reasonable pursuant to the relevant IERR (See '*Plan of Distribution*').

Change in Continuous Disclosure Requirements Following Transition

FMIC's status as a MIC and its existing investment objectives and strategies remains unaffected by the Transition. However FMIC is subject to some different continuous disclosure requirements, including more frequent financial reporting (i.e. quarterly, instead of semi-annual financial statements) and FMIC's prospectus is required to be prepared in accordance with Form 41-101F1 which has some different informational requirements as compared to FMIC's former prospectus which was in Form 41-101F2. The table below briefly summarizes some of the key differences in the disclosure obligations for investment funds and for corporate finance issuers.

	Investment Fund Regime (NI 81-106)	**Corporate Finance Regime (NI 51-102)**
Continuous Disclosure Comparison		
1.	**Corporate Governance Requirements:** Investment funds must have a manager and an independent review committee, which are subject to prescribed criteria and disclosure obligations. **Reference:** National Instrument 81-107 *Independent Review Committee for Investment Funds* and Form 81-101F2 *Contents of Annual Information Form* ("**NI 81-101F2**")	**Corporate Governance Requirements:** A corporate finance issuer must, at minimum, have an independent audit committee. FMIC has an independent audit committee. A corporate finance issuer should either have a compensation committee and a nominating committee, or describe what steps the board takes to encourage an objective compensation and nomination process if it does not have the relevant committees. A corporate finance issuer must make prescribed disclosure regarding its committees and corporate governance practices in its management information circular for shareholders meetings. **Reference:** National Instrument 52-110 *Audit Committees*, National Instrument 58-101 *Disclosure of Corporate Governance Practices* and National Policy 58-201 *Corporate Governance Guidelines*
2.	**Annual Financial Statements:** **Filing Deadline:** Within 90 days after the investment fund's financial year-end. The annual financial statements must include: 1. a statement of financial position as of the end of the financial year; 2. a statement of comprehensive income; 3. a statement of changes in financial position; 4. a statement of cash flows; 5. a statement of investment portfolio as of the end of the financial year; and	**Annual Financial Statements:** **Filing Deadline:** For venture issuers such as FMIC, within 120 days after the corporate finance issuer's financial year-end. The annual financial statements must include: 1. a statement of comprehensive income; 2. a statement of changes in equity; 3. a cash flow statement; 4. a statement of financial position as at the end of the financial year; and 5. notes to the financial statements.

<table>
<tr><th></th><th>Investment Fund Regime
(NI 81-106)</th><th>Corporate Finance Regime
(NI 51-102)</th></tr>
<tr><td></td><td>6. notes to the annual financial statements.</td><td></td></tr>
<tr><td>3.</td><td> <u>Interim Financial Statements:</u> Filing Deadline: Within 60 days after the end of a period of at least three months that ends six months before the end of a financial year.
Frequency: Once a year.
Information required to be included in the interim financial statements are similar to those required in the annual financial statements. </td><td> <u>Interim Financial Statements:</u> Filing Deadline: For venture issuers such as FMIC, within 60 days after the end of each of the first three quarters of each financial year.
Frequency: Three times a year.
Information required to be included in the interim financial statements are similar to those required in the annual financial statements. </td></tr>
<tr><td>4.</td><td> <u>Annual Management Report:</u> Filing Deadline: Within 90 days after the investment fund's financial year-end. An investment fund needs to file, together with the annual financial statements, an annual Management Report of Fund Performance ("MRFP"), setting out high level information about the fund's portfolio and market performance. <u>Overall focus</u>: The MRFP focuses primarily on an investment fund's market performance and investor return and various risks, and compares trends over the last 10 financial years. </td><td> <u>Annual MD&A:</u> Filing Deadline: For venture issuers such as FMIC, within 120 days after the corporate finance issuer's financial year-end a corporate finance issuer needs to file, together with the annual financial statements, an annual Management Discussion & Analysis ("MD&A"), setting out a detailed discussion of the issuer's operational performance. <u>Overall focus</u>: The MD&A focuses primarily on a corporate finance issuer's operational level results and financial condition and compares trends over the last 8 quarters. </td></tr>
<tr><td colspan="3">Continuous Disclosure Comparison</td></tr>
<tr><td></td><td> An MRFP includes: management discussion of fund performance;
financial highlights;
past performance;
summary of investment portfolio; and
other material information.</td><td> An MD&A requires disclosure of more diversified, specific information about the corporate finance issuer's operation and performance, including: prescribed financial data derived from current annual financial statements and quarterly reports for each of the last 8 quarters, discussion of factors that have caused period to period variations;
analysis of the corporate finance issuer's liquidity;
capital resources;
discussion of any off-balance sheet arrangement reasonably likely to have a current or future effect on the financial performance;
analysis of each of the corporate finance issuer's critical accounting estimates;
discussion of the nature and extent of companies use of financial instruments and their business purposes; and if applicable, MD&A must include the disclosure required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). </td></tr>
<tr><td>5.</td><td> <u>Interim Management Report:</u> Filing Deadline: Within 60 days after the end of a period of at least three months that ends six months before the end of a financial year. An investment fund needs to file, together with the interim financial statements, an interim MRFP. Information required to be included in the interim MRFP is similar to information required in the annual MRFP. </td><td> <u>Interim MD&A:</u> Filing Deadline: For venture issuers such as FMIC, within 60 days after the end of each of the first three quarters of each financial year a corporate finance issuer needs to file, together with the interim financial statements, an interim MD&A. Information required to be included in the interim MD&A is similar to information required in the annual MD&A. </td></tr>
<tr><td>6.</td><td> <u>Quarterly Portfolio Disclosure:</u> Filing Deadline: Must post to the investment fund's website </td><td> <u>Quarterly Portfolio Disclosure:</u> No corresponding requirements for a corporate finance issuer </td></tr>
</table>

	Investment Fund Regime (NI 81-106)	Corporate Finance Regime (NI 51-102)
	within 60 days of the end of each quarter. A quarterly portfolio disclosure must include: • a summary of investment portfolio prepared in accordance with Item 5 of Part B of Form 81-106F1; and • the total net asset value of the investment.	to prepare separate quarterly disclosure in addition to the interim financial statements and interim MD&A.
7.	**<u>CEO/CFO Certifications:</u>** There are no corresponding CEO/CFO certification obligations for an investment fund.	**<u>CEO/CFO Certifications:</u>** **Filing Deadline:** Concurrent with the filing of the annual and interim financial statements, as applicable. Annual and interim financial statements of a corporate finance issuer must be reviewed and approved by the board of directors, and certified by filing a certificate signed by the CEO and the CFO, certifying as to: • the accuracy and fair representation; • no misrepresentation; • disclosure controls and procedures; and • internal controls over financial reporting.
	Prospectus Disclosure Comparison	
1.	**<u>Long Form Prospectus Disclosure:</u>** The disclosure required in an investment fund prospectus is set out in NI 41-101F2 and the form and structure is similar to a prospectus of a corporate finance issuer. For key differences between the form of an investment fund prospectus and a prospectus of a corporate finance issuer, please see corresponding section under "Corporate Finance Regime" on the right. **<u>Prospectus Permits Incorporation by Reference</u>** The investment fund prospectus form 41-101F2 provides that certain continuous disclosure documents are incorporated by reference into the prospectus, including annual and interim financial statements and annual and interim management report of fund performance, thereby enabling continuous distribution without the need to file an amended prospectus to include any material change reflected in the information in such documents incorporated by reference.	**<u>Long Form Prospectus Disclosure:</u>** Certain additional disclosure required in a corporate finance issuer prospectus include: • disclosure of historical, current and prospective information about the general business of the corporate finance issuer; • executive compensation, including disclosure of information relating to indebtedness of directors and executive officers in accordance with NI 51-102F5 and NI 51-102F6V (for venture issuers such as FMIC), which information is also required annually in the management information circular provided in respect of an annual meeting; • disclosure of corporate governance and audit committee information; and • incorporation of disclosure prescribed in MD&A for corporate finance issuers that are venture issuers such as FMIC. **<u>Prospectus Does Not Permit Incorporation by Reference</u>** The corporate finance prospectus form 41-102F1 does not permit the incorporation of continuous disclosure documents by reference and therefore an amended prospectus must be filed if, during the distribution of the securities under the prospectus, there is a material change in the information presented in the prospectus. It is anticipated that FMIC will need to file an amended prospectus during distribution of Common Shares under the prospectus to reflect the publication of financial statements and MD&A and to address any other material change relating to the Common Shares.

Management of FMIC acknowledges that there will be additional expenses involved with additional continuous disclosure obligations of FMIC following the Transition, some of which expenses will be borne by the Manager, however does not expect that such expenses will have a material effect upon the annual returns of FMIC.

USE OF PROCEEDS

Net proceeds received from subscribers of Common Shares will be principally used for the purpose of making loans secured by mortgages on real property. Assuming that FMIC raises the same amount of funds from the sale of its common shares pursuant to the Offering in the next twelve months as it did in the twelve months up to April 30, 2020 (i.e. $18,437,309, not including FMIC's dividend reinvestment plan - see '*Prior Sales*' below), and assuming FMIC's annual expenses related to the Offering will be $95,000 over the next 12 months, net proceeds from the Offering over the next 12 months would be approximately $18,342,309.

Cash proceeds from the sale of Common Shares may, until deployed for loans secured by mortgages, be held in cash or may be held in term deposits, guaranteed investment certificates, money market mutual funds or in other money market securities. From time to time and on a limited basis, FMIC may invest in other securities provided that such investments comply with the restrictions for mortgage investment corporations under the Income Tax Act.

DIVIDENDS OR DISTRIBUTIONS

Holders of the Common Shares will be entitled to receive dividends as and when declared by the Board of Directors. The Board of Directors intends to declare and pay monthly dividends in an amount sufficient to reduce its taxable income each year to nil. The amount of monthly dividends declared is not guaranteed and will depend on many factors, including FMIC's financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board of Directors may deem relevant.

Shareholders may elect to have dividends paid to them in cash (the "**Cash Election**") at the time of their initial purchase of Common Shares or at the date which coincides with a Redemption Date. Once the Cash Election has been made, it may only be changed by written notice to the Manager; such change will only take effect as of the first Redemption Date following the receipt of such notice. Shareholders who have not made the Cash Election as at the last Business Day of the applicable month (the "**Record Date**") will receive declared dividends in the form of additional Common Shares or fractions thereof (the "**Dividend Shares**"). Dividend Shares will be credited to the account of such shareholders in proportion to the shareholder's respective shareholdings as at the close of business on the Record Date.

Dividends will be paid (for those shareholders having made the Cash Election) or will be reinvested in additional Common Shares (for those shareholders who have not made the Cash Election) no later than the thirtieth day following the month during which the dividend is declared. Cash dividends will only be paid by direct deposit into a shareholder's account. See "Certain Income Tax Considerations".

The following table sets out the dividends paid by FMIC per Common Share for each of the financial years ended December 31, 2019, December 31, 2018 and December 31, 2017 as well as for the interim period ended March 31, 2020.

2020 (To March 31) ($)	2019 ($)	2018 ($)	2017 ($)
0.39	1.50	1.54	1.43

MANAGEMENT'S DISCUSSION AND ANALYSIS

The MD&A of FMIC for the financial year ended December 31, 2018, for the financial year ended December 31, 2019 and for the interim period ended March 31, 2020 are attached to this prospectus as Exhibits "4", "5" and "6", respectively. The MD&A for FMIC should be read in conjunction with the relevant financial statements and the accompanying notes thereto included in the prospectus. Certain information contained in the MD&A constitutes forward-looking statements. These statements relate to future events or to FMIC's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. See '*Forward-Looking Statements*' and '*Risk Factors*' in this prospectus. The MD&A of FMIC for the financial year ended December 31, 2018 and for the financial year ended December 31, 2019 were approved by resolutions of the board of directors of FMIC on March 23, 2020. The MD&A of FMIC for the interim period ended March 31, 2020 was approved by a resolution of the board of directors of FMIC on May 7, 2020.

DISCLOSURE OF OUTSTANDING SECURITY DATA

The beneficial interests of FMIC are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. As at April 30, 2020 FMIC had 5,970,344 Common Shares issued and outstanding.

DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

Continuous Distribution

Common Shares of FMIC are being offered on a continuous monthly basis at the price of $30.00 per Common Share and there is no maximum number of Common Shares that may be issued.

Common Shares

All Common Shares outstanding are fully paid and non-assessable and not subject to any pre-emptive rights, conversion or exchange rights, redemption, retraction or surrender provisions, sinking or purchase fund provisions, provisions permitting or restricting the issuance of additional securities or provisions requiring a shareholder to contribute additional capital.

Without limiting the generality of the foregoing, the following table is a non-exhaustive summary of some of the rights and restrictions, and privileges of the Common Shares.

Rights and Restrictions	Shares
Voting Rights:	Subject to the provisions of the CBCA, the holders of the Common Shares are entitled to one vote in respect of each whole share held on all matters to be voted upon at meetings of shareholders. Pursuant to applicable securities and corporate laws, neither NBIN nor the Manager will vote any Common Shares registered in the name of NBIN or its nominee. Rather, the Manager will seek voting instructions from beneficial shareholders or convene meetings of shareholders of Shares, as required.
Right to Dividends:	The holders of the Common Shares shall be entitled to receive in each financial year of FMIC, out of monies of FMIC properly applicable to the payment of dividends, dividends as and when declared by the Board of Directors. All such dividends will be automatically reinvested in Common Shares, which are also qualified by this prospectus, unless the shareholder has elected to receive a cash payment. See “Dividends or Distributions”.
Rights on Liquidation:	In the event of the liquidation, dissolution or winding-up of FMIC, whether voluntary or involuntary, or other distribution of its assets or property among shareholders for the purpose of winding-up its affairs, the holders of the Common Shares shall be entitled to share rateably in the assets of FMIC remaining available for distribution after payment of FMIC’s creditors.
Redemption Rights:	FMIC will accept redemption orders for its Common Shares once a year on November 30th, or if November 30th is not a Business Day, the first Business Day immediately preceding November 30th (the “**Redemption Date**”). Shareholders may redeem Common Shares by providing a written request to the Manager no later than 4:00 p.m. on the Redemption Cut-off Date. Any redemption notice that the Manager determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect and the redemption privilege to which the notice relates shall be considered, for all purposes, not to have been thereby exercised. If the registered owner of the Common Shares is a corporation, partnership, agent, fiduciary or surviving joint owner, FMIC may require additional information.

Rights and Restrictions	Shares
	FMIC may also, at its sole discretion, purchase Common Shares for redemption on a day other than the Redemption Date: (i) in the event of the death of the holder of Common Shares; or (ii) in situations of marital breakdown in order to facilitate compliance by the shareholder with the terms of a separation agreement or court order; or (iii) in situations of personal hardship where, in the opinion of the Board of Directors, early redemption is warranted. The price at which Common Shares will be redeemed will be the Share Value established for the month of November following the receipt of a redemption request, together with any required documentation. Redemption proceeds will be paid out within ten days of the Redemption Date. Qualified Investors are not required to pay a brokerage fee or commission in connection with the redemption of Common Shares. See “Fees and Expenses”. Other persons redeeming Common Shares may be charged a fee by their dealer. FMIC will not redeem Common Shares for which a notice of redemption is received if the redemption of the aggregate number of Common Shares scheduled to be redeemed in a year would result in FMIC redeeming a number of Common Shares which is greater than 25% of the Common Shares issued and outstanding as at the beginning of such year. The Board of Directors may, in its sole discretion, waive the aforementioned limitation in respect of any Redemption Date. Failing such waiver, Common Shares which are earmarked for redemption will be redeemed on a pro rata basis up to the maximum aggregate amount allowable in application of the above threshold.

Valuation Method

The Manager determines FMIC’s Share Value monthly at the close of business on the last Business Day of each calendar month based on the Book Value of FMIC as presented within FMIC’s financial statements, which have been prepared in accordance with IFRS, by or under the supervision of Certified Public Accountants employed by the Manager. Share Value is calculated after FMIC has distributed in full its net income and net capital gains (net of any losses and administration/management fees) to its shareholders, thereby eliminating any adjustment to its Share Value that would be attributable to accruing income.

A firm of independent chartered business valuators will prepare an IERR in respect of each calculation of the Share Value pursuant to which Common Shares are sold. (see ‘*Plan of Distribution – Pricing of Offering and Processing Purchases of Common Shares*’).

FMIC’s Share Value may be obtained by any investor free of charge by contacting FMIC’s Corporate Secretary toll-free at (877) 279-2116. FMIC’s Share Value is also disclosed in the financial statements of FMIC which may also be obtained free of charge by contacting the Corporate Secretary at the foregoing number or on the Internet at www.sedar.com under FMIC’s profile.

CONSOLIDATED CAPITALIZATION

The following table, including the notes thereto, sets forth the capitalization of FMIC as at March 31, 2020 and the changes in the share capital of FMIC since December 31, 2019, the date of FMIC’s most recent financial year end. The table should be read in conjunction with the financial statements contained in this prospectus.

	As at March 31, 2020 (1)	
Shareholders’ Equity		
	Number of Shares Issued	($)
Share capital	5,961,040(2)(3)	$178,722,200

Notes:
(1) These figures have been derived from the unaudited financial statements of FMIC for the interim period ended March 31, 2020.
(2) FMIC is authorized to issue an unlimited number of Common Shares, of which 5,961,040 were issued and outstanding as fully paid and non-assessable shares as at March 31, 2020 (5,817,686 as at December 31, 2019).

(3) During the three months ended March 31, 2020, 123,046 Common Shares were issued for cash, 48,986 Common Shares were issued through FMIC's dividend reinvestment plan, and 28,678 Common Shares were redeemed for cash, all at the price of $30.00 per Common Share.

PRIOR SALES

There is no public market for the Common Shares. The Common Shares are not listed on a stock market or quoted on any public market in Canada or elsewhere.

During the 12-months[1] preceding the date of this prospectus, FMIC issued the following Common Shares and securities convertible or exchangeable into Common Shares.

Date of Issuance	Description	Number of Securities Issued	Price Per Security
June, 2019	Common Shares	95,583	$30.00
July, 2019	Common Shares	91,320	$30.00
August, 2019	Common Shares	64,060	$30.00
September, 2019	Common Shares	52,076	$30.00
October, 2019	Common Shares	59,454	$30.00
November, 2019	Common Shares	43,292	$30.00
December, 2019	Common Shares	83,094	$30.00
January, 2020	Common Shares	74,748	$30.00
February, 2020	Common Shares	47,508	$30.00
March, 2020	Common Shares	49,777	$30.00
April, 2020	Common Shares	14,674[2]	$30.00
May, 2020	Common Shares	18,846[2]	$30.00
TOTAL	Common Shares	694,431	$30.00

Notes:

(1) From June, 2019 to May, 2020, inclusive. Includes cash sales and sales under FMIC's dividend reinvestment plan except as indicated in note 2 below.

(2) Does not include sales under FMIC's dividend reinvestment plan.

PRINCIPAL SECURITYHOLDERS

No Person is the direct or indirect beneficial owner of, or exercises control or direction over, more than 10% of the outstanding shares of FMIC.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out the names and municipalities of residence of each director and officer of FMIC and their respective positions with FMIC and their respective principal occupations during the five preceding years. Pursuant to FMIC's by-laws, directors may neither be appointed for a term of office of less than two years nor for a term of office of more than five years.

Name and Municipality of Residence	Position with FMIC	Principal Occupation for Last Five Years[(1)]	Director Since
Matthew Robinson Sharbot Lake, Ontario, Canada	Chief Executive Officer	Chief Executive Officer of FMIC; Director and President of the Administrator since July 1, 2014; Director & President of the Manager since July 1, 2014. Prior thereto principal and broker with Lake District Realty Corporation.	—

Name and Municipality of Residence	Position with FMIC	Principal Occupation for Last Five Years[1]	Director Since
Kevin Cruickshank, CPA, CA Cloyne, Ontario, Canada	Chief Financial Officer	Chief Financial Officer of FMIC; Chief Financial Officer of the Administrator and the Manager since 2006; Partner in The Loon's Call Campground & Cottage Resort from 2002 until present.	—
Robert Barnes [5][6] Burlington, Ontario, Canada	Director (Chair)	Vice-President, Energy & Digital Services. EllisDon since 2017, Director, Managed Services at EllisDon since 2011 to 2017.	July 1, 2012 Term expires June 2022.
Margaret Kelk[2][5][6] Portland, Ontario, Canada	Director	Teacher, artist, owner and manager of farming and real property rental operations.	July 1, 2012 Term expires June 2020.
Eric Dinelle[3][4][6] Kingston, Ontario, Canada	Director	Owner of Environmentall Contracting Services since 2009.	July 1, 2012 Term expires June 2020.
Sheldon Jacobs[5][6] Brownsburg-Chatham, Quebec, Canada	Director	Retired teacher of business and economics.	July 1, 2012 Term expires June 2021.
Ryan Seeds[4], CPA, CA Kingston, Ontario, Canada	Director	Chartered Professional Accountant and principal of Seeds Chartered Professional Accountants, Sharbot Lake, Ontario until 2016; Presently an independent consultant providing CFO services.	June, 2019 Term expires June 2020.
Anne-Marie Lee[4], CPA, CA, Kingston, Ontario, Canada	Director	Chartered Professional Accountant in private practice with LiveCA LLP since 2017 and KPMG LLP for prior 6 years.	March, 2020 Term expires June 2020.
Jody Becker[5] Oakville, Ontario, Canada	Director	Chief Strategy Officer, Ellis Don	March, 2020 Term expires June 2020.

Notes:
(1) Information as to principal occupation, business or employment is not within the knowledge of management of FMIC and has been furnished by the respective individuals.
(2) Chair of the Governance/Nominating Committee.
(3) Chair of the Audit Committee.
(4) Member of the Audit Committee.
(5) Member of the Governance/Nominating Committee.
(6) Was member of the former Independent Review Committee.

The Articles of FMIC provide for a minimum of five and a maximum of ten directors. The number of directors on FMIC's board of directors is six though FMIC currently has the following five directors, there being one vacancy: (i) Robert Barnes, (ii) Margaret Kelk, (iii) Eric Dinelle, (iv) Sheldon Jacobs, and (v) Ryan Seeds.

Security Holdings of Directors and Executive Officers

FMIC's by-laws provide that a director, in order to qualify as such, must either hold Common Shares, acquire Common Shares within 10 days of his or her nomination or have held Common Shares in one of the two years preceding his or her nomination. Immediately prior to the Offering, the directors and executive officers, as a group, will beneficially own, directly or indirectly, or exercise control or direction over, an aggregate of 103,101 Common Shares representing approximately 1.7% of the issued and outstanding Common Shares.

Cease Trade Orders

No director or officer of FMIC is, as at the date of this prospectus, or was within the 10 years before the date of this prospectus, a director, chief executive officer or chief financial officer of any corporation (including FMIC), that:

(i) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or

(ii) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant Corporation access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

Bankruptcies

No director or executive officer of FMIC, or a shareholder holding a sufficient number of securities of FMIC to affect materially the control of FMIC:

(i) is, as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any corporation (including FMIC) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(ii) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

No director, executive officer or shareholder holding a sufficient number of securities of FMIC to materially affect the control of FMIC has been subject to:

(i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

(ii) any other penalties imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of FMIC will be subject to in connection with the operations of FMIC. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the applicable corporate law.

Conflicts of Interest of the Directors and Executive Officers of FMIC

Each of the directors and officers of FMIC own Common Shares.

The potential for conflicts of interest between FMIC and its directors and executive officers is mitigated by tax rules and corporate law. In effect, in order to continue to qualify as a mortgage investment corporation under the Tax Act, FMIC is prohibited from making a loan secured by a mortgage on a property in which any senior officer or director of FMIC, the Administrator or the Manager, or any associate or affiliate of such individuals has an interest as mortgagor. See "Narrative Description of the Business — Investment Restrictions", "Interests of Management and Others in Material Transactions" and "Risk Factors".

The Chief Executive Officer of FMIC, Matthew J. Robinson, owns Common Shares and is also a shareholder, director and officer of the Manager and of the Administrator. Also, Kevin Cruickshank, in addition to being the Chief Financial Officer of FMIC, owns Common Shares and is also an officer of the Manager and of the Administrator. See "Interests of Management and Others in Material Transactions" and "Risk Factors".

In accordance with the applicable corporate and securities legislation, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with FMIC are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of FMIC.

It is expected that any transactions with officers and directors will be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to FMIC, and, depending upon the magnitude of the transactions and the absence of any disinterested board members, may be submitted to the shareholders for their approval.

Conflicts of Interest of the Manager

The potential for conflicts of interests of the Manager is mitigated by sections 13.5(2)(a), (b), and (c) of National Instrument 31-103 - *Registration Requirements*, *Exemptions and Ongoing Registrant Obligations*, which contains restrictions on the ability of portfolio managers such as the Manager from engaging in certain activities that present an opportunity for conflicts of interest. Pursuant to such restrictions, the Manager may not knowingly cause any investment portfolio managed by it to:

(i) purchase a security of an issuer in which a Responsible Person or an associate of a Responsible Person is a partner, officer or director unless

   a. this fact is disclosed to the client, and

   b. the written consent of the client to the purchase is obtained before the purchase;

(ii) purchase or sell a security from or to the investment portfolio of any of the following:

   a. a Responsible Person;

   b. an associate of a Responsible Person;

   c. an investment fund for which a Responsible Person acts as an adviser;

(iii) provide a guarantee or loan to a Responsible Person or an associate of a Responsible Person.

The Manager will not recommend to FMIC mortgages from the Manager's own inventory or from the inventory of an affiliate or associate of the Manager (such inventories are not in fact maintained). Rather, the Manager will be recommending mortgages which the Administrator sources from borrowers or their agents (i.e. other mortgage brokers).

EXECUTIVE COMPENSATION

Summary Compensation Table

The executive officers of FMIC also serve as executive officers of the Manager. Pursuant to the Management Agreement, the Manager directs the affairs and manages the business and administers or arranges for the administration of FMIC's day-to-day operations. FMIC does not have any employment agreements with, nor does it pay any compensation to, its executive officers. Instead, FMIC's executive officers are employed and paid compensation by the Manager as executive officers and employees of the Manager. In consideration for the management services provided to FMIC, the Manager is paid a monthly management fee equal to one-twelfth of one percent of the value of FMIC's gross assets, calculated on a monthly basis (see "*Fees and Expenses – Management Fee*"). All of the outstanding voting shares of the Manager are owned indirectly by Matthew Robinson (see '*Organization and Management of FMIC – Manager of FMIC*).

Applicable securities legislation requires disclosure of all direct and indirect compensation provided to each director and named executive officer ("**NEO**") of FMIC for both of its two most recently completed financial years. NEO is defined by securities legislation to mean: (i) the Chief Executive Officer; (ii) the Chief Financial Officer; (iii) each of the three most highly compensated executive officers of the Company, including any of its subsidiaries, or the three most highly compensated individuals acting in a similar capacity, other than the Chief Executive Officer and Chief Financial Officer, at the end of the most recently completed financial year whose total compensation was, individually, more than $150,000 for that financial year; and (iv) each individual who would be a "NEO" under paragraph (iii) but for the fact that the individual was neither an executive officer of the Company or its subsidiaries, nor acting in a similar capacity, at the end of the most recently completed financial year.

