FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2010

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 2010 year, management did not make any operational changes which had an impact on the overall risk of an investment in the Corporation.

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:

	2010 **$**	**2009** **$**	**2008** **$**	**2007** **$**	**2006** **$**
Total revenues	2,851,989	2,464,219	2,337,590	2,062,087	1,744,777
- per issued common share	2.87	2.83	3.22	3.22	3.00
Net increase in net assets from operations	1,470,262	1,492,208	1,331,004	1,345,971	986,023
- per issued common share	1.48	1.74	1.82	2.11	1.70

In 2010, the Corporation generated revenues of $2,851,989 or $2.87 per Common Share and a net increase in net assets from operations of $1,470,262 or $1.48 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 in 2010 and 2009 from prior years 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. Due to general economic conditions in 2009 and 2010, the dollar value of impaired mortgages was higher than in past years and these higher levels continued through much of 2010. Secondly, throughout 2009 and most of 2010, the Corporation held a lower percentage of its net assets in mortgages on average than in 2008. This reduction was a reflection of the implementation of tighter underwriting policies by the Corporation and a general decline in borrowing activity in the Corporation's traditional markets. 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. As at December 31, 2010, the percentage of the Corporation's net assets invested in mortgages increased back to 100.3%.

Total operating expenses for 2010 increased to $1,070,608 from $812,954 for 2009. The increase in expenses is attributable to a increase in the gross value of administration and management fees and trustee fees. Administration and management fees are calculated based on a percentage of net assets and the gross amount expensed increased as the net assets of the Corporation increased. Trustee fees related to the payment by the Corporation of account fees payable to the

Corporation's trustee. In 2009, these fees were borne directly by the investor, but effective for 2010 and going forward these fees are payable by the Corporation.

Unless a shareholder elects to receive dividends in cash (as explained further under "Recent Developments"), dividends paid to shareholders are re-invested into additional shares of the Corporation under its dividend re-investment plan. 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. During the year, the Corporation paid cash dividends totaling $44,478 and $1,425,783 of the earnings was re-invested by shareholders in additional shares of the Corporation.

In addition to the aforementioned dividend re-investment, the net assets of the Corporation increased by net new investments totaling $1,394,747 (2009 - $3,788,735). Proceeds from Common Shares issued in 2010, excluding dividend re-investment, totaled $2,929,163 (2009 - $4,752,960) while redemptions during the year totaled $1,534,416 (2009 - $964,225). Substantially all of the 2010 share redemptions occurred in November 2010.

The Corporation has a $3,000,000 revolving line of credit with a Canadian chartered bank. It is secured by a General Security Agreement and a first ranking interest in the mortgages, is repayable on demand, and bears interest at bank prime rate plus 1%. Financial covenants require the Company to maintain minimum levels for equity, debt to equity ratio, and percentage of residential mortgages. As at December 31, 2010 the company was in compliance with the bank's financial covenants.

The line of credit is used to smooth out the cash flows of the Corporation and is not used to extend the Corporation's investment capacity beyond its available equity. As at December 31, 2010, the Corporation was using $1,300,000 of this credit line. During the year, the credit line was largely unused until December 2010. The maximum borrowings at any one time in the year was $1,300,000.

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:

	2010	**2009**	**2008**	**2007**	**2006**
Number of shares:	#	#	#	#	#
Balance – beginning of period	938,428	762,396	665,554	592,428	536,241
Issued for cash	97,639	158,432	84,838	58,082	55,164
Issued under dividend re-investment plan	47,526	49,740	44,367	44,866	32,867
Redeemed	(51,147)	(32,140)	(32,363)	(29,822)	(32,144)
Balance – end of period	1,032,446	938,428	762,396	665,554	592,428

	2010	2009	2008	2007	2006
Dollars:	$	$	$	$	$
Balance – beginning of period	28,152,846	22,871,903	19,966,602	17,772,832	16,096,215
Issued for cash	2,929,163	4,752,960	2,545,148	1,742,460	1,654,923
Issued under dividend re-investment plan	1,425,783	1,492,208	1,331,004	1,345,971	986,023
Redeemed	(1,534,416)	(964,225)	(970,851)	(894,661)	(964,329)
Balance – end of period	30,973,376	28,152,846	22,871,903	19,966,602	17,772,832

Under the Corporation's dividend policy and dividend re-investment plan, unless a shareholder elects to receive their dividends in cash, 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.

Recent Developments

Since December 31, 2009, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

Cash Dividend Option

As disclosed in the Corporation's 2010 prospectus, during the year shareholders were given the option to receive their monthly dividends as cash rather than as additional shares of the Corporation under its dividend re-investment plan. Shareholders may elect to have dividends paid to them in cash at the time of their initial purchase of shares in the Corporation or at November 30 of each year. If a shareholder does not make an election to receive cash dividends, their dividends will be re-invested in additional shares of the Corporation under its dividend re-investment plan. Once an election to receive cash dividends is received by the Corporation, it will remain in force until changed in writing by the shareholder with such change to be made on the next November 30.

During the year, the Corporation paid cash dividends totaling $44,478 under cash dividend elections made by shareholders.

Change in Accounting Policy

Subsequent to the 2009 year end, the Corporation amended its accounting policies to re-classify and record its mortgages at their fair value in accordance with Accounting Guideline 18 ("AcG-18") and CICA Handbook Section 3855. Due to the short term nature of the Corporation's mortgages, the fair value of the Corporation's mortgages is approximately equal to amortized cost and therefore there was no impact resulting from this change in accounting policy on the figures presented in the Corporation's financial statements for 2009.

