FRONSAC REAL ESTATE INVESTMENT TRUST

MANAGEMENT DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE QUARTER ENDED MARCH 31, 2017

SUMMARY OF SELECTED ANNUAL INFORMATION

Periods ended March 31	3 months 2017	2016	Δ	%
Financial info				
Property rental income	969,635	601,740	367,895	61%
Total revenue	969,635	751,740	217,895	29%
NOI [1]	781,131	662,469	118,662	18%
FFO [1][4]	509,113	418,236	90,877	22%
Recurring FFO [1][4]	509,113	268,236	240,877	90%
AFFO [1]	500,268	384,397	115,871	30%
EBITDA [1]	690,074	591,702	98,372	17%
Investment properties [2]	50,873,143	34,808,863	16,064,280	46%
Total assets	50,318,833	35,319,808	14,999,025	42%
Total mortgage/loans/long term debt [3]	24,991,267	17,878,692	7,112,575	40%
Total exchangeable preferred units	956,072	916,457	39,615	4%
Total convertible debentures	253,259	251,895	1,364	1%
Total equity	23,022,113	15,490,110	7,532,003	49%
Weighted average units o/s - basic	59,269,263	46,378,751	12,890,512	28%
Amounts on a per unit basis				
FFO	0.0086	0.0090	(0.0004)	(5%)
Recurring FFO	0.0086	0.0058	0.0028	49%
AFFO	0.0084	0.0083	0.0002	2%
Distributions	0.0045	0.0039	0.0006	16%
Financial ratios				
Weighted avg. interest rate - fixed loans/mortgages	3.2%	3.9%	(0.7%)	
Debt to gross assets - including converts	52%	54%	(2%)	
Debt to gross assets - excluding converts [3]	50%	51%	(1%)	
Interest coverage ratio	3.3	3.4	(0.1)	
Debt service coverage ratio	1.8	2.1	(0.3)	
Distributions as a % of FFO	52%	43%	9%	
Distributions as a % of Recurring FFO	52%	67%	(15%)	
Distributions as a % of AFFO	53%	47%	6%	
Leasing information				
Occupancy	100%	100%	0%	
Mix of tenancy based on gross revenue				
National	75%	80%	(5%)	
Regional	21%	19%	2%	
Local	4%	1%	3%	
Property type breakdown				
Gas/Convenience store	10	8	2	
Gas/Convenience store/Fast food	7	5	2	
Fast food	9	5	4	
	26	18	8	
Other				
Average term to maturity - mortgages	3.6	4.3	(0.7)	
Average term to maturity - leases	7.5	8.0	(0.5)	
IFRS capitalization rate	6.04%	6.40%	(0.36%)	

[1] Non-IFRS financial measures

[2] Includes value of investment properties owned through joint ventures

[3] Excludes convertible debentures and exchangeable preferred units

[4] Q1 2016 includes revenues of $150K related to a one-time payment received for the renewal of a lease. This amount was subtracted from the Trust's FFO to arrive at the Recurring FFO for Q1 2016

