FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2013

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Corporation. You can obtain a copy of the annual 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 or on the Corporationǿs website at www.fmic.ca
By mail:	Frontenac Mortgage Investment Corporation The Simonett Building 14216 Road #38 Sharbot Lake, Ontario K0H 2P0

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

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategy

Investment objective

The Corporationǿs objective is to generate income while preserving, for its beneficial shareholders, capital for re-investment. As a mortgage investment corporation, the Corporation 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 Corporation.

Investment strategy

The Corporation will achieve its investment objective by lending on the security of mortgages on real property located primarily in the province of Ontario. The mortgages 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 Corporationǿs investments are expected to earn a higher rate of interest than what is generally obtainable through conventional mortgage lending activities.

Risks

The business operations of the Corporation are subject to the following risks, amongst others, that could affect shareholdersô equity and the Corporationǿs ability to generate returns: relative illiquid nature of mortgage investments, ability of borrowers to make mortgage payments, inability of the Corporation to find suitable mortgage investments, changes in land value, ranking of mortgages, no guarantees to investor on returns or lack of losses, and reliance on third parties.

These risk factors are described in greater detail in the Corporationǿs prospectus, a copy of which may be obtained through SEDAR at www.sedar.com.

During the 2013 year, management did not make any operational changes which had an impact on the overall risk of an investment in the Corporation.

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.

Operating Results for the Period

On July 1, 2012, the Corporation amalgamated (the ñAmalgamationò) with Mortgage Investment Corporation of Eastern Ontario (ñMICEOò) which effectively doubled the net assets of the Corporation. Further information on the amalgamation is presented in the Recent Development section of the Management Report on Fund Performance for the Corporation for the year ended December 31, 2012, a copy of which may be obtained on www.sedar.com.

The following table presents the results from operations for the year ended December 31:

	2013 **$**	**2012** **$**	**2011** **$**	**2010** **$**	**2009** **$**
Total revenues	10,582,028	7,187,719	3,771,220	2,851,989	2,464,219
- per issued common share	2.86	2.69	3.08	2.87	2.83
Net increase in net assets from operations	6,502,045	4,405,231	2,388,163	1,470,262	1,492,208
- per issued common share	1.76	1.65	1.95	1.48	1.74

In 2013, the Corporation generated revenues of $10,582,028 or $2.86 per Common Share and a net increase in net assets from operations of $6,502,045 or $1.76 per Common Share.

The revenues of the Corporation represent interest from investments, substantially all of which is earned on its investment in mortgages. Increases in gross dollar revenues were a reflection of an increase in the amount of net assets available for investment both as a result of the Amalgamation and as a result of net new investment by shareholders. The increase in revenues per share from 2012 is attributable to a return to normal in its cash balances throughout 2013 while, in 2012, the Corporation maintained higher than normal cash balances. Management considers normal cash balances to be 5% or less of net assets. Cash and cash equivalents of the Corporation earn little to no return in interest as compared to its mortgage investments and, accordingly, higher balances of cash and cash equivalents depress total revenue per share. On average throughout the year, the Corporation maintained month end balances of cash and cash equivalents of 3% of net assets in 2013 as compared to an average of 15% in 2012. In 2012, the higher than normal cash balances were attributable from higher than expected payouts of existing mortgage investments as borrowers sought to take advantage of lower interest rates for mortgages available in the market, especially in the first half of 2012. The Corporationǿs balance of cash and cash equivalents peaked at 26% of net assets in May 2012 and then declined steadily over the remainder of the year such that, as at December 31, 2012, the Corporation was utilizing $5.95 million of its credit line and was 104% invested in mortgages as a percentage of net assets.

Total operating expenses for 2013 increased to $3,206,740 from $2,362,492 for 2012. The dollar increase in expenses is attributable to the increase in the size of the operations that resulted from the Amalgamation. The gross value of administration and management fees, both of which are calculated based on a percentage of net assets, increased as a result of the increase in net assets. Operating expenses per share were relatively unchanged at $0.87 per share in 2013 compared to $0.88 per share in 2012.

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. Under the Corporation's dividend re-investment plan, all of the earnings of the Corporation were paid out to its shareholders and re-invested in Common Shares of the Corporation. During the year, the Corporation paid cash dividends totaling $1,783,285 (2012 - $1,079,934) and $4,718,760 (2012 - $3,325,297) 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 2013, the net assets of the Corporation increased as a result of net new investments totaling $18,510,723. For the year ended December 31, 2012, the net assets of the Corporation increased by $46,152,700 as a result of the Amalgamation and net new investments totaling $4,324,661. Proceeds from Common Shares issued in 2013, excluding dividend re-investment, totaled $26,349,820 (2012 - $18,494,413) while redemptions during the year totaled $7,839,097 (2012 - $14,169,752). Substantially all of the 2013 share redemptions occurred in November 2013.

