FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(In Canadian Dollars)

<u>Notice Under National Instrument 81-106 (para 2.12):</u> 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, 2014 and 2013.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2014 AND 2013

CONTENTS

	Page
FINANCIAL STATEMENTS	
Statement of Net Assets	1
Statement of Operations	2
Statement of Changes in Net Assets	3
Statement of Cash Flow	4
Statement of Investment Portfolio	5
Notes to Financial Statements	6-18

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENT OF NET ASSETS
(UNAUDITED)
(In Canadian Dollars)

	As at June 30, 2014 $	As at December 31, 2013 $	As at January 1, 2013 $
ASSETS			
Cash and cash equivalents	22,858	2,291	8,531
Due from administrator in trust (Note 5)	1,084,355	1,945,120	57,748
Accrued interest receivable	4,939,004	4,622,378	2,575,519
Mortgage investments (Note 6)	139,067,087	117,932,813	103,136,836
Prepaid expenses	6,460	15,571	16,500
Investment in private company (Note 7)	-	-	587,155
Properties held for sale under foreclosure (Note 8)	736,295	917,083	424,256
	145,856,059	125,435,256	106,806,545
LIABILITIES			
Bank line of credit (Note 9)	8,020,000	1,920,000	5,950,000
Dividends payable	205,560	152,164	127,358
Accounts payable and accrued expenses	56,401	51,690	85,547
Deferred lender fee revenue	31,182	50,035	87,147
Prepaid mortgage payments	2,002,025	180,909	705,518
	10,315,168	2,354,798	6,955,570
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY	135,540,891	123,080,458	99,850,975
NUMBER OF SHARES ISSUED AND OUTSTANDING	4,518,028	4,102,680	3,328,364
NET ASSETS PER SHARE	30.00	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

___*William Calvert* (signed)_________ Director

___*Robert Barnes* (signed)_________ Director

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENT OF OPERATIONS
(UNAUDITED)
(In Canadian Dollars)

	Six months ended June 30, 2014 $	Six months ended June 30, 2013 $
INTEREST INCOME	6,139,668	5,001,933
EXPENSES		
Administration and management fees (Note 11)	1,432,845	1,143,346
Audit fees	24,839	28,874
Director fees	45,965	50,804
General and operating expenses	234,386	227,147
Interest on credit line	80,393	15,172
Legal fees	31,329	31,725
Trustee fees	43,120	44,006
	1,892,877	1,541,074
NET INVESTMENT INCOME	4,246,791	3,460,859
Realized losses on mortgages	(112,293)	(47,543)
Allowance for impairment losses on mortgages	(197,555)	(250,000)
Unrealized change in fair value of investment in private company	-	(44,000)
Unrealized change in fair value of properties held for sale under foreclosure	(4,000)	116,000
INCREASE IN NET ASSETS FROM OPERATIONS	3,932,943	3,235,316
WEIGHTED AVERAGE NUMBER OF SHARES ISSUED AND OUTSTANDING	4,321,915	3,516,648
NET INCREASE IN NET ASSETS FROM OPERATIONS PER SHARE	$ 0.91	$ 0.92

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED) (In Canadian Dollars)

	Six months ended June 30, 2014 $	Six months ended June 30, 2013 $
NET ASSETS, beginning of period	123,080,458	99,850,975
Increase in net assets from operations	3,932,943	3,235,316
Share capital transactions		
Proceeds from issuance of shares for cash	9,958,635	8,077,999
Reinvested distributions	2,707,957	2,393,421
Cost of shares redeemed	(206,159)	(556,021)
	12,460,433	9,915,399
Distributions to shareholders		
Dividends to shareholders	(3,932,943)	(3,235,316)
NET ASSETS, end of period	135,540,891	109,766,374

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

INTERIM CONDENSED STATEMENT OF CASH FLOW
(UNAUDITED)
(In Canadian Dollars)

