FRONSAC REAL ESTATE INVESTMENT TRUST

INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE PERIOD ENDED JUNE 30, 2014

OPERATIONAL AND FINANCIAL HIGHLIGHTS

For the periods ended	June 30, 2014 (3 months)	June 30, 2013 (3 months)	June 30, 2014 (6 months)	June 30, 2013 (6 months)
OPERATIONAL DATA				
Number of properties	10	6	10	6
Occupancy	100%	100%	100%	100%
Value of properties (including joint ventures)	20,128,310	18,464,042	20,128,310	18,464,042
FINANCIAL PERFORMANCE				
Property rental revenue	372,517	253,972	749,672	460,480
Funds from operations (FFO)	195,170	105,245	412,485	234,191
Adjusted funds from operations (AFFO)	195,170	105,245	412,485	234,191
EBITDA	303,291	201,020	613,329	377,107
Distributions	127,431	220,902	254,863	220,902
PER UNIT FINANCIAL PERFORMANCE				
Weighted average units outstanding	34,440,964	32,645,094	34,435,439	32,630,669
FFO	0.0057	0.0032	0.0120	0.0072
AFFO	0.0057	0.0032	0.0120	0.0072
Variation	78.13%	n/a	66.67%	n/a
Distributions per unit	0.0037	0.003375	0.0074	0.00675
AFFO payout ratio	64.91%	105.47%	61.67%	93.75%
FINANCING				
Leverage	50.04%	42.06%	50.04%	42.06%
Interest coverage ratio	2.8	2.4	2.7	2.9
Debt service coverage ratio	1.9	1.8	1.9	2.1

MANAGEMENT'S DISCUSSION & ANALYSIS

August 14, 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 6 months ended June 30, 2014. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of June 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 August 14, 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 participation in the property, its occupancy rate and the category of tenants.

Categories of tenants are:

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

Property / locality	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, 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 (Qc)	50%	100%	1, 2, 3

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

On June 27, 2014, the Trust has made the acquisition of a real estate land located in St-Hilaire with a cash payment of $8,000.

In May 2014, the Trust, through a joint venture where it has a 50% interest, has paid $449,368 for the acquisition of a real estate land adjacent to the Louiseville site. The tenant, a McDonald restaurant, has started the construction of a property. The Trust estimates that the property will be in operation before the end of this coming quarter.

On June 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 $127,431.

The Trust has decided to put for sale its investment property located in Saint-Hubert. As at June 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 $1,375,060.

Highlights:

Financial Position

Financial Position	June 30, 2014 $	December 31, 2013 $	June 30, 2013 $
Investment Properties	19,428,714	20,398,786	17,736,462
Investment in joint ventures	705,889	761,729	729,495
Total Assets	20,507,231	22,131,533	19,415,935
Total debts, mortgages and loans	10,261,083	9,967,130	8,166,228
Total Liabilities	11,152,838	11,263,993	9,509,978
Equity	9,354,393	10,867,540	9,905,957

Highlights (continued):

Funds from operations

Funds from operations (FFO)	three months ended		six months ended	
Reconciliation of income to funds from operations	June 30, 2014 $	June 30, 2013 $	June 30, 2014 $	June 30, 2013 $
Net income (loss) attributable to unitholders	(653,685)	414,122	(1,249,289)	598,831
Variation in value of investment properties	778,910	(327,649)	1,509,203	(395,807)
Variation in value of investment properties obtained from joint-ventures	27,984	(28,000)	58,300	(67,580)
Unit-based compensation	(430)	(5,000)	(2,815)	(550)
Variation of liability component of the convertible preferred units	24,516	(1,909)	33,261	774
Variation of fair value of derivative financial instruments	(2,850)	24,720	17,500	34,720
Unrealized gain on interest swaps	(2,020)	(2,600)	(4,020)	(4,100)
Variation in fair value of other financial components	-	1,620	1,500	3,060
Amortization intangible assets	-	1,851	-	3,702
Current income taxes	45	-	45	-
Deferred income taxes	22,700	28,090	48,800	61,141
FFO – basic	**195,170**	**105,245**	**412,485**	**234,191**
FFO per unit – basic	**0.0057**	**0.0032**	**0.0120**	**0.0072**
Distributions paid on convertible preferred units (if dilutive)	-	-	16,353	-
FFO – diluted	**195,170**	**105,245**	**428,838**	**234,191**
FFO per unit – diluted	**0.0050**	**0.0032**	**0.0110**	**0.0072**
Weighted average units outstanding – basic	**34,440,964**	**32,645,094**	**34,435,439**	**32,630,669**
Weighted average units outstanding – diluted	**38,861,164**	**32,645,094**	**38,855,639**	**32,630,669**

