FRONSAC Real Estate Investment Trust

Management Discussion & Analysis

–

Q4 2019
Period ended December 31st, 2019
Form 51-102F1

SUMMARY OF SELECTED FINANCIAL INFORMATION

SUMMARY OF SELECTED ANNUAL INFORMATION

Periods ended December 31	12 months 2019	2018	Δ	%
Financial info				
Property rental income	9,388,326	6,275,277	3,113,049	50%
Total revenue	9,388,326	6,290,277	3,098,049	49%
Net income (loss) and comprehensive income (loss)	4,081,269	(1,889,131)	5,970,400	(316%)
NOI [1]	7,144,022	5,112,675	2,031,347	40%
FFO [1]	4,615,394	3,351,550	1,263,844	38%
Recurring FFO [1][2]	4,615,394	3,336,550	1,278,844	38%
AFFO [1]	4,524,363	3,038,111	1,486,252	49%
EBITDA [1]	6,672,288	4,749,213	1,923,075	40%
Investment properties [3]	134,376,091	107,174,824	27,201,267	25%
Total assets	129,118,708	98,890,349	30,228,359	31%
Total mortgage/loans/long term debt [4]	60,382,953	50,895,481	9,487,472	19%
(including revolving line of credit)	70,828,653	53,365,481	17,463,172	33%
Total convertible debentures	3,023,326	1,593,481	1,429,845	90%
Total equity	51,342,040	41,302,149	10,039,891	24%
Weighted average units o/s - basic	111,384,880	91,163,634	20,221,246	22%
Amounts on a per unit basis				
FFO	0.0414	0.0368	0.0047	13%
Recurring FFO	0.0414	0.0366	0.0048	13%
AFFO	0.0406	0.0333	0.0073	22%
Distributions	0.0222	0.0202	0.0020	10%
Financial ratios				
Weighted avg. interest rate - fixed loans/mortgages	4.0%	3.8%	0.2%	
Debt to gross assets - including converts	57%	56%	1%	
Debt to gross assets - excluding converts [3]	55%	54%	1%	
Interest coverage ratio	2.6	3.1	(0.5)	
Debt service coverage ratio	1.7	1.8	(0.1)	
Distributions as a % of FFO	54%	55%	(1%)	
Distributions as a % of Recurring FFO	54%	55%	(1%)	
Distributions as a % of AFFO	55%	60%	(5%)	
Leasing information				
Occupancy	100%	100%	-	
Mix of tenancy based on net revenue				
National	85%	79%	6%	
Regional	9%	16%	(7%)	
Local	5%	5%	-	
Property type breakdown				
Gas/Convenience stores	15	14	1	
Gas/Convenience stores/Quick Service Rest.	13	11	2	
Quick Service Restaurants	17	14	3	
Retail	10	6	4	
Other	2	2	-	
	57	47	10	
Other				
Average term to maturity - mortgages	6.1	4.7	1.4	
Average term to maturity - leases	8.7	9.6	(0.9)	
IFRS capitalization rate	6.35%	6.48%	(0.13%)	

