

**FRONSAC REAL ESTATE INVESTMENT TRUST**  
**INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FORM 51-102F1**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2014**

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**OPERATIONAL AND FINANCIAL HIGHLIGHTS**

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For the periods ended	September 30, 2014 (3 months)	September 30, 2013 (3 months)	September 30, 2014 (9 months)	September 30, 2013 (9 months)
<b>OPERATIONAL DATA</b>				
Number of properties	10	8	10	8
Occupancy	100%	100%	100%	100%
Value of properties (including joint ventures)	20,090,267	17,950,279	20,090,267	17,950,279
<b>FINANCIAL PERFORMANCE</b>				
Property rental revenue	349,327	233,068	1,098,998	693,548
Funds from operations (FFO)	175,938	228,518	588,421	462,709
Adjusted funds from operations (AFFO)	175,938	228,518	588,421	462,709
EBITDA	300,660	307,679	913,988	684,786
Distributions	132,915	111,210	387,778	332,111
<b>PER UNIT FINANCIAL PERFORMANCE</b>				
Weighted average units outstanding	35,403,181	32,865,485	34,761,565	32,709,801
FFO	0.0050	0.0070	0.0169	0.0141
AFFO	0.0050	0.0070	0.0169	0.0141
Variation	(28.57)%	n/a	19.86%	n/a
Distributions per unit	0.0037	0.003375	0.0111	0.010125
AFFO payout ratio	74.00%	48.21%	65.68%	71.81%
<b>FINANCING</b>				
Leverage	50.13%	42.52%	50.13%	42.52%
Interest coverage ratio	2.4	3.4	2.6	3.1
Debt service coverage ratio	1.8	2.5	1.8	2.3

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## MANAGEMENT'S DISCUSSION & ANALYSIS

November 13, 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" 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, 2014. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of September 30, 2014 and the Trust's Audited Consolidated Financial Statements and MD&A for the year ended December 31, 2013. 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 13, 2014.

### Description of the Issuer's business

Fronsac 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 properties owned by the Trust, its locality, its ownership in the property, its occupancy rate and the category of tenants.

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Categories of tenants are:

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

Property / locality	Ownership	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, 4
Val-David (Qc)	100%	100%	1, 2, 3
Trois-Rivières #1 (Qc)	65%	100%	2, 4
Trois-Rivières #2 (Qc)	50%	100%	2, 3
Les Coteaux (Qc)	100%	100%	1, 2, 3, 4
Louiseville #1 (Qc)	50%	100%	1, 2, 3
Louiseville #2 (Qc)	50%	100%	1

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## Outlook 2014

Fronsac 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 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 try to maintain a debt/equity ratio of 40/60.

Fronsac 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 quarter

At the end of Augusts 2014, the Trust has started to rent its second site in Louiseville with McDonald as tenant. The Trust has a 50% interest in this property.

On August 5, 2014, the Trust reimbursed a long term debt of \$333,000 and converted preferred units into common units. At this date the accounting value of the preferred units was \$333,000.

On September 30, 2014, the Trust distributed to unitholders an amount of \$0.0037 [\$0.0148 on an annual basis] per unit for a total distribution of \$132,915.

During the first quarter, the Trust has decided to put for sale its investment property located in Saint-Hubert. As at September 30, 2014, the investment property's fair value recorded in the books of Fronsac stands at \$2,025,000. The mortgage related to this property stands at \$1,363,338.

## Highlights:

### Financial Position

<b>Financial Position</b>	<b>September 30, 2014 \$</b>	<b>December 31, 2013 \$</b>	<b>September 30, 2013 \$</b>
Investment Properties	20,090,267	20,398,786	17,950,279
Investment in joint ventures	707,349	761,729	702,972
Total Assets	21,217,321	22,131,533	19,715,149
Total debts, mortgages and loans	10,634,527	9,967,130	8,382,280
Total Liabilities	10,962,702	11,263,993	10,178,489
Equity	10,254,619	10,867,540	9,536,660

