FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2013

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 (ñGAAPò) included in Part V of the CICA Handbook ï Pre-changeover Accounting Standards including Accounting Guideline 18 ñInvestment Companiesò (ñAcG-18ò) and with National Instrument 81-106 ñInvestment Funds Continuous Disclosureò. All amounts are expressed in Canadian dollars.

On July 1, 2012, the Corporation amalgamated with Mortgage Investment Corporation of Eastern Ontario (ñMICEOò). MICEO was an Ontario-based mortgage investment corporation that was managed by the same manager of the Corporation, W.A. Robinson Asset Management Ltd. As at the date of amalgamation, MICEO had net assets of $46.1 million that were combined with the Corporation. The operating results of MICEO prior to amalgamation on July 1, 2012 are not included in the comparative figures presented for the six months ended June 30, 2012. As noted in the discussion of operating results that follows, on an absolute dollar basis, the revenues and expenses of the Corporation have increased accordingly as a result of the amalgamation.

Revenues for the Corporation for the six months ended June 30, 2013 increased on a gross basis to $5,001,933 from $2,214,621 from the same period in 2012 and increased on a per share basis to $1.42 per common share from $1.24 per common share from the same period in 2012. The overall increase in gross revenues is attributable to the increased net asset base available for investment and as a result of the amalgamation with MICEO. Revenue per share increased year over year as result of the Corporation maintaining a lower percentage of its net assets in cash and money market investments which generate lower gross returns than its traditional mortgage investments. During the first six months of 2012, the Corporation received a large amount of new investment that combined with higher than expected lump sum repayments of its mortgage loans to result in higher than normal cash balances. In 2013, management implemented a new system of treasury management to ensure the amount of new investment received could be placed into mortgage loans that meet the Corporationôs historical underwriting criteria.

Total expenses for the Corporation for the six months ended increased to $1,541,074 from $798,198 for the same period in 2012. The increase in expenses is attributable to an increase in the net asset base as result of the amalgamation with MICEO and new investment received. Administration and management fees are charged to the Corporation as a percentage of total assets and, accordingly, the dollar amount of those fees increase as the assets of the Corporation increase. Overall, operating expenses per share of the Corporation were relatively unchanged at $0.44 per share for the six months ended June 30, 2013 compared to $0.45 per share for the same period in 2012.

Overall, earnings per share increased to $0.92 per share for the six months ended June 30, 2013 from $0.79 per share for the same period in 2012.

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

	Six months ended June 30, 2013 (Unaudited) $	**2012 $**	**2011 $**	**2010 $**	**2009 $**
Total revenues	5,001,933	7,187,719	3,771,220	2,851,989	2,464,219
- per issued common share	1.42	2.69	3.08	2.87	2.83
Net earnings	3,235,316	4,405,231	2,388,163	1,470,262	1,492,208
- per issued common share	0.92	1.65	1.95	1.48	1.74

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, 2013, 3,658,878 common shares (June 30, 2012 ï 1,986,576) 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, 2013 (Unaudited)	**2012**	**2011**	**2010**	**2009**
Number of shares:	#	#	#	#	#
Balance ï beginning of period	3,328,364	1,534,943	1,032,446	938,428	762,396
Issued on amalgamation		1,538,423			
Issued for cash	269,267	616,480	466,586	97,639	158,432
Issued under dividend re-investment plan	79,781	110,843	72,531	47,526	49,740
Redeemed	(18,534)	(472,325)	(36,440)	(51,147)	(32,140)
Balance ï end of period	3,658,878	3,328,364	1,534,943	1,032,446	938,428
Dollars:	$	$	$	$	$
Balance ï beginning of period	99,850,975	46,048,317	30,973,376	21,152,846	22,871,903
Issued on amalgamation		46,152,700			
Issued for cash	8,077,998	18,494,413	13,997,592	2,929,163	4,752,960
Issued under dividend re-investment plan	2,393,421	3,325,297	2,170,541	1,425,783	1,492,208
Redeemed	(556,021)	(14,169,752)	(1,093,192)	(1,534,416)	(964,225)
Balance ï end of period	109,766,373	99,850,975	46,048,317	30,973,376	28,152,846

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, 2013, 18,534 shares (June 30, 2011 ï no shares) were redeemed.

Recent Developments

Increase in Bank Line of Credit

In July 2013, the Corporation increased its credit line limit with the Royal Bank of Canada from $9 million to $15 million. There were no changes in the other terms and conditions of the bank line of credit. The increase was a reflection of an increase in the net assets of the Corporation and is consistent with managementôs strategy of maintaining a bank line of credit up to 15% of net assets. The bank of line of credit is used to maintain an adequate reserve for share redemptions and for the management of differences in timing between the Corporationôs day-to-day cash inflows and outflows.

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.

Risks

The overall risks of the Corporation are as described in the Corporationøs 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, 2013. 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 Corporationøs investment income.