QUARTERLY FINANCIAL INFORMATION

	2014		2013				2012	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Rental income	372,517	377,154	313,366	233,068	253,972	206,508	174,464	183,269
Net income attributable to unitholders	(653,685)	(595,604)	959,081	(307,741)	414,122	184,709	929,738	47,378
Net income per unit								
basic	(0.019)	(0.017)	0.029	(0.009)	0.013	0.006	0.041	0.002
diluted	(0.019)	(0.017)	0.025	(0.011)	0.013	0.006	0.038	0.002
Weighted average number of units – diluted (000)	34,441	34,430	37,929	37,655	32,645	35,031	24,443	20,514
Funds from operations (FFO)	195,170	217,315	119,269	228,518	105,245	128,946	33,078	83,163
FFO per unit								
basic	0.0057	0.0063	0.0036	0.0070	0.0032	0.0040	0.0015	0.0041
diluted	0.0050	0.0060	0.0035	0.0064	0.0032	0.0037	0.0015	0.0039
Value of investment properties (000)	19,429	19,670	20,399	17,950	17,736	13,744	11,522	9,119
Total assets (000)	20,507	21,243	22,132	19,715	19,416	15,602	14,333	9,633
Mortgages and other debts (000)	10,261	10,083	9,967	8,382	8,166	4,476	4,120	4,142
Equity (000)	9,354	10,134	10,868	9,537	9,906	9,674	9,500	4,863

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, three (3) commercial properties, two (2) located in Trois-Rivières and two (2) in Louiseville, for which one property is under construction as at June 30, 2014. 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	*three months ended*		*six months ended*	
	June 30, 2014 $	June 30, 2013 $	June 30, 2014 $	June 30, 2013 $
Rental income	372,517	253,972	749,672	460,480
Variation of fair value of investment properties	(778,910)	327,649	(1,509,203)	395,807
Interest on mortgages	92,431	46,710	178,437	76,580
Interest on long-term debt	5,568	4,626	11,090	13,118
Interest on bank loans	10,099	7,444	18,963	9,117
Interest on convertible units	24,516	22,248	49,614	29,854
Net income (loss) attributable to unitholders	(653,685)	414,122	(1,249,289)	598,831
Net income (loss) per unit – basic	(0.0190)	0.0127	(0.0363)	0.0184
Net income (loss) per unit – diluted	(0.0190)	0.0126	(0.0363)	0.0181
Weighted average units outstanding – basic	34,440,964	32,645,094	34,435,439	32,630,669
Weighted average units outstanding – diluted	34,440,964	33,240,094	34,435,439	33,225,669

EBITDA	**303,291**	**201,020**	**613,329**	**377,107**
Interest coverage	**2.8**	**2.4**	**2.7**	**2.9**
Debt coverage	**1.9**	**1.8**	**1.9**	**2.1**

Results of operations for the quarter ended June 30, 2014

For the quarter ended June 30, 2014, the net loss attributable to unitholders, was ($653,685) or ($0.0190) per unit compared to net income of $414,122 or $0.0127 per unit for the comparative quarter of 2013. The net loss includes losses of ($778,910) [2013: gain of $327,649] and ($27,984) [2013: gain of $28,000] 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 mainly explained by an increase of 25 basis points in the global capitalization rate.

For the quarter, the Trust had rental income of $372,517 [2013: $253,972] 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 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, St-Hubert, Trois-Rivières in operations for three (3) months as well as the Val-David property in operations for two (2) months.

The variation of $118,545 in rental income is explained by an increase of $7,239 for same properties income and a contribution of $111,306 from properties operated only in 2014.

The main operating expenses were interest on mortgages [$92,341] [2013: $46,710], long-term debts [$5,568] [2013: $4,626], distributions on convertible preferred units [$24,516] [2013: $22,248], and bank loans [$10,099] [2013: $7,444], and in administrative expenses, professional fees of [$33,836] [2013: $45,707] and registration and listing fees [$7,263] [2013: $7,871].

