FRONSAC REAL ESTATE INVESTMENT TRUST

MANAGEMENT DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE YEAR ENDED DECEMBER 31, 2016

SUMMARY OF SELECTED ANNUAL INFORMATION

Periods ended December 31	12 months 2016	2015	Δ	%
Financial info				
Property rental income	2,837,021	2,198,921	638,100	29%
Total revenue	2,992,371	2,291,631	700,740	31%
NOI [1]	2,580,709	1,965,701	615,008	31%
FFO [1]	1,212,796	1,074,956	137,840	13%
Recurring FFO [1]	1,297,438	982,246	315,192	32%
AFFO [1]	1,371,167	1,066,031	305,136	29%
EBITDA [1]	1,934,812	1,653,718	281,094	17%
Investment properties [2]	48,065,082	33,360,523	14,704,559	44%
Total assets	48,355,249	33,754,607	14,600,642	43%
Total mortgage/loans/long term debt [3]	24,547,956	16,467,370	8,080,586	49%
Total exchangeable preferred units	945,830	907,101	38,729	4%
Total convertible debentures	249,149	247,808	1,341	1%
Total equity	21,419,308	14,141,197	7,278,111	51%
Weighted average units o/s - basic	52,403,772	46,290,395	6,113,377	13%
Amounts on a per unit basis				
FFO	0.0231	0.0232	(0.0001)	(0%)
Recurring FFO	0.0248	0.0212	0.0035	17%
AFFO	0.0262	0.0230	0.0031	14%
Distributions	0.0161	0.0153	0.0008	5%
Financial ratios				
Weighted avg. interest rate - fixed loans/mortgages	3.2%	3.9%	(0.7%)	
Debt to gross assets - including converts	53%	52%	1%	
Debt to gross assets - excluding converts [3]	51%	49%	2%	
Interest coverage ratio	2.6	2.8	(0.2)	
Debt service coverage ratio	1.5	1.8	(0.3)	
Distributions as a % of FFO	70%	66%	4%	
Distributions as a % of Recurring FFO	65%	72%	(7%)	
Distributions as a % of AFFO	62%	67%	(5%)	
Leasing information				
Occupancy	100%	100%	0%	
Mix of tenancy based on gross revenue				
National	78%	78%	0%	
Regional	19%	21%	(2%)	
Local	3%	1%	2%	
Property type breakdown				
Gas/Convenience store	9	8	1	
Gas/Convenience store/Fast food	7	4	3	
Fast food	8	5	3	
	24	17	7	
Other				
Average term to maturity - mortgages	3.8	4.6	(0.8)	
Average term to maturity - leases	7.4	7.4	0.0	
IFRS capitalization rate	6.24%	6.58%	(0.34%)	

[1] Non-IFRS financial measures

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

[3] Excludes convertible debentures and exchangeable preferred units

BREAKDOWN OF PROPERTIES AND OPERATING SECTORS


Mont-St-Hilaire (1)(2)(3)


Trois-Rivières (1)(2)(4)


Trois-Rivières (1)(2)


Val-David (1)(2)(3)(4)


Saint-Jean-sur-le-Richelieu (1)(2)(4)


Rivière du-Loup (1)(2)


Les Coteaux (1)(2)(3)(4)


Louiseville (1)(2)(3)


Louiseville (3)

Lévis (3)


Québec (1)(2)

Cornwall (3)


Ste-Julie (3)


Ste-Julie (3)


Ste-Julie (1)(2)


Ste-Julie (1)

St-Mathieu-de-Beloeil (1)(2)


St-Hyacinthe (1)(2)(3)(4)


Trois-Rivières (3)

Trois Rivières (1)(2)(3)


Richelieu (1)(2)(3)(4)


Repentigny (1)(2)


St-Jérôme (3)


Pierrefonds (3)

(1) Gas/Service Station
(2) Convenience Store
(3) Fast Food Restaurant
(4) Car Wash