Related Party Transactions

Pillar Financial Services Inc. (õPillarö) 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 Companyøs mortgage portfolio. Total fees charged under this contract for the six month period ended June 30, 2013 were $535,721 (six months ended June 30, 2012 - $274,267)

W.A. Robinson Asset Management Ltd. (õW.A.ö, 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, 2013 were $607,624 (June 30, 2012 - $309,922) 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 Corporationós financial performance for the past year. This information is derived from the Corporationós 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, 2013 (Unaudited) $	2012 $	2011 $	2010 $	2009 $
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.42	2.69	3.08	2.87	2.83
Total expenses	(0.44)	(0.88)	(1.03)	(1.08)	(0.90)
Realized gains (losses) during period	(0.01)	(0.25)	(0.22)	(0.33)	-
Unrealized gains (losses) during period	(0.05)	0.09	0.12	0.02	(0.19)
Total increase (decrease) from operations	0.92	1.65	1.95	1.48	1.74
Distributions:					
From net income (excluding dividends)	(0.92)	(1.65)	(1.95)	(1.48)	(1.74)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.92)	(1.65)	(1.95)	(1.48)	(1.74)
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, 2013, the Corporation paid cash dividends of $841,895.

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

	Six months ended June 30, 2013 (Unaudited)	**2012**	**2011**	**2010**	**2009**
Net assets	$109,766,373	$99,850,975	$46,048,317	$30,973,376	$28,152,846
Number of shares outstanding	3,658,878	3,328,364	1,534,943	1,032,446	938,428
Management expense ratio (annualized)	2.95%	2.94%	3.42%	3.54%	3.08%
Management expense ratio before waivers or absorptions (annualized)	2.95%	2.94%	3.42%	3.54%	3.08%
Portfolio turnover rate	23.84%	71.37%	74.63%	73.76%	54.40%
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 Frontenacõs daily average net assets during such period.

(2) The Corporationõs portfolio turnover rate indicates how actively the Corporationõs 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 fundõs 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, 2013 were $607,624 (six months ended June 30, 2012 - $309,922) including applicable sales taxes.

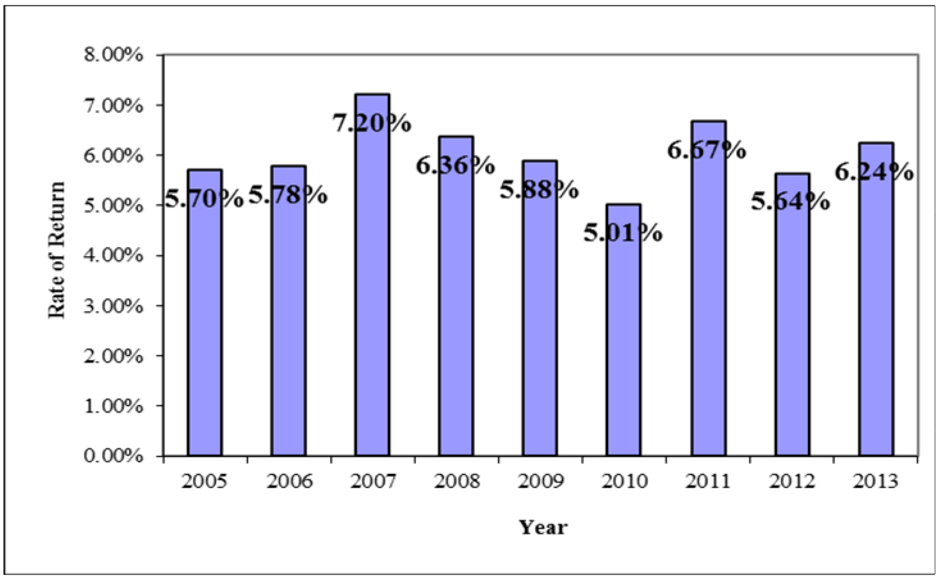
In addition, as detailed under the ñRelated Partiesò section above, for the six months ended June 30, 2013, the Company paid fees totalling $535,721 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2012 - $274,267).

PAST PERFORMANCE

This section presents information on the Corporationôs 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, 2012, and for the six month unaudited interim period ended June 30, 2013):



Note: Six month return presented for 2013 has been annualized based on the number of days in the period.

Summary of Investment Portfolio

The following investments represent the Corporationôs twenty-five largest holdings as at June 30, 2013:

Asset	Market Value	Percentage of Net Assets
Private residential mortgages (1)	$80,527,514	73.36%
Private commercial mortgages (1)	$20,439,649	19.83%
Units of RBC Premium Money Market Fund	$3,848,904	3.52%
Private mortgages on vacant land (1)	$2,101,803	2.04%
Cash	$1,679,370	1.53%
Properties held for sale under foreclosure	$1,061,143	0.97%
Investment in Bruce Young Salvage Inc.	$587,804	0.54%
Units of RBC Canadian Money Market Fund	$5,159	0.00%

(1) These mortgages are uninsured conventional pre-payable mortgages with interest rates ranging from 5% to 12% 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.