FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2011

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 2011 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:

	2011	**2010**	**2009**	**2008**	**2007**
	$	**$**	**$**	**$**	**$**
Total revenues	3,771,220	2,851,989	2,464,219	2,337,590	2,062,087
- per issued common share	3.08	2.87	2.83	3.22	3.22
Net increase in net assets from operations	2,388,163	1,470,262	1,492,208	1,331,004	1,345,971
- per issued common share	1.95	1.48	1.74	1.82	2.11

In 2011, the Corporation generated revenues of $3,771,220 or $3.08 per Common Share and a net increase in net assets from operations of $2,388,163 or $1.95 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 increase in revenues per share from 2010 and 2009 is attributable to two factors: (1) a reduction in the average level of impaired mortgages, and (2) an increase in the level of mortgage investments in the 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. During 2011, the level of impaired mortgages declined on average compared to 2010 and the Corporation maintained a higher percentage of its net assets in mortgage investments.

Total operating expenses for 2011 increased to $1,262,721 from $1,070,608 for 2010. The dollar increase in expenses is attributable to a increase in the gross value of administration and management 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.

In addition, interest expenses increased during the year as the Corporation utilized its credit facilities to maintain the level of mortgage investments at 100% of net assets throughout the year.

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 $217,622 and $2,170,541 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 $12,904,400 (2010 - $1,394,747). Proceeds from Common Shares issued in 2011, excluding dividend re-investment, totaled $13,997,592 (2010 - $2,929,163) while redemptions during the year totaled $1,093,192 (2010 - $1,534,416). Substantially all of the 2011 share redemptions occurred in November 2011.

The Corporation has a $4,500,000 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, 2011 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, 2011, the Corporation was not using this credit line; however, the credit line was used throughout 2011. The maximum borrowings at any one time in the year was $2,940,000.

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:

	2011	**2010**	**2009**	**2008**	**2007**
Number of shares:	#	#	#	#	#
Balance – beginning of period	1,032,446	938,428	762,396	665,554	592,428
Issued for cash	466,586	97,639	158,432	84,838	58,082
Issued under dividend re-investment plan	72,531	47,526	49,740	44,367	44,866
Redeemed	(36,440)	(51,147)	(32,140)	(32,363)	(29,822)
Balance – end of period	1,534,943	1,032,446	938,428	762,396	665,554

	2011	2010	2009	2008	2007
Dollars:	$	$	$	$	$
Balance – beginning of period	30,973,376	28,152,846	22,871,903	19,966,602	17,772,832
Issued for cash	13,997,592	2,929,163	4,752,960	2,545,148	1,742,460
Issued under dividend re-investment plan	2,170,541	1,425,783	1,492,208	1,331,004	1,345,971
Redeemed	(1,093,192)	(1,534,416)	(964,225)	(970,851)	(894,661)
Balance – end of period	46,048,317	30,973,376	28,152,846	22,871,903	19,966,602

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, 2010, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

Proposed Amalgamation

During a joint strategy session in November 2011, the Board of Directors of the Corporation approved in principle the amalgamation of the Corporation with a sister fund, Mortgage Investment Corporation of Eastern Ontario ("MICEO"). A Special Shareholders' Meeting has been called for April 25, 2012 to approve this amalgamation. If approved, management expects that the amalgamation will be completed in mid-2012.

MICEO is a mortgage investment corporation also managed by the Corporation's manager, W.A. Robinson & Associates Ltd. As at December 31, 2011, MICEO had net assets totaling $48.7 million and its rate of return for 2011 was 6.92%. The operating and investment policies of MICEO are similar to those of the Corporation and its underlying portfolio of mortgage investments is very similar to the Corporation's assets in average mortgage size, average mortgage yield, credit risk, and geographic location. The principal difference between the Corporation and MICEO is the manner in which their shares are offered to investors; the Corporation's shares are offered under its prospectus while MICEO is a non-reporting issuer whose shares are offered to investors under exempt-market rules.

The proposed amalgamation will allow management to streamline the operations of the two funds and is a reflection of management's strategy for future growth of the two funds.

More information on the proposed amalgamation can be obtained by contacting the Corporate Secretary of the Corporation.

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, 2014. 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, 2015. 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.

Increase in Credit Line Facility

In August 2011, the Corporation negotiated an increase in its credit line limit from $3.0 million to $4.5 million. As explained in the Corporation's prospectus, the credit line is not used to create leverage for its investments, but is used to smooth out cash flows for the uncertain timing of cash inflows and outflows of the Corporation. The credit line facility has been increased proportionately to the increase in the Corporation's net assets over the past few years.