	Six months ended June 30, 2014 $	Six months ended June 30, 2013 $
CASH FROM OPERATING ACTIVITIES		
Net investment income	$ 4,246,791	3,460,859
Changes in non-cash balances:		
Decrease/(increase) in due from administrator in trust	860,765	(520,060)
(Increase) in accrued interest receivable	(316,626)	(840,308)
Decrease in prepaid expenses	9,111	13,140
Increase/(decrease)/ in dividends payable	53,396	(7,300)
Increase in accounts payable and accrued expenses	4,711	4,805
Increase/(decrease) in prepaid mortgage payments	1,821,116	(460,063)
(Decrease) in deferred lender fee revenue	(18,853)	(44,680)
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,660,411	1,606,393
FINANCING ACTIVITIES		
Proceeds from issuance of shares for cash	9,958,635	8,077,999
(Decrease)/increase in bank line of credit	6,100,000	(5,950,000)
Redemption of common shares	(206,159)	(556,021)
Cash dividends	(1,224,986)	(841,895)
NET CASH PROVIDED BY FINANCING ACTIVITIES	14,627,490	730,083
INVESTING ACTIVITIES		
Investment in mortgages	(46,003,678)	(22,041,152)
Repayment of mortgages	24,559,556	25,227,306
Investment in private company	-	(44,649)
Investment in properties held for sale under foreclosure	176,788	(520,887)
NET CASH USED IN INVESTING ACTIVITIES	(21,267,334)	2,620,618
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,567	4,957,094
CASH AND CASH EQUIVALENTS, beginning of period	2,291	66,279
CASH AND CASH EQUIVALENTS, end of period	22,858	5,023,373

The accompanying notes are an integral part of these financial statements

FRONTENAC MORTGAGE INVESTMENT CORPORATION

STATEMENT OF INVESTMENT PORTFOLIO
(UNAUDITED)
AS AT JUNE 30, 2014
(In Canadian Dollars)

INVESTMENT PORTFOLIO

	Percentage of Portfolio	Principal value $	Amortized Cost $	Fair Value $
Private mortgages	102.60 %	139,277,884	139,067,087	139,067,087
Properties held for sale under foreclosure	0.54 %		551,295	736,295
Cash & other assets	2.77 %			3,757,509
Bank line of credit	(5.92)%			(8,020,000)
Net assets	100.00 %			135,540,891

DISTRIBUTION OF MORTGAGES

Interest Rate	Number of Mortgages	Amortized Cost $	Current Value $
5% or less	4	3,022,822	3,022,822
6%	9	3,706,766	3,706,766
7%	55	14,997,926	14,997,926
8%	38	8,081,756	8,081,756
9%	77	27,503,307	27,503,307
10%	111	36,254,862	36,254,862
11%	42	12,097,193	12,097,193
12%	102	33,402,455	33,402,455
Totals	438	139,067,087	139,067,087

Mortgages are 83% residential and 17% commercial and vacant land. All of the mortgages are uninsured conventional mortgages and substantially all mortgages are pre-payable with terms to maturity ranging from 1 to 2 years.

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

1. DESCRIPTION AND ORGANIZATION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act* and operates as a Canadian mortgage investment corporation as defined under the *Income Tax Act* of Canada. The registered head office of the Company is 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0. W.A. Robinson Asset Management Ltd. is the Company's manager (the "Manager").

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.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") using policies expected to be in effect when the Company prepares its annual financial statements for the year ended December 31, 2014 and with National Instrument 81-106 Investment Funds Continuous Disclosure. These accounting policies have been used throughout all periods presented in the financial statements except where the Company has applied certain exemptions upon transition to IFRS. The exemptions applied are presented in Note 12. These financial statements are the first International Financial Reporting Standards ("IFRS") interim condensed financial statements of the Company for part of the period covered by the first IFRS annual financial statements and IFRS 1 First Time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied, as discussed in Note 12. The date of transition to IFRS is January 1, 2013.

The unaudited interim condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2013. The Company previously prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP") included in Part V of the CPA Canada Handbook - Pre-Changeover Accounting Standards including Accounting Guideline 18 Investment Companies ("AcG-18") and with National Instrument 81-106 Investment Funds Continuous Disclosure. The adoption of IFRS resulted in changes to certain accounting policies as compared with the most recent annual financial statements prepared under CGAAP. The description of how the transition from CGAAP to IFRS has affected the reported financial results of the Company is provided in Note 12.

These financial statements were approved by the Board of Directors on August 28, 2014.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis, except for financial instruments classified as fair value through profit or loss, which are measured at fair value.

2. BASIS OF PRESENTATION (Continued)

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Basis of consolidation

The Company does not have any subsidiaries, joint ventures, associates, or special purpose entities.

(e) Use of estimates and judgements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make assumptions and estimates and judgements 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.

