FRONSAC REAL ESTATE INVESTMENT TRUST

INTERIM MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

FOR THE PERIOD ENDED JUNE 30, 2013

MANAGEMENT'S DISCUSSION & ANALYSIS

August 20, 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 6 months ended June 30, 2013. It should be read in conjunction with the Unaudited Interim Consolidated Financial Statements of June 30, 2013 and the Trust's Audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012. The financial data contained in this MD&A has been prepared in accordance with the International Financial Reporting Standards ("IFRS") and all amounts are in Canadian dollars.

Forward-looking statements and disclaimer

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

Statements based on management's current expectations contain known and unknown inherent risks and uncertainties. Forward-looking statements may include verbs such as "believe," "anticipate," "estimate," "expect," "intend" and "assess" or related expressions, used in the affirmative and negative forms. These statements represent the Trust's intentions, plans, expectations or beliefs and are subject to risks, uncertainties and other factors, many of which are beyond the Trust's control. Actual results may vary from expectations. The reader is cautioned not to place undue reliance on any forward-looking statements. Please note that the forward-looking statements contained in this MD&A describe our expectations as at August 20, 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 directly and 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% of the capital. The Trust also has investment properties through joint-ventures and joint-ownerships. 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. 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. Through its joint-venture, Fronsac REIT owns an investment property in Trois-Rivières, located on a commercial boulevard. The property houses a convenience store and a gas station operating under the banner of Couche-Tard. Through its joint-ownership, Fronsac REIT owns an investment property also located in Trois-Rivières along the highway 40. This property is occupied by a Shell gas station. On December 18, 2012, Fronsac REIT acquired a piece of land west of the Montreal island, located at Les Coteaux. Beginning of March 2013, the Trust has started the construction of a property that will house a gas service station, a convenience store, a fast food restaurant and an Italian restaurant. Finally on April 22, 2013, the Trust made the acquisition of a real estate property located in the municipality of Val-David nearby highway 15. This property has a Couche-Tard convenience store and gas station and a Subway restaurant.

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 units. 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.

For the construction of the property located at Les Coteaux, the Trust has determined a budget of $4,000,000 for which $2,997,000 has been spent to date. The current costs are in line with the budget.

Highlights

Financial Information : Period of three months	**June 30, 2013 $**	**December 31, 2012 $**	**June 30, 2012 $**
Rental income	253,972	176,637	162,259
Variation in value of investment properties	327,649	999,361	0
Net income attributable to unitholders	414,122	929,738	(9,210)
Net income attributable to unitholders per unit – basic	0.013	0.041	(0.000)
Funds coming from operations - basic	105,245	36,639	80,230
Funds coming from operations per unit – basic	0.003	0.002	0.004
Weighted average number of units	32,645,094	22,405,529	20,514,000
Distributions to unitholders	220,902	128,525	0

Investment properties	**June 30, 2013**	**December 31, 2012**	**December 31, 2011**
Number of investment properties	8	5	3
Occupancy rate	100%	100%	100%
Value of investments properties ($)	17,736,462	11,521,954	7,111,919

Events

On April 22, 2013, the Trust has made the acquisition of a real estate property located in Val David for a consideration of $2,565,500. The purchase price was settled with a cash payment of $965,500 and a mortgage of $1,600,000 with an interest rate of 5.24% and maturing in April 2023. Other related acquisition costs of $25,284 were also incurred.

During the quarter, the Trust has spent an amount of $1,061,764 on the property under development located at Les Coteaux.

The Trust has obtained two (2) mortgages of $1,600,000 and $2,500,000 for which $1,664,972 was spent as at June 30, 2013. The proceeds of the first mortgage was applied on the acquisition of Val-David. The second mortgage proceeds was used on the construction of the property at Les Coteaux.

On June 30, 2013, the Trust distributed to unitholders an amount of $0.00675 per unit for a total distribution of $220,902.

