

**FRONSAC REAL ESTATE INVESTMENT TRUST
INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS
FORM 51-102F1
FOR THE PERIOD ENDED SEPTEMBER 30, 2013**

MANAGEMENT'S DISCUSSION & ANALYSIS

November 14, 2013

Scope of analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fronsac Real Estate Investment Trust ("Fronsac REIT" or the "Trust") is intended to provide readers with an assessment of performance and summarize the results of operations and financial condition for the periods of 3 months and 9 months ended September 30, 2013. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of September 30, 2013 and the Trust's Audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012. The financial data contained in this MD&A has been prepared in accordance with the International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars.

Forward-looking statements and disclaimer

Securities laws encourage companies to present forward-looking information to provide investors with a better understanding of the Trust's future prospects and help them make informed decisions. This MD&A contains forward-looking statements about the Trust's objectives, strategies, financial position, results of operations, cash flows and operations, which are based on management's current expectations, estimates and assumptions about the markets in which it operates.

Statements based on management's current expectations contain known and unknown inherent risks and uncertainties. Forward-looking statements may include verbs such as "believe," "anticipate," "estimate," "expect," "intend" and "assess" or related expressions, used in the affirmative and negative forms. These statements represent the Trust's intentions, plans, expectations or beliefs and are subject to risks, uncertainties and other factors, many of which are beyond the Trust's control. Actual results may vary from expectations. The reader is cautioned not to place undue reliance on any forward-looking statements. Please note that the forward-looking statements contained in this MD&A describe our expectations as at November 14, 2013.

Description of the Issuer's business

Fronsac REIT is an active trust operating in the real estate commercial market. The Trust owns and rents real estate commercial properties directly and through its wholly owned subsidiaries.

The following table identifies the property owned by the Trust, its participation and the category of tenants.

The category of tenants are:

- 1- Fast food restaurants chain
- 2- Major oil companies
- 3- Convenience stores chain
- 4- Others

Property / location	Interest	Tenants
Mont-Saint-Hilaire (Qc)	100%	1, 2, 3
Saint-Jean-sur-le-Richelieu (Qc)	100%	2, 3
Rivière-du-Loup (Qc)	100%	2, 3
Saint-Hubert (Qc)	90%	2, 3
Val-David (Qc)	100%	1, 2, 3
Trois-Rivières #1 (Qc)	65%	2
Trois-Rivières #2 (Qc)	50%	2, 3
Les Coteaux (Qc)	100%	1, 2, 3, 4

Outlook 2013

Fronsac REIT is constantly looking for acquisitions of real estate investments that are not managed by the owner and ideally privileged properties that include a service station with a convenience store and a fast food restaurant.

Fronsac REIT is looking for acquisitions that will sustain its growth. The Trust's capital and debt structure puts it in a selective position for other potential acquisitions.

Depending on the magnitude of potential acquisitions, the Trust could issue additional units. Fronsac REIT will try to maintain a debt/equity ratio of 40/60.

Fronsac REIT does not foresee any major repairs on its commercial properties as their construction is recent and their present condition is excellent.

For the construction of the property located at Les Coteaux, the Trust has determined a budget of \$4,000,000 for which \$3,781,000 has been spent to date. The current costs are in line with the budget.

Major events of the quarter

During the quarter, the Trust has spent an amount of \$784,074 on the property under development located at Les Coteaux. Even though the construction is not fully completed, the Trust has opened, in September, the property to its tenants and has obtained \$17,380 of rental income.

On September 30, 2013, the Trust distributed to unitholders an amount of \$0.003375 per unit for a total distribution of \$111,210.

Highlights:

Funds from operations

Funds from operations (FFO)	<i>three months ended</i>		<i>nine months ended</i>	
Reconciliation of income to funds from operations	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
Net income (loss) attributable to unitholders	(307,741)	47,378	291,089	132,681
Variation in value of investment properties	589,144	-	193,337	-
Variation in value of investment properties obtained from joint-ventures	27,993	-	(39,587)	-
Unit-based compensation	(22,200)	2,500	(22,750)	7,806
Variation of liability component of the convertible preferred units	8,261	559	9,036	1,469
Variation of fair value of derivative financial instruments	(86,025)	4,000	(51,305)	26,000
Unrealized loss (gain) on interest swaps	(1,800)	(3,000)	(5,900)	(11,000)
Variation in fair value of other financial components	(5,420)	1,175	(2,360)	8,069
Amortization intangible assets	1,851	1,851	5,553	5,553
Deferred income taxes	24,455	28,700	85,596	69,800
FFO – basic	228,518	83,163	462,709	240,378
FFO per unit – basic	0.0070	0.0041	0.0141	0.0117
Interests on convertible preferred units	15,459	5,022	44,538	15,012
FFO – diluted	243,977	88,185	507,247	255,390
FFO per unit – diluted	0.0064	0.0039	0.0138	0.0113
Weighted average units outstanding – basic	32,865,485	20,514,000	32,709,801	20,514,000
Weighted average units outstanding – diluted	37,880,685	22,601,000	36,831,346	22,601,000