BREAKDOWN OF PROPERTIES AND OPERATING SECTORS

#	Address	City	Type	Ownership
1	40-50 Brunet Street	Mont St-Hilaire	Fast food, gas, convenience store	100%
2	230 St-Luc Blvd.	St-Jean-sur-Richelieu	Gas, convenience store	100%
3	196 Hôtel-de-Ville Blvd.	Rivière-du-Loup	Gas, convenience store	100%
4	1349-1351 Road 117	Val-David	Fast food, gas, convenience store	100%
5	275 Barkoff Street	Trois-Rivières	Gas, convenience store	65%
6	530 Barkoff Street	Cap-de-la-madeleine	Gas, convenience store	50%
7	340-344 Montée du Comté	Les Coteaux	Fast food, gas, convenience store	100%
8	1440-50 St-Laurent East Blvd.	Louiseville	Fast food, gas, convenience store	50%
9	1460 St-Laurent East Blvd.	Louiseville	Fast food	50%
10	490-494 De L'Atrium Blvd.	Québec City	Gas, convenience store	100%
11	7335 De la Rive-Sud Blvd.	Lévis	Fast food	100%
12	1319 Brookdale Avenue	Cornwall (Ontario)	Fast food	100%
13	4200 Bernard-Pilon Street	St-Mathieu de Beloeil	Gas, convenience store	100%
14	1901 Raymond Blais Street	Sainte-Julie	Gas, convenience store	100%
15	2000 Leonard de Vinci Street	Sainte-Julie	Fast food	100%
16	2050 Leonard de Vinci Street	Sainte-Julie	Gas	65%
17	2051 Nobel Street	Sainte-Julie	Fast food	100%
18	16920-16930 St-Louis Ave.	St-Hyacinthe	Fast food, gas, convenience store	100%
19	3726 Des Forges Blvd.	Trois-Rivières	Fast food	100%
20	2871-2885 Des Prairies Street	Trois-Rivières	Fast food, gas, convenience store	100%
21	2350 Chemin des Patriotes	Richelieu	Fast food, gas, convenience store	100%
22	4932 Des Sources Blvd.	Pierrefonds	Fast food	100%
23	314 De Montigny Street	St-Jérôme	Fast food	100%
24	288 Valmont Street	Repentigny	Gas, convenience store	100%
25	2439 Ste Sophie Blvd.	Sainte-Sophie	Gas, convenience store	50%
26	2429 Sainte-Sophie Blvd.	Sainte-Sophie	Fast food	50%
27	610 Saint-Joseph Blvd.	Gatineau	Other	100%
28	513 Des Laurentides Blvd.	Laval	Other	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 months ended March 31, 2017. It should be read in conjunction with the Consolidated Financial Statements for the period ended March 31, 2017 and the Trust's Consolidated Financial Statements and MD&A for the period ended March 31, 2016. 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 May 26, 2017, 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 May 26, 2017.

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 March 31, 2017 the Trust held 26 investment properties, 25 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.

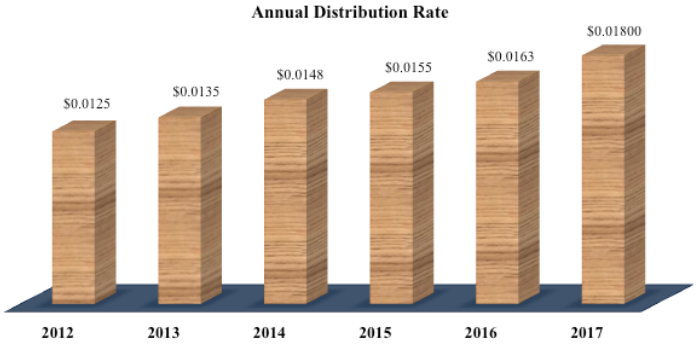
These fully occupied properties are leased to tenants on a management free basis with triple net leases. Under this type of arrangement the tenant is responsible for paying real estate taxes, insurance and any general maintenance required, in addition to the base rent already stipulated in the lease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

MAJOR EVENTS OF THE QUARTER

On March 14, 2017, the Trust acquired a property located in Ste-Sophie, Quebec. The property is located along Boulevard Ste-Sophie and is composed of a recently built Ultramar service station as well as a freestanding Benny & Co restaurant. Total consideration paid was $364,018 for a 50% interest in Odacité Ste-Sophie LP, which holds the interests of said properties. The purchase price was settled for in cash, while taking into consideration already in place financing as well as customary closing adjustments. Fronsac assumed a 50% share of a long-term mortgage related to the properties of $2,150,000 (Fronsac share $1,075,000). In addition Fronsac assumed 50% of accruals related to closing adjustments, which amounted to $7,150.70 (Fronsac share $3,675.85). This is Fronsac's first partnership with Odacité Immobilier, a development company. A 25% interest was purchased from a third party with no previous ties to Fronsac. The other 25% interest was purchased from companies which are either controlled by trustees or individuals related to trustees.

OUTLOOK 2017 & SUBSEQUENT EVENTS

Fronsac is constantly looking for acquisitions of commercial real estate properties that have triple net leases and are 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.



