FRONSAC | Real Estate Investment Trust

Management Discussion & Analysis

–

Q2 2018
Period ended June 30th, 2018
Form 51-102F1

SUMMARY OF SELECTED FINANCIAL INFORMATION

SUMMARY OF SELECTED ANNUAL INFORMATION

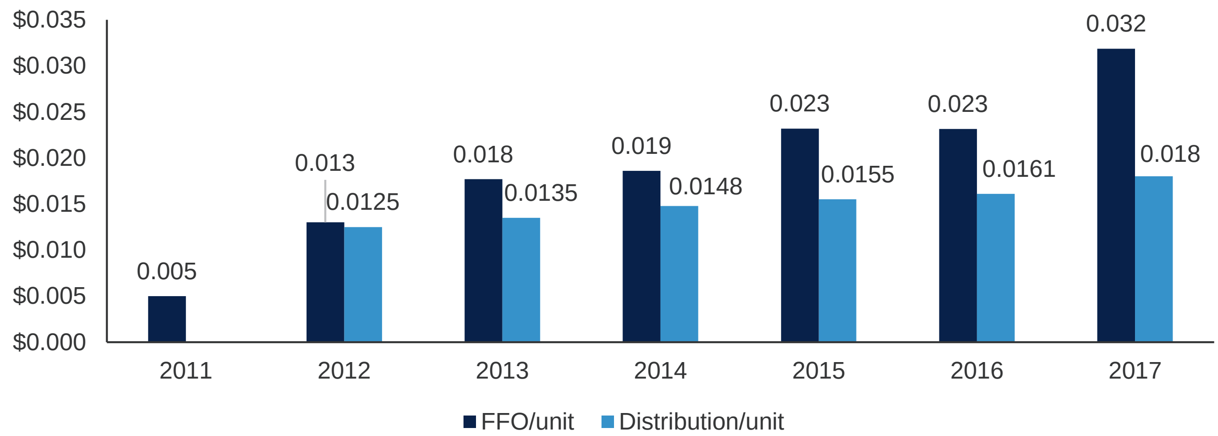
	6 months			
Periods ended June 30	**2018**	**2017**	**Δ**	**%**
Financial info				
Property rental income	2,892,720	1,946,047	946,673	49%
Total revenue	2,907,720	1,956,047	951,673	49%
NOI [1]	2,298,367	1,584,028	714,339	45%
FFO [1]	1,556,916	1,017,742	539,174	53%
Recurring FFO [1]	1,541,916	1,007,742	534,174	53%
AFFO [1]	1,558,185	1,150,184	408,001	35%
EBITDA [1]	2,101,447	1,376,144	725,303	53%
Investment properties [2]	88,701,506	53,416,627	35,284,879	66%
Total assets	83,966,065	53,493,834	30,472,231	57%
Total mortgage/loans/long term debt [3]	44,861,860	23,114,063	21,747,797	94%
Total exchangeable preferred units	-	966,551	(966,551)	(100%)
Total convertible debentures	251,333	249,854	1,479	1%
Total equity	37,537,332	27,638,975	9,898,357	36%
Weighted average units o/s - basic	85,665,355	61,764,896	23,900,459	39%
Amounts on a per unit basis				
FFO	0.0182	0.0165	0.0017	10%
Recurring FFO	0.0180	0.0163	0.0017	10%
AFFO	0.0182	0.0186	(0.0004)	(2%)
Distributions	0.0101	0.0090	0.0011	12%
Financial ratios				
Weighted avg. interest rate - fixed loans/mortgages	3.6%	3.5%	0.1%	
Debt to gross assets - including converts	54%	45%	9%	
Debt to gross assets - excluding converts [3]	53%	43%	10%	
Interest coverage ratio	3.3	3.2	0.1	
Debt service coverage ratio	1.8	1.7	0.1	
Distributions as a % of FFO	55%	55%	0%	
Distributions as a % of Recurring FFO	56%	55%	1%	
Distributions as a % of AFFO	55%	48%	7%	
Leasing information				
Occupancy	100%	100%	0%	
Mix of tenancy based on net revenue				
National	77%	75%	2%	
Regional	17%	21%	(4%)	
Local	6%	4%	2%	
Property type breakdown				
Gas/Convenience store	14	10	4	
Gas/Convenience store/Fast food	9	7	2	
Fast food	12	9	3	
Auto parts	2	2	-	
Retail	4	-	4	
	41	28	13	
Other				
Average term to maturity - mortgages	4.8	3.5	1.3	
Average term to maturity - leases	8.9	7.9	1.0	
IFRS capitalization rate	6.13%	6.03%	0.10%	

