FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS
(UNAUDITED)

AS AT JUNE 30, 2013

Notice Under National Instrument 81-106 (para 2.12): The independent external auditor, Raymond Chabot Grant Thornton LLP, has not performed a review of these financial statements for the six months ended June 30, 2013 and 2012.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS
(UNAUDITED)
AS AT JUNE 30, 2013

CONTENTS

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF NET ASSETS
(UNAUDITED)

	As at June 30, 2013 $	As at December 31, 2012 $
ASSETS		
Cash and cash equivalents	5,543,433	66,279
Mortgage investments (Note 5)	103,068,966	105,712,355
Prepaid expenses	3,360	16,500
Investment in private company (Note 6)	587,804	587,155
Properties held for sale under foreclosure (Note 7)	1,061,143	424,256
	110,264,706	106,806,545
LIABILITIES		
Bank line of credit (Note 8)	-	5,950,000
Dividends payable	120,058	127,358
Accounts payable and accrued expenses	90,352	85,547
Deferred lender fee revenue	42,467	87,147
Prepaid mortgage payments	245,455	705,518
	498,332	6,955,570
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY	109,766,374	99,850,975
NUMBER OF SHARES ISSUED AND OUTSTANDING	3,658,878	3,328,364
NET ASSETS PER SHARE	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

___*Colleen Allison* (signed)_________ Director

___*Margaret Kelk* (signed)_________ Director

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF OPERATIONS
(UNAUDITED)

	Six months ended June 30, 2013 $	Six months ended June 30, 2012 $
INTEREST INCOME	5,001,933	2,214,621
EXPENSES		
Administration and management fees (Note 10)	1,143,346	584,189
Audit fees	28,874	21,582
Director fees	50,804	17,735
General and operating expenses	227,147	112,179
Interest on credit line	15,172	273
Legal fees	31,725	28,177
Trustee fees	44,006	34,063
	1,541,074	798,198
NET INVESTMENT INCOME	3,460,859	1,416,423
Realized losses on mortgages	(47,543)	(132,222)
Unrealized change in fair value of mortgages	(250,000)	123,000
Unrealized change in fair value of investment in private company	(44,000)	-
Unrealized change in fair value of properties held for sale under foreclosure	116,000	-
INCREASE IN NET ASSETS FROM OPERATIONS	3,235,316	1,407,201
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	3,516,648	1,781,267
NET INCREASE IN NET ASSETS FROM OPERATIONS PER SHARE	$ 0.92	$ 0.79

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CHANGES IN NET ASSETS
(UNAUDITED)

	Six months ended June 30, 2013 $	Six months ended June 30, 2012 $
NET ASSETS, beginning of period	99,850,975	46,048,317
Increase in net assets from operations	3,235,316	1,407,201
Share capital transactions		
Proceeds from issuance of shares for cash	8,077,999	12,454,660
Reinvested distributions	2,393,421	1,094,322
Cost of shares redeemed	(556,021)	-
	9,915,399	13,548,982
Distributions to shareholders		
Dividends to shareholders	(3,235,316)	(1,407,201)
NET ASSETS, end of period	109,766,374	59,597,299

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF CASH FLOW
(UNAUDITED)

	Six months ended June 30, 2013 $	Six months ended June 30, 2012 $
CASH FROM OPERATING ACTIVITIES		
Net investment income	$ 3,460,859	1,416,423
Changes in non-cash balances:		
Decrease in prepaid expenses	13,140	1,542
(Decrease)/increase in dividends payable	(7,300)	9,473
Increase/(decrease) in accounts payable and accrued expenses	4,805	(6,354)
(Decrease)/increase in prepaid mortgage payments	(460,063)	142,128
(Decrease) in deferred lender fee revenue	(44,680)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,966,761	1,563,212
FINANCING ACTIVITIES		
Proceeds from issuance of shares for cash	8,077,999	12,454,660
(Decrease)/increase in bank line of credit	(5,950,000)	1,720,000
Redemption of common shares	(556,021)	-
Cash dividends	(841,895)	(312,879)
NET CASH PROVIDED BY FINANCING ACTIVITIES	730,083	13,861,781
INVESTING ACTIVITIES		
Investment in mortgages	(22,881,460)	(21,688,624)
Repayment of mortgages	25,227,306	19,052,117
Investment in private company	(44,649)	(100,000)
Investment in properties held for sale under foreclosure	(520,887)	-
NET CASH USED IN INVESTING ACTIVITIES	1,780,310	(2,736,507)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	5,477,154	12,688,486
CASH AND CASH EQUIVALENTS, beginning of period	66,279	1,254,128
CASH AND CASH EQUIVALENTS, end of period	5,543,433	13,942,614

