FRONSAC REAL ESTATE INVESTMENT TRUST

INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE PERIOD ENDED SEPTEMBER 30, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

November 15, 2012

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 periods of 3 months and 9 months ended September 30, 2012. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of September 30, 2012 and the Trust's Audited Consolidated Financial Statements and MD&A for the year ended December 31, 2011. The financial data contained in this MD&A has been prepared in accordance with the International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars.

Forward-looking statements and disclaimer

Securities laws encourage companies to present forward-looking information to provide investors with a better understanding of the Trust's future prospects and help them make informed decisions. This MD&A contains forward-looking statements about the Trust's objectives, strategies, financial position, results of operations, cash flows and operations, which are based on management's current expectations, estimates and assumptions about the markets in which it operates.

Statements based on management's current expectations contain known and unknown inherent risks and uncertainties. Forward-looking statements may include verbs such as "believe," "anticipate," "estimate," "expect," "intend" and "assess" or related expressions, used in the affirmative and negative forms. These statements represent the Trust's intentions, plans, expectations or beliefs and are subject to risks, uncertainties and other factors, many of which are beyond the Trust's control. Actual results may vary from expectations. The reader is cautioned not to place undue reliance on any forward-looking statements. Please note that the forward-looking statements contained in this MD&A describe our expectations as at November 15, 2012.

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%. 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. Finally 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.

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.

Highlights of the quarter

Revenues and profit
Rental income: $183,269 [2011: $121,814].
Net income: $47,848 [2011: ($80,710)].
Net income per unit: $0.002 [2011: ($0.006)].

Events
On July 6, 2012, the Trust paid a distribution of $0.00625 per unit for a total amount of $128,212.

Outlook 2012
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.

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. 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.

The 2011 comparative numbers pertain to the operations conducted under the name of Fronsac Capital Inc. and its subsidiaries for the period of January 1 to June 30, 2011 and under the Trust and its subsidiaries for the period of July 1 to September 30, 2011.

Results of operations

Income	three months ended		nine months ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	$	$	$	$
Rental revenue	183,269	121,814	491,406	376,398
Interest on mortgages	31,276	32,737	63,124	103,265
Interest on long-term debt	7,750	13,195	27,250	37,695
Interest on convertible units	9,348	1,930	27,700	1,930
Interest on bank loans	6,634	0	7,533	0
Net income (loss)	47,848	(80,710)	133,528	(59,859)
Net income per unit – basic and diluted	0.002	(0.006)	0.006	(0.004)
Funds from operations	83,632	6,071	241,224	31,901
Funds from operations per unit – basic and diluted	0.004	0.001	0.012	0.002
Weighted average units outstanding – basic	20,514,000	13,790,000	20,514,000	13,790,000
Weighted average units outstanding – diluted	21,269,000	13,790,000	21,269,000	13,790,000

Results of operations for the quarter ended September 30, 2012

The net income for the quarter ended September 30, 2012 was $47,848 or $0.002 per unit compared to a net loss of ($80,710) or ($0.006) per unit for the comparative quarter of 2011.

For the quarter, the Trust had rental revenues of $183,269 [2011: $121,814] composed of fixed monthly rents and royalties based on tenants' sales. For the 2012 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, whereas in 2011, only the properties of Mont-St-Hilaire and St-Jean-sur-le-Richelieu were in operations for the full quarter and Rivière-du-Loup in operations for 24 days.

The main operating expenses were interest on mortgages [$31,276] [2011: $32,737], on long-term debts [$7,750] [2011: $13,195], on convertible preferred units [$9,348] [2011: $1,930], and on bank loans [$6,634] [2011: $0], and in administrative expenses, professional fees of [$29,500] [2011: $20,275] and registration and listing fees [$7,048] [2011: $10,417].