## Highlights (continued):

### 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
Net income (loss) attributable to unitholders	665,548	(307,741)	(583,741)	291,089
Variation in value of investment properties	47,718	589,144	1,556,920	193,337
Variation in value of investment properties obtained from joint-ventures	-	27,993	58,300	(39,587)
Unit-based compensation	(1,761)	(22,200)	(4,576)	(22,750)
Variation of liability component of the convertible preferred units	3,173	8,261	36,433	9,036
Variation of fair value of derivative financial instruments	(126,800)	(86,025)	(109,300)	(51,305)
Unrealized gain on interest swaps	(680)	(1,800)	(4,700)	(5,900)
Variation in fair value of other financial components	(12,000)	(5,420)	(10,500)	(2,360)
Amortization intangible assets	-	1,851	-	5,553
Current income taxes	13,040	-	13,085	-
Deferred income taxes	(412,300)	24,455	(363,500)	85,596
<b>FFO – basic</b>	<b>175,938</b>	<b>228,518</b>	<b>588,421</b>	<b>462,709</b>
<b>FFO per unit – basic</b>	<b>0.0050</b>	<b>0.0070</b>	<b>0.0169</b>	<b>0.0141</b>
Distributions paid on convertible preferred units (if dilutive)	17,721	15,459	34,075	44,538
<b>FFO – diluted</b>	<b>193,659</b>	<b>243,977</b>	<b>622,496</b>	<b>507,247</b>
<b>FFO per unit – diluted</b>	<b>0.0050</b>	<b>0.0065</b>	<b>0.0160</b>	<b>0.0139</b>
<b>Weighted average units outstanding – basic</b>	<b>35,403,181</b>	<b>32,865,485</b>	<b>34,761,565</b>	<b>32,709,801</b>
<b>Weighted average units outstanding – diluted</b>	<b>38,998,120</b>	<b>37,285,685</b>	<b>38,903,655</b>	<b>36,436,346</b>

QUARTERLY FINANCIAL INFORMATION

	2014			2013			2012		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Rental income	349,327	372,517	377,154	313,366	233,068	253,972	206,508	174,464	
Net income attributable to unitholders	665,548	(653,685)	(595,604)	959,081	(307,741)	414,122	184,709	929,738	
Net income per unit									
basic	0.019	(0.019)	(0.017)	0.029	(0.009)	0.013	0.006	0.041	
diluted	0.014	(0.019)	(0.017)	0.025	(0.011)	0.013	0.006	0.038	
Weighted average number of units – diluted (000)	35,403	34,441	34,430	37,929	37,655	32,645	35,031	24,443	
Funds from operations (FFO)	175,938	195,170	217,315	119,269	228,518	105,245	128,946	33,078	
FFO per unit									
basic	0.0050	0.0057	0.0063	0.0036	0.0070	0.0032	0.0040	0.0015	
diluted	0.0050	0.0050	0.0060	0.0035	0.0064	0.0032	0.0037	0.0015	
Value of investment properties (000)	20,090	19,429	19,670	20,399	17,950	17,736	13,744	11,522	
Total assets (000)	21,217	20,507	21,243	22,132	19,715	19,416	15,602	14,333	
Mortgages and other debts (000)	10,635	10,261	10,083	9,967	8,382	8,166	4,476	4,120	
Equity (000)	10,255	9,354	10,134	10,868	9,537	9,906	9,674	9,500	

## Business and operations review

### Real estate investments

Fronsac is the sole owner of five (5) commercial properties located in Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, Val-David and Les Coteaux and owner, with a 90% interest, of the St-Hubert site. It also owns, through partnerships, four (4) commercial properties, two (2) located in Trois-Rivières and two (2) in Louiseville. In the Trois-Rivières partnerships, the Trust has a 65% and 50% interest and in the Louiseville partnerships, its ownerships are at 50%. 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
Rental income	349,327	233,068	1,098,998	693,548
Variation of fair value of investment properties	(47,718)	(589,144)	(1,556,920)	(193,337)
Interest on mortgages	91,732	59,540	270,170	136,120
Interest on long-term debt	4,277	5,810	15,366	18,928
Interest on bank loans	11,188	9,492	30,151	18,609
Interest on convertible units	20,894	23,720	70,508	53,574
Net income (loss) attributable to unitholders	665,548	(307,741)	(583,741)	291,089
Net income (loss) per unit – basic	0.0188	(0.0094)	(0.0168)	0.0089
Net income (loss) per unit – diluted	0.0144	(0.0106)	(0.0168)	0.0073
Weighted average units outstanding – basic	35,403,181	32,865,485	34,761,565	32,709,801
Weighted average units outstanding – diluted	38,998,120	37,655,685	34,761,565	36,606,346
<b>EBITDA</b>	<b>300,660</b>	<b>307,679</b>	<b>913,998</b>	<b>684,786</b>
<b>Interest coverage</b>	<b>2.4</b>	<b>3.4</b>	<b>2.6</b>	<b>3.1</b>
<b>Debt coverage</b>	<b>1.8</b>	<b>2.5</b>	<b>1.8</b>	<b>2.3</b>