On May 12, 2017, the Trust acquired two (2) properties located in Laval and Gatineau in the province of Quebec. Both properties are operated as auto repair shops under the Speedy Auto Service banner. Total consideration paid for these properties was $1,995,000 and was settled in cash. The properties were purchased from a third party with no previous ties to Fronsac.

On May 18, 2017 the Trust announced the closing of a private placement, which was launched on April 20, 2017. The Trust collected total proceeds of $4,999,999.20 through the issuance of 10,204,080 Placement Units at a price of $0.49 per Placement Unit for total proceeds of $4,999,999.20. Each Placement Unit is comprised of one unit of Fronsac and one-half of one purchase warrant. Each whole Warrant shall entitle the holder to purchase one additional Fronsac Unit at a price of $0.61 for up to five years following May 15, 2017. The Placement Units are subject to a four-month plus one-day hold period from the Closing Date of the Placement, expiring on September 19, 2017, pursuant to securities legislation and the policies of the TSX Venture Exchange. Insiders of Fronsac participated in the offering and purchased approximately 9% of the newly issued units.

The Trust intends to use said proceeds for future acquisitions and working capital purposes. Fronsac contracted the services of Paradigm Capital Inc., a qualified finder, in the course of the Placement. In accordance with the agreement entered into between Fronsac and Paradigm as well as in accordance with applicable regulations, Paradigm shall receive a finder's fee in the amount of $100,000, plus applicable taxes.

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 relatively 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 unitholders 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 8). 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.

Recurring Funds From Operations (FFO) is not an IFRS financial measure. Fronsac calculates recurring FFO by subtracting from the base FFO material non-recurring revenues and adding material non-recurring charges.

Recurring FFO per unit is not an IFRS financial measure. Fronsac calculates Recurring FFO per unit as recurring 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.

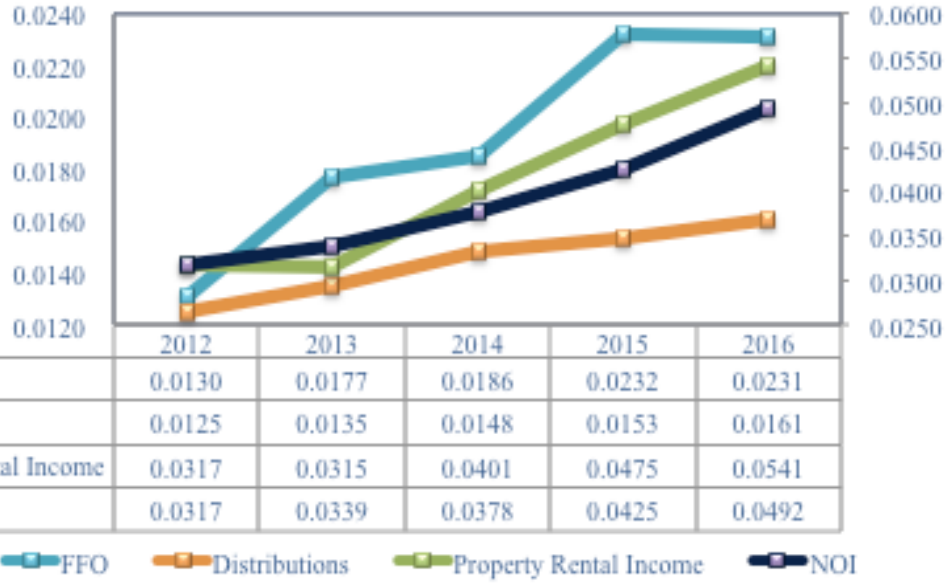
FFO, Recurring FFO, AFFO and EBITDA are not defined by IFRS, and therefore should not be considered as alternatives to profit or net income calculated in accordance with IFRS.