Interest expense represents the interest paid on mortgages, long-term debts, convertible preferred units and bank loans. The interest rates range from 4.00% to 10.00%. At the time of acquisition of the property of St-Jean-sur-le-Richelieu, the Trust hedged itself against increases in variable interest rates with an interest rate swap. Consequently on the original $2,100,000 mortgage, the maximum interest rate over the next 5 years is 5.01%. On January 26, 2012, a portion of the swap representing a notional amount of $1,301,470, was repurchased at a price of $61,000, its fair market value at the transaction date.

For the September 30, 2012 quarter, interest on mortgages were paid on three (3) mortgages with a value of $2,504,893 as of that date, long term debts of $683,000, convertible preferred units of $329,207 and a bank loan of $625,000. For the quarter ended September 30, 2011, the interest was also paid on two (2) mortgages with a value of $2,785,049, three (3) long term debts of $883,000 and convertible preferred units with a value of $326,930.

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 [2011: $9,000] 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 expenses of 2011 included amounts paid in relation with the conversion into a real estate investment trust.

The net loss of September 30, 2012 includes net expenses of $4,675 [2011: net expenses of $83,000] for the increase in fair market value of the interest rates swap liability, derivative component of the convertible long-term debt and other components measured at fair market value at each reporting date.

Results of operations for the period of 9 months ended September 30, 2012

The net income for the period ended September 30, 2012 was $133,528 or $0.006 per unit compared to a net loss of ($59,859) or ($0.004) per unit for the comparative period of 2011.

For the period of 9 months ended September 30, 2012, the Trust had rental revenues of $491,406 [2011: $376,398] composed of fixed monthly rents and royalties based on tenants' sales. The rental revenues of 2012 were obtained from the Mont St-Hilaire, the St-Jean-sur-le-Richelieu, the Rivière-du-Loup properties and the St-Hubert starting on June 14, 2012, whereas for 2011 only the Mont St-Hilaire and the St-Jean-sur-le-Richelieu properties were in operations for the full 9 months and Rivière-du-Loup starting on September 7, 2011.

The main operating expenses were interest on mortgages [$63,124] [2011: $103,265], interest on long-term debts [$27,250] [2011: $37,695], interest on convertible preferred units [$27,700] [2011: $1,930] and interest on bank loans [$7,533] [2011: $0], and in administrative expenses, professional fees of [$79,661] [2011: $56,025] and registration and listing fees [$22,659] [2011: $30,020].

Interest expense represents the interest paid on three (3) mortgages, three (3) long-term debts, one (1) debt shown as convertible preferred units and a bank loan. For the period of 2011, interest was paid on two (2) mortgages, three (3) long term debts and one (1) debt shown as convertible preferred units.

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 $32,000 [2011: $27,000] paid to a company owned by a director for the administration of operations. Registration and listing fees include disbursements related to being a company listed on the Exchange.

The net income of the period ended September 30, 2012 includes net expenses of $30,875 [2011: net expenses of $84,277] for the increase in fair value of the interest rates swap liability, derivative component of the convertible long-term debt and other components measured at fair value at each reporting date.

The Company 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 and is largely used in the commercial real estate industry.

Funds from operations	*three months ended*		*nine months ended*	
Reconciliation of income to funds from operations	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	$	$	$	$
Net income before taxes	76,548	(80,710)	203,328	(59,859)
Unit-based compensation	2,500	14,000	7,806	14,000
Interest at effective rate	558	1,930	1,468	1,930
Variation of derivative instruments	4,000	30,000	26,000	30,000
Variation in fair value of other financial components	1,175	6,500	8,069	6,500
Unrealized loss (gain) on interest swaps	(3,000)	32,500	(11,000)	33,777
Amortization intangible assets	1,851	1,851	5,553	5,553
Funds from operations	83,632	6,071	241,224	31,901