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 periods 3 and 12 months ended December 31, 2016. It should be read in conjunction with the Audited Consolidated Financial Statements for the period ended December 31, 2016 and the Trust's Audited Consolidated Financial Statements and MD&A for the period ended December 31, 2015. 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 March 16, 2017, this MD&A reflects all significant information available as of that date and should be read in conjunction with the Audited 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 March 16, 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 December 31, 2016 the Trust held 24 investment properties, 23 residing in the province of Quebec and 1 in the province of Ontario. The occupancy rate for these properties remained at 100% throughout the year. 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 YEAR

On July 2, 2015 the Trust acquired a parcel of land measuring approximately 67,000 square feet in the town of Saint-Hyacinthe, Quebec. Fronsac has since delivered the building to our tenants, Tim Hortons, Dépanneur Beau Soir and Petro Canada, and tenants began commercial operations during the last week of March 2016.

On July 12, 2016 the Trust obtained the approval of the TSX Venture Exchange to proceed with a normal course issuer bid ("NCIB"). Under 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 (the "Units"), which represents approximately 5% of the units in circulation. As of July 12, 2016, the Trust had 46,428,751 units issued and outstanding. 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.

The Board of Trustees of Fronsac believes that the purchase of units through the NCIB represents a valuable use of the financial resources of the Trust as these interventions can protect as well as enhance value for our unitholders when opportunities arise or in the event of volatility in the unit price.

On July 14, 2016 the Trust announced the closing of a private placement, which was launched on June 13, 2016. The Trust collected total proceeds of $4,999,999.68 through the sale of 12,820,512 units at a price of $0.39 per unit. The Trust intends to use said proceeds for future acquisitions and working capital purposes. Insiders of Fronsac participated in the offering and purchased approximately 25% of the newly issued units.

On July 26, 2016 the Trust announced the acquisition of two (2) real estate investment properties located in Trois-Rivières, Quebec. One of the properties is a freestanding Mike's restaurant located in the heart of the Trois-Rivières commercial retail sector on Boulevard Des Forges. The second property is strategically located right off highway 40 on rue Des Prairies exit of Highway 40 and is operated as a service station under the Eko fuel banner as well as a Subway Restaurant. Total consideration paid for these properties was $1,025,000 and $3,225,000 respectively and was settled in cash. The properties will generate in aggregate approximately $290,000 in net operating income on an annual basis.

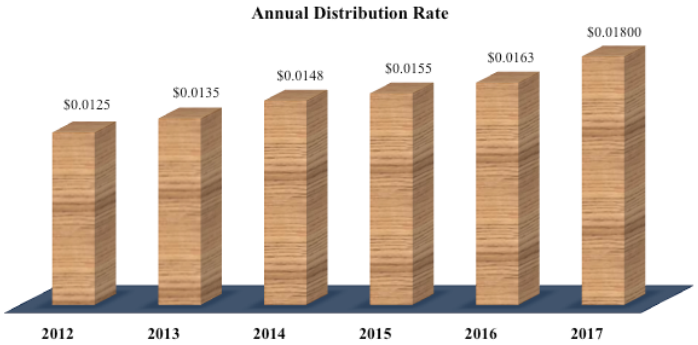
On September 2, 2016 the Trust announced the acquisition of a real estate investment property, located in Richelieu, Quebec. The property is located along Highway 10 and is operated as a service station under the Petro Canada banner as well as a Subway Restaurant. Total

consideration paid for this property was $3,512,000 and was settled in cash. The property will generate approximately $240,000 in net operating income on an annual basis.

On October 28, 2016 the Trust announced three (3) acquisitions. The properties are located in Pierrefonds, Saint-Jérôme and Repentigny, in the province of Quebec. The Pierrefonds and Saint-Jérôme properties are operated as Tim Hortons restaurants and the Repentigny property is operated as a service station under the Couche-Tard banner. Total consideration paid for these properties was $4,175,000 and was settled in cash. The property will generate approximately $264,000 in net operating income on an annual basis.