Financial Position

Financial Position	September 30, 2013 \$	December 31, 2012 \$
Investment Properties	17,950,279	11,521,954
Investment in joint ventures	702,972	-
Total Assets	19,715,149	14,333,024
Total debts, mortgages and loans	8,382,280	4,119,972
Total Liabilities	10,178,489	4,832,944
Equity	9,536,660	9,500,080
Debts / Assets Ratio	42.5%	28.7%

Investment properties	September 30, 2013	December 31, 2012	December 31, 2011
Number of investment properties	8	5	3
Occupancy rate	100%	100%	100%
Value of investments properties (\$)	17,950,279	11,521,954	7,111,919

QUARTERLY FINANCIAL INFORMATION

	2013			2012				2011	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	I	Q4
Rental income	233,068	253,972	206,508	176,637	183,269	162,259	145,878		135,844
Net income attributable to unitholders	(307,741)	414,122	184,709	929,738	47,378	(9,210)	94,514		(42,532)
Net income per unit									
Basic	(0.009)	0.013	0.006	0.041	0.002	0.000	0.005		(0.003)
Diluted	(0.011)	0.013	0.006	0.040	0.002	0.000	0.005		(0.003)
Weighted average number of units – diluted (000)	37,665	32,645	35,031	24,443	20,514	20,514	20,514		14,521
Funds from operations (FFO)	228,518	105,245	128,946	36,639	83,163	80,607	76,986		43,828
FFO per unit									
Basic	0.007	0.003	0.004	0.002	0.004	0.004	0.004		0.001
Diluted	0.006	0.003	0.004	0.001	0.004	0.004	0.004		0.001
Cash obtained from operating activities	765,319	(390,512)	615,265	134,862	88,735	61,596	75,700		15,010
Value of investment properties (000)	17,950	17,736	13,744	11,522	9,119	9,091	7,112		7,112
Total assets (000)	19,715	19,416	15,602	14,333	9,633	9,530	7,611		9,336
Mortgages and other debts (000)	8,382	8,166	4,476	4,120	4,142	3,983	2,188		3,948
Equity (000)	9,537	9,906	9,674	9,500	4,863	4,943	4,903		4,809

Business and operations review

Real estate investments

Fronsac REIT is the owner of six (6) commercial properties located in Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David and Les Coteaux. This last property is currently under construction. It also owns, through a joint-venture and a joint-ownership, two (2) investment properties located in Trois-Rivières. The Trust has a 50% interest in a joint-venture and a 65% interest in a joint-ownership. The commercial properties are fully occupied. The leases are “double net” and “triple net” which means that mostly all expenses are payable by the tenants.

Results of operations

Income	<i>three months ended</i>		<i>nine months ended</i>	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
Rental income	233,068	183,269	693,548	491,406
Variation of fair value of investment properties	(589,144)	-	(193,337)	-
Interest on mortgages	59,540	31,276	136,120	63,124
Interest on long-term debt	5,810	7,750	18,928	27,250
Interest on bank loans	9,492	6,634	18,609	7,533
Interest on convertible units	23,720	9,348	53,574	27,700
Net income (loss) attributable to unitholders	(307,741)	47,378	291,089	132,681
Net income per unit – basic	(0.0094)	0.0023	0.0089	0.0065
Net income per unit – diluted	(0.0106)	0.0023	0.0073	0.0065
Weighted average units outstanding – basic	32,865,485	20,514,000	32,709,801	20,514,000
Weighted average units outstanding – diluted	37,655,685	20,514,000	36,606,346	20,514,000
EBITDA	307,679	138,905	684,786	366,459
Interest coverage	3.4	2.7	3.1	3.2
Debt coverage	2.5	1.9	2.3	2.3

Results of operations for the quarter ended September 30, 2013

The net loss of the quarter ended September 30, 2013, attributable to unitholders, was (\$307,741) or (\$0.0094) per unit compared to net income of \$47,378 or \$0.0023 per unit for the comparative quarter of 2012. The net loss includes losses of \$589,144 [2012: nil] and \$27,993 [2012: nil] related to the decrease in value of the investment properties. The first loss is recorded in the account "Investment properties" whereas the second one is recorded in the account "Investment in joint-ventures". These losses are explained by an increase of 25 basis points in the global capitalization rate.