The Corporation has a revolving line of credit with a Canadian chartered bank and, in July 2013, the limit of the credit line was increased from $9.0 million to $15.0 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 Company to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2013 the company 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. As at December 31, 2013, the Corporation was using $1,920,000 of this credit line. The maximum borrowings at any one time in the year was $8,110,000.

Outstanding Share Data and Transactions for the Period

The Corporation is authorized to issue an unlimited number of common shares. The following table presents a summary of share data and transactions for the year ended December 31:

	2013	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)		1,538,423			
Issued for cash	878,327	616,480	466,586	97,639	158,432
Issued under dividend re-investment plan	157,292	110,843	72,531	47,526	49,740
Redeemed	(261,303)	(472,325)	(36,440)	(51,147)	(32,140)
Balance ï end of period	4,102,680	3,328,364	1,534,943	1,032,446	938,428

	2013	2012	2011	2010	2009
Dollars:	$	$	$	$	$
Balance ï beginning of period	99,850,975	46,048,317	30,973,376	28,152,846	22,871,903
Issued on amalgamation (1)		46,152,700			
Issued for cash	26,349,820	18,494,413	13,997,592	2,929,163	4,752,960
Issued under dividend re-investment plan	4,718,760	3,325,297	2,170,541	1,425,783	1,492,208
Redeemed	(7,839,097)	(14,169,752)	(1,093,192)	(1,534,416)	(964,225)
Balance ï end of period	123,080,458	99,850,975	46,048,317	30,973,376	28,152,846

Notes:

(1) On July 1, 2012, the Corporation amalgamated with Mortgage Investment Corporation of Eastern Ontario, a ñsisterò mortgage investment corporation managed by the same manager and with the same investment objectives and strategy.

Under the Corporationôs 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 book value per share.

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.

Recent Developments

Since December 31, 2012, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

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 Accounting Guideline 18 ñInvestment Companiesò (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

Based on the existing IFRS and proposed amendments, management has completed its review of the Corporationôs internal systems and accounting policies and has presently determined that the change to IFRS will mainly result in changes to the financial statement presentation and additional disclosure. Management has identified the following accounting policies which will differ under IFRS and will have a significant impact on the financial statements:

(i) Mortgage investments: Under current Canadian GAAP including AcG-18, the Corporation presents its mortgage investments at fair value. Under IFRS, because it is the Corporationôs intention to hold its mortgage investments until repaid in full by the borrower, mortgage investments will be classified as loans and receivables. As loans and receivables, mortgage investments will be initially recognized at their fair value and subsequently measured at their amortized cost using the effective interest rate method. Mortgage investments will be reviewed at each reporting date for impairment with impairment losses recognized into profit or loss.

The current accounting policies for other financial assets and liabilities of the Corporation are expected to remain substantially unchanged after the transition to IFRS. Changes are expected to occur in the form of additional or different note disclosures.

Transition to IFRS requires that the opening financial position of the Corporation, in this case January 1, 2013, in the year of transition be restated to reflect the adoption of new IFRS conforming accounting policies. As at December 31, 2013, the fair value of the Corporationôs mortgage investments was not materially different from their amortized cost less impairment losses and, accordingly, no dollar adjustment to the Corporationôs financial statements is expected as a result of the change in the accounting policy. No other dollar adjustments to the Corporationôs opening financial statements are expected. Once IFRS are adopted, the net asset value per share (ñNAVPSò) calculated for purposes of issuing and redeeming the Corporationôs shares may differ from the accounting value presented per share as NAVPS is based on fair value measurements.

Proposed Changes in Securities Regulations

As part of the Canadian Securities Administratorsô (ñCSAò) implementation of the ñModernization of Investment Fund Product Regulation Projectò, the CSA have proposed changes to the legislation governing investment funds, some of which could have a negative effect on the business and financial performance of the Corporation. For example, one such proposed change is a restriction prohibiting any investment fund from investing in mortgages other than mortgages that are fully and unconditionally guaranteed by the Government of Canada, the government of a province or territory of Canada or by an agency of such government. However, as such proposed changes are currently in the developmental stage and have not been finalized or approved, they are subject to change or abandonment in whole or in part. As such, until such legislative changes are finalized, their effect, if any, upon the Corporation cannot be known. Also, on September 12, 2013, the Ontario Securities Commission published OSC Staff Notice 81-722 ï Mortgage Investment Entities and Investment Funds which could impact the continuous disclosure obligations of the Corporation. Management is continuing to monitor the status of such proposed changes and their potential effect upon the Fund.

