FRONTENAC MORTGAGE INVESTMENT CORPORATION
INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE SIX MONTHS ENDED JUNE 30, 2014

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 Corporation's 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 ("MRFP") 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 – 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and with National Instrument 81-106 "Investment Funds Continuous Disclosure". All amounts are expressed in Canadian dollars.

Revenues for the Corporation for the six months ended June 30, 2014 increased on a gross basis to $6,139,668 from $5,001,933 from the same period in 2013 while, on a per share basis, revenues remained unchanged from the prior period at $1.42 per common share. The overall increase in gross revenues is attributable to the increased net asset base available for investment.

Total expenses for the Corporation for the six months ended increased to $1,892,877 from $1,541,074 for the same period in 2013. The increase in expenses is attributable to an increase in the net asset base as result of 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 $0.43 per share for the six months ended June 30, 2014 compared to $0.44 per share for the same period in 2013.

Overall, earnings per share remained relatively unchanged at $0.91 per share for the six months ended June 30, 2014 compared to $0.92 per share for the same period in 2013.

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

	Six months ended June 30, 2014 (Unaudited) $	**2013 $**	**2012 $**	**2011 $**	**2010 $**
Total revenues	6,139,668	10,582,028	7,187,719	3,771,220	2,851,989
- per issued common share	1.42	2.86	2.69	3.08	2.87
Net earnings	3,932,943	6,502,045	4,405,231	2,388,163	1,470,262
- per issued common share	0.91	1.76	1.65	1.95	1.48

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, 2014, 4,518,028 common shares (June 30, 2013 – 3,658,878) 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, 2014 (Unaudited)	**2013**	**2012**	**2011**	**2010**
Number of shares:	#	#	#	#	#
Balance – beginning of period	4,102,680	3,328,364	1,534,943	1,032,446	938,428
Issued on amalgamation (1)			1,538,423		
Issued for cash	331,955	878,327	616,480	466,586	97,639
Issued under dividend re-investment plan	90,265	157,292	110,843	72,531	47,526
Redeemed	(6,872)	(261,303)	(472,325)	(36,440)	(51,147)
Balance – end of period	4,518,028	4,102,680	3,328,364	1,534,943	1,032,446
Dollars:	$	$	$	$	$
Balance – beginning of period	123,080,458	99,850,975	46,048,317	30,973,376	21,152,846
Issued on amalgamation (1)			46,152,700		
Issued for cash	9,958,635	26,349,820	18,494,413	13,997,592	2,929,163
Issued under dividend re-investment plan	2,707,957	4,718,760	3,325,297	2,170,541	1,425,783
Redeemed	(206,159)	(7,839,097)	(14,169,752)	(1,093,192)	(1,534,416)
Balance – end of period	135,540,891	123,080,458	99,850,975	46,048,317	30,973,376

Notes:

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

Under the terms of the Corporation's 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, 2014, 6,872 shares (June 30, 2013 – 18,534) were redeemed.

Recent Developments

Regulatory Environment

Pursuant to the Canadian Securities Administrators' ("CSA") implementation of the 'Modernization of Investment Fund Product Regulation Project', the CSA have recently announced certain changes to the legislation governing non-redeemable investment funds including the Corporation. The changes to the legislation, which are scheduled to take effect in September, 2014, impose new fundamental investment restrictions and operating requirements including specific restrictions on the investment in non-guaranteed mortgages and illiquid assets which may include mortgages. The amended legislation also includes provisions which would effectively 'grandfather' the Corporation from the specific restrictions on the investment in non-guaranteed mortgages and illiquid assets. Notwithstanding the grandfathering provisions in the legislation the CSA have indicated that they will continue to focus on investments in non-guaranteed mortgages in the prospectus reviews of any subsequent issuances of securities by non-redeemable investment funds relying on the grandfathering provided. In this regard the Ontario Securities Commission ("OSC") has indicated that it may require that the Fund agree to certain restrictions designed to create some assurances that the Corporation would continue to operate as it has in the past in terms of leveraging strategy, types of mortgages, duration of mortgages. At this point the terms of such restrictions as may be required by the OSC and effect on the business and financial performance of the Corporation are unknown. The CSA have also deferred the finalization and implementation of new legislation to create a new alternative funds framework. It is possible that the Corporation could be affected by any such new alternative funds framework. The Manager will continue to monitor the status of the development and implementation of a new alternative funds framework and its potential effect upon the Corporation.