During the financial years ended December 31, 2019 and December 31, 2018, FMIC had 2 NEOs, both of whom are employees of the Manager. The following table and notes thereto provide a summary of the compensation paid by the Manager to each NEO of FMIC that is attributable to time spent by such NEO on the activities of FMIC for the financial years ended December 31, 2019 and December 31, 2018. The following table is presented in accordance with form 51-102F6V – *Statement of Executive Compensation – Venture Issuers* ("**Form 51-102F6V**") under National Instrument 51-102 – *Continuous Disclosure Obligations.*

Table of Compensation Excluding Compensation Securities							
Name and Position	**Year**	**Salary, Consulting Fee, Retainer or Commission ($)**	**Bonus ($)**	**Committee or Meeting Fees ($)**	**Value of Perquisites ($)**	**Value of All other Compensation ($)**	**Total Compensation ($)**
Matthew Robinson, CEO	2019 2018	200,000[1] 200,000[1]	Nil Nil	Nil Nil	Nil Nil	Nil Nil	200,000 200,000
Kevin Cruickshank, CFO	2019 2018	100,000[1] 100,000[1]	Nil Nil	Nil Nil	Nil Nil	Nil Nil	100,000 100,000
Robert Barnes	2019 2018	25,000 25,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	25,000 25,000
Margaret Kelk	2019 2018	15,000 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	15,000 15,000
Eric Dinelle	2019 2018	15,000 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	15,000 15,000
Sheldon Jacobs	2019 2018	15,000 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	15,000 15,000
Ryan Seeds[2]	2019 2018	11,250 N/A	Nil Nil	Nil Nil	Nil Nil	Nil Nil	11,250 N/A
Andrew Blanchard[3]	2019 2018	15,000 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	15,000 15,000
William Calvert[4]	2019 2018	3,750 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	3,750 15,000
Cara Chesney, CPA, CA[5]	2019 2018	Nil 15,000	Nil Nil	Nil Nil	Nil Nil	Nil Nil	Nil 15,000

Notes:

(1) Represents the portion of the salary paid by the Manager attributable to the time spent on the activities of FMIC.
(2) Ryan Seeds became a director in June, 2019.
(3) Andrew Blanchard ceased to be a director in January, 2020.
(4) William Calvert passed away in March, 2019.
(5) Cara Chesney ceased to be a director in October, 2018.

Discussion of Compensation

The Directors' fees described above relate to the work that the Directors are asked to perform on the Board of Directors and on committees. The Directors provide oversight for the Company over the Manager and Administrator. Detailed activities include: reviewing and approving mortgages, financial oversight (review of financial statements), reviewing materials for FMIC at the various board of directors' meetings and providing advice and approval of the CEO's strategic direction. In determining the compensation of Directors FMIC considers factors including market rates for compensation of directors across different economic sectors, the aggregate assets of FMIC, the responsibilities and time committed by the Directors and past increases in compensation. The compensation of the Chair is greater than that of other Directors because the Chair assumes a greater workload as he or she meets with the CEO on a regular basis to discuss FMIC's business and with the staff of the Administrator on an as needed basis to review and approve mortgages.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than routine indebtedness, no Director or Senior Officer of Frontenac, or any proposed nominee for election as a Director of the Company, or any associate or affiliate of any such Director, Senior Officer or proposed nominee, is or has been indebted to the Company or any of its subsidiaries, or to any other entity that was provided a guarantee or similar arrangement by the Company or any of its subsidiaries in connection with the indebtedness, at any time since the beginning of the most recently completed financial year of the Company.

Except for: (i) indebtedness that has been entirely repaid on or before the date of this prospectus, and (ii) "routine indebtedness" (as defined in paragraph 10.3(c) of Form 51-102F5 of National Instrument 51-102 - *Continuous Disclosure Obligations*), FMIC is not aware of any individuals who are, or who at any time during the most recently completed financial year was, a director or executive officer of FMIC, a proposed nominee for election as a director or an associate of any of those directors, executive officers or proposed nominees who are, or have been since the beginning of the most recently completed financial year indebted to FMIC or any of its subsidiaries, or whose indebtedness to another entity is, or at any time since the beginning of the most recently completed financial year has been, the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by FMIC or any of its subsidiaries.

AUDIT COMMITTEES AND CORPORATE GOVERNANCE

In establishing its corporate governance practices, the Board of Directors has been guided by applicable Canadian securities legislation for effective corporate governance, including National Policy 58-201 - *Corporate Governance Guidelines*. The Board of Directors is committed to a high standard of corporate governance practices. The Board of Directors believes that this commitment is not only in the best interests of its shareholders, but that it also promotes effective decision making at the Board of Director level.

The Board of Directors

Independence

Subject to certain exceptions, a director is "independent" within the meaning of National Instrument 58-101 - *Disclosure of Corporate Governance Practices* ("**NI 58-101**") if he or she has no direct or indirect material relationship with FMIC. A "material relationship" is a relationship that could, in the view of the Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment. Certain types of relationships are, by their nature, considered to be material relationships.

Currently, all of the members of the Board of Directors are independent directors. These determinations were made by the Board of Directors based upon an examination of the factual circumstances of each director and consideration of any interests, business or relationships, which any director may have with FMIC.

The chair of the Board of Directors, Mr. Robert Barnes, is an independent director. FMIC does not have a designated lead director. The Board of Directors utilizes its own in-house expertise, and that of its legal counsel, to provide advice and consultation on current and anticipated matters of corporate governance.

Other Reporting Issuer Experience

None of the directors of FMIC are directors of other reporting issuers (other than FMIC) as of the date of this prospectus.

Board of Directors Mandate

The Board of Directors has not adopted a written mandate. The Board of Directors will receive the Manager's investment recommendations in order to review and approve the granting of mortgage loans by FMIC in an amount of greater than 2% of the Share Value. As part of such approval process, the directors will be provided with a full underwriting report consisting of a thorough credit assessment of the prospective borrower and the proposed real estate collateral, along with an appraisal prepared by a qualified appraiser and a Phase I environmental audit, where deemed necessary by the Administrator. The Board of Directors will review the underwriting report in order to ensure that the transaction meets FMIC's investment objectives and complies with its policies.

Position Descriptions

The Board of Directors has not developed a written position for the Chair of the Board of Directors, for the Chair of any of its standing committees, or for FMIC's Chief Executive Officer. To date, the Board of Directors does not believe that formal written position descriptions of the position of the Chair of the Board of Directors, of the Chair of each standing committee and for the Chief Executive Officer are required, and that good business practices and the common law provide guidance as to what is expected of each of such positions.

Orientation and Continuing Education

FMIC provides new Directors with a copy of Board policies and training on the Carver Policy Governance model which is followed by the Board of Directors. FMIC also provides its Directors with training on the 'Basecamp' software package, a project/information management software enabling the organization and sharing of information and documents for the consideration of directors, tracking and coordinating the critical path of board mandates, and to assist directors in preparing for Board meetings. FMIC does not have a formal continuing education program for its Directors but may provide individualized training on an as-needed basis.

Ethical Business Conduct

FMIC is committed to maintaining high standards of corporate governance and this philosophy is communicated by the Board of Directors to management, and by management to employees, on a regular basis. In order to ensure that the directors exercise independent judgment in considering transactions and agreements, the Board of Directors requires that all directors declare any conflicts of interest with issues or situations as they arise. This would include transactions/agreements in which a director/officer has material interest. See "Conflicts of Interest".

Nomination of Directors

The Governance/Nominating Committee is a standing committee appointed by the Board of Directors and it is responsible for overseeing and assessing the functioning of the Board of Directors and the committees of the Board of Directors and for the development, recommendation to the Board of Directors, implementation and assessment of effective corporate governance principles. The Governance/Nominating Committee's responsibilities also include identifying candidates for directorship and recommending that the Board of Directors select qualified director candidates for election at the next annual meeting of shareholders.

The Governance/Nominating Committee is composed entirely of independent directors, currently being Margaret Kelk (Chair), Robert Barnes and Sheldon Jacobs.

Compensation

In determining the compensation of Directors FMIC considers factors including market rates for compensation of directors across different economic sectors, the aggregate assets of FMIC, the responsibilities and time committed by the Directors and past increases in compensation. The compensation of the Chair is greater than that of other Directors because the Chair assumes a greater workload as he or she meets with the CEO on a regular basis to discuss FMIC's business and with the staff of the Administrator on an as needed basis to review and approve mortgages. Director compensation is typically reviewed every three years.

Other Board of Directors Committees

The Board of Directors has no standing committee other than the Audit Committee and the Governance/Nominating Committee.

Assessments

The Board of Directors, its committees and individual directors are not regularly assessed with respect to their effectiveness and contribution, as the Board of Directors believes that such assessments are generally more appropriate for corporations of significantly larger size than FMIC and which may have significantly larger boards of directors. A more formal assessment process will be instituted as, if, and when the Board of Directors deems necessary.

Director Tenure

Pursuant to FMIC's by-laws, directors may neither be appointed for a term of office of less than two years nor for a term of office of more than five years.

Audit Committee

Audit Committee Charter

The specific responsibilities of the Audit Committee are set out in the Audit Committee Charter, a copy of which is attached to this prospectus as Exhibit "7".

Composition of the Audit Committee

The Audit Committee is comprised of Eric Dinelle, Ryan Seeds and Anne-Marie Lee. The Chair of the audit committee is Eric Dinelle. Each member of the Audit Committee is financially literate and independent within the meaning of National Instrument 52-110 - *Audit Committees* ("**NI 52-110**").

Relevant Education and Experience

Described below for each member of the Audit Committee is a brief description of the education and experience relevant to the performance of his or her responsibilities as an Audit Committee member and from which he derived his or her "financial literacy" as defined in NI 52-110.

Audit Committee Member	Relevant Education and Experience
Eric Dinelle	Owner of contracting services business since 2009, director of FMIC since 2012
Ryan Seeds	Chartered Professional Accountant
Anne-Marie Lee	Chartered Professional Accountant

Reliance on Certain Exemptions

At no time since the commencement of FMIC's most recently completed financial year has FMIC relied on the exemption in sections 2.4 (De Minimis Non-audit Services), 3.2 (Initial Public Offerings), 3.4 (Events Outside Control of Member), or 3.5 (Death, Disability or Resignation of Audit Committee Member) of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.

Reliance of the Exemption in Subsection 3.3(2) or Section 3.6

At no time since the commencement of FMIC's most recently completed financial year has FMIC relied on the exemption in subsection 3.3(2) (Controlled Companies) or section 3.6 (Temporary Exemption for Limited and Exception Circumstances) of NI 52-110.

Reliance on Section 3.8

At no time since the commencement of FMIC's most recently completed financial year has FMIC relied on section 3.8 (Acquisition of Financial Literacy) of NI 52-110.

Audit Committee Oversight

At no time since the commencement of FMIC's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

Pre-Approval Policies and Procedures for the Engagement of Non-Audit Services

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services, as described in the Audit Committee Charter attached to this prospectus as Exhibit "7".

External Auditor Service Fees

The table below sets out all fees billed by FMIC's external auditor in respect of FMIC's fiscal years ended December 31, 2019 and December 31, 2018.

Financial Year End	Audit Fees[(1)]	Audit Related Fees[(2)]	Tax Fees[(3)]	All Other Fees[(4)]
December 31, 2019	$62,274	$8,025	$0	$3,210
December 31, 2018	$52,644	$0	$0	$27,704

Notes:

(1) "Audit Fees" are fees billed by FMIC's external auditor for services provided in auditing FMIC's financial statements for the financial year.

(2) "Audit-Related Fees" are fees not included in Audit Fees that are billed by the auditor for assurance and related services that are reasonably related to performing the audit or reviewing FMIC's interim financial statements.

(3) "Tax Fees" are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning.

(4) "All Other Fees" are fees billed by the auditor for products and services not included in the previous categories.

PLAN OF DISTRIBUTION

General

The Offering is being made in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

Common Shares will be issued as and when subscriptions therefor are received at a price equal to $30.00. Subscriptions for Common Shares will be received subject to rejection or allotment in whole or in part.

The Common Shares are being offered on a continuous monthly basis and there is no maximum number of Common Shares that may be issued. The sale of the Common Shares on a continuous basis no more frequently than once per month is integral to FMIC's business model as it permits FMIC to match its demand for funding mortgages with its available cash so as to minimize deployed cash which generates nominal interest and suppresses investor returns.

FMIC does not retain, and has never retained, an underwriter to assist in the distribution of the Common Shares. The Common Shares are sold only pursuant to orders placed by registered portfolio managers and investment dealers through a single channel of distribution via Fundserv, an OSC recognized clearing agency, with sales processed no more frequently than once a month, on the Valuation Date. Only registrants, and not retail investors, may purchase securities through the Fundserv platform for their client accounts.

FMIC does not pay a sales commission in relation to the sale of the Common Shares. Consequently, FMIC primarily distributes the Common Shares directly to registered portfolio managers and investment dealers for their managed and other fee-based client accounts. Neither FMIC nor the Manager expects to remunerate portfolio managers or investment dealers who purchase Common Shares for their clients' accounts; however a portfolio manager or securities dealer may charge a fee to their clients in connection with the acquisition or disposition of Common Shares. See "Fees and Expenses — Fees and Expenses Payable by Investors".

The Manager, which is a registered portfolio manager, also distributes Common Shares to its clients who are Qualified Investors and who meet the following conditions:

(i) the subscriber has established a discretionary or non-discretionary portfolio management account with the Manager;

(ii) the subscriber has an account (registered or non-registered) with NBIN; and

(iii) the Manager has, in its capacity as the subscriber's portfolio manager, recommended to the subscriber that the Common Shares be purchased and the subscriber has accepted such recommendation and requested that the Manager implement it or, in the alternative, the Manager has exercised its discretion pursuant to the portfolio management mandate given to the Manager by the subscriber and determined that it is in the interest of the subscriber that the Common Shares be purchased.

Purchases of Common Shares for Qualified Investors will be made by the Manager who will transmit a purchase order to NBIN for execution in accordance with applicable securities legislation. See "Material Contracts – Services and Brokerage Agreement".

The Common Shares have not been and will not be registered under the *United States Securities Act of 1933*, as amended (the "**U.S. Securities Act**") or the securities laws of states in the United States and, subject to certain exemptions from registration under the U.S. Securities Act and applicable state securities laws, may not be offered or sold in the United States (as such term is defined in Regulation S under the U.S. Securities Act) except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

There is currently no market through which the Common Shares may be sold. The Common Shares will not be listed on a stock exchange or quoted on any public market in Canada or elsewhere.

Pricing of the Offering and Processing Purchases of Common Shares

The Offering Price has been determined by FMIC in conjunction with the Manager. Since FMIC became a reporting issuer in 2005, its Book Value per share and Net Asset Value per Share has consistently been $30.00 each month until December 2017, when the Net Asset Value per Share changed to $29.84, which is approximately 99.5% of FMIC's historical $30.00 Net Asset Value per Share. During 2018, FMIC's Net Asset Value per Share steadily increased each month to the point where it reached $30.00 again as at November 30, 2018 and has remained at $30.00 since that time (see '*Valuation Method*' above). Common Shares will be sold at the Offering Price subject to subsequent confirmation that the Share Value is $30.00 at the time of sale.

Subject to the discretion of the Manager to refrain from accepting orders for the purchase of Common Shares in any given month, sales of FMIC Shares will be processed at the $30.00 per Common Share Offering Price via Fundserv on the last Business Day of each calendar month on which the Share Value is computed (the "**Valuation Date**"), on the assumption that the Share Value is $30.00 as of the Valuation Date. Because the inputs required in order to calculate the Share Value as of a given point in time can only be known subsequent to that point in time, the calculation of FMIC's Share Value in relation to any Valuation Date will be completed by the Manager in the days following the relevant Valuation Date (see '*Valuation Method*' above).

FMIC has implemented a system for independent verification of its Share Value as of each Valuation Date. In this regard FMIC has retained MNP SENCRL, srl/LLP as its CBV to prepare an IERR in relation to each Valuation Date on which Common Shares are sold. The IERR is not a valuation report or fairness opinion; it is a written report prepared by a CBV which contains a conclusion as to the reasonableness of the Manager's calculation of the Share Value. The Manager will receive an IERR subsequent to the Valuation Date in respect of which it was prepared but prior to any subsequent Valuation Date.

In order to ensure that Common Shares are sold only at the $30.00 Share Value FMIC will automatically rescind all purchases of Common Shares as of the relevant Valuation Date if its Share Value on that Valuation Date is other than $30.00, as calculated by the Manager, or if the CBV concludes in the relevant IERR that the Manager's calculation of the Share Value at $30.00 is not reasonable. Such automatic rescission will be effected prior to the Valuation Date next following the Valuation Date on which the subject Common Shares were sold, by FMIC returning the full cash amount of the purchase price through a repurchase via Fundserv of the Common Shares for cancellation.

FMIC will file each IERR on SEDAR together with the consent of the firm of independent chartered business valuators which prepared the IERR, pursuant to s.10.1 of NI 41-101.

Expenses Related to the Offering

It is estimated that the total expenses of the Offering, including, without limitation, professional fees, regulatory fees, and printing costs, will be approximately $95,000 per annum. All such expenses of the Offering will be paid by FMIC out of the proceeds of the Offering.

RISK FACTORS

The following information describes certain significant risks and uncertainties inherent in FMIC's business and the Offering. Prospective investors should take these risks into account in evaluating FMIC and in deciding whether to purchase securities of FMIC. This section does not describe all risks applicable to FMIC, its industry or its business, and it is intended only as a summary of certain material risks. Prospective investors should carefully consider such risks and uncertainties together with the other information contained in this prospectus. If any of such risks or uncertainties actually occur, FMIC's business, financial condition or operating results could be harmed substantially and could differ materially.

An investment in securities of FMIC is highly speculative and involves a high degree of risk. Before making any investment decision, prospective investors should carefully consider all the information contained in this document including, in particular, the risk factors described below. The directors of FMIC believe that the following risk factors should be considered. Some risk factors relate principally to the Offering. This list is not exhaustive and there are additional risks and uncertainties which are not currently known to the directors or the directors may currently deem certain risks immaterial. Any of these unknown or immaterial risks may cause the price of the securities of FMIC to decline and may have an adverse effect on FMIC's business, financial condition and the results of FMIC's operations.

In the event that any of the risks outlined below materialize, FMIC's business, financial condition and results of operations may suffer significantly and a purchaser may lose all or most of his or her investment.

COVID-19 Pandemic

COVID-19 was declared a pandemic by the World Health Organization in March, 2020 and has led to a "Declaration of Emergency" under the Emergency Management and Civil Protection Act by the Lieutenant Governor of Ontario. COVID-19 presents a health risk to all individuals in FMIC's market including FMIC's key management personnel, service providers, mortgagors and investors, and measures taken to prevent the spread of COVID-19 have an impact on businesses in FMIC's market, including FMIC.

In order to help contain the spread of COVID-19 the Ontario government has ordered the closure of non-essential workplaces and has published a list of the essential services businesses that are permitted to remain open. As of the date of this prospectus FMIC and its Manager, as well as key service providers and investment sources including mortgage brokers, portfolio managers and investment dealers are permitted to remain open under the Ontario government measures. The Ontario government has previously revised, and may continue to revise, the list of essential services businesses. Government health officials have also recommended social distancing protocols. Many businesses including essential services businesses have organized their employees to continue to work remotely from home using effective technology. To the extent that any of FMIC, its Manager or key service providers and investment sources must close because they are deemed non-essential and/or are unable to continue to effectively operate on a remote basis using effective technologies there would likely be a material adverse effect on FMIC's business, operations and financial performance.

To date, FMIC has not experienced any negative effects of COVID-19 on the rate of new mortgage applications. However If COVID-19 persists in the longer term and/or its effects become more pervasive and debilitating it could have a negative effect on FMIC's ability to source mortgage loans and execute loan fundings which would suppress the rate of investor returns.

Although real estate appraisers are continuing to work, due to social distancing protocols they don't have access to visual indoor inspections in most cases which increases the risk that appraisers could miss a defect in a mortgaged property which could impair the value of the property and therefore impair the security for the loan. There can be no assurance that alternative systems that may be deployed (e.g. GeoWarehouse, MLS reviews, Realtor opinions) are adequate substitutes for physical inspections.

Due to the economic impacts of COVID-19 FMIC has noticed that closings of mortgage fundings have been delayed by some clients – particularly construction clients that want to be certain they can start and complete their builds. Although such delays have had no material effect on FMIC to date, any continued and widespread such delays caused by COVID-19 could result in FMIC holding a proportionately larger cash position over time which could suppress investor returns.

Social distancing restrictions related to COVID-19 may inhibit the ability of real estate agents to hold showings and open houses of real property, thereby prolonging the timeline to complete a mortgage-financed purchase. Any such time delays in mortgage-financed real estate purchases will result in lost or delayed opportunities for interest income and lower investor returns for FMIC.

The economic effects of COVID-19 include layoffs and job losses in FMIC's markets, including among FMIC's borrowers. Notwithstanding various government programs to supplement income and mitigate the effect of income loss amongst FMIC's mortgagors the ability of some borrowers to make mortgage payments when due may be impaired. Any such loan impairments would reduce the interest income earned by FMIC and suppress investor returns. If impaired loans lead to defaults and enforcement proceedings and real estate values fall across the market there is a risk that enforcement proceedings may not yield enough proceeds to cover the outstanding loans which may result in capital losses for FMIC and greater expenses which would suppress investor returns. Although FMIC has not experienced, to date, any significant increase in impaired or defaulted mortgages as a consequence of COVID-19, and there is no evidence as yet that COVID-19 is causing a general fall in real estate values, if COVID-19 persists in the longer term and/or its effects become more pervasive and debilitating there is a greater risk that FMIC could experience such consequences.

As a consequence of the economic effects of COVID-19 and, notwithstanding various government programs to supplement income, some borrowers have requested, and some lenders have granted, mortgage payment deferrals on an ad hoc or program basis. FMIC has not received a material number of requests for deferral and is not legally obliged to offer deferral. However, if COVID-19 persists in the longer term and/or its effects become more pervasive and debilitating to the economy and the ability of borrowers to pay their mortgages such that FMIC offers mortgage payment deferrals on an ad hoc or program basis then such deferrals would reduce cash inflows into FMIC which may result in greater use by FMIC of its credit facility and therefore higher interest costs to FMIC which may reduce investor returns. Also, any prolonged program of mortgage payment deferrals would increase accrued interest on loans, increase the loan to value ratio and thereby increase the potential for capital losses if the borrower ultimately defaults on the loan, which risk is increased if accompanied by a general decrease in real estate values.

FMIC permits redemptions by its shareholders once per year, subject to redemption requests at other times on the basis of hardship which FMIC may or may not entertain in its sole discretion. Although FMIC has not experienced a material increase in its redemption requests, if COVID-19 persists in the longer term and/or its effects become more pervasive and debilitating there is a greater risk that FMIC could experience a higher than normal rate of redemptions which could result in FMIC holding a proportionately larger cash position over time which could suppress investor returns.

COVID-19 also presents health risks to key management personnel and staff of the Manager. If key management personnel, or a significant proportion of administrative staff, of the Manager are afflicted with COVID-19 and unable to manage the business and affairs of FMIC in an effective and timely manner FMIC could experience material adverse consequences to its operations and financial performance.

Specific investment risk for non-conventional mortgage investments

Non-conventional mortgage investments attract higher loan loss risk due to the borrower's credit situation and sometimes high loan-to-value ratio. This higher risk is compensated for by a higher rate of return. The failure of one or more borrowers to make payments according to the terms of their loan could result in FMIC exercising its rights as mortgagee and may affect FMIC's rate of return, which is directly correlated to the receipt of mortgage payments. Also, the recovery of a portion of FMIC's assets, i.e. the property put up as collateral by the defaulting mortgagor, would be tied up for a period of time, diverting resources away from the funding of new investments. Legal fees and other costs incurred by FMIC in enforcing its rights as mortgagee against a defaulting borrower are borne by the shareholders collectively. Although these fees and costs are often recoverable from the borrower directly or through the sale of the mortgaged property by power of sale or otherwise, there is no assurance that they will actually be recovered. As the number of mortgages held by FMIC increases, the potential impact of one or more mortgage loans going into default will diminish.

Inability to find mortgage investments

FMIC is competing with many third parties, including other mortgage brokers and financial institutions, seeking investment opportunities similar to those sought by FMIC. There is no assurance that the number of mortgages required to maintain an optimal level of investment will be identified, qualified and funded. To the extent that FMIC is unable to source sufficient mortgage loan requirements to match its available cash to fund mortgage loans FMIC may have excess undeployed cash which may earn nominal or no interest, which would have a negative effect on investor returns.

Renewal of Mortgages

There can be no assurances that any of the mortgages held by FMIC can or will be renewed at the same interest rates and terms, or in the same amounts as are currently in effect. With respect to each mortgage held by FMIC, it is possible that either of the mortgagor (i.e. the borrower) or the mortgagee (i.e. FMIC) or both will elect not to renew such mortgage. In addition, if the mortgages in FMIC's mortgage portfolio are renewed, the principal balance of such renewals, the interest rates and the other terms and conditions of such mortgages will be subject to negotiations between the mortgagors and the mortgagees at the time of renewal and the terms of a refinancing may therefore not be as favourable as the terms of existing indebtedness.

Changes in property values

FMIC's mortgage loans will be secured by real estate, the value of which can fluctuate. The value of real estate is affected by general economic conditions, local real estate markets, the attractiveness of the property to tenants where applicable, competition from other available properties, fluctuations in occupancy rates, operating expenses and other factors. The value of income-producing real property may also depend on the credit worthiness and financial stability of the borrowers and/or the tenants.

While independent appraisals are required before FMIC may make any mortgage investment, the appraised values, even where reported on an "as is" basis, are not necessarily reflective of the market value of the underlying real property, which may fluctuate. In addition, the appraised values reported in independent appraisals may be subject to certain conditions, including the completion, rehabilitation or making of leasehold improvements on the real property providing security for the loan. There can be no assurance that these conditions will be satisfied and, if and to the extent they are not satisfied, the appraised value may not be achieved. Even if such conditions are satisfied, the appraised value may not necessarily reflect the market value of the real property at the time the conditions are satisfied.

Concentration of FMIC's portfolio

FMIC's portfolio is invested almost exclusively in mortgage loans and the investment objectives and investment strategies of FMIC do not permit the composition of FMIC's portfolio to vary widely. Given the concentration of FMIC's exposure to the mortgage lending sector, FMIC will be more susceptible to adverse economic or regulatory occurrences affecting that sector than an investment fund that is not concentrated in a single sector. Due to the relative illiquidity of investments in mortgages, FMIC’s ability to vary its investment portfolio promptly in response to changing economic or investment conditions is limited.