Financial Position

Financial Position	**June 30, 2013 $**	**December 31, 2012 $**
Investment Properties	17,736,462	11,521,954
Cash and Cash Equivalents	156,084	2,368,515
Total Assets	19,415,935	14,333,024
Mortgages	5,694,858	2,480,977
Long-term debt	436,571	1,309,220
Convertible preferred units	1,154,799	329,775
Total Liabilities	9,509,978	4,832,944
Equity	9,905,957	9,500,080
Debts / Assets Ratio	37.7%	33.7%
Debts / Equity Ratio	96.0%	50.9%

QUARTERLY FINANCIAL INFORMATION

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Rental income	253,972	206,508	176,637	183,269	162,259	145,878	135,844	121,814
Net income attributable to Unitholders	414,122	184,709	929,738	47,378	(9,210)	94,514	(42,532)	(80,710)
Net income per unit								
Basic	0.013	0.006	0.041	0.002	0.000	0.005	(0.003)	(0.006)
Diluted	0.013	0.006	0.040	0.002	0.000	0.005	(0.003)	(0.006)
Weighted average number of units – diluted (000)	32,645	35,031	24,443	21,269	20,514	20,514	14,521	13,790
Funds from operations (FFO)	105,245	128,946	36,639	83,632	80,607	76,986	43,828	6,071
FFO per unit								
Basic	0.003	0.004	0.002	0.004	0.004	0.004	0.001	0.001
Diluted	0.003	0.004	0.001	0.004	0.004	0.004	0.001	0.001
Cash obtained from operating activities	156,084	615,265	134,862	88,735	61,596	75,700	15,010	60,312
Value of investment properties (000)	17,736	13,744	11,522	9,119	9,091	7,112	7,112	7,075
Total assets (000)	19,416	15,602	14,333	9,633	9,530	7,611	9,336	7,707
Mortgages and other debts (000)	7,286	3,946	4,120	3,517	3,538	2,188	3,948	3,995
Equity (000)	9,906	9,674	9,500	4,863	4,943	4,903	4,809	3,231

Business and operations review

Real estate investments

Fronsac REIT is the owner of six (6) commercial properties located in Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert, Val-David and Les Coteaux. This last property is currently under construction. It also owns, through a joint-venture and a joint-ownership, two (2) investment properties located in Trois-Rivières. The Trust has a 50% interest in a joint-venture and a 65% interest in a joint-ownership. The commercial properties are fully occupied. The leases are "double net" and "triple net" which means that mostly all expenses are payable by the tenants.

Results of operations

Income	*three months ended*		*six months ended*	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	$	$	$	$
Rental income	253,972	162,259	460,480	308,137
Interest on mortgages	46,710	14,897	76,580	31,848
Interest on long-term debt	4,626	13,476	13,118	26,952
Interest on bank loans	7,444	899	9,117	899
Interest on convertible units	22,248	5,511	29,854	10,900
Net income attributable to unitholders	414,122	(9,210)	598,831	85,304
Net income per unit – basic	0.013	(0.000)	0.018	0.004
Net income per unit – diluted	0.013	(0.000)	0.018	0.004
EBITDA	201,020	115,693	377,107	227,555
FFO – basic and diluted	105,245	80,230	234,191	157,216
FFO per unit – basic and diluted	0.003	0.004	0.007	0.008
Weighted average units outstanding – basic	32,645,094	20,514,000	32,630,669	20,514,000
Weighted average units outstanding – diluted	33,240,094	20,514,000	33,225,669	20,514,000

Results of operations for the quarter ended June 30, 2013

The net income of the quarter ended June 30, 2013, attributable to unitholders, was $414,122 or $0.013 per unit compared to a net loss of ($9,210) or ($0.000) per unit for the comparative quarter of 2012. The net income includes gains of $327,649 [2012: nil] and $28,000 [2012: nil] related to the increase in value of the investment properties. The first gain is recorded in the account "Investment properties" whereas the second one is recorded in the account "Investment in joint-ventures". These gains are explained by a decrease of 25 basis points in the global capitalization rate.

For the quarter, the Trust had rental revenues of $253,972 [2012: $162,259] composed of fixed monthly rents and royalties based on tenants' sales. During the 2013 quarter, Fronsac REIT had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert and the two (2) Trois-Rivières properties in operations for the three (3) months. It has also benefited, for two (2) months, the revenues from the Val-David acquisition. For the 2012 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 and St-Hubert for a period of seventeen (17) days.

The overall increase in rental income is explained by the decrease of $7,082 attributable to sites operated during three (3) months, both in 2013 as well as 2012, an increase of $36,390 for the property of St-Hubert, operated during three (3) months in 2013 and seventeen (17) days in 2012, and finally a contribution of $62,405 from the acquisitions of 2013.