Related Party Transactions

Pillar Financial Services Inc. (ñPillarò) is the administrator and W.A. Robinson Asset Management Ltd. (ñW.A.ò) is the manager for the Company. These companies are related parties in that they share common management. The Company 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.

Administration and management fees paid under these agreements totaled $2,409,867 for the year ended December 31, 2013 (year ended December 31, 2012 - $1,722,765) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2012 is a reflection of the increase in the total assets of the Corporation from 2013.

FINANCIAL HIGHLIGHTS

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

Net Asset Value (N.A.V.) of the Corporation per Share:

	2013	**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	2.86	2.69	3.08	2.87	2.83
Total expenses	(0.87)	(0.88)	(1.03)	(1.08)	(0.90)
Realized gains (losses) during period	(0.06)	(0.25)	(0.22)	(0.33)	-
Unrealized gains (losses) during period	(0.17)	0.09	0.12	0.02	(0.19)
Total increase (decrease) from operations	1.76	1.65	1.95	1.48	1.74
Distributions:					
From net income (excluding dividends)	(1.76)	(1.65)	(1.95)	(1.48)	(1.74)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(1.76)	(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) Book 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.

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless a shareholder elects to receive their monthly dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation.

Ratios and Supplemental Data (December 31):

	2013	2012	2011	2010	2009
Net assets	$123,080,458	$99,850,975	$46,048,317	$30,973,376	$28,152,846
Number of shares outstanding	4,102,680	3,328,364	1,534,943	1,032,446	938,428
Management expense ratio	2.89%	2.94%	3.42%	3.54%	3.08%
Management expense ratio before waivers or absorptions	2.89%	2.94%	3.42%	3.54%	3.08%
Portfolio turnover rate	48.85%	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 (excluding realized and unrealized losses on the Corporationφs mortgage investments) 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 the Corporationφs daily average net assets during such period. The comparative figures presented for management expense ratio have been restated to remove realized and unrealized losses from total expenses.

(2) The Corporationφs portfolio turnover rate indicates how actively the Corporationφs 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. There is not necessarily a relationship between a high turnover rate and the performance of a fund. For the Corporation, the portfolio turnover rate is based on the dollar value of the Corporationφs mortgages. 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.

Administration and management fees

Pillar Financial Services Inc. (ñPillarò) is the administrator and W.A. Robinson & Associates Ltd. (ñW.A.ò) is the manager for the Company. The Company 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.

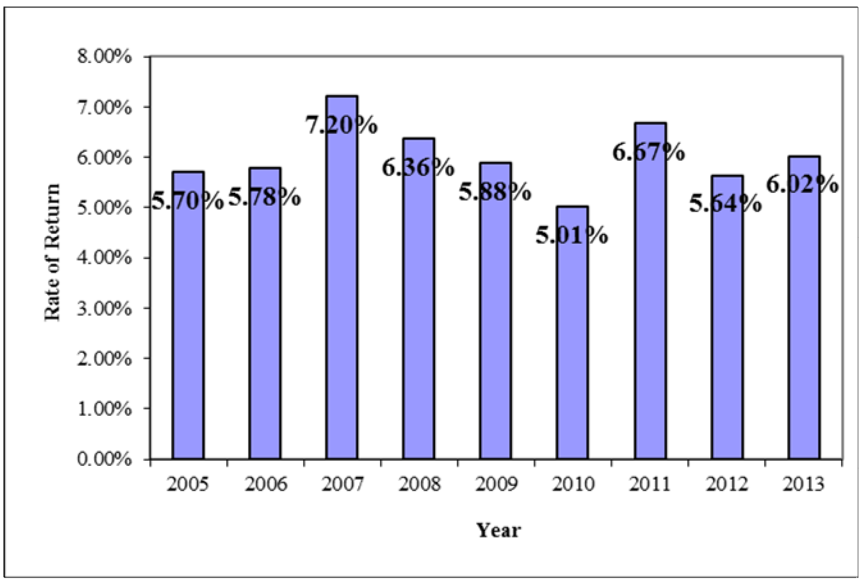
Administration and management fees paid under these agreements totaled $2,409,867 for the year ended December 31, 2013 (year ended December 31, 2012 - $1,722,765) including applicable sales taxes. The increase in the dollar value of the administration and management fees from 2012 is a reflection of the increase in the total assets of the Corporation from 2013.

PAST PERFORMANCE

This section presents information on the Corporationὂs 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 Corporationὂs returns are reported after accounting for fees and expenses which lower the overall Corporation returns.

Year-by-Year Returns

The bar chart below shows the Corporationὂs annual performance for each of the years shown and illustrates how the Corporationὂs performance has changed from year to year. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown as at the last day of each financial year.



