



INDEPENDENT REVIEW COMMITTEE

ANNUAL REPORT TO SECURITYHOLDERS

For The Fiscal Year January 1, 2010 through December 31, 2010

Date: March 9, 2011

1. INTRODUCTION

This report is directed to the shareholders of Frontenac Mortgage Investment Corporation (FMIC) as required by *National Instrument 81-107 INDEPENDENT REVIEW COMMITTEE FOR INVESTMENT FUNDS*. This instrument requires that a manager refer all conflict of interest matters to the Independent Review Committee (IRC). FMIC has contracted with W. A. Robinson & Associates Ltd. to direct the affairs and manage the business of the Corporation and to administer or arrange for the administration of the day-to-day operations of the Corporation. In this capacity W. A. Robinson & Associates Ltd. is "the manager" as referenced in the instrument. Pillar Financial Services Inc. has been contracted to provide mortgage underwriting and administration services. Pillar is owned by Wayne Robinson and therefore enjoys a material relationship with the Manager. Therefore, if the manager or administrator encounters a conflict of interest matter it must be reported to the IRC. The IRC is required to decide what action is required to resolve the conflict. This report will describe the activities of the Independent Review Committee (IRC) during the 2010 fiscal year.

2. BACKGROUND

On March 20th of 2007 the Board of Directors of FMIC decided to serve as the IRC for the Corporation. This was done to control expenses by avoiding the appointment and payment of professional individuals to a separate IRC. The Board of Directors decided that dealing with conflict of interest matters was part of the oversight responsibilities of the shareholders' elected representatives, i.e.: the Board of Directors. These decisions were made with the input of legal advice obtained by the manager.

Conflict of interest matters that have arisen in the past have been few. Some examples of the type of matter that might be encountered are:

- a person with a mortgage from the Fund becomes an employee of the manager
- a relative of an officer of the manager holds a mortgage from the Fund
- a mortgage is bought (transferred) by FMIC from another fund managed by the manager
- a change of Auditor

A matter that puts the administrator in a constant state of conflict of interest is underwriting mortgage deals for FMIC. This is considered a conflict of interest because the manager earns underwriting and administration fees on the mortgages brought to FMIC. It was decided that this would be dealt with by issuing a standing order to the manager to delegate the responsibility for obtaining mortgage approvals from one director, two directors or a quorum of the board depending on the amount of the mortgage. As a further measure of oversight, weekly reports are distributed to the directors showing new mortgages approved.

3. ABOUT THE COMMITTEE

All but one member of the IRC were appointed on March 20, 2007; that appointment to be effective November 1, 2007. Therefore, those members have served on the IRC for three years and one month. Rosemarie Bowick became a Director of FMIC and thus a member of the IRC on October 17, 2009. Mrs. Bowick has now served for approximately one year and two and a half months. The members of the IRC are:

Colleen Allison (Chair)
Robert Barnes
Rosemarie Bowick

Bill Calvert
Kevin Corcoran
Eric Dinelle
Margaret Kelk

None of these members serve on another fund's independent review committee. All these members are independent members. The members' aggregate number of shares is 15,192 or 1.5% of the fund's total number of shares of 1,032,475. No members of the IRC hold shares in the Managers' firm or in any company that provides services to the investment fund.

Compensation to the IRC is included in the directors' fees of \$10,000 per annum for the Chair and \$5,000 per annum for each director. The fees total \$40,000.00. In addition, any expenses incurred while serving on the IRC (e.g.: mileage, meals, accommodation, communications, etc.) are reimbursed.

4. MATTERS BROUGHT BEFORE THE COMMITTEE

The OSC believed the IRC needed to examine the issue of a conflict of interest of the Manager because:

- The Administrator (Pillar Financial Services Inc.) charged an Underwriting fee on closing a mortgage deal.
- the Manager owns Pillar

The IRC are to decide if the receipt of underwriting fees would cause the Administrator to approve a deal because of those fees. Further has the Manager been in a conflict of interest by the use of Pillar? It was decided that the Underwriting fees do not cause actions by the Administrator that are not in the best interests of the funds. It was also decided that the choice of Administrator was done by an independent Board of Directors. The Manager is not a member of the Board of Directors and so did not have undue influence over the Board. It was recognized that the Manager has used his business judgment uninfluenced by considerations other than the best interests of the fund.

The following resolution was passed:

Resolutions of the Independent Review Committee (the "**IRC**") of **FRONTENAC MORTGAGE INVESTMENT CORPORATION** (the "**Fund**") passed at a meeting of the IRC in accordance with National Instrument 81-107 – *Independent Review Committee for Investment Funds* held at 9:00 (a.m.) on the 23rd day of August, 2010 at the Simonett Building, Sharbot Lake, Ontario.

