

**FRONSAC REAL ESTATE INVESTMENT TRUST
INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS
FORM 51-102F1
FOR THE PERIOD ENDED MARCH 31, 2014**

OPERATIONAL AND FINANCIAL HIGHLIGHTS

For the periods ended	March 31, 2014 (3 months)	March 31, 2013 (3 months)	December 31, 2013 (12 months)	December 31, 2012 (12 months)
OPERATIONAL DATA				
Number of properties	9	6	9	5
Occupancy	100%	100%	100%	100%
Value of properties	19,670,243	13,744,144	20,398,786	11,521,954
FINANCIAL PERFORMANCE				
Property rental revenue	377,154	228,934	1,006,914	665,870
EBITDA	310,037	176,087	926,380	456,330
Funds from operations (FFO)	217,315	128,946	581,977	273,456
Adjusted funds from operations (AFFO)	217,315	128,946	581,977	273,456
Distributions	127,432	-	443,322	256,737
PER UNIT FINANCIAL PERFORMANCE				
Weighted average units outstanding	34,429,853	32,616,083	32,817,956	20,985,587
FFO	0.0063	0.0040	0.0177	0.0130
AFFO	0.0063	0.0040	0.0177	0.0130
Distributions per unit	0.0037	n/a	0.0135	0.0125
AFFO payout ratio	58.73%	n/a	76.18%	93.89%
FINANCING				
Leverage	47.46%	28.05%	45.04%	28.74%
Interest coverage ratio	2.1	3.9	2.8	2.7
Debt service coverage ratio	1.9	2.5	2.1	1.9

MANAGEMENT'S DISCUSSION & ANALYSIS

May 22nd , 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 period of 3 months ended March 31, 2014. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of March 31, 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 May 22nd , 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.

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

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 quarter

On March 31, 2014, the Trust distributed to unitholders an amount of \$0.0037 [\$0.0148 on an annual basis] per unit for a total distribution of \$127,432.

The Trust has decided to put for sale its investment property located in Saint-Hubert. As at March 31, 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 \$1,386,636.

Highlights:

Financial Position

Financial Position	March 31, 2014 \$	December 31, 2013 \$
Investment Properties	19,670,243	20,398,786
Investment in joint ventures	732,751	761,729
Total Assets	21,242,954	22,131,533
Total debts, mortgages and loans	10,083,000	9,967,130
Total Liabilities	11,109,170	11,263,993
Equity	10,133,784	10,867,540

Highlights (continued):

Funds from operations

Funds from operations (FFO)	<i>three months ended</i>	
Reconciliation of income to funds from operations	March 31, 2014	March 31, 2013
	\$	\$
Net income (loss) attributable to unitholders	(595,604)	184,709
Variation in value of investment properties	730,293	(68,158)
Variation in value of investment properties obtained from joint-ventures	30,316	(39,580)
Unit-based compensation	(2,385)	4,450
Variation of liability component of the convertible preferred units	8,745	2,683
Variation of fair value of derivative financial instruments	20,350	10,000
Unrealized gain on interest swaps	(2,000)	(1,500)
Variation in fair value of other financial components	1,500	1,440
Amortization intangible assets	-	1,851
Deferred income taxes	26,100	33,051
FFO – basic	217,315	128,946
FFO per unit – basic	0.0063	0.0040
Distributions paid on convertible preferred units	16,353	4,923
FFO – diluted	233,668	133,869
FFO per unit – diluted	0.0060	0.0037
Weighted average units outstanding – basic	34,429,853	32,616,083
Weighted average units outstanding – diluted	38,850,053	36,006,883

QUARTERLY FINANCIAL INFORMATION

	2014		2013		2012			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Rental income	377,154	313,366	233,068	253,972	206,508	174,464	183,269	162,259
Net income attributable to unitholders	(595,604)	959,081	(307,741)	414,122	184,709	929,738	47,378	(9,210)
Net income per unit								
basic	(0.017)	0.029	(0.009)	0.013	0.006	0.041	0.002	(0.000)
diluted	(0.017)	0.025	(0.011)	0.013	0.006	0.038	0.002	(0.000)
Weighted average number of units – diluted (000)	34,430	37,929	37,655	32,645	35,031	24,443	20,514	20,514
Funds from operations (FFO)	217,315	119,269	228,518	105,245	128,946	33,078	83,163	80,230
FFO per unit								
basic	0.006	0.004	0.007	0.003	0.004	0.002	0.004	0.004
diluted	0.006	0.004	0.006	0.003	0.004	0.002	0.004	0.004
Value of investment properties (000)	19,670	20,399	17,950	17,736	13,744	11,522	9,119	9,091
Total assets (000)	21,243	22,132	19,715	19,416	15,602	14,333	9,633	9,530
Mortgages and other debts (000)	10,083	9,967	8,382	8,166	4,476	4,120	4,142	3,983
Equity (000)	10,134	10,868	9,537	9,906	9,674	9,500	4,863	4,943