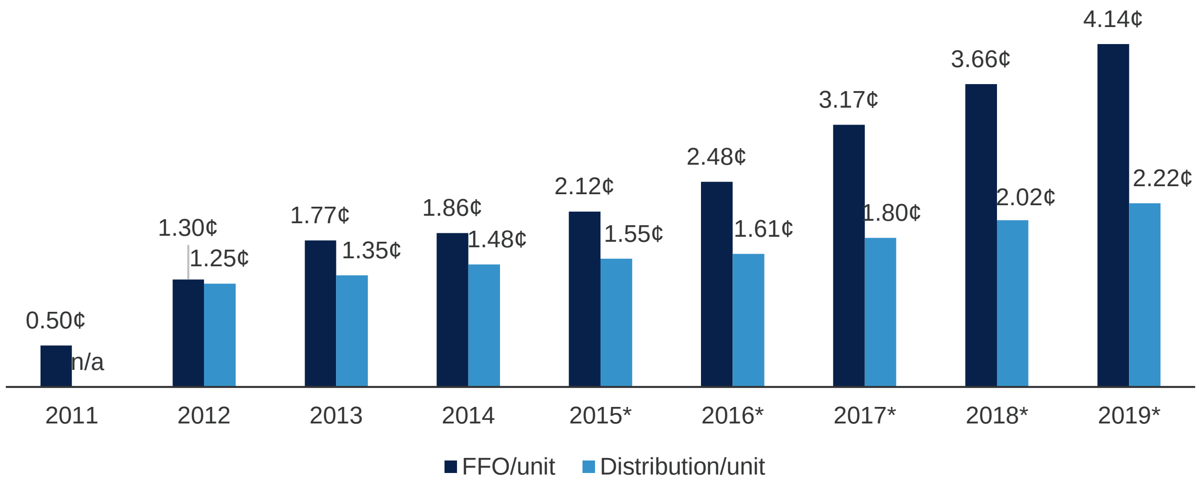
[1] See appropriate sections for reconciliation to the closest IFRS measure and section "Explanation of non-IFRS financial measures"

[2] Recurring FFO excludes "Other income" items as presented on the Consolidated Financial Statements

[3] Includes value of investment properties owned through joint ventures; Refer to Note 4 (Investment Properties) and Note 5 ([1] value of developed properties, [2] leased properties and [3] properties under development) in Fronsac's financial statements

[4] Excludes convertible debentures

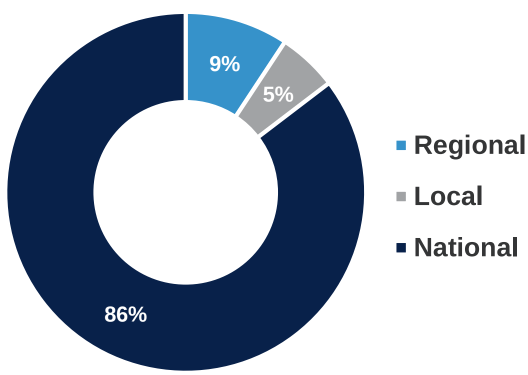
HISTORICAL SELECTED FINANCIAL PERFORMANCE



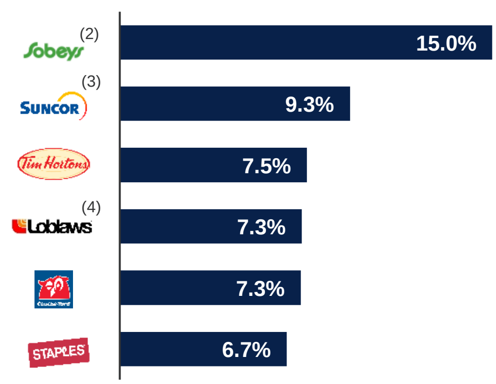
*Recurring FFO: excludes "Other income" as presented in the Consolidated Financial Statements

TENANT OVERVIEW – Year 2019(1)

TENANT MIX(1)



KEY TENANTS (53.1%) (1)



Notes:

(1) Based on net operating income as defined on page 11
(2) Sobeys operates IGA grocery stores and Shell service-stations
(3) Suncor operates Petro-Canada service-stations
(4) Loblaws operates the Pharmaprix/Shoppers pharmacies

KEY PERFORMANCE INDICATORS - 2019

Recurring FFO[1] per unit

+13%

From 3.66¢ in 2018 to 4.14¢ for 2019

Net Operating Income

+40%

A $2.0M increase over the past 12 months

Dist./Recurring FFO[1]

54%

*A **conservative ratio** that allows Fronsac to **maintain its strong growth***

Occupancy Rate

100%

*The **quality of our assets** allowed us to maximize our occupancy rate*

Investment Properties[2]

