

**FRONSAC REAL ESTATE INVESTMENT TRUST  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FORM 51-102F1  
FOR THE YEAR ENDED DECEMBER 31, 2013**

## MANAGEMENT'S DISCUSSION & ANALYSIS

April 4<sup>th</sup> , 2014

### 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 year ended December 31, 2013 and the period of 3 months ended at this same date. It should be read in conjunction with the Audited Consolidated Financial Statements of December 31, 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 April 4<sup>th</sup> , 2014.

### 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.

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The category of tenants are:

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

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

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## **Outlook 2014**

Fronsac REIT is constantly looking for acquisitions of real estate properties 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 future 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.

## **Major events of the fiscal year**

On March 20, 2013, the Trust, through Société en commandite Fronsac Barkoff ("SEC Barkoff"), acquired a 65% interest in an investment property located in Trois-Rivières for a total consideration of \$1,587,950. The total consideration was settled with a cash payment of \$1,074,920 and by the issuance of 1,603,200 preferred units of SEC Barkoff with an exchange value of \$513,030. Other related acquisition costs of \$70,275 were also incurred. The parties have determined February 1, 2013 as the effective date of the transaction.

On March 20, 2013, the Trust and Société en commandite Fronsac CDM ("SEC CDM"), a company controlled at 100% by FPI, have acquired a 50% interest in Société en commandite CDM-1 ("CDM-1") for a total consideration of \$660,000. CDM-1 owns an investment property located in Trois-Rivières. The total consideration was settled with a cash payment of \$184,800 and by the issuance of 1,485,000 preferred units of SEC CDM with an exchange value of \$475,200. The parties have determined February 1, 2013 as the effective date of the transaction.

On April 22, 2013, the Trust has made the acquisition of a real estate property located in Val David for a consideration of \$2,565,500. The purchase price was settled with a cash payment of \$965,500 and a mortgage of \$1,600,000 with an interest rate of 5.24% and maturing in April 2023. Other related acquisition costs of \$25,284 were also incurred.

In September 2013, the Trust completed the construction of its investment property located at Les Coteaux. Overall costs amount to \$3,981,524. A mortgage of \$2,500,000 and disbursements of \$1,481,524 through the use of cash and bank loan were spent for the construction. The mortgage bears interest at 5.09% and matures in September 2023.

On November 28, 2013, the Trust has acquired a 50% interest in an investment property located at Louiseville for a total consideration of \$1,448,276. The total consideration was settled with a cash payment of \$398,276 and by the transfer of a mortgage with a value of \$1,050,000 bearing interest at 3.99% and maturing in October 2018. Other related acquisition costs of \$1,773 were also incurred on this transaction.

On December 20, 2013, the Trust issued 1,439,881 units at a price of \$0.33 per unit as part of a private placement for a gross proceed of \$475,161.

On June 30, 2013, the Trust distributed to unitholders an amount of \$0.00675 per unit for a total distribution of \$220,902. On September 30, 2013, the Trust distributed to unitholders an amount of \$0.003375 per unit for a total distribution of \$111,210. On December 31, 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>twelve months ended</i>	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	\$	\$	\$	\$
Reconciliation of income to funds from operations				
Net income (loss) attributable to unitholders	959,081	929,738	1,250,170	1,062,419
Variation in value of investment properties	(769,240)	(999,361)	(575,903)	(999,361)
Variation in value of investment properties obtained from joint-ventures	(58,309)	-	(97,896)	-
Unit-based compensation	(200)	(3,200)	(22,950)	4,606
Variation of liability component of the convertible preferred units	8,309	567	17,344	2,036
Variation of fair value of derivative financial instruments	(17,875)	(6,500)	(69,180)	19,500
Unrealized (gain) on interest swaps	(2,000)	(2,400)	(7,900)	(13,400)
Variation in fair value of other financial components	(340)	(4,475)	(2,700)	3,594
Amortization intangible assets	1,853	1,851	7,406	7,404
Current income taxes	7,776	4,668	7,776	4,668
Deferred income taxes	(9,786)	112,190	75,810	181,990
<b>FFO – basic</b>	<b>119,269</b>	<b>33,078</b>	<b>581,977</b>	<b>273,456</b>
<b>FFO per unit – basic</b>	<b>0.0036</b>	<b>0.0015</b>	<b>0.0177</b>	<b>0.0130</b>
Distributions paid on convertible preferred units	15,350	0	59,888	0
<b>FFO – diluted</b>	<b>134,619</b>	<b>33,078</b>	<b>641,865</b>	<b>273,456</b>
<b>FFO per unit – diluted</b>	<b>0.0035</b>	<b>0.0015</b>	<b>0.0173</b>	<b>0.0130</b>
<b>Weighted average units outstanding – basic</b>	<b>33,138,894</b>	<b>22,405,529</b>	<b>32,817,956</b>	<b>20,985,587</b>
<b>Weighted average units outstanding – diluted</b>	<b>37,929,094</b>	<b>22,405,529</b>	<b>37,093,456</b>	<b>20,985,587</b>

