FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2009

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Corporation. You can obtain a copy of the annual financial statements at your request, at no cost, by any of the following methods:

By telephone:	(877) 279-2116
By Internet:	SEDAR at www.sedar.com or on the Corporation's website at www.fmic.ca
By mail:	Frontenac Mortgage Investment Corporation The Simonett Building 14216 Road #38 Sharbot Lake, Ontario K0H 2P0

Shareholders may also contact us using one of these methods to request a copy of the 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 2009 year, management did not make any operational changes which had an impact on the overall 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

While the sub-prime mortgage crisis in the U.S. and the resulting plunge in global stock markets led the global economy into recession in 2008 and 2009, the Corporation has continued to adjust to changing times as part of the active management of its mortgage portfolio. As at December 31, 2009, 96% of the Corporation's mortgage portfolio was in first mortgages and the total loan-to-value ratio was approximately 58%. While economic forecasts in Canada called for a decline in home prices of 5%-6% in 2009, the Eastern Ontario market in which the Corporation's mortgage portfolio is largely based has fared much better with home prices remaining steady. These level home prices combined with our first security position and low loan-to-value ratio maintain the strength of our mortgage security. In these economically troubled times, the strength of this security and the active management on the part of the Manager and Administrator

have allowed the Corporation to maintain its positive returns for its shareholders and meet its capital preservation objective.
The following table presents the results from operations for the year ended December 31:

	2009	**2008**
Total revenues	$2,464,219	$2,337,590
- per issued common share	$2.83	$3.22
Net earnings	$1,492,208	$1,331,004
- per issued common share	$1.74	$1.82

In 2009, the Corporation generated revenues of $2,464,219 or $2.83 per Common Share and earnings of $1,492,208 or $1.74 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. The decline in revenues per share is attributable to two factors: (1) impaired mortgages, and (2) investment mix. Under its accounting policies, once a mortgage is deemed to be impaired, the Corporation ceases to accrue interest revenue on that mortgage. As noted in the Corporation's year end financial statements, due to general economic conditions in 2009, the dollar value of impaired mortgages was higher than in past years. Secondly, throughout the year, as underwriting criteria tightened, the Corporation held a lower percentage of its net assets in mortgages on average than in 2008. This contributed to reduced revenue per share as the Corporation earns less interest on its cash reserves and money market investments than on its mortgage portfolio. By the end of 2009, the percentage of the Corporation's net assets invested in mortgages increased back to 99.99%.

Total expenses for 2009 decreased to $972,011 from $1,006,586 for 2008. The decrease in expenses is attributable to a decrease in legal and trustee fees. In 2008, legal fees were considered to be higher than normal due to new regulations introduced that required substantial revisions to the format and information disclosures in the Company's prospectus. Management expects that the 2009 expenses for legal costs are more reflective of the on-going fees incurred to meet the Corporation's regulatory requirements. Trustee fees related to the payment by the Corporation of self-directed fees for shareholder registered accounts. Beginning January 2009, the policy of the Corporation was changed and these fees are now borne directly by investors. None of the changes 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 $3,788,735 (2008 - $1,574,297). Proceeds from Common Shares issued in 2009, excluding dividend re-investment, totaled $4,752,960 (2008 - $2,545,148) while redemptions during the year totaled $964,225 (2008 - $970,851). Substantially all of the 2009 share redemptions occurred in November

2009 and were made to accommodate payments required in 2010 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:

	2009	2008
Number of shares:	#	#
Balance – beginning of year	762,396	665,554
Issued	158,432	84,838
Issued under dividend re-investment plan	49,740	44,367
Redeemed	(32,140)	(32,363)
Balance – end of year	938,428	762,396
Dollars:	$	$
Balance – beginning of year	22,871,903	19,966,602
Issued	4,752,960	2,545,148
Issued under dividend re-investment plan	1,492,208	1,331,004
Redeemed	(964,225)	(970,851)
Balance – end of year	28,152,846	22,871,903

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 2009 and 2008 were made to accommodate payments legally required within the subsequent year under individual shareholder RRIF accounts.