+25%

From $107.2M in 2018 to $134.4M in 2019

Management expense ratio

0.47%

Administrative expenses / investment properties [2]

Notes:

(1) Recurring FFO excludes "Other income" as presented on the Consolidated Statements of Income for the period; refer to section "Non-IFRS Financial Measures"

(2) Includes value of investment properties owned through joint ventures; Refer to Note 4 (Investment Properties) and Note 5 ([1] value of developed properties, [2] leased properties and [3] properties under development) in Fronsac's financial statements

BREAKDOWN OF PROPERTIES & OPERATING SECTORS

#	Address	City/Province	Type	Area Land	Area Building	Ownership
1	40-50 Brunet Street	Mont St-Hilaire, Qc	QSR, gas, convenience store	69K sf	5,452 sf	100%
2	230 St-Luc Blvd.	St-Jean-sur-Richelieu, Qc	Gas, convenience store	65K sf	8,359 sf	100%
3	196 Hôtel-de-Ville Blvd.	Rivière-du-Loup, Qc	Gas, convenience store	36K sf	6,088 sf	100%
4	1349-1351 Road 117	Val-David, Qc	QSR, gas, convenience store	14K sf	2,400 sf	100%
5	275 Barkoff Street	Trois-Rivières, Qc	Gas, convenience store	65K sf	2,400 sf	65%
6	530 Barkoff Street	Cap-de-la-madeleine, Qc	Gas, convenience store	30K sf	2,641 sf	50%
7	340-344 Montée du Comté	Les Coteaux, Qc	QSR, gas, convenience store	67K sf	8,071 sf	100%
8	1440-50 St-Laurent East Blvd.	Louiseville, Qc	QSR, gas, convenience store	115K sf	6,132 sf	50%
9	1460 St-Laurent East Blvd.	Louiseville, Qc	QSR	37K sf	4,841 sf	50%
10	490-494 De L'Atrium Blvd.	Québec City, Qc	Gas, convenience store	34K sf	6,574 sf	100%
11	7335 Guillaume Couture Blvd.	Lévis, Qc	QSR	30K sf	2,860 sf	100%
12	1319 Brookdale Avenue	Cornwall, On	QSR	33K sf	3,127 sf	100%
13	4200 Bernard-Pilon Street	St-Mathieu de Beloeil, Qc	Gas, convenience store	20K sf	1,200 sf	100%
14	1901 Raymond Blais Street	Sainte-Julie, Qc	Gas, convenience store	39K sf	5,150 sf	100%
15	2000 Leonard de Vinci Street	Sainte-Julie, Qc	QSR	86K sf	1,255 sf	100%
16	2050 Leonard de Vinci Street	Sainte-Julie, Qc	Gas	50K sf	5,975 sf	100%
17	2051 Nobel Street	Sainte-Julie, Qc	QSR	27K sf	1,392 sf	100%
18	16920-16930 St-Louis Ave.	St-Hyacinthe, Qc	QSR, gas, convenience store	70K sf	6,290 sf	100%
19	3726 Des Forges Blvd.	Trois-Rivières, Qc	QSR	19K sf	3,360 sf	100%
20	2871-2885 Des Prairies Street	Trois-Rivières, Qc	QSR, gas, convenience store	60K sf	6,662 sf	100%
21	2350 Chemin des Patriotes	Richelieu, Qc	QSR, gas, convenience store	48K sf	4,851 sf	100%
22	4932 Des Sources Blvd.	Pierrefonds, Qc	QSR	19K sf	2,716 sf	100%
23	314 De Montigny Street	St-Jérôme, Qc	QSR	24K sf	2,832 sf	100%
24	288 Valmont Street	Repentigny, Qc	Gas, convenience store	22K sf	2,400 sf	100%