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO
(UNAUDITED)
AS AT JUNE 30, 2013

INVESTMENT PORTFOLIO

	Percentage of Portfolio	Principal value	Amortized Cost	Fair Value
		$	$	$
Private mortgages	93.90 %	103,365,966	103,068,966	103,068,966
Investment in Bruce Young Salvage Inc.	0.54 %		952,804	587,804
Properties held for sale under foreclosure	0.97 %		826,143	1,061,143
Cash & other assets	4.60 %			5,048,460
Bank line of credit	- %			-
Net assets	100.00 %			109,766,373

DISTRIBUTION OF MORTGAGES

Interest Rate	Number of Mortgages	Amortized Cost	Current Value
		$	$
5% or less	3	1,297,145	1,297,145
7%	21	5,608,827	5,608,827
8%	21	5,449,313	5,449,313
9%	53	15,625,629	15,625,629
10%	103	34,872,524	34,872,524
11%	54	16,129,437	16,129,437
12%	103	24,086,091	24,086,091
Totals	358	103,068,966	103,068,966

Mortgages are 79% residential and 21% commercial and vacant land. All mortgages are pre-payable, uninsured conventional mortgages with terms to maturity ranging from 1 to 2 years.

1. DESCRIPTION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act*. The Company's objective 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.

On July 1, 2012, the Company amalgamated with Mortgage Investment Corporation of Eastern Ontario ("MICEO"). Like the Company, MICEO was an Ontario-based mortgage investment corporation and was managed by the same manager, W.A. Robinson Asset Management Ltd. Both the Company and MICEO operated under the same investment objectives and investment strategy and combining the two entities allowed management to streamline overall operations. The aggregate purchase price was equal to the net assets of MICEO totalling $46,152,700 and was settled in exchange for 1,583,423 common shares of the new amalgamated company valued at $30 per share.

The comparative figures presented in these financial statements for the six months ended June 30, 2012 do not include the operating results of MICEO prior to amalgamation on July 1, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") included in Part V of the CICA Handbook - Pre-changeover Accounting Standards including Accounting Guideline 18 Investment Companies ("AcG-18") and with National Instrument 81-106 on continuous disclosure.

(a) Revenue recognition

Interest income on mortgage investments and other investment income are recognized on the accrual basis in the period earned. Interest is not accrued on mortgage investments that are identified as impaired.

(b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions and estimates 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. Actual amounts could differ from these estimates. Significant estimates include the fair value of the Company's mortgage investments and are subject to measurement uncertainty. Changes in estimates are recorded in the accounting period in which they are determined.

(c) Mortgage investments

Mortgage investments are stated at fair value in accordance with CICA Accounting Guideline 18 ("AcG-18"). Any unrealized changes in the fair value of an investment are recorded in the statement of operations for the period. The fair value of mortgage investments is determined by discounting future cash flows at the Company's prevailing rate of return on new mortgages of similar type, term, and credit risk.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investment in private company

Investment in private company is stated at fair value in accordance with CICA Accounting Guideline 18 ("AcG-18"). Any unrealized changes in the fair value of the investment are recorded in the statement of operations for the period. The fair value of investment in private company is determined by discounting future cash flows at an appropriate discount rate.

(e) Properties held for sale under foreclosure

Properties held for sale under foreclosure is stated at fair value in accordance with CICA Accounting Guideline 18 ("AcG-18"). 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 fair value net of selling expenses.

(f) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). The company distributes all of its net income to its shareholders in the form of dividends in order not to be subject to income taxes.

(g) 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 period.

(h) 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 recognized into revenue on a straight-line basis over the term of the related mortgages.

(i) 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.

(j) Financial instruments

The Company's most significant financial instruments consist of its mortgage investments. In accordance with AcG-18, mortgage investments are required to be recorded at fair value as defined in CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement". Mortgage investments are valued on the policies described in paragraph (c) above. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial instruments (continued)

The Company's other financial instruments consist of cash and cash equivalents, investment in private company, properties held for sale under foreclosure, bank line of credit, accounts payable and accrued expenses, deferred lender fee revenue, and dividends payable. 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.

