FRONTENAC MORTGAGE INVESTMENT CORPORATION
ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

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 property located primarily in the province of Ontario. 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 2012 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

On July 1, 2012, the Corporation amalgamated (the "Amalgamation") with Mortgage Investment Corporation of Eastern Ontario ("MICEO") which effectively doubled the net assets of the Corporation. Further information on the amalgamation is presented in the Recent Development section of this Management Report on Fund Performance.

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

	2012	**2011**	**2010**	**2009**	**2008**
	$	**$**	**$**	**$**	**$**
Total revenues	7,187,719	3,771,220	2,851,989	2,464,219	2,337,590
- per issued common share	2.69	3.08	2.87	2.83	3.22
Net increase in net assets from operations	4,405,231	2,388,163	1,470,262	1,492,208	1,331,004
- per issued common share	1.65	1.95	1.48	1.74	1.82

In 2012, the Corporation generated revenues of $7,187,719 or $2.69 per Common Share and a net increase in net assets from operations of $4,405,231 or $1.65 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 both as a result of the Amalgamation and as a result of net new investment by shareholders. The decrease in revenues per share from 2011 is attributable to the maintenance of higher than normal cash balances for a significant portion of the year. Cash and cash equivalents of the Corporation earn little to no return in interest as compared to its mortgage investments and, accordingly, higher balances of cash and cash equivalents depress the overall gross return. On average throughout the year, the Corporation maintained month end balances of cash and cash equivalents of 85% of net assets in 2012 as compared to an average of 100% in 2011. The increase in cash balances resulted from higher than expected payouts of existing mortgage investments as borrowers sought to take advantage of lower interest rates for mortgages available in the market, especially in the first half of 2012. The Corporation's balance of cash and cash equivalents peaked at 26% of net assets in May 2012 and then declined steady for the remainder of the year. At year end, the Corporation was utilizing $5.95 million of its credit line and was 104% invested in mortgages as a percentage of net assets.

Total operating expenses for 2012 increased to $2,362,492 from $1,262,721 for 2011. The dollar increase in expenses is attributable to the increase in the size of the operations that resulted from the Amalgamation. The gross value of administration and management fees, both of which are calculated based on a percentage of net assets, increased as a result of the increase in net assets. Operating expenses per share decreased to $0.88 per share from $1.03 per share in 2011 due to economies of scale resulting from the Amalgamation.

Unless a shareholder elects to receive dividends in cash, 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 $1,079,934 and $3,325,297 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 $46,152,700 as a result of the Amalgamation and net new investments totaling $4,324,661 (2011 - $12,904,400). Proceeds from Common Shares issued in 2012, excluding dividend re-investment, totaled $18,494,413 (2011 - $13,997,592) while redemptions during the year totaled $14,169,752 (2011 - $1,093,192). Substantially all of the 2012 share redemptions occurred in November 2012. As a result of the increase in its cash position, the Corporation did not accept any new investment in the months of September, October, and November 2012. The Corporation began accepting new investment again in December 2012 once its cash position had decreased to normal operating levels.

The Corporation has a $9.0 million revolving line of credit with a Canadian chartered bank. The revolving line of credit represents the amalgamated limits for the Corporation and MICEO that existed prior to the Amalgamation. Prior to amalgamation, the Corporation had a $4.5 million limit and MICEO had a $4.5 million limit to their lines of credit. The line of credit 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, 2012 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, 2012, the Corporation was using $5,950,000 of this credit line. The maximum borrowings at any one time in the year was $7,070,000.

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:

	2012	2011	2010	2009	2008
Number of shares:	#	#	#	#	#
Balance – beginning of period	1,534,943	1,032,446	938,428	762,396	665,554
Issued on amalgamation	1,538,423				
Issued for cash	616,480	466,586	97,639	158,432	84,838
Issued under dividend re-investment plan	110,843	72,531	47,526	49,740	44,367
Redeemed	(472,325)	(36,440)	(51,147)	(32,140)	(32,363)
Balance – end of period	3,328,364	1,534,943	1,032,446	938,428	762,396

	2012	2011	2010	2009	2008
Dollars:	$	$	$	$	$
Balance – beginning of period	46,048,317	30,973,376	28,152,846	22,871,903	19,966,602
Issued on amalgamation	46,152,700				
Issued for cash	18,494,413	13,997,592	2,929,163	4,752,960	2,545,148
Issued under dividend re-investment plan	3,325,297	2,170,541	1,425,783	1,492,208	1,331,004
Redeemed	(14,169,752)	(1,093,192)	(1,534,416)	(964,225)	(970,851)
Balance – end of period	99,850,975	46,048,317	30,973,376	28,152,846	22,871,903

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, 2011, the Company has not adopted any changes that have a material effect on its operations, except as noted in this section.

Amalgamation

On July 1, 2012, the Corporation amalgamated with Mortgage Investment Corporation of Eastern Ontario ("MICEO") to form a new company, Frontenac Mortgage Investment Corporation. Like the Corporation, MICEO is an Ontario-based mortgage investment corporation and is managed by the same manager, W.A. Robinson Asset Management Ltd. For accounting purposes, the Corporation is deemed to have acquired MICEO as the Corporation has more shareholders and placed more directors on the combined board of directors than MICEO.

The net assets acquired under this amalgamation totaled $46,152,700. The acquisition was made in exchange for 1,538,423 common shares of the amalgamated company valued at $30 per share.