[1] Non-IFRS financial measures

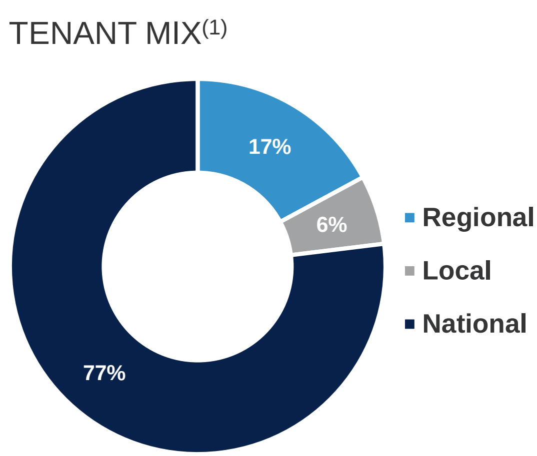
[2] Includes value of investment properties owned through joint ventures

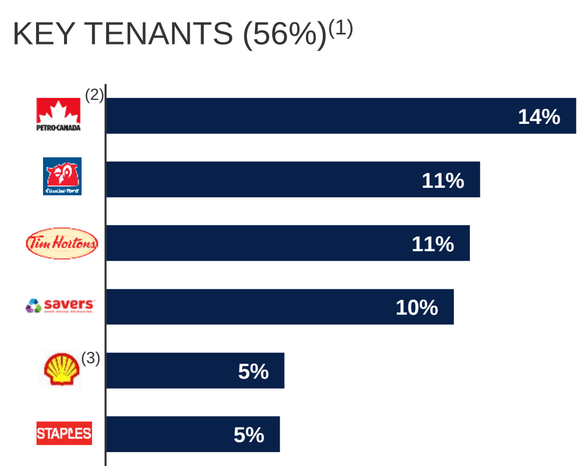
[3] Excludes convertible debentures and exchangeable preferred units

HISTORICAL SELECTED FINANCIAL PERFORMANCE



TENANT OVERVIEW – Q2 2018(1)





Notes:
(1) Based on net operating income
(2) Petro-Canada is operated by Suncor
(3) Shell is operated by Sobeys

