FRONSAC REAL ESTATE INVESTMENT TRUST

MANAGEMENT DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE QUARTER ENDED SEPTEMBER 30, 2015

SUMMARY OF SELECTED QUARTERLY INFORMATION

Periods ended September 30, 2015	9 months 2015	2014	Δ	%
Financial info				
Property rental income	1,583,469	1,098,998	484,471	44%
Total revenue	1,673,469	1,098,998	574,471	52%
NOI [1]	1,478,696	1,049,979	428,717	41%
FFO [1]	857,537	588,421	269,116	46%
AFFO [1]	848,612	488,184	360,428	74%
EBITDA [1]	1,268,682	927,073	341,609	37%
Investment properties [2]	31,823,651	20,789,863	11,033,788	53%
Total assets	32,143,057	21,217,321	10,925,736	51%
Total mortgage/loans/long term debt [3]	15,974,631	9,759,724	6,214,907	64%
Total exchangeable preferred units	897,956	874,802	23,154	3%
Total debentures	251,246	-	251,246	100%
Total equity	14,275,894	10,254,619	4,021,275	39%
Weighted average units o/s - basic	46,260,619	34,761,565	11,499,054	33%
Amounts on a per unit basis				
FFO/unit	0.0185	0.0169	0.0016	10%
AFFO/unit	0.0183	0.0140	0.0043	31%
Distributions	0.0115	0.0111	0.0004	3%
Financial ratios				
Weighted avg. interest rate - fixed loans/mortgages	3.9%	4.8%	(1%)	
Debt to gross assets - including converts	53%	50%	3%	
Debt to gross assets - excluding converts [3]	50%	46%	4%	
Interest coverage ratio	3.1	2.7	0.4	
Debt service coverage ratio	2.0	2.1	(0.1)	
Distributions as a % of FFO	62%	66%	(4%)	
Distributions as a % of AFFO	62%	79%	(17%)	
Leasing information				
Occupancy	100%	100%	0%	
Mix of tenancy based on gross revenue				
National	78%	71%	7%	
Regional	21%	29%	(8%)	
Local	1%	0%	1%	
Property type breakdown				
Gas/Convenience store	8	5	3	
Gas/Convenience store/Fast food	4	4	-	
Fast food	5	1	4	
	17	10	7	
Other				
Average term to maturity - mortgages	4.80	5.60	(0.80)	
Average term to maturity - leases	7.28	9.22	(1.94)	
IFRS capitalization rate	6.63%	6.71%	(0.08%)	

[1] Non-IFRS financial measures

[2] Includes value of investment properties owned through joint ventures (530 Barkoff)

[3] Excludes exchangeable debentures and exchangeable preferred units

BREAKDOWN OF PROPERTIES AND OPERATING SECTORS


Mont-St-Hilaire (1)(2)(3)


Trois-Rivières (1)(2)(4)


Trois-Rivières (1)(2)


Val-David (1)(2)(3)(4)


Saint-Jean-sur-le-Richelieu (1)(2)(4)


Rivière du-Loup (1)(2)


Les Coteaux (1)(2)(3)(4)


Louiseville (1)(2)(3)


Louiseville (3)

Lévis (3)


Québec (1)(2)

Cornwall (3)


Ste-Julie (3)


Ste-Julie (3)


Ste-Julie (1)(2)


Ste-Julie (1)


St-Mathieu-de-Beloeil (1)(2)

(1) **Gas/Service Station**
(2) **Convenience Store**
(3) **Fast Food Restaurant**
(4) **Car Wash**

REAL ESTATE INVESTMENTS

	Locality	Ownership
1	Mont-St-Hilaire	100%
2	275 Barkoff	65%
3	530 Barkoff	50%
4	Val-David	100%
5	Saint-Jean-sur-Richelieu	100%
6	Rivière-du-Loup	100%
7	Les Coteaux	100%
8	Louiseville	50%
9	Louiseville (McDonalds)	50%
10	Levis	100%
11	Quebec City	100%
12	Cornwall	100%
13-16	Ste-Julie	100%
17	St-Mathieu-de-Beloeil	100%