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

PER UNIT GROWTH



	2012	2013	2014	2015	2016
FFO	0.0130	0.0177	0.0186	0.0232	0.0231
Distributions	0.0125	0.0135	0.0148	0.0153	0.0161
Property Rental Income	0.0317	0.0315	0.0401	0.0475	0.0541
NOI	0.0317	0.0339	0.0378	0.0425	0.0492

QUARTERLY FINANCIAL INFORMATION

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Rental income	969,635	874,879	713,597	646,805	601,740	615,452	596,269	539,430
Net income attributable to unitholders	1,840,152	678,913	1,474,531	(485,256)	1,528,631	45,020	478,243	589,897
Net income per unit Basic	0.0310	0.0115	0.0257	(0.0105)	0.0330	0.0010	0.0103	0.0128
FFO [1] Basic	509,113	394,989	129,594	269,978	418,236	217,419	295,023	335,985
FFO per unit Basic	0.0086	0.0067	0.0023	0.0058	0.0090	0.0047	0.0064	0.0073
Value of investment properties (000's) [2]	50,873	48,065	43,420	34,174	34,809	33,361	31,824	30,699
Total assets (000's)	50,319	48,355	43,884	34,449	35,320	33,755	32,143	31,220
Mortgages, and other debts (000's)	24,991	24,548	20,896	17,593	17,879	16,467	15,975	15,455
Equity (000's)	23,022	48,355	20,982	14,838	15,490	14,141	14,276	13,940
Weighted avg. units o/s Basic (000's)	59,269	59,249	57,438	46,419	46,379	46,379	46,323	46,229

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

[2] Includes value of investment properties owned through joint ventures

RECONCILIATION OF NET INCOME TO FFO

Periods ended March 31	3 months 2017	2016	Δ
Net income (loss) attributable to unitholders	1,840,152	1,528,631	311,521
Δ in value of investment properties	(1,334,751)	(1,090,184)	(244,567)
Δ in value of investment properties in joint ventures	(31,140)	(27,984)	(3,156)
Unit based compensation	28,475	-	28,475
Δ in liability component of exchangeable preferred units	14,352	13,443	909
Δ in fair value of derivative financial instruments	(6,180)	(4,915)	(1,265)
Δ in fair value of other financial components	(1,795)	(755)	(1,040)
Income taxes	-	-	-
FFO[1] - basic	509,113	418,236	22%
FFO per unit - basic	0.0086	0.0090	(5%)
Distributions paid on exchangeable units (if dilutive)	13,897	11,967	1,930
FFO - diluted	523,010	430,203	22%
FFO per unit - diluted	0.0084	0.0087	(4%)
Recurring FFO - basic	509,113	268,236	90%
Recurring FFO per unit - basic	0.0086	0.0058	49%
Distributions	266,847	179,718	87,129
Distributions per unit	0.0045	0.0039	16%
FFO - basic after distributions	0.0041	0.0051	(0.0011)
Recurring FFO - basic after distribution	0.0041	0.0019	0.0022
Distributions as a % of FFO - basic	52%	43%	9%
Distributions as a % of Recurring FFO - basic	52%	67%	(15%)
Weighted avg. units o/s			
Basic	59,269,263	46,378,751	12,890,512
Diluted	62,357,463	49,466,951	12,890,512

[1] FFO is a Non-IFRS financial measure

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Periods ended March 31	3 months 2017	2016	Δ
Basic FFO [1]	509,113	418,236	90,877
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	(8,845)	(33,839)	(24,994)
Leasing costs on existing properties	-	-	-
Debt extinguishment penalties	-	-	-
AFFO[1] - basic	500,268	384,397	30%
AFFO per unit - basic	0.0084	0.0083	2%
Distributions paid on exchangeable units (if dilutive)	13,897	11,967	1,930
AFFO - diluted	514,165	396,364	30%
AFFO per unit - diluted	0.0082	0.0080	3%
Distributions	0.0045	0.0039	16%
AFFO -basic after distributions	0.0039	0.0044	(0.0005)
Distributions as a % of AFFO - basic	53%	47%	7%
Weighted avg. units o/s			
Basic	59,269,263	46,378,751	12,890,512
Diluted	62,357,463	49,466,951	12,890,512

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

CASH FLOWS AND LIQUIDITY

For the year ended March 31, 2017, the Trust was able to increase rental income revenues and as such used said funds to pay down various working capital obligations. These funds are the primary source to fund mortgage/loan and other debt payments, with the residual used to fund distributions to unit holders.

Funds from investing activities can mainly be attributed to the acquisitions in Ste-Sophie.