BREAKDOWN OF PROPERTIES & OPERATING SECTORS

#	Address	City	Type	Ownership
1	40-50 Brunet Street	Mont St-Hilaire	Fast food, gas, convenience store	100%
2	230 St-Luc Blvd.	St-Jean-sur-Richelieu	Gas, convenience store	100%
3	196 Hôtel-de-Ville Blvd.	Rivière-du-Loup	Gas, convenience store	100%
4	1349-1351 Road 117	Val-David	Fast food, gas, convenience store	100%
5	275 Barkoff Street	Trois-Rivières	Gas, convenience store	65%
6	530 Barkoff Street	Cap-de-la-madeleine	Gas, convenience store	50%
7	340-344 Montée du Comté	Les Coteaux	Fast food, gas, convenience store	100%
8	1440-50 St-Laurent East Blvd.	Louiseville	Fast food, gas, convenience store	50%
9	1460 St-Laurent East Blvd.	Louiseville	Fast food	50%
10	490-494 De L'Atrium Blvd.	Québec City	Gas, convenience store	100%
11	7335 Guillaume Couture Blvd.	Lévis	Fast food	100%
12	1319 Brookdale Avenue	Cornwall (Ontario)	Fast food	100%
13	4200 Bernard-Pilon Street	St-Mathieu de Beloeil	Gas, convenience store	100%
14	1901 Raymond Blais Street	Sainte-Julie	Gas, convenience store	100%
15	2000 Leonard de Vinci Street	Sainte-Julie	Fast food	100%
16	2050 Leonard de Vinci Street	Sainte-Julie	Gas	100%
17	2051 Nobel Street	Sainte-Julie	Fast food	100%
18	16920-16930 St-Louis Ave.	St-Hyacinthe	Fast food, gas, convenience store	100%
19	3726 Des Forges Blvd.	Trois-Rivières	Fast food	100%
20	2871-2885 Des Prairies Street	Trois-Rivières	Fast food, gas, convenience store	100%
21	2350 Chemin des Patriotes	Richelieu	Fast food, gas, convenience store	100%
22	4932 Des Sources Blvd.	Pierrefonds	Fast food	100%
23	314 De Montigny Street	St-Jérôme	Fast food	100%
24	288 Valmont Street	Repentigny	Gas, convenience store	100%
25	2439 Ste Sophie Blvd.	Sainte-Sophie	Gas, convenience store	50%
26	2429 Sainte-Sophie Blvd.	Sainte-Sophie	Fast food	50%
27	610 Saint-Joseph Blvd.	Gatineau	Auto Parts	100%
28	513 Des Laurentides Blvd.	Laval	Auto Parts	100%
29	123 St-Laurent East Blvd	St-Eustache	Gas, convenience store	100%
30	507 Chemin de la Grande Côte	St-Eustache	Gas, convenience store	100%
31	4 North Street	Waterloo (Quebec)	Gas, convenience store	100%
32	3355 de la Pérade Street	Quebec City	Retail	100%
33	2555 Montmorency Blvd	Quebec City	Retail	100%
34	3592 Laval Street	Lac Mégantic	Gas, convenience store	100%
35	536 Algonquin Boul.	Timmins (Ontario)	Fast food	100%
36	1730 Jules Vernes Ave.	Cap Rouge	Fast food	50%
37	235 Montée Paiement	Gatineau	Retail	100%
38	510 Bethany Ave.*	Lachute	Fast food, gas, convenience store	50%
39	1337 Iberville Boul.	Repentigny	Pharmacy	100%
40	222 St-Jean-Baptiste Boul.	Mercier	Fast food, gas, convenience store	50%
41	230 St-Jean-Baptiste Boul.	Mercier	Fast food	50%

*Currently under development

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 6 months period ended June 30, 2018. It should be read in conjunction with the Consolidated Financial Statements for the period ended June 30, 2018 and the Trust's Consolidated Financial Statements and MD&A for the period ended June 30, 2017. 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 can find all copies of Fronsac's recent financial reports on Fronsac's website fronsacreit.com and on sedar.com.

Dated August 24, 2018, this MD&A reflects all significant information available as of that date and should be read in conjunction with the Consolidated Financial Statements for the quarter ended June 30, 2018 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 August 24, 2018.

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 FRO.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 June 30, 2018 the Trust held 41 investment properties, 39 residing in the province of Quebec and 2 in the province of Ontario. The occupancy rate for these properties remained at 100% throughout the quarter. The properties are occupied by 5 distinct groups of tenants composed of: (1) fast food chains, (2) major oil/gas companies, (3) convenience store chains, (4) auto parts businesses and (5) major retailers.

These 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 QUARTER

On April 25, 2018, Fronsac and its partner Odacité Immobilier announced the launch of a new 12,500 square feet commercial development in the city Lachute, Qc, composed of a stand-alone Benny & Co restaurant, a Beau-Soir convenience store, a Petro-Canada gas station, as well as three quick service restaurants: A&W, Thaï Express and Amir. The project is located on 510 Bethany Avenue at exit 260 of highway 50. Project costs are expected to total approximately $8,000,000. Fronsac will retain a 50% interest in the project.

On June 21, 2018, Fronsac announced the acquisition of a property located on Iberville Boulevard, a highly trafficked artery in the city of Repentigny, Qc. The property is leased to Pharmaprix. It was acquired for a total consideration of $6,250,000 and was settled in cash.

On June 29, 2018, Fronsac announced the acquisition of a 2 newly built properties located in Mercier, Qc, along Boulevard St-Jean Baptiste near Highway 30. The properties are composed of a newly built Petro-Canada service station with a Beau-Soir convenience store, an A&W restaurant, a catering company as well as a freestanding Benny & Co restaurant. Total consideration paid was $926,551 for a 50% interest in Odacité Mercier LP, which holds the interests of the properties. The purchase price was settled in cash, while taking into consideration already in place financing as well as customary closing adjustments. Fronsac assumed a 50% share of the debts related to the properties of $4,658,177 (Fronsac share $2,329,089). In addition, Fronsac assumed 50% of accruals related to closing adjustments, which amounted to $499,912 (Fronsac share $249,956). Fronsac assumed 50% of other assets related to closing adjustments, which amounted to $565,220 (Fronsac share $282,610).