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 $800,627 for the year ended December 31, 2011 (year ended December 31, 2010 - $639,149). The increase in the dollar value of the administration and management fees from 2010 is a reflection of the increase in the total assets of the Corporation from 2010.

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:

	2011	**2010**	**2009**	**2008**	**2007**
	$	**$**	**$**	**$**	**$**
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	3.08	2.87	2.83	3.22	3.22
Total expenses	(1.03)	(1.08)	(0.90)	(1.16)	(1.04)
Realized gains (losses) during period	(0.22)	(0.33)	-	(0.09)	(0.13)
Unrealized gains (losses) during period	0.12	0.02	(0.19)	(0.15)	0.06
Total increase (decrease) from operations	1.95	1.48	1.74	1.82	2.11
Distributions:					
From net income (excluding dividends)	(1.95)	(1.48)	(1.74)	(1.82)	(2.11)
From dividends				-	-
From capital gains				-	-
Return of capital				-	-
Total Distributions	(1.95)	(1.48)	(1.74)	(1.82)	(2.11)
Net asset value, end of period	30.00	30.00	30.00	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.

The Corporation distributes any net income to shareholders monthly in the form of dividends. Unless a shareholder elects to receive their monthly dividends in cash, these dividends are automatically re-invested into additional shares of the Corporation.

Ratios and Supplemental Data (December 31):

	2011	**2010**	**2009**	**2008**	**2007**
Net assets	$46,048,317	$30,973,376	$28,152,846	$22,871,903	$19,966,602
Number of shares outstanding	1,534,943	1,032,446	938,428	762,396	665,554
Management expense ratio	3.42%	3.54%	3.08%	3.74%	3.45%
Management expense ratio before waivers or absorptions	3.42%	3.54%	3.08%	3.74%	3.45%
Portfolio turnover rate	74.63%	73.76%	54.40%	52.73%	53.51%
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.

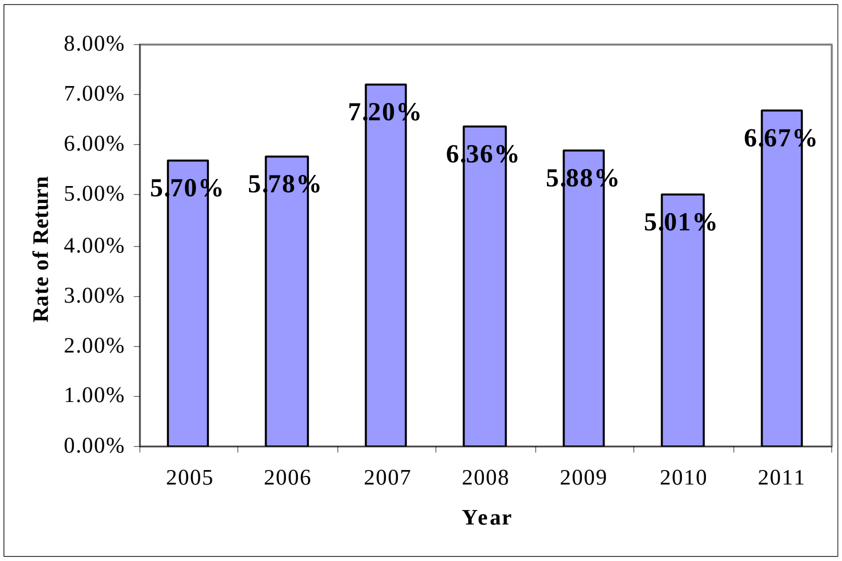
Administration and management fees paid under these agreements totaled $800,627 for the year ended December 31, 2011 (year ended December 31, 2010 - $639,149). The increase in the dollar value of the administration and management fees from 2010 is a reflection of the increase in the total assets of the Corporation from 2010.

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	6.67 %
Three year	5.85%
Since inception (2005)	6.07%

Summary of Investment Portfolio

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2011:

Asset	**Carrying Value**	**Percentage of Net Assets** (2)
Private residential mortgages (1)	$35,558,098	77.22%
Private commercial mortgages (1)	$7,385,541	16.04%
Private mortgages on vacant land (1)	$1,982,270	4.30%
Cash	$1,200,999	2.61%
Units of RBC Premium Money Market Fund	$53,129	0.12%

(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.