The Corporation has historically complied with securities law requirements relating to non-redeemable investment funds, including using the form of prospectus required for investment funds. However, pursuant to regulatory policy developments in relation to investment funds, staff of the OSC have recently taken the position that mortgage investment entities are not investment funds, as expressed in *OSC Staff Notice 81-722 – Mortgage Investment Entities and Investment Funds*, which was issued in September, 2013. Consequently the OSC has indicated to the Corporation that it will require the Corporation to begin to comply with the securities law requirements which relate to reporting issuers generally and to refrain from complying with securities law requirements relating specifically to non-redeemable investment funds. The immediate effect of the foregoing would impact the continuous disclosure obligations of the Corporation and is not expected to have any material adverse effect on the business and financial performance of the Corporation. However the Corporation is engaged in ongoing discussions with staff of the OSC relating to transitioning out of the regulatory framework governing investment funds and it is possible that the OSC could impose additional, as yet unknown, requirements in connection with such transition, including required changes in the business and operations of the Corporation which could have a negative effect on the business and financial performance of the Corporation.

Adoption of International Financial Reporting Standards (“IFRS”)

In February 2009, the Accounting Standards Board of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective January 1, 2011. Implementation of IFRS was 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 adopted IFRS beginning on January 1, 2014. The Corporation’s interim financial statements for the six months ended June 30, 2014 have been presented using IFRS.

Risks

The overall risks of the Corporation are as described in the Corporation’s 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, 2014. 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 Corporation’s investment income.

Related Party Transactions

Pillar Financial Services Inc. (“Pillar”) 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 Company’s mortgage portfolio. Total fees charged under this contract for the six month period ended June 30, 2014 were $672,103 (six months ended June 30, 2013 - $535,721)

W.A. Robinson Asset Management Ltd. (“W.A.”) 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, 2014 were $759,476 (June 30, 2013 - $607,624) 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 Corporation's financial performance for the past year. This information is derived from the Corporation's 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, 2014 (Unaudited) $	**2013 $**	**2012 $**	**2011 $**	**2010 $**
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	1.42	2.86	2.69	3.08	2.87
Total expenses	(0.43)	(0.87)	(0.88)	(1.03)	(1.08)
Realized gains (losses) during period	(0.03)	(0.06)	(0.25)	(0.22)	(0.33)
Unrealized gains (losses) during period	(0.05)	(0.17)	0.09	0.12	0.02
Total increase (decrease) from operations	0.91	1.76	1.65	1.95	1.48
Distributions:					
From net income (excluding dividends)	(0.91)	(1.76)	(1.65)	(1.95)	(1.48)
From dividends					
From capital gains					
Return of capital					
Total Distributions	(0.91)	(1.76)	(1.65)	(1.95)	(1.48)
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, 2014, the Corporation paid cash dividends of $1,224,986.

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

	Six months ended June 30, 2014 (Unaudited)	**2013**	**2012**	**2011**	**2010**
Net assets	$135,540,891	$123,080,458	$99,850,975	$46,048,317	$30,973,376
Number of shares outstanding	4,518,028	4,102,680	3,328,364	1,534,943	1,032,446
Management expense ratio (annualized)	2.94%	2.89%	2.94%	3.42%	3.54%
Management expense ratio before waivers or absorptions (annualized)	2.94%	2.89%	2.94%	3.42%	3.54%
Portfolio turnover rate	21.09%	48.85%	71.37%	74.63%	73.76%
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 Frontenac's daily average net assets during such period.

(2) The Corporation's portfolio turnover rate indicates how actively the Corporation's 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 fund's 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, 2014 were $759,476 (six months ended June 30, 2013 - $607,624) including applicable sales taxes.

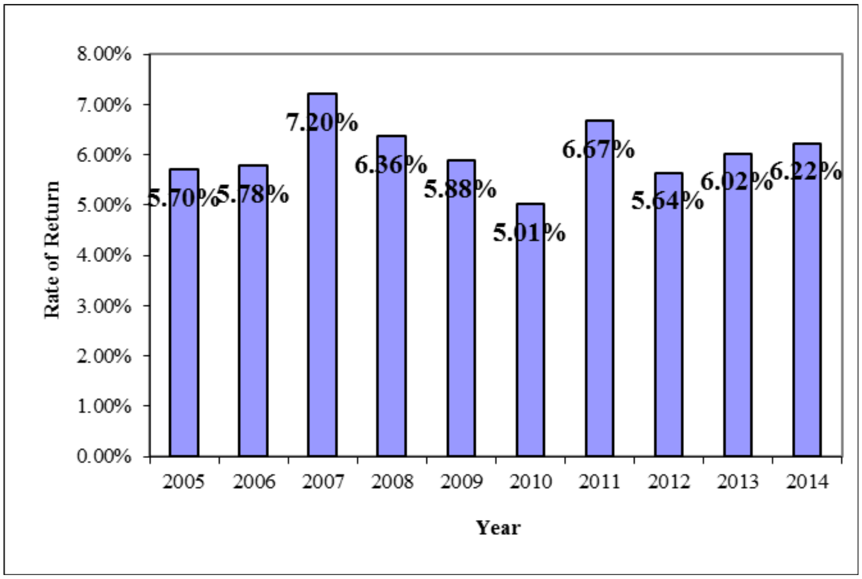
In addition, as detailed under the "Related Parties" section above, for the six months ended June 30, 2014, the Company paid fees totalling $672,103 to Pillar Financial Services Inc. as administrator of the Company (six months ended June 30, 2013 - $535,721).