In making estimates and judgements, the Manager relies on external information and observable conditions where possible supplemented by internal analysis as required. Those estimates and judgements have been applied in a manner consistent with the prior period and there are no known trends, commitments, events, or certainties that are believed to materially affect the methodology or assumptions utilized in making those estimates in these financial statements. Actual amounts could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates used in determining the recorded amount for assets and liabilities in the financial statements are as follows:

(i) Mortgage investments:

The Company is required to make an assessment of the impairment of mortgage investments. Mortgage investments are considered to be impaired only if objective evidence indicates that one or more events have occured after its initial recognition that have a negative effect on the estimated future cash flows of that asset. The estimation of future cash flows includes assumptions about local real estate market conditions, market interest rates, availability and terms of financing, underlying value of the security and various other factors. These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, estimates of impairment are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimated future cash flows could vary.

(ii) Fair value measurements:

In accordance with IFRS, 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.

2. BASIS OF PRESENTATION (Continued)

The Company's cash and cash equivalents are valued using Level 1 measures and the 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 7, 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 8, 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.

These assumptions are limited by the availability of reliable comparative market data, economic uncertainty and the uncertainty of future events. Accordingly, by their nature, measurements of fair value are subjective and may not necessarily be comparable to the actual outcome. Should the underlying assumptions change, the estimates could vary.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with National Instrument 81-106 Investment Funds Continuous Disclosure and include the following significant accounting policies:

(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.

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.

(b) Cash and cash equivalents

The Company considers highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value to be cash equivalents.

(c) Mortgage investments

Mortgage investments are financial instruments and are classified as loans and receivables. These investments are recognized initially at fair value plus any attributable transaction costs. Subsequent to intial recognition, the mortgage investments are measured at amortized costs using the effective interest rate method, less any impairment losses. The mortgage investments are assessed on each reporting period date to determine whether there is objective evidence of impairment. A financial asset is considered impaired only if objective evidence indicates that one or more events have occurred after its initial recognition that have a negative effect on the estimated future cash flows of the asset.

An impairment loss in respect of specific mortgage investments is calculated as the difference between its carrying amount including accrued interest and the present value of the estimated future cash flows discounted at the investment's original effective interest rate. Losses are recognized in profit and loss and reflected in an allowance account against the mortgage investments. When a subsequent event causes the amount of an impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investment in private company

Investment in private company is stated at fair value. 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

When the Company obtains legal title of the underlying security of an impaired mortgage investment through foreclosure, the carrying value of the mortgage investment, which comprises of th outstanding principal amount, costs incurred, accrued interest, and a provision for mortgage impairment loss, if any, is reclassified from mortgage investments to foreclosed properties held for sale. At each reporting date, foreclosed properties held for sale are measured at fair value. 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 estimated fair value net of selling expenses taking into consideration independent appraisals, assessement of market conditions, and other various factors.

(f) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). As such, the Company is entitled to deduct from its taxable income dividends paid to shareholders during the year or within 90 days of the end of the year to the extent that such dividends were not deducted previously. The Company intends to maintain its status as a mortgage investment corporation and intends to distribute sufficient dividends in the year and in future years to ensure the Company is not subject to income taxes. Accordingly, for financial statement reporting purposes, the tax deductibility of the Company's dividends results in the Company effectively being exempt from taxation and no provision for current or deferred income taxes is required.

(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) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets and liabilities

The Company's most significant financial asset consists of its mortgage investments. Mortgage investments are classified as loans and receivables. The financial risks associated with the Company's mortgage investments and the Company's management of those risks are discussed in Note 6.

The Company's other financial assets consist of cash and cash equivalents, due from administrator in trust, accrued interest receivable, investment in private company, and properties held for sale under foreclosure. The Company's financial liabilities consist of bank line of credit, dividends payable, accounts payable and accrued expenses, deferred lender fee revenue, and prepaid mortgage payments. 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.

The Company classifies its financial assets as one of the following: loans and receivables or fair value through profit or loss ("FVTPL"). Financial liabilities are classified as: held-for-trading or financial liabilities at amortized cost. The Company has designated its financial assets and financial liabilities as follows:

(i) Financial assets:

Cash and cash equivalents are classified as FVTPL. Due from administrator in trust, accrued interest receivable, and mortgage investments are classified as loans and receivables and recorded at cost.

Investment in private company and properties held for sale under foreclosure are classified as FVTPL as the Company's intention is to divest itself of these assets as soon as possible in a responsible and reasonable manner.