MANAGEMENT'S DISCUSSION & ANALYSIS

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" or the "Trust") is intended to provide readers with an assessment of performance and summarize the results of operations and financial condition for the period 3 and 9 months ended September 30, 2015. It should be read in conjunction with the Non Audited Consolidated Financial Statements for the quarter ended September 30, 2015 and the Trust's Consolidated Financial Statements and MD&A for the quarter ended September 30, 2014. 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. You will find all copies of Fronsac's recent financial reports on Fronsac's website **fronsacreit.com** and on **sedar.com**.

Dated November 10, 2015, this MD&A reflects all significant information available as of that date and should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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 10, 2015.

DESCRIPTION OF THE ISSUER'S BUSINESS

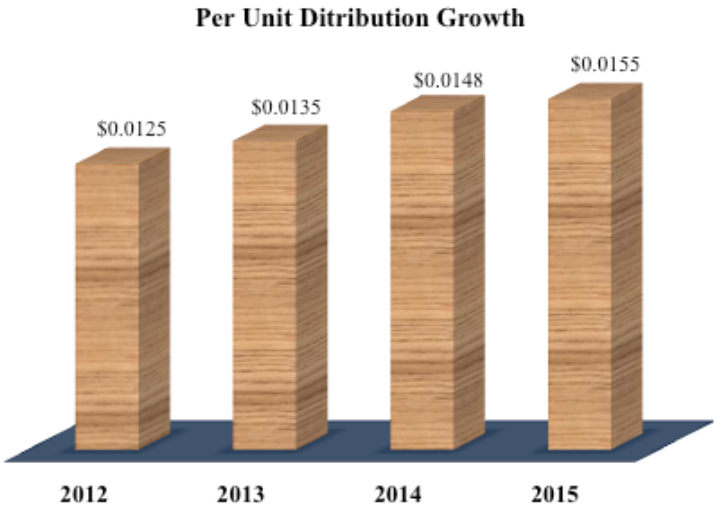
Fronsac is an active Trust operating in the commercial real estate market. The Trust is currently traded on the TSX Venture using the ticker symbol **GAZ.UN**. The Trust owns and rents commercial real estate properties directly and through its wholly owned subsidiaries. Since inception the Trust has made a series of acquisitions and has steadily increased its real estate portfolio.

As at September 30, 2015 the Trust held 17 investment properties, 16 residing in the province of Quebec and 1 in the province of Ontario. The occupancy rate for these properties remained at 100% throughout the quarter. The properties are occupied by 3 distinct groups of tenants composed of; (1) Fast food chains, (2) Major oil/gas companies and (3) Convenience store chains.

These fully occupied properties are leased to tenants on a management free basis, commonly referred to as "triple net." Under this type of arrangement the tenant is responsible for paying real estate taxes, insurance and any general maintenance required, in addition to the base rent already stipulated in the lease terms. These types of leases ensure stable recurring cash flows with opportunity for growth.

MAJOR EVENTS OF THE QUARTER

On July 2, 2015 the Trust acquired a parcel of land measuring approximately 67,000 square feet in the town of Saint-Hyacinthe, Quebec, for a total consideration of $717,940. Cash paid at closing for the land amounted to $191,940 and the balance of sale ($526,000) is payable on December 31, 2015. Interest will be accrued on the balance of sale at the prime interest rate of a Chartered Canadian Bank. Fronsac has since secured leases with Tim Hortons, Suncor (Petro Canada) and a Beau Soir convenience store. Construction commenced at the end of September and commercial operations are expected to commence in the spring of 2016.



OUTLOOK 2015 & SUBSEQUENT EVENTS

Fronsac is constantly looking for acquisitions of commercial real estate properties that are triple net and management free. These types of acquisitions limit the overhead required to run the business and in turn allow management to focus on adding value through strategic acquisitions that are accretive to the Trust's FFO/AFFO per unit. The Trust looks for properties that house gas/service stations, fast food restaurants and convenience stores.