25	2439 Ste Sophie Blvd.	Sainte-Sophie, Qc	Gas, convenience store	58K sf	4,856 sf	95%
26	2429 Sainte-Sophie Blvd.	Sainte-Sophie , Qc	QSR	45K sf	3,710 sf	95%
27	610 Saint-Joseph Blvd.	Gatineau, Qc	Auto Parts	12K sf	3,019 sf	100%
28	513 Des Laurentides Blvd.	Laval, Qc	Auto Parts	13K sf	3,372 sf	100%
29	123 St-Laurent East Blvd	St-Eustache, Qc	Gas, convenience store	18K sf	2,400 sf	100%
30	507 Chemin de la Grande Côte	St-Eustache, Qc	Gas, convenience store	22K sf	3,846 sf	100%
31	4 North Street	Waterloo, Qc	Gas, convenience store	14K sf	1,723 sf	100%
32	3355 de la Pérade Street	Quebec City, Qc	Retail	142K sf	28,894 sf	100%
33	2555 Montmorency Blvd	Quebec City, Qc	Retail	110K sf	25,480 sf	100%
34	3592 Laval Street	Lac Mégantic, Qc	Gas, convenience store	20K sf	1,777 sf	100%
35	536 Algonquin Blvd.	Timmins, On	QSR	108K sf	2,690 sf	100%
36	1730 Jules Vernes Ave.	Cap Rouge, Qc	QSR	35K sf	4,100 sf	50%
37	235 Montée Paiement	Gatineau, Qc	Retail	149K sf	25,706 sf	100%
38	510 Bethany Ave.	Lachute, Qc	QSR, gas, convenience store	113K sf	11,910 sf	50%
39	1337 Iberville Blvd.	Repentigny, Qc	Retail	57K sf	17,050 sf	100%
40	222 St-Jean-Baptiste Blvd.*	Mercier, Qc	QSR, gas, convenience store	70K sf	8,088 sf	82.5%
41	230 St-Jean-Baptiste Boul.*	Mercier, Qc	QSR	33K sf	4,165 sf	82.5%
42	101 Hébert Street	Mont-Laurier, Qc	Retail	350K sf	37,530 sf	100%
43	290 Mgr. Langlois Blvd.**	Salaberry-de-Valleyfield, Qc	QSR, gas, convenience store	107K sf	9,400 sf	50%
44	510 Portland Street	Dartmouth, NS	QSR	32K sf	4,631 sf	100%
45	20 Frontenac Ouest Blvd.	Thetford Mines, Qc	QSR	30K sf	2,400 sf	100%
46	975 Wilkinson Ave.	Dartmouth, NS	QSR, gas, convenience store	85K sf	7,975 sf	50%
47	1501 Jacques Bedard Street	Quebec City, Qc	Retail	152K sf	24,652 sf	100%
48	852 Laure Boulevard	Sept Iles, Qc	QSR	28K sf	3,239 sf	100%
49	87-91 Starrs Road	Yarmouth, NS	Gas, convenience store	62K sf	3,335 sf	100%
50	4675 Shawinigan Sud Blvd.	Shawinigan, Qc	QSR, gas, convenience store	101K sf	7,126 sf	50%
51	480 Bethany Ave.	Lachute, Qc	Retail	492K sf	75,681 sf	100%
52	484 Bethany Ave.	Lachute, Qc	QSR	32K sf	3,037 sf	100%
53	2077 Laurentides Blvd.	Laval, Qc	Retail	31K sf	9,462 sf	100%
54	111-117 Desjardins Bvld.	Maniwaki, Qc	Retail	45K sf	16,085 sf	100%
55	550 Laflèche Boulevard	Baie Comeau, Qc	Retail	102K sf	19,676 sf	100%
56	304 LaSalle Boulevard	Baie Comeau, Qc	QSR	13K sf	3,300 sf	100%
57	35 route 201**	Coteau-du-Lac, Qc	QSR, gas, convenience store	31K sf	4,500 sf	50%
58	835 Lucien Chenier***	Farnham, Qc	QSR, gas, convenience store	89K sf	7,000 sf	100%
59	24 Mikana Way***	Kenora, On	Retail	534K sf	80,881 sf	100%
			Total:	**4,414K sf**	**575,724 sf**	