## Highlights (continued):

### Financial Position

<b>Financial Position</b>	<b>December 31, 2013 \$</b>	<b>December 31, 2012 \$</b>
Investment Properties	20,398,786	11,521,954
Investment in joint ventures	761,729	-
Total Assets	22,131,533	14,333,024
Total debts, mortgages and loans	9,967,130	4,119,972
Total Liabilities	11,263,993	4,832,944
Equity	10,867,540	9,500,080
Debts / Assets Ratio	45.0%	28.7%

<b>Investment properties</b>	<b>December 31, 2013</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Number of investment properties owned directly or through joint operations	8	5	3
Value of investments properties (\$)	20,398,786	11,521,954	7,111,919

## QUARTERLY FINANCIAL INFORMATION

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rental income	313,366	233,068	253,972	206,508	174,464	183,269	162,259	145,878
Net income attributable to Unitholders	959,081	(307,741)	414,122	184,709	929,738	47,378	(9,210)	94,514
Net income per unit								
Basic	0.029	(0.009)	0.013	0.006	0.041	0.002	0.000	0.005
Diluted	0.025	(0.011)	0.013	0.006	0.038	0.002	0.000	0.005
Weighted average number of units – diluted (000)	37,929	37,655	32,645	35,031	24,443	20,514	20,514	20,514
Funds from operations (FFO)	119,269	228,518	105,245	128,946	33,078	83,163	80,607	76,986
FFO per unit								
Basic	0.004	0.007	0.003	0.004	0.002	0.004	0.004	0.004
Diluted	0.004	0.006	0.003	0.004	0.002	0.004	0.004	0.004
Cash obtained from operating activities	(40,979)	158,956	(390,512)	615,265	73,862	88,735	61,596	75,700
Value of investment properties (000)	20,399	17,950	17,736	13,744	11,522	9,119	9,091	7,112
Total assets (000)	22,132	19,715	19,416	15,602	14,333	9,633	9,530	7,611
Mortgages and other debts (000)	9,967	8,382	8,166	4,476	4,120	4,142	3,983	2,188
Equity (000)	10,868	9,537	9,906	9,674	9,500	4,863	4,943	4,903

## 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. It also owns through partnerships three (3) commercial properties, two (2) located in Trois-Rivières and one (1) in Louiseville. In one partnership, the Trust has a 50% interest; in a second partnership, it has a 65% interest. In the third partnership it has a 50% interest. 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>twelve months ended</i>	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	\$	\$	\$	\$
Rental income	313,366	174,464	1,006,914	665,870
Variation of fair value of investment properties	769,240	999,631	575,903	999,631
Interest on mortgages	80,592	30,965	216,712	94,090
Interest on long-term debt	895	6,266	19,823	44,734
Interest on bank loans	10,625	5,651	29,234	13,184
Interest on convertible units	23,658	5,535	77,232	22,016
Net income attributable to unitholders	959,081	929,738	1,250,170	1,062,419
Net income per unit – basic	0.0289	0.0415	0.0381	0.0506
Net income per unit – diluted	0.0248	0.0375	0.0332	0.0483
Weighted average units outstanding – basic	33,138,894	22,405,529	32,817,956	20,985,587
Weighted average units outstanding – diluted	37,929,094	24,442,529	37,093,456	23,022,587
<b>EBITDA</b>	<b>241,594</b>	<b>89,871</b>	<b>926,380</b>	<b>456,330</b>
<b>Interest coverage</b>	<b>2.2</b>	<b>1.5</b>	<b>2.8</b>	<b>2.7</b>
<b>Debt coverage</b>	<b>1.7</b>	<b>1.1</b>	<b>2.1</b>	<b>1.9</b>