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 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 $364,018.32 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.

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 7). 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

RECONCILIATION OF NET INCOME TO FFO

	3 months			12 months		
Periods ended December 31	**2016**	**2015**	**Δ**	**2016**	**2015**	**Δ**
Net income (loss) attributable to unitholders	678,913	45,020	633,893	3,196,819	1,261,435	1,935,384
Δ in value of investment properties	(283,708)	147,487	(431,195)	(2,088,379)	(221,248)	(1,867,131)
Δ in value of investment properties in joint ventures	(19,771)	-	(19,771)	(47,755)	-	(47,755)
Unit based compensation	(200)	-	(200)	40,875	(18,699)	59,574
Δ in liability component of exchangeable preferred units	6,596	5,707	889	40,070	36,629	3,441
Δ in fair value of derivative financial instruments	(4,620)	(4,985)	365	48,515	(8,055)	56,570
Δ in fair value of other financial components	(1,045)	(810)	(235)	3,605	(870)	4,475
Income taxes	18,824	25,000	(6,176)	19,046	25,764	(6,718)
FFO[1] - basic	394,989	217,419	82%	1,212,796	1,074,956	13%
FFO per unit - basic	0.0067	0.0047	42%	0.0231	0.0232	(0%)
Distributions paid on exchangeable units (if dilutive)	12,585	11,966	619	49,720	45,343	4,377
FFO - diluted	407,574	229,385	78%	1,262,516	1,120,299	13%
FFO per unit - diluted	0.0065	0.0046	41%	0.0228	0.0227	0%
Recurring FFO - basic	394,989	217,419	82%	1,297,438	982,246	32%
Recurring FFO per unit - basic	0.0067	0.0047	42%	0.0248	0.0212	17%
Distributions	241,441	179,718	61,723	790,073	709,618	80,455
Distributions per unit	0.0041	0.0039	5%	0.0161	0.0153	5%
FFO - basic after distributions	0.0026	0.0008	0.0018	0.0070	0.0079	(0.0009)
Recurring FFO - basic after distribution	0.0026	0.0008	0.0018	0.0087	0.0059	0.0028
Distributions as a % of FFO - basic	61%	83%	(22%)	70%	66%	4%
Distributions as a % of Recurring FFO - basic	61%	83%	(22%)	65%	72%	(7%)
Weighted avg. units o/s						
Basic	59,249,263	46,378,751	12,870,512	52,403,772	46,290,395	6,113,377
Diluted	62,337,463	49,466,951	12,870,512	55,491,972	49,378,595	6,113,377

[1] FFO is a Non-IFRS financial measure

QUARTERLY FINANCIAL INFORMATION

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rental income	874,879	713,597	646,805	601,740	615,452	596,269	539,430	447,770
Net income attributable to unitholders	678,913	1,474,531	(485,256)	1,528,631	45,020	478,243	589,897	148,275
Net income per unit								
Basic	0.0115	0.0257	(0.0105)	0.0330	0.0010	0.0103	0.0128	0.0032
FFO [1]								
Basic	394,989	129,594	269,978	418,236	217,419	295,023	335,985	226,856
FFO per unit								
Basic	0.0067	0.0023	0.0058	0.0090	0.0047	0.0064	0.0073	0.0049
Value of investment properties (000's) [2]	48,065	43,420	34,174	34,809	33,361	31,824	30,699	23,262
Total assets (000's)	48,355	43,884	34,449	35,320	33,755	32,143	31,220	24,939
Mortgages, and other debts (000's)	24,548	20,896	17,593	17,879	16,467	15,975	15,455	9,672
Equity (000's)	48,355	20,982	14,838	15,490	14,141	14,276	13,940	13,529
Weighted avg. units o/s								
Basic (000's)	59,249	57,438	46,419	46,379	46,379	46,323	46,229	46,229