In accordance with Canadian GAAP, the Company is required to classify its financial assets as one of the following: held-to-maturity, loans and receivables, held-for-trading or available for sale. Financial liabilities must be classified as: held-for-trading or other liabilities. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as held-for-trading and recorded at fair value.

(ii) Financial liabilities:

Bank line of credit, accounts payable and accrued expenses, deferred lender fee revenue, and dividends payable are classified as other liabilities and recorded at amortized cost.

(k) Accounting changes

In February 2009, the Accounting Standards Board of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. Implementation of IFRS has been deferred for investment companies that apply the provisions of AcG-18 to January 1, 2014. As the Corporation meets the definition of a publically accountable enterprise and is classifed as an investment company, the Corporation will be adopting IFRS beginning on January 1, 2014. Management is in the process of assessing the impact of IFRS in detail on its financial reporting systems. Based on the existing IFRS and proposed amendments, management has presently determined that the change to IFRS will mainly result in changes to the financial statement presentation and additional disclosure.

3. CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's definition of capital includes net assets and bank line of credit.

The Company's objective when managing its share 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.

3. CAPITAL STRUCTURE FINANCIAL POLICIES (Continued)

In order to provide some liquidity to its shareholders, the Company is required to maintain approximately 5% of its net assets in cash or near cash 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 the 5% cash reserve is maintained. As at June 30, 2013 and December 31, 2012, 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.

4. FINANCIAL INSTRUMENTS

In accordance with Canadian GAAP, 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 mortgage investments, investment in private company, and property held for sale under foreclosure are classified using Level 3 measures. Mortgage investments, investment in private company, and 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 5, management makes its determination of fair value for its mortgage investments based on its assessment of the current mortgage market for mortgages of same or similar terms. As explained in more detail in Note 6, management makes its determination of fair value for its investment in private company based on a discounted cash flow analysis of the private company's projected future cash flows. As explained in more detail in Note 7, management makes its determination of fair value of properties held for sale under foreclosure based on its assessment of the net realizable value of the property taking into consideration appraisals by qualified appraisers and purchase offers received from unrelated third parties.

5. MORTGAGE INVESTMENTS

There are 358 mortgages (December 31, 2012 - 367) held which are a combination of mainly first and second mortgages secured by residential and commercial property.

Credit risk

Credit risk arises from the possibility that mortgagors may experience financial difficulty and be unable to fulfill their mortgage commitments. 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. There are no significant concentrations of credit risk as the average mortgage amount as at June 30, 2013 was $280,743 (December 31, 2012 - $281,886) and the largest mortgage was $5,223,136 (December 31, 2012 - $5,223,136). As at June 30, 2013, there are 12 mortgages totaling $3,385,020 (December 31, 2012 - 12 mortgages totaling $2,589,541) that are considered past due by management.

5. MORTGAGE INVESTMENTS (Continued)

Interest rate price risk

Interest rate price risk arises from the possibility that at the end of a mortgage's term it will be re-priced to a prevailing interest rate lower then the original one. This risk is mitigated by the fact that the Company is not as exposed to market mortgage rates because there is no specific market for mortgages of similar type, term and credit risk. This strategy has allowed the Company to renew its mortgages at consistent rates.

Mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full without penalty. The weighted average interest rate of the mortgages as at June 30, 2013 was 9.80% (December 31, 2012 - 10.00%).

A 50 basis point increase or decrease in interest rates, with all other variables held constant, will not effect an increase or decrease in net investment income as the Company's mortgage investments are issued at fixed interest rates.

Fair Values

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties under no compulsion to act. As there are no quote prices in an active market for the Company's mortgage investments, management makes its determination of fair value based on its assessment of the current mortgage market for mortgages of same or similar terms. 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. 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 mortgage loan.

The following table shows a reconciliation of the opening and closing balance of mortgage investments:

	Six months ended June 30, 2013	Six months ended June 30, 2012
Mortgage investments - beginning of period	$ 105,712,355	$ 44,925,909
Realized losses	(47,543)	(132,222)
Unrealized change in fair value	(250,000)	123,000
Net advances and repayments	(2,345,846)	2,636,507
Mortgage investments - end of period	103,068,966	47,553,194

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 June 30, 2013, the Company's liabilities consisted of accounts payable and accrued expenses totaling all $90,352 of which are due within normal trade terms of generally 30 days. The Company maintains significant committed borrowing facilities from its bank for credit room at least equal to ten percent 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.