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

Cash flows	*three months ended*		*nine months ended*	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	$	$	$	$
Operating activities	88,735	60,312	165,031	36,397
Investing activities	(35,207)	(333,377)	(2,264,692)	(324,769)
Financing activities	30,505	(47,794)	177,977	(143,382)
Increase (decrease) in cash and cash equivalents	84,033	(320,859)	(1,921,684)	(431,754)
Cash and cash equivalents – beginning of period	(19,997)	776,073	1,985,720	886,968
Cash and cash equivalents – end of period	64,036	455,214	64,036	455,214

For the period of 9 months ending September 30, 2012, funds used in investing activities represent the purchase of the St-Hubert property and a deposit made on a transaction. Funds obtained from financing activities represent the mortgage obtained in the acquisition of the St-Hubert property, the bank loan negotiated in 2012 less reimbursements of mortgages and long term debts as well as the cash disbursed to cancel a portion of the interest rate swap. Funds also include an amount obtained following the exercise of options made in December 2011.

Financial Position	September 30, 2012 $	December 31, 2011 $
Investment Properties	9,119,054	7,111,919
Cash and Cash Equivalents	64,036	1,985,720
Total Assets	9,633,082	9,335,868
Bank loan	625,000	0
Mortgages	2,504,893	2,737,254
Long-term debt	683,000	883,000
Convertible preferred units	329,207	327,739
Total Liabilities	4,770,364	4,527,216
Equity	4,862,718	4,808,652

Capital structure and liquidity

The real estate business is capital-intensive by nature. 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 $2,504,893 maturing in 2014, 2017 and 2019, two (2) debentures totalling $200,000 maturing in 2012, one (1) note payable of $150,000 maturing in 2014, a balance of sale of $333,000 maturing in 2014 and a convertible debt with a face value of $333,000 and shown on the statement of financial position at $329,207. For the mortgages with the financial institutions, the Trust makes monthly payments around $21,000 as it wants to increase liquidity for investment and financing purposes. For the debentures, the note payable and the balance of sale, reimbursement of the principal is scheduled at maturity date. The convertible debt will eventually be settled through the issuance of trust units.

The Trust has sufficient liquidity which will help it to keep a ratio of debt to aggregate assets in a neighbourhood of 40% with future acquisitions. The ratio could be revised, as the Trust anticipates an increase in future interest rates.

Trust units

The Trust is authorized to issue an unlimited number of trust units. During the quarter ended September 30, 2012, the Trust did not issue any units. As at September 30, 2012, the total number of units issued and outstanding was 20,514,000 units. During the same quarter, the Trust has not granted any option or warrant on its units. As at September 30, 2012, 505,000 unit options and 250,000 warrants were outstanding.

Subsequent Events to September 30, 2012

On November 1st, 2012, a subsidiary of the Trust has finalized an agreement to purchase a land at Les Côteaux (Quebec) for a total price of $1,299,999. The purchase price of $1,299,999 will be paid as follows upon closing:

- $250,000 already paid cash as part of a deposit;
- $950,000 as a balance of sale payable three (3) years after closing with an annual interest rate of 5%;
- $99,999 to the vendor through the issuance of 333,333 units of the Trust at a price of $0.30 per unit.

On November 6, 2012, the Trust has issued 50,000 units, at a price of $0.25 per unit, following the exercise of 50,000 warrants.

As of November 15, 2012, the Trust has 20,564,000 units issued and outstanding.

On November 14, 2012, the Trust has declared a distribution of $0.00625 per unit for a total disbursement of $128,212, payable on December 31, 2012.

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

None during the quarter ended September 30, 2012.

Related Party Transactions

During the quarter ended September 30, 2012, the Trust paid $12,000 of professional fees to companies controlled by trustees. Also during the quarter, Fronsac REIT paid $12,554 in lawyer fees to a person related to a trustee.

The Trust also obtained, during the quarter, $73,744 of rental income from companies controlled by two trustees and the wife of one trustee and for which no amount is receivable as at September 30, 2012.

Finally the Trust paid during the quarter $2,000 in interest to two trustees on debenture with a principal value of $100,000.

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.

Additonal information

Additional information relating to the Trust can also be found on SEDAR at www.sedar.com.