The main operating expenses were interest on mortgages [$46,710] [2012: $14,897], long-term debts [$4,626] [2012: $13,476], distributions on convertible preferred units [$22,248] [2012: $5,511], and bank loans [$7,444] [2012: $899], and in administrative expenses, professional fees of [$45,707] [2012: $24,846] and registration and listing fees [$7,871] [2012: $11,604].

For the quarter ended June 30, 2013, interest on mortgages were paid on five (5) mortgages with a value of $5,694,858 as of that date, two (2) long term debts of $436,571, convertible preferred units of $1,154,799 and a bank loan of $880,000. For the quarter ended June 30, 2012, the interest was also paid on three (3) mortgages totalling of $2,526,176, three (3) long term debts of $683,000 and convertible preferred units with a value of $328,649.

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 [2012: $11,000] 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 net income of 2013 includes net charges of $18,740 [2012: $64,800] for the variation in fair market value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair market value at each reporting date. This gain is explained by a quoted market price of the unit of $0.33 as at June 30, 2013 and $0.32 as at March 31, 2013.

Results of operations for the period of 6 months ended June 30, 2013

The net income of the period ended June 30, 2013, attributable to unitholders, was $598,831 or $0.018 per unit compared to a net income of $85,304 or $0.004 per unit for the comparative quarter of 2012. The net income includes gains of $395,807 [2012: nil] and $67,580 [2012: nil] related to the increase in value of the investment properties. The first gain is recorded in the account "Investment properties" whereas the second one is recorded in the account "Investment in joint-ventures". These gains are also explained by a decrease of 25 basis points in the global capitalization rate.

For the period of 6 months ended June 30, 2013, the Trust had rental revenues of $460,480 [2012: $308,137] composed of fixed monthly rents and royalties based on tenants' sales. During the 2013 period, Fronsac REIT had the commercial properties of Mont St-Hilaire, St-Jean-sur-le-Richelieu, Rivière-du-Loup, St-Hubert in operations for six (6) months; the two (2) Trois-Rivières properties for five (5) months and the acquisition of Val-David for two (2) months. For the 2012 period, the Trust had the properties of Mont-St-Hilaire, St-Jean-sur-le-Richelieu and Rivière-du-Loup in operations for six (6) months and St-Hubert for a period of seventeen (17) days.

The overall increase in rental income is explained by the increase of $1,119 attributable to sites operated during six (6) months, both in 2013 as well as 2012, an increase of $70,705 for the property of St-Hubert, operated during six (6) months in 2013 and seventeen (17) days in 2012, and finally a contribution of $80,519 from the three (3) properties acquired in 2013.

The main operating expenses were interest on mortgages [$76,580] [2012: $31,848], long-term debts [$13,118] [2012: $26,952], distributions on convertible preferred units [$29,854] [2012: $10,900], and bank loans [$9,117] [2012: $899], and in administrative expenses, professional fees of [$67,953] [2012: $50,161] and registration and listing fees [$15,445] [2012: $15,611].

For the period ended June 30, 2013, interests were paid on the same components detailed in the quarterly section, taking into account that two (2) mortgages were obtained in May 2013 and a long term loan also negotiated in May 2013.

For mortgages, interest rates obtained from financial institutions ranged between 4.78% to 5.24% in 2013 compared to 4.78% and 5.01% in 2012. For long term debts as well as for convertible preferred units, interest rates obtained from private entities ranged from 4.50% and 6.00% in 2013 compared to an average of 5.00% in 2012, including a loan of $150,000 bearing interest at 10.00%

The net income of 2013 includes net charges of $33,130 [2012: $26,200] for the variation in fair market value of the interest rates swap liability, the derivative component of the convertible long-term debt and other components measured at fair market value at each reporting date. This gain is also explained by a quoted market price of the unit of $0.33 as at June 30, 2013 and $0.31 as at December 31, 2012.