The following table, which should be read in conjunction with the Corporation's interim unaudited financial statements, summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition and the combined assets of the new combined entity:

	Existing assets & liabilities of the Corporation $	Acquired from MICEO $	As amalgamated $
Assets:			
Cash and cash equivalents	13,942,614	7,635,622	21,578,236
Mortgage investments	47,553,194	38,550,047	86,103,241
Prepaid expenses	6,975	10,269	17,244
Investment in private company	100,000		100,000
	61,602,783	46,195,938	107,798,721
Liabilities:			
Bank line of credit	1,720,000		1,720,000
Dividends payable	59,662	9,579	69,241
Accounts payable and accrued liabilities	49,884	17,875	67,759
Prepaid mortgage payments	175,938	15,784	191,722
	2,005,484	43,238	2,048,722
Net assets	59,597,299	46,152,700	105,749,999

The mortgage investment portfolio of MICEO is similar to that of the Corporation in average size, geographic location, terms, and interest rate. As at the acquisition date, MICEO held 124 mortgages with a weighted average interest rate of 10.01%. The largest mortgage balance was $4,769,898 and the average outstanding balance was $310,888. As at the acquisition date, there were six mortgages totaling $1,832,867 that were considered past due by management.

On a go-forward basis, the investment strategy, operating principles and investment policies of the combined entity are unchanged from those 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, 2014. 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 $1,722,765 for the year ended December 31, 2012 (year ended December 31, 2011 - $800,627). 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 2011.

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:

	2012	**2011**	**2010**	**2009**	**2008**
	$	**$**	**$**	**$**	**$**
Net Asset Value, beginning of period	30.00	30.00	30.00	30.00	30.00
Increase (decrease) from operations:					
Total revenue	2.69	3.08	2.87	2.83	3.22
Total expenses	(0.88)	(1.03)	(1.08)	(0.90)	(1.16)
Realized gains (losses) during period	(0.25)	(0.22)	(0.33)	-	(0.09)
Unrealized gains (losses) during period	0.09	0.12	0.02	(0.19)	(0.15)
Total increase (decrease) from operations	1.65	1.95	1.48	1.74	1.82
Distributions:					
From net income (excluding dividends)	(1.65)	(1.95)	(1.48)	(1.74)	(1.82)
From dividends					-
From capital gains					-
Return of capital					-
Total Distributions	(1.65)	(1.95)	(1.48)	(1.74)	(1.82)
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):

	2012	2011	2010	2009	2008
Net assets	$99,850,975	$46,048,317	$30,973,376	$28,152,846	$22,871,903
Number of shares outstanding	3,328,364	1,534,943	1,032,446	938,428	762,396
Management expense ratio	2.94%	3.42%	3.54%	3.08%	3.74%
Management expense ratio before waivers or absorptions	2.94%	3.42%	3.54%	3.08%	3.74%
Portfolio turnover rate	71.37%	74.63%	73.76%	54.40%	52.73%
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.

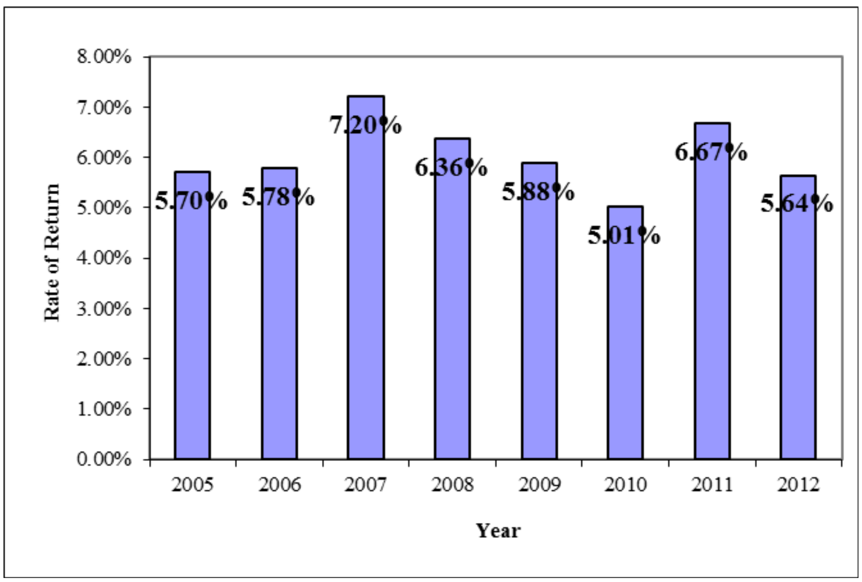
Administration and management fees paid under these agreements totaled $1,722,765 for the year ended December 31, 2012 (year ended December 31, 2011 - $800,627). The increase in the dollar value of the administration and management fees from 2012 is a reflection of the increase in the total assets of the Corporation from 2011.

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	5.64 %
Three year	5.77%
Since inception (2005)	6.01%

Summary of Investment Portfolio

The following investments represent the Corporation's twenty-five largest holdings as at December 31, 2012:

Asset	**Carrying Value**	**Percentage of Net Assets** (2)
Private residential mortgages (1)	$77,928,575	78.04%
Private commercial mortgages (1)	$24,549,060	24.59%
Private mortgages on vacant land (1)	$3,234,720	3.24%
Investment in Bruce Young Salvage Inc.	$587,155	0.59%
Property for sale under foreclosure	$424,256	0.42%
Units of RBC Premium Money Market Fund	$55,221	0.06%

(1) These mortgages are uninsured conventional pre-payable mortgages with interest rates ranging from7% to 12% 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.