Reliance *on* third parties

In assessing the risk of an investment in FMIC, potential investors should be aware that they will be relying on the good faith, experience and judgement of certain key staff of the Manager and Administrator, particularly Matthew Robinson and also Wayne Robinson who continues to work with the Manager in a consultative role. Should Matthew Robinson or other key staff be unable or unwilling to continue their employment with the Manager or Administrator, this could have a material adverse effect on FMIC's business, financial condition and results of its operations.

Sensitivity to *interest* rates

It is anticipated that the value of FMIC’s investment portfolio at any given time may be affected by the level of interest rates prevailing at such time. FMIC’s income will consist primarily of interest payments on the mortgages comprising FMIC’s investment portfolio. If there is a decline in interest rates (as measured by the indices upon which the interest rates of FMIC’s mortgage assets are based), FMIC may find it difficult to make a mortgage loan bearing rates sufficient to achieve the targeted payment of dividends on the Common Shares. There can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect FMIC’s ability to maintain dividends on the Common Shares at a consistent level.

Due to the relatively short term of the mortgage loans made by FMIC and the inability to accurately predict the extent to which FMIC’s mortgages may be prepaid, it is possible that FMIC may not be able to sufficiently reduce interest rate risk associated with the replacement of such mortgages through new investments in mortgages.

No *guarantees*

There is no assurance that FMIC will be able to pay dividends at the level targeted by FMIC. The funds available for distribution to shareholders will vary according to many factors, notably the interest and principal payments received in respect of mortgage loans held by FMIC and the rate of return on FMIC’s cash balances.

Although mortgage loans made by FMIC are carefully selected by the Manager, there can be no assurance that such loans will have a guaranteed rate of return to investors or that losses will not be suffered on one or more loans. Moreover, at any point in time, the interest rates being charged for mortgages are reflective of the general level of interest rates and, as interest rates fluctuate, it is expected that the aggregate yield on mortgage investments will also change.

In the event that additional security is given by the borrower or that a third party guarantees the mortgagor's obligations, there is no assurance that such additional security or guarantee will be sufficient to make FMIC whole if and when resort is to be had to the security or guarantee.

Notwithstanding the past track record of FMIC, there can be no assurances that FMIC will be able to eliminate or minimize fluctuations in its Share Value.

Environmental liability of a mortgagee

Under various laws, FMIC could become liable for the costs of effecting remedial work necessitated by the release, deposit or presence of certain materials, including hazardous or toxic substances and wastes, where FMIC has exercised its right of re-entry or foreclosure or has otherwise assumed the control, occupation or management of the property. FMIC does not systematically obtain environmental audits of all properties subject to mortgages. The Administrator only requires an environmental audit on commercial properties or any property which, in its opinion, has the potential of carrying environmental liability.

Investment *not* insured

Neither the Manager nor FMIC is a member of the Canada Deposit Insurance Corporation and the Common Shares offered hereunder are therefore not insured against loss through the Canada Deposit Insurance Corporation. Moreover, mortgages held by FMIC are not insured through the Canada Mortgage and Housing Corporation or otherwise.

Nature of the *investments*

Investments in mortgages are relatively illiquid. Such illiquidity will tend to limit the Manager's ability to vary the mortgage portfolio promptly in response to changing economic or investment conditions. Furthermore, certain significant expenditures, including property taxes, capital repair and replacement costs, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing income or whether mortgage payments are being made. FMIC may be required to incur such expenditures to protect its investment, even if the borrower is not honouring its contractual obligations.

Absence of market, *limited* redemption rights, risk of significant redemptions

There is no public market for the Common Shares. The Common Shares are not listed on a stock market or quoted on any public market in Canada or elsewhere. The lack of an active market may impair an investor’s ability to sell their securities of FMIC at the time they wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair market value of an investor’s securities of FMIC. Further, an inactive market may also impair FMIC’s ability to raise capital by selling securities of FMIC and may impair its ability to enter into collaborations or acquire companies or products by using securities of FMIC as consideration. The market price of securities of FMIC may be volatile, and an investor could lose all or part of its investment.

The ability of shareholders to redeem Common Shares is limited. Moreover, in any given year, FMIC may partially or completely suspend shareholders’ right of redemption if the monetary amount of requests for redemption exceeds a certain threshold (see “Redemption of Securities”). Nevertheless, if FMIC experiences large scale redemptions in any given year such redemptions may cause the fund to allocate and make available a significant amount of cash to fund the redemptions which could have an adverse effect on FMIC’s returns.

Changes in *legislation*

There can be no assurance that income tax or securities legislation or other laws will not be changed in a manner which, ultimately, adversely affects the holders of Common Shares.

Potential conflicts of interest

The Manager has sole discretion in determining which mortgages it will make available to FMIC for investment. Conflicts of interest may arise because of the fact that the Manager also advises and transacts in mortgages for private clients.

Transition

FMIC’s Transition, more particularly the application of different securities law requirements relating to corporate finance issuers as compared to FMIC’s historical securities law requirements as an investment fund issuer have necessitated certain changes to FMIC’s historical distribution patterns and disclosure requirements. More particularly, FMIC’s requirement to offer its securities at a fixed price following Transition and the fact that FMIC can no longer incorporate certain continuous disclosure documents into its prospectus will present the risk of increased compliance costs and the additional risk of differential application of subjective aspects of the application of applicable securities legislation on a province by province basis in relation to FMIC’s prospectus filings.

Corporation may be restricted from paying dividends

Holders of the Common Shares do not have a right to dividends on such shares unless declared by the Board of Directors. FMIC may not declare or pay a dividend if there are reasonable grounds for believing that (i) FMIC is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realizable value of FMIC’s assets would thereby be less than the aggregate of its liabilities and stated capital of its outstanding shares. Liabilities of FMIC will include those arising in the course of its business, indebtedness, including inter-company debt, and amounts, if any, that are owing by FMIC under guarantees in respect of which a demand for payment has been made.

Results may fluctuate significantly

FMIC's financial results may fluctuate from month-to-month, quarter-to-quarter and from year-to-year due to a combination of factors. Accordingly, the timing of the recognition of revenue from a significant transaction can materially affect monthly, quarterly and annual financial results.

FMIC cannot be certain that additional financing will be Available on reasonable terms when required, or at all

From time to time, FMIC may need additional financing. Its ability to obtain additional financing, if and when required, will depend on investor demand, FMIC's operating performance, the condition of the capital markets and other factors. If FMIC raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of its Common Shares, and existing shareholders may experience dilution.

The requirements of being a reporting issuer may strain FMIC's resources and divert management's attention

As a reporting issuer, FMIC is subject to the reporting requirements of applicable securities legislation of the jurisdiction in which it is a reporting issuer and other applicable securities rules and regulations. Compliance with these rules and regulations increases FMIC's legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on its systems and resources. Applicable securities laws require FMIC to, among other things, file certain annual and quarterly reports with respect to its business and results of operations. In addition, applicable securities laws require FMIC to, among other things, maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve its disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. Specifically, due to the increasing complexity of its transactions, it is anticipated that FMIC will improve its disclosure controls and procedures and internal control over financial reporting primarily through the continued development and implementation of formal policies, improved processes and documentation procedures, as well as the continued sourcing of additional finance resources. As a result, management's attention may be diverted from other business concerns, which could harm FMIC's business and results of operations. To comply with these requirements, FMIC may need to hire additional employees in the future or engage outside consultants, which will increase its costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for reporting issuers, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. FMIC intends to continue to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If its efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against FMIC and FMIC's business may be adversely affected.

As a reporting issuer subject to these rules and regulations, FMIC may find it more expensive for it to obtain director and officer liability insurance, and it may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for FMIC to attract and retain qualified members of its board of directors, particularly to serve on its audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a reporting issuer, FMIC's business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, FMIC's business and results of operations could be harmed, and even if the claims do not result in litigation or are resolved in its favor, these claims, and the time and resources necessary to resolve them, could divert the resources of FMIC's management and harm its business and results of operations.

Specific investment risk for second and third mortgage investments

FMIC may from time to time make a loan in return for a second or third charge on the property. Second or third mortgage investments attract higher loan loss risk due to their subordinate ranking to other mortgage charges and typically higher aggregate loan-to-value ratio. Also, any real property may be subject to one or more liens which will take priority over a mortgage, even a first-ranking one. Such liens may arise, for example, as a result of unpaid municipal taxes or utility bills.

When a charge on real property is in a position other than the first rank, it is possible for the holder of a prior charge, if the borrower is in default under the terms of its obligations to such holder, to take a number of actions against the borrower and ultimately against the underlying real property. Such actions may include foreclosure, the exercising of a giving-in-payment clause or an action forcing the underlying real property to be sold (known as a "power of sale"). Foreclosure or the exercise of a giving-in-payment clause may have the ultimate effect of depriving any person, other than the holder of a first-ranking charge on the underlying real property, of the security of such real property. If an action is taken to sell the underlying real property and sufficient proceeds are not realized from such sale to pay off all creditors who have charges on the property (including a lien holder) ranking prior to FMIC, FMIC may lose all or part of its investment to the extent of such deficiency, unless it can otherwise recover such deficiency from other property owned by the borrower.

In order to mitigate this risk, FMIC's investment strategy limits the amount of non-first mortgage investments to 10% of the mortgages held by FMIC. In practice, FMIC does not generally invest in mortgages other than first mortgages. As at March 31, 2020, 99% of the dollar value of FMIC's mortgage loans were secured by first mortgages.

PROMOTER

The Manager has been a promoter of FMIC within the two years immediately preceding the date of this prospectus and Matthew Robinson, the principal of the Manager, controls, directly or indirectly, 6,721 Common Shares, representing approximately 0.10% of the outstanding Common Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTION

There are no legal proceedings that FMIC is or was a party to since the beginning of FMIC's most recently completed financial year for which financial statements of FMIC are included in this prospectus, or that any of FMIC's property is or was the subject of, that were or are material to FMIC, and there are no such material legal proceedings that FMIC knows to be contemplated. For the purposes of the foregoing, a legal proceeding is not considered to be "material" by FMIC if it involves a claim for damages and the amount involved, exclusive of interest and costs, does not exceed 10% of FMIC's current assets, provided that if any proceeding presents in large degree the same legal and factual issues as other proceedings pending or known to be contemplated, FMIC has included the amount involved in the other proceedings in computing the percentage.

There were no: (i) penalties or sanctions imposed against FMIC by a court relating to provincial and territorial securities legislation or by a securities regulatory authority within the three years immediately preceding the date of this prospectus; (ii) other penalties and sanctions imposed by court or regulatory body against FMIC that FMIC believes must be disclosed for this prospectus to contain full, true and plain disclosure of all material facts relating to the Common Shares; or (iii) settlement agreements FMIC entered into before a court relating to provincial and territorial securities legislation or with a securities regulatory authority within the three years immediately preceding the date of this prospectus.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed below, there is no material interest, direct or indirect, of: (i) any director or executive officer of FMIC; (ii) any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares; or (iii) an associate or any affiliate of any persons or companies referred to above in (i) or (ii), in any transaction within the three years before the date of this prospectus that has materially affected or is reasonably expected to materially affect FMIC.

Matthew Robinson, FMIC's Chief Executive Officer, is also the controlling shareholder of the Manager and the controlling shareholder of the Administrator as well as an officer and director of both entities. The Administrator earns a fee of 1% per year based on the value of FMIC's gross assets determined each month. Also, the Administrator generally charges the mortgagors of the mortgages held by FMIC an underwriting fee of 1% of the amount of the loan on residential mortgage transactions and of 2% of the amount of the loan on commercial transactions. The aggregate annual fees paid to the Administrator in 2019 was $1,933,044 and in 2018 was $2,163,630. The Manager earns a management fee of 1% per year based on the value of FMIC's gross assets determined each month. The aggregate annual fees paid to the Manager in 2019 was $2,184,339 and in 2018 was $2,444,962.

The Manager earns an investment advisory fee that is directly charged to Qualified Investors who subscribe for shares hereunder. This fee is calculated as a percentage of a subscriber's assets under administration with the Manager.

In order to avoid duplicative fees, the Manager's investment advisory fee is not applied to the portion of the Qualified Investor's assets invested in Common Shares. See "Fees and Expenses".

AUDITOR, TRANSFER AGENT AND REGISTRAR

The independent auditor of FMIC is MNP LLP at 1600 Carling Avenue, Suite 800, Ottawa, Ontario, K1Z 1G3.

The transfer agent and registrar for the Common Shares is SGGG Fund Services Inc. at 121 King Street West, Suite 300, Toronto, Ontario, M5H 3T9.

MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, entered into by FMIC and which remain in effect. Copies of these documents are or will be once executed, as applicable, available for inspection during normal business hours at FMIC's office, at The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0 during the period of distribution, or at any time thereafter, as applicable, on SEDAR at www.sedar.com under FMIC's profile.

Investment Advisory and Management Agreement

Pre-Amalgamation FMIC and W.A. Robinson Asset Management Ltd. entered into an Investment Advisory and Management Agreement dated June 21, 2008 (the "**Management Agreement**"), which replaced an investment advisory agreement dated December 20, 2004 (the "**Investment Advisory Agreement**"). The Management Agreement was adopted by FMIC following the Amalgamation and, in June 2018 the agreement was automatically renewed for an additional five year term. Under the Investment Advisory Agreement, the Manager was responsible for the management of FMIC's portfolio, providing investment analysis and recommendations in conformance with FMIC's investment policies and restrictions and making investment decisions (subject to the ability of FMIC to veto any investment decision) and for making brokerage arrangements. The Investment Advisory Agreement was terminated at the time the Management Agreement was entered into. The portfolio advisory functions and responsibilities continue to be assumed by the Manager under the Management Agreement and, in addition, the Manager assumes certain responsibilities previously assumed by the Administrator. As such, the Manager is responsible for the overall management of FMIC's affairs including, without limitation, the following tasks and duties:

(i) acting as FMIC's registrar and transfer agent or ensuring those services are provided;

(ii) maintaining the books and records of FMIC and performing administrative functions in connection with the issuance, registration and redemption of Common Shares; and

(iii) supplying clerical, accounting and administrative staff and services as required for the efficient day-to-day functioning of FMIC.

See "— Duties and Services to be Provided by the Manager".

The Management Agreement has an initial term of five years and may be renewed for further five-year terms. Either party has the option of not renewing the agreement by providing no less than six months' written notice to the other party. The Management Agreement terminates: (a) upon the Manager ceasing to carry on business, becoming bankrupt or insolvent, resolving to wind up or liquidate or if a receiver of any of its assets is appointed; (b) upon the Manager ceasing to hold the required registrations under applicable securities legislation, (c) if the Manager is found by a court of competent jurisdiction to have been guilty of bad faith, wilful misfeasance, gross negligence or reckless disregard of its obligations and duties; or (d) where the Manager is in material breach of the Management Agreement, unless the breach is remedied within 30 days after notice of the breach has been given. The Management Agreement may not be assigned except by consent of both parties.

As compensation for the services provided by the Manager to FMIC, the Manager will receive a monthly management fee equal to 1/12th of 1% of the value of FMIC's gross assets.

Amended and Restated Administration Agreement

Pursuant to an agreement (the "**Administration Agreement**") dated December 20, 2004, as amended and restated on June 21, 2008, between Pre-Amalgamation FMIC and Pillar Financial Services Inc., the Administrator was appointed, on an exclusive basis, to source mortgages and administer the mortgage portfolio. The Administration Agreement was adopted by FMIC following the amalgamation of Pre-Amalgamation FMIC and MICEO and, in June 2018, the agreement was automatically renewed for an additional five year term. In the performance of its obligations under the Administration Agreement, the Administrator is required to:

(i) underwrite the mortgages for the account of FMIC, including setting the interest rates thereof;

(ii) collect payments from borrowers and discharges mortgages upon payout;

(iii) ensure the safe custody of mortgage deeds; and

(iv) monitor and, where appropriate, pursue arrears and institute and prosecute legal actions for the enforcement of FMIC's rights as a mortgagee.

The Administration Agreement has an initial term of five years and may be renewed for further five-year terms. Either party has the option of not renewing the agreement by providing no less than six months' written notice to the other party. The Administration Agreement terminates: (a) upon the Administrator ceasing to carry on business, becoming bankrupt or insolvent, resolving to wind up or liquidate or if a receiver of any of its assets is appointed; (b) upon the Administrator ceasing to be registered as a mortgage broker and/or administrator; (c) if the Administrator is found by a court of competent jurisdiction to have been guilty of bad faith, wilful misfeasance, gross negligence or reckless disregard of its obligations and duties thereunder; or (d) if the Administrator is in material breach of the Administration Agreement unless the breach is remedied within 30 days after notice of the breach has been given. The Administration Agreement may not be assigned except by consent of both parties.

As compensation for the services provided by the Administrator to FMIC, the Administrator will receive a monthly fee equal to 1/12th of 1% of the gross assets of FMIC.

Custodian Agreement

Pre-Amalgamation FMIC entered into a custodian agreement (the "**Custodian Agreement**") with Computershare Trust Company of Canada and the Manager dated as of July 29, 2008 to obtain custodial services for the property of Pre-Amalgamation FMIC. The Custodian Agreement was adopted by FMIC following the Amalgamation. The Custodian Agreement requires the Custodian to hold FMIC's property in safekeeping. The Custodian Agreement can be terminated by FMIC or the Custodian on 90 days' prior written notice.

EXPERTS

Certain Canadian legal matters related to the Offering will be passed upon by Torkin Manes LLP on behalf of FMIC. As at the date hereof, the partners and associates of Torkin Manes LLP, as a group, beneficially own, directly or indirectly, less than 1% of any registered or beneficial interests, direct or indirect, in any securities or other property of FMIC or of any associate or affiliate of FMIC.

No person or Corporation whose profession or business gives authority to a report, valuation, statement or opinion made by such person or Corporation and who is named in this prospectus as having prepared or certified a part of this prospectus, or a report, valuation, statement or opinion described in this prospectus, has received or shall receive a direct or indirect interest in any securities or other property of FMIC or any associate or affiliate of FMIC.

MNP LLP, auditor to FMIC, has informed FMIC that they are independent with respect to FMIC within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

CERTAIN INCOME TAX CONSIDERATIONS

In the opinion of Torkin Manes LLP, counsel to FMIC, the following is, as at the date of this prospectus, a summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to investors hereunder.

This summary only applies to an investor who, for the purposes of the Tax Act, is a resident of Canada, will hold the Common Shares as capital property and deals at arm's length and is not affiliated with FMIC. The Common Shares will generally be considered to constitute capital property to an investor unless the investor either holds such securities in the course of carrying on a business of trading or dealing in securities or has acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade, and this summary is based on the assumption that neither of these circumstances apply. Certain investors who are resident in Canada and whose Common Shares do not otherwise qualify as capital property may in certain circumstances make an irrevocable election to have their Common Shares and every other "Canadian security" (as defined in the Tax Act) owned by such investor deemed to be capital property. Such investors should consult their own tax advisors as to whether such election is available and advisable, having regard to their own particular circumstances.

This summary is based upon the further assumption that FMIC qualifies as a MIC at all relevant times. FMIC has advised counsel that it intends to meet all of the requirements under the Tax Act to qualify as a MIC throughout its current taxation year and for all of its future taxation years. Counsel expresses no opinion as to the status of FMIC as a MIC. If FMIC were to cease to qualify as a MIC at any time, the income tax considerations would be materially different from those described below.

This summary does not apply to an investor: (i) that is a "specified financial institution" or a "financial institution" both as defined in the Tax Act; (ii) an interest in which constitutes a "tax shelter investment" within the meaning of the Tax Act; (iii) that reports its Canadian tax results in a "functional currency" (which excludes Canadian dollars); or (iv) that has entered into a "derivative forward agreement" or a "synthetic disposition arrangement", both as defined in the Tax Act with respect to the Common Shares.

This summary is based upon the current provisions of the Tax Act and the regulations in force as of the date hereof (the "**Regulations**"), counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**") and all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"). This summary assumes that the Tax Proposals will be enacted substantially as proposed; however, no assurance can be given that the Tax Proposals will be enacted as proposed or at all. This summary does not otherwise take into account or anticipate any changes in law or the CRA's administrative policies or assessing practices, whether by legislative, governmental or judicial decision or action, nor does it take into account any provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor hereunder. Accordingly, prospective investors should consult their own tax advisors with respect to their particular circumstances.

Status of FMIC

This summary is based on the assumption that FMIC is a MIC at all relevant times. A MIC is deemed to be a public corporation under the Tax Act, however, the Tax Act effectively treats a corporation that qualifies as a MIC as a flow through entity so that a shareholder of a MIC is put in a similar position from an income tax perspective as if the investments made by the MIC had been made directly by the shareholder. The tax considerations that would apply if FMIC does not qualify as a MIC would be materially different from those set out herein. Counsel expresses no opinion as to the status of FMIC as a MIC.

A number of conditions imposed under the Tax Act must be met throughout a taxation year in order for FMIC to qualify as a MIC for that taxation year. These conditions will generally be satisfied if, throughout a taxation year of FMIC:

(i) FMIC was a Canadian corporation as defined in the Tax Act;

(ii) FMIC's only undertaking was the investing of its funds and it did not manage or develop any real or immovable property;

(iii) no debts were owing to FMIC that were secured on real or immovable property situated outside Canada;

(iv) no debts were owing to FMIC by non-resident persons unless such debts were secured on real or immovable property situated in Canada;

(v) FMIC did not own shares of corporations not resident in Canada;

(vi) FMIC did not hold real or immovable property situated outside of Canada, or any leasehold interest in such property;

(vii) the cost amount of FMIC's property consisting of money, debts secured (whether by mortgages, hypothecs, or in any other manner) on houses or on property included within a housing project (as those terms are defined in the *National Housing Act* (Canada), and deposits with a bank or any other corporation whose deposits are insured by the Canada Deposit Insurance Corporation, the Régie de l'assurance-dépots du Québec, or with a credit union (such debts and deposits referred to as the "**Qualifying Property**") was at least 50% of the cost amount to it of all of its property;

(viii) the cost amount of real or immovable property (including leasehold interests therein but excluding real or immovable property acquired as a consequence of foreclosure or defaults on a mortgage, hypothec or agreement of sale of real property) owned by FMIC did not exceed 25% of the cost amount to it of all of its property;

(ix) FMIC had at least 20 shareholders and no person was a "specified shareholder", meaning that no shareholder (or related person as such term is defined in the Tax Act) together held, directly or indirectly, more than 25% of the shares of any class of FMIC at any time in the taxation year. Special rules apply for the purposes of counting shareholders that are registered pension plans or DPSPs;

(x) holders of preferred shares, if any, had a right, after payment to them of their preferred dividends, and payment of dividends in a like amount per share to the holders of the Common Shares, to participate *pari passu* with the holders of common shares in any further payment of dividends;

(xi) where at any time in the year the cost amount to FMIC of its money and Qualifying Property was less than two-thirds of the cost amount to it of all of its property, FMIC's liabilities did not exceed three times the amount by which the cost amount to it of all of its property exceeded its liabilities;

(xii) where the requirement in (xi) is not met in that the cost amount of its money and Qualifying Property equalled or was greater than two-thirds of the cost amount of all its property, FMIC's liabilities did not exceed five times the amount by which the cost amount to it of all its property exceeded its liabilities.

With respect to requirement (ix) noted above that no shareholder (or related person as such term is defined in the Tax Act) may together hold, directly or indirectly, more than 25% of the shares of any class of FMIC, for these purposes a "related person" includes a corporation and the person or persons that control the corporation, a parent corporation and its subsidiary corporation(s) and corporations that are part of the same corporate group, and an individual and that individual's spouse, common law partner or child under 18 years of age. The rules in the Tax Act defining "related persons" are complex and holders should consult with their own tax advisors in this regard.

For the purposes of the 50% test described in (vii) above, the requirement is that FMIC's investments must comprise the specified minimum amount of debts that are secured by Mortgages, hypothecs or in any other manner, on "houses" or on property included within a "housing project", as those terms are defined in the National Housing Act (Canada). Generally, a "house" includes all or part of a building or moveable structure that is intended for human habitation containing not more than two family housing shares, and "housing project" includes all or part of a building or movable structure intended for human habitation, any property intended to be converted or developed to provide housing accommodation, or property associated with housing accommodation such as parking, public and recreational facilities.

Taxation of FMIC

FMIC is a "public corporation" for purposes of the Tax Act and is consequently subject to tax at the full general corporate tax rates on its taxable income. However, provided FMIC remains a MIC throughout the year, FMIC will be entitled to deduct from its taxable income the full amount of all taxable dividends (other than capital gains dividends) which it pays to its Shareholders during the year or within 90 days after the end of the year to the extent that such dividends were not deductible by FMIC in computing its income for the preceding year. A MIC may declare a capital gains dividend to its shareholders during the period that begins 91 days after the beginning of a taxation year of a MIC and ends 90 days after the end of the year, in an amount equal to the gross amount of its capital gains and is entitled to deduct one half of such capital gains dividends from its taxable income. FMIC must elect to have the full amount of a dividend qualify as a capital gains dividend.

FMIC has advised counsel that it intends to declare dividends each year in sufficient amounts to reduce its taxable income to nil so that it has no tax payable under Part I of the Tax Act and to elect to have dividends be capital gains dividends to the maximum extent allowable. To the extent that it does not do so, FMIC will be taxed at the highest corporate rates.

Any dividends deemed to be paid by FMIC on the redemption of the Common Shares will be deductible to it and will qualify for treatment as capital gains dividends on the same basis as other dividends.

Taxation of Shareholders

Provided FMIC qualifies as a MIC under the Tax Act throughout the taxation year, any dividends, other than capital gains dividends, received from FMIC by a shareholder (whether paid in cash or reinvested in Common Shares) who is a resident of Canada will be deemed to be interest income for income tax purposes. Shareholders will therefore be required to include in their income as interest all amounts received as, or on account of, any ordinary dividends. The provisions of the Tax Act providing for interest accrual, the gross-up and dividend tax credit in respect of taxable dividends received by individuals from taxable Canadian corporations, and for the deduction generally available to corporations for inter-corporate dividends received, will not apply in respect of ordinary dividends received from FMIC. Similarly, the provisions of Part IV of the Tax Act will not be applicable to the receipt of ordinary dividends by a corporate shareholder.

Any capital gains dividends paid by FMIC to a shareholder (whether paid in cash or reinvested in Common Shares) will be treated as a capital gain of the shareholder from the disposition in the year of capital property for the year in which the capital gains dividend is received.

The reinvestment of an ordinary dividend or capital gains dividend in additional Common Shares will have the same consequence for determining the adjusted cost base of a shareholder's Common Shares as any other purchase of Common Shares. In particular, if a dividend is paid in Common Shares, or paid in cash and reinvested in Common Shares, the adjusted cost base of such Common Shares acquired by a shareholder will be equal to the amount of the dividend, or the amount of cash so reinvested, as the case may be.

Where a shareholder is a Canadian-controlled private corporation (as defined in the Tax Act), capital gains dividends and ordinary dividends received on the Common Shares will be subject to an additional refundable tax on its "aggregate investment income".

