

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

## **MANAGEMENT'S DISCUSSION & ANALYSIS**

**May 29, 2013**

### **Scope of analysis**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fronsac Real Estate Investment Trust ("Fronsac REIT" or the "Trust") is intended to provide readers with an assessment of performance and summarize the results of operations and financial condition for the period of 3 months ended March 31, 2013. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of March 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 May 29, 2013.

### **Description of the Issuer's business**

Fronsac REIT is an active trust operating in the real estate commercial market. The Trust owns and rents real estate commercial properties through its wholly owned subsidiaries, 9167-9688 Quebec Inc. ("9167 Qbc"), 9208-9226 Quebec Inc ("9208 Qbc"), Fronsac Rivière-du-Loup Limited Partnership ("SEC RDL"), where Fronsac REIT is the sole limited partner, and Fronsac St-Hubert Limited Partnership ("SEC St-Hubert"), incorporated on May 3, 2012 and in which Fronsac REIT owns 90% of the capital. The Trust also has investment properties through joint-ventures and joint-ownerships. It has a 50% ownership in a joint-venture and a 65% ownership in a joint-ownership. The commercial property of 9167 Qbc is located along the highway 20 near Mont St-Hilaire and has three tenants; a McDonald restaurant, a Beau-Soir convenience store and an Ultramar service station. The commercial property of 9208 Qbc is located alongside highway 35 in St-Jean-sur-le-Richelieu. The real estate property is comprised of two buildings. The first building houses a convenience store and a Shell gas station and the second building houses three car wash. The commercial property of SEC RDL, located near highway 20 in Rivière-du-Loup, has a Couche-Tard convenience store and a Petro-Canada gas station. The property of SEC St-Hubert, acquired on June 14, 2012, located on a main boulevard in the city of St-Hubert, has a Couche-Tard convenience store and a Shell gas station. Through its joint-venture, Fronsac REIT owns an investment property in Trois-Rivières, located on a commercial boulevard. The property houses a convenience store and a gas station operating under the banner of Couche-Tard. Through its joint-ownership, Fronsac REIT owns an investment property also located in Trois-Rivières along the highway 40. This property is occupied by a Shell gas station. On December 18, 2012, Fronsac REIT acquired a piece of land west of the Montreal island, located at Les Coteaux. Beginning of March 2013, the Trust has started the construction of a property that will house a gas service station, a convenience store, a fast food restaurant and an Italian restaurant.

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

### Outlook 2013

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

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

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

For the construction of the property located at Les Coteaux, the Trust has determined a budget of \$4,000,000 for which \$1,935,000 has been spent to date. The current costs are in line with the budget.

### Highlights

<b>Financial Information : Period of three months</b>	<b>March 31, 2013 \$</b>	<b>December 31, 2012 \$</b>	<b>March 31, 2012 \$</b>
Rental income	206,508	176,637	145,878
Variation in value of investment properties	68,158	999,361	0
Net income attributable to unitholders	184,709	929,738	94,514
Net income attributable to unitholders per unit – basic	0.006	0.041	0.005
Funds coming from operations - basic	128,946	36,639	76,986
Funds coming from operations per unit – basic	0.004	0.002	0.004
Weighted average number of units	32,616,083	22,405,529	20,514,000
Distributions to unitholders	0	128,525	0

<b>Investment properties</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Number of investment properties	7	5	2
Occupancy rate	100%	100%	100%
Value of investments properties (\$)	13,744,144	11,521,954	6,093,096

## **Events**

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 \$34,413 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. 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.

During the quarter, the Trust has spent an amount of \$531,669 on the property under development located at Les Coteaux.