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

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

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

	3 months			12 months		
Periods ended December 31	2016	2015	Δ	2016	2015	Δ
Basic FFO [1]	394,989	217,419	177,570	1,212,796	1,074,956	137,840
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	(47,782)	-	(47,782)	(81,621)	(8,925)	(72,696)
Leasing costs on existing properties	-	-	-	-	-	-
Debt extinguishment penalties	-	-	-	239,992	-	239,992
AFFO[1] - basic	347,207	217,419	60%	1,371,167	1,066,031	29%
AFFO per unit - basic	0.0059	0.0047	25%	0.0262	0.0230	14%
Distributions paid on exchangeable units (if dilutive)	12,585	11,966	619	49,720	45,343	4,377
AFFO - diluted	359,792	229,385	57%	1,420,887	1,111,374	28%
AFFO per unit - diluted	0.0058	0.0046	24%	0.0256	0.0225	14%
Distributions	0.0041	0.0039	5%	0.0161	0.0153	5%
AFFO -basic after distributions	0.0018	0.0008	0.0010	0.0101	0.0077	0.0024
Distributions as a % of AFFO - basic	70%	83%	(12%)	62%	67%	(5%)
Weighted avg. units o/s						
Basic	59,249,263	46,378,751	12,870,512	52,403,772	46,290,395	6,113,377
Diluted	62,337,463	49,466,951	12,870,512	55,491,972	49,378,595	6,113,377

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

CASH FLOWS AND LIQUIDITY

For the year ended December 31, 2016, 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 be attributed to the development in Saint-Hyacinthe, which began in 2015 and was completed and delivered to our tenants during Q1 2016, as well as the acquisitions that took place over the course of 2016.

CASH FLOWS	12 months		
Periods ended December 31	2016	2015	Δ
Operating activities	1,419,438	1,341,041	78,397
Investing activities	(13,541,326)	(13,293,029)	(248,297)
Financing activities	12,139,878	11,958,108	181,770
Increase in cash & cash equivalents	17,990	6,120	11,870
Cash & cash equivalents -Beginning of period	47,097	40,977	6,120
Cash & cash equivalents - End of period	65,087	47,097	17,990

Cash derived from financing activities amounted to $12,140K (11,958K in Q4 2015). This is related to obligations in connections with the development of the property in Saint-Hyacinthe as well as the acquisitions that took place over the course of 2016.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 31, 2016

For the quarter ended December 31, 2016, the Trust had rental income of $875K ($616K in Q4 2015). 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 Q4 2015, were from the Saint Hyacinthe development completed earlier in 2016 as well as acquisitions that took place during 2016.

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 December 31	2016	2015	Δ
Rental Income	874,879	615,542	259,337
Other revenues	-	-	-
Increase/(decrease) in fair values values of investment properties	283,708	(147,487)	431,195
Financial expenses	212,358	167,529	44,829
Debt extinguishment penalties	-	-	-
Net income attributable to unitholders	678,913	45,020	633,893
Net income per unit Basic	0.0115	0.0010	0.0105
FFO - basic[1]	394,989	217,419	82%
FFO per unit	0.0067	0.0047	42%
Recurring FFO - basic	394,989	217,419	82%
Recurring FFO per unit - basic	0.0067	0.0047	42%
Weighted avg. units o/s Basic	59,249,263	46,378,751	12,870,512
EBITDA [1]	606,416	385,800	220,616
Interest coverage	2.9	2.3	0.6
Debt service coverage	1.6	1.4	0.2

[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 $212K ($168K in Q4 2015).

For the quarter ended the Trust recorded recurring FFO of $395K in comparison to $217K in Q4 2015. Recurring FFO per unit increased by 42% from $0.0047 to $0.0067 for the same period.

RESULTS OF OPERATIONS FOR THE 12 MONTHS ENDED DECEMBER 31, 2016

For the 12 month period ended December 31, 2016, the Trust had rental income of $2,837K ($2,199K in 2015). These rents are composed of fixed monthly rents as well as variable rents based on gross sales for certain tenants. New revenues for this period, in comparison to 2015, were from the completed development in Saint-Hyacinthe as well as acquisitions that took place during 2016.