(ii) Financial liabilities:

Bank line of credit, dividends payable, accounts payable and accrued expenses, deferred lender fee revenue, and prepaid mortgage payments are classified as financial liabilities at amortized cost.

(j) Accounting pronouncements

(i) IFRS 9 Financial Instruments ("IFRS 9")

In November 2009 the IASB issued IFRS 9 and, in October 2010, published amendments to IFRS 9. IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under the new rules, financial assets are classified and measured based on the business model in which they are held and the characteristics of the contractual cash flows. Additional changes related to financial liabilities are also introduced. The mandatory effective date is not yet determined. The extent of the impact of adoption of these amendments has not yet been determined.

4. 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 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.

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, 2014 and December 31, 2013, 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.

5. DUE FROM ADMINISTRATOR IN TRUST

As part of the mortgage underwriting and administration services provided to the Company, Pillar Financial Services Inc. (the "Administrator") collects repayments, both regular periodic payments and repayments of outstanding balances in full, from borrowers through the Administrator's electronic payments collection system. These repayments are electronically deposited into a trust account of the Administrator. Funds are deposited from the Administrator's trust account into the Company's bank account within a few business days once the funds have been confirmed cleared from the borrower.

6. MORTGAGE INVESTMENTS

There are 438 mortgages (December 31, 2013 - 389; January 1, 2013 - 367) held which are a combination of mainly first and second mortgages secured by residential and commercial property. Mortgage investments consist of the following:

	As at June 30, 2014	As at December 31, 2013	As at January 1, 2013
	$	$	$
Mortgages	$139,277,884	$118,817,813	103,385,836
Allowance for impairment losses	(210,797)	(885,000)	(249,000)
	$139,067,087	$117,932,813	103,136,836

To assess impairment, management has reviewed each mortgage taking into account experience, credit quality, payment in arrears, and specific problem situations. As at June 30, 2014, there are 12 mortgages totaling $2,873,000 (December 31, 2013 - 11 mortgages totaling $2,509,000; January 1, 2013 - 12 mortgages totaling $2,589,541) that are considered impaired by management. When the estimated realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage impairment loss is made.

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, 2014 was $318,000 (December 31, 2013 - $303,642; January 1, 2013 - $281,886) and the largest mortgage was $8,913,000 (December 31, 2013 - $5,246,616; January 1, 2013 - $5,223,136).

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.

Substantially all of the mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full before maturity without penalty. The weighted average interest rate of the mortgages as at June 30, 2014 was 9.51% (December 31, 2013 - 9.53%; January 1, 2013 - 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.

6. MORTGAGE INVESTMENTS (Continued)

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, 2014, the Company's liabilities consisted of accounts payable and accrued expenses totaling all $56,401 and dividends payable totaling $205,560 all of which are due within normal trade terms of generally 30 days. The Company also has a bank line of credit that is repayable on demand and had a balance of $8,020,000 as at June 30, 2014 (December 31, 2013 - $1,920,000; January 1, 2013 - $5,950,000).

To mitigate its liquidity risk, the Company targets to maintain significant committed borrowing facilities from its bank for credit room within a range of 10% to 15% of net assets. As at June 30, 2014, the Company's committed borrowing facilities represented approximately 11% 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.

7. 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 had a contract for salvage in the Caribbean.

The investment in BYSI consists of the following:

	As at June 30, 2014 $	As at December 31, 2013 $	As at January 1, 2013 $
10 common shares, representing 50% of all the issued and outstanding common shares	100,000	100,000	100,000
Term loan bearing interest at 0% repayable on demand	400,000	400,000	400,000
Operating loan bearing interest at 12%	(500,000)	450,758	364,155
Total investment at cost	-	950,758	864,155
Unrealized change in fair value of investment in private company	-	(950,758)	(277,000)
Fair value of investment - end of period	-	-	587,155

The term loan and operating loan are secured by a general security agreement covering all assets of BYSI.

The Company's investment in BYSI, comprised of the shares held and the outstanding loans, is presented at fair value. As at December 31, 2013, due to a number of unforeseen factors, BYSI had been unable to generate sufficient revenues to execute its business plan and had incurred substantial operating losses. The Company decided not to advance any further funds to support BYSI's operations and BYSI has been unable to secure an alternate source of on-going financing. Management believes that in the absence of further financial support BYSI will be unable to continue its business operations. Accordingly, as at December 31, 2013, was not valued on a going concern basis but rather on its net realizable value to the Company. There were insufficient assets in BYSI to allow for any repayment of the funds advanced to date and accordingly, as at December 31, 2013, the Company's investment in BYSI was written down to $nil. In the six month period ended June 30, 2014, the Company's investment BYSI was written off.

