FRONTENAC MORTGAGE INVESTMENT CORPORATION

FINANCIAL STATEMENTS

AS AT JUNE 30, 2009

(UNAUDITED)

Notice Under National Instrument 81-106 (para 2.12): The independent external auditor, David Seeds CA Professional Corporation, has not performed a review of these financial statements for the six months ended June 30, 2009

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JUNE 30, 2009
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FRONTENAC MORTGAGE INVESTMENT CORPORATION
STATEMENT OF NET ASSETS
AS AT JUNE 30, 2009
(UNAUDITED)

	June 30, 2009 $	June 30, 2008 $ (Note 2)
ASSETS		
Cash	53,327	445,110
Temporary investments	1,128,369	7,068
Accrued interest receivable	124,794	139,006
Mortgages (Note 7)	25,299,731	21,649,811
Prepaid expenses	21,068	15,128
	26,627,289	22,256,123
LIABILITIES		
Accrued expenses	35,598	41,819
NET ASSETS REPRESENTING SHAREHOLDERS' EQUITY	26,591,691	22,214,304
NET ASSETS PER SHARE	30.00	30.00

APPROVED ON BEHALF OF THE BOARD:

___*Margaret Kelk (signed)*_____ Director

___*Kevin Corcoran (signed)*____ Director

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(UNAUDITED)

	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $ (Note 2)
INTEREST INCOME	1,184,077	1,101,281
EXPENSES		
Administration fees	249,214	211,135
Directors fees	9,574	10,824
General and operating expenses	112,521	72,992
Audit fees	6,600	7,650
Interest on Bank credit line	1,675	8,713
Legal fees	25,701	22,872
Realized loss on mortgages	1,055	
Provision for mortgage losses	20,000	74,000
Trustee fees		33,011
	426,340	441,197
INCREASE IN NET ASSETS FROM OPERATIONS	757,738	660,084
EARNINGS PER SHARE	0.92	0.94

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(UNAUDITED)

	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $ (Note 2)
NET ASSETS, beginning of period	22,871,903	19,966,602
Increase in net assets from operations	757,738	660,084
Share capital transactions		
Proceeds from issuance of shares	2,962,050	1,657,560
Reinvested distributions	757,738	660,084
Cost of shares redeemed		(69,942)
	3,719,788	2,247,702
Distribution to shareholders		
Dividends to shareholders	(757,738)	(660,084)
NET ASSETS, end of period	26,591,691	22,214,304

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION
STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(UNAUDITED)

	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $ (Note 2)
OPERATING ACTIVITIES		
Net investment income	757,738	660,084
Items not requiring an outlay of cash:		
Provision for mortgage losses	20,000	74,000
Changes in non-cash balances:		
Decrease / (increase) in accrued interest receivable	779	(24,137)
(Increase) in prepaid expenses	(13,881)	(10,178)
Increase in accrued expenses	22,521	20,575
Dividends	(757,738)	(660,084)
NET CASH (USED IN) PROVIDED FROM OPERATING ACTIVITIES	29,419	60,260
FINANCING ACTIVITIES		
Decrease in bank line of credit	(330,000)	(1,040,000)
Proceeds from issuance of shares	2,962,050	1,657,560
Issuance of shares under dividend re-investment plan	757,738	660,084
Redemption of common shares		(69,942)
NET CASH PROVIDED BY SHAREHOLDER ACTIVITIES	3,389,788	1,207,702
INVESTING ACTIVITIES		
(Investment in) / proceeds from temporary investments	(1,075,075)	3,945
(Investment in) mortgages net of repayments	(2,302,581)	(822,783)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(3,377,656)	(818,838)
NET INCREASE (DECREASE) IN CASH	41,551	449,124
CASH, beginning of period	11,776	(4,014)
CASH, end of period	53,327	445,110

The accompanying notes are an integral part of these financial statements.

FRONTENAC MORTGAGE INVESTMENT CORPORATION
STATEMENT OF INVESTMENT PORTFOLIO
AS AT JUNE 30, 2009
(UNAUDITED)

	Par Value	Average Cost	Market Value
MONEY MARKET (4.24%)			
RBC Premium Money Market Fund	$ 1,128,367	$ 1,128,367	$ 1,128,367

One year return on the RBC Premium Money Market Fund is 2.29% as at June 30, 2009.

	Principal Value	Amortized Cost	Current Value
MORTGAGES (95.14%)	25,299,731	25,299,731	25,299,731
TOTAL INVESTMENTS (99.38%)		$ 26,428,098	
CASH AND OTHER NET ASSETS (0.62%)			163,593
NET ASSETS (100.00%)			$ 26,591,691

DISTRIBUTION OF MORTGAGES

Mortgages are 61% residential and 34% commercial and mixed use. All mortgages are uninsured conventional mortgages with terms to maturity ranging from one to two years.

Interest Rate %	Number of mortgages	Amortized Cost	Current Value
8.00	3	527,312	527,312
9.00	6	2,185,255	2,185,255
10.00	12	3,147,535	3,147,535
11.00	31	5,074,313	5,074,313
12.00	72	14,193,340	14,193,340
13.00	5	171,976	171,976
	107	$ 25,299,731	$ 25,299,731

The accompanying notes are an integral part of these financial statements.