Fronsac 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 future acquisitions, the Trust could issue additional units. Fronsac will seek to maintain a debt/equity ratio of 50/50.

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

The Trust believes in a long term growth strategy through acquiring properties that will increase

its funds from operations per unit, distributions per unit and as a result increase total unitholder value.

EXPLANATION OF NON-IFRS FINANCIAL MEASURES

This document contains various non-IFRS financial measures, which are used to explain the financial results of the Trust. The terms explained in this section do not have any standardized IFRS meaning and as such may not be comparable to other issuers.

Funds From Operations (FFO) is not an IFRS financial measure. FFO is an industry term and its calculation is prescribed in publications of the Real Property Association of Canada (REALpac). FFO as calculated by Fronsac may not be comparable to similar titled measures reported by other entities. FFO is an industry standard widely used for measuring operating performance and is exclusive of unrealized changes in the fair value of investment properties, deferred income taxes and gains or losses on property dispositions (see reconciliation to profit for the period attributable to unitholders on page 6). Fronsac considers FFO a meaningful additional measure as it adjusts for certain non-cash items that do not necessarily provide an appropriate picture of a Trust's recurring performance. It more reliably shows the impact on operations of trends in occupancy levels, rental rates, net property operating income and interest costs compared to profit determined in accordance with IFRS. As well, FFO allows some comparability amongst different real estate entities that have adopted different accounting with respect to investment properties (some entities use the cost model and whereas others use the fair value model to account for investment properties).

FFO per unit is not an IFRS financial measure. Fronsac calculates FFO per unit as FFO divided by the weighted average number of units outstanding.

Adjusted Funds From Operations (AFFO) is an industry term used to help evaluate dividend or distribution capacity. AFFO as calculated by Fronsac may not be comparable to similar titled measures reported by other entities. AFFO primarily adjusts FFO for other non-cash revenues and expenses and operating capital and leasing requirements that must be made merely to preserve the existing rental stream. Most of these expenditures would normally be considered investing activities in the statement of cash flows. Capital expenditures, which generate a new investment or revenue stream, such as the development of a new property, would not be included in determining AFFO. AFFO excludes the impact of working capital changes as they are viewed as short-term cash requirements or surpluses and are deemed financing activities. In addition, non-recurring costs that impact operating cash flow may be adjusted.

AFFO per unit is not an IFRS financial measure. Fronsac calculates AFFO per unit as AFFO divided by the weighted average number of units outstanding.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is not an IFRS financial measure. EBITDA, as calculated by Fronsac, may not be comparable to similarly titled measures reported by other entities. EBITDA is used in calculations that measure the Trust's ability to service debt. Its calculation is profit before financial expenses, income tax expense, amortization and unrealized changes in fair value of investment properties.

FFO, AFFO and EBITDA are not defined by IFRS, and therefore should not be considered as alternatives to profit or net income calculated in accordance with IFRS.

ADDITIONAL IFRS FINANCIAL MEASURES USED IN THIS DOCUMENT

Net Property Operating Income (NOI) is an industry term in widespread use. The Trust includes NOI as an additional IFRS measure in its consolidated statement of income and comprehensive income. NOI as calculated by Fronsac may not be comparable to similar titled measures reported by other entities. Fronsac considers NOI a meaningful additional measure of operating performance of property assets, prior to financing considerations. Its calculation is total revenues less total operating expenses as shown in the consolidated statements of income and comprehensive income (property revenues less total property operating costs, including operating ground rents).