A sale or other disposition of Common Shares by a shareholder (other than redemption by FMIC), including deemed dispositions, will give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition of the Common Shares exceed (or are exceeded by) the shareholder's adjusted cost base of the Common Shares disposed of and any reasonable disposition costs.

For the purpose of determining the adjusted cost base to the shareholder of a Common Share, when a Common Share is acquired, the cost of the newly acquired Common Share will be averaged with the adjusted cost base of all identical shares owned by the shareholder as capital property immediately before that acquisition. The adjusted cost base of a Common Share to a shareholder will be the cost to the shareholder of the Common Share, with certain adjustments.

Generally, one-half of a capital gain realized in the year by a shareholder on the disposition of Common Shares will be included in the shareholder's income for the year, and one-half of a capital loss realized in the year on such a disposition of common shares will be deducted from the shareholder's taxable capital gains, if any, realized in the same year. Allowable capital losses in excess of taxable capital gains in a particular year may, in general, be carried back three years or forward indefinitely and deducted against taxable capital gains, subject to the rules in the Tax Act.

On a redemption or acquisition of common Shares by FMIC, the shareholder will be deemed to have received, and FMIC will be deemed to have paid, a dividend in an amount equal to the amount by which the redemption price exceeds the paid-up capital of the Common Shares. This deemed dividend will be treated in the same manner as other dividends received by the shareholder from FMIC, and will depend on whether FMIC elects that the entire dividend be a capital gains dividend. The balance of the redemption price will constitute the proceeds of disposition of the Common Shares for purposes of the capital gains rules.

In general terms, capital gains dividends to a shareholder who is an individual or trust (other than certain specified trusts), and capital gains realized on the disposition of Common Shares by such shareholder may increase the shareholder's liability for alternative minimum tax.

Eligibility for Investment

The Common Shares will be qualified investments under the Tax Act for a trust governed by a RRSP, a RRIF, a DPSP, a RDSP, a TFSA and a RESP (the "Plan"), provided that FMIC qualifies as a MIC throughout a taxation year and further provided that at any time in the relevant calendar year, FMIC does not hold any indebtedness, whether by way of mortgage or otherwise, of a person who is an annuitant, a beneficiary, an employer, or a subscriber under the particular registered Plan, or of any other person who does not deal at arm's length with that person.

Notwithstanding that the Common Shares may be qualified investments for a trust governed by a Plan, the holder of a TFSA or a RDSP or annuitant under the RRSP or RRIF or a subscriber of a RESP will be subject to a penalty tax if such securities are a "prohibited investment" for the Plan. The Common Shares will generally be a ''prohibited investment’’ if: (i) the holder of a TFSA or RDSP or annuitant under the RRSP or RRIF or subscriber of a RESP, as the case may be, does not deal at arm’s length with FMIC for purposes of the Tax Act or; (ii) the holder of the TFSA or a RDSP or annuitant under the RRSP or RRIF or subscriber of a RESP has a “significant interest” (within the meaning of the Tax Act) in FMIC or a corporation, partnership or trust with which FMIC does not deal at arm’s length for purposes of the Tax Act. A “significant interest” in a corporation generally means ownership of 10% or more of the issued shares of any class of the capital stock of FMIC (or of any related corporation), either alone or together with persons with which the shareholder does not deal at arm’s length for purposes of the Tax Act. In addition, the Common Shares will not be a “prohibited investment” if they are “excluded property” as defined in the Tax Act for trusts governed by a TFSA, RRSP, RDSP, RRIF or RESP. Holders of a Plan should consult their own advisors in this regard.

Taxation of Registered Plans

Dividends received by an RESP, RRSP, TFSA, RRIF, DPSP or RDSP on Common Shares that are a qualified investment for such a registered plan will generally be exempt from income tax in the registered plan, as will capital gains realized by the registered plan on the disposition of such Common Shares. Withdrawals from an RRSP, RRIF, DPSP, RDSP, and in some cases, an RESP, are generally subject to tax under the Tax Act.

Tax Implications of FMIC’s Distribution Policy

The Share Value of a Common Share may be attributable in part to income and capital gains that have been earned by FMIC, but which have not yet been realized and/or paid out as a dividend. If a shareholder invests in Common Shares before a dividend is declared, the shareholder will be taxed on the full amount of any such dividend that is received by the shareholder. If the Company adopts a distribution policy of paying equal monthly distributions to shareholders of record on the last business day of each month, an investor who acquires a share late in the month but prior to the dividend will pay tax on the entire dividend, which will generally reflect the income and/or capital gains earned by FMIC throughout the month up to the time of payment, though the shareholder will have only just acquired Common Shares.

RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal adviser.

EXHIBIT 1

Audited Annual Financial Statements of Frontenac Mortgage Investment Corporation for the Financial Year Ended December 31, 2018

FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Canadian Dollars)

CONTENTS

Independent Auditor's Report

To the Shareholders of Frontenac Mortgage Investment Corporation:

Opinion

We have audited the financial statements of Frontenac Mortgage Investment Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Management Report of Fund Performance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained the Management Report of Fund Performance prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Mincoff.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

March 15, 2019 — Licensed Public Accountants

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

(In Canadian Dollars)

	As at December 31, 2018 $	As at December 31, 2017 $
ASSETS		
Cash and cash equivalents	45,324	-
Due from administrator in trust (Note 5)	120,053	574,788
Accrued interest receivable	11,194,987	10,251,803
Mortgage investments (Note 6)	180,967,671	189,980,578
Prepaid expenses	16,200	16,200
	192,344,235	200,823,369
LIABILITIES		
Bank indebtedness	-	79,627
Bank line of credit (Note 7)	13,880,000	16,580,000
Dividends payable	321,444	428,662
Accounts payable and accrued liabilities	186,717	192,852
Prepaid mortgage payments	168,609	316,111
	14,556,770	17,597,252
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY (Note 8)	177,787,465	183,226,117
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 8)	5,926,249	6,141,401
NET ASSETS PER SHARE	30.00	29.84

APPROVED ON BEHALF OF THE BOARD:

(signed) *"Robert Barnes"* Director

(signed) *"Eric Dinelle"* Director

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Canadian Dollars)

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
INTEREST INCOME	18,134,892	16,178,501
EXPENSES		
Management and administration fees (Note 9)	4,608,592	4,229,612
Audit fees	96,565	69,905
Director fees	122,264	102,772
General and operating expenses	339,330	485,329
Interest on bank line of credit	707,639	54,372
Legal fees	168,260	55,604
Custodian fees	21,069	16,812
Provision for mortgage impairment losses (Note 6)	738,184	2,817,427
	6,801,903	7,831,833
NET INVESTMENT INCOME	11,332,989	8,346,668
NET INCOME AND COMPREHENSIVE INCOME	11,332,989	8,346,668
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,627,479	6,572,180
BASIC AND DILUTED EARNINGS PER SHARE	$ 1.71	$ 1.27

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Canadian Dollars)

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
NET ASSETS, beginning of year	183,226,117	191,904,019
Net income from operations	11,332,989	8,346,668
Share capital transactions		
Proceeds from issuance of shares for cash	22,998,073	5,614,809
Reinvested dividends	5,631,065	5,182,391
Shares redeemed	(35,192,790)	(18,459,102)
	(6,563,652)	(7,661,902)
Distributions to shareholders		
Dividends to shareholders	(10,207,989)	(9,362,668)
NET ASSETS, end of year	177,787,465	183,226,117
Dividends per share	1.54	1.43

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CASH FLOW

(In Canadian Dollars)

	Year ended December 31, 2018 $	Year ended December 31, 2017 $
CASH FROM OPERATING ACTIVITIES		
Net income	11,332,989	8,346,668
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	738,184	2,817,427
Net changes in non-cash operating items:		
Decrease in due from administrator in trust	454,735	659,416
(Increase) in accrued interest receivable	(943,184)	(2,515,466)
Decrease in prepaid expenses	-	12,784
Increase (decrease) in accounts payable and accrued expenses	(6,135)	99,986
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,576,589	9,420,815
FINANCING ACTIVITIES		
Increase (decrease) in bank line of credit	(2,700,000)	16,580,000
Proceeds from issuance of common shares for cash	22,998,073	5,614,809
Cash dividends	(4,684,142)	(4,142,228)
Redemption of common shares	(35,192,790)	(18,459,102)
NET CASH USED IN FINANCING ACTIVITIES	(19,578,859)	(406,521)
INVESTING ACTIVITIES		
Decrease in prepaid mortgage payments	(147,502)	(105,451)
Mortgage investments	(90,805,545)	(99,180,264)
Repayment of mortgage investments	99,080,268	82,165,592
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	8,127,221	(17,120,123)
NET INCREASE IN CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS)	124,951	(8,105,829)
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), beginning of year	(79,627)	8,026,202
CASH AND CASH EQUIVALENTS, end of year	45,324	(79,627)

Additional information:

Interest received	17,191,708	13,663,035
Interest paid	707,639	54,372

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO

AS AT DECEMBER 31, 2018

INVESTMENT PORTFOLIO

		Principal Value	Amortized Cost	Fair Value
Private mortgages	101.79%	$ 184,063,359	$ 180,967,671	$ 180,967,671
Cash & other net assets	6.02%			10,699,794
Bank line of credit	(7.81)%			(13,880,000)
Net assets	100.00%			$ 177,787,465

DISTRIBUTION OF MORTGAGE INVESTMENTS

Interest rate	Number of mortgages	Amortized cost	Fair value
5%	3	$ 3,320,636	$ 3,320,636
6%	1	7,528,456	7,528,456
7%	13	3,284,932	3,284,932
8%	64	27,206,945	27,206,945
9%	179	43,784,895	43,784,895
10%	247	70,028,886	70,028,886
11%	35	9,218,458	9,218,458
12%	35	16,594,463	16,594,463
	577	$180,967,671	$180,967,671

Mortgages are 91.05% residential and 8.95% commercial and vacant land. All mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable, at the option of the borrower, with terms to maturity ranging from 1 to 2 years.

The accompanying notes form an integral part of these financial statements

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and with National Instrument 81-106 Investment Funds Continuous Disclosure ("NI 81-106").

These financial statements were approved for issue by the Board of Directors on March 8, 2019.

(b) Change in Accounting Policy

Effective January 1, 2018 the Company adopted IFRS 9 Financial Instruments (“IFRS 9”) which replaced IAS 39 - Financial Instruments: Recognition and Measurement, which was the previous financial instrument accounting guidance. IFRS 9 addresses classification and measurement of financial assets and liabilities, as well as impairment of financial assets.

IFRS 9 was applied on a modified retrospective basis. As permitted, prior period comparative financial statements were not restated. They are reported under IAS 39 and are therefore not comparable to the information presented for 2018. The IAS 39 accounting policies for financial instruments that were applied prior to January 1, 2018 are included in Note 3(d).

The adoption of IFRS 9 on January 1, 2018 resulted in changes in accounting policies for mortgages receivable which became effective January 1, 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. As at January 1, 2018 management’s statistical analysis indicated that there was an immaterial difference and therefore no adjustment was required to be made to the allowance due primarily to the short-term duration of the financial assets held.

Financial liabilities continue to be initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost (see Note 3(k)(ii)). Other financial assets have been and continue to be recognized consistent with the requirements of IFRS 9 (see Note (3)(k)(i)).

(c) 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.

(d) Functional and presentation currency

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

2. BASIS OF PRESENTATION (Continued)

(e) 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.

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 as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Company considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The Company has incorporated forward looking information 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.

IFRS 9 uses an expected credit loss (“ECL”) model to determine the provision for credit losses.

2. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Company's Finance and Risk management groups.

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modeling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

2. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. The Company defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Company believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Company defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Company derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments."

(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 and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 10, 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.

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 calculated on the gross carrying amount for each mortgage receivable in Stage 1 and Stage 2 and interest is not accrued on the mortgage receivable identified as being in Stage 3.

(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 income and comprehensive income for the period.

(c) Mortgage investments

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The Company's business model is to hold mortgages receivable to collect cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgages losses on the statement of financial position.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless 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 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 (see 2e i) when assessing if there has been a significant increase in credit risk.

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible defaults events over the life of the financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default, loss given default and exposure at default . These factors are used to estimate the ECLs for mortgages receivable classified at Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan category is assessed and the ECL estimated (on an individual basis for those mortgages in Stage 3). A loan 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 loan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mortgage investments (continued)

When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss

(d) Financial instruments - IAS 39 accounting policy applied prior to January 1, 2018

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 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, and accounts payable and accrued liabilites. 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 amortized cost.

(ii) Financial liabilites:

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

Mortgage investments - impairment measurement

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 inital 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of operations for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessement of market conditions, and other various factors.

(f) 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.

(g) Deferred lender fee revenue

Some mortgagors may be required to pay a one time fee, referred to as a lender fee, upon initiation of their mortgage. These lender fees are netted against the related mortgages and recognized into revenue using the effective interest method.

(h) 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.

(i) Net assets

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

(j) 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 year.

(k) Financial assets and liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial assets and liabilities (continued)

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, and accounts payable and accrued liabilities. 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: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL 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 measured at amortized cost.

(ii) Financial liabilities:

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

(l) 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"). 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.

- IFRS 16 - Leases ("IFRS 16")

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC- 15 Operating Leases - Incentives and SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the condensed interim financial statements with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as a property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019. The Company is currently assessing the impact of IFRS 16 to its financial statements. Based on a preliminary assessment of the standard the Company does not expect this standard to have a significant impact on its financial statements.

(In Canadian Dollars)

4. CAPITAL STRUCTURE AND 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 targets to maintain a cash reserve (consisting of cash, near cash investments, and the Company's approved credit line) of approximately 5% of its net 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 sufficient cash reserves are maintained to meet shareholder redemption requests. As at December 31, 2018 and 2017, 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 adminsitration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic repayments 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 577 mortgages (December 31, 2017 - 638) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at December 31, 2018	As at December 31, 2017
	$	$
Mortgages	184,063,359	193,480,773
Allowance for impairment losses	(3,095,688)	(3,500,195)
	180,967,671	189,980,578

(In Canadian Dollars)

6. MORTGAGE INVESTMENTS (Continued)

Broken down by mortgage investments and allowance for credit losses as follows:

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

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at December 31, 2018, there are 27 mortgages totaling $22,043,064 (December 31, 2017 - 24 mortgages totaling $7,930,370) that are past due and 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 loss is made.

(In Canadian Dollars)

6. MORTGAGE INVESTMENTS (Continued)

The fair value of collateral held against impaired mortgages at December 31, 2018 was approximately $29,443,500 (December 31, 2017 - $9,524,000).

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

	2018 $	2017 $
Balance - beginning of year	3,500,195	1,754,000
Deduct: realized losses for year	(1,142,691)	(1,071,232)
Add: provision for credit losses for year	738,184	2,817,427
Balance - end of year	3,095,688	3,500,195

Principal repayments based on contractual maturity dates are as follows:

	$
2019	172,330,000
2020	8,637,000
Thereafter	671
Total	180,967,671

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 without penalty. The weighted average interest rate of the mortgages as at December 31, 2018 was 9.10% (December 31, 2017 - 9.05%).

Mortgages past due but not impaired are as follows:

	2018 $	2017 $
1 to 30 days	2,794,179	2,658,036
31 - 90 days	1,224,841	525,474
over 90 days	808,907	5,871,121
over 90 days	4,827,927	9,054,631

Credit risk

Credit risk Is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. 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. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. The maximum exposure to credit risk at December 31, 2018 is the carrying values of its mortgage investments, including accrued interest receivable, which total $192,162,658 (December 31, 2017 - $200,232,381). 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.

6. MORTGAGE INVESTMENTS (Continued)

Credit risk (Continued)

When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

There are no significant concentrations of credit risk as the average mortgage amount as at December 31, 2018 was $319,001 (December 31, 2017 - $304,013) and the largest mortgage was $13,432,040 (December 31, 2017 - $13,271,049).

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 at the option of the borrower.

Fair value is the price that would be received to sell an assets 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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

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 December 31, 2018, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $186,717 (December 31, 2017 - $192,852) and dividends payable totaling $321,444 (December 31, 2017 - $428,662). Accounts payable and accrued liabilities along with dividends payable are all 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 outstanding of $13,880,000 as at December 31, 2018 (December 31, 2017 - $16,580,000).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of net assets. As at December 31, 2018, the Company's committed borrowing facilities represented approximately 15% of net assets (December 31, 2017 - 15% 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 chartered bank with a limit of an amount equal to 15% of net assets of the Company subject to a maximum limit of $29,000,000. The line of credit 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 3.95% (December 31, 2017 - 3.20%) plus 1%.

Financial covenants require the Company to maintain a minimum level for net assets, debt to net assets ratio, and percentage of residential mortgages. The Company was in compliance with all such covenants as at December 31, 2018 and as at December 31, 2017.

(In Canadian Dollars)

8. CAPITAL STOCK

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the year to issued and outstanding shares of the Company:

	Year ended December 31, 2018		**Year ended December 31, 2017**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	6,141,401	183,226,117	6,396,798	191,904,019
Issued for cash	769,862	22,998,073	187,160	5,614,809
Issued through dividend reinvestment plan	188,184	5,631,065	172,746	5,182,391
Redeemed for cash	(1,173,198)	(35,192,790)	(615,303)	(18,459,102)
Undistributed net earnings/(excess distributions)		1,125,000		(1,016,000)
Balance, end of year	5,926,249	177,787,465	6,141,401	183,226,117

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued 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 year the Company redeemed for cash 1,173,198 common shares of which 1,151,842 were redeemed at $30.00 per share and the balance were redeemed at the price in effect at the time which ranged from $29.84 to $29.95 per share for total proceeds of $35,192,790. For the year ended December 31, 2017, 615,303 common shares were redeemed for cash at the price of $30.00 per share for total proceeds of $18,459,102.

The Company had no potentially dilutive instruments as at December 31, 2018 or December 31, 2017.

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. (the "Manager") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the year ended December 31, 2018 were $2,163,630 (2017 - $1,985,420) and the total fees paid to the Manager for the year ended December 31, 2018 including applicable sales taxes were $2,444,962 (2017 - $2,244,192) 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.

(In Canadian Dollars)

10. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

As at December 31, 2018	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and equivalents	Fair value through profit & loss	45,324	45,324
Due from administrator in trust	Measured at amortized cost	120,053	120,053
Accrued interest receivable	Measured at amortized cost	11,194,987	11,194,987
Mortgage investments	Measured at amortized cost	180,967,671	180,967,671
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	13,880,000	13,880,000
Dividends payable	Financial liabilities - amortized cost	321,444	321,444
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	186,717	186,717
Prepaid mortgage payments	Financial liabilities - amortized cost	168,609	168,609

As at December 31, 2017	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and equivalents	Fair value through profit & loss	-	-
Due from administrator in trust	Loans and receivables - amortized cost	574,788	574,788
Accrued interest receivable	Loans and receivables - amortized cost	10,251,803	10,251,803
Mortgage investments	Loans and receivables - amortized cost	189,980,578	189,980,578
Properties held for sale under foreclosure	Fair value through profit & loss	-	-
LIABILITIES:			
Bank indebtedness	Fair value through profit & loss	79,627	79,627
Bank line of credit	Other liabilities - amortized cost	16,580,000	16,580,000
Dividends payable	Other liabilities - amortized cost	428,662	428,662
Accounts payable and accrued liabilities	Other liabilities - amortized cost	192,852	192,852
Prepaid mortgage payments	Other liabilities - amortized cost	316,111	316,111

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

10. FAIR VALUE MEASUREMENTS (Continued)

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, bank indebtedness, dividends payable, accounts payable and accrued liabilities, and prepaid mortgage payments approximate their carrying amounts due to their short-term maturities.

11. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling $122,264 (2017 - $102,772) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 9).

EXHIBIT 2

Audited Annual Financial Statements of Frontenac Mortgage Investment Corporation for the Financial Year Ended December 31, 2019

FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Canadian Dollars)

CONTENTS

Independent Auditor's Report

To the Shareholders of Frontenac Mortgage Investment Corporation:

Opinion

We have audited the financial statements of Frontenac Mortgage Investment Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Mincoff.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

March 24, 2020 — Licensed Public Accountants

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF FINANCIAL POSITION

(In Canadian Dollars)

	As at December 31, 2019 $	As at December 31, 2018 $
ASSETS		
Cash and cash equivalents (Note 5)	56,779	45,324
Due from administrator in trust (Note 6)	658,402	120,053
Accrued interest receivable	12,240,090	11,194,987
Mortgage investments (Note 7)	173,315,185	180,967,671
Prepaid expenses	16,200	16,200
Total assets	186,286,656	192,344,235
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank line of credit (Note 8)	11,330,000	13,880,000
Dividends payable	209,704	321,444
Accounts payable and accrued liabilities	114,786	186,717
Prepaid mortgage payments	101,614	168,609
Total liabilities	11,756,104	14,556,770
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	174,421,552	177,678,465
Retained earnings	109,000	109,000
Total shareholders' equity	174,530,552	177,787,465
Total liabilities and shareholders' equity	186,286,656	192,344,235
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 9)	5,817,686	5,926,249
CARRYING VALUE PER SHARE	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

(signed) *"Eric Dinelle"* Director

(signed) *"Ryan Seeds"* Director

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In Canadian Dollars)

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
INTEREST INCOME	15,810,099	18,134,892
EXPENSES		
Management and administration fees (Note 10)	4,117,383	4,608,592
Audit fees	78,639	96,565
Director fees	102,739	122,264
General and operating expenses	329,662	360,399
Interest on bank line of credit	124,846	707,639
Legal fees	107,646	168,260
Provision for mortgage impairment losses (Note 7)	1,292,201	738,184
	6,153,116	6,801,903
NET INCOME AND COMPREHENSIVE INCOME	9,656,983	11,332,989
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	6,425,138	6,627,479
BASIC AND DILUTED EARNINGS PER SHARE	$ 1.50	$ 1.71

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Canadian Dollars)

Year ended December 31, 2019

	Share Capital, (Note 9) $	Retained earnings, (deficit) $	Total $
Shareholders' equity - December 31, 2018	177,678,465	109,000	177,787,465
Net income and comprehensive income	-	9,656,983	9,656,983
Proceeds from issuance of shares for cash	25,848,472	-	25,848,472
Reinvested dividends	5,767,877	-	5,767,877
Shares redeemed	(34,873,262)	-	(34,873,262)
Dividends to shareholders	-	(9,656,983)	(9,656,983)
Shareholders' equity - December 31, 2019	174,421,552	109,000	174,530,552
Dividends per share			1.50

Year ended December 31, 2018

	Share Capital, (Note 9) $	Retained earnings (deficit) $	Total $
Shareholders' equity - December 31, 2017	184,242,117	(1,016,000)	183,226,117
Net income and comprehensive income	-	11,332,989	11,332,989
Proceeds from issuance of shares for cash	22,998,073	-	22,998,073
Reinvested dividends	5,631,065	-	5,631,065
Shares redeemed	(35,192,790)	-	(35,192,790)
Dividends to shareholders	-	(10,207,989)	(10,207,989)
Shareholders' equity - December 31, 2018	177,678,465	109,000	177,787,465
Dividends per share			1.54

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(In Canadian Dollars)

	Year ended December 31, 2019 $	Year ended December 31, 2018 $
CASH FROM OPERATING ACTIVITIES		
Net income	9,656,983	11,332,989
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	1,292,201	738,184
Net changes in non-cash operating items:		
(Increase)/decrease in due from administrator in trust	(538,349)	454,735
Increase in accrued interest receivable	(1,045,103)	(943,184)
Decrease in accounts payable and accrued liabilities	(71,931)	(6,135)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,293,801	11,576,589
FINANCING ACTIVITIES		
Repayment of bank line of credit	(2,550,000)	(2,700,000)
Proceeds from issuance of common shares for cash	25,848,472	22,998,073
Cash dividends	(4,000,846)	(4,684,142)
Redemption of common shares	(34,873,262)	(35,192,790)
NET CASH USED IN FINANCING ACTIVITIES	(15,575,636)	(19,578,859)
INVESTING ACTIVITIES		
Decrease in prepaid mortgage payments	(66,995)	(147,502)
Mortgage investments	(98,931,827)	(90,805,545)
Repayment of mortgage investments	105,292,112	99,080,268
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,293,290	8,127,221
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,455	124,951
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), beginning of year	45,324	(79,627)
CASH AND CASH EQUIVALENTS, end of year (Note 5)	56,779	45,324
Additional information:		
Interest received	14,764,996	17,191,708
Interest paid	124,846	707,639

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements were approved for issue by the Board of Directors on March 19, 2020.

(b) Change in Accounting Policy

Effective January 1, 2019 the company adopted IFRS 16 - Leases ("IFRS 16") which replaced IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC- 15 Operating Leases - Incentives and SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the financial statements with a "right of use asset" and a corresponding liability. The asset is subsequently accounted for as a property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. As the Company's management and administration duties are outsourced, no transactions are affected by the newly effective standard. As such, there is no impact on the financial statements.

(c) Basis of measurement

The 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.

(d) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

2. BASIS OF PRESENTATION (Continued)

(e) 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.

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 as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Company considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The quantitative aspect of the expected credit loss begins with the use of an Autoregressive Distributed Lag ("ARDL") model. The ARDL model indicates that expected credit losses are largely explained by borrower specific information such as credit score, debt servicing ratios, borrower equity and age and are not a function of statistics or forecasts of national economic performance. As a result, the Company incorporates borrower specific information to estimate the probability of default over the life of the mortgage to estimate expected credit losses. In instances where qualitative information about a mortgage indicates that the borrower may have experienced an increase in credit risk, the Company incorporates the new information and re-estimates the probability of default. This new estimate is then used to evaluate the probability of default between the occurrence of the increased credit risk and the end of the mortgage term. In all cases, the probability of default is used as a weighting factor in determining expected credit losses on each individual mortgage within the portfolio.

IFRS 9 uses an expected credit loss (“ECL”) model to determine the provision for credit losses.

2. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Company's Finance and Risk management groups.

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modelling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

2. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. The Company defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Company believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Company defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Company derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(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 and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 10, 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.

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 calculated on the gross carrying amount for each mortgage receivable in Stage 1 and Stage 2.

(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 income and comprehensive income for the period.

(c) Mortgage investments

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The Company's business model is to hold mortgages receivable to collect cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgages losses on the statement of financial position.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless 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 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 (see Note (2)(e)(i)) when assessing if there has been a significant increase in credit risk.

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible defaults events over the life of the financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default, loss given default and exposure at default. These factors are used to estimate the ECLs for mortgages receivable classified at Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan category is assessed and the ECL estimated (on an individual basis for those mortgages in Stage 3). A loan 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 loan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mortgage investments (continued)

When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of income and comprehensive income for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessment of market conditions, and other various factors.

(e) 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.

(f) Deferred lender fee revenue

Some mortgagors may be required to pay a one time fee, referred to as a lender fee, upon initiation of their mortgage. These lender fees are netted against the related mortgages and recognized into revenue using the effective interest method.

(g) 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.

(h) Carrying value per share

Carrying value per share is calculated by dividing the shareholders' equity by the total number of issued and outstanding common shares at the end of the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. 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, and accounts payable and accrued liabilities. 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: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL 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 measured at amortized cost.