QSR: Quick Service Restaurant

*Fronsac increased its participation from 50% to 82.5% after December 31, 2019

**Currently under development

*** Acquired after Decembre 31, 2019

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 12 months period ended December 31, 2019. It should be read in conjunction with the Audited Consolidated Financial Statements for the period ended December 31, 2019 and the Trust's Amended and Restated Audited Consolidated Financial Statements and Amended and Restated MD&A for the period ended December 31, 2018 (the "Restated Financial Statements"). 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 March 20, 2020, this MD&A reflects all significant information available as of that date and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2019 and accompanying notes included in this report.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

Please note that the forward-looking statements contained in this MD&A describe our expectations as at March 20, 2020.

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.

While always staying focused on **per unit results, Fronsac…**

Acquires and executes **long term** triple net lease ("NNN") agreements

Targets well-located, freestanding **commercial properties** with **financially strong tenants**

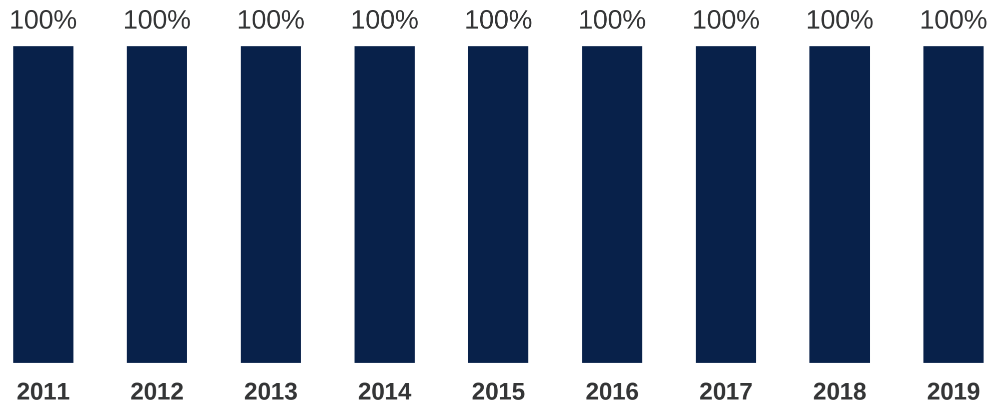
Regularly increases monthly distributions per unit

Remains **disciplined** in its acquisitions

Maintains a **conservative** balance sheet

As at December 31, 2019 the Trust held 57 investment properties, 52 residing in the province of Quebec, 2 in the province of Ontario and 3 in the province of Nova Scotia. 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) quick service restaurant chains, (2) major oil/gas companies, (3) convenience store chains, (4) major retailers and (5) others.

HISTORICAL OCCUPANCY RATE



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 PERIOD

On April 10, 2019, Fronsac announced its intention to undertake a private placement of units of Fronsac ("Units") at a price of $0.55 per Unit and 6% unsecured convertible debentures (the "Debentures") for aggregate gross proceeds of up to $10,000,000, including up to $2,000,000 in principal amount of Debentures (collectively, the "Offering").

The net proceeds of the Offering were used for acquisitions and for working capital and general trust purposes.

On April 26, 2019, Fronsac announced three acquisitions, two in the province of Quebec and one in Nova Scotia.

The first acquisition was a restaurant property operated under the Mikes banner. It is located in Sept Iles, Qc, on Laure Boulevard, the main artery of the town and the center of the retail node. Total consideration paid for the property was $1,450,000 (excluding transaction costs) and was settled in cash.

The second acquisition was a property to be redeveloped in joint venture with Odacite Immobilier Inc. It is currently an Esso service-station with a Subway located on Shawinigan-Sud boulevard in Shawinigan, Qc. The property will be demolished and a new Esso service-station with a McDonald's and Subway restaurants will be built. Construction is set to being in May 2019 and total costs are expected to be approximately $2.4M. Fronsac retained a 25% interest in the project.