(1) The annualized rate of return presented for 2005 represents the results from operations for the initial period of operations from June 22, 2005 until December 31, 2005.

Annual Compound Returns

The following table presents the Corporationὂs annual compound return for each share:

One year	6.02%
Three year	6.11%
Since inception (2005)	6.01%

Summary of Investment Portfolio

Asset	Market Value $	% of Net Assets
Cash & cash equivalents	2,291	0.00%
Mortgage investments	122,555,191	99.57%
Properties held for sale under foreclosure	917,083	0.75%
Net accrued receivables/(payables)	(394,107)	(0.32%)
Total net assets	123,080,458	100.00%

The following represents the Corporationôs twenty-five largest holdings as at December 31, 2013:

Mortgage loan description	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	Allocation Type	% of NAV
Rural Ontario multi-residential development	ON	6,125,732	63%	12	10.50%	1	Residential development	4.98%
Rural Ontario multi-residential waterfront development	ON	5,088,814	82%	24	12.00%	1	Residential development	4.13%
Ottawa area multi-residential development	ON	5,066,176	13%	13	9.50%	1	Residential	4.12%
Rural Ontario multi-residential development	ON	4,299,558	51%	24	9.00%	1	Residential development	3.49%
GTA area private residential	ON	3,502,007	41%	45	8.50%	1	Residential	2.85%
Rural Ontario multi-residential development	ON	3,217,125	64%	24	10.95%	1	Residential development	2.61%
Barrie area commercial offices	ON	1,900,000	48%	25	9.75%	1	Commercial	1.54%
Ottawa area multi-residential construction	ON	1,885,840	63%	12	9.99%	1	Residential construction	1.53%
Ottawa area retail	ON	1,823,815	44%	24	10.50%	1	Commercial	1.48%
Ottawa area multi-residential development	ON	1,819,597	93%	24	0.00%	1	Residential development	1.48%
Ottawa area multi-residential construction	ON	1,725,101	29%	12	9.99%	1	Residential construction	1.40%
Ottawa area private residential	ON	1,518,360	76%	13	5.99%	1	Residential	1.23%
Rural Ontario multi-residential waterfront development	ON	1,467,842	25%	60	7.00%	1	Commercial	1.19%
Kingston area commercial building	ON	1,345,671	38%	120	6.99%	1	Commercial	1.09%
Cornwall area agricultural	ON	1,178,323	60%	25	9.00%	1	Commercial	0.96%
Brockville area commercial building	ON	1,146,805	79%	12	5.00%	1	Commercial	0.93%
Barrie area industrial	ON	1,000,000	61%	36	10.00%	1	Commercial	0.81%
Kingston area residential	ON	951,989	74%	13	9.50%	1	Residential	0.77%
Eastern Ontario retirement facility	ON	925,000	64%	25	9.00%	1	Commercial	0.75%
Kingston area commercial land	ON	908,406	38%	12	10.00%	1	Commercial	0.74%
Rural Ontario multi-residential development	ON	873,418	43%	37	9.00%	1	Residential development	0.71%
Kingston area commercial land	ON	836,375	21%	12	12.00%	1	Commercial	0.68%
Ontario rural tourist commercial	ON	779,276	52%	25	9.25%	1	Commercial	0.63%
Ottawa area residential	ON	737,497	60%	36	7.99%	1	Residential	0.60%
Quebec property for sale under foreclosure	PQ	714,161						0.58%

(1) Loan-to-value determined based on appraisal done by armôs length third party at time of funding.

Portfolio Allocations (based on outstanding principal balances):

BY TYPE	
Residential	41.7%
Residential construction	18.9%
Residential developments	19.5%
Commercial	13.2%
Vacant land	5.9%
Other	0.8%
	100.0%

BY REGION	
Ontario	98.2%
Quebec	1.0%
New Brunswick	0.7%
Nova Scotia	0.1%
	100.0%

BY INTEREST RATE	
6.49% or lower	5.7%
6.50% to 7.49%	7.8%
7.50% to 8.49%	4.9%
8.50% to 9.49%	21.7%
9.50% to 10.49%	25.7%
10.50% to 11.49%	13.9%
11.50% to 12.49%	20.3%
	100.0%

BY MATURITY	
One year or less	83.2%
1.1 to 2 years	12.1%
2.1 to 3 years	2.5%
3.1 to 5 years	1.0%
more than 5 years	1.2%
	100.0%

BY MORTGAGE POSITION	
First mortgages	97.8%
Other	2.2%
	100.0%

The actual holdings may change following this date due to on-going portfolio transactions in the Corporation. A quarterly update is available on the Corporation's website at www.fmic.ca or 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.