FRONSAC REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE YEAR ENDED DECEMBER 31, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

April 5, 2013

Scope of analysis

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fronsac Real Estate Investment Trust ("Fronsac REIT" or the "Trust") is intended to provide readers with an assessment of performance and summarize the results of operations and financial condition for the periods of 3 months and 12 months ended December 31, 2012. It should be read in conjunction with the Audited Consolidated Financial Statements of December 31, 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 April 5, 2013.

Description of the Issuer's business

Fronsac REIT is an active trust operating in the real estate commercial market. The Trust owns and rents real estate commercial properties through its wholly owned subsidiaries, 9167-9688 Quebec Inc. ("9167 Qbc"), 9208-9226 Quebec Inc ("9208 Qbc"), Fronsac Rivière-du-Loup Limited Partnership ("SEC RDL"), where Fronsac REIT is the sole limited partner, and Fronsac St-Hubert Limited Partnership ("SEC St-Hubert"), incorporated on May 3, 2012 and in which Fronsac REIT owns 90%. 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. On December 18, 2012, Fronsac REIT acquired a piece of land west of the Montreal island, located at Les Coteaux, and started the development of this property. The site will house a gas service station, a fast food restaurant and a convenience store.

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

Outlook 2013

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

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

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

Highlights

Financial Information	**2012** **$**	**2011** **$**	**2010** **$**
Rental income	665,870	512,242	476,946
Variation in value of investment properties	999,361	0	0
Net income attributable to unitholders	1,062,419	(102,391)	75,242
Net income attributable to unitholders – basic	0.051	(0.007)	0.006
Funds coming from operating activities	299,893	51,407	164,621
Funds coming from operating activities – basic	0.014	0.004	0.013
Weighted average number of units	20,985,587	13,974,219	12,598,904
Distributions to unitholders	256,737	0	0

Operations	**2012**	**2011**	**2010**
Number of investment properties	5	3	2
Value of investments properties ($)	11,521,954	7,111,919	6,084,704

Events

In January 2012, the Trust reimbursed $1,646,470 of mortgages and $100,000 on a long term debt maturing in July 2014.

On May 3, 2012, the Trust incorporated SEC St-Hubert by purchasing 1,000 units at a price of $1 per unit. At that time the Trust was the sole limited partner. On June 14, 2012, SEC St-Hubert issued 438,750 additional units to the Trust at a price of $1 per unit and 48,750 units at $1 to an investor. Following this transaction, the Trust has a participation of 90% in SEC St-Hubert.

On June 14, 2012, through SEC St-Hubert, the Trust acquired a commercial property for a total amount of $1,950,000. The purchase price was settled by an immediate cash disbursement of $487,500 and a mortgage of $1,462,500 with an interest rate of 4.95% and a maturity date in 5 years.

On June 30, 2012, the Trust reimbursed a $100,000 debenture bearing interest at 8% a year and renewed $200,000 of debentures until December 31, 2012 at a rate of 4% annually.

In June 2012, the Trust obtained a line of credit of $1,000,000 from a Canadian bank

On July 6, 2012, the Trust distributed to unitholders an amount of $0.00625 per unit for a total distribution of $128,212.

On December 17, 2012, the Trust reimbursed in totality a long term debt maturing in July 2014 with a payment of $150,000.

On December 18, 2012, as part of a private placement, the Trust issued 11,718,750 units at a price of $0,32 per unit for a total proceed of $3,750,000.

On December 18, 2012, the Trust acquired a piece of land at Les Coteaux for a total amount of $1,326,220. The purchase price was settled by an immediate cash payment of $250,000, a balance of sale of $976,220 with an interest rate of 5% and maturing on December 18, 2015, and by the issuance of 333,333 units of the Trust at a price of $0,30 per unit.

On December 31, 2012, the Trust reimbursed $200,000 of debentures bearing interest at 4%.

On December 31, 2012, the Trust distributed to unitholders an amount of $0.00625 per unit for a total distribution of $128,525.

Financial Position	**December 31, 2012** $	**December 31, 2011** $
Investment Properties	11,521,954	7,111,919
Cash and Cash Equivalents	2,368,515	1,985,720
Total Assets	14,333,024	9,335,868
Mortgages	2,480,977	2,737,254
Long-term debt	1,309,220	883,000
Convertible preferred units	329,775	327,739
Total Liabilities	4,832,944	4,527,216
Equity	9,500,080	4,808,652