The third acquisition was a Sobeys service-station in Yarmouth, Nova Scotia, leased under a ground lease agreement. Total consideration paid for the property was $1,000,000 (excluding transaction costs) and was settled in cash

On May 16, 2019, Fronsac announced the closing of its previously-announced private placement for aggregate gross proceeds of $9,910,000 (the "Offering"). Pursuant to the Offering, Fronsac issued 14,869,091 units ("Units") at a price of $0.55 per Unit, for gross proceeds to Fronsac of $8,178,000, and $1,732,000 in principal amount of 6% unsecured convertible debentures (the "Debentures").

The net proceeds of the Offering were used to partially-fund acquisitions, to repay certain indebtedness, which may be subsequently redrawn, and for working capital and general trust purposes.

Insiders of Fronsac have subscribed to an aggregate of 4,185,715 Units under the Offering, for aggregate gross proceeds of $2,302,143 to Fronsac. Such insiders' participation in the Offering (the "Insider Participation") is considered to be a "related party transaction" within the meaning of TSX Venture Exchange Policy 5.9 and *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* ("Regulation 61-101").

In connection with the Offering, Fronsac paid an aggregate of $89,940 in finder's fee to registered dealers in accordance with applicable laws.

The Debentures will mature on May 16, 2024, bear interest at a rate of 6% per annum, payable in equal semi-annual payments in arrears on August 28 and February 28 in each year, with the first such payment date falling on August 28, 2019, and are convertible to their holders' option into Units at a price of $0.73 per Unit, representing a conversion rate of 1,369.86 Units for each $1,000 principal amount of Debentures. The Debentures will be redeemable at the option of Fronsac on or after May 16, 2022 if the closing price of the Units on the TSX Venture Exchange (the "TSX-V") is higher than $0.73 for a period of forty-five (45) consecutive business days.

On May 23, 2019, Fronsac announced the acquisition of two properties in Lachute, Qc. The properties are located on Bethany avenue at the center of Lachute's retail node. The first is a retail store operated under the Walmart banner and the second is a quick service restaurant operated under the Tim Hortons banner and located at the entrance of the Walmart. Total consideration paid for this property was $9.5M (excluding transaction costs) and the properties will generate a combined net operating income of approximately $682,000 in year one, representing a 7.2% going in capitalization rate based on the purchase price.

On May 31, 2019, Fronsac announced the acquisition of two properties. The first one is a retail store operated under the Dollarama banner and is located on Laurentides Boulevard in Laval, Qc. The second one is leased to Dollarama and Laurentian Bank and is located on Desjardins Boulevard in Maniwaki, Qc.

Both properties are located on highly trafficked commercial arteries in their respective towns. Total consideration paid for the two properties was $4,050,000 and was settled in cash.

On August 22, 2019, Fronsac announced the acquisition of a property located in Baie Comeau, Qc, in the heart of the town's commercial node. The property is a pharmacy operated under the Pharmaprix banner. Total consideration paid for the property was $5,200,000.

OUTLOOK 2020 & 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.

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.

On January 20, 2020, Fronsac announced, that it had entered into acquisition agreements to purchase three commercial properties in Québec and Ontario, and its intention to undertake a public offering of units of Fronsac at a price of $0.62 per Unit for minimum gross proceeds of approximately $15.0 million and maximum gross proceeds of approximately $18.0 million.