## Results of operations for the quarter ended September 30, 2014

For the quarter ended September 30, 2014, the net income attributable to unitholders, was \$665,548 or \$0.0188 per unit compared to a net loss of (\$307,741) or (\$0.0094) per unit for the comparative quarter of 2013. The net income includes losses of \$47,718 [2013: \$589,144] and \$0 [2013: \$27,993] related to the variation of fair value of the investment properties. These losses were respectively recorded in the accounts "Investment properties" and "Investment in joint-ventures".

For the quarter, the Trust had rental income of \$349,327 [2013: \$233,068] composed of fixed monthly rents and royalties based on tenants' sales. During this quarter, Fronsac had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David, Les Coteaux, Louiseville #1 and those of Trois-Rivières in operations for three (3) months and Louiseville #2 for one (1) month. For the 2013 quarter, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David and Trois-Rivières in operations for three (3) months.

The variation of \$116,259 in rental income is explained by a decrease of \$504 for comparable properties operated in 2014 and 2013 and a contribution of \$116,763 from non comparable properties.

The main operating expenses were interest on mortgages [\$91,732] [2013: \$59,540], long-term debts [\$4,277] [2013: \$5,810], bank loans [\$11,188] [2013: \$9,492], and distributions on convertible preferred units [\$20,894] [2013: \$23,720], and in administrative expenses, professional fees of [\$36,976] [2013: \$29,826] and registration and listing fees [\$7,564] [2013: \$6,449].

For the quarter ended September 30, 2014, interest on mortgages were paid on seven (7) mortgages with a value of \$8,071,651, one (1) long term debts of \$79,367, a balance of sale of \$333,000 reimbursed on August 5, 2014, convertible preferred units with a book value of \$874,802 following the conversion of \$333,000 of them on August 5, 2014 and a bank loan of \$1,608,706. For the corresponding quarter of 2013, interests were paid on five (5) mortgages totalling of \$5,986,994, two (2) long term debts of \$432,226, convertible preferred units with a book value of \$1,163,060 and a bank loan standing at \$800,000.

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 \$16,090 [2013: \$13,000] paid to a company owned by a trustee 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 2014 includes revenues of \$141,241 [2013: \$115,445] for the variation in the fair value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair value at each reporting date. These revenues are mainly explained by a unit value of \$0.27 as at September 30, 2014 and \$0.31 as at June 30, 2014.



## Results of operations for the period of 9 months ended September 30, 2014

The net loss of the period ended September 30, 2014, attributable to unitholders, was (\$583,741) or (\$0.0168) per unit compared to a net income of \$291,089 or \$0.0089 per unit for the comparative period of 2013. The net loss of 2014 includes losses of (\$1,556,920) [2013: \$193,337] and (\$58,300) [2013: gain \$39,587] related to the variation of the fair 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 also explained by an increase of 50 basis points in the global capitalization rate during the period.

For the period of 9 months ended September 30, 2014, the Trust had rental revenues of \$1,098,998 [2013: \$693,548] composed of fixed monthly rents and royalties based on tenants' sales. Rental revenues of 2014 included those provided by the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David, Les Coteaux, Louiseville #1 and those of Trois-Rivières in operations for nine (9) months and Louiseville #2 for one (1) month. In comparison with 2013 where the revenues included those provided by the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup and St-Hubert, for a period of nine (9) months, the Trois-Rivières properties for a period of eight (8) months and the Val-David property for five (5) months.

The variation of \$405,450 in rental income is explained by a decrease of \$14,714 for comparable properties operated in 2014 and 2013 and a contribution of \$420,164 from non comparable properties.