## Results of operations for the financial year ended December 31, 2013

For the year ended December 31, 2013, the net income attributable to unitholders amounted to \$1,250,170 or \$0.0381 per unit compared to a net income of \$1,062,419 or \$0.0506 per unit for the 2012 year. The net income includes gains of \$575,903 [2012: 999,361] and \$97,896 [2012: nil] related to the increase in value of the investment properties. The gains were respectively recorded in the accounts of "Investment properties" and "Investment in joint-ventures". The gains are mainly explained by the variation of the global capitalization rate incurred on the 2013 acquisitions.

For the year 2013, the Trust had rental revenues of \$1,006,914 [2012: \$665,870] composed of fixed monthly rents and royalties based on tenants' sales. During the 2013 year, Fronsac REIT had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup and St-Hubert in operations for twelve (12) months; the two (2) Trois-Rivières properties for eleven (11) months, Val-David for eight (8) months, Les Coteaux, three (3) months and finally Louiseville for one (1) month. For the 2012 year, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup in operations for twelve (12) months and St-Hubert for a period of about six (6) months.

The overall increase in rental income is explained by a decrease of \$23,311 attributable to sites operated during twelve (12) months, both in 2013 and 2012, an increase of \$73,068 for the property of St-Hubert, operated during twelve (12) months in 2013 and six (6) months in 2012, and finally a contribution of \$291,287 from the properties acquired in 2013. The decrease of \$23,311 is mostly 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 [\$216,712] [2012: \$94,090], long-term debts [\$19,823] [2012: \$44,734], distributions on convertible preferred units [\$77,232] [2012: \$22,016], and bank loans [\$29,234] [2012: \$13,184], and in administrative expenses, professional fees of [\$162,829] [2012: \$149,054] and registration and listing fees [\$27,546] [2012: \$30,432].

For the year ended December 31, 2013, interest on mortgages were paid on six (6) mortgages with a value of \$7,517,966, two (2) long term debts of \$427,795, convertible preferred units of \$1,171,369 and a bank loan of \$850,000. For the year ended December 31, 2012, the interest was paid on three (3) mortgages totalling of \$2,480,977, two (2) long term debts of \$1,309,220 and convertible preferred units with a value of \$329,775.

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 8.00% in 2013 compared to an average of 5.00% in 2012.

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 \$52,000 [2012: \$45,000] 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 income of 2013 includes net gains of \$102,730 [2012: expenses of \$14,300] 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 December 31, 2013 and \$0.31 as at December 31, 2012, the decrease of the interest rate swaps and the convertible preferred units lives and the expiration of options.

## Results of operations for the quarter ended December 31, 2013

For the quarter ended December 31, 2013, the net income attributable to unitholders, was \$959,081 or \$0.0289 per unit compared to net income of \$929,738 or \$0.0415 per unit for the comparative quarter of 2012. The net income includes gains of \$769,240 [2012: \$999,631] and \$58,309 [2012: nil] related to the variation of value of the investment properties. The gains were respectively recorded in the accounts "Investment properties" and "Investment in joint-ventures". These gains are explained by a decrease of 25 basis points in the global capitalization rate.

For the quarter, the Trust had rental revenues of \$313,366 [2012: \$174,464] 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, Les Coteaux and the two (2) Trois-Rivières properties in operations for three (3) months. It has also benefited, for a period of one (1) month, the revenues from the Louiseville 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 \$2,300 attributable to sites operated during three (3) months, both in 2013 and 2012, and a contribution of \$141,202 from the acquisitions of 2013.