The REIT intended to use the net proceeds of the Offering as follows: (A) the acquisition by the Trust of a 100%-interest in a property located in Kenora, Ontario, and leased to Walmart for an aggregate purchase price of approximately $12.0 million (excluding transaction costs), which is expected to be satisfied by (1) approximately $8.4 million aggregate principal amount of new mortgage financing and (2) a cash payment of $3.6 million, which the Trust anticipates using from the net proceeds of the Offering, (B) the acquisition by the Trust of a 100%-interest in a property located in Farnham, Québec, and leased to a gas station and restaurant combo operated by Petro-Canada, a convenience store operator and Tim Hortons, for an aggregate purchase price of approximately $4.0 million (excluding transaction costs), which is expected to be satisfied by (1) approximately $2.7 million aggregate principal amount of new mortgage financing and (2) a cash payment of $1.3 million, which the Trust anticipates using from the net proceeds of the Offering, (C) the acquisition by the Trust of a 75%-interest in a property located in Saint-Étienne-des-Grès, Québec, and leased to a gas station and restaurant combo operated by Parkland, a convenience store operator and Tim Hortons, for an aggregate purchase price of approximately $3.0 million (excluding transaction costs), which is expected to be satisfied by (1) approximately $2.0 million aggregate principal amount of new mortgage financing and (2) a cash payment of $1.0 million, which the Trust anticipates using from the net proceeds of the Offering, (D) approximately $7.5 million assuming the Minimum Offering is completed and approximately $10.3 million assuming the Maximum Offering is completed to repay a portion of the outstanding indebtedness under certain of Fronsac's credit facilities, which may be subsequently redrawn in connection with the acquisition by the REIT of the Acquisition Properties; (E) approximately $0.3 million for expenses incurred by the REIT in connection with the Offering; and (F) approximately $0.5 million for real estate transaction costs expected to be incurred in connection with the acquisition of the acquisition Properties, primarily comprised of land transfer and other taxes, insurance, bank underwriting fees, legal fees and third-party consultant fees; and the combined net operating income in respect of the Acquisition Properties is approximately $1.5 million, representing a 7.9% weighted average capitalization rate based on the aggregate purchase price of approximately $19.0 million (excluding transaction costs) in respect of the Acquisition Properties.

On February 13, 2020, Fronsac announced that it had closed its previously-announced public offering (the "Offering") of trust units of Fronsac (the "Units"). Under the Offering, an aggregate of 29 million Units were issued, representing the maximum number of Units qualified under Fronsac's short form prospectus, at a price of $0.62 per Unit for aggregate gross proceeds of approximately $18 million. The Offering was made through a syndicate of agents co-led by Paradigm Capital Inc. and Canaccord Genuity Corp., acting as joint bookrunners, and including Laurentian Bank Securities Inc., Echelon Wealth Partners Inc. and Desjardins Securities Inc.

The REIT intends to use the net proceeds of the Offering as described in the REIT's final short form prospectus dated February 7, 2020, including to partially fund the acquisition of three commercial properties in Québec and Ontario and repay a portion of the outstanding indebtedness under certain of the REIT's credit facilities.

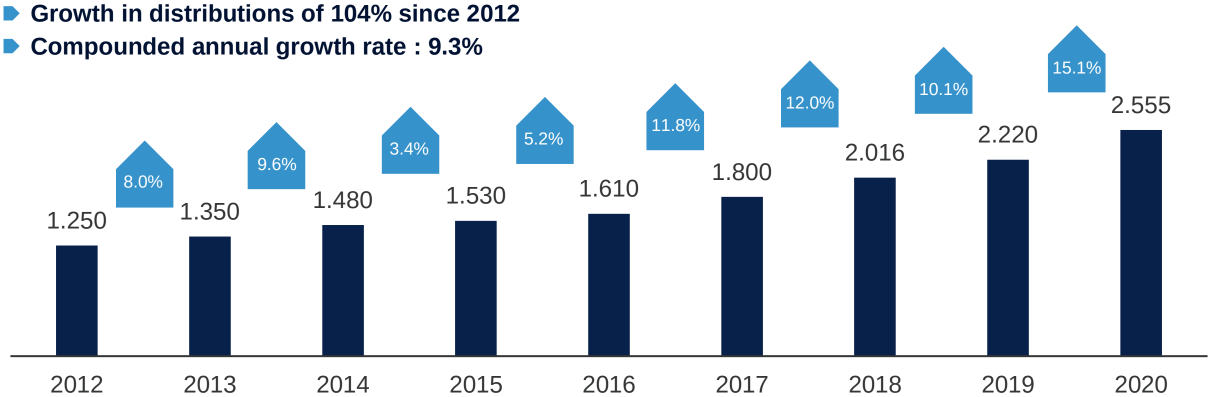
On February 28, 2020, Fronsac announced the closing of two previously announced acquisitions. The first property acquired was in Farnham, Québec. It is composed of a Petro-Canada gas station, a Beau-Soir convenience store and a Tim Hortons restaurant. Total consideration paid was $4.0 million and was settled in cash. The second property acquired was in Kenora, Ontario. It is composed of a retail store operated under the Walmart banner. Total consideration paid for the property was $12.0 million and was settled in cash.

