FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2008

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
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 Corporation's 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 Corporation'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 Corporation.

Investment strategy

The Corporation will achieve its investment objective by lending on the security of mortgages on real properties situated in the provinces of Ontario and Quebec. 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 Corporation's 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 shareholders' equity and the Corporation's 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 Corporation's prospectus, a copy of which may be obtained through SEDAR at www.sedar.com.

During the 2008 year, management did not make any operational changes which have an impact on the risk of an investment in the Corporation.

Who Should Invest in this Corporation?

An investment in Frontenac Mortgage Investment Corporation may be suitable for medium to long-term investors who are:

1. looking for an investment that generates monthly earnings,
2. willing to accept a low to medium level of risk, and who,
3. do not need the ability to redeem all or any portion of their shares more than once per year.

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

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

	2008	**2007**
Total revenues	$2,337,590	$2,062,087
- per issued common share	$3.22	$3.22
Net earnings	$1,331,004	$1,345,971
- per issued common share	$1.82	$2.11

In 2008, the Corporation generated revenues of $2,337,590 or $3.22 per Common Share and earnings of $1,331,004 or $1.82 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 revenues were a reflection of an increase in the amount of net assets available for investment.

Total expenses for 2008 increased to $1,006,586 from $716,116 for 2007. The increase in expenses is attributable to three factors: (1) an increase in the amount of provision made for losses expected from impaired or defaulted mortgages; (2) an increase in legal and regulatory costs; and (3) increased marketing and Fundserv platform costs. The increased legal costs are considered to be unusual and one-time as there were new regulations introduced that required substantial revisions to the format and information disclosures in the Company's prospectus. The increased marketing expenses are also considered unusual as they represented one-time set up and production costs for the Company's new website and for marketing materials to be made available to investment dealers. None of the increases in costs are material when considered individually.

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. In addition to the above dividend re-investment, the net assets of the Corporation increased by net new investments totaling $1,574,297 (2007 - $847,799). Proceeds from Common Shares issued in 2008, excluding dividend re-investment, totaled $2,545,148 (2007 - $1,742,460) while redemptions during the year totaled $970,851 (2007 - $894,661). Substantially all of the 2008 share redemptions occurred in November 2008 and were made to accommodate payments required in 2009 under RRIF plans of Qualified Investors.

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:

	2008	2007
Number of shares:	#	#
Balance – beginning of year	665,554	592,428
Issued	84,838	58,082
Issued under dividend re-investment plan	44,367	44,866
Redeemed	(32,363)	(29,822)
Balance – end of year	762,396	665,554
Dollars:	$	$
Balance – beginning of year	19,966,602	17,772,832
Issued	2,545,148	1,742,460
Issued under dividend re-investment plan	1,331,004	1,345,971
Redeemed	(970,851)	(894,661)
Balance – end of year	22,871,903	19,966,602

Under the Corporation's dividend policy and dividend re-investment plan, 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 Corporation's prospectus, shareholders may redeem shares in the Corporation only once per year, in November, except in certain exceptional circumstances. Substantially all of the redemptions made in each of 2008 and 2007 were made to accommodate payments legally required within the subsequent year under individual shareholder RRIF accounts.

Recent Developments

Since December 31, 2007, the Company has adopted the following changes that have a material effect on its operations:

New Agreements for Services

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson & Associates Ltd. ("W.A.") is the manager for the Company. In September 2008, the Company signed new contracts for these services under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis. Under the previous contracts, Pillar charged an annual fee of 2% of the total asset value calculated on a monthly basis and W.A. charged an annual fee of $1,000.

In addition, as required under new regulations, the Company has retained Computershare Trust Company of Canada to act as custodian for the Company's mortgages.

Finally, as part of its marketing strategy to raise new investment funds, the Company has obtained a listing on Fundserv. Fundserv is a platform that allows dealers across the country to buy shares of the Company and obtain share data electronically. The Company has retained SGGG Fund Services Inc. to administer transactions over the Fundserv network for the Company.