FINANCIAL HIGHLIGHTS

RECONCILIATION OF NET INCOME TO FFO

	3 months		
Periods ended September 30, 2015	**2015**	**2014**	**Δ**
Net income (loss) attributable to unitholders	478,243	665,548	(187,305)
Δ in value of investment properties	(170,660)	47,718	(218,378)
Δ in value of investment properties in joint ventures	-	-	-
Unit based compensation	(18,699)	(1,761)	(16,938)
Δ in liability component of exchangeable preferred units	13,017	3,173	9,844
Δ in fair value of derivative financial instruments	(6,150)	(126,800)	120,650
Realized/unrealized gain on interest swaps	-	(680)	680
Δ in fair value of other financial components	(1,165)	(12,000)	10,835
Deferred income taxes	437	(399,260)	399,697
FFO[1] - basic	295,023	175,938	68%
FFO per unit - basic	0.0064	0.0050	28%
Distributions paid on exchangeable units (if dilutive)	9,982	17,721	(7,739)
FFO - diluted	305,005	193,659	57%
FFO per unit - diluted	0.0062	0.0050	24%
Distributions	179,718	132,915	46,803
Distributions per unit	0.0039	0.0037	5%
FFO - basic after distributions	0.0025	0.0013	0.0012
Distributions as a % of FFO - basic	61%	74%	(14%)
Weighted avg. units o/s			
Basic	46,323,316	35,403,181	10,920,135
Diluted	49,411,516	38,998,120	10,413,396

[1] FFO is a Non-IFRS financial measure

	9 months		
	2015	**2014**	**Δ**
Net income (loss) attributable to unitholders	1,216,415	(583,741)	1,800,156
Δ in value of investment properties	(368,735)	1,556,920	(1,925,655)
Δ in value of investment properties in joint ventures	-	58,300	(58,300)
Unit based compensation	(18,699)	(4,576)	(14,123)
Δ in liability component of exchangeable preferred units	30,922	36,433	(5,511)
Δ in fair value of derivative financial instruments	(3,070)	(109,300)	106,230
Realized/unrealized gain on interest swaps	-	(4,700)	4,700
Δ in fair value of other financial components	(60)	(10,500)	10,440
Deferred income taxes	764	(350,415)	351,179
FFO[1] - basic	857,537	588,421	46%
FFO per unit - basic	0.0185	0.0169	10%
Distributions paid on exchangeable units (if dilutive)	40,877	34,075	6,802
FFO - diluted	898,414	622,496	44%
FFO per unit - diluted	0.0182	0.0160	14%
Distributions	529,900	387,778	142,122
Distributions per unit	0.0115	0.0111	3%
FFO - basic after distributions	0.0071	0.0058	0.0013
Distributions as a % of FFO - basic	62%	66%	(4%)
Weighted avg. units o/s			
Basic	46,260,619	34,761,565	11,499,054
Diluted	49,348,819	38,903,655	10,445,164

[1] FFO is a Non-IFRS financial measure

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Periods ended September 30, 2015	3 months 2015	3 months 2014	Δ
Basic FFO [1]	295,023	175,938	119,085
Amortization of finance charges included in interest expense	-	-	-
Debenture issuance cost	-	-	-
NCI interest adjustment	-	-	
Non-cash revenue (straight line rent)	-	-	-
Maintenance/cap-ex on existing properties	-	4,474	(4,474)
Leasing costs on existing properties	-	-	-
Mortgage placement fees	-	-	-
AFFO[1] - basic	295,023	171,464	72%
AFFO per unit - basic	0.0064	0.0048	31%
Distributions paid on exchangeable units (if dilutive)	9,982	17,721	
AFFO - diluted	305,005	189,185	61%
AFFO per unit - diluted	0.0062	0.0049	27%
Distributions	0.0039	0.0037	5%
AFFO -basic after distributions	0.0025	0.0011	0.0014
Distributions as a % of AFFO - basic	61%	76%	(16%)
Weighted avg. units o/s			
Basic	46,323,316	35,403,181	10,920,135
Diluted	49,411,516	38,998,120	10,413,396