7. INVESTMENT IN PRIVATE COMPANY (Continued)

As at January 1, 2013, 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%.

The following table shows a reconciliation of the opening and closing balance of fair value of investment in private company:

	Six months ended June 30, 2014	Year ended December 31, 2013
	$	$
Investment in private company - beginning of period	-	587,155
Net cash advances/investment	-	86,603
Unrealized change in fair value	-	(673,758)
Investment in private company- end of period	-	-

8. PROPERTIES HELD FOR SALE UNDER FORECLOSURE

As at June 30, 2014, there is 1 property (December 31, 2013 - 2 properties; January 1, 2013 - 1 property) held for sale under foreclosure as follows:

	As at June 30, 2014	As at December 31, 2013	As at January 1, 2013
	$	$	$
Properties held for sale under foreclosure - at cost	551,295	838,083	283,256
Unrealized change in fair value of properties held for sale under foreclosure	185,000	79,000	141,000
Fair value - end of period	736,295	917,083	424,256

The following table shows a reconciliation of the opening and closing balance of fair value of the properties held for sale under foreclosure:

	Six months ended June 30, 2014	Year ended December 31, 2013
	$	$
Properties held for sale under foreclosure - beginning of period	917,083	424,256
Additions	48,212	554,827
Disposals	(225,000)	-
Unrealized change in fair value	(4,000)	(62,000)
Properties held for sale under foreclosure - end of period	736,295	917,083

9. BANK LINE OF CREDIT

As at June 30, 2014, the Company had a revolving line of credit with a limit of $15,000,000 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, 2013 - 3.00%; January 1, 2013 - 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. The Company was in compliance with the bank's financial covenants for all periods covered in these financial statements.

10. 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, 2014		**Year ended December 31, 2013**	
	Number of shares issued	$	Number of shares issued	$
Balance, beginning of period	4,102,680	123,080,458	3,328,364	99,850,975
Issued for cash	331,955	9,958,635	878,327	26,349,820
Issued through dividend reinvestment plan	90,265	2,707,957	157,292	4,718,760
Redeemed	(6,872)	(206,159)	(261,303)	(7,839,097)
Balance, end of period	4,518,028	135,540,891	4,102,680	123,080,458

Dividend reinvestment plan and direct share purchase plan
Unless a shareholder elects to receive their dividends as a cash payment, the dividends paid to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

Redemptions
Shareholders may only redeem common shares once per year, on November 30, except in certain unusual circumstances. During the period ended June 30, 2014, 6,872 common shares were redeemed for cash at the price of $30 per share for total proceeds of $206,159. 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. For the year ended December 31, 2013, 261,303 common shares were redeemed for cash at the price of $30 per share for total proceeds of $7,839,097.

11. 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 Asset Management Ltd. ("W.A.") is the Manager for the Company and provides portfolio management advice and investment counsel to the Company.

11 RELATED PARTIES (Continued)

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, 2014 were $672,103 (six months ended June 30, 2013 - $535,721) and the total fees paid to W.A. for the six months ended June 30, 2014 were $759,476 (six months ended June 30, 2013 - $607,624) 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.

12. TRANSITION TO IFRS

As mentioned in Note 2(a), these are the Company's first interim condensed financial statements prepared in accordance with IFRS, and the date of transition to IFRS (the "Transition Date") is January 1, 2013. IFRS 1, First-time Adoption of IFRS ("IFRS 1") has been applied.

Reconciliation of Statement of Net Assets on the Transition Date:

	Notes	As reported under previous Canadian GAAP as at December 31, 2012	Adjustments	As reported under IFRS as at January 1, 2013
ASSETS				
Cash and cash equivalents		$ 8,531	$ -	$ 8,531
Due from administrator in trust		57,748	-	57,748
Accrued interest receivable	(a)	-	2,575,519	2,575,519
Mortgage investments	(a)	105,712,355	(2,575,519	103,136,836
Prepaid expenses		16,500	-	16,500
Investment in private company		587,155	-	587,155
Properties held for sale under foreclosure		424,256	-	424,256
		106,806,545	-	106,806,545
LIABILITIES				
Bank line of credit		$ 5,950,000	$ -	$ 5,950,000
Dividends payable		127,358	-	127,358
Accounts payable and accrued expenses		85,547	-	85,547
Deferred lender fee revenue		87,147	-	87,147
Prepaid mortgage payments		705,518	-	705,518
		6,955,570	-	6,955,570
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY		99,850,975	-	99,850,975