OUTLOOK 2018 & 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.

On August 2, 2018, Fronsac announced that, effective the start of trading on Tuesday, August 7, 2018, Fronsac's ticker symbol on the TSX Venture Exchange ("TSX.V") would change from its original "GAZ.UN" symbol to "FRO.UN" (TSX.V: FRO.UN).

On August 8, 2018, Fronsac announced its intention to undertake a prospectus-exempted private placement raising up to a maximum offering amount of $10,000,000 (the "Offering"). The Offering will be comprised of units (the "Units") of Fronsac and of non-secured convertible debentures (the "Convertible Debentures"). The demand of the investors will, in the end, determine in which proportion those securities will ultimately be sold, but the amount of Convertible Debentures sold will not exceed $3,000,000.

The Units will be offered at a price of $0.54 each. The Convertible Debentures will mature 5 years after their issuance, bear an annual interest rate of 6 % payable semi-annually, and be convertible into units of Fronsac at a conversion price of $0.73 per unit. Fronsac will have the right to redeem the Convertible Debentures three (3) years after their issuance should the closing price of the Units on the TSX Venture

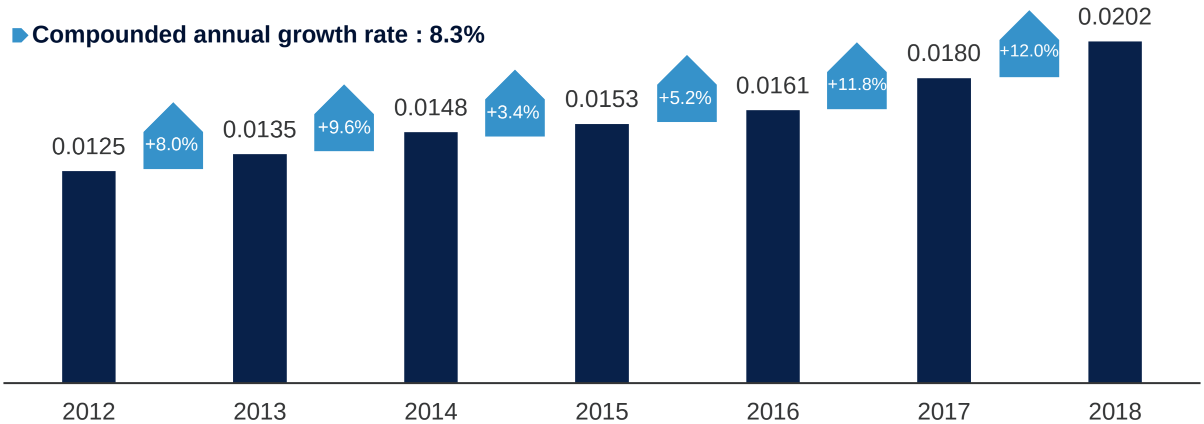
Exchange be higher than $0.73 for a period of forty-five (45) consecutive working days. The net proceeds of the Offering will be used for acquisitions and for working capital and general real estate investment trust purposes. Closing is expected to happen at the latest on September 6, 2018.

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.

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.

ANNUAL CASH DISTRIBUTION PER UNIT ($)



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 8). 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 or redevelopment of an existing 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. 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

QUARTERLY FINANCIAL INFORMATION

	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Rental income	1,530,968	1,361,751	1,316,577	1,096,653	976,412	969,635	874,879	713,597
Net income attributable to unitholders	278,795	1,373,354	1,839,189	538,675	322,928	1,840,152	678,913	1,474,531
Net income per unit Basic	0.0033	0.0160	0.0241	0.0078	0.0050	0.0310	0.0115	0.0257
FFO [1] Basic	764,867	792,049	548,042	581,433	508,628	509,113	394,989	129,594
FFO per unit Basic	0.0089	0.0092	0.0072	0.0084	0.0079	0.0086	0.0067	0.0023
Value of investment properties (000's) [2]	88,702	77,975	69,589	59,266	53,417	50,873	48,065	43,420
Total assets (000's)	83,966	77,152	70,006	59,102	53,494	50,319	48,355	43,884
Mortgages, and other debts (000's)	44,862	37,809	31,717	29,732	23,114	24,991	24,548	20,896
Equity (000's)	37,537	37,691	36,708	27,865	27,639	23,022	21,419	20,982
Weighted avg. units o/s Basic (000's)	85,665	85,659	76,378	69,503	64,233	59,269	59,249	57,438