[1] FFO and AFFO are a Non-IFRS financial measures

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Periods ended September 30, 2015	9 months 2015	9 months 2014	Δ
Basic FFO [1]	857,537	588,421	269,116
Amortization of finance charges included in interest expense	-	-	-
Debenture issuance cost	-	-	-
NCI interest adjustment	-	-	
Non-cash revenue (straight line rent)	-	-	-
Maintenance/cap-ex on existing properties	8,925	100,237	(91,312)
Leasing costs on existing properties	-	-	-
Mortgage placement fees	-	-	-
AFFO[1] - basic	848,612	488,184	74%
AFFO per unit - basic	0.0183	0.0140	31%
Distributions paid on exchangeable units (if dilutive)	40,877	34,075	6,802
AFFO - diluted	889,489	522,259	70%
AFFO per unit - diluted	0.0180	0.0134	34%
Distributions	0.0115	0.0111	3%
AFFO -basic after distributions	0.0069	0.0029	0.0040
Distributions as a % of AFFO - basic	62%	79%	(17%)
Weighted avg. units o/s			
Basic	46,260,619	34,761,565	11,499,054
Diluted	49,348,819	38,903,655	10,445,164

[1] FFO and AFFO are a Non-IFRS financial measures

QUARTERLY FINANCIAL INFORMATION

	2015			2014				2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Rental income	596,269	539,430	447,770	400,520	349,327	372,517	377,154	319,467
Net income attributable to unitholders	478,243	589,897	148,275	(147,131)	665,548	(653,685)	(595,604)	959,081
Net income per unit								
Basic	0.0103	0.0128	0.0032	(0.0033)	0.0190	(0.0190)	(0.0170)	0.0289
FFO [1]								
Basic	295,023	335,985	226,856	105,347	175,938	195,170	217,315	119,269
FFO per unit								
Basic	0.0064	0.0073	0.0049	0.0023	0.0050	0.0057	0.0063	0.0036
Value of investment properties (000's) [2]	31,824	30,699	23,262	18,694	20,090	19,429	19,670	21,157
Total assets (000's)	32,143	31,220	24,939	22,829	21,217	20,507	21,243	22,132
Mortgages, and other debts (000's)	15,975	15,455	9,672	7,552	10,635	10,261	10,083	9,967
Equity (000's)	14,276	13,940	13,529	13,609	10,255	9,354	10,134	10,868
Weighted avg. units o/s								
Basic (000's)	46,323	46,229	46,229	45,221	35,403	34,441	34,430	33,139

[1] FFO is a Non-IFRS financial measure.

[2] Includes value of investment properties owned through joint ventures (530 Barkoff)

CASH FLOWS AND LIQUIDITY

For the period September 30, 2015, the Trust was able to increase rental income revenues and in turn increase cash derived from operating activities to $933K ($601K in 2014). These funds are the primary source to fund mortgage/loan and other debt payments, with the residual used to fund distributions to unit holders.

CASH FLOWS

Periods ended September 30, 2015	9 months 2015	2014	Δ
Operating activities	933,341	601,016	332,325
Investing activities	(12,534,805)	(1,417,537)	(11,117,268)
Financing activities	11,645,086	621,785	11,023,301
Decrease in cash & cash equivalents	43,622	(194,736)	238,358
Cash & cash equivalents -Beginning of period	40,977	268,964	(227,987)
Cash & cash equivalents - End of period	84,599	74,228	10,371

Funds from investing activities can be attributed to acquisitions during the first 3 quarters. During Q1 & Q2 2015 the Trust completed the purchase of 8 investment properties situated Quebec and Ontario. Total consideration paid for these properties amounts to $11.7M. In addition the Trust began the development of a commercial property in St-Hyacinthe during Q3 2015. Costs incurred to date related to the acquisition of land, soft costs and construction costs.

Cash derived from financing activities amounted to $11,645K ($621K in 2014). New mortgages for the first three quarters of 2015 amounted to $7.5M compared to $1.1M in 2014.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED SEPTEMBER 30, 2015

For the quarter ended September 30, 2015, the Trust had rental income of $596K ($349K in Q3 2014). These rents are composed of fixed monthly rents as well as variable rents based on gross sales for certain tenants. New revenues for this quarter, in comparison to Q3 2014, were from properties acquired in the first 3 quarters of 2015 which include: Quebec, Levis, Cornwall and the Soginci properties as well as Louiseville #2 (McDonalds) acquired at the end of Q3 2014.