For the quarter, the Trust had rental revenues of \$233,068 [2012: \$183,269] composed of fixed monthly rents and royalties based on tenants' sales. During the 2013 quarter, Fronsac REIT had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David and the two (2) Trois-Rivières properties in operations for the three (3) months. It has also benefited, for a period of fifteen (15) days, the revenues from the Les Coteaux property. For the 2012 quarter, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup and St-Hubert in operations for three (3) months.

The overall increase in rental income is explained by the decrease of \$20,348 attributable to sites operated during three (3) months, both in 2013 and 2012, and a contribution of \$70,147 from the acquisitions of 2013. The decrease of \$20,348 is exclusively attributable to the property of St-Jean-sur-le-Richelieu that has suffered from major road constructions.

The main operating expenses were interest on mortgages [\$59,540] [2012: \$31,276], long-term debts [\$5,810] [2012: \$7,750], distributions on convertible preferred units [\$23,720] [2012: \$9,348], and bank loans [\$9,492] [2012: \$6,634], and in administrative expenses, professional fees of [\$29,826] [2012: \$29,500] and registration and listing fees [\$6,449] [2012: \$7,048].

For the quarter ended September 30, 2013, interest on mortgages were paid on five (5) mortgages with a value of \$5,986,994 as of that date, two (2) long term debts of \$432,226, convertible preferred units of \$1,163,060 and a bank loan of \$800,000. For the quarter ended September 30, 2012, the interest was also paid on three (3) mortgages totalling of \$2,504,893, three (3) long term debts of \$683,000 and convertible preferred units with a value of \$329,207.

Professional fees include sums paid to the accountant for the recording of transactions, to lawyers for the conformity to the TSX Venture Exchange (the «Exchange») rules and \$13,000 [2012: \$12,000] paid to a company owned by an officer for the management of the Trust. Registration and listing fees include disbursements related to being a company listed on the Exchange.

The net loss of 2013 includes net gains of \$115,445 [2012: expenses of \$2,175] for the variation in fair market value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair market value at each reporting date. This gain is explained by a quoted market price of the unit of \$0.30 as at September 30, 2013 and \$0.33 as at June 30, 2013.

Results of operations for the period of 9 months ended September 30, 2013

The net income of the period ended September 30, 2013, attributable to unitholders, was \$291,089 or \$0.0089 per unit compared to a net income of \$132,681 or \$0.0065 per unit for the comparative quarter of 2012. The net income includes a loss of \$193,337 [2012: nil] and a gain of \$39,587 [2012: nil] related to the increase in value of the investment properties. The loss is recorded in the account "Investment properties" whereas the gain is recorded in the account "Investment in joint-ventures". The loss is explained by the variation of the global capitalization rate incurred on the 2013 acquisitions. The gain is explained by an investment at a profitable rate.

For the period of 9 months ended September 30, 2013, the Trust had rental revenues of \$693,548 [2012: \$491,406] composed of fixed monthly rents and royalties based on tenants' sales. During the 2013 period, Fronsac REIT had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert in operations for nine (9) months; the two (2) Trois-Rivières properties for eight (8) months, the acquisition of Val-David for five (5) months and finally the revenues from the Les Coteaux property for a period of fifteen (15) days. For the 2012 period, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup in operations for nine (9) months and St-Hubert for a period of about three (3) months.

The overall increase in rental income is explained by a decrease of \$23,298 attributable to sites operated during nine (9) months, both in 2013 and 2012, an increase of \$75,355 for the property of St-Hubert, operated during nine (9) months in 2013 and three (3) months in 2012, and finally a contribution of \$150,085 from the properties acquired in 2013.

The main operating expenses were interest on mortgages [\$136,120] [2012: \$63,124], long-term debts [\$18,928] [2012: \$27,250], distributions on convertible preferred units [\$53,574] [2012: \$27,700], and bank loans [\$18,609] [2012: \$7,533], and in administrative expenses, professional fees of [\$97,780] [2012: \$79,661] and registration and listing fees [\$21,893] [2012: \$22,659].

For the period ended September 30, 2013, interests were paid on the same components detailed in the quarterly section, taking into account that two (2) mortgages were obtained in May 2013 and a long term loan also negotiated in May 2013.