Change in Trustee

B2B Trust was formerly the holder of record for all common shares of the Corporation held under RRSP and RRIF accounts established through the Manager. In 2010, the Manager decided to replace B2B Trust with TD Waterhouse Inc. The change in Trustee has allowed the Manager to offer RESP and TFSA accounts to its shareholders of the Corporation in addition to RRSP and RRIF accounts. The transfer process for shareholder accounts continued through much of the year and was substantially complete by December 31, 2010.

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. Implementation of IFRS has been deferred for investment companies that apply the provisions of AcG-18 to January 1, 2013. As the Corporation meets the definition of a publically accountable enterprise and is classified as an investment company, the Corporation will be adopting IFRS beginning on January 1, 2013. 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 $639,149 for the year ended December 31, 2010 (year ended December 31, 2009 - $542,186). The increase in the dollar value of the administration and management fees from 2009 is a reflection of the increase in the total assets of the Corporation from 2009 and higher sales taxes thereon as a result of the implementation of the Harmonized Sales Tax (HST) in Ontario.

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

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

	2010 $	2009 $	2008 $	2007 $	2006 $
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	2.87	2.83	3.22	3.22	3.00
Total expenses	(1.08)	(0.90)	(1.16)	(1.04)	(1.04)
Realized gains (losses) during period	(0.33)	-	(0.09)	(0.13)	-
Unrealized gains (losses) during period	0.02	(0.19)	(0.15)	0.06	(0.26)
Total increase (decrease) from operations	1.48	1.74	1.82	2.11	1.70
Distributions:					
From net income (excluding dividends)	(1.48)	(1.74)	(1.82)	(2.11)	(1.70)
From dividends			-	-	-
From capital gains			-	-	-
Return of capital			-	-	-
Total Distributions		(1.74)	(1.82)	(2.11)	(1.70)
Net asset value, end of period	30.00	30.00	30.00	30.00	30.00

(1) Figures presented for comparative years have been recalculated to reflect the accounting policy change in 2010 to segregate realized and unrealized losses on the Corporation's mortgages from total operating expenses.

(2) 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.

(3) 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):

	2010	2009	2008	2007	2006
Net assets	$30,973,376	$28,152,846	$22,871,903	$19,966,602	$17,772,832
Number of shares outstanding	1,032,446	938,428	762,396	665,554	592,428
Management expense ratio	3.54%	3.08%	3.74%	3.45%	3.42 %
Management expense ratio before waivers or absorptions	3.54%	3.08%	3.74%	3.45%	3.42 %
Portfolio turnover rate	73.76%	54.40%	52.73%	53.51%	46.79 %
Trading expense ratio	0.00%	0.00%	0.00%	0.00%	0.00 %

Notes:

(1) The management expense ratio is based on total expenses (excluding realized and unrealized losses on the Corporation's mortgage investments) 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. The comparative figures presented for management expense ratio have been restated to remove realized and unrealized losses from total expenses.

(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.

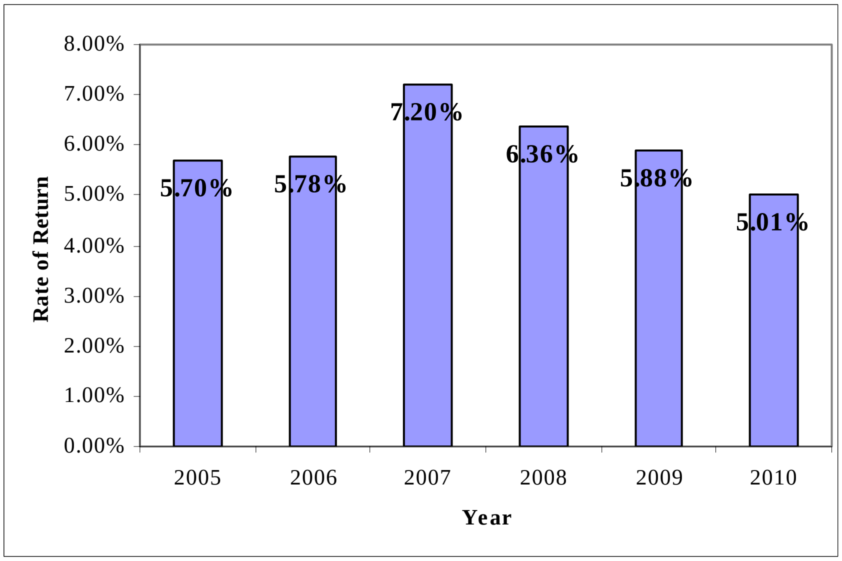
Administration and management fees paid under these agreements totaled $639,149 for the year ended December 31, 2010 (year ended December 31, 2009 - $542,186). The increase in the dollar value of the administration and management fees from 2009 is a reflection of the increase in the total assets of the Corporation from 2009 and higher sales taxes thereon as a result of the implementation of the Harmonized Sales Tax (HST) in Ontario.

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	5.01 %
Three year	5.71%
Since inception (2005)	5.97%

Summary of Investment Portfolio

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2010:

Asset	**Carrying Value**	**Percentage of Net Assets** (2)
Private residential mortgages (1)	$24,460,042	78.97%
Private commercial mortgages (1)	$4,489,337	14.49%
Private mortgages on vacant land (1)	$2,117,635	6.84%
Cash	$1,202,769	3.88%
Units of RBC Premium Money Market Fund	$76,459	0.25%

(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.