CASH FLOWS	3 months		
Periods ended March 31	2017	2016	Δ
Operating activities	443,011	151,828	291,183
Investing activities	(564,618)	(1,365,293)	800,675
Financing activities	176,464	1,231,604	(1,055,140)
Increase in cash & cash equivalents	54,857	18,139	36,718
Cash & cash equivalents -Beginning of period	65,087	47,097	17,990
Cash & cash equivalents - End of period	119,944	65,236	54,708

Cash derived from financing activities amounted to $176K (1,232K in Q1 2016). This is related to obligations in connection with the acquisitions in Ste-Sophie.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31ST, 2017

For the quarter ended March 31, 2017, the Trust had rental income of $970K ($601K in Q1 2016). These rents are composed primarily of fixed monthly rents as well as variable rents based on gross sales for certain tenants.

New revenues for this quarter, in comparison to Q1 2016, were from the acquisitions, which took place in 2016, as well as the acquisitions in Ste-Sohpie.

Gains include fluctuations as a result of the variation in the fair value of investment properties (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 adjusted rental incomes derived from these properties.

RESULTS OF OPERATIONS - QUARTER ENDED			
Periods ended March 31	2017	2016	Δ
Rental Income	969,635	601,740	367,895
Other revenues	-	150,000	(150,000)
Increase/(decrease) in fair values values of investment properties	1,334,751	1,090,184	244,567
Financial expenses	216,838	181,239	35,599
Debt extinguishment penalties	-	-	-
Net income attributable to unitholders	1,840,152	1,528,631	311,521
Net income per unit Basic	0.0310	0.0330	(0.0019)
FFO - basic[1]	509,113	418,236	22%
FFO per unit	0.0086	0.0090	(5%)
Recurring FFO - basic	509,113	268,236	90%
Recurring FFO per unit - basic	0.0086	0.0058	49%
Weighted avg. units o/s Basic	59,269,263	46,378,751	12,890,512
EBITDA [1]	690,074	591,702	98,372
Interest coverage	3.3	3.4	(0.1)
Debt service coverage	1.8	2.1	(0.3)

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

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 $217K ($181K in Q1 2016).

For the quarter ended March 31, 2017, the Trust recorded recurring FFO of $509K in comparison to $268K in Q1 2016. Recurring FFO per unit increased by 49% from $0.0058 to $0.0086 for the same period. In Q1 2016 the Trust recorded revenues of $150K related to a one-time payment received from a tenant for the renewal of a lease. This amount was subtracted from the Trust's FFO to arrive at the Recurring FFO for Q1 2016.