FRONTENAC MORTGAGE INVESTMENT CORPORATION

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2014

12 TRANSITION TO IFRS (Continued)

Reconciliation of Statement of Net Assets as at December 31, 2013:

	Notes	As reported under previous Canadian GAAP as at December 31, 2013	Adjustments	As reported under IFRS as at December 31, 2013
ASSETS				
Cash and cash equivalents		$ 2,291	$ -	$ 2,291
Due from administrator in trust		1,945,120	-	1,945,120
Accrued interest receivable	(a)	-	4,622,378	4,622,378
Mortgage investments	(a)	122,555,191	(4,622,378	117,932,813
Prepaid expenses		15,571	-	15,571
Investment in private company		-	-	-
Properties held for sale under foreclosure		917,083	-	917,083
		125,435,256	-	125,435,256
LIABILITIES				
Bank line of credit		$ 1,920,000	$ -	$ 1,920,000
Dividends payable		152,164	-	152,164
Accounts payable and accrued expenses		51,690	-	51,690
Deferred lender fee revenue		50,035	-	50,035
Prepaid mortgage payments		180,909	-	180,909
		2,354,798	-	2,354,798
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY		123,080,458	-	123,080,458

Reconciliation of Statement of Operations for the six months ended June 30, 2013:

	Notes	As reported under previous Canadian GAAP	Adjustments	As reported under IFRS
INTEREST INCOME		5,001,933	-	5,001,933
EXPENSES				
Administration and management fees		1,143,346	-	1,143,346
Audit fees		28,874	-	28,874
Director fees		50,804	-	50,804
General and operating expenses		227,147	-	227,147
Interest on credit line		15,172	-	15,172
Legal fees		31,725	-	31,725
Trustee fees		44,006	-	44,006
		1,541,074	-	1,541,074
NET INVESTMENT INCOME		3,460,859	-	3,460,859
Realized losses on mortgages		(47,543)	-	(47,543)
Allowance for impairment losses on mortgages	(a)	-	(250,000)	(250,000)
Unrealized change in fair value of mortgage investments	(a)	(250,000)	250,000	-
Unrealized change in fair value of investment in private company		(44,000)	-	(44,000)
Unrealized change in fair value of properties held for sale under foreclosure		116,000	-	116,000
INCREASE IN NET ASSETS FROM OPERATIONS		3,235,316	-	3,235,316

12 TRANSITION TO IFRS (Continued)

Notes to reconciliations:

IFRS 1 sets forth guidance for the intial adoption of IFRS. Under IFRS 1, the standards are applied retroactively with all adjustments to assets and liabilities taken to net asset representing shareholders' equity unless certain optional exemptions are elected and mandatory exceptions are applied.

In preparing these financial statements, the Company has applied the mandatory exception from full retrospective application of IFRS for "estimates". This mandatory exception requires that estimates made at the transition date, and in the comparative reporting periods, be consistent with estimates made under previous Canadian GAAP, unless there is objective evidence that the estimates made under previous Canadian GAAP were in error. The Company has not elected any optional exemptions from the general requirement for the restrospective application of IFRS.

(a) Mortgage investments

Under IFRS, the Company has elected to classify its mortgage investments as loans and receivable investments. These investments are recognized intially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the mortgage investments are measured at amortized cost, using the effective interest method, less any impairment losses.

Under Canadian GAAP, as an investment company, the Company applied the provisions of CICA Accounting Guideline 18 - Investment Companies ("AcG-18") which required the Company's mortgage investments to be recorded at fair value. Any unrealized changes in the fair value of a mortgage were recorded in the statement of operations as an unrealized change in fair value. A realized change in fair value of a mortgage as a result of a disposition was recorded in the statement of operations as a realized change in fair value.

In converting to IFRS from previous Canadian GAAP, the Company has adjusted its mortgage investments to segregate accrued interest receivable on the mortgage investments in the financial statements. Under previous Canadian GAAP, accrued interest receivable was a component of the fair valuation of the mortgage investments.