## **Financial Position**

<b>Financial Position</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Investment Properties	13,744,144	11,521,954
Cash and Cash Equivalents	680,935	2,368,515
Total Assets	15,602,117	14,333,024
Mortgages	2,456,216	2,480,977
Long-term debt	333,000	1,309,220
Convertible preferred units	1,156,708	329,775
Total Liabilities	5,928,254	4,832,944
Equity	9,673,863	9,500,080
Debts / Assets Ratio	38.0%	33.7%
Debts / Equity Ratio	61.3%	50.9%

**QUARTERLY FINANCIAL INFORMATION**

	2013				2012				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rental income	206,508	176,637	183,269	162,259	145,878	135,844	121,814	131,859				
Net income attributable to Unitholders	184,709	929,738	47,378	(9,210)	94,514	(42,532)	(80,710)	9,579				
Net income per unit												
Basic	0.006	0.041	0.002	0.000	0.005	(0.003)	(0.006)	0.001				
Diluted	0.006	0.040	0.002	0.000	0.005	(0.003)	(0.006)	0.001				
Weighted average number of units – diluted (000)	35,031	24,443	21,269	20,514	20,514	14,521	13,790	13,790				
Funds from operations (FFO)	128,946	36,639	83,632	80,607	76,986	43,828	6,071	22,707				
FFO per unit												
Basic	0.004	0.002	0.004	0.004	0.004	0.001	0.001	0.002				
Diluted	0.004	0.001	0.004	0.004	0.004	0.001	0.001	0.002				
Cash obtained from operating activities	615,265	134,862	88,735	61,596	75,700	15,010	60,312	(26,448)				
Value of investment properties (000)	13,744	11,522	9,119	9,091	7,112	7,112	7,075	6,076				
Total assets (000)	15,602	14,333	9,633	9,530	7,611	9,336	7,707	7,055				
Mortgages and other debts (000)	3,946	4,120	3,517	3,538	2,188	3,948	3,995	3,383				
Equity (000)	9,674	9,500	4,863	4,943	4,903	4,809	3,231	3,315				

## Business and operations review

### Real estate investments

Fronsac REIT is the owner of four (4) commercial properties located in Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup and St-Hubert. It also owns, through a joint-venture and a joint-ownership, two (2) investment properties located in Trois-Rivières. The Trust has a 50% interest in the joint-venture and a 65% interest in the joint-ownership. The commercial properties are fully occupied. The leases are "double net" and "triple net" which means that mostly all expenses are payable by the tenants.

### Results of operations

Income	<i>three months ended</i>	
	March 31, 2013	March 31, 2012
	\$	\$
Rental income	206,508	145,878
Interest on mortgages	29,870	16,951
Interest on long-term debt	8,492	13,476
Interest on convertible units	7,606	5,389
Interest on bank loans	1,673	0
Net income attributable to unitholders	184,709	94,514
Net income per unit – basic	0.006	0.005
Net income per unit – diluted	0.006	0.005
EBITDA	174,918	111,862
FFO - basic	128,946	76,986
FFO - diluted	133,869	76,986
FFO per unit – basic	0.004	0.004
FFO per unit – diluted	0.004	0.004
Weighted average units outstanding – basic	32,616,083	20,514,000
Weighted average units outstanding – diluted	35,030,530	20,514,000

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

The net income of the quarter ended March 31, 2013, attributable to unitholders, was \$184,709 or \$0.006 per unit compared to a net income of \$94,514 or \$0.005 per unit for the comparative quarter of 2012. The net income includes gains of \$68,518 [2012: nil] and \$39,580 [2012: nil] related to the increase in value of the investment properties. The first gain is recorded in the account "Investment properties" whereas the second one is recorded in the account "Investment in joint-ventures".

For the quarter, the Trust had rental revenues of \$206,508 [2012: \$145,878] 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 and St-Hubert in operations for the three (3) months. The Trust has also earned, during a period of two (2) months, revenues from the two (2) properties of Trois-Rivières. For the 2012 quarter, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup in operations for three (3) months.

The increase in rental income is explained by the increases of \$8,202 attributable to sites operated during 12 months, both in 2013 as well as 2012, and \$52,428 for the properties of St-Hubert and Trois-Rivières only operated in 2013.

The main operating expenses were interest on mortgages [\$29,870] [2012: \$16,951], long-term debts [\$8,492] [2012: \$13,476], distributions on convertible preferred units [\$7,606] [2012: \$5,389], and bank loans [\$1,673] [2012: nil], and in administrative expenses, professional fees of [\$22,246] [2012: \$25,315] and registration and listing fees [\$7,573] [2012: \$4,007].