For mortgages, interest rates obtained from financial institutions ranged between 4.78% to 5.24% in 2013 compared to 4.78% and 5.01% in 2012. For long term debts as well as for convertible preferred units, interest rates obtained from private entities ranged from 4.50% and 6.00% in 2013 compared to an average of 5.00% in 2012, including a loan of \$150,000 bearing interest at 10.00%

The net income of 2013 includes net gains of \$82,315 [2012: expenses of \$30,875] for the variation in fair market value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair market value at each reporting date. This gain is explained by a quoted market price of the unit of \$0.30 as at September 30, 2013 and \$0.31 as at December 31, 2012.

Details of cash flows obtained during the period are summarized in the following table:

Cash flows	<i>three months ended</i>		<i>nine months ended</i>	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
Operating activities	765,319	88,735	991,071	226,031
Investing activities	(975,534)	(35,207)	(6,429,453)	(2,264,692)
Financing activities	152,831	30,505	3,168,567	116,977
Increase (decrease) in cash and cash equivalents	(57,384)	84,033	(2,269,815)	(1,921,684)
Cash and cash equivalents – beginning of period	156,084	(19,997)	2,368,515	1,985,720
Cash and cash equivalents – end of period	98,700	64,036	98,700	64,036

For the quarter ended September 30, 2013, funds used in investing activities correspond to the amounts spent on the construction of the property at Les Coteaux and an additional cash disbursement on a construction project where the Trust could acquire an interest. Funds obtained from the financing activities are explained by the increase of the mortgage of Les Coteaux [\$322,923], the exercise of 225,000 options for a net proceed of \$56,250. They were reduced by the monthly payments made on mortgages, the reduction of bank loan and the distribution of \$111,210 made to unitholders. Finally funds used in operating activities are mostly attributable to the increase in accounts payable to suppliers working on Les Coteaux property.

Capital structure and liquidity

The real estate business requires a large number of capital. The Trust's capital structure is key to financing growth. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that Fronsac REIT blend of debt and equity in its capital base provides stability and reduces risks, while generating an acceptable return on investment, taking into account the long-term business strategy of the Trust.

The Trust's debts are composed of five (5) mortgages with financial institutions for a total of \$5,986,994 maturing in 2014, 2017, 2019 and 2023, one (1) balance of sale of \$333,000 maturing in 2014, a loan of \$99,226 and three (3) convertible debts with a face value of \$1,321,230 and shown on the statement of financial position at \$1,163,060. For the mortgages with the financial institutions, the Trust currently makes monthly payments around \$35,500. For the balance of sale debt, reimbursement of the principal is scheduled at maturity date. Finally the long term loan is repayable with monthly instalments of \$2,129 that terminate in May 2018.

Trust units

The Trust is authorized to issue an unlimited number of trust units. During the quarter ended September 30, 2013, the Trust has issued 225,000 units following the exercise of options. As at September 30, 2013, the total number of units issued and outstanding was 32,951,083 units. During this same quarter, the Trust has not granted any option or warrant. As at September 30, 2013, there were 170,000 options and 200,000 warrants outstanding.

Subsequent Events to September 30, 2013

None.

Contractual Obligations

Fronsac REIT has negotiated an agreement with a company related to a trustee for the management of the Trust. Under the terms of the agreement, the Trust is paying \$5,000 per month. The agreement ends on August 31, 2014.

Off-Balance Sheet Arrangements

The Trust made no off-balance sheet arrangements during the quarter ended on September 30, 2013.

Related Party Transactions

During the quarter ended September 30, 2013, the Trust paid \$13,000 (2012: \$12,000) in professional fees to entities controlled by trustees. The Trust also paid \$712 (2012: \$1,031) for lawyer services to a person related to a trustee.

Property rental revenue includes \$70,403 (2012: \$73,744) obtained from companies controlled by trustees and individuals related to trustees for which \$1,139 is included in the receivables of September 30, 2013 (2012: \$5,000).

These transactions are made in the normal course of operations of the Trust and are measured at the exchange amount which is the value established and accepted by the parties. The Trust relies primarily on contractual works for the administration of its operations, because they are greatly simplified by the terms of leasing agreements. This type of administration is also very economical.

Critical Accounting Estimates

The Trust exercised critical accounting estimates in the determination of the fair value of the investment properties, the interest rate swaps, the fair value of its derivative financial instruments, the unit-based compensation and warrants liability and the computation of deferred tax assets and liabilities.

Additional information

Additional information relating to the Trust can also be found on SEDAR at www.sedar.com.