PAST PERFORMANCE

This section presents information on the Corporation's 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 Corporation's 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 up to and including 2013, and for the six month unaudited interim period ended June 30, 2014):



Note: Six month return presented for 2014 has been annualized based on the number of days in the period.

Summary of Investment Portfolio

Asset	Market Value $	% of Net Assets
Cash & cash equivalents	22,858	0.02%
Mortgage investments	139,067,087	102.60%
Properties held for sale under foreclosure	736,295	0.54%
Bank credit line	(8,020,000)	(5.92%)
Net accrued receivables/(payables)	3,734,651	2.76%
Total net assets	135,540,891	100.00%

The following represents the Corporation’s twenty-five largest holdings as at June 30, 2014:

TOP 25 HOLDINGS	Province	Outstanding Principal	Loan to Value (1)	Term (months)	Interest Rate	Position	Allocation Type	% of NAV
Rural Ontario multi-residential development	ON	8,913,942	48%	12	11.50%	1	Residential development	6.58%
Ottawa area multi-residential development	ON	5,962,367	16%	13	9.50%	1	Residential	4.40%
Rural Ontario multi-residential waterfront development	ON	5,347,268	82%	24	12.00%	1	Residential development	3.95%
Rural Ontario multi-residential development	ON	5,191,018	48%	24	10.50%	1	Residential development	3.83%
Rural Ontario multi-residential development	ON	4,298,234	51%	24	9.00%	1	Residential development	3.17%
Rural Ontario multi-residential waterfront development	ON	3,519,921	17%	37	10.00%	1	Residential development	2.60%
GTA area private residential	ON	3,498,230	41%	45	8.50%	1	Residential	2.58%
Ottawa area multi-residential construction	ON	2,411,720	88%	12	9.99%	1	Residential construction	1.78%
Ottawa area retail	ON	2,210,764	54%	31	10.50%	1	Commercial	1.63%
Rural Ontario multi-residential development	ON	1,996,818	24%	25	12.00%	1	Residential vacant land	1.47%
Barrie area commercial offices	ON	1,900,000	48%	25	9.75%	1	Commercial	1.40%
Ottawa area multi-residential development	ON	1,819,597	93%	24	4.99%	1	Residential development	1.34%
Ottawa area residential	ON	1,508,847	75%	13	5.99%	1	Residential	1.11%
Rural Ontario multi-residential waterfront development	ON	1,500,000	35%	37	9.00%	1	Residential vacant land	1.11%
Rural Ontario multi-residential waterfront development	ON	1,472,629	25%	60	7.00%	1	Commercial	1.09%
Kingston area commercial building	ON	1,298,453	37%	120	6.99%	1	Commercial	0.96%
Brockville area commercial building	ON	1,155,906	80%	12	5.00%	1	Commercial	0.85%
Barrie area industrial	ON	997,989	61%	24	10.00%	1	Commercial	0.74%
Ottawa area small scale apartment construction	ON	968,480	64%	12	9.50%	1	Residential development	0.71%
Kingston area residential	ON	948,887	74%	13	9.50%	1	Residential	0.70%
Eastern Ontario retirement facility	ON	925,000	64%	25	9.00%	1	Commercial	0.68%
Rural Ontario multi-residential construction	ON	914,807	66%	12	9.00%	1	Residential development	0.67%
Kingston area commercial land	ON	908,406	38%	12	10.00%	1	Commercial	0.67%
Rural Ontario multi-residential development	ON	870,265	42%	37	9.00%	1	Residential development	0.64%
Kingston area commercial land	ON	836,375	21%	12	12.00%	1	Commercial	0.62%

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

PORTFOLIO ALLOCATIONS (based on outstanding principal balances)

BY TYPE	
Residential	42.0%
Residential construction	18.5%
Residential developments	20.3%
Commercial	10.6%
Vacant land	8.6%
Other	0.0%
	100.0%

BY REGION	
Ontario	99.3%
Quebec	0.6%
Nova Scotia	0.1%
	100.0%

BY INTEREST RATE	
6.49% or lower	4.8%
6.50% to 7.49%	10.7%
7.50% to 8.49%	5.8%
8.50% to 9.49%	19.7%
9.50% to 10.49%	26.1%
10.50% to 11.49%	9.0%
11.50% to 12.49%	23.9%
	100.0%

BY MATURITY	
One year or less	80.7%
1.1 to 2 years	12.9%
2.1 to 3 years	5.1%
3.1 to 5 years	0.4%
more than 5 years	0.9%
	100.0%

BY MORTGAGE POSITION	
First mortgages	98.8%
Other	1.2%
	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.