6. INVESTMENT IN PRIVATE COMPANY

On April 30, 2012, the Company acquired a 50% interest in Bruce Young's Salvage Inc. ("BYSI"), a Canadian-owned private company based in Nova Scotia. BYSI operates as a scrap metal salvage business and currently has a contract for salvage in the Caribbean.

The investment in BYSI consists of the following:

	As at June 30, 2013 $	As at December 31, 2012 $
10 common shares, representing 50% of all the issued and outstanding common shares	100,000	100,000
Term loan bearing interest at 0% repayable on demand	400,000	400,000
Operating loan bearing interest at 12%	452,804	364,155
Total investment at cost	952,804	864,155
Unrealized change in fair value of investment in private company	(365,000)	(277,000)
Fair value of investment - end of period	587,804	587,155

The Company's investment in BYSI is presented at fair value. The fair value of the investment, including the shares held and the outstanding loans, is determined by discounting future expected cash flows at an appropriate discount rate. As at June 30, 2013 and as at December 31, 2012, the fair value was determined by discounting expected cash repayments from BYSI of $175,000 per year over the next five years using a discount rate of 15%.

7. PROPERTIES HELD FOR SALE UNDER FORECLOSURE

As at June 30, 2013, there are 2 properties (December 31, 2012 - 1 property) held for sale under foreclosure as follows:

	As at June 30, 2013 $	As at December 31, 2012 $
Properties held for sale under foreclosure - at cost	826,143	283,256
Unrealized change in fair value of properties held for sale under foreclosure	235,000	141,000
Fair value - end of period	1,061,143	424,256

The fair value of properties held for sale under foreclosure are determined taking into consideration recent appraisals of the properties by qualified appraisers based on comparative sales and recent legal and reasonable offers, if any, by unrelated third parties to purchase the properties.

8. BANK LINE OF CREDIT

As at June 30, 2013, the Company had a revolving line of credit with a limit of $9,000,000 with a major Canadian chartered bank. It 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 3.00% (December 31, 2011 - 3.00%) plus 1%.

Financial covenants require the Company to maintain a minimum level of equity, debt to equity ratio and percentage of residential mortgages. As at June 30, 2013 the Company was in compliance with the bank's financial covenants.

8. BANK LINE OF CREDIT (Continued)

Subsequent to the period end, in July 2013, the bank line of credit limit was increased to $15 million. There were no changes to the other terms, conditions, or financial covenants of the bank line of credit agreement.

9. CAPITAL STOCK

Authorized capital:
The authorized capital consists of an unlimited number of voting, non-cumulative common shares.

Changes during the periods:

	Six months ended June 30, 2013		Year ended December 31, 2012	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of period	3,328,364	99,850,975	1,534,943	46,048,317
Issued on amalgamation			1,538,423	46,152,700
Issued for cash	269,267	8,077,999	616,480	18,494,413
Issued through dividend reinvestment plan	79,781	2,393,421	110,843	3,325,297
Redeemed	(18,534)	(556,021)	(472,325)	(14,169,752)
Balance, end of period	3,658,878	109,766,374	3,328,364	99,850,975

Dividend reinvestment plan and direct share purchase plan
The dividends paid to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current net asset value per share.

Redemptions
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the period ended June 30, 2013, 18,534 common shares were redeemed for cash at the price of $30 per share for total proceeds of $556,021. No common shares were redeemed during the six month period ended June 30, 2012. For the year ended December 31, 2012, 472,325 common shares were redeemed for cash at the price of $30 per share for total proceeds of $14,169,752.

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 & Associates Ltd. ("W.A.") provides portfolio management advice and investment counsel to the Company.

The companies are related in that they share common management. Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Total fees paid to Pillar for the six months ended June 30, 2013 were $535,721 (six months ended June 30, 2012 - $274,267) and the total fees paid to W.A. for the six months ended June 30, 2013 were $607,624 (six months ended June 30, 2012 - $309,922) 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.

11. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with Canadian securities legislation, a reconciliation is required of any difference between net assets, calculated in accordance with Canadian GAAP, and net asset value. As at June 30, 2013 and as at December 31, 2012, as the Company's net assets are presented at fair value in accordance with Canadian GAAP for investment companies, there was no difference between the net assets and the net asset value.