The main operating expenses were interest on mortgages [\$270,170] [2013: \$136,120], long-term debts [\$15,366] [2013: \$18,928], bank loans [\$30,151] [2013: \$18,609] and distributions on convertible preferred units [\$70,508] [2013: \$53,574], and in administrative expenses, professional fees of [\$115,435] [2013: \$97,780] and registration and listing fees [\$21,971] [2013: \$21,893].

For the period ended September 30, 2014, interests were paid on the same components detailed in the quarterly section.

For mortgages, interest rates obtained from financial institutions ranged between 3.50% to 5.24% in 2014 compared to 4.78% and 5.24% in 2013. 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 2014 and 2013, except for the debt of \$105,000 that bears interest at a rate of 8.00%.

The net loss of the period includes revenues of \$129,076 [2013: \$82,315] for the variation in the fair value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair value at each reporting date. These revenues are explained by a unit value of \$0.27 as at September 30, 2014 and \$0.30 as at December 31, 2013.

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

Cash flows	<i>three months ended</i>		<i>nine months ended</i>	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$	\$	\$
Operating activities	196,830	765,319	601,016	991,071
Investing activities	(755,671)	(975,534)	(1,417,537)	(6,429,453)
Financing activities	603,456	152,831	621,785	3,168,567
Increase (decrease) in cash and cash equivalents	44,615	(57,384)	(194,736)	(2,269,815)
Cash and cash equivalents – beginning of period	29,613	156,084	268,964	2,368,515
Cash and cash equivalents – end of period	74,228	98,700	74,228	98,700

For the quarter ended September 30, 2014, funds used in the investing activities correspond to the disbursements incurred on acquisitions of investment properties and on deposit on transactions [\$766,171] reduced by distributions received from joint ventures [\$10,500]. Funds used in the financing activities [\$518,350] are explained by the payments of debts and the distribution paid to unitholders. Funds obtained from the financing activities [\$1,121,806] are explained by new mortgages, the increase in bank loan and the exercise of warrants. Finally funds obtained from the operating activities are mostly explained by the additional revenues obtained from 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 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 seven (7) mortgages with financial institutions for a total of \$8,071,651 maturing in 2017, 2018, 2019 and 2023, one (1) long term debt of \$79,367 and two (2) convertible debts with a face value of \$988,230 and shown on the statement of financial position at \$874,802. For the mortgages with the financial institutions, the Trust currently makes monthly payments around \$51,200. Finally the long term debt 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, 2014, the Trust issued 1,482,000 units following conversion of warrants and convertible preferred units. As of that date, the total number of units issued and outstanding was 35,922,964 units. During this same quarter, the Trust has not granted any option or warrant. As at September 30, 2014, there were 170,000 options and no warrant outstanding.

### **Subsequent Events to September 30, 2014**

On October 10, 2014, the Trust issued, through a private placement, 10,305,787 units at a price of \$0.36 per unit for a gross proceed of \$3,710,083 as well as convertible debentures with a face value of \$250,000. The debentures become to maturity on October 10, 2019. They bear an annual interest of 6% payable semi-annually and are convertible into units of the Trust at a conversion price of \$0.43. The Trust has the right to force the conversion, after January 1<sup>st</sup>, 2017, should the closing price of the units is higher than \$0.43 for a period of twenty consecutive days.

### **Contractual Obligations**

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 \$6,000 per month. The agreement ends on August 31, 2015.

### **Off-Balance Sheet Arrangements**

The Trust made no off-balance sheet arrangements during its quarter ended September 30, 2014.

### **Related Party Transactions**

During the quarter ended September 30, 2014, the Trust paid \$16,090 (2013: \$13,000) as professional fees to an entity controlled by a trustee. It also paid \$11,126 (2013: \$712) for lawyer services to a person related to a trustee for which a balance of \$7,000 is payable as at September 30, 2014 (2013: \$0).

Property rental revenues include \$70,650 (2013: \$70,403) obtained from companies controlled by trustees and individuals related to trustees for which no amount is receivable as at September 30, 2014 (2013: \$1,139\$).

The Trust loaned money to a person related to a trustee for which an amount of \$32,045 is receivable as at September 30, 2014 (2013: \$34,745). The Trust obtained interest revenue of \$826 (2013: \$1,787).

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).