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

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

RECONCILIATION OF NET INCOME TO FFO

	3 months			6 months		
Periods ended June 30	2018	2017	Δ	2018	2017	Δ
Net income attributable to unitholders	278,795	322,928	(44,133)	1,652,149	2,163,081	(510,932)
Δ in value of investment properties	504,122	(89,172)	593,294	(170,705)	(1,423,923)	1,253,218
Δ in value of investment properties in joint ventures	(28,778)	(110,501)	81,723	31,711	(141,641)	173,352
Unit based compensation	21,830	39,550	(17,720)	62,910	68,025	(5,115)
Δ in liability component of exch. preferred units & debentures	(3,381)	7,074	(10,455)	752	21,426	(20,674)
Δ in fair value of derivative financial instruments	(10,360)	338,749	(349,109)	(22,540)	330,774	(353,314)
Income taxes	2,639	-	2,639	2,639	-	2,639
FFO[1] - basic	764,867	508,628	50%	1,556,916	1,017,742	53%
FFO per unit - basic	0.0089	0.0079	13%	0.0182	0.0165	10%
Distributions paid on exchangeable preferred units and convertible debentures (if dilutive)	-	13,897	(13,897)	7,500	35,294	(27,794)
FFO - diluted	764,867	522,525	46%	1,564,416	1,053,036	49%
FFO per unit - diluted	0.0089	0.0078	15%	0.0181	0.0161	13%
Recurring FFO - basic	764,867	498,628	53%	1,541,916	1,007,742	53%
Recurring FFO per unit - basic	0.0089	0.0078	15%	0.0180	0.0163	10%
Distributions	431,785	312,765	119,020	863,569	579,612	283,957
Distributions per unit	0.0050	0.0045	12%	0.0101	0.0090	12%
FFO - basic after distributions	0.0039	0.0034	0.0005	0.0081	0.0075	0.0006
Recurring FFO - basic after distributions	0.0039	0.0033	0.0006	0.0079	0.0073	0.0006
Distributions as a % of FFO - basic	56%	57%	(1%)	55%	55%	0%
Distributions as a % of Recurring FFO - basic	56%	58%	(2%)	56%	55%	1%
Weighted avg. units o/s Basic	85,671,543	64,233,104	21,438,439	85,665,355	61,764,896	23,900,459
Diluted	85,671,543	67,321,304	18,350,239	86,246,750	65,434,491	20,812,259

[1] FFO is a Non-IFRS financial measure

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Periods ended June 30	3 months 2018	3 months 2017	Δ	6 months 2018	6 months 2017	Δ
Basic FFO [1]	764,867	508,628	256,239	1,556,916	1,017,742	539,174
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	-	(34,089)	34,089	1,269	132,442	131,173
Leasing costs on existing properties	-	-	-	-	-	-
Debt extinguishment penalties	-	-	-	-	-	-
AFFO[1] - basic	764,867	474,539	61%	1,558,185	1,150,184	35%
AFFO per unit - basic	0.0089	0.0074	21%	0.0182	0.0186	(2%)
Distributions paid on exchangeable preferred units and convertible debentures (if dilutive)	-	13,897	(13,897)	7,500	35,294	(27,794)
AFFO - diluted	764,867	488,436	57%	1,565,685	1,185,478	32%
AFFO per unit - diluted	0.0089	0.0073	23%	0.0182	0.0181	0%
Distributions	0.0050	0.0045	12%	0.0101	0.0090	12%
AFFO -basic after distributions	0.0039	0.0029	0.0010	0.0081	0.0096	(0.0015)
Distributions as a % of AFFO - basic	56%	61%	(5%)	55%	48%	7%
Weighted avg. units o/s						
Basic	85,671,543	64,233,104	21,438,439	85,665,355	61,764,896	23,900,459
Diluted	85,671,543	67,321,304	18,350,239	86,246,750	65,434,491	20,812,259

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

CASH FLOW AND LIQUIDITY

The Trust's rental income revenues are used 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.