RESULTS OF OPERATIONS - QUARTER ENDED

Periods ended September 30, 2015	2015	2014	Δ
Rental Income	596,269	349,327	246,942
Increase/(decrease) in fair values values of investment properties	170,660	(47,718)	218,378
Financial expenses	163,885	(13,078)	176,963
Net income (loss) attributable to unitholders	478,243	665,548	(187,305)
Net income (loss) per unit Basic	0.0103	0.0188	(0.0085)
FFO - basic[1]	295,023	175,938	68%
FFO per unit	0.0064	0.0050	28%
Weighted avg. units o/s Basic	46,323,316	35,403,181	10,920,135
EBITDA [1]	453,206	310,700	142,506
Interest coverage	2.9	2.5	0.4
Debt service coverage	1.8	1.7	0.1

[1] Refer to "Non-IFRS financial measures" & "Additional IFRS financial measures"

The increases in FFO on a nominal and per unit basis are a result of the additional properties acquired during the first 9 months of 2015 as well as the acquisition of the McDonalds in Louiseville in Q3 2014.

PER UNIT GROWTH

	2012	2013	2014
FFO	0.0130	0.0177	0.0186
Distributions	0.0125	0.0135	0.0148
Property Rental Income	0.0317	0.0315	0.0401
NOI	0.0317	0.0339	0.0378

Gains include minor fluctuations as a result of the variation in the fair value of investment

properties, which is the result of stability among the capitalization rates of the Trust's portfolio for the quarter ended September 30, 2015 (see page 12 for details). These variations affect the value of the assets in question, recorded as "Investment properties" on the Statement of Financial Position. Changes in the fair value of the investment properties largely affect the net income of the Trust, as the total asset base is very susceptible to the capitalization rates applied on the rental incomes derived from these properties.

The Trust's main operating expenses were financial in nature and were almost entirely made up of interest on mortgages and bank loans, which were $149K ($107K in Q3 2014).

RESULTS OF OPERATIONS FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2015

For the period ended September 30, 2015, the Trust had rental income of $1,583K ($1,099K in 2014). These rents are composed of fixed monthly rents as well as variable rents based on gross sales for certain tenants. New revenues for the period, in comparison to 2014, were from properties acquired, which include: Quebec, Levis, Cornwall and the Soginci properties, as well as Louiseville #2 (McDonalds) acquired at the end of Q3 2014.

RESULTS OF OPERATIONS - PERIOD ENDED

	9 months		
Periods ended September 30, 2015	**2015**	**2014**	**Δ**
Rental income	1,583,469	1,098,998	484,471
Increase/(decrease) in fair values values of investment properties	368,735	(1,556,920)	1,925,655
Financial expenses	438,937	257,502	181,435
Net income (loss) attributable to unitholders	1,216,415	(583,741)	1,800,156
Net income (loss) per unit Basic	0.0263	(0.0168)	0.0431
FFO - basic[1]	857,537	588,421	46%
FFO per unit	0.0185	0.0169	10%
Weighted avg. units o/s Basic	46,260,619	34,761,565	11,499,054
EBITDA [1]	1,268,682	927,073	341,609
Interest coverage	3.1	2.7	0.4
Debt service coverage	2.0	2.1	(0.1)

[1] Refer to "Non-IFRS financial measures" & "Additional IFRS financial measures"

Gains include minor fluctuations as a result of the variation in the fair value of investment properties, which is the result of stability among the Trust's portfolio for the period ended September 30, 2015 (see page 12 for details). These gains affect the value of the assets in question, recorded as "Investment properties" on the Statement of Financial Position. Changes in the fair value of the investment properties largely affect the net income of the Trust, as the total asset base is very susceptible to the capitalization rates applied on the rental incomes derived from these properties.