For the quarter ended March 31, 2013, interest on mortgages were paid on three (3) mortgages with a value of \$2,456,216 as of that date, long term debts of \$333,000, convertible preferred units of \$1,156,708 and a bank loan of \$530,000. For the quarter ended March 31, 2012, the interest was also paid on two (2) mortgages totalling of \$1,076,675, three (3) long term debts of \$783,000 and convertible preferred units with a value of \$328,160.

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 \$12,000 [2012: \$10,000] 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 expenses of \$14,390 [2012: net gains of \$38,600] 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.

The Trust uses the “funds from operations” measurement to assess the performance of its operations. This measurement, which is a non-IFRS measurement, provides a better evaluation of the performance of the operations of the Trust and is largely used in the commercial real estate industry.

Funds from operations (FFO)	<i>three months ended</i>	
Reconciliation of income to funds from operations	March 31, 2013	March 31, 2012
	\$	\$
Net income	184,709	94,514
Increase in value of investment properties	(68,158)	-
Increase in value of investment properties obtained from joint-ventures	(39,580)	-
Unit-based compensation	4,450	(10,394)
Increase of liability component of the convertible preferred units	2,683	421
Variation of fair value of derivative financial instruments	10,000	(20,000)
Unrealized loss (gain) on interest swaps	(1,500)	(7,300)
Variation in fair value of other financial components	1,440	(906)
Amortization intangible assets	1,851	1,851
Deferred income taxes	33,051	18,800
<b>FFO - basic</b>	<b>128,946</b>	<b>76,986</b>
Interests on convertible preferred units	4,923	-
<b>FFO - diluted</b>	<b>133,869</b>	<b>76,986</b>



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

Cash flows	<i>three months ended</i>	
	March 31, 2013	March 31, 2012
	\$	\$
Operating activities	616,265	75,700
Investing activities	(1,820,769)	0
Financing activities	(483,076)	(1,756,779)
Increase (decrease) in cash and cash equivalents	(1,687,580)	(1,681,079)
Cash and cash equivalents – beginning of period	2,368,515	1,985,720
Cash and cash equivalents – end of period	680,935	304,641

For the quarter ended March 31, 2013, funds used in investing activities correspond to the purchases of the Trois-Rivières properties for which \$1,109,333 relates to an acquisition of an investment property and \$184,800 relates to an acquisition of a joint-venture interest. Furthermore \$531,669 of funds were used on the construction of Les Coteaux property. Funds used in the financing activities concern the monthly payments made on mortgages, \$976,220 for the repayment of a long term debt and issue costs disbursed for the issuance of preferred units of limited partnerships. Funds obtained from the financing activities come from the bank loan utilisation.

### **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 three (3) mortgages with financial institutions for a total of \$2,456,216 maturing in 2014, 2017 and 2019, one (1) balance of sale of \$333,000 maturing in 2014 and three (3) convertible debts with a face value of \$1,321,230 and shown on the statement of financial position at \$1,156,708. For the mortgages with the financial institutions, the Trust makes monthly payments around \$18,200. For the balance of sale debt, reimbursement of the principal is scheduled at maturity date.

### **Trust units**

The Trust is authorized to issue an unlimited number of trust units. During the quarter ended March 31, 2013, the Trust did not issue any unit. As at March 31, 2013, the total number of units issued and outstanding was 32,616,083 units. During this same quarter, the Trust has not granted any option or warrant. As at March 31, 2013, there were 505,000 options and 200,000 warrants outstanding.

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

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.

### **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 \$4,000 per month. The agreement ends on August 31, 2013.

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

The Trust made no off-balance sheet arrangements during the quarter ended on March 31, 2013.

### **Related Party Transactions**

During the quarter ended March 31, 2013, the Trust paid \$12,000 (2012: \$10,000) in professional fees to entities controlled by trustees. The Trust also paid \$25,228 (2012: \$6,400) for lawyer services to a person related to a trustee.

Property rental revenue includes \$71,574 (2012: \$67,662) obtained from companies controlled by trustees and individuals related to trustees for which no amount is included in the receivables of March 31, 2013 (2012: \$323).

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).