FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2012

This interim management report of fund performance contains financial highlights but does not contain either complete annual or interim financial statements of the investment fund. You can obtain a copy of the annual or interim financial statements at your request, at no cost, by any of the following methods:

By telephone: (877) 279-2116

By Internet: SEDAR at www.sedar.com

By mail: Frontenac Mortgage Investment Corporation
The Simonett Building
14216 Highway #38
Sharbot Lake, Ontario K0H 2P0

Shareholders may also contact us using one of these methods to request a copy of the Corporationôs proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

The discussion contained in this interim Management Report on Fund Performance (ñMRFPò) is intended to update readers on material developments since the date of the most recent annual MRFP and does not restate all the information contained in the annual MRFP. This interim MRFP should be read in conjunction with the annual MRFP, financial statements, and company prospectus ï copies of which are available on SEDAR at www.sedar.com.

Results of Operations

The financial statements of Frontenac Mortgage Investment Corporation are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and National Instrument 81-106 Investment Funds Continuous Disclosure and all amounts are expressed in Canadian dollars.

Revenues for the Corporation for the six months ended June 30, 2012 increased on a gross basis to $2,214,621 from $1,707,617 from the same period in 2011 but decreased on a per share basis to $1.24 per common share from $1.57 per common share from the same period in 2011. The overall increase in gross revenues is attributable to the increased net asset base available for investment. Net assets for the Corporation increased by approximately $25 million year over year as at June 30, 2012 as a result of new investment by shareholders and re-investment by shareholders of their monthly dividends under the dividend re-investment plan. Revenue per share decreased year over year as result of the Corporation maintaining a higher percentage of its net assets in cash and money market investments which generate lower gross returns than its traditional mortgage investments. The increase in the cash position is a reflection of the increase in new investment combined with a higher than expected level of repayments of the Companyôs existing mortgages. Both of these factors are a reflection of prevailing low interest rates in the marketplace. With most government bonds and chartered bank GICs yielding a return at or below the rate of inflation, investment in the Corporation has increased from those investors seeking higher yields on their available cash. At the same time, low interest rates have increased the number of repayments received by the Corporation on its existing mortgage portfolio, which are generally open for repayment at any time, and put pressure on the Corporationês ability to re-invest its cash into new mortgages of similar gross yields and risk within its traditional Eastern Ontario lending area. To further expand the number of available lending opportunities, the Corporation may expand its lending operations to new markets in other parts of Ontario and Eastern Canada that have similar economic characteristics and lending environments as its traditional lending areas. In June 2012, the Corporation registered as a lender with the Province of Nova Scotia. Until such time as the cash position returns to historical levels, the Corporation is restricting the amount of new investment that it receives.

Total expenses for the Corporation for the six months ended increased to $798,198 from $672,025 for the same period in 2011. The increase in expenses is attributable to an increase in the management and administration fees paid attributable to the higher net asset base. There was no significant change in other expenses of the Corporation.

Overall, earnings per share decreased to $0.79 per share for the six months ended June 30, 2012 from $0.95 per share for the same period in 2011.

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

	Six months ended June 30, 2012 (Unaudited) $	**2011 $**	**2010 $**	**2009 $**	**2008 $**
Total revenues	2,214,621	3,771,220	2,851,989	2,464,219	2,337,590
- per issued common share	1.24	3.08	2.87	2.83	3.22
Net earnings	1,407,201	2,388,163	1,470,262	1,492,208	1,331,004
- per issued common share	0.79	1.95	1.48	1.74	1.82

Outstanding Share Data and Transactions for the Period

The Corporation is authorized to issue an unlimited number of common shares and, as at June 30, 2012, 1,986,576 common shares (June 30, 2011 ï 1,150,609) of the Corporation were issued and outstanding.

The following table presents a comparative summary of share transactions (for the year ended December 31 unless otherwise stated):

	Six months ended June 30, 2011 (Unaudited)	**2011**	**2010**	**2009**	**2008**
Number of shares:	#	#	#	#	#
Balance ï beginning of period	1,534,943	1,032,446	938,428	762,396	665,554
Issued for cash	415,155	466,586	97,639	158,432	84,838
Issued under dividend re-investment plan	36,477	72,531	47,526	49,740	44,367
Redeemed		(36,440)	(51,147)	(32,140)	(32,363)
Balance ï end of period	1,986,576	1,534,943	1,032,446	938,428	762,396
Dollars:	$	$	$	$	$
Balance ï beginning of period	46,048,317	30,973,376	21,152,846	22,871,903	19,966,602
Issued for cash	12,454,660	13,997,592	2,929,163	4,752,960	2,545,148
Issued under dividend re-investment plan	1,094,322	2,170,541	1,425,783	1,492,208	1,331,004
Redeemed		(1,093,192)	(1,534,416)	(964,225)	(970,851)
Balance ï end of period	59,597,299	46,048,317	30,973,376	28,152,846	22,871,903

Under the terms of the Corporationôs prospectus, shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. During the six month period ended June 30, 2012, no shares (June 30, 2011 ï 1,104 shares) were redeemed.