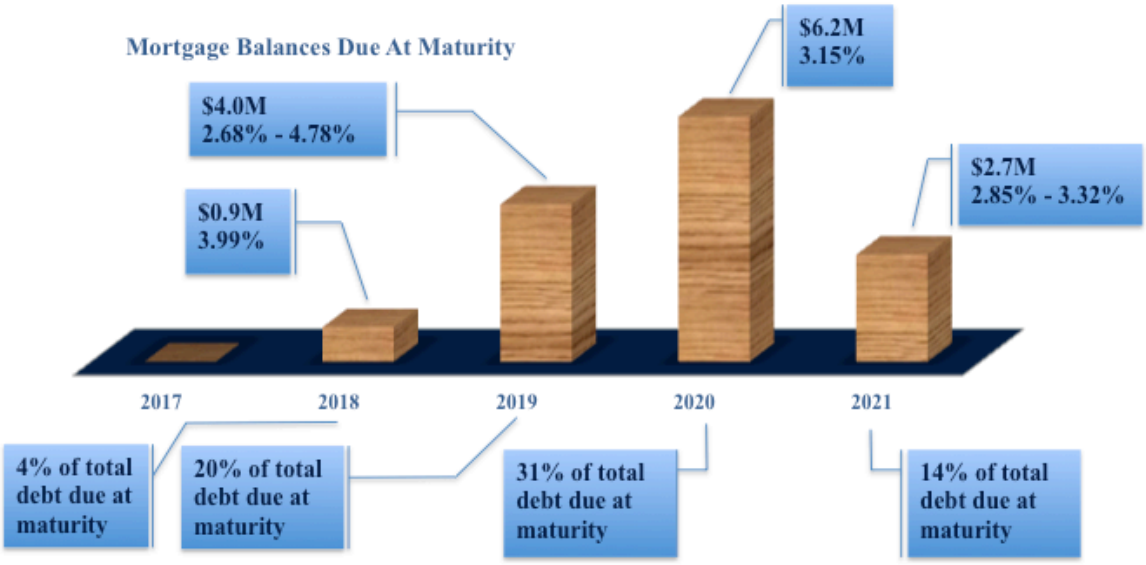
CAPITAL STRUCTURE

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 the 3 month period ended March 31, 2017 the Trust issued 50,000 units to certain members of management for services rendered. The total amount of units outstanding at March 31, 2017 was 59,299,263.

On May 18, 2017 the Trust announced the closing of a private placement, which was launched on April 20, 2017. The Trust collected total proceeds of $4,999,999.20 through the issuance of 10,204,080 Placement Units at a price of $0.49 per Placement Unit for total proceeds of $4,999,999.20. Each Placement Unit is comprised of one unit of Fronsac and one-half of one purchase warrant. Each whole Warrant shall entitle the holder to purchase one additional Fronsac Unit at a price of $0.61 for up to five years following May 15, 2017.

Effective August 1, 2016, the Trust put in place a Normal Course Issuer Bid (NCIB). Under the terms of the NCIB Fronsac may purchase for cancellation, through the facilities of the TSX Venture Exchange, if in the best interest of the Trust, a maximum of 2,321,437 Trust Units. Over the course of any 30-day period the Trust will not purchase more than 928,575 units in total, which represents 2% of the units issued and outstanding at that present date.

All purchases and settlements of said securities will be made by the facilities of the TSX Venture in accordance with its rules and regulations. All units redeemed by the Trust pursuant to the NCIB will be cancelled. National Bank Financial is handling the offer on behalf of the Trust. The price paid by the Trust for these units will be the price of the units at the time of acquisition. The normal course issuer bid began on August 1, 2016 and will expire on July 31, 2017. The Trust has not purchased any units for cancellation over the course of the last 12 months.



Debts are composed of mortgages, loans, debentures and secured credit facilities. As at March 31, 2017 there are 14 mortgages with Canadian financial institutions with a total carrying value of $21,679,635 ($21,859,425 in Q4 2016). These mortgages require the Trust to make payments of $16.3M over the next 5 years and $5.3M thereafter. The mortgages outstanding currently have an average term to maturity of 3.6 years (3.8 years in Q4 2016). Debentures in circulation as at March 31, 2017 have a carrying value of $253K ($249K in Q4 2016). The Trust currently has 2 secured lines of credit with authorized limits of $4M and $0.7M. These lines of credit have a $3.1M balance as at March 31, 2017 ($2.5M in Q4 2016).

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, 2017, 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.

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 March 31, 2017 the Trust held interests in

26 properties in Quebec and Ontario, 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 balance ($103K as at March 31, 2017 compared to $92K in Q4 2016). 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 March 31, 2017, the Trust paid $17,700 ($21,000 in Q1 2016) in professional fees to trustees or entities controlled by trustees. During the quarter ended March 31, 2016, the Trust paid $5,690 in professional fees to a person related to a trustee. For the same quarter of 2017, no amounts were paid to that person.

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 was 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 December 31, 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.

The Trust has also signed an agreement, with a company controlled by a trustee, to rent a portion of its property located in Richelieu for $110,000 annually and for a period of 10 years, ending August 31, 2026. The rent is adjusted annually as of the 4th year with the consumer price index. The tenant can exercise four (4) renewal options of five (5) years each.

Property rental revenue includes $131,667 ($73,504 in Q1 2016) obtained from companies controlled by individuals related to trustees for which an amount of $3,410 is included in the receivable balance as at March 31, 2017 ($0 in Q4 2016).

The Trust loaned money to a person related to a trustee for which an amount of $29,375 ($30,248 in Q4 2016) is included in the receivable balance. Interest received on that loan during the quarter amounts to $656 ($724 in Q1 2016).