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

Funds from operations (FFO)	*three months ended*		*six months ended*	
Reconciliation of income to funds from operations	June 30, 2013 $	June 30, 2012 $	June 30, 2013 $	June 30, 2012 $
Net income	414,122	(9,210)	598,831	85,304
Increase in value of investment properties	(327,649)	-	(395,807)	-
Increase in value of investment properties obtained from joint-ventures	(28,000)	-	(67,580)	-
Unit-based compensation	(5,000)	15,700	(550)	5,306
Increase of liability component of the convertible preferred units	(1,909)	489	774	910
Variation of fair value of derivative financial instruments	24,720	42,000	34,720	22,000
Unrealized loss (gain) on interest swaps	(2,600)	(700)	(4,100)	(8,000)
Variation in fair value of other financial components	1,620	7,800	3,060	6,894
Amortization intangible assets	1,851	1,851	3,702	3,702
Deferred income taxes	28,090	22,300	61,141	41,100
FFO – basic and diluted	**105,245**	**80,230**	**234,191**	**157,216**
FFO per unit – basic and diluted	**0.003**	**0.004**	**0.007**	**0.008**

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

Cash flows	*three months ended*		*six months ended*	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	$	$	$	$
Operating activities	(390,512)	61,596	225,753	137,296
Investing activities	(3,633,150)	(2,229,485)	(5,453,919)	(2,229,485)
Financing activities	3,498,811	1,843,251	3,015,735	86,472
Increase (decrease) in cash and cash equivalents	(524,851)	(324,638)	(2,212,431)	(2,005,717)
Cash and cash equivalents – beginning of period	680,935	304,641	2,368,515	1,985,720
Cash and cash equivalents – end of period	156,084	(19,997)	156,084	(19,997)

For the quarter ended June 30, 2013, funds used in investing activities correspond to the purchase of the Val-David property. It also includes an amount of $1,047,745 spent on the construction of the property at Les Coteaux. Funds obtained from the financing activities are explained by the addition of two (2) mortgages for a total of $3,264,972, a new long term debt of $105,000, the exercise of 110,000 options for a net proceed of $27,500 and the increase of bank loan of $350,000. These funds were reduced by the monthly payments made on mortgages and the distribution of $220,902 made to unitholders. Finally funds used in operating activities are mostly explained by the payments made to suppliers in relation to the construction at Les Coteaux.

Capital structure and liquidity

The real estate business requires a large number of capital. The Trust's capital structure is key to financing growth. In the real estate industry, financial leverage is used to enhance rates of return on invested capital. Management believes that Fronsac 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 five (5) mortgages with financial institutions for a total of $5,694,858 maturing in 2014, 2017, 2019 and 2023, one (1) balance of sale of $333,000 maturing in 2014, a loan of $103,571 and three (3) convertible debts with a face value of $1,321,230 and shown on the statement of financial position at $1,154,799. For the mortgages with the financial institutions, the Trust currently makes monthly payments around $27,200. For the balance of sale debt, reimbursement of the principal is scheduled at maturity date. Finally the long term loan is repayable with monthly instalments of $2,129 that terminate in May 2018.

Trust units

The Trust is authorized to issue an unlimited number of trust units. During the quarter ended June 30, 2013, the Trust has issued 110,000 units following the exercise of options. As at June 30, 2013, the total number of units issued and outstanding was 32,726,083 units. During this same quarter, the Trust has not granted any option or warrant. As at June 30, 2013, there were 395,000 options and 200,000 warrants outstanding.

Subsequent Events to June 30, 2013

On August 5, 2013, the Trust issued 225,000 units following the exercise of options for a gross proceed of $56,250.

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

The Trust made no off-balance sheet arrangements during the quarter ended on June 30, 2013.

Related Party Transactions

During the quarter ended June 30, 2013, the Trust paid $12,000 (2012: $11,000) in professional fees to entities controlled by trustees. The Trust also paid $3,931 (2012: $12,554) for lawyer services to a person related to a trustee.

Property rental revenue includes $70,407 (2012: $67,662) obtained from companies controlled by trustees and individuals related to trustees for which $1,143 is included in the receivables of June 30, 2013 (2012: $0).

These transactions are made in the normal course of operations of the Trust and are measured at the exchange amount which is the value established and accepted by the parties. The Trust relies primarily on contractual works for the administration of its operations, because they are greatly simplified by the terms of leasing agreements. This type of administration is also very economical.

Critical Accounting Estimates

The Trust exercised critical accounting estimates in the determination of the fair value of the investment properties, the interest rate swaps, the fair value of its derivative financial instruments, the unit-based compensation and warrants liability and the computation of deferred tax assets and liabilities.

Additonal information

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