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>	
	March 31, 2014	March 31, 2013
	\$	\$
Rental income	377,154	228,934
Variation of fair value of investment properties	(730,293)	68,158
Interest on mortgages	86,096	29,870
Interest on long-term debt	5,521	8,492
Interest on bank loans	8,864	1,673
Interest on convertible units	25,098	7,606
Net income (loss) attributable to unitholders	(595,604)	184,709
Net income (loss) per unit – basic	(0.0173)	0.0057
Net income (loss) per unit – diluted	(0.0173)	0.0057
Weighted average units outstanding – basic	34,429,853	32,616,083
Weighted average units outstanding – diluted	34,429,853	32,616,083
EBITDA	310,037	176,087
Interest coverage	2.7	3.9
Debt coverage	1.9	2.5

Results of operations for the quarter ended March 31, 2014

For the quarter ended March 31, 2014, the net loss attributable to unitholders, was (\$595,604) or (\$0.0173) per unit compared to net income of \$184,709 or \$0.0057 per unit for the comparative quarter of 2013. The net loss includes losses of (\$730,293) [2013: gain of \$68,158] and (\$30,316) [2013: gain of \$39,580] 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". These losses are explained by an increase of 25 basis points in the global capitalization rate.

For the quarter, the Trust had rental income of \$377,154 [2013: \$228,934] composed of fixed monthly rents and royalties based on tenants' sales. During this 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, Louiseville and those of Trois-Rivières in operations for three (3) months. For the 2013 quarter, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup and St-Hubert in operations for three (3) months as well as the Trois-Rivières properties in operations for two (2) months.

The overall increase in rental income is explained by the decrease of \$738 attributable to sites operated during three (3) months, both in 2014 and 2013, a decrease of \$4,973 from the Trois-Rivières properties operated three (3) months in 2014 and two (2) months in 2013, and a contribution of \$153,931 from properties operated only in 2014.

The main operating expenses were interest on mortgages [\$86,096] [2013: \$29,870], long-term debts [\$5,521] [2013: \$8,492], distributions on convertible preferred units [\$25,098] [2013: \$7,606], and bank loans [\$8,864] [2013: \$1,673], and in administrative expenses, professional fees of [\$44,623] [2013: \$22,246] and registration and listing fees [\$7,144] [2013: \$7,573].

For the quarter ended March 31, 2014, interest on mortgages were paid on six (6) mortgages with a value of \$7,469,613, two (2) long term debts of \$423,273, convertible preferred units with a book value of \$1,180,114 and a bank loan of \$1,010,000. For the corresponding quarter of 2013, interests were paid on three (3) mortgages totalling of \$2,456,216, one (1) long term debt of \$333,000 and convertible preferred units with a book value of \$1,156,708.

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 \$15,000 [2013: \$12,000] 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 loss of 2014 includes net charges of \$17,465 [2013: \$14,390] for the variation in fair 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 net charges are mainly explained by a quoted market price of the unit of \$0.31 as at March 31, 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>	
	March 31, 2014	March 31, 2013
	\$	\$
Operating activities	8,058	85,016
Investing activities	(347,486)	(1,289,520)
Financing activities	7,807	(483,076)
Increase (decrease) in cash and cash equivalents	(347,235)	(1,687,580)
Cash and cash equivalents – beginning of period	268,964	2,368,515
Cash and cash equivalents – end of period	(78,271)	680,935

For the quarter ended March 31, 2014, funds used in the investing activities correspond to the payments of accounts payable related to the construction of the property at Les Coteaux and deposit payments for potential acquisitions. Funds used in the financing activities are mainly explained by the payments of \$175,785 made on debts and mortgages as well as the distribution paid to unitholders. This use of funds was offset by the increase in bank loan as well as the proceed obtained from the exercise of 50,000 options. 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 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 \$7,469,613 maturing in 2014, 2017, 2018, 2019 and 2023, one (1) balance of sale of \$333,000 maturing in 2014, a loan of \$90,273 and three (3) convertible debts with a face value of \$1,321,230 and shown on the statement of financial position at \$1,180,114. For the mortgages with the financial institutions, the Trust currently makes monthly payments around \$48,000. For the balance of sale debt, reimbursement of the principal is scheduled at maturity. 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 quarter ended March 31, 2014, the Trust has issued 50,000 units following the exercise of options. As at March 31, 2014, the total number of units issued and outstanding was 34,440,964 units. During this same quarter, the Trust has not granted any option or warrant. As at March 31, 2014, there were 120,000 options and 200,000 warrants outstanding.

Subsequent Events to March 31, 2014

None.

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 \$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 quarter ended March 31, 2014.

Related Party Transactions

During the quarter ended March 31, 2014, the Trust paid \$15,000 (2013: \$12,000) as professional fees to an entity controlled by a trustee. It also paid \$6,098 (2013: \$25,228) for lawyer services to a person related to a trustee. As at March 31, 2014, \$2,751 (2013: \$0) is included in the accounts payable.

Property rental revenue includes \$70,650 (2013: \$71,574) obtained from companies controlled by trustees and individuals related to trustees for which no amount is receivable as at March 31, 2014 (2013: \$0).

The Trust loaned money to a person related to a trustee for which an amount of \$38,666 is receivable as at March 31, 2014 (2013: \$0). The Trust obtained interest revenue of \$857 (2013: \$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.