(ii) Financial liabilities:

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

(j) 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"). 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.

- IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective January 1, 2020. The Company is evaluating the impact of the adoption of these amendments.

(In Canadian Dollars)

4. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes shareholders' equity 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 targets to maintain a cash reserve (consisting of cash, cash equivalents, and the Company's approved credit line) of approximately 5% of its shareholders' equity 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 sufficient cash reserves are maintained to meet shareholder redemption requests. As at December 31, 2019 and 2018, 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. CASH AND CASH EQUIVALENTS

	As at December 31, 2019	**As at December 31, 2018**
	$	$
Bank indebtedness	(4,739)	(12,915)
Short-term investments	61,518	58,239
	56,779	45,324

6. 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 repayments 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.

7. MORTGAGE INVESTMENTS

There are 505 mortgages (December 31, 2018 - 577) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at December 31, 2019	As at December 31, 2018
	$	$
Mortgages	176,464,087	184,063,359
Allowance for impairment losses	(3,148,902)	(3,095,688)
	173,315,185	180,967,671

Breakdown of the mortgage investment portfolio by type as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Residential	309	69,254	39.9%	386	76,890	42.5%
Residential construction	128	49,443	28.5%	116	45,489	25.1%
Residential developments	11	39,110	22.6%	14	42,419	23.5%
Commercial	10	4,087	2.4%	16	4,156	2.3%
Vacant land	47	11,421	6.6%	45	12,014	6.6%
Total	505	173,315	100.0%	577	180,968	100.0%

Residential construction comprise construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.
Breakdown of the mortgage investment portfolio by location as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Ontario – East	366	116,774	67.4%	459	136,202	75.3%
Ontario – Southwest	42	27,755	16.0%	21	17,668	9.8%
Ontario – Central	45	19,007	11.0%	53	20,497	11.3%
Ontario – North	51	9,747	5.5%	43	6,566	3.5%
Quebec	1	32	0.1%	1	35	0.1%
Total	505	173,315	100.0%	577	180,968	100.0%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. As at December 31, 2019 and December 31, 2018, substantially none of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).

7. MORTGAGE INVESTMENTS (Continued)

Other key metrics related to the mortgage investment portfolio as at December 31:

	2019 #	2019 $ (000's)	2019 % of total	2018 #	2018 $ (000)'s	2018 % of total
First mortgage loans	504	173,053	99.9%	576	180,578	99.8%
Average gross loan balance		349			319	

The allowance for impairment losses is broken down by mortgage investments as follows:

Gross investments at amortized cost **As at December 31, 2019**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	2,408,779	1,698,655	0	4,107,434
Residential	65,714,923	1,243,996	2,635,674	69,594,593
Residential construction	49,168,879	56,815	339,699	49,565,393
Residential developments	26,975,258		14,475,541	41,450,799
Vacant land	10,992,141	48,734	704,993	11,745,868
	155,259,980	3,048,200	18,155,907	176,464,087

Allowance for credit losses on loans **As at December 31, 2019**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	3,459	16,834		20,293
Residential	113,974	12,741	214,283	340,998
Residential construction	105,065	9,762	7,752	122,579
Residential developments	23,735		2,316,614	2,340,349
Vacant land	22,516	2,163	300,004	324,683
	268,749	41,500	2,838,653	3,148,902

(In Canadian Dollars)

7. MORTGAGE INVESTMENTS (Continued)

The allowance for impairment losses is broken down by mortgage investments as follows:

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

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at December 31, 2019, there are 16 mortgages totaling $18,155,907 (December 31, 2018 - 27 mortgages totaling $22,043,064) that are past due and 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 loss is made.

(In Canadian Dollars)

7. MORTGAGE INVESTMENTS (Continued)

The fair value of collateral held against impaired mortgages at December 31, 2019 was approximately $21,317,000 (December 31, 2018 - $29,443,500).

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

	2019	2018
	$	$
Balance - beginning of year	3,095,688	3,500,195
Deduct: realized losses for year	(1,238,987)	(1,142,691)
Add: provision for credit losses for year	1,292,201	738,184
Balance - end of year	3,148,902	3,095,688

Principal repayments based on contractual maturity dates are as follows:

	$
2020	162,378,000
2021	14,086,000
Thereafter	87
Total	176,464,087

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 without penalty. The weighted average interest rate of the mortgages as at December 31, 2019 was 9.44% (December 31, 2018 - 9.10%).

Mortgages past due but not impaired are as follows:

	2019	2018
	$	$
1 to 30 days	2,603,431	2,794,179
31 - 90 days	2,258,383	1,224,841
over 90 days	789,817	808,907
Total	5,651,631	4,827,927

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. 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. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. The maximum exposure to credit risk at December 31, 2019 is the carrying values of its mortgage investments, including accrued interest receivable, which total $185,555,275 (December 31, 2018 - $192,162,658). 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.

7. MORTGAGE INVESTMENTS (Continued)

Credit risk (Continued)

When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

There are no significant concentrations of credit risk as the average mortgage amount as at December 31, 2019 was $349,434 (December 31, 2018 - $319,001) and the largest mortgage was $13,432,040 (December 31, 2018 - $13,432,040) with a recorded impairment of $0 (December 31, 2018 - $0).

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 at the option of the borrower.

Fair value is the price that would be received to sell an assets 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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

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 December 31, 2019, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $114,786 (December 31, 2018 - $186,717) and dividends payable totaling $209,704 (December 31, 2018 - $321,444). Accounts payable and accrued liabilities along with dividends payable are all 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 outstanding of $11,330,000 as at December 31, 2019 (December 31, 2018 - $13,880,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of $26,104,000 which are expected to be funded within 1 year. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed. It is the Company’s experience that a portion of the unfunded commitments on existing mortgages will never be drawn.

7. MORTGAGE INVESTMENTS (Continued)

Liquidity risk (Continued)

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of shareholders' equity. As at December 31, 2019, the Company's committed borrowing facilities represented approximately 15% of shareholders' equity (December 31, 2018 - 15% of shareholders' equity). 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.

8. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank with a limit of an amount equal to 15% of shareholder's equity of the Company subject to a maximum limit of $29,000,000. The line of credit 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 3.95% (December 31, 2018 - 3.95%) plus 1%.

Financial covenants require the Company to maintain a minimum level for shareholders' equity, debt to equity ratio, and percentage of residential mortgages. The Company was in compliance with all such covenants as at December 31, 2019 and as at December 31, 2018.

(In Canadian Dollars)

9. SHARE CAPITAL

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the year to issued and outstanding shares of the Company:

	Year ended December 31, 2019		**Year ended December 31, 2018**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of year	5,926,249	177,678,465	6,141,401	184,242,117
Issued for cash	861,616	25,848,472	769,862	22,998,073
Issued through dividend reinvestment plan	192,263	5,767,877	188,184	5,631,065
Redeemed for cash	(1,162,442)	(34,873,262)	(1,173,198)	(35,192,790)
Balance, end of year	5,817,686	174,421,552	5,926,249	177,678,465

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued 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 year the Company redeemed for cash 1,162,442 common shares at the price of $30.00 per share for total proceeds of $34,873,262. For the year ended December 31, 2018, the Company redeemed 1,173,198 common shares of which 1,151,842 were redeemed at $30.00 per share and the balance were redeemed at the price in effect at the time which ranged from $29.84 to $29.95 per share for total proceeds of $35,192,790.

The Company had no potentially dilutive instruments as at December 31, 2019 or December 31, 2018.

(In Canadian Dollars)

10. 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. (the "Manager") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the year ended December 31, 2019 were $1,933,044 (2018 - $2,163,630) and the total fees paid to the Manager for the year ended December 31, 2019 including applicable sales taxes were $2,184,339 (2018 - $2,444,962) under these contracts. All related party transactions noted above were in the normal course of business.

11. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

As at December 31, 2019	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	56,779	56,779
Due from administrator in trust	Measured at amortized cost	658,402	658,402
Accrued interest receivable	Measured at amortized cost	12,240,090	12,240,090
Mortgage investments	Measured at amortized cost	173,315,185	173,315,185
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	11,330,000	11,330,000
Dividends payable	Financial liabilities - amortized cost	209,704	209,704
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	114,786	114,786

As at December 31, 2018	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	45,324	45,324
Due from administrator in trust	Measured at amortized cost	120,053	120,053
Accrued interest receivable	Measured at amortized cost	11,194,987	11,194,987
Mortgage investments	Measured at amortized cost	180,967,671	180,967,671
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	13,880,000	13,880,000
Dividends payable	Financial liabilities - amortized cost	321,444	321,444
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	186,717	186,717

11. FAIR VALUE MEASUREMENTS (Continued)

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, dividends payable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

12. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling $102,739 (2018 - $122,264) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 10).

13. CHANGES TO PRESENTATION OF COMPARATIVE FIGURES

The Corporation is a public issuer under Canadian securities law and, in 2020, is transitioning from regulatory oversight as an investment fund to regulatory oversight as a corporate finance issuer. Prior to 2019, the Corporation’s financial statements were formatted and prepared in accordance with IFRS and National Instrument 81-106 Continuous Disclosure for Investment Funds. Commencing with the year ended December 31, 2019, the Corporation’s financial statements following the requirements of IFRS and National Instrument 51-102 Continuous Disclosure Obligations for corporate finance issuers.

As an investment fund, the Statement of Financial Position represented a reconciliation to the Corporation’s Net Assets, or shareholders’ equity position. As a corporate finance issuer, the Statement of Financial Position has been modified to present the individual components of shareholders’ equity comprised of share capital and retained earnings.

The comparative figures presented for the year ended December 31, 2018 on the Statement of Financial Position have been regrouped to conform with this new format.

In addition, certain comparative figures on the Statement of Income and Comprehensive Income have been consolidated where separate disclosure is not required under corporate finance regulations and where such consolidation has been considered by management to be immaterial to the users of these financial statements.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in significant economic uncertainty. The Corporation continues to monitor the potential impact COVID-19 could have on its business activities including potential changes related to default rates from borrowers, demand for borrowing or the value of the underlying security of the mortgage portfolio. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments.

EXHIBIT 3

Unaudited Interim Financial Statements of Frontenac Mortgage Investment Corporation for the Period Ended March 31, 2020

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(In Canadian Dollars)

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM FINANCIAL STATEMENTS
(UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2020 AND 2019

CONTENTS

FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	As at March 31, 2020 $	As at December 31, 2019 $
ASSETS		
Cash and cash equivalents (Note 6)	58,479	56,779
Due from administrator in trust (Note 7)	737,443	658,402
Accrued interest receivable	12,814,885	12,240,090
Mortgage investments (Note 8)	167,262,298	173,315,185
Prepaid expenses	18,605	16,200
Total assets	180,891,710	186,286,656
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank line of credit (Note 9)	1,600,000	11,330,000
Dividends payable	275,492	209,704
Accounts payable and accrued liabilities	129,084	114,786
Prepaid mortgage payments	55,934	101,614
Total liabilities	2,060,510	11,756,104
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	178,722,200	174,421,552
Retained earnings	109,000	109,000
Total shareholders' equity	178,831,200	174,530,552
Total liabilities and shareholders' equity	180,891,710	186,286,656
NUMBER OF SHARES ISSUED AND OUTSTANDING (Note 10)	5,961,040	5,817,686
CARRYING VALUE PER SHARE	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

___*Robert Barnes* (signed)__________ Director

___*Eric Dinelle* (signed)__________ Director

The accompanying notes are an integral part of these interim financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

	Three months ended March 31, 2020 $	Three months ended March 31, 2019 $
INTEREST INCOME	3,848,376	3,768,868
EXPENSES		
Management and administration fees (Note 11)	965,293	996,981
Audit fees	54,068	30,025
Director fees	29,070	25,567
General and operating expenses	81,540	82,121
Interest on bank line of credit	73,466	55,607
Legal fees	75,222	38,067
Provision for mortgage impairment losses (Note 8)	280,866	187,166
	1,559,525	1,415,534
NET INCOME AND COMPREHENSIVE INCOME	2,288,851	2,353,334
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	5,914,344	6,080,966
BASIC AND DILUTED EARNINGS PER SHARE	$ 0.39	$ 0.39

The accompanying notes are an integral part of these interim financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

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

Three months ended March 31, 2020

	Share Capital, (Note 10) $	Retained earnings, (deficit) $	Total $
Shareholders' equity - December 31, 2019	174,421,552	109,000	174,530,552
Net income and comprehensive income	-	2,288,851	2,288,851
Proceeds from issuance of shares for cash	3,691,392	-	3,691,392
Reinvested dividends	1,469,588	-	1,469,588
Shares redeemed	(860,332)	-	(860,332)
Dividends to shareholders	-	(2,288,851)	(2,288,851)
Shareholders' equity - March 31, 2020	178,722,200	109,000	178,831,200
Dividends per share			0.39

Three months ended March 31, 2019

	Share Capital, (Note 10) $	Retained earnings (deficit) $	Total $
Shareholders' equity - December 31, 2018	177,678,465	109,000	177,787,465
Net income and comprehensive income	-	2,353,334	2,353,334
Proceeds from issuance of shares for cash	7,724,252	-	7,724,252
Reinvested dividends	1,397,219	-	1,397,219
Shares redeemed	(332,666)	-	(332,666)
Dividends to shareholders	-	(2,353,334)	(2,353,334)
Shareholders' equity - March 31, 2019	186,467,270	109,000	186,576,270
Dividends per share			0.39

The accompanying notes are an integral part of these interim financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In Canadian Dollars)

	Three months ended March 31, 2020 $	Three months ended March 31, 2019 $
CASH FROM OPERATING ACTIVITIES		
Net income	2,288,851	2,353,334
Items not requiring an outlay of cash:		
Provision for mortgage impairment losses	280,866	187,166
Net changes in non-cash operating items:		
Increase in due from administrator in trust	(79,041)	(453,661)
Increase in accrued interest receivable	(574,795)	(36,903)
Increase in prepaid expenses	(2,405)	(2,405)
Increase/(Decrease) in accounts payable and accrued liabilities	14,298	(108,241)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,927,774	1,939,290
FINANCING ACTIVITIES		
Repayment of bank line of credit	(9,730,000)	(13,880,000)
Proceeds from issuance of common shares for cash	3,691,392	7,724,252
Cash dividends	(753,475)	(941,469)
Redemption of common shares	(860,332)	(332,666)
NET CASH USED IN FINANCING ACTIVITIES	(7,652,415)	(7,429,883)
INVESTING ACTIVITIES		
Decrease in prepaid mortgage payments	(45,680)	(80,884)
Mortgage investments	(15,873,785)	(13,186,424)
Repayment of mortgage investments	21,645,806	27,621,014
NET CASH PROVIDED BY INVESTING ACTIVITIES	5,726,341	14,353,706
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,700	8,863,113
CASH AND CASH EQUIVALENTS, beginning of period	56,779	45,324
CASH AND CASH EQUIVALENTS, end of period (Note 6)	58,479	8,908,437

Additional information:

Interest received	3,273,581	3,731,965
Interest paid	73,466	55,607

1. IMPACT OF COVID-19 OUTBREAK

The coronavirus disease 2019 ("**COVID-19**") outbreak was declared a pandemic by the World Health Organization in March, 2020. Steps taken by governments around the world to contain the spread of the COVID-19 virus including legislated closures of non-essential businesses and services and social distancing measures have slowed economic activity and have resulted in layoffs and lost jobs as businesses struggle with the economic effects. The Province of Ontario, Frontenac's primary lending market, did not implement the closure of non-essential businesses until late March 2020. Accordingly, the operating results of Frontenac for the period ended March 31, 2020 were largely unaffected by COVID-19 related issues.

Beginning in late March, the Company began operating under its business continuity plan with most management and staff of the Company, and of the Manager and the Administrator, working remotely pursuant to social distancing guidelines. Despite working remotely, the Manager and Administrator have been able to execute their respective functions effectively under the business continuity plan.

As at March 31, 2020, the Company had not experienced any loan impairments resulting from COVID-19 economic effects for the following reasons: (i) the majority of Frontenac's loans relate to owner-occupied principal residences and, in down economic times, cash outflows related to personal housing are among the last to be cut by , (ii) there are unprecedented government financial supports available that will assist borrowers in staying current with their mortgage obligations; and (iii) the current situation has created an industry-wide willingness to work with borrowers under deferred payment programs for qualified borrowers.

The impact of COVID-19 on the future performance of the Company will depend largely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. While the operations and performance of the Company have not been significantly impacted as at March 31, 2020, given the significant uncertainty, management's judgment regarding COVID-19 impacts on Company performance could change in the future as it is dependent on the outbreak's impact on borrowers ability to meet their mortgage obligations and, failing that, on any change in the value of the underlying real estate security for those loans, the outcomes of which cannot be reasonably estimated at this time.

2. 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").

3. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim financial statements of the Company have been prepared by management in accordance with the International Accounting Standards (“IAS”) 34, Interim Financial Reporting as issued by the International Standards Board (“IASB”). The preparation of these unaudited interim financial statements is based on accounting policies and practices in accordance with International Financial Reporting Standards (“IFRS”). These accounting policies have been used throughout all periods presented in the financial statements.

These financial statements were approved for issue by the Board of Directors on May 07, 2020.

(b) Change in Accounting Policy

Effective January 1, 2020 the IASB implemented amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarified the definition of "material" and aligned the definition used in the Conceptual Framework and the standards themselves. The information provided in the Company financial statements is compliant with the issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(c) Basis of measurement

The 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.

(d) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(e) 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.

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:

3. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

(i) Mortgage investments:

The Company is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Company considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Company considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The quantitative aspect of the expected credit loss begins with the use of an Autoregressive Distributed Lag ("ARDL") model. The ARDL model indicates that expected credit losses are largely explained by borrower specific information such as credit score, debt servicing ratios, borrower equity and age and are not a function of statistics or forecasts of national economic performance. As a result, the Company incorporates borrower specific information to estimate the probability of default over the life of the mortgage to estimate expected credit losses. In instances where qualitative information about a mortgage indicates that the borrower may have experienced an increase in credit risk, the Company incorporates the new information and re-estimates the probability of default. This new estimate is then used to evaluate the probability of default between the occurrence of the increased credit risk and the end of the mortgage term. In all cases, the probability of default is used as a weighting factor in determining expected credit losses on each individual mortgage within the portfolio.

IFRS 9 uses an expected credit loss (“ECL”) model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Company is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Company is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Company’s Finance and Risk management groups.

3. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

Upon initial recognition of financial assets, the Company recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Company then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Company's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modelling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

As at March 31, 2020, the Company has not made any adjustments to its ECL modelling to account for potential impacts arising from the COVID-19 pandemic. As at March 31, 2020, the Company had not experienced any significant increases in credit risk resulting from COVID-19 economic effects nor had any deferral arrangements been made with borrowers on account of COVID-19. The impact of COVID-19 on the ECL model of the Company will depend entirely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. Further commentary on the impact of COVID-19 is provided in Note 1 to these financial statements.

3. BASIS OF PRESENTATION (Continued)

(e) Use of estimates and judgements (Continued)

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Company, such as significant financial difficulty of the borrower. The Company defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Company believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Company defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Company derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Company determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(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 and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 12, 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.

4. 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 calculated on the gross carrying amount for each mortgage receivable in Stage 1 and Stage 2.

(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 income and comprehensive income for the period.

(c) Mortgage investments

Mortgages receivable are a financial asset and are recognized initially at fair value and are subsequently carried at amortized cost using the effective interest method. The Company's business model is to hold mortgages receivable to collect cash flows that represent solely payments of principal and interest. Mortgages receivable are assessed for impairment at the end of each reporting period in accordance with IFRS 9 as outlined below and are presented net of provisions for mortgages losses on the statement of financial position.

IFRS 9 uses an ECL model to determine the provision for credit losses. The ECL model is forward looking and results in a provision for mortgage losses being recorded on the financial statements regardless 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 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 (see Note (3)(e)(i)) when assessing if there has been a significant increase in credit risk.

The ECL model requires the recognition of credit losses equal to 12-month ECLs for Stage 1 financial assets and ECLs for the remaining life of the financial assets (lifetime expected credit losses) for financial assets classified as Stage 2 and 3. The lifetime expected credit losses represent the expected loss in value due to possible defaults events over the life of the financial instrument weighted by the likelihood of a loss. Three factors are primarily used to measure ECLs: probability of default, loss given default and exposure at default. These factors are used to estimate the ECLs for mortgages receivable classified at Stage 1. When mortgages receivable are considered to have experienced a significant increase in credit risk (Stage 2) or are considered to be impaired (Stage 3), each loan category is assessed and the ECL estimated (on an individual basis for those mortgages in Stage 3). A loan 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 loan.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Mortgage investments (Continued)

When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss

(d) Properties held for sale under foreclosure

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of the outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. The intention of the Company is to sell foreclosed properties as soon as possible in a commercially responsible manner. At each reporting date, foreclosed properties held for sale are measured at fair value. Any unrealized changes in the fair value of the property held for sale under foreclosure are recorded in the statement of income and comprehensive income for the period. The carrying value of properties held for sale under foreclosure is determined by its estimated fair value net of selling expenses taking into consideration independent appraisals, assessment of market conditions, and other various factors.

(e) 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.

(f) 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.

(g) Carrying value per share

Carrying value per share is calculated by dividing the shareholders' equity by the total number of issued and outstanding common shares at the end of the period.

(h) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 8.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial assets and liabilities (Continued)

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, and accounts payable and accrued liabilities. 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: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL 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 measured at amortized cost.

(ii) Financial liabilities:

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

5. CAPITAL STRUCTURE AND FINANCIAL POLICIES

The Company's definition of capital includes shareholders' equity 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 targets to maintain a cash reserve (consisting of cash, cash equivalents, and the Company's approved credit line) of approximately 5% of its shareholders' equity 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 sufficient cash reserves are maintained to meet shareholder redemption requests. As at March 31, 2020 and 2019, 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 periods.

(In Canadian Dollars)

6. CASH AND CASH EQUIVALENTS

	As at March 31, 2020	As at December 31, 2019
	$	$
Cash (Bank indebtedness)	(3,266)	(4,739)
Short-term investments	61,745	61,518
	58,479	56,779

7. 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 repayments 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.

8. MORTGAGE INVESTMENTS

There are 480 mortgages (December 31, 2019 - 505) held which are a combination of mainly first and second mortgages secured by residential, commercial property, and property under development. Mortgage investments consist of the following:

	As at March 31, 2020	As at December 31, 2019
	$	$
Mortgages	170,441,228	176,464,087
Allowance for impairment losses	(3,178,930)	(3,148,902)
	167,262,298	173,315,185

8. MORTGAGE INVESTMENTS (Continued)

Breakdown of the mortgage investment portfolio by type:

		March 31, 2020			December 31, 2019	
	#	$ (000's)	% of total	#	$ (000's)	% of total
Residential	298	65,244	39.0%	309	69,254	39.9%
Residential construction	115	47,892	28.6%	128	49,443	28.5%
Residential developments	11	39,038	23.3%	11	39,110	22.6%
Commercial	9	3,759	2.3%	10	4,087	2.4%
Vacant land	47	11,329	6.8%	47	11,421	6.6%
Total	480	167,262	100.0%	505	173,315	100.0%

Residential construction comprise construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

Breakdown of the mortgage investment portfolio by location:

		March 31, 2020			December 31, 2019	
	#	$ (000's)	% of total	#	$ (000's)	% of total
Ontario – East	344	115,306	68.9%	366	116,774	67.4%
Ontario – Southwest	45	25,004	14.9%	42	27,755	16.0%
Ontario – Central	39	17,843	10.7%	45	19,007	11.0%
Ontario – North	51	9,077	5.4%	51	9,747	5.5%
Quebec	1	32	0.1%	1	32	0.1%
Total	480	167,262	100.0%	505	173,315	100.0%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. As at March 31, 2020 and December 31, 2019, substantially none of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).

8. MORTGAGE INVESTMENTS (Continued)

Other key metrics related to the mortgage investment portfolio:

	#	March 31, 2020 $ (000's)	% of total	#	December 31, 2019 $ (000)'s	% of total
First mortgage loans	479	167,003	99.9%	504	173,053	99.9%
Average gross loan balance		355			349	

The allowance for impairment losses is broken down by mortgage investments as follows:

Gross investments at amortized cost **As at March 31, 2020**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	2,393,465	380,850	992,933	3,767,248
Residential	59,576,496	2,112,144	3,884,359	65,572,999
Residential construction	46,538,153	56,815	1,423,184	48,018,152
Residential developments	26,914,084		14,511,789	41,425,873
Vacant land	10,690,637	203,828	762,491	11,656,956
	146,112,835	2,753,637	21,574,756	170,441,228

Allowance for credit losses on loans **As at March 31, 2020**

	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	3,861	3,940		7,801
Residential	104,899	61,604	162,771	329,274
Residential construction	96,588	21,137	8,091	125,816
Residential developments	20,097		2,367,611	2,387,708
Vacant land	22,321	2,981	303,029	328,331
	247,766	89,662	2,841,502	3,178,930

(In Canadian Dollars)

8. MORTGAGE INVESTMENTS (Continued)

The allowance for impairment losses is broken down by mortgage investments as follows:

Gross investments at amortized cost	As at December 31, 2019			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	2,408,779	1,698,655		4,107,434
Residential	65,714,923	1,243,996	2,635,674	69,594,593
Residential construction	49,168,879	56,815	339,699	49,565,393
Residential developments	26,975,258		14,475,541	41,450,799
Vacant land	10,992,141	48,734	704,993	11,745,868
	155,259,980	3,048,200	18,155,907	176,464,087

Allowance for credit losses on loans	As at December 31, 2019			
	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Commercial	3,459	16,834		20,293
Residential	113,974	12,741	214,283	340,998
Residential construction	105,065	9,762	7,752	122,579
Residential developments	23,735		2,316,614	2,340,349
Vacant land	22,516	2,163	300,004	324,683
	268,749	41,500	2,838,653	3,148,902

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at March 31, 2020, there are 19 mortgages totaling $21,574,756 (December 31, 2019 - 16 mortgages totaling $18,155,907) that are past due and 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 loss is made.

The fair value of collateral held against impaired mortgages at March 31, 2020 was approximately $26,433,500 (December 31, 2019 - $21,317,000).

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

	Three months ended March 31, 2020 $	Three months ended March 31, 2019 $
Balance - beginning of period	3,148,902	3,095,688
Deduct: realized losses for period	(250,838)	(726,664)
Add: provision for credit losses for period	280,866	187,166
Balance - end of period	3,178,930	2,556,190

(In Canadian Dollars)

8. MORTGAGE INVESTMENTS (Continued)

Principal repayments based on contractual maturity dates are as follows:

	$
Next 12 months to March 31, 2021	156,728,000
Following 12 months to March 31, 2022	13,713,000
Thereafter	228
Total	170,441,228

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 without penalty. The weighted average interest rate of the mortgages as at March 31, 2020 was 9.43% (December 31, 2019 - 9.44%).