For the 6-month period ended June 30, 2018, Fronsac has increased its cash from operating activities. These were mostly impacted by the growth in rental revenues, which was partially offset by the increase in financial expenses related to the new mortgages on new acquisitions.

CASH FLOWS

Periods ended June 30	6 months 2018	6 months 2017	Δ
Operating activities	1,268,840	773,822	495,018
Investing activities	(13,716,788)	(3,384,225)	(10,332,563)
Financing activities	12,321,723	2,832,993	9,488,730
Increase in cash & cash equivalents	(126,225)	222,590	(348,815)
Cash & cash equivalents -Beginning of period	279,433	65,087	214,346
Cash & cash equivalents - End of period	153,208	287,677	(134,469)

Funds from investing activities can mainly be attributed to the acquisitions of properties and participations in joint ventures that took place over the course of the period. For more details regarding these acquisitions over the six month period ended June 30, 2018, please refer to Note 5 "Investment Properties" and Note 6 "Joint Arrangements" in the Financial Statements.

Cash derived from financing activities amounted to $12.3M ($2.8M for the same period in 2017). This is the result of money received through new mortgages used to fund our acquisitions. For the 6-month period ended June 30, 2017, the cash derived from financing activities included a private placement through which 10,204,080 units were issued for total gross proceeds of $4,999,999.

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 2018

For the quarter ended June 30, 2018, the Trust had rental income of $1,531K ($976K in Q2 2017). This increase in rental income is due to the addition of new properties and the increases in rent of certain existing properties. These rents are composed primarily of fixed monthly rents as well as variable rents based on gross sales for certain tenants.

The change in fair value of investment properties is based on the change in capitalization rates applied to each property's adjusted net operating income as well as post-acquisition adjustments (see page 13 for more details). The weighted average capitalization rate of the Trust as at June 30, 2018 was 6.13% compared to 6.03% at the same date last year.

RESULTS OF OPERATIONS

Quarters ended June 30	2018	2017	Δ
Rental Income	1,530,968	976,412	554,556
Other revenues	-	10,000	(10,000)
Increase/(decrease) in fair values of investment properties	(504,122)	89,172	(593,294)
Financial expenses	330,572	561,789	(231,217)
Net income attributable to unitholders	278,795	322,928	(44,133)
Net income per unit Basic	0.0033	0.0050	(0.0018)
FFO - basic[1]	764,867	508,628	50%
FFO per unit	0.0089	0.0079	13%
Recurring FFO - basic	764,867	498,628	53%
Recurring FFO per unit - basic	0.0089	0.0078	15%
Weighted avg. units o/s Basic	85,671,543	64,233,104	21,438,439
EBITDA [1]	1,087,350	685,044	402,306
Interest coverage	3.1	3.1	0.0
Debt service coverage	1.8	1.7	0.1

[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 amounted to $331K in Q2 2018 compared to $562K for the same period last year. Although interest expense increased during Q2 2018, mainly due to the increase in the number of mortgages, financial expenses were partially offset by the extinguishment of exhangeable preferred units, which represented $0 in Q2 2018 compared to $300,794 in Q2 2017.

For the quarter ended June 30, 2018, the Trust recorded basic recurring FFO of $765K in comparison to $499K in Q2 2017. Basic recurring FFO per unit increased by 15% from 0.78¢ to 0.89¢ for the same period. The growth in FFO is mainly derived from rental revenues of newly acquired properties net of the increase in financial expenses related to new mortgages on the properties.

RESULTS OF OPERATIONS FOR THE 6 MONTHS ENDED JUNE 30, 2018

For the 6-month period ended June 30, 2018, the Trust had rental income of $2,893K ($1,946K for the same period in 2017). This increase in rental income is due to the addition of new properties and the increases in rent of certain existing properties. These rents are composed primarily of fixed monthly rents as well as variable rents based on gross sales for certain tenants.

The change in fair value of investment properties is based on the change in capitalization rates applied to each property's adjusted net operating income as well as post-acquisition adjustments (see page 13 for more details). The weighted average capitalization rate of the Trust as at June 30, 2018 was 6.13% compared to 6.03% at the same date last year.