The main operating expenses were interest on mortgages [\$80,592] [2012: \$30,965], long-term debts [\$895] [2012: \$6,266], distributions on convertible preferred units [\$23,659] [2012: \$5,535], and bank loans [\$10,625] [2012: \$5,651], and in administrative expenses, professional fees of [\$65,042] [2012: \$69,393] and registration and listing fees [\$5,652] [2012: \$7,773].

For the quarter ended December 31, 2013, interests were paid on the same components detailed in the financial year section, taking into account that two (2) mortgages were obtained in May 2013 and a long term loan also negotiated in May 2013.

The net income of 2013 includes net gains of \$20,415 [2012: \$16,575] 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. These gains are explained by the decrease of the interest rate swaps and the convertible preferred units lives.

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

Cash flows	<i>three months ended</i>		<i>twelve months ended</i>	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	\$	\$	\$	\$
Operating activities	(40,979)	73,862	252,926	299,893
Investing activities	(670,423)	(369,862)	(6,402,710)	(2,634,554)
Financing activities	881,666	2,600,479	4,050,233	2,717,456
Increase (decrease) in cash and cash equivalents	170,264	2,304,479	(2,099,551)	382,795
Cash and cash equivalents – beginning of year	98,700	64,036	2,368,515	1,985,720
Cash and cash equivalents – end of year	268,964	2,368,515	268,964	2,368,515

For the year ended December 31, 2013, funds used in the investing activities correspond to the amounts spent on the construction of the property at Les Coteaux and cash disbursements on the acquisitions of the properties in Trois-Rivières, Val-David and Louiseville. Funds obtained from the financing activities are explained by the mortgages totalling \$4,100,000 for the construction at Les Coteaux and the acquisition of the Val-David property, the increase in bank loan for \$850,000, the issuance of units and exercise of options for net proceeds of \$537,991. The funds were reduced by the monthly payments made on mortgages and the distribution made to unitholders. Finally funds obtained from the operating activities are mostly explained by the additional revenues on the 2013 acquisitions.

### **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 six (6) mortgages with financial institutions for a total of \$7,517,966 maturing in 2014, 2017, 2018, 2019 and 2023, one (1) balance of sale of \$333,000 maturing in 2014, a loan of \$94,795 and three (3) convertible debts with a face value of \$1,321,230 and shown on the statement of financial position at \$1,171,369. For the mortgages with the financial institutions, the Trust currently makes monthly payments around \$46,500. 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 year ended December 31, 2013, the Trust has issued 1,439,881 units following a private placement and 335,000 units following the exercise of options. As at December 31, 2013, the total number of units issued and outstanding was 34,390,964 units. During this same financial year, the Trust has not granted any option or warrant. As at December 31, 2013, there were 170,000 options and 200,000 warrants outstanding.

### **Subsequent Events to December 31, 2013**

On March 31, 2014, the Trust paid a distribution of \$0.0037 per unit for a total disbursement of \$127,247.

### **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 its financial year ended on December 31, 2013.

### **Related Party Transactions**

During the financial year ended December 31, 2013, the Trust paid \$52,000 (2012: \$45,000) as professional fees to an entity controlled by a trustee. It also paid \$5,000 (2012: \$0) as professional fees to a trustee. The Trust also paid \$35,330 (2012: \$37,344) for lawyer services to a person related to a trustee for which an account payable of \$6,271 is outstanding as at December 31, 2013 (2012: \$0).

Property rental revenue includes \$282,219 (2012: \$277,483) obtained from companies controlled by trustees and individuals related to trustees for which no amount is receivable as at December 31, 2013 (2012: \$0).

The Trust loaned \$40,241 to a person related to a trustee for which an amount of \$39,333 is receivable as at December 31, 2013 (2012: \$0). The Trust obtained interest revenue of \$2,659 during the year (2012: \$0).

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](http://www.sedar.com).