Mortgages past due but not impaired are as follows:

	March 31, 2020 $	December 31, 2019 $
1 to 30 days	3,438,229	2,603,431
31 - 90 days	1,899,725	2,258,383
over 90 days	853,912	789,817
Total	6,191,866	5,651,631

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage lending activities. Fluctuations in real estate values may reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counterparty fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure. 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. This would include ensuring, at origination, that the value of the mortgage never exceeds 80% of the appraised value of the property. Due to the short term duration of the financial assets held, the quality of the collateral tends to be impacted more so by specific factors relating to the borrower, such as their ability to maintain the property, as opposed to market fluctuations. The maximum exposure to credit risk at March 31, 2020 is the carrying values of its mortgage investments, including accrued interest receivable, which total $180,077,183 (December 31, 2019 - $185,555,275). 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.

When it is determined that there is a shortfall resulting after the sale of the property held as collateral, the Company will instruct legal counsel to pursue the mortgagor and or, if applicable, the guarantor, provided there is reasonable assurance of recovery. Likewise, in some cases further collection action is taken against other parties involved in the mortgage transaction when it is reasonable to assume they may have been negligent in fulfilling their responsibilities. In all cases, the shortfall is written off immediately and any recoveries included into income when received.

8. MORTGAGE INVESTMENTS (Continued)

Credit risk (Continued)

There are no significant concentrations of credit risk as the average mortgage amount as at March 31, 2020 was $355,086 (December 31, 2019 - $349,434) and the largest mortgage was $13,432,040 (December 31, 2019 - $13,432,040) with a recorded impairment of $0 (December 31, 2019 - $0).

The impact of the current COVID-19 outbreak is discussed in Note 1 to these financial statements.

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 at the option of the borrower.

Fair value is the price that would be received to sell an assets 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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. Typically, the fair value of the Company's mortgage investments approximate their carrying amounts given the amounts consist of short-term loans that are repayable at the option of the borrower at any time without significant penalties.

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 March 31, 2020, the Company's financial obligations and commitments consisted of accounts payable and accrued liabilities totaling $129,084 (December 31, 2019 - $114,786) and dividends payable totaling $275,492 (December 31, 2019 - $209,704). Accounts payable and accrued liabilities along with dividends payable are all 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 outstanding of $1,600,000 as at March 31, 2020 (December 31, 2019 - $11,330,000).

The Company is contractually committed to provide additional funds on existing mortgages in the amount of $21,280,000 which are expected to be funded within 1 year. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed. It is the Company’s experience that a portion of the unfunded commitments on existing mortgages will never be drawn.

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range between 10% to 15% of shareholders' equity. As at March 31, 2020, the Company's committed borrowing facilities represented approximately 15% of shareholders' equity (December 31, 2019 - 15% of shareholders' equity). 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.

(In Canadian Dollars)

9. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a major Canadian chartered bank with a limit of an amount equal to 15% of assets under administration of the Company subject to a maximum limit of $29,000,000. The line of credit 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 3.45% (December 31, 2019 - 3.95%) plus 1%.

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

10.SHARE CAPITAL

The beneficial interests of the Company are represented by a single class of shares, designated as common shares, which are unlimited in number and without par value. Each share carries a single vote at any meeting of shareholders and carries the right to participate pro rata in any dividends.

Changes during the periods to issued and outstanding shares of the Company:

	Three months ended March 31, 2020		**Year ended December 31, 2019**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of period	5,817,686	174,421,552	5,926,249	177,678,465
Issued for cash	123,046	3,691,392	861,616	25,848,472
Issued through dividend reinvestment plan	48,986	1,469,588	192,263	5,767,877
Redeemed for cash	(28,678)	(860,332)	(1,162,442)	(34,873,262)
Balance, end of period	5,961,040	178,722,200	5,817,686	174,421,552

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as cash, the dividends issued 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 March 31, 2020, the Company redeemed for cash 28,678 common shares at the price of $30.00 per share for total proceeds of $860,332. During the period ended March 31, 2019, the Company redeemed 11,089 common shares at $30.00 per share for total proceeds of $332,667.

The Company had no potentially dilutive instruments as at March 31, 2020, December 31, 2019 or March 31, 2019.

(In Canadian Dollars)

11. 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. (the "Manager") provides portfolio management advice and investment counsel and acts as share registrar and transfer agent for the Company.

The companies are related in that they share common management. Pillar and the Manager each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the three months ended March 31, 2020 were $453,189 (March 31, 2019 - $468,066) and the total fees paid to the Manager for the period ended March 31, 2020 including applicable sales taxes were $512,104 (March 31, 2019 - $528,915) under these contracts. All related party transactions noted above were in the normal course of business.

12. FAIR VALUE MEASUREMENTS

The following table shows the carrying amounts and fair values of assets and liabilities:

As at March 31, 2020	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	58,479	58,479
Due from administrator in trust	Measured at amortized cost	737,443	737,443
Accrued interest receivable	Measured at amortized cost	12,814,885	12,814,885
Mortgage investments	Measured at amortized cost	167,262,298	167,262,298
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	1,600,000	1,600,000
Dividends payable	Financial liabilities - amortized cost	275,492	275,492
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	129,084	129,084

As at December 31, 2019	**Carrying Value Basis**	**Carrying Value**	**Fair Value**
ASSETS:		$	$
Cash and cash equivalents	Fair value through profit & loss	56,779	56,779
Due from administrator in trust	Measured at amortized cost	658,402	658,402
Accrued interest receivable	Measured at amortized cost	12,240,090	12,240,090
Mortgage investments	Measured at amortized cost	173,315,185	173,315,185
LIABILITIES:			
Bank line of credit	Financial liabilities - amortized cost	11,330,000	11,330,000
Dividends payable	Financial liabilities - amortized cost	209,704	209,704
Accounts payable and accrued liabilities	Financial liabilities - amortized cost	114,786	114,786

12. FAIR VALUE MEASUREMENTS (Continued)

The valuation techniques and the inputs used for the Company's financial instruments are as follows:

(a) Mortgage Investments

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. The discounted cash flow analysis performed assumes that all mortgages will be held until maturity and not paid out early by the borrower and at a weighted average interest rate for loans advanced within three months of the period end. When collection of principal on a particular mortgage investment is no longer reasonably assured, the fair value of the mortgage is reduced to reflect the estimated net realizable recovery from the collateral securing the loan. Generally, the fair value of the mortgage investments approximate their carrying values given their short-term nature and the option of borrowers to repay at any time. Accordingly, the fair value of the mortgage investments is based on level 3 inputs.

(b) Other financial assets and liabilities

The fair values of due from administrator in trust, accrued interest receivable, bank line of credit, dividends payable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities.

13. KEY MANAGEMENT PERSONNEL COMPENSATION

The Company paid directors fees totaling $29,070 (March 31, 2019 - $25,567) to the members of the Board of Directors and Independent Review Committee for their services to the Company. The compensation to the senior management of the Manager is paid through the management fees paid to the Manager (Note 11).

In addition, certain comparative figures on the Statement of Income and Comprehensive Income have been consolidated where separate disclosure is not required under corporate finance regulations and where such consolidation has been considered by management to be immaterial to the users of these financial statements.

EXHIBIT 4

Management Discussion and Analysis
for the Financial Year Ended December 31, 2018

MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2018

FRONTENAC MORTGAGE INVESTMENT CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED DECEMBER 31, 2018

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar. This Management Discussion & Analysis ("MD&A") is prepared in accordance with National Instrument 51-102 "Continuous Disclosure" ("NI 51-102").

Prior to the 2020 year, the Corporation reported as a non-redeemable investment fund and its financial reporting was prepared in accordance with IFRS and National Instrument 81-106 "Continuous Disclosures for Investment Funds" ("NI 81-106"). In accordance with NI 81-106, the Corporation filed a Management Report on Fund Performance ("MRFP") together with its annual audited financial statements for the year ended December 31, 2018 and prior years. These filings are accessible through the SEDAR website at www.sedar.com. This MD&A has been prepared as of March 23, 2020, without hindsight, to meet the disclosure requirements of the Corporation's prospectus dated May, 2020 in form National Instrument 41-401F1 for non-investment funds in relation to the Corporation's audited financial statements for the year ended December 31, 2018. Any forward-looking information, including any discussion of known trends, demands, commitments, events, or uncertainties that are reasonably likely to have an effect on the Corporation's business are presented on the basis of the knowledge of management of the Corporation as of March 15, 2019, the date of the audit report for the financial statements for the year ended December 31, 2018.

This MD&A should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2018 and 2017.

OUR BUSINESS

Frontenac Mortgage Investment Corporation (the "Corporation") is a non-bank lender that operates as a mortgage investment corporation as defined under the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity while providing shareholders with a stable stream of dividends from the Corporation's investments.

The Corporation achieves its investment objective predominantly by lending on the security of short-term residential first mortgages in the province of Ontario. The mortgage loans 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.

W.A. Robinson Asset Management Ltd. (the "Manager") manages the Corporation's investment portfolio and manages the distribution of the Corporation's shares. Pillar Financial Services Inc. (the "Administrator") serves as the Corporation's loan originator, underwriter, and servicer.

As a mortgage investment corporation, the Corporation does not pay corporate income taxes on any earnings that are distributed out to its shareholders provided that it continues to meet the requirements of subsection 130.1(6) of the Income Tax Act (Canada). Dividends received by shareholders are generally treated as interest income for personal income tax purposes.

HIGHLIGHTS

Frontenac Mortgage Investment Corporation continues to meet its primary objective of offering its shareholders capital preservation while providing a stable stream of monthly dividend income. The carrying value per share was at $30 at December 31, 2018 and $29.84 at December 31, 2017 with a dividend yield, assuming dividends are re-invested under the Corporation's dividend re-investment plan, of 5.88% for 2018 and 4.22% for 2017.

As at December 31, 2018, the Corporation's assets totaled $192.3 million including a mortgage investment portfolio totaling $180.9 million with shareholder's equity of $177.8 million. These figures are down from December 31, 2017, when the Corporation's assets totaled $200.8 million including a mortgage investment portfolio of $189.9 million with shareholders' equity of $183.2 million.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation's mortgage investment portfolio totaled $180,967,671 as at December 31, 2018 as compared to $189,980,578 as at December 31, 2017.

Breakdown of the mortgage investment portfolio by type as at December 31:

	2018			2017		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Residential	386	76,890	42.5%	433	90,360	47.6%
Residential construction	116	45,489	25.1%	115	31,739	16.7%
Residential developments	14	42,419	23.5%	15	49,310	26.0%
Commercial	16	4,156	2.3%	18	5,443	2.9%
Vacant land	45	12,014	6.6%	57	13,129	6.9%
Total	577	180,968	100.0%	638	189,891	100.0%

Residential construction comprise construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

The Corporation has strategically decided that the percentage of the portfolio dedicated to residential developments will be reduced over the next few years to instead focus on its rural residential and residential construction core business.

Breakdown of the mortgage investment portfolio by location as at December 31:

	2018			2017		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Ontario – East	459	136,202	75.3%	512	133,734	70.4%
Ontario – Southwest	21	17,668	9.8%	55	20,138	10.6%
Ontario – Central	53	20,497	11.3%	22	28,991	15.3%
Ontario – North	43	6,566	3.5%	47	6,948	3.6%
Quebec	1	35	0.1%	2	170	0.1%
Total	577	180,968	100.0%	638	189,981	100.0%
Loans on Ontario rural property	361	112,100	61.9%	399	116,316	61.2%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. Rural properties comprise postal codes designated as rural general delivery.

As at December 31, 2018 and December 31, 2017, substantially none of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).

Breakdown of the mortgage investment portfolio by interest rate as at December 31:

	2018			2017		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
5%	3	3,321	1.8%	4	10,883	5.7%
6%	1	7,528	4.2%			
7%	13	3,285	1.8%	23	9,135	4.8%
8%	64	27,207	15.0%	125	40,801	21.5%
9%	179	43,785	24.2%	193	44,265	23.3%
10%	247	70,030	38.7%	223	56,729	29.9%
11%	35	9,218	5.1%	27	8,976	4.7%
12%	35	16,594	9.2%	43	19,192	10.1%
Total	577	180,968	100.0%	638	189,981	100.0%

Other key metrics related to the mortgage investment portfolio as at December 31:

	2018			2017		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
First mortgage loans	574	180,578	99.8%	636	189,582	99.8%
Average gross loan balance		319			304	

RESULTS OF OPERATIONS

Financial Summary

(all figures presented are for year ended December 31)

	2018 $	2017 $	2016 $
Interest income	18,134,892	16,178,501	17,580,995
Management & administration fees	4,608,592	4,229,612	4,121,544
Interest on credit line	707,639	54,372	168,271
Provision for mortgage impairment losses	738,184	2,817,427	1,662,654
Other operating expenses	747,488	730,422	717,278
Total operating expenses	6,801,903	7,831,833	6,669,747
Net income and comprehensive income	11,332,989	8,346,668	10,911,248
Total mortgage investments – at Dec 31	180,967,671	189,980,578	175,783,333
Total assets – at Dec 31	192,344,235	200,823,369	192,809,060
Total shareholders' equity – at Dec 31	177,787,465	183,226,117	191,904,019
Per share data:			
Revenue	2.74	2.46	2.82
Earnings – basic & fully diluted	1.71	1.27	1.75
Dividends per common share	1.54	1.43	1.75
Carrying value per common share – at Dec 31	30.00	29.84	30.00

Results of Operations – Year Ended December 31, 2018

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 provision for impairment 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 (98.3%) 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.

Summary of Quarterly Results - (Unaudited)

(All figures in thousands except per share figures. Q1 is three months ended March 31; Q2 is three months ended June 30; Q3 is three months ended September 30; Q4 is three months ended December 31)

	Q4 2018 $	Q3 2018 $	Q2 2018 $	Q1 2018 $	Q4 2017 $	Q3 2017 $	Q2 2017 $	Q1 2017 $
Interest income	4,218	4,654	4,824	4,438	4,346	4,213	3,863	3,757
Management & admin fees	1,125	1,196	1,173	1,114	1,059	1,072	1,073	1,025
Interest on credit line	95	208	234	171	53	-	-	1
Provision for impairment losses	(172)	181	393	336	1,786	533	316	183
Other operating expenses	246	178	166	157	163	197	201	170
Total operating expenses	1,294	1,762	1,967	1,779	3,061	1,802	1,590	1,379
Net income and comprehensive income	2,923	2,892	2,857	2,659	1,285	2,411	2,273	2,378
Earnings per share – basic and fully diluted	0.443	0.429	0.434	0.414	0.192	0.363	0.344	0.366

Results of Operations – Three Months Ended December 31, 2018

Net income and comprehensive income for the Corporation for the three months ended December 31, 2018 (“Q4 2018”) increased on a gross basis to $2,923,801 from $1,284,993 for the three months ended December 31, 2017 (“Q4 2017”) while, on a per share basis, net earnings increased to $0.443 from $0.192 per common share.

Revenues for the Corporation for Q4 2018 decreased on a gross basis to $4,217,823 from $4,345,502 for Q4 2017 while, on a per share basis, revenues decreased slightly to $0.639 from $0.649 per common share.

The increase in net earnings for Q4 2018 over Q4 2017 both on a gross and per share basis is largely attributable to a period-over-period decrease in the quarterly provisioning for impairment losses. For Q4 2018, the Corporation averaged 11.2% of its shareholders’ equity as impaired mortgages compared to 3.8% in impairments Q4 2017. For Q4 2018, the Corporation recognized impairment recoveries totaling $171,547 as compared to provisions for impairment losses of $1,785,533 for Q4 2017. As explained in more detail in the above discussion of operating results for the year, the impairments as at December 31, 2018 include a group of mortgages totaling $14,018,867 related to a single development project. Although these loans were not considered impaired at December 31, 2017, management’s review of this project and the underlying security resulted in, during Q4 2017, the Corporation including a provision for loss of $1,016,000 to recognize that the potential timing of repayments may extend beyond the period originally planned.

Total operating expenses, excluding provision for impairment losses, were stable at $1,465,569, or $0.222 per common share, for Q4 2018 compared to $1,274,976, or $0.191 per common share, for Q4 2017.

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 Q4 2018, the Corporation paid or accrued cash dividends totaling $974,984 (Q4 2017 - $1,051,629) and $1,232,820 (Q4 2017 - $1,249,362) of the earnings was re-invested by shareholders in additional shares of the Corporation.

In addition to the aforementioned dividend re-investment, for Q4 2018, the shareholders' equity of the Corporation decreased as a result of net redemptions totaling $29,154,790 (Q4 2017 - $17,099,520 net redemptions). Proceeds from Common Shares issued in Q4 2018, excluding dividend re-investment, totaled $5,429,390 (Q4 2017 - $87,448) while redemptions during Q4 2019 totaled $34,584,179 (Q4 2017 - $17,186,968). Under the terms of the Corporation's prospectus, except in certain exceptional circumstances, the Corporation's shareholders are permitted to redeem their shares only once per year, on November 30, meaning that is normal and expected for redemptions to substantially exceed new share issuances in the fourth quarter of each year.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the Corporation's continuous offering prospectus, Frontenac issues common shares on up to a monthly basis. Shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. As at December 31, 2018, there were 5,926,249 common shares issued and outstanding with a total book value of $177,678,465.

Growth in the mortgage portfolio is financed by the issuance of common shares. The Corporation expects to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only. The Corporation has not historically, and does not intend in the future, to supplement this funding using leverage.

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 Corporation 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 2018 to fund annual redemptions. As at December 31, 2018, the Corporation was using $13,880,000 (December 31, 2017 - $16,580,000) of this credit line. The maximum borrowings at any one time in the 2018 year was $26,370,000 (2017 - $18,120,000).

Transition in Regulatory Oversight to Corporate Finance from Investment Funds

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.

CHANGES IN FINANCIAL POSITION

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the its continuous offering prospectus, the Corporation issues common shares on a monthly basis. The following table presents a summary of outstanding share data and transactions for the year ended December 31:

	2018		2017	
Common shares:	#	$	#	$
Balance – beginning of period	6,141,401	184,242,117	6,396,798	191,904,019
Issued for cash	769,862	22,998,073	187,160	5,614,809
Issued under dividend re-investment plan	188,184	5,631,065	172,746	5,182,391
Redeemed	(1,173,198)	(35,192,790)	(615,303)	(18,459,102)
Balance – end of period	5,926,249	177,678,465	6,141,401	184,242,117

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 carrying value per share.

Under the terms of the Corporation's prospectus, shareholders may redeem shares in the Corporation only once per year, on November 30, except in certain exceptional circumstances. Substantially all the redemptions for 2018 (98.3%) and 2017 (93.1%) occurred in November of each year.

CONTRACTUAL OBLIGATIONS

Contractual obligations due at December 31, 2018 are all due within one year and are as follows:

	$
Bank line of credit	13,880,000
Dividends payable	321,444
Accounts payable and accrued liabilities	186,717
	14,388,161

As at December 31, 2018, the Corporation has commitments to advance additional funds of $14,757,000 under existing mortgages (December 31, 2017 - $21,410,000). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are in the normal course of business.

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 2018 reflects a year-over-year increase in the average monthly total assets of the Corporation.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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.

In making estimates and judgements, management 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 Corporation is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Corporation considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Corporation considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The Corporation has incorporated forward looking information through the use of an Autoregressive Distributed Lag ("ARDL") model. ARDL models allow the Corporation 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 Corporation's mortgage portfolio which proxy the lending environment in the Corporation's target market. Specifically, the Corporation 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 Corporation's lending business.

IFRS 9 uses an expected credit loss ("ECL") model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Corporation is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Corporation is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Corporation's Finance and Risk management groups.

Upon initial recognition of financial assets, the Corporation recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Corporation then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Corporation's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modeling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Corporation, such as significant financial difficulty of the borrower. The Corporation defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Corporation believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Corporation defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Corporation derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Corporation determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(ii) Fair value measurements:

In accordance with IFRS, the Corporation 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 Corporation's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 10, management makes its determination of fair value of mortgages by discounting future cash flows at the Corporation'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.

FINANCIAL INSTRUMENTS

The Corporation's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Corporation's mortgage investments and the Corporation's management of those risks are discussed in Note 6 of the financial statements.

The Corporation's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Corporation's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Corporation 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 Corporation classifies its financial assets as one of the following: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL or financial liabilities at amortized cost. The Corporation 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 measured at amortized cost.

(ii) Financial liabilities:

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

The tables in note 10 of the financial statements present the fair values of the Corporation’s financial instruments as at December 31, 2018 and December 31, 2017.

CHANGES IN ACCOUNTING POLICIES

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 Corporation 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 Corporation's mortgage portfolio which proxy the lending environment in the Corporation's target market. Specifically, the Corporation 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 Corporation'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.

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.

RISKS AND UNCERTAINTIES

The Corporation is subject to many risks and uncertainties that may limit our ability to execute on our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general economy and general real estate market, a significant change in interest rates, an inability to make mortgage loans at rates consistent with rates historically achieved, and having an insufficient amount of new mortgage loan opportunities presented.

See "Forward-Looking Information" below and the Risk Factors section of the Corporation's prospectus for further information on risks and uncertainties faced by the Corporation. The Corporation's prospectus is available on www.sedar.com and on the Corporation's website at www.fmic.ca.

FORWARD-LOOKING INFORMATION

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based on historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue" or other similar expressions suggesting future outcomes or events. Forward looking statements regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and the general economic environment. For other risks and uncertainties, please refer to "Risks and Uncertainties" above and to the "Risk Factors" section of the Corporation's prospectus which is available at www.sedar.com and www.fmic.ca. That list is not exhaustive as other factors could adversely affect our results, performance, or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a results of new information, future events, or otherwise, unless required to do so by law.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at December 31, 2018.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the audited financial statements for the year ended December 31, 2018, is available on SEDAR at www.sedar.com or on our website at www.fmic.ca. You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (613) 279-2116 or by email at dawn.reiser@robinsonsgroup.com.

EXHIBIT 5

Management Discussion and Analysis
for the Financial Year Ended December 31, 2019

FRONTENAC
MORTGAGE INVESTMENT CORPORATION

MANAGEMENT DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2019

FRONTENAC MORTGAGE INVESTMENT CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
YEAR ENDED DECEMBER 31, 2019

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar. This Management Discussion & Analysis ("MD&A") is prepared in accordance with National Instrument 51-102 "Continuous Disclosure".

This Management Discussion & Analysis ("MD&A") is dated March 23, 2020 and should be read in conjunction with the audited financial statements of the Corporation and the notes thereto for the years ended December 31, 2019 and 2018.

OUR BUSINESS

Frontenac Mortgage Investment Corporation (the "Corporation") is a non-bank lender that operates as a mortgage investment corporation as defined under the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity while providing shareholders with a stable stream of dividends from the Corporation's investments.

The Corporation achieves its investment objective predominantly by lending on the security of short-term residential first mortgages in the province of Ontario. The mortgage loans 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.

W.A. Robinson Asset Management Ltd. (the "Manager") manages the Corporation's investment portfolio and manages the distribution of the Corporation's shares. Pillar Financial Services Inc. (the "Administrator") serves as the Corporation's loan originator, underwriter, and servicer.

As a mortgage investment corporation, the Corporation does not pay corporate income taxes on any earnings that are distributed out to its shareholders provided that it continues to meet the requirements of subsection 130.1(6) of the Income Tax Act (Canada). Dividends received by shareholders are generally treated as interest income for personal income tax purposes.

HIGHLIGHTS

Frontenac Mortgage Investment Corporation continues to meet its primary objective of offering its shareholders capital preservation while providing a stable stream of monthly dividend income. The carrying value per share remained stable at $30 at each of December 31, 2019 and December 31, 2018 with a dividend yield, assuming dividends are re-invested under the Corporation's dividend re-investment plan, of 5.13% for 2019 and 5.88% for 2018.

As at December 31, 2019, the Corporation's assets totaled $186.2 million including a mortgage investment portfolio totaling $173.3 million with shareholder's equity of $174.5 million. These figures are down slightly from December 31, 2018, when the Corporation's assets totaled $192.3 million including a mortgage investment portfolio of $180.9 million with shareholders' equity of $177.8 million.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation's mortgage investment portfolio totaled $173,315,185 as at December 31, 2019 as compared to $180,967,671 as at December 31, 2018.

Breakdown of the mortgage investment portfolio by type as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Residential	309	69,254	39.9%	386	76,890	42.5%
Residential construction	128	49,443	28.5%	116	45,489	25.1%
Residential developments	11	39,110	22.6%	14	42,419	23.5%
Commercial	10	4,087	2.4%	16	4,156	2.3%
Vacant land	47	11,421	6.6%	45	12,014	6.6%
Total	505	173,315	100.0%	577	180,968	100.0%

Residential construction comprise construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

The Corporation has strategically decided that the percentage of the portfolio dedicated to residential developments will be reduced over the next few years to instead focus on its rural residential and residential construction core business. Nine of the eleven loans reported in this category relate to three separate and unrelated development projects. The total outstanding principal balances for each of these three projects individually represent approximately 7% of the shareholders' equity of the Corporation. As discussed further in the impairments section below, one of these projects is impaired. The power-of-sale process for this project was completed in October 2018 and the related lands are available for sale under power-of-sale.

Breakdown of the mortgage investment portfolio by location as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Ontario – East	366	116,774	67.4%	459	136,202	75.3%
Ontario – Southwest	42	27,755	16.0%	21	17,668	9.8%
Ontario – Central	45	19,007	11.0%	53	20,497	11.3%
Ontario – North	51	9,747	5.5%	43	6,566	3.5%
Quebec	1	32	0.1%	1	35	0.1%
Total	505	173,315	100.0%	577	180,968	100.0%
Loans on Ontario rural property	339	119,400	68.9%	361	112,100	61.9%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. Rural properties comprise postal codes designated as rural general delivery.

The Corporation's mortgage portfolio has been historically centered on the Ontario – East market, which aside from the Ottawa and Kingston markets is primarily a rural and small-town market area. As the Corporation grows, management is targeting to diversify primarily to the rural areas of Ontario – Southwest to further mitigate any geographic concentration risk in the mortgage portfolio. The reduction in the percentage of the portfolio represented by Ontario – East from 75.3% at the end of 2018 to 67.4% at the end of 2019 is a reflection of that strategy. As at December 31, 2019 and December 31, 2018, substantially none of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).

Breakdown of the mortgage investment portfolio by interest rate as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
5%	2	1,622	0.9%	3	3,321	1.8%
6%	1	7,528	4.3%	1	7,528	4.2%
7%	5	1,785	1.0%	13	3,285	1.8%
8%	25	20,150	11.6%	64	27,207	15.0%
9%	126	36,572	21.1%	179	43,785	24.2%
10%	288	81,406	47.0%	247	70,030	38.7%
11%	32	8,485	4.9%	35	9,218	5.1%
12%	26	15,767	9.1%	35	16,594	9.2%
Total	505	173,315	100.0%	577	180,968	100.0%

Substantially all of the mortgage loans are issued with either 1 or 2 year terms, have fixed interest rates and can be repaid in full before maturity without penalty. The weighted average interest rate of the mortgage loans as at December 31, 2019 was 9.44%, up slightly from 9.10% as at December 31, 2018.