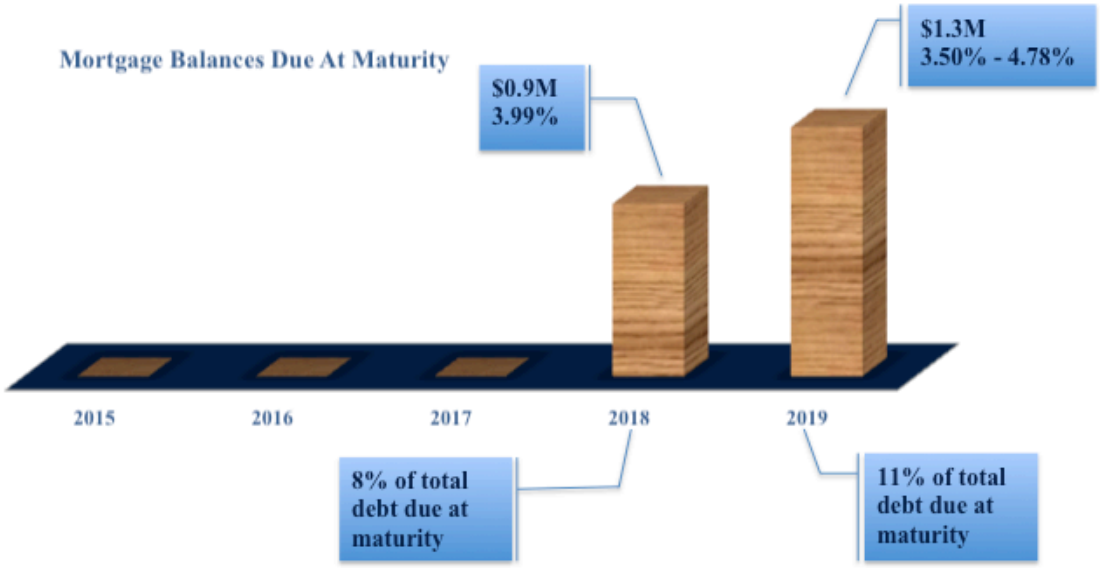
The Trust's main operating expenses were financial in nature and were almost entirely made up of interest on mortgages and bank loans, which were $374K ($316K in Q3 2014).

CAPITAL STRUCTURE

The real estate business requires capital in order to continue to fund acquisitions, which is a key part to growth and success. The Trust is authorized to issue an unlimited number of trust units. During Q3 2015 no units of the Trust were issued. During the quarter 150,000 unit options have been exercised while the remaining 20,000 expired. As at September 30, 2015 there were no

remaining unit options outstanding. The total amount of units outstanding at September 30, 2015 was 46,378,751.

Debts are composed of mortgages, loans, debentures and a secured credit facility. As at September 30, 2015 there are 10 mortgages with Canadian financial institutions with a total carrying value of $13,937,462 ($6,645,988 in Q4 2014). These mortgages require the Trust to make payments of $4M over the next 5 years and $9.9M thereafter. The mortgages outstanding currently have an average term to maturity of 4.8 years (5.26 years in Q4 2014). Debentures in circulation as at September 30, 2015 have a carrying value of $251K ($247K in Q4 2014). The Trust currently has 2 secured lines of credit with authorized limits of $2M and $0.5M. These lines of credit have a $1.45M balance as at September 30, 2015 ($830K in Q4 2014).



Management believes that Fronsac's blend of debt and equity in its capital base provides stability and reduces risk, while generating an acceptable return on investment. This compliments the long-term business strategy of the Trust, which is to grow its presence in the commercial real estate market in Canada.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Trust's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The significant estimates and judgments include the assessment of fair values, the discount rates used in the valuation of the Trust's assets and liabilities, capitalization rates, the relative credit worthiness of the Trust to its counterparties, the ability to use tax losses and other tax measurements, the determination of the accounting basis for investments and joint arrangements, the amount of borrowing costs to capitalize the properties under development and the selection of accounting policies.