QUARTERLY FINANCIAL INFORMATION

	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rental income	176,637	183,269	162,259	145,878	135,844	121,814	131,859	122,725
Net income attributable to unitholders	929,738	47,378	(9,210)	94,514	(42,532)	(80,710)	9,579	11,272
Net income per unit								
basic	0.041	0.002	0.000	0.005	(0.003)	(0.006)	0.001	0.001
diluted	0.040	0.002	0.000	0.005	(0.003)	(0.006)	0.001	0.001
Weighted average number of units – diluted (000)	24,443	21,269	20,514	20,514	14,521	13,790	13,790	13,790
Funds from operations	36,639	83,632	80,607	76,986	43,828	6,071	22,707	3,123
Cash obtained from operating activities	134,862	88,735	61,596	75,700	15,010	60,312	(26,448)	2,533
Value of investment properties (000)	11,522	9,119	9,091	7,112	7,112	7,075	6,076	6,093
Total assets (000)	14,333	9,633	9,530	7,611	9,336	7,707	7,055	7,123
Mortgages and other debts (000)	4,120	3,517	3,538	2,188	3,948	3,995	3,383	3,431
Equity (000)	9,500	4,863	4,943	4,903	4,809	3,231	3,315	3,305

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 December 31, 2011.

Results of operations

Income	*three months ended*		*twelve months ended*	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Rental income	176,637	135,844	665,870	512,242
Interest on mortgages	30,965	34,700	94,090	137,965
Interest on long-term debt	6,266	16,026	44,734	53,721
Interest on convertible units	5,535	5,790	22,016	7,720
Interest on bank loans	5,651	0	13,184	0
Net income (loss)	937,967	(42,532)	1,071,495	(102,391)
Net income per unit – basic	0.042	(0.003)	0.051	(0.007)
Net income per unit – diluted	0.040	(0.003)	0.048	(0.007)
Funds from operations	36,639	43,828	277,864	75,729
Funds from operations per unit – basic	0.002	0.001	0.013	0.005
Funds from operations per unit – diluted	0.001	0.001	0.012	0.005
Weighted average units outstanding – basic	22,405,529	14,520,870	20,985,587	13,974,219
Weighted average units outstanding – diluted	24,442,529	14,520,870	23,022,587	13,974,219

Results of operations for the finacial year ended December 31, 2012

The net income for the year ended December 31, 2012 was $1,071,495 or $0.051 per unit compared to a net loss of ($102,391) or ($0.007) per unit for the financial year of 2011. The net income includes a gain of $999,361 related to the increase in value of the investment properties [2011: nil].

For the 2012 year, the Trust had rental revenues of $665,870 [2011: $512,242] composed of fixed monthly rents and royalties based on tenants' sales. The rental revenues of 2012 were obtained from the properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup and starting June 14, 2012, from the St-Hubert property, whereas for 2011 only the Mont St-Hilaire and the St-Jean-sur-le-Richelieu properties were in operations for the full 12 months and Rivière-du-Loup starting on September 7, 2011.

The increase in rental income is explained par the increases of $23,917 attributable to sites operated during 12 months in 2012 and 2011, $58,161 to the property of Rivière-du-Loup operated during 12 months in 2012 and 4 months in 2011, and $71,550 provided by the acquisition of St-Hubert in 2012.

The main operating expenses were interest on mortgages [$94,090] [2011: $137,965], interest on long-term debts [$44,734] [2011: $53,721], interest on convertible preferred units [$22,016] [2011: $7,720] and interest on bank loans [$13,184] [2011: nil], and in administrative expenses, professional fees of [$149,054] [2011: $71,996] and registration and listing fees [$30,432] [2011: $37,515].

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 2012 financial year, interest expense represents the interest paid on three (3) mortgages, three (3) long-term debts, which one was fully reimbursed on December 31, 2012, one (1) debt shown as convertible preferred units and a bank loan. For the 2011 year, 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 $44,000 [2011: $36,000] paid to a company owned by an officer 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 year ended December 31, 2012 includes net expenses of $14,300 [2011: net expenses of $124,277] 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.

Results of operations for the quarter ended December 31, 2012

The net income for the quarter ended December 31, 2012 was $937,967 or $0.042 per unit compared to a net loss of ($42,532) or ($0.003) per unit for the comparative quarter of 2011. The net income includes a gain of $999,361 related to the increase in value of the investment properties [2011: nil].

For the quarter, the Trust had rental revenues of $176,637 [2011: $135,844] 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 for the 2011 quarter, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup in operations for three (3) months.

The main operating expenses were interest on mortgages [$30,965] [2011: $34,700], on long-term debts [$6,266] [2011: $16,026], on convertible preferred units [$5,535] [2011: $5,790], and on bank loans [$5,651] [2011: nil], and in administrative expenses, professional fees of [$69,393] [2011: $15,971] and registration and listing fees [$7,773] [2011: $7,495].

For the quarter ended December 31, 2012, interest on mortgages were paid on three (3) mortgages with a value of $2,480,977 as of that date, long term debts of $1,309,220, convertible preferred units of $329,775 and a bank loan of nil. For the quarter ended December 31, 2011, the interest was also paid on two (2) mortgages with a value of $2,737,254, three (3) long term debts of $883,000 and convertible preferred units with a value of $327,739.

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. They also include charges of $29,500 related to financing. Registration and listing fees include disbursements related to being a company listed on the Exchange.