Breakdown of the mortgage investment portfolio by maturity date:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
2020	450	162,378	92.0%	536	175,426	95.3%
2021	55	14,086	8.0%	41	8,637	4.7%
Total	505	176,464	100.0%	577	184,063	100.0%

The amounts shown in the table represent principal repayments based on the contractual maturity dates at their gross amounts before any provisions for impairment losses. The new mortgage loans are offered under terms of one to two years with the vast majority of loans offered under a one year term. The Corporation targets borrowers that do not meet the underwriting criteria of the major banks and that require short-term financing in order to do so. The Corporation benefits from this short-term financing strategy as it allows the mortgage portfolio of the Corporation to be repriced frequently to current market interest rates, allows loan-to-value figures to be reset to current real estate market prices, and mitigates duration risk with borrowers.

Other key metrics related to the mortgage investment portfolio as at December 31:

	2019			2018		
	#	$ (000's)	% of total	#	$ (000's)	% of total
First mortgage loans	502	173,053	99.9%	574	180,578	99.8%
Average gross loan balance		349			319	

Mortgage impairments and provision for impairment losses:

As at December 31, 2019, there were 16 mortgages totaling $18,155,907 (2018 – 27 mortgages totaling $22,043,064) which were considered by management to be impaired with a total provision for impairment losses of $2,838,653 and $2,876,039 against those loans as at December 31, 2019 and 2018 respectively.

The breakdown of the impaired loans and related provision for impairment losses by mortgage type is as follows:

(All figures $000's)	2019			2018		
	Gross loan amount (1)	**Allowance for impairment losses**	**Net carrying amount**	**Gross loan amount (1)**	**Allowance for impairment losses**	**Net carrying amount**
Residential	2,635	214	2,421	3,615	281	3,334
Residential construction	340	8	332	814	4	810
Residential developments	14,476	2,317	12,159	16,143	2,404	13,739
Commercial	-	-	-	538	41	497
Vacant land	705	300	405	933	146	787
Total	18,156	2,839	15,317	22,043	2,876	19,167

(1) Gross amount shown at amortized cost

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. A definition of impairment is included in the section "Critical Accounting Estimates and Policies – (i) Mortgage Investments" of this MD&A. On those impaired loans, the Corporation would project losses of capital of 0.50% of shareholders' equity or $0.15 per share based on the Corporation's historical carrying value per share of $30. Once a mortgage is considered impaired, the Corporation ceases to accrue additional interest revenue on that mortgage which in turn reduces total revenue per share. For 2019, the Corporation averaged 10.06% of its shareholders' equity as impaired mortgages and incurred mortgage provisions and realized losses of $0.20 per share compared to 7.90% in impairments and $0.11 per share for losses for 2018.

The impairments for each of 2019 and 2018 include a group of mortgages totaling $14,463,944 (2018 - $14,018,867) related to a single development project. The Corporation has recognized provisions for losses totaling $2,226,000 (2018 - $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, 2019, there were 15 impaired mortgages totaling $3,691,963 (2.1% of shareholders' equity) and the largest impaired mortgage was $666,670. If the same single large group of loans is excluded as at December 31, 2018, there were 26 impaired mortgages totaling $8,024,197 (4.5% of shareholders' equity) and the largest impaired mortgage was $2,124,006.

RESULTS OF OPERATIONS

Financial Summary

(all figures presented are for year ended December 31)

	2019 $	2018 $	2017 $
Interest income	15,810,099	18,134,892	16,178,501
Management & administration fees	4,117,383	4,608,592	4,229,612
Interest on credit line	124,846	707,639	54,372
Provision for mortgage impairment losses	1,292,201	738,184	2,817,427
Other operating expenses	618,686	747,488	730,422
Total operating expenses	6,153,116	6,801,903	7,831,833
Net income and comprehensive income	9,656,983	11,332,989	8,346,668
Total mortgage investments – at Dec 31	173,315,185	180,967,671	189,980,578
Total assets – at Dec 31	186,286,656	192,344,235	200,823,369
Total shareholders' equity – at Dec 31	174,530,552	177,787,465	183,226,117
Per share data:			
Revenue	2.46	2.74	2.46
Earnings – basic & fully diluted	1.50	1.71	1.27
Dividends per common share	1.50	1.54	1.43
Carrying value per common share – at Dec 31	30.00	30.00	29.84

Results of Operations – Year Ended December 31, 2019

Revenues for the Corporation for the 2019 year decreased to $15,810,099 from $18,134,892 for 2018 while, on a per share basis, revenues decreased to $2.46 from $2.74 per common share. Revenue per share for 2018 is consistent with historical levels, while the revenue per share for 2019 was significantly lower than historical results. In 2019, 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 higher than normal level of impaired loans. In the Fall of 2018, Frontenac curtailed its lending on new mortgage loans to ensure that cash reserves were sufficient to meet expected redemptions in November 2018. Once the lending was reopened in January 2019, it took approximately 60-90 days for the pipeline of mortgage loan originations to return to normal levels. This delay resulted in higher than normal cash balances in the fund and, correspondingly, lower interest revenues. In addition, to meet expected redemptions in November 2019, management maintained a higher level of cash reserves throughout the year.

Provisions for mortgage impairment losses increased to $1,292,201 ($0.20 per share) in 2019 from $738,184 ($0.11 per share) in 2018. Based on its risk profile of the mortgage loan borrowers for its niche in the mortgage marketplace, the Corporation would project and consider normal losses of capital of 0.50% of shareholders' equity or $0.15 per share based on the Corporation's historical carrying value per share of $30. As explained in more detail in the above discussion of impairments in the "Mortgage Investment Portfolio" section of this MD&A, the impairments include a group of mortgages totaling $14,463,944 (2018 - $14,018,867) related to a single development project. The Corporation increased its provisions for losses by $436,000 ($0.07 per share) in 2019 (2018 - $nil provision) related to these loans representing management's updated comparison of the discounted expected net proceeds from the sale of the underlying real estate security against the loan amounts outstanding. When this single group of mortgages is excluded, the remainder of the mortgage portfolio is performing within normal expectations with respect to impairment losses. Further discussion of mortgage impairments and related provisions for losses is included under the "Mortgage Investment Portfolio" and "Critical Accounting Estimates and Policies" sections of this MD&A.

Total operating expenses, excluding realized and unrealized gains and losses, decreased to $4,860,915 for 2019 compared to $6,063,719 for 2018. Operating expenses per share was $0.76 per share in 2019 as compared to $0.92 per share in 2018. The decrease in operating expenses both in total and per share is largely attributable to a decrease in interest costs on the Corporation's bank credit line from $707,639 in 2018 to $124,846 in 2019. This decrease in interest costs is reflective of the Corporation's lower average utilization of its credit line throughout 2019 as compared to 2018. The Corporation does not use leverage but does maintain a credit line as a reserve to fund redemption requests and to smooth out timing differences in cash inflows and outflows. Management and administration fees decreased to $4,117,383 in 2019 from $4,608,592. Management and administration fees are calculated as a percentage of total assets of the Corporation and the decrease in 2019 from 2018 is a reflection of a lower year-over-year average level of total assets in the Corporation

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 2019, the Corporation paid or accrued cash dividends totaling $3,889,106 (2018 - $4,576,924) and $5,767,877 (2018 - $5,631,065) 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 2019, the shareholders' equity of the Corporation decreased as a result of net redemptions (total redemptions less proceeds from common shares issued) totaling $9,024,790 (2018 - $12,194,717 net redemptions). Proceeds from Common Shares issued in 2019, excluding dividend re-investment, totaled $25,848,472 (2018 - $22,998,073) while redemptions during 2019 totaled $34,873,262 (2018 - $35,192,790). Substantially all (95.4%) the 2019 share redemptions occurred in November 2019.

Subsequent Event – COVID-19 Outbreak

Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in significant economic uncertainty. The Corporation continues to monitor the potential impact COVID-19 could have on it business activities including potential changes related to default rates from borrowers, demand for borrowing or the value of the underlying security of the mortgage portfolio. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments. As at the date of this MD&A, the Corporation is continuing to operate under its business continuity plan which allows the teams of the Corporation, the Manager, and the Administrator to function normally in such a situation. Further updates are available on the Corporation's website at www.fmic.ca.

Summary of Quarterly Results - (Unaudited)

(All figures in thousands except per share figures. Q1 is three months ended March 31; Q2 is three months ended June 30; Q3 is three months ended September 30; Q4 is three months ended December 31)

	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $	Q4 2018 $	Q3 2018 $	Q2 2018 $	Q1 2018 $
Interest income	4,229	4,113	3,699	3,769	4,218	4,654	4,824	4,438
Management & admin fees	1,083	1,075	962	997	1,125	1,196	1,173	1,114
Interest on credit line	68	2	-	56	95	208	235	171
Provision for impairment losses	627	358	120	187	(172)	180	393	336
Other operating expenses	153	152	138	176	246	178	166	158
Total operating expenses	1,931	1,587	1,220	1,416	1,294	1,762	1,967	1,779
Net income and comprehensive income	2,298	2,526	2,479	2,353	2,924	2,892	2,857	2,659
Earnings per share – basic and fully diluted	0.352	0.378	0.385	0.387	0.443	0.429	0.434	0.414

Management and administration fees fluctuate as total assets of the Corporation fluctuate as they are determined based on a fixed percentage of total assets of the Corporation with 1% per annum paid by the Manager and 1% per annum paid to the Administrator calculated and paid on a monthly basis. The Corporation does not use leverage but does maintain a line of credit as a reserve to meet redemption requests and to allow the Corporation to smooth out its cash inflows and outflows related to mortgage advances and repayments. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line. Other operating expenses comprise legal, audit, directors fees and expenses, and other operating costs of the Corporation and may fluctuate based on the timing of these expenses throughout the year.

Results of Operations – Three Months Ended December 31, 2019

Net income and comprehensive income for the Corporation for the three months ended December 31, 2019 ("Q4 2019") decreased on a gross basis to $2,297,949 from $2,923,801 for the three months ended December 31, 2018 ("Q4 2018") while, on a per share basis, net earnings decreased to $0.352 from $0.443 per common share.

Revenues for the Corporation for Q4 2019 increased slightly on a gross basis to $4,228,684 from $4,217,823 for Q4 2018 while, on a per share basis, revenues increased slightly to $0.648 from $0.639 per common share.

The decrease in net earnings for Q4 2019 over Q4 2018 both on a gross and per share basis is largely attributable to a period-over-period increase in the quarterly provisioning for impairment losses. For Q4 2019, the Corporation averaged 9.4% of its shareholders' equity as impaired mortgages compared to 11.2% in impairments Q4 2018. For Q4 2019, the Corporation recognized impairment losses totaling $626,574 as compared to an impairment recovery of $171,547 for Q4 2018. As explained in more detail in the above discussion of impairments in the "Mortgage Investment Portfolio" section of this MD&A,

the impairments include a group of mortgages totaling $14,463,944 (2018 - $14,018,867) related to a single development project. The Corporation increased its provisions for losses by $660,000 in Q4 2019 related to these loans representing management's updated comparison of the discounted expected net proceeds from the sale of the underlying real estate security against the loan amounts outstanding.

Total operating expenses, excluding realized and unrealized gains and losses, were largely unchanged at $1,304,161, or $0.200 per common share, for Q4 2019 compared to $1,465,569, or $0.222 per common share, for Q4 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 Q4 2019, the Corporation paid or accrued cash dividends totaling $924,864 (Q4 2018 - $974,984) and $1,373,085 (Q4 2018 - $1,232,820) of the earnings was re-invested by shareholders in additional shares of the Corporation.

In addition to the aforementioned dividend re-investment, for Q4 2019, the shareholders' equity of the Corporation decreased as a result of net redemptions totaling $29,070,448 (Q4 2018 - $29,154,790 net redemptions). Proceeds from Common Shares issued in Q4 2019, excluding dividend re-investment, totaled $4,202,128 (Q4 2018 - $5,429,390) while redemptions during Q4 2019 totaled $33,272,577 (Q4 2018 - $34,584,179). Under the terms of the Corporation's prospectus, except in certain exceptional circumstances, the Corporation's shareholders are permitted to redeem their shares only once per year, on November 30, meaning that is normal for redemptions to substantially exceed new share issuances in the fourth quarter of each year.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the Corporation's continuous offering prospectus, Frontenac issues common shares on up to a monthly basis. Shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. As at December 31, 2019, there were 5,817,686 common shares issued and outstanding with a total book value of $174,421,552.

Growth in the mortgage portfolio is financed by the issuance of common shares. We expect to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only. The Corporation has not historically, and does not intend in the future, to supplement this funding using leverage.

The Corporation is a public issuer under Canadian securities law and, in 2020, expects to complete a transition from regulatory oversight as an investment fund to regulatory oversight as a corporate finance issuer. Management does not expect this change to have any material impact how the Corporation raises new capital through the issuance of new common shares nor its ability to do so.

The Corporation has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity 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 Corporation to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at

December 31, 2019 and December 31, 2018, the Corporation was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward.

The line of credit is used to smooth out the cash flows of the Corporation and as a reserve for unexpected share redemptions and is not used to extend the Corporation's investment capacity beyond its available equity. The Corporation did not use its credit line during most of 2019 but it was utilized in December 2019 to fund redemptions. As at December 31, 2019, the Corporation was using $11,330,000 (December 31, 2018 - $13,880,000) of its available credit line. The maximum borrowings at any time of the 2019 year was $17,880,000 (2018 - $26,370,000).

CHANGES IN FINANCIAL POSITION

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the its continuous offering prospectus, the Corporation issues common shares on a monthly basis. The following table presents a summary of outstanding share data and transactions for the year ended December 31:

	2019		**2018**	
Common shares:	#	$	#	$
Balance – beginning of period	5,926,249	177,678,465	6,141,401	184,242,117
Issued for cash	861,616	25,848,472	769,862	22,998,073
Issued under dividend re-investment plan	192,263	5,767,877	188,184	5,631,065
Redeemed	(1,162,442)	(34,873,262)	(1,173,198)	(35,192,790)
Balance – end of period	5,817,686	174,421,552	5,926,249	177,678,465

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 carrying value per share.

Under the terms of the Corporation's prospectus, shareholders may redeem shares in the Corporation only once per year, on November 30, except in certain exceptional circumstances. Substantially all of the redemptions for 2019 and 2018 occurred in November of each year.

CONTRACTUAL OBLIGATIONS

Contractual obligations due at December 31, 2019 are all due within one year and are as follows:

	$
Bank line of credit	11,330,000
Dividends payable	209,704
Accounts payable and accrued liabilities	114,786
	11,654,490

As at December 31, 2019, the Corporation has commitments to advance additional funds of $26,104,000 under existing mortgages (December 31, 2018 - $14,757,000). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are in the normal course of business.

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 $4,117,383 for the year ended December 31, 2019 (year ended December 31, 2018 - $4,608,592) including applicable sales taxes. The decrease in the dollar value of the administration and management fees from 2018 reflects a year-over-year decrease in the average total assets of the Corporation.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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.

In making estimates and judgements, management 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 Corporation is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Corporation considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Corporation considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The quantitative aspect of the expected credit loss begins with the use of an Autoregressive Distributed Lag (ARDL) model. The ARDL model indicates that expected credit losses are largely explained by borrower specific information such as credit score, debt servicing ratios, borrower equity and age and are not a function of statistics or forecasts of national economic performance. As a result, the firm incorporates borrower specific information to estimate the probability of default over the life of the mortgage to estimate expected credit losses. In instances where qualitative information about a mortgage indicates that the borrower may have experienced an increase in credit risk, the firm incorporates the new information and re-estimates the probability of default. This new estimate is then used to evaluate the probability of default between the occurrence of the increased credit risk and the end of the mortgage term. In all cases, the probability of default is used as a weighting factor in determining expected credit losses on each individual mortgage within the portfolio.

IFRS 9 uses an expected credit loss (“ECL”) model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Corporation is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Corporation is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Corporation’s Finance and Risk management groups.

Upon initial recognition of financial assets, the Corporation recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk (“SICR”), the Corporation then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Corporation's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modelling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Corporation, such as significant financial difficulty of the borrower. The Corporation defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Corporation believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Corporation defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Corporation derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Corporation determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(ii) Fair value measurements:

In accordance with IFRS, the Corporation 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 Corporation's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 11 of the financial statements, management makes its determination of fair value of mortgages by discounting future cash flows at the Corporation'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.

FINANCIAL INSTRUMENTS

The Corporation's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Corporation's mortgage investments and the Corporation's management of those risks are discussed in note 7 of the financial statements.

The Corporation's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Corporation's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Corporation 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 Corporation classifies its financial assets as one of the following: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL or financial liabilities at amortized cost. The Corporation 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 measured at amortized cost.
(ii) Financial liabilities:
Bank line of credit, dividends payable, and accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The tables in note 11 of the financial statements present the fair values of the Corporation's financial instruments as at December 31, 2019 and December 31, 2018.

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies are described in note 3 of the Corporation's financial statements.

IFRS 16 - Leases

Effective January 1, 2019 the Corporation adopted IFRS 16 - Leases ("IFRS 16") which replaced IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement contains a Lease, SIC- 15 Operating Leases - Incentives and SIC - 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the financial statements with a "right of use asset" and a corresponding liability. The asset is subsequently accounted for as a property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. As the Corporation's management and administration duties are outsourced, no transactions are affected by the newly effective standard. As such, there is no impact on the financial statements.

At the date of authorization of this MD&A, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB"). Information on those expected to be relevant to the Corporation's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Corporation'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 Corporation's financial statements.

IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective January 1, 2020. The Corporation is evaluating the impact of the adoption of these amendments.

RISKS AND UNCERTAINTIES

The Corporation is subject to many risks and uncertainties that may limit our ability to execute on our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general economy and general real estate market, a significant change in interest rates, an inability to make mortgage loans at rates consistent with rates historically achieved, and having an insufficient amount of new mortgage loan opportunities presented.

See "Forward-Looking Information" below and the Risk Factors section of the Corporation's prospectus for further information on risks and uncertainties faced by the Corporation. The Corporation's prospectus is available on www.sedar.com and on the Corporation's website at www.fmic.ca.

FORWARD-LOOKING INFORMATION

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based on historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue" or other similar expressions suggesting future outcomes or events. Forward looking statements regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and the general economic environment. For other risks and uncertainties, please refer to "Risks and Uncertainties" above and to the "Risk Factors" section of the Corporation's prospectus which is available at www.sedar.com and www.fmic.ca. That list is not exhaustive as other factors could adversely affect our results, performance, or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a results of new information, future events, or otherwise, unless required to do so by law.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at December 31, 2019.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the audited financial statements for the year ended December 31, 2019, is available on SEDAR at www.sedar.com or on our website at www.fmic.ca. You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (613) 279-2116 or by email at dawn.reiser@robinsonsgroup.com.

EXHIBIT 6

Management Discussion and Analysis
for the Interim Period Ended March 31, 2020

FRONTENAC

MORTGAGE INVESTMENT CORPORATION

MANAGEMENT DISCUSSION & ANALYSIS

QUARTER ENDED MARCH 31, 2020

FRONTENAC MORTGAGE INVESTMENT CORPORATION
MANAGEMENT DISCUSSION & ANALYSIS
QUARTER ENDED MARCH 31, 2020

BASIS OF PRESENTATION

The Corporation has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its basis of financial reporting. The Corporation's functional and reporting currency is the Canadian dollar. This Management Discussion & Analysis ("MD&A") is prepared in accordance with National Instrument 51-102 "Continuous Disclosure".

This Management Discussion & Analysis ("MD&A") is dated May 7, 2020 and should be read in conjunction with the unaudited financial statements of the Corporation and the notes thereto for the three months ended March 31, 2020 and 2019, the audited financial statements and the notes thereto for the years ended December 31, 2019 and 2018, as well as the MD&A, including the section on Risks and Uncertainties for the years then ended.

OUR BUSINESS

Frontenac Mortgage Investment Corporation (the "Corporation") is a non-bank lender that operates as a mortgage investment corporation as defined under the Income Tax Act (Canada).

The Corporation's primary investment objective is the preservation of shareholders' equity while providing shareholders with a stable stream of dividends from the Corporation's investments.

The Corporation achieves its investment objective predominantly by lending on the security of short-term residential first mortgages in the province of Ontario. The mortgage loans 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.

W.A. Robinson Asset Management Ltd. (the "Manager") manages the Corporation's investment portfolio and manages the distribution of the Corporation's shares. Pillar Financial Services Inc. (the "Administrator") serves as the Corporation's loan originator, underwriter, and servicer.

As a mortgage investment corporation, the Corporation does not pay corporate income taxes on any earnings that are distributed out to its shareholders provided that it continues to meet the requirements of subsection 130.1(6) of the Income Tax Act (Canada). Dividends received by shareholders are generally treated as interest income for personal income tax purposes.

HIGHLIGHTS

Frontenac Mortgage Investment Corporation continues to meet its primary objective of offering its shareholders capital preservation while providing a stable stream of monthly dividend income. The carrying value per share remained stable at $30 at March 31, 2020 with an annualized dividend yield, assuming dividends are re-invested under the Corporation's dividend re-investment plan, of 5.20% for the first quarter of 2020.

As at March 31, 2020, the Corporation's assets totaled $180.9 million including a mortgage investment portfolio totaling $167.2 million with shareholder's equity of $178.8 million. Total assets and mortgage investments are down slightly from December 31, 2019, when the Corporation's assets totaled $186.3 million including a mortgage investment portfolio of $173.3 million while shareholders' equity has increased from $174.5 million as at December 31, 2019.

The outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in significant economic uncertainty. As at the date of this MD&A, the performance of the Corporation has not been materially impacted; however, the Corporation continues to monitor the potential impact COVID-19 could have on it business activities including potential changes related to default rates from borrowers, demand for borrowing or the value of the underlying security of the mortgage portfolio. Further discussion of the potential impacts on the Corporation of this continuing outbreak is included in this MD&A under Results of Operations.

MORTGAGE INVESTMENT PORTFOLIO

The carrying value of the Corporation's mortgage investment portfolio totaled $167,262,298 as at March 31, 2020 as compared to $173,315,185 as at December 31, 2019.

Breakdown of the mortgage investment portfolio by type as at March 31, 2020 and December 31, 2019:

	Mar 31, 2020			**Dec 31, 2019**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
Residential	298	65,244	39.0%	309	69,254	39.9%
Residential construction	115	47,892	28.6%	128	49,443	28.5%
Residential developments	11	39,038	23.3%	11	39,110	22.6%
Commercial	9	3,759	2.3%	10	4,087	2.4%
Vacant land	47	11,329	6.8%	47	11,421	6.6%
Total	480	167,262	100.0%	505	173,315	100.0%

Residential construction comprise construction loans for single residential buildings for housing one to three units, typically single-family residences. Residential development mortgages comprise larger multi-unit construction or land development projects including sub-division developments or multi-unit housing builds. Commercial mortgages have a municipal commercial zoning component but typically also involve a residential component.

The Corporation has strategically decided that the percentage of the portfolio dedicated to residential developments will be reduced over the next few years to instead focus on its rural residential and residential construction core business. Nine of the eleven loans reported in this category relate to three separate and unrelated development projects. The total outstanding principal balances for each of these three projects individually represent approximately 7% of the shareholders' equity of the Corporation. As discussed further in the impairments section below, one of these projects is impaired.

The power-of-sale process for this project was completed in October 2018 and the related lands are available for sale under power-of-sale. Breakdown of the mortgage investment portfolio by location as at March 31, 2020 and December 31, 2019:

	Mar 31, 2020			Dec 31, 2019		
	#	$ (000's)	% of total	#	$ (000's)	% of total
Ontario – East	344	115,306	68.9%	366	116,774	67.4%
Ontario – Southwest	45	25,004	14.9%	42	27,755	16.0%
Ontario – Central	39	17,843	10.7%	45	19,007	11.0%
Ontario – North	51	9,077	5.4%	51	9,747	5.5%
Quebec	1	32	0.1%	1	32	0.1%
Total	480	167,262	100.0%	505	173,315	100.0%
Loans on Ontario rural property	315	112,313	67.1%	339	119,400	68.9%

The above location allocations are made using Canadian postal codes for the related real estate. Ontario – East comprises the K postal code; Ontario – Southwest comprises the N postal code; Ontario- Central comprises the L and M postal codes; and Ontario – North comprises the P postal code. Rural properties comprise postal codes designated as rural general delivery.

The Corporation's mortgage portfolio has been historically centered on the Ontario – East market, which aside from the Ottawa and Kingston markets is primarily a rural and small-town market area. As the Corporation grows, management is targeting to diversify primarily to the rural areas of Ontario – Southwest to further mitigate any geographic concentration risk in the mortgage portfolio. The reduction in the percentage of the portfolio represented by Ontario – East from 75.3% at the end of 2018 to 67.4% at the end of 2019 is a reflection of that strategy. As at March 31, 2020 and December 31, 2019, substantially none (Mar 31, 2020 – 0%; Dec 31, 2019 – 0.2%) of the Ontario – Central allocation was for properties located in the Toronto market (postal code M).

Breakdown of the mortgage investment portfolio by interest rate as at March 31, 2020 and December 31, 2019:

	Mar 31, 2020			Dec 31, 2019		
	#	$ (000's)	% of total	#	$ (000's)	% of total
5%	2	1,614	1.0%	2	1,622	.9%
6%	1	7,528	4.5%	1	7,528	4.3%
7%	5	1,816	1.1%	5	1,785	1.0%
8%	22	19,661	11.7%	25	20,150	11.6%
9%	120	34,416	20.5%	126	36,572	21.1%
10%	271	78,906	47.2%	288	81,406	47.0%
11%	35	7,653	4.6%	32	8,485	4.9%
12%	24	15,668	9.4%	26	15,767	9.1%
Total	480	167,262	100.0%	505	173,315	100.0%

Substantially all of the mortgage loans are issued with either 1 or 2 year terms, have fixed interest rates and can be repaid in full before maturity without penalty. The weighted average interest rate of the mortgage loans as at March 31, 2020 was 9.43%, substantially unchanged from 9.44% as at December 31, 2019.

Breakdown of the mortgage investment portfolio by maturity date:

	Mar 31, 2020			**Dec 31, 2019**		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
2020	427	156,728	91.9%	450	162,378	92.0%
2021	53	13,713	8.1%	55	14,086	8.0%
Total	480	170,441	100.0%	505	176,464	100.0%

The amounts shown in the table represent principal repayments based on contractual maturity dates at their gross amounts before any provisions for impairment losses. The new mortgage loans are offered under terms of one to two years with the vast majority of loans offered under a one year term. The Corporation targets borrowers that do not meet the underwriting criteria of the major banks and that require short-term financing in order to do so. The Corporation benefits from this short-term financing strategy as it allows the mortgage portfolio of the Corporation to be repriced frequently to current market interest rates, allows loan-to-value figures to be reset to current real estate market prices, and mitigates duration risk with borrowers.