Recent Developments

Amalgamation

Immediately subsequent to the period end, on July 1, 2012, the Company amalgamated with Mortgage Investment Corporation of Eastern Ontario (ñMICEOò) to form a new company, Frontenac Mortgage Investment Corporation. Like the Company, MICEO is an Ontario-based mortgage investment corporation and is managed by the same manager, W.A. Robinson Asset Management Ltd. For accounting purposes, the Corporation is deemed to have acquired MICEO as the Corporation has more shareholders and placed more directors on the combined board of directors than MICEO.

The net assets acquired under this amalgamation totaled $46,152,700. The acquisition was made in exchange for 1,538,423 common shares of the amalgamated company valued at $30 per share.

The following table, which should be read in conjunction with the Corporationӳ interim unaudited financial statements, summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition and the combined assets of the new combined entity:

	Existing assets & liabilities of the Corporation $	Acquired from MICEO $	As amalgamated $
Assets:			
Cash and cash equivalents	13,942,614	7,635,622	21,578,236
Mortgage investments	47,553,194	38,550,047	86,103,241
Prepaid expenses	6,975	10,269	17,244
Investment in private company	100,000		100,000
	61,602,783	46,195,938	107,798,721
Liabilities:			
Bank line of credit	1,720,000		1,720,000
Dividends payable	59,662	9,579	69,241
Accounts payable and accrued liabilities	49,884	17,875	67,759
Prepaid mortgage payments	175,938	15,784	191,722
	2,005,484	43,238	2,048,722
Net assets	59,597,299	46,152,700	105,749,999

The mortgage investment portfolio of MICEO is similar to that of the Corporation in average size, geographic location, terms, and interest rate. As at the acquisition date, MICEO held 124 mortgages with a weighted average interest rate of 10.01%. The largest mortgage balance was $4,769,898 and the average outstanding balance was $310,888. As at the acquisition date, there were six mortgages totaling $1,832,867 that were considered past due by management.

On a go-forward basis, the investment strategy, operating principles and investment policies of the combined entity are unchanged from those of the Corporation.

Future Accounting Change

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 (ñIFRSò) 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 classified 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.

Name Change for Manager

On June 11, 2012, the Manager filed Articles of Amendment to change its name from W.A. Robinson & Associates Ltd. to W.A. Robinson Asset Management Ltd. The change represents a change in name only. Ownership of the Manager is unchanged.

Risks

The overall risks of the Corporation are as described in the Corporationôs most recent prospectus. As of the date of this Management Report of Fund Performance, management is not aware of any negative risk factor which has adversely affected the return on investments for the six months ended June 30, 2012. All bad or questionable loans have been accounted for in the financial statements and, except as otherwise discussed or disclosed in this report, no trends are known at this time that will likely either affect the capital base of the Corporation, the ability of the Corporation to find and fund mortgage loans or decrease the Corporationôs investment income.

Related Party Transactions

Pillar Financial Services Inc. (ñPillarò) is the administrator for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. Its responsibilities include originating loan transactions, underwriting the mortgages, collecting mortgage payments, and the internal audit and accounting for the Companyôs mortgage portfolio. Total fees charged under this contract for the six month period ended June 30, 2012 were $274,267 (six months ended June 30, 2011 - $167,278)

W.A. Robinson Asset Management Ltd. (ñW.A.ò, formerly W.A. Robinson & Associates Ltd.) is the portfolio manager for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. It provides portfolio management advice and investment counsel to the Company. Total fees charged under this contract for the six month period ended June 30, 2012 were $309,922 (June 30, 2011 - $189,024) including applicable sales taxes.

Pillar Financial Services Inc. and W.A. Robinson Asset Management Ltd. are related to the Corporation in that they share common management.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Corporation and are intended to help you understand the Corporationҳ financial performance for the past year. This information is derived from the Corporationҳ unaudited interim and audited annual financial statements.

The Net Asset Value (NAV) of the Corporation per Share (for year ended December 31 unless otherwise stated)**:**

	Six months ended June 30, 2012 (Unaudited) $	2011 $	2010 $	2009 $	2008 $
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.24	3.08	2.87	2.83	3.22
Total expenses	(0.45)	(1.03)	(1.08)	(0.90)	(1.16)
Realized gains (losses) during period	(0.07)	(0.22)	(0.33)	-	(0.09)
Unrealized gains (losses) during period	0.07	0.12	0.02	(0.19)	(0.15)
Total increase (decrease) from operations	0.79	1.95	1.48	1.74	1.82
Distributions:					
From net income (excluding dividends)	(0.79)	(1.95)	(1.48)	(1.74)	(1.82)
From dividends					-
From capital gains					-
Return of capital					-
Total Distributions	(0.79)	(1.95)	(1.48)	(1.74)	(1.82)
Net asset value, end of period	30.00	30.00	30.00	30.00	30.00

(1) Net asset value and distributions are based on the actual number of shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of shares outstanding over the financial period.

(2) Substantially all of the distributions were re-invested in additional shares of the Corporation.