Recent Developments

Since December 31, 2008, the Company has not adopted any changes that have a material effect on its operations.

Future Accounting Change

In February 2009, the Accounting Standards Board of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective January 1, 2011. As the Corporation meets the definition of a publically accountable enterprise, the Corporation will be adopting IFRS in 2011. Management is in the process of assessing the impact of IFRS in detail on its financial reporting systems. Based on the existing IFRS and proposed amendments, management has presently determined that the change to IFRS will mainly result in changes to the financial statement presentation and additional disclosure.

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. These companies are related parties in that they share common management. The Company signed new contracts for these services in 2008 under which Pillar and W.A. each charge an annual fee of 1% of the total asset value calculated on a monthly basis.

Administration and management fees paid under these agreements totaled $542,186 for the year ended December 31, 2009 (year ended December 31, 2008 - $451,102). The increase in the dollar value of the administration and management fees from 2008 is a reflection of the increase in the total assets of the Corporation from 2008.

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:

	2009 **$**	**2008** **$**
Net asset value, beginning of year	30.00	30.00
Increase (decrease) from operations:		
Total revenue	2.83	3.22
Total expenses	1.09	1.40
Realized gains (losses) in period	Nil	Nil
Unrealized gains (losses) in period	Nil	Nil
Total increase (decrease) from operations	1.74	1.82
Distributions:		
From net income (excluding dividends)	(1.74)	(1.82)
From dividends	Nil	Nil
From capital gains	Nil	Nil
Return of capital	Nil	Nil
Total Annual Distributions	(1.74)	(1.82)
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):

	2009	**2008**
Net assets	$28,152,846	$22,871,903
Number of shares outstanding	938,428	762,396
Management expense ratio (1)	3.69%	4.55%
Management expense ratio before waivers or absorptions	3.69%	4.55%
Portfolio turnover rate (2)	54.40%	56.43%
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 the Corporation'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. There is not necessarily a relationship between a high turnover rate and the performance of a fund. For the Corporation, the portfolio turnover rate is based on the dollar value of the Corporation's mortgages. In the case of the Corporation, because it does not incur any trading expenses, the portfolio turnover rate bears no relationship with the level of trading expenses.

(3) The trading expenses ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Administration and management fees

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

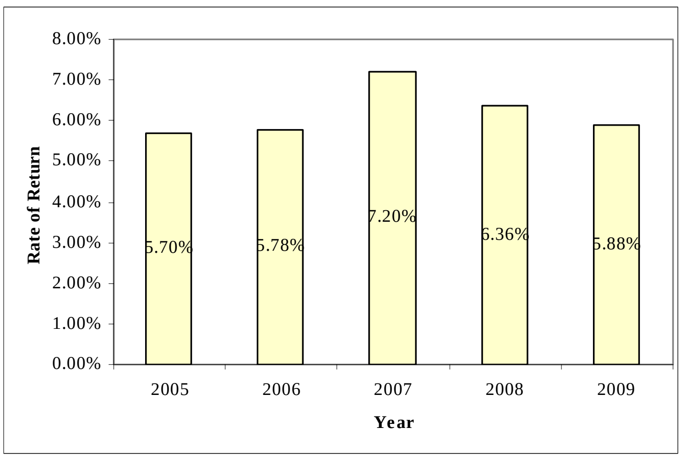
Administration and management fees paid under these agreements totaled $542,186 for the year ended December 31, 2009 (year ended December 31, 2008 - $451,102).

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	5.88 %
Three year	6.44%
Since inception	6.21%

Summary of Investment Portfolio

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2009:

Asset	Carrying Value	Percentage of Net Assets (2)
Private residential mortgages (1)	$20,143,787	71.55%
Private commercial mortgages (1)	$7,939,487	28.20%
Units of RBC Premium Money Market Fund	$50,239	0.18%

(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.