Related Party Transactions

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson & Associates Ltd. ("W.A.") is the manager for the Company. As explained in the Recent Developments section, in September 2008, the Company signed new contracts for these services 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 this agreement totaled $451,102 for the year ended December 31, 2008 (year ended December 31, 2007 - $403,328).

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 two years. This information is derived from the Corporation's audited annual financial statements.

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

	2008 **$**	**2007** **$**
Net asset value, beginning of year	30.00	30.00
Increase (decrease) from operations:		
Total revenue	3.22	3.22
Total expenses	1.40	1.11
Realized gains (losses) in period	Nil	Nil
Unrealized gains (losses) in period	Nil	Nil
Total increase (decrease) from operations	1.82	2.11
Distributions:		
From net income (excluding dividends)	(1.82)	(2.11)
From dividends	Nil	Nil
From capital gains	Nil	Nil
Return of capital	Nil	Nil
Total Annual Distributions	(1.82)	(2.11)
Net asset value at December 31 of year shown	$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.

(2) All distributions were re-invested in additional shares of the Corporation.

The Corporation distributes any net income to shareholders monthly in the form of dividends. These dividends are automatically re-invested into additional shares of the Corporation.

Ratios and Supplemental Data (December 31):

	2008	2007
Net assets	$22,871,903	$19,966,602
Number of shares outstanding	762,396	665,554
Management expense ratio (1)	4.55%	3.69%
Management expense ratio before waivers or absorptions	4.55%	3.69%
Portfolio turnover rate (2)	52.73%	53.51%
Trading expense ratio (3)	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.

Administration and management fees

Pillar Financial Services Inc. ("Pillar") is the administrator and W.A. Robinson & Associates Ltd. ("W.A.") is the manager for the Company. As explained in the Recent Developments section, in September 2008, the Company signed new contracts for these services under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis.

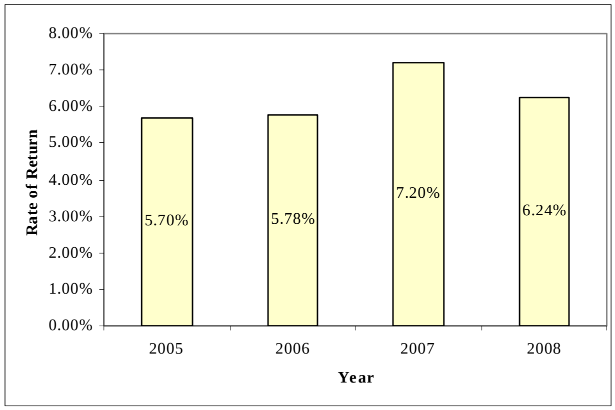
Administration and management fees paid under this agreement totaled $451,102 for the year ended December 31, 2008 (year ended December 31, 2007 - $403,328).

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 bar chart below shows the Corporation's annual performance for each of the years shown and illustrates how the Corporation's 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 Corporation's annual compound return for each share:

One year	6.24 %
Three year	6.41%
Since inception	6.31%

Summary of Investment Portfolio

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2008:

Asset	**Carrying Value**	**Percentage of Net Assets** (2)
Private residential mortgages (1)	$15,441,015	67.51%
Private commercial mortgages (1)	$7,576,135	33.12%
Units of RBC Premium Money Market Fund	$53,294	0.23%

(1) These mortgages are uninsured conventional pre-payable mortgages with interest rates ranging from 8% to 13% and terms of maturity ranging from 1 to 2 years. A further breakdown of the mortgages can be found in the Statement of Investment Portfolio which forms part of the Corporation's financial statements.

(2) Due to the existence of the credit line facility, total assets of the Corporation may exceed the net assets of the Corporation. Accordingly, assets expressed as a percentage of net assets may exceed 100% when totaled.

The actual holdings will change following this date due to on-going portfolio transactions in the Corporation. A quarterly portfolio update may be obtained by contacting the Corporate Secretary by telephone toll-free at (877) 279-2116 or by mail at Frontenac Mortgage Investment Corporation, The Simonett Building, 14216 Road 38, Sharbot Lake, Ontario, K0H 2P0.