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless individual shareholders elect to receive their dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation. During the six months ended June 30, 2012, the Corporation paid cash dividends of $312,879.

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

	Six months ended June 30, 2012 (Unaudited)	**2011**	**2010**	**2009**	**2008**
Net assets	$59,597,299	$46,048,317	$30,973,376	$28,152,846	$22,871,903
Number of shares outstanding	1,986,576	1,534,943	1,032,446	938,428	762,396
Management expense ratio (annualized)	3.00%	3.42%	3.54%	3.08%	3.74%
Management expense ratio before waivers or absorptions (annualized)	3.00%	3.42%	3.54%	3.08%	3.74%
Portfolio turnover rate	45.77%	74.63%	73.76%	54.40%	52.73%
Trading expense ratio	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

(1) The management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. The management expense ratio is calculated by dividing the total expenses for the stated period by Frontenacӳ daily average net assets during such period.

(2) The Corporationӳ portfolio turnover rate indicates how actively the Corporationӳ portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Corporation buying and selling all of the securities in its portfolio once in the course of the year. The higher a fundӳ portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving a capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. In the case of the Corporation, because it does not incur any trading expenses, the portfolio turnover rate bears no relationship with the level of trading expenses.

(3) The trading expenses ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Management fees

W.A. Robinson Asset Management Ltd. (formerly W.A. Robinson & Associates Ltd.) is the portfolio manager for the Company and charges an annual fee of 1% of the total asset value calculated on a monthly basis. It provides portfolio management advice and investment counsel to the Company. Total fees charged under this contract for the six month period ended June 30, 2012 were $309,922 (six months ended June 30, 2011 - $189,024) including applicable sales taxes.

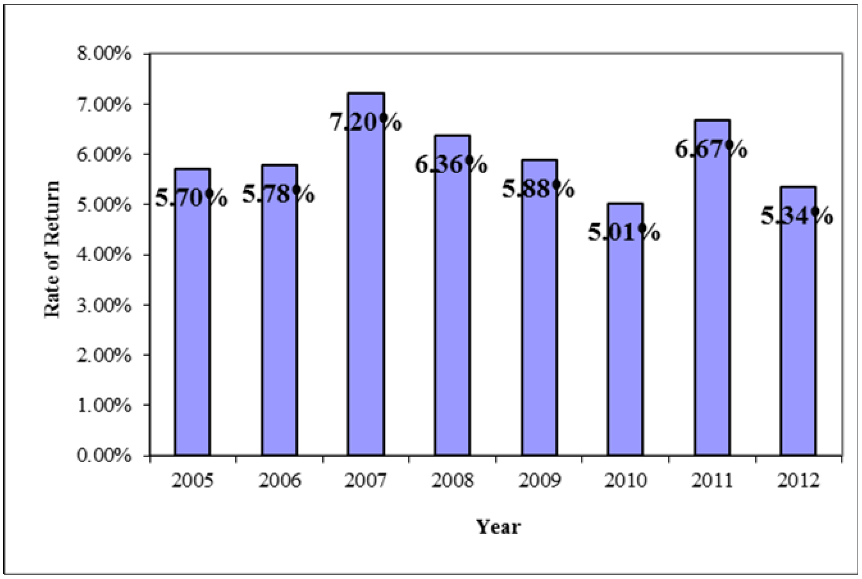
In addition, as detailed under the ñRelated Partiesò section above, for the six months ended June 30, 2012, the Company paid fees totalling $274,267 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2011 - $167,278).

PAST PERFORMANCE

This section presents information on the Corporationӳ past performance. Although past performance can help you understand the risks of investing in the Corporation, it is not indicative of future performance. The returns listed in this section include reinvested distributions (which increase returns over time) but do not take into account any income taxes that might reduce returns. The Corporationôs returns are reported after accounting for fees and expenses which lower the overall Corporation returns.

Year-by-Year Returns

The following bar chart presents the annualized rate of return on net assets of the Corporation (for the years ended December 31, 2005, 2006, 2007, 2008, 2009, 2010, 2011, and for the six month unaudited interim period ended June 30, 2012):



Note: Six month return presented for 2012 has been annualized.

Summary of Investment Portfolio

The following investments represent the Corporationôs twenty-five largest holdings as at June 30, 2012:

Asset	Market Value	Percentage of Net Assets
Private residential mortgages (1)	$38,425,654	64.48%
Units of RBC Premium Money Market Fund	11,431,233	19.18%
Private commercial mortgages (1)	4,668,912	7.83%
Private mortgages on vacant land (1)	4,458,628	7.48%
Units of RBC Short-term Income Fund	2,515,070	4.22%

(1) These mortgages are uninsured conventional pre-payable mortgages with interest rates ranging from 6% to 13% and terms of maturity ranging from 1 to 2 years. A further breakdown of the mortgages can be found in the Statement of Investment Portfolio which forms part of the Corporationôs interim financial statements.

(2) Due to the existence of the credit line facility, total assets of the Corporation may exceed the net assets of the Corporation. Accordingly, assets expressed as a percentage of net assets may exceed 100% when totaled.

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