For the quarter ended June 30, 2014, interest on mortgages were paid on six (6) mortgages with a value of $7,416,245, two (2) long term debts of $420,208, convertible preferred units with a book value of $1,204,630 and a bank loan of $1,220,000. For the corresponding quarter of 2013, interests were paid on five (5) mortgages totalling of $5,694,858, two (2) long term debts of $436,571, convertible preferred units with a book value of $1,154,799 and a bank loan standing at $880,000.

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 $15,000 [2013: $12,000] 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 loss of 2014 includes net gains of $5,3000 [2013: losses of $18,740] 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 gains are mainly explained by the decrease of the maturity date of the components.

Results of operations for the period of 6 months ended June 30, 2014

The net loss of the period ended June 30, 2014, attributable to unitholders, was ($1,249,289) or ($0.0363) per unit compared to a net income of $598,831 or $0.0184 per unit for the comparative quarter of 2013. The net loss of 2014 includes losses of ($1,509,203) [2013: gain of $395,807] and ($58,300) [2013: gain of $67,580] 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 a decrease of 50 basis points in the global capitalization rate.

For the period of 6 months ended June 30, 2014, the Trust had rental revenues of $749,672 [2013: $460,480] 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 and those of Trois-Rivières in operations for six (6) months. 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 six (6) months, the Trois-Rivières properties for a period of five (5) months and the Val-David property for two (2) months.

The variation of $289,192 in rental income is explained by an increase of $65,644 for same properties income and a contribution of $223,548 from properties operated only in 2014.

The main operating expenses were interest on mortgages [$178,437] [2013: $76,580], long-term debts [$11,090] [2013: $13,118], distributions on convertible preferred units [$49,614] [2013: $29,854], and bank loans [$18,963] [2013: $9,117], and in administrative expenses, professional fees of [$78,459] [2013: $67,953] and registration and listing fees [$14,407] [2013: $15,445].

For the period ended June 30, 2014, interests were paid on the same components detailed in the quarterly section, taking into account that a long term debt of $105,000 was obtained on May 20, 2013.

For mortgages, interest rates obtained from financial institutions ranged between 3.99% 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 net charges of $12,165 [2013: $33,130] 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 charges are explained by a quoted market price of the unit of $0.31 as at June 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	*three months ended*		*six months ended*	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	$	$	$	$
Operating activities	396,129	(46,977)	404,187	38,039
Investing activities	(314,381)	(3,976,685)	(661,867)	(5,266,205)
Financing activities	(52,135)	3,498,811	18,329	3,015,735
Increase (decrease) in cash and cash equivalents	29,613	(524,851)	(239,351)	(2,212,431)
Cash and cash equivalents – beginning of period	-	680,935	268,964	2,368,515
Cash and cash equivalents – end of period	29,613	156,084	29,613	156,084

For the quarter ended June 30, 2014, funds used in the investing activities correspond to the disbursements incurred on acquisitions of investment properties [$537,381] reduced by the refund of deposits and distributions received from joint ventures [$223,000]. Funds used in the financing activities [$183,864] are explained by the payments of debts and the distribution paid to unitholders. Funds obtained from the financing activities [$131,729] are explained by the increase in bank loan. 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 six (6) mortgages with financial institutions for a total of $7,416,245 maturing in 2014, 2017, 2018, 2019 and 2023, one (1) balance of sale of $333,000 maturing in 2014, a loan of $87,208 and three (3) convertible debts with a face value of $1,321,230 and shown on the statement of financial position at $1,204,630. 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 June 30, 2014, the Trust has not issued any units. As of that date, 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 June 30, 2014, there were 120,000 options and 200,000 warrants outstanding.

Subsequent Events to June 30, 2014

On July 3, 3014, the Trust obtained an additional $500,000 of credit facilities.

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 June 30, 2014.

Related Party Transactions

During the quarter ended June 30, 2014, the Trust paid $15,000 (2013: $12,000) as professional fees to an entity controlled by a trustee. It also paid $1,710 (2013: $3,931) for lawyer services to a person related to a trustee for which no balance is payable as at June 30, 2014 (2013: $0).

Property rental revenues include $70,650 (2013: $70,407) obtained from companies controlled by trustees and individuals related to trustees for which no amount is receivable as at June 30, 2014 (2013: $1,143$).

The Trust loaned money to a person related to a trustee for which an amount of $37,984 is receivable as at June 30, 2014 (2013: $41,041). The Trust obtained interest revenue of $842 (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.