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 - PERIOD ENDED

	12 months		
Periods ended December 31	**2016**	**2015**	**Δ**
Rental income	2,837,021	2,198,921	638,100
Other revenues	155,350	92,710	62,640
Increase/(decrease) in fair values values of investment properties	2,088,379	221,248	1,867,131
Financial expenses	836,206	606,466	229,740
Debt extinguishment penalties	239,992	-	239,992
Net income attributable to unitholders	3,196,819	1,261,435	1,935,384
Net income per unit Basic	0.0610	0.0273	0.0338
FFO - basic[1]	1,212,796	1,074,956	13%
FFO per unit	0.0231	0.0232	(0%)
Recurring FFO - basic	1,297,438	982,246	32%
Recurring FFO per unit - basic	0.0248	0.0212	17%
Weighted avg. units o/s Basic	52,403,772	46,290,395	6,113,377
EBITDA [1]	1,934,812	1,653,718	281,094
Interest coverage	2.6	2.8	(0.2)
Debt service coverage	1.5	1.8	(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 $836K ($606K in 2015). During the period the Trust took advantage of current conditions of the market related to interest rates by extinguishing two (2) mortgages bearing interest rates of 5.09% and 5.24%. In doing so the Trust incurred penalties and other costs of $240K. These penalties were added to the principal of new mortgages bearing interest at a rate of 3.41%.

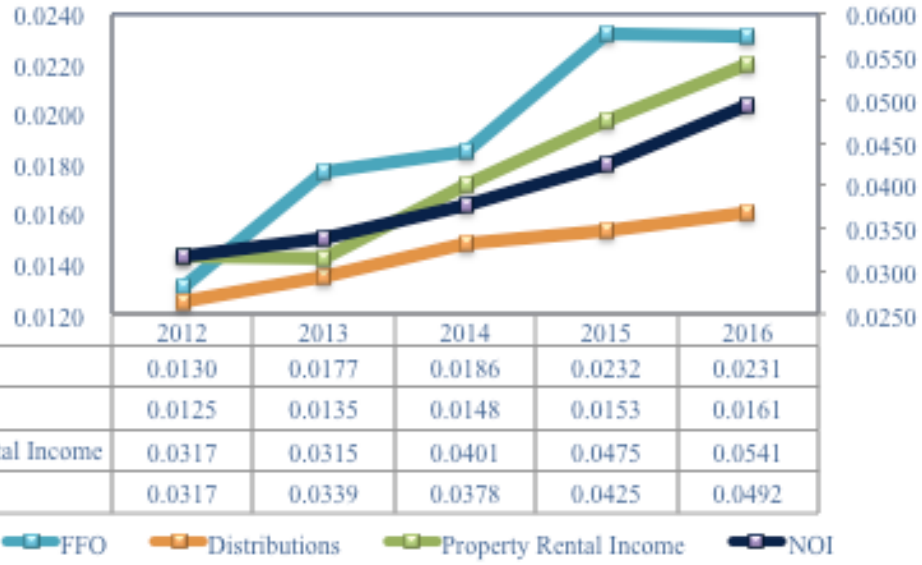
For the period the Trust recorded recurring FFO of $1,297K in comparison to $982K in 2015. Recurring FFO per unit increased by 17% from $0.0212 to $0.0248 for the same period.

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. On July 14, 2016 the Trust collected total proceeds of $4,999,999.68 through the sale of 12,820,512 units at a price of $0.39 per unit. During the 12 month period ended December 31, 2016 the Trust issued 50,000 units to certain members of management for services rendered as well as 550,000 options at a price of $0.38 per option. The total amount of units outstanding at December 31, 2016 was 59,249,263.