One significant judgment and key estimate that affects the reported amounts of assets at the date of the consolidated financial statements and the reported amounts of profit or loss during the

period, relates to property valuations. Investment properties, which are carried on the consolidated statements of financial position at fair value, are valued either by the Trust or by external valuators. The valuation of investment properties is one of the principal estimates and uncertainties of these financial statements. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. These investment properties are sensitive to fluctuations in capitalization and discount rates. Please consult Note 5 of the consolidated financial statements for more information regarding estimates used to derive this fair value.

FUTURE ACCOUNTING POLICY CHANGES

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing the Consolidated Financial Statements. Please see Note 4 to the Consolidated Financial Statements for further details about future accounting policy changes.

COMMITEMENTS

Fronsac 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 $7,000 per month ending on August 31, 2016.

RISKS AND UNCERTAINTIES

All property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand for space particularly affect property investments. At September 30, 2015 the Trust held interests in 17 properties in Quebec and Ontario as well as 1 parcel of land under development, across 3 market segments. The Trust is exposed to credit risk, interest rate risk and liquidity risk. In order to limit the effects of changes in interest rates on its expenses and cash flows, the Trust constantly follows the evolution of the market interest rate risk and consequently determines the composition of its debts.

Credit Risk comes primarily from the potential inability of customers to discharge their rental obligations. Fronsac strives to obtain rent payments on a monthly basis in order to limit this risk while maintaining a limited receivable balances ($83K as at September 30, 2015 compared to $97K in Q4 2014). The composition of this balance mostly includes major Canadian oil companies and gas companies with a small credit risk. The remainder of receivables represents amounts owing from Chartered Financial Banks and Government agencies, which pose a minimum credit risk.

Interest Rate Risk affects the Trust through mortgages, loans and exchangeable preferred units. These instruments bear fixed interest rates and as such expose the Trust to fair value risk. Lines of credit with a floating interest rate expose the Trust to a cash flow risk. If market conditions warrant, the Trust may attempt to renegotiate its existing debt to take advantage of lower interest rates. The trust has an ongoing requirement to access debt makers and there is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The Trust has no maturing debt obligations until October of 2018.

Liquidity risk is the risk of being unable to honour financial commitments by the deadlines set out under the terms of such commitments. Senior management manages the Trust's cash resources with respect to financial forecasts and anticipated cash flows.

RELATED PARTY TRANSACTIONS

During the quarter ended September 30, 2015, the Trust paid $19,000 ($16,000 in Q3 2014) in professional fees to entities controlled by trustees. The Trust also paid $1,460 ($11,126 in Q3 2014) for legal services to a person related to a trustee, for which $0 is payable as at September 30, 2015 ($0 in Q4 2014).

The Trust has signed an agreement, with a company, controlled by the wife of a trustee, to rent a portion of its property located in Saint-Hilaire for $110,000 annually and for a period of 5 years ending January 15, 2019. The rent is adjusted annually with the consumer price index; a minimum adjustment of 2% and a maximum of 5% is part of the rent agreement. The terms of the agreement also include a variable rent of $0.0075 calculated on the numbers of liters of fuel sold annually in excess of 3,500,000 liters. The tenant can exercise two (2) renewal options of five (5) years each. The first renewal option has been exercised on January 15, 2014.

The Trust has also signed an agreement, with a company controlled by 2 trustees, to rent a portion of its property located in Saint-Jean-sur-le-Richelieu for $177,000 annually and for a period of 10 years, ending June 30, 2019. The rent is adjusted annually with the consumer price index; a minimum adjustment of 2% and a maximum of 5% is part of the rent agreement. The terms of the agreement also include a variable rent of 10% calculated on the annual sales of the car-wash. The variable rent cannot exceed $5,000. The tenant can exercise three (3) renewal options of five (5) years each.

Property rental revenue includes $72,656 ($70,650 in Q3 2014) obtained from companies controlled by individuals related to trustees for which no amount is included in the accounts receivable as at September 30, 2015 ($9,033 in Q4 2014).

The Trust loaned money to a person related to a trustee for which an amount of $34,333 ($36,572 in Q4 2014) is included in the receivable balance. Interest received on that loan during the quarter amounts to $760 ($826 in Q3 2014).