RESULTS OF OPERATIONS

	6 months		
Periods ended June 30	**2018**	**2017**	**Δ**
Rental income	2,892,720	1,946,047	946,673
Other revenues	15,000	10,000	5,000
Increase/(decrease) in fair values of investment properties	170,705	1,423,923	(1,253,218)
Financial expenses	585,653	778,627	(192,974)
Debt extinguishment penalties	-	-	-
Net income attributable to unitholders	1,652,149	2,163,081	(510,932)
Net income per unit			
Basic	0.0193	0.0350	(0.0157)
FFO - basic[1]	1,556,916	1,017,742	53%
FFO per unit	0.0182	0.0165	10%
Recurring FFO - basic	1,541,916	1,007,742	53%
Recurring FFO per unit - basic	0.0180	0.0163	10%
Weighted avg. units o/s			
Basic	85,665,355	61,764,896	23,900,459
EBITDA [1]	2,101,447	1,376,144	725,303
Interest coverage	3.3	3.2	0.1
Debt service coverage	1.8	1.7	0.1

[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 $586K ($779K for the same period in 2017). Although interest expense increased during period, mainly due to the increase in the number of mortgages, financial expenses were partially offset by the extinguishment of exchangeable preferred units, which represented $0 in for the period compared to $294,614 for the same period in 2017.

For the period ended June 30, 2018, the Trust recorded basic recurring FFO of $1,542K in comparison to $1,008K for the same period last year. Basic recurring FFO per unit increased by 10% from 1.80¢ to 1.63¢ for the same period. The growth in FFO is mainly derived from rental revenues of newly acquired properties net of the increase in financial expenses related to new mortgages on the properties.

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. During the 6-month period ended March 31, 2018, the Trust issued 80,000 units at $0.53 per unit for a total of $42,400 to certain members of management for services rendered.

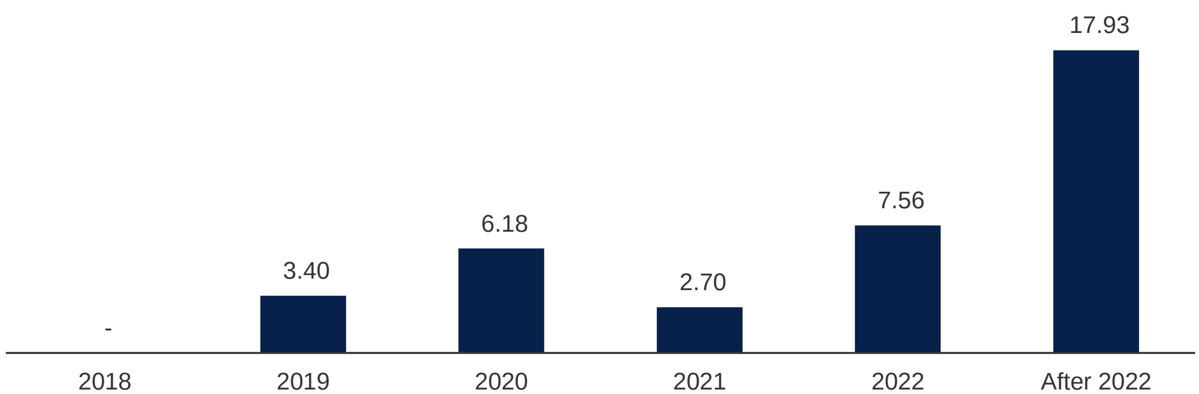
On July 18, 2018, Fronsac announced that it has received approval from the TSX Venture Exchange ("TSX") for the annual renewal of its normal course issuer bid ("NCIB"). Under the renewed NCIB, Fronsac may purchase for cancellation, through the facilities of the TSX Venture Exchange, if in the best interest of the Trust, a maximum of 4,283,577 units, which represents approximately 5% of the units in circulation. As of July 18, 2018, the Trust had 85,671,543 units issued and outstanding. Over the course of any 30 day period the Trust will not purchase more than 1,713,430 units in total, which represents 2% of the units issued and outstanding at this present date. The Trust has not purchased any units for cancellation as of July 18, 2018.

On August 8, 2018, Fronsac announced its intention to undertake a prospectus-exempted private placement raising up to a maximum offering amount of $10,000,000 (the “Offering”). The Offering will be comprised of units (the “Units”) of Fronsac and of non-secured convertible debentures (the “Convertible Debentures”). The demand of the investors will, in the end, determine in which proportion those securities will ultimately be sold, but the amount of Convertible Debentures sold will not exceed $3,000,000.