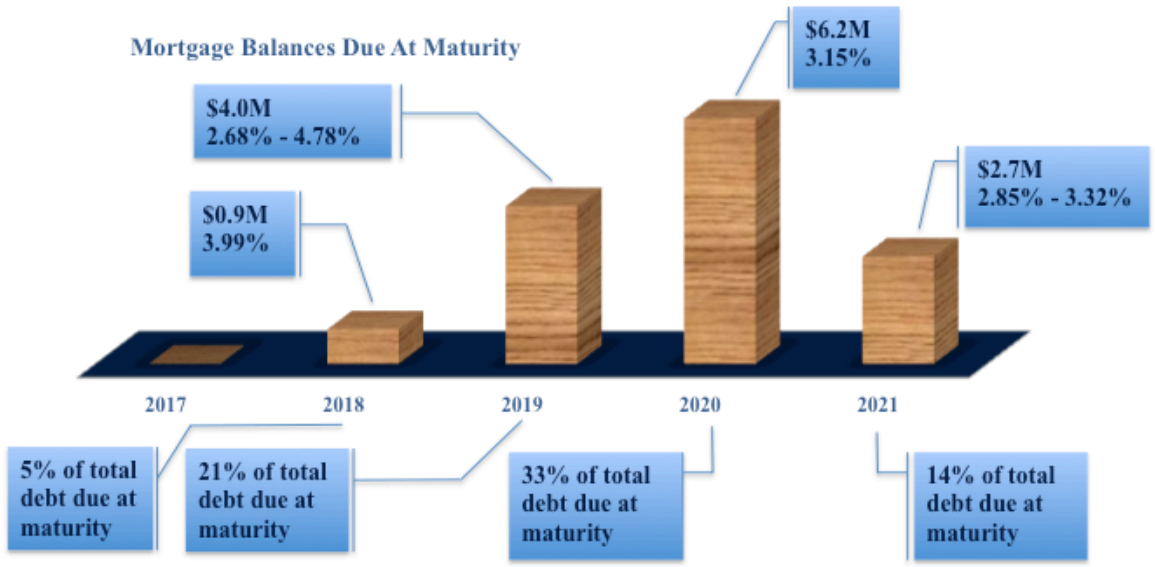
Effective August 1, 2016, the Trust put in place a Normal Course Issuer Bid (NCIB). Under the terms of the NCIB Fronsac may purchase for cancellation, through the facilities of the TSX Venture Exchange, if in the best interest of the Trust, a maximum of 2,321,437 Trust Units. Over the course of any 30-day 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.

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

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 December

31, 2016 there are 14 mortgages with Canadian financial institutions with a total carrying value of $21,859,425 ($13,825,695 in Q4 2015). These mortgages require the Trust to make payments of $16.5M over the next 5 years and $5.3M thereafter. The mortgages outstanding currently have an average term to maturity of 3.8 years (4.6 years in Q4 2015). Debentures in circulation as at December 31, 2016 have a carrying value of $249K ($248K in Q4 2015). The Trust currently has 2 secured lines of credit with authorized limits of $4M and $0.7M. These lines of credit have a $2.5M balance as at December 31, 2016 ($2.6M in Q4 2015).

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, 2016, 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 December 31, 2016 the Trust held interests in 24 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 balances ($92K as at December 31, 2016 compared to $84K in Q4 2015). 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 year ended December 31, 2016, the Trust paid $87,600 ($76,000 in 2015) in professional fees to trustees or entities controlled by trustees. During the year, the Trust also paid $12,696 ($16,027 in 2015) for legal fees to a person related to a trustee for which no amount is included in the accounts receivable as at December 31, 2016 ($0 in Q4 2015).

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 $332,194 ($289,396 in 2015) obtained from companies controlled by individuals related to trustees for which no amount is included in the accounts receivable as at December 31, 2016 ($0 in Q4 2015).

The Trust loaned money to a person related to a trustee for which an amount of $30,248 ($33,552 in Q4 2015) is included in the receivable balance. Interest received on that loan during the year amounts to $2,788 ($3,074 in 2015).