1. DESCRIPTION OF THE BUSINESS

Frontenac Mortgage Investment Corporation (the "Company") was incorporated on October 26, 2004 pursuant to the *Canada Business Corporations Act*. The company embodies the business of two predecessor mortgage investment pools: the Frontenac Mortgage Investment Fund - RSP and the Frontenac Mortgage Investment Fund - RIF. The Company's 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 Company.

2. CHANGE IN ACCOUNTING POLICY

During the 2008 fiscal year, Canadian Generally Accepted Accounting Principles ("GAAP") for financial instruments, CICA accounting standard 3855 "Financial Instruments – Recognition and Measurement" were amended and these changes affect the accounting treatment of the Company's mortgages receivable. Under these revised rules effective July 1, 2008, the company may redesignate its mortgages receivable as loans and receivables as the Company has the intention and the ability to hold its mortgages receivable for the foreseeable future or until maturity.

As loans and receivables, the Company accounts for its mortgage receivables at their amortized cost less any provision for losses on impaired or defaulted mortgages.

This change has been applied effective July 1, 2008. In accordance with the revised GAAP, this policy change has not been applied retroactively – however, as at June 30, 2008, the fair value of the mortgages receivable had been determined to be equal to their amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and with National Instrument 81-106 on continuous disclosure.

(a) Revenue recognition

Interest income on mortgages and other investment income are recognized on the accrual basis in the period earned. Interest is not accrued on mortgages that are identified as impaired.

(b) Mortgages

Mortgages receivable are stated at their amortized cost less any provision for losses on mortgages that are identified as impaired or in default.

(c) Use of estimates

The preparation of financial statements requires management to make assumptions and estimates 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. Actual amounts could differ from these estimates. Significant estimates include the determination of mortgage impairment, allowance for mortgages losses and mortgage fair value, and are subject to uncertainty. Changes in estimates are recorded in the accounting period in which they are determined.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes

The Company is considered a mortgage investment corporation under the *Income Tax Act* (Canada). The company distributes all of its net income in order not to be subject to income taxes.

4. CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's definition of capital includes net assets, bank debt, cash and temporary investments, and mortgages receivable.

The Company's objective when managing its share 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 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. 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. FINANCIAL INSTRUMENTS

The company's financial instruments consist of cash, temporary investments, accrued interest receivable, mortgages and accrued expenses. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying value, unless otherwise noted.

6. TEMPORARY INVESTMENTS

For the purpose of meeting short-term cash commitments, the Company maintains short-term investments in highly liquid money market securities which earn an annualized return of approximately 2.29%. The temporary investments are readily convertible to cash and are not subject to significant risk of change in value. Consequently, their fair values approximate their carrying amount.

7. MORTGAGES RECEIVABLE

There are 129 (June 30, 2008 - 107) mortgages held which are a combination of mainly first and second mortgages secured by residential and commercial property.

	2009 $	2008 $
Mortgages	$ 25,544,731	$ 21,841,811
Allowance for mortgage losses	(245,000)	(192,000)
	25,299,731	21,649,811

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, 2009, there are ten mortgages totaling $2,595,000 that are considered impaired by management. When the estimated net realizable amounts for each of the impaired mortgages is greater than their carrying values, no allowance for mortgage loss is made.

Fair values

Due to their short term nature, the fair value of mortgages receivable is considered to be their amortized cost, net of allowance for credit losses, using the effective interest rate method.

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, 2009 was $198,021 and the largest mortgage was $1,992,875.

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 than 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. This has allowed the Company to renew its mortgages at good rates. Mortgages are issued with either 1 or 2 year terms, have fixed interest rates and can be paid in full without penalty. The weighted average interest rate of the mortgages as at June 30, 2009 was 11.13% (as at June 30, 2008 was 11.16%).

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. The Company maintains significant committed borrowing facilities from its bank for credit room at least equal to ten percent 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.

8. BANK LINE OF CREDIT

The Company has established a revolving line of credit with a limit of $3,000,000. It is secured by a General Security Agreement and a first ranking interest in the mortgages. The credit facility bears interest at prime plus 1%.

Financial covenants require the Company to maintain a minimum level of equity, debt to equity ratio and percentage of residential mortgages. As at June 30, 2009, the Company was in compliance with the banks financial covenants.

9. CAPITAL STOCK

Authorized capital:

The authorized capital consists of an unlimited number of voting, non-cumulative common shares.

Changes during the six month period ended June 30, 2009:

	Number of shares	Amount
Balance, December 31, 2008	762,396	$ 22,871,903
Issued	98,735	2,962,050
Issued through dividend reinvestment plan	25,258	757,738
Redeemed	-	-
Balance, June 30, 2009	886,389	$ 26,591,691

Dividend reinvestment plan and direct share purchase plan

The dividends paid to shareholders are automatically reinvested in the Company by the direct purchase of shares at the current market price.

10. RELATED PARTIES

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and represents fair market value.

Pillar Financial Services Inc. 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. Total fees charged under this contract for the six month period ended June 30, 2009 were $121,568.

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 and acts as share registrar and transfer agent for the Company. Total fees charged under this contract for the six month period ended June 30, 2009 were $127,646.

11. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with the amendments issued by the Canadian securities regulatory authorities, a reconciliation is required of any difference between net assets, calculated in accordance with Canadian GAAP, and net asset value, calculated in accordance with the Corporation's fair value policies and procedures for unit pricing. As at June 30, 2009, there was no difference between the net assets and the net asset value. Due to their short-term nature, the fair value of the Corporation's mortgages was equal to their amortized cost under the effective interest rate method.