WHEREAS the Fund is an investment fund that offers its common shares pursuant to a prospectus dated August 23, 2009;

AND WHEREAS W.A. Robinson & Associates, Ltd. (the "**Manager**") is the manager of the Fund;

AND WHEREAS Pillar Financial Services Inc. (the "**Administrator**") is a licensed mortgage broker and administrator and is an affiliate of the Manager;

AND WHEREAS neither the Fund nor the Manager are licensed as mortgage brokers or administrators, and they must therefore conduct their mortgage investment activities through a licensed mortgage broker such as the Administrator;

AND WHEREAS the Administrator has for over twenty years been underwriting, brokering and administering mortgages on behalf of individual lenders or mortgage pools and has, at the date hereof, 10 employees, three of which are also employed by the Manager;

AND WHEREAS the initial administration agreement between the Fund and the Administrator was signed on December 20, 2004 for a three-year term and was then renewed for a further three-year term in December 2007 and then amended and restated on June 21, 2008 in order to reflect the required separation of duties between the Administrator (Pillar Financial Services Inc.) and the Manager of the Fund (W.A. Robinson & Associates Ltd.), and to amend its renewal provisions (collectively, the “**Administration Agreement**”);

AND WHEREAS as compensation for the services provided by the Administrator to the Fund, the Administrator receives a monthly fee equal to $1/12^{\text{th}}$ of 1% of the value of the Fund (the “**Administrator Fees**”);

AND WHEREAS among other things, the Administrator will (a) review mortgage loan applications to ensure that they meet the Fund’s lending criteria, (b) ensure adequate supporting documentation has been provided by a prospective mortgagor, (c) ensure an inspection of the property is conducted on commercial and construction properties to be granted as collateral and secure a third-party appraisal thereof, (d) coordinate with legal counsel the registration of mortgages and, upon the payout thereof, their discharge; and administer those mortgages by receiving payments and paying out property taxes and insurance (collectively, the “**Services**”) and for the Services provided the Administrator generally charges the mortgagors of the mortgages held by the Fund an underwriting fee of 1.1% of the amount of the loan on residential mortgage transactions and of 2% of the amount of the loan on commercial transactions (the “**Underwriting Fees**”);

AND WHEREAS the Underwriting Fees and the Administration Agreement, including the Administration Fees, are disclosed in the Fund’s prospectus;

AND WHEREAS the Manager is not a party to the Administration Agreement and the Fund does not believe that the Manager has acted in any conflict of interest matter in connection with the Administration Agreement;

AND WHEREAS for greater certainty, the Fund and the Manager want to avoid the appearance of a potential for a conflict of interest in connection with the ongoing retention of the Administrator, an affiliate of the Manager, as the administrator of the Fund and, accordingly, each seek to refer this matter to the IRC for approval;

AND WHEREAS among other things, the IRC has considered (i) the Underwriting Fees received by the Administrator, (ii) the selection of the Administrator as administrator for the Fund, and (iii) the terms of the Administration Agreement, including the Administration Fees;

AND WHEREAS after reasonable inquiry the IRC has determined that the following action (a) was proposed by the Manager free from any influence by an entity related to the Manager and without taking into account any consideration relevant to an entity related to the Manager, (b) represents the business judgment of the Manager uninfluenced by the considerations other than the best interests of the Fund, (c) is in compliance with the Manager's written policies and procedures relating the action, and (d) achieves a fair and reasonable result for the Fund;

NOW THEREFORE BE IT RESOLVED THAT the Administration Agreement between the Fund and the Administrator, an affiliate of the Manager, including without limitation the payment of the Administration Fees to the Administrator pursuant to the terms of the Administration Agreement, and the receipt of Underwriting Fees by the Administrator on mortgages issued to the Fund is hereby authorized, ratified and approved by the IRC.

NOW THEREFORE BE IT RESOLVED THAT given the potential for the appearance of conflict of interest for the Administrator, an affiliate of the Manager, to serve as administrator for the Fund and to receive Underwriting Fees from mortgagors that issue mortgages to the Fund, the IRC hereby grants a standing instruction ("**Standing Instruction**") to the Fund to pay the Administration Fees to the Administrator pursuant to the terms of the Administration Agreement, until such time as the Administration Agreement is terminated or the Standing Instruction is revoked by the IRC, and approving the Underwriting Fees received by the Administrator.

Approved this 23rd day of August, 2010 as signed by a quorum of the Independent Review Committee:

(s) Colleen Allison

Colleen Allison

(s)Margaret Kelk

Margaret Kelk

(s) Rosemarie Bowick

Rosemarie Bowick

- End of report -