The Units will be offered at a price of $0.54 each. The Convertible Debentures will mature 5 years after their issuance, bear an annual interest rate of 6 % payable semi-annually, and be convertible into units of Fronsac at a conversion price of $0.73 per unit. Fronsac will have the right to redeem the Convertible Debentures three (3) years after their issuance should the closing price of the Units on the TSX Venture Exchange be higher than $0.73 for a period of forty-five (45) consecutive working days. The net proceeds of the Offering will be used for acquisitions and for working capital and general real estate investment trust purposes. Closing is expected to happen at the latest on September 6, 2018.

The total amount of units outstanding at June 30, 2018 was 85,671,543.

MORTGAGE BALANCES DUE AT MATURITY (in $M)



	2018	2019	2020	2021	2022	After 2022
Total due ($):	-	3,398,248	6,183,739	2,701,448	7,557,362	17,933,311
Rate:	3.99%	2.68% - 4.78%	3.15%	2.85% - 3.32%	3.21% - 3.85%	3.41% - 4.47%
% of total debt:	0.0%	9.0%	16.4%	7.2%	20.0%	47.5%

Debts are composed of mortgages, loans, convertible debentures and secured credit facilities. As at June 30, 2018 there are 23 mortgages (excluding Fronsac’s interest in mortgages held through joint ventures) with Canadian financial institutions with a total carrying value of $41.3M ($31.6M at December 31, 2017). These mortgages require the Trust to make payments of $23.4M over the next 5 years, including 2018, and $17.9M thereafter. The mortgages outstanding currently have an average term to maturity of 4.8 years (4.4 years at December 31, 2017). Convertible debentures in circulation as at June 30, 2018 have a carrying value of $251K ($251K at December 31, 2017). The Trust currently has 2 secured lines of credit with authorized limits of $4.5M and $0.7M. These lines of credit have a $3.4M balance as at June 30, 2018 ($0M at December 31, 2017).

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 of properties, 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

IFRS 16 - Leases ("IFRS 16")

In January 2016, the IASB has published a new standard, IFRS 16. The new standard brings most leases on balance sheet for the lessee under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains essentially unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. The Trust is currently assessing the impact of the new standard on its consolidated financial statements.

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 June 30, 2018 the Trust held interests in 41 properties in Quebec and Ontario, across 5 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 balance ($104K as at June 30, 2018 compared to $183K as at December 31, 2017). 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 Government agencies, which pose a minimum credit risk.

Interest Rate Risk affects the Trust through its loans receivable, mortgages, long term debt, convertible debentures and bank loans. 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.

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.

The Trust has cash availability which allows it to control its current liquidity risks, mainly composed of accounts payable, current portion of mortgages and long-term debt and its bank indebtedness.

RELATED PARTY TRANSACTIONS

Rental income includes $136,569 (Q2 2017: $128,723) from companies controlled by a trustee and individuals related to the trustee for which an amount of $0 (Q4 2017: $468) is included in the receivables as at June 30, 2018.

The Trust rents a portion of its property located in Saint-Hilaire, to a company controlled by the wife of a trustee, for an amount of $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 rent 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 rents its property located in Saint-Jean-sur- Richelieu, to a company controlled by one (1) trustee, for an amount of $177,000 annually and for a period of 10 years ending June 30, 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 rent 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 rents a portion of its property located in Richelieu, to a company controlled by a trustee, for an amount of $110,000 annually and for a period of 10 years ending August 31, 2026. The rent will be 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.

During the period, the Trust paid $9,000 (Q2 2017: $8,700) in professional fees to trustees and to an entity controlled by a trustee.

The loans receivable include amounts of $24,703 (Q4 2017: $26,635) due from a person related to a trustee and $50,000 (Q4 2017: $50 000) due from an officer of the Trust. Interest income on those loans amounts to $1,070 (Q2 2017: $879) for which an amount of $179 (Q4 2017: $190) is included in the receivables as at June 30, 2018.

On March 14, 2017, the Trust acquired an interest in the limited partnership Odacite Ste-Sophie. The Trust paid $182,009 for his interest to a company in which a trustee has an interest.

On June 29, 2018, the Trust acquired an interest in the limited partnership Odacite Mercier. The Trust paid $463,275 for its interest to a company in which a trustee has an interest.