The net income of 2012 includes net gains of $16,575 [2011: net expenses of $40,000] 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.

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*		*twelve months ended*	
Reconciliation of income to funds from operations	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Net income (loss)	937,967	(42,532)	1,071,495	(102,391)
Increase in value of investment properties	(999,361)	-	(999,361)	-
Unit-based compensation	(3,200)	5,394	4,606	25,894
Interest at effective rate	567	809	2,036	2,739
Variation of derivative instruments	(6,500)	30,000	19,500	60,000
Variation in fair value of other financial components	(4,475)	9,606	3,594	9,606
Unrealized loss (gain) on interest swaps	(2,400)	(5,000)	(13,400)	28,777
Amortization intangible assets	1,851	1,851	7,404	7,404
Deferred income taxes	112,190	43,700	181,990	43,700
Funds from operations	36,639	43,828	277,864	75,729

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

Cash flows	*three months ended*		*twelve months ended*	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	$	$	$	$
Operating activities	134,862	15,010	299,893	51,407
Investing activities	(369,862)	(36,446)	(2,634,554)	(361,215)
Financing activities	2,539,479	1,551,942	2,717,456	1,408,560
Increase (decrease) in cash and cash equivalents	2,304,479	1,530,506	382,795	1,098,752
Cash and cash equivalents – beginning of period	64,036	455,214	1,985,720	886,968
Cash and cash equivalents – end of period	2,368,515	1,985,720	2,368,515	1,985,720

For the financial year ended on December 31, 2012, funds used in investing activities represent the purchase of the St-Hubert property, the purchase of a piece of land at Les Coteaux and deposits made on transactions. Funds obtained from financing activities represent the mortgage obtained in the acquisition of the St-Hubert property, and the private placement of 11,718,750 units made in December 2012. Funds used in the financing activities represent reimbursements of mortgages and long term debts, cash disbursed to cancel a portion of the interest rate swap and the distributions made to unitholders. Funds also include an amount obtained following the exercise of options made in December 2011.

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 $2,480,977 maturing in 2014, 2017 and 2019, two (2) balances of sale of $333,000 maturing in 2014 and $976,220 maturing in 2015 and a convertible debt with a face value of $333,000 and shown on the statement of financial position at $329,775. For the mortgages with the financial institutions, the Trust makes monthly payments around $18,500 as it wants to increase liquidity for investment and financing purposes. For the balances 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 financial year ended December 31, 2012, the Trust issued 50,000 units following the exercise of warrants and 11,718,750 units through a private placement. As at December 31, 2012, the total number of units issued and outstanding was 32,616,083 units. During the 2012 year, the Trust has not granted any option or warrant. As at December 31, 2012, 505,000 options and 200,000 warrants were outstanding.

Subsequent Events to December 31, 2012

On March 1, 2013, the Trust has repurchased in totality a balance of sale of $976,220.

On March 20, 2013, the Trust has acquired interests in two (2) real estate properties located in Trois-Rivières, Quebec.

For the first property, the Trust and Société en commandite Fronsac CDM ("SEC CDM"), a partnership created by FPI, acquired 50% of the units of Limited Partnership CDM-1 ("CDM-1") for a total consideration of $660,000. The Trust acquired 14% of the units of CDM-1 and SEC CDM has acquired 36%. The total consideration was settled with a cash payment of $184,800 and by the issuance of 1,485,000 preferred units of SEC CDM with an exchange value of $475,200. These units may be exchanged into 1,485,000 units of FPI at any time, but no later than December 31, 2017. These units give also the right to receive the same distributions as what is paid on the Trust's units until December 31, 2017.

For the second property ("Property 2"), Société en commandite Fronsac Barkoff ("SEC Barkoff"), a partnership created by FPI, acquired a 65% interest in Property 2 for a total consideration of $1,587,950. The total consideration was settled with a cash payment of $1,074,920 and by the issuance of 1,603,200 preferred units of SEC Barkoff with an exchange value of $513,030. These units may be exchanged into 1,603,200 units of FPI at any time, but no later than December 31, 2017. These units give also the right to receive the same distributions as what is paid on the Trust's units until December 31, 2017.

On April 4, 2013, the Trust has signed a protocol for the acquisition of a real estate property located in Val David for a consideration of $2,565,500. The purchase price will be settled with an immediate payment of $965,500 and a mortgage of $1,600,000 with an interest rate of 5.24% and a term of 10 years.

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 financial year ended on December 31, 2012.

Related Party Transactions

During the year ended on December 31, 2012, the Trust paid $45,000 in professional fees to companies controlled by trustees. Also during the year, Fronsac REIT paid $37,344 in lawyer fees to a person related to a trustee.

The Trust also obtained $277,811 of rental income from companies controlled by trustees and the wife of a trustee and for which no amount is receivable as at December 31, 2012.

Finally the Trust paid during the year $10,000 in interest to two (2) trustees on debenture that was reimbursed in totality at the end of December 2012.

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.

Additonal information

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