Other key metrics related to the mortgage investment portfolio as at March 31, 2019 and December 31, 2019:

	Mar 31, 2020			Dec 31, 2019		
	#	**$ (000's)**	**% of total**	**#**	**$ (000's)**	**% of total**
First mortgage loans	477	167,004	99.9%	502	173,053	99.9%
Average gross loan balance		355			349	

Mortgage impairments and provision for impairment losses:

As at March 31, 2020, there were 19 mortgages totaling $21,574,756 (December 31, 2019 – 16 mortgages totaling $18,155,907) which were considered by management to be impaired with a total provision for impairment losses of $2,841,502 and $2,838,653 against those loans as at March 31, 2020 and December 31, 2019 respectively.

The breakdown of the impaired loans and related provision for impairment losses by mortgage type is as follows:

(All figures $000's)	Mar 31, 2020			Dec 31, 2019		
	Gross loan amount (1)	**Allowance for impairment losses**	**Net carrying amount**	**Gross loan amount (1)**	**Allowance for impairment losses**	**Net carrying amount**
Residential	3,885	163	3,722	2,635	214	2,421
Residential construction	1,423	8	1,415	340	8	332
Residential developments	14,512	2,368	12,144	14,476	2,317	12,159
Commercial	993	-	993	-	-	-
Vacant land	762	303	459	705	300	405
Total	21,575	2,842	18,733	18,156	2,839	15,317

(1) Gross amount shown at amortized cost

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. A definition of impairment is included in the section "Critical Accounting Estimates and Policies – (i) Mortgage Investments" of this MD&A. On those impaired loans, the Corporation would project losses of capital of 0.50% of shareholders' equity or $0.15 per share based on the Corporation's historical carrying value per share of $30. Once a mortgage is considered impaired, the Corporation ceases to accrue additional interest revenue on that mortgage which in turn reduces total revenue per share. For the first three months of 2020, the Corporation averaged 11.3% of its shareholders' equity as impaired mortgages and incurred mortgage provisions and realized losses of $0.05 per share. For 2019, the Corporation averaged 10.06% of its shareholders' equity as impaired mortgages and incurred mortgage provisions and realized losses of $0.20 per share.

The impairments for each of 2019 and 2018 include a group of mortgages totaling $14,511,789 (December 31, 2019 - $14,463,944) related to a single development project. The Corporation has recognized provisions for losses totaling $2,226,000 (December 31, 2019 - $2,226,000) 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 March 31, 2020, the remainder of the mortgage portfolio was performing within normal expectations as there were 18 impaired mortgages totaling $7,062,967 (3.9% of shareholders' equity) and the largest impaired mortgage was $1,618,615. If the same single large group of loans is excluded as at December 31, 2019, there were 15 impaired mortgages totaling $3,691,963 (2.1% of shareholders' equity) and the largest impaired mortgage was $666,670.

RESULTS OF OPERATIONS

Summary of Quarterly Results - (Unaudited)

(All figures in thousands except per share figures. Q1 is three months ended March 31; Q2 is three months ended June 30; Q3 is three months ended September 30; Q4 is three months ended December 31)

	Q1 2020 $	Q4 2019 $	Q3 2019 $	Q2 2019 $	Q1 2019 $	Q4 2018 $	Q3 2018 $	Q2 2018 $
Interest income	3,848	4,229	4,113	3,699	3,769	4,218	4,654	4,824
Management & admin fees	965	1,083	1,075	962	997	1,125	1,196	1,173
Interest on credit line	73	68	2	-	56	95	208	235
Provision for impairment losses	281	627	358	120	187	(172)	180	393
Other operating expenses	240	153	152	138	176	246	178	166
Total operating expenses	1,559	1,931	1,587	1,220	1,416	1,294	1,762	1,967
Net income and comprehensive income	2,289	2,298	2,526	2,479	2,353	2,924	2,892	2,857
Earnings per share – basic and fully diluted	0.387	0.352	0.378	0.385	0.387	0.443	0.429	0.434

Management and administration fees fluctuate as total assets of the Corporation fluctuate as they are determined based on a fixed percentage of total assets of the Corporation with 1% per annum paid by the Manager and 1% per annum paid to the Administrator calculated and paid on a monthly basis. The Corporation does not use leverage but does maintain a line of credit as a reserve to meet redemption requests and to allow the Corporation to smooth out its cash inflows and outflows related to mortgage advances and repayments. The amount of interest expense in any quarter fluctuates with the actual utilization of the available credit line. Other operating expenses comprise legal, audit, directors fees and expenses, and other operating costs of the Corporation and may fluctuate based on the timing of these expenses throughout the year.

For Q4 2019, the Corporation recognized impairment losses totaling $626,574. As explained in more detail in the above discussion of impairments in the “Mortgage Investment Portfolio” section of this MD&A, the impairments include a group of mortgages related to a single development project. The Corporation increased its provisions for losses by $660,000 in Q4 2019 related to these loans representing management’s updated comparison of the discounted expected net proceeds from the sale of the underlying real estate security against the loan amounts outstanding.

Results of Operations – Three Months Ended March 31, 2020

Net income and comprehensive income for the Corporation for the three months ended March 31, 2020 (“Q1 2020”) decreased on a gross basis to $2,288,851 from $2,353,334 for the three months ended March 31, 2019 (“Q1 2019”) while, on a per share basis, net earnings remained constant at $0.387 per common share.

Revenues for the Corporation for Q1 2020 increased slightly on a gross basis to $3,848,376 from $3,768,868 for Q1 2019 while, on a per share basis, revenues increased slightly to $0.651 from $0.620 per common share.

Total operating expenses, excluding realized and unrealized gains and losses, were largely unchanged at $1,278,659, or $0.213 per common share, for Q1 2020 compared to $1,228,368, or $0.203 per common share, for Q1 2019.

Impact and Potential Impact of COVID-19 Outbreak

The coronavirus disease 2019 ("**COVID-19**") outbreak, ongoing as of the date of this MD&A, was declared a pandemic by the World Health Organization in March, 2020. Steps taken by governments around the world to contain the spread of the COVID-19 virus including legislated closures of non-essential businesses and services and social distancing measures have slowed economic activity and have resulted in layoffs and lost jobs as businesses struggle with the economic effects. The Province of Ontario, Frontenac's primary lending market, did not implement the closure of non-essential businesses until late March 2020. Accordingly, the operating results of Frontenac for the first quarter ended March 31, 2020 were largely unaffected by COVID-19 related issues.

Beginning in late March, the Corporation began operating under its business continuity plan with most management and staff of the Corporation, and of the Manager and the Administrator, working remotely pursuant to social distancing guidelines. Despite working remotely, the Manager and Administrator have been able to execute their respective functions effectively under the business continuity plan.

The impact of COVID-19 on the future performance of the Corporation will depend largely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. Although, as at the date of this MD&A, several provinces including the Province of Ontario have taken small steps to reopen their economies, there is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. What follows is a commentary on the potential impact of a continuance of the current economic conditions under COVID-19 on the Corporation's future performance.

Over the next quarter, the Corporation may start to build cash as it becomes more difficult to close new mortgage loans as a result of: (i) slowdowns in applications for new home purchases due to the dramatic decline in housing sales, (ii) delays in closing new residential construction loans due to a government restrictions on the issuance of new building permits, (iii) delays in closing deals due to processing slowdowns by appraisers and outside legal firms and other key suppliers in the mortgage process, and (iv) delays in or cancellation of closings due to changes on new mortgages due to changes in the employment status of otherwise approved borrowers. An increase in cash translates into lower earnings as cash reserves earn little to no income.

As at March 31, 2020, the Corporation had not experienced any loan impairments resulting from COVID-19 economic effects. Assuming no change to current economic circumstances, any COVID-19 related increase in impairments is not likely to be noticeable for a period of four to six months in the future for the following reasons: (i) the majority of Frontenac's loans relate to owner-occupied principal residences and, in down economic times, cash outflows related to personal housing are among the last to be cut by people, (ii) there are unprecedented government financial supports available that will assist borrowers in staying current with their mortgage obligations; and (iii) the current situation has created an industry-wide willingness to work with borrowers under deferred payment programs for qualified borrowers. Essentially, impairment or default is several steps down the road for most borrowers after they have exhausted cash reserves, cut down on other expenses, worked with government assistance, and worked on potential deferral arrangements. Any deferral arrangements offered by the Corporation are not interest-free and therefore do not have a negative impact on interest revenues of the Corporation. If the Corporation experiences an increase in impairments that would translate into lower earnings due to the unlikely collectability of further interest on those loans.

The Corporation does not anticipate that the effects of COVID-19 will lead to capital losses on any of the Corporation's impaired loans in the near term. The potential for increase in capital losses on impaired loans requires a decline in home values below the carrying value of the related loans. Frontenac's underwriting policies of focusing on first mortgage loans (99.9% firsts) to a maximum loan-to-value at origination of 80% or less provides some room for a decline in home values. Based on the most recent available CREA data, for March 2020, the number of home sales has declined dramatically, but there has not yet been a decline in home values in the Corporation's lending area.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the Corporation's continuous offering prospectus, Frontenac issues common shares on up to a monthly basis. Shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. As at March 31, 2020, there were 5,961,040 common shares issued and outstanding with a total book value of $178,722,200.

Growth in the mortgage portfolio is financed by the issuance of common shares. We expect to be able to generate sufficient funds for future growth in net mortgage loans by utilizing this funding source only. The Corporation has not historically, and does not intend in the future, to supplement this funding using leverage.

The Corporation is a public issuer under Canadian securities law and, in 2020, expects to complete a transition from regulatory oversight as an investment fund to regulatory oversight as a corporate finance issuer. Management does not expect this change to have any material impact how the Corporation raises new capital through the issuance of new common shares nor its ability to do so.

The Corporation has a revolving line of credit with a major Canadian chartered bank with a limit equal to 15% of shareholders' equity 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 Corporation to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at March 31, 2020 and December 31, 2019, the Corporation was in compliance with the bank's financial covenants, and management expects to remain in compliance with such covenants going forward.

The line of credit is used to smooth out the cash flows of the Corporation and as a reserve for unexpected share redemptions and is not used to extend the Corporation's investment capacity beyond its available equity. As at March 31, 2020, the Corporation was using $1,600,000 (December 31, 2019 - $11,330,000) of its available credit line. The maximum borrowings at any time during the first quarter of 2020 was $11,690,000 (2019 year - $17,880,000).

CHANGES IN FINANCIAL POSITION

The Corporation is authorized to issue an unlimited number of common shares. Under the terms of the its continuous offering prospectus, the Corporation issues common shares on a monthly basis. The following table presents a summary of outstanding share data and transactions for the quarter ended March 31, 2020 and the year ended December 31, 2019:

	Three months ended Mar 31, 2020		Year ended December 31, 2019	
Common shares:	#	$	#	$
Balance – beginning of period	5,817,686	174,421,552	5,926,249	177,678,465
Issued for cash	123,046	3,691,392	861,616	25,848,472
Issued under dividend re-investment plan	48,986	1,469,588	192,263	5,767,877
Redeemed	(28,678)	(860,332)	(1,162,442)	(34,873,262)
Balance – end of period	5,961,040	178,722,200	5,817,686	174,421,552

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 carrying value per share.

Under the terms of the Corporation's prospectus, shareholders may redeem shares in the Corporation only once per year, on November 30, except in certain exceptional circumstances. Substantially all of the redemptions for 2019 and 2018 occurred in November of each year.

CONTRACTUAL OBLIGATIONS

Contractual obligations due at March 31, 2020 are all due within one year and are as follows:

	$
Bank line of credit	1,600,000
Dividends payable	275,492
Accounts payable and accrued liabilities	129,084
	2,004,576

As at March 31, 2020, the Corporation has commitments to advance additional funds of $21,280,000 under existing mortgages (March 31, 2019 - $13,679,000). These outstanding commitments are generally expected to be funded over the next 12 months. These commitments relate primarily to residential construction mortgages where funds are advanced as projects are completed subject to third party inspections and other underwriting controls and procedures. In our experience, a portion of the unfunded commitments on existing mortgage loans will never be drawn.

TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are in the normal course of business.

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 $965,293 for the quarter ended March 31, 2020 (quarter ended March 31, 2019 - $996,981) including applicable sales taxes. The decrease in the dollar value of the administration and management fees from 2019 reflects a year-over-year decrease in the average total assets of the Corporation.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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.

In making estimates and judgements, management 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 Corporation is required to make an assessment as to whether the credit risk of a mortgage has changed significantly since initial recognition and is also required to determine the impairment of mortgage investments. The Corporation considers a number of factors when assessing if there has been a significant increase in credit risk. Mortgages with payments over 30 days in arrears are immediately flagged as potentially being in Stage 2. Other factors that the Corporation considers when confirming if there has been a significant increase in credit risk include changes in the financial condition of the borrower, responsiveness of the borrower, and other borrower or property specific information that may be available. 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.

The quantitative aspect of the expected credit loss begins with the use of an Autoregressive Distributed Lag (ARDL) model. The ARDL model indicates that expected credit losses are largely explained by borrower specific information such as credit score, debt servicing ratios, borrower equity and age and are not a function of statistics or forecasts of national economic performance. As a result, the firm incorporates borrower specific information to estimate the probability of default over the life of the mortgage to estimate expected credit losses. In instances where qualitative information about a mortgage indicates that the borrower may have experienced an increase in credit risk, the firm incorporates the new information and re-estimates the probability of default. This new estimate is then used to evaluate the probability of default between the occurrence of the increased credit risk and the end of the mortgage term. In all cases, the probability of default is used as a weighting factor in determining expected credit losses on each individual mortgage within the portfolio.

IFRS 9 uses an expected credit loss ("ECL") model to determine the provision for credit losses.

The ECL allowances are calculated through three probability-weighted forward-looking scenarios including base, optimistic, and pessimistic, that measures the expected cash shortfalls on the financial assets related to default events either (i) over the next 12 months or (ii) over the expected life based on the maximum contractual period over which the Corporation is exposed to credit risk. The expected life of certain revolving credit facilities is based on the period over which the Corporation is exposed to credit risk and where the credit losses would not be mitigated by management actions. The three scenarios are updated at each reporting date, and the probability weights and the associated scenarios are determined through a management review process that involves significant judgement and review by the Corporation's Finance and Risk management groups.

Upon initial recognition of financial assets, the Corporation recognizes a 12-month ECL allowance which represents the portion of lifetime ECL that result from default events that are possible within the next 12 months (Stage 1). If there has been a Significant Increase in Credit Risk ("SICR"), the Corporation then recognizes a lifetime ECL allowance resulting from possible default events over the expected life of the financial asset (Stage 2). The SICR is determined through changes in the lifetime probability of default ("PD") since initial recognition of the financial assets, using a combination of borrower specific and account specific attributes with a presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. This assessment considers all reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that impact the Corporation's credit risk assessment. Criteria for assessing SICR are defined at a portfolio level and vary based on the risk of default at the origination of the portfolio. If credit quality subsequently improves such that the increase in credit risk since initial recognition is no longer significant, the loss allowances will revert back to be measured based on a 12-month ECL, and the financial asset will transfer from Stage 2 back to Stage 1. Stages 1 and 2 comprise all non-impaired financial assets.

Management developed a modelling of the Stage 2 estimate which requires a reassessment of the overall credit risk resulting from a SICR. The model developed for SICR assumes a complete degradation in credit quality as proxied by the borrower's Beacon Score. This enters into a logistic regression to estimate lifetime probability of default based on this new assumption. The lifetime probability of default estimate then enters into the Survival Analysis as a parameter to allow probability of default to be estimated over the remaining term to maturity.

In addition, management exercises expert credit judgements in assessing exposures that have experienced a SICR and in determining the amount of ECL allowances required at each reporting date by considering reasonable and supportable information that are not already included in the quantitative models. Expert credit judgements are performed by considering emergence of economic, environmental or political events, as well as expected changes to parameters, models or data that are not currently incorporated. Significant judgements made by management may impact the amount of ECL allowances recognized. ECL is calculated as the product of PD, loss given default ("LGD"), and exposure at default ("EAD"), and is calculated over the remaining expected life of the financial asset and discounted to the reporting date at the respective effective interest rate. PD measures the estimated likelihood of default over a given time period. PD estimates are updated for each scenario at each reporting date and is based on current information. LGD provides the estimate of loss when default occurs at a given time, and is determined based on historical write-off events, recovery payments, borrower specific attributes and direct costs. The estimate is updated at each reporting date for each scenario based on current information. EAD estimates the exposure at the future default date.

As at March 31, 2020, the Corporation has not made any adjustments to its ECL modelling to account for potential impacts arising from the COVID-19 pandemic. As at March 31, 2020, the Corporation had not experienced any significant increases in credit risk resulting from COVID-19 economic effects nor had any deferral arrangements been made with borrowers on account of COVID-19. The impact of COVID-19 on the ECL model of the Corporation will depend entirely on the scope and duration of the pandemic and the related economic shutdown and the speed of the subsequent economic recovery. There is no certainty at this time as to how long the pandemic will last and when people and businesses will be able to return to normalcy. Further commentary on the impact of COVID-19 is provided in Note 1 of the interim financial statements and under the Operating Results section of this MD&A.

Financial assets with objective evidence of impairment as a result of loss events that have a negative impact on the estimated future cash flows are considered to be impaired requiring the recognition of lifetime ECL allowances. (Stage 3). Deterioration in credit quality is considered an objective evidence of impairment and includes observable data that comes to the attention of the Corporation, such as significant financial difficulty of the borrower. The Corporation defines default as when there is identification of objective evidence of impairment (which could, for example, be delinquency of 90 days or more). A financial asset is no longer considered impaired when past due amounts have been recovered, and the objective evidence of impairment is no longer present.

Financial assets are written off, either partially or in full against the related allowances for credit losses when the Corporation believes there are no reasonable expected future recoveries through payments or the sale of the related security. Any recoveries of amounts previously written off are credited against provision for credit losses in the statements of income and comprehensive income.

Loan Modification

The Corporation defines loan modification as changes to the original contractual terms of the financial asset that represents a fundamental change to the contract or changes that may have a significant impact on the contractual cash flow of the asset. The Corporation derecognizes the original asset when the modification results in significant change or expiry in the original cash flows; a new asset is recognized based on the new contractual terms. The new asset is assessed for staging and SICR to determine the corresponding ECL measurement required at the date of modification. If the Corporation determines the modifications do not result in derecognition, then the asset will retain its original staging and SICR assessments.

(ii) Fair value measurements:

In accordance with IFRS, the Corporation 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 Corporation's cash and cash equivalents are valued using Level 1 measures and the properties held for sale under foreclosure are valued using Level 3 measures as there are no quoted prices in an active market for these investments. As explained in more detail in Note 12 of the interim financial statements, management makes its determination of fair value of mortgages by discounting future cash flows at the Corporation'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.

FINANCIAL INSTRUMENTS

The Corporation's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as measured at amortized cost. The financial risks associated with the Corporation's mortgage investments and the Corporation's management of those risks are discussed in note 8 of the interim financial statements.

The Corporation's other financial assets consist of cash and cash equivalents, due from administrator in trust, and accrued interest receivable. The Corporation's financial liabilities consist of bank line of credit, dividends payable, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Corporation 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 Corporation classifies its financial assets as one of the following: measured at amortized cost or fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FOCI"). Financial liabilities are classified as: FVTPL or financial liabilities at amortized cost. The Corporation 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 measured at amortized cost.
(ii) Financial liabilities:
Bank line of credit, dividends payable, and accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The tables in note 12 of the interim financial statements present the fair values of the Corporation's financial instruments as at March 31, 2020 and December 31, 2019.

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies are described in note 4 of the Corporation's interim financial statements.

At the date of authorization of this MD&A, certain new standards, and amendments to existing standards have been published by the International Accounting Standards Board ("IASB"). Information on those expected to be relevant to the Corporation's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Corporation'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 did not have a material impact on the Corporation's financial statements.

IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

Effective January 1, 2020 the IASB implemented amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarified the definition of "material" and aligned the definition used in the Conceptual Framework and the standards themselves. The information provided in the Company financial statements is compliant with the issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

RISKS AND UNCERTAINTIES

The Corporation is subject to many risks and uncertainties that may limit our ability to execute on our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general economy and general real estate market, a significant change in interest rates, an inability to make mortgage loans at rates consistent with rates historically achieved, and having an insufficient amount of new mortgage loan opportunities presented.

See "Forward-Looking Information" below and the Risk Factors section of the Corporation's prospectus for further information on risks and uncertainties faced by the Corporation. The Corporation's prospectus is available on www.sedar.com and on the Corporation's website at www.fmic.ca.

A discussion of the impact and potential impact on the operations and performance of the Corporation of the recent and on-going COVID-19 outbreak is included in this MDA under Operating Results.

FORWARD-LOOKING INFORMATION

From time to time in our public communications we provide forward-looking statements. Such statements are disclosures regarding possible events, conditions, results of operations or changes in financial position that are based upon assumptions and expectations. These are not based on historical facts but are with respect to management's beliefs, estimates, and intentions. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans", or "continue" or other similar expressions suggesting future outcomes or events. Forward looking statements regarding performance of the economy in general and real estate markets in particular. Forward-looking statements generally assume that our revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A or elsewhere. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters, and the general economic environment. For other risks and uncertainties, please refer to "Risks and Uncertainties" above and to the "Risk Factors" section of the Corporation's prospectus which is available at www.sedar.com and www.fmic.ca. That list is not exhaustive as other factors could adversely affect our results, performance, or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. We will not publicly update or revise any forward-looking statement, whether as a results of new information, future events, or otherwise, unless required to do so by law.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and has in place the appropriate information systems, procedures and controls to ensure the information used internally by management and externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures and have reviewed and approved this MD&A and the financial statements as at March 31, 2020.

ADDITIONAL INFORMATION

Additional information about Frontenac Mortgage Investment Corporation, including the unaudited financial statements for the three months ended March 31, 2020 and the audited financial statements for the year ended December 31, 2019, is available on SEDAR at www.sedar.com or on our website at www.fmic.ca. You may also obtain information by contacting the Corporate Secretary for Frontenac Mortgage Investment Corporation by telephone at (613) 279-2116 or by email at dawn.reiser@robinsonsgroup.com.

EXHIBIT 7

Audit Committee Charter
Frontenac Mortgage Investment Corporation ("FMIC")

The Audit Committee shall assist the Board with its oversight duties related to finance in a manner consistent with National Instrument 52-110 – Audit Committees. Products expected by the Committee, and the Committee's authority are outlined below.

Committee Products

1: ***Selection of, liaison with, and oversight of external auditor***

1.1 Options for Board decision re: selection of financial auditor and liaison with auditor on behalf of Board.

1.2 Approval of terms of engagement of the external auditor as set forth in the Engagement Letter, for an audit to be completed annually and filed by the last business day of March.

1.3 Review with the external auditor of the audit plan, including the scope of the audit, areas of special emphasis to be addressed, materiality levels they propose to employ and the estimated cost of the audit.

1.4 Meet with the external auditor to determine that no management restrictions have been placed on the scope and extent of the audit examinations or the reporting of their findings to the Committee.

1.5 An opinion for the Board, based on evidence required of the external auditor, as to whether the independent audit of the organization was performed in an appropriate manner, including maintaining their independence.

1.6 On behalf of the Board, pre-approval of non-audit services provided by the independent auditor.

1.7 An annual report to the Board highlighting the committee's review of the audited financial statements, and any other significant information arising from their discussions with the external auditor.

1.8 An assessment for the Board of the services provided by the auditor.

2: ***Oversight of financial information***

2.1 An opinion for the Board, based on discussion with the external auditors and management, as to whether there is reasonable assurance that the annual Audited Financial Statements are accurate, complete, represent fairly the financial position and are in accordance with GAAP, prior to the Board's approval of the Audited Financial Statements.

2.2 An opinion for the Board based on discussion with management as to whether Management's Discussion & Analysis is accurate, complete and in compliance with regulations.

3: ***Advice to the board re: procedures for dealing with complaints and reported questionable accounting or auditing matters***

3.1 An opinion for the Board as required regarding procedures for dealing with complaints received by FMIC regarding accounting, internal accounting controls or auditing matters.

3.2 An opinion as required for the Board regarding procedures (to be established) for dealing with anonymous submissions by employees of the issuer of concerns regarding questionable accounting or auditing practices or actions.

4: ***Advice to the Board Re: Committee Terms of Reference***

4.1 If requested by the Board, an opinion for the Board regarding the currency of its Terms of Reference.

Committee Authority

1. The Committee has no authority to change or contravene Board policies.

2. The Committee has authority to spend funds required for travel to meetings if meetings are required.

3. The Committee has the authority to set the remuneration for the external auditor within the range approved by the Board. The committee has no authority to spend or commit other organization funds.

4. The Committee has authority to use Corporate Secretary resource time normal for administrative support around meetings.

5. The Committee does not have authority to instruct the CEO or any other staff member, other than to request information required in the conduct of its duties.

6. The Committee has the authority to meet independently with the organization’s external auditors.

Composition

1. The Committee shall be composed of at least three directors appointed by the Board of Directors at the first full meeting after the AGM. Members of the committee shall be appointed annually for a one year term, which may be renewable at the pleasure of the board. The Chair of the Board shall be an ex officio non-voting member of the committee.

2. The Committee members shall elect the Chair from among its members.

   All members of the committee shall be independent, defined as a person who has no direct or indirect material (reasonably expected to interfere with the exercise of a member's independent judgement) relationship with FMIC.

3. All committee members shall be financially literate as such qualification is defined by applicable law and interpreted by the Board in its business judgment.

4. The Board’s interpretation of financial literacy is the ability to read and understand FMIC financial statements.

Investment Entity Review Reports

1. The Committee has authority to oversee the process involving the preparation of investment entity review reports (“**IERRs**”) including, without limitation, selecting and setting the remuneration of the firm of chartered business valuators who prepare FMIC’s IERRs.

2. In relation to any change of in the firm of chartered business valuators who prepare FMIC’s IERRs FMIC will follow a process which is consistent with the process prescribed by section 4.11 of National Instrument 51-102 – *Continuous Disclosure Obligations* for any change of FMIC’s auditor.

CERTIFICATE OF THE CORPORATION

Dated: May 26, 2020

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

(Signed) "*Matthew Robinson*"	(Signed) "*Kevin Cruickshank*"
Matthew Robinson Chief Executive Officer	**Kevin Cruickshank** Chief Financial Officer
(Signed) "*Eric Dinelle*"	(Signed) "*Margaret Kelk*"
Eric Dinelle Director	**Margaret Kelk** Director

CERTIFICATE OF THE PROMOTER

Dated: May 26, 2020

To the best of our knowledge, information and belief, this prospectus, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

W.A. ROBINSON ASSET MANAGEMENT LTD.

(Signed) "*Matthew Robinson*"

Matthew Robinson
President
(and signing as Chief Executive Officer)

(Signed) "*Kevin Cruickshank*"

Kevin Cruickshank
Chief Financial Officer

(Signed) "*Matthew Robinson*"

Matthew Robinson
Director

(Signed) "*Wayne Robinson*"

Wayne Robinson
Director