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 (¢)

- **Growth in distributions of 104% since 2012**
- **Compounded annual growth rate : 9.3%**



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 12). 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.

Distributable Income is not an IFRS measure There is no standardized measure of distributable income Distributable income is presented in this MD&A because Fronsac believes this non IFRS measure is a relevant measure of its ability to earn and distribute cash returns to unitholders Distributable Income as computed by Fronsac may differ from similar computations as reported by other similar entities and, accordingly, may not be comparable to distributable income as reported by such entities

The Distributable Income of Fronsac is calculated based on Fronsac's income determined in accordance with the provisions of the Income Tax Act (as amended, subject to certain adjustments as set out in Fronsac's contract of trust, including that capital gains and capital losses be excluded, net recapture income be excluded, no deduction be made for non capital losses, capital cost allowance, terminal losses, amortization of cumulative eligible capital or amortization of costs of issuing units or financing fees related to the instalment loan, and leasehold and client improvements be amortized Distributable Income so calculated may reflect any other adjustments determined by the Trustees in their discretion and may be estimated whenever the actual amount has not been fully determined. Such estimates will be adjusted as of the subsequent distribution date when the amount of Distributable Income has been finally determined.

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

	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Rental income	2,738,295	2,458,451	2,192,484	1,999,095	1,719,184	1,663,373	1,530,968	1,361,751
Net income (loss) attributable to unitholders	(997,612)	3,891,506	1,136,505	50,870	(4,085,302)	544,021	278,795	1,373,354
Net income (loss) per unit Basic	(0.0085)	0.0333	0.0013	0.0005	(0.0402)	0.0059	0.0033	0.0160
FFO [1] Basic	1,295,716	1,197,449	1,121,743	1,000,484	923,414	871,219	764,867	792,049
FFO per unit Basic	0.0110	0.0102	0.0103	0.0098	0.0091	0.0095	0.0089	0.0092
Value of investment properties (000's) [2]	134,376	133,413	124,741	107,597	107,175	99,265	88,702	77,975
Total assets (000's)	129,119	126,615	117,063	100,749	98,890	96,863	83,966	77,152
Mortgages, and other debts (000's)	60,383	60,554	61,398	54,979	53,365	47,568	44,862	37,809
Equity (000's)	51,342	53,031	50,499	41,842	41,302	45,899	37,537	37,691
Weighted avg. units o/s Basic (000's)	117,404	117,014	109,280	101,606	101,590	91,554	85,671	85,659

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Non-IFRS financial measures"

(2) Includes value of investment properties owned through joint ventures; Refer to Note 4 (Investment Properties) and Note 5 ([1] value of developed properties, [2] leased properties and [3] properties under development) in Fronsac's financial statements

RECONCILIATION OF NET INCOME TO FFO

Periods ended December 31	3 months 2019	3 months 2018	Δ	12 months 2019	12 months 2018	Δ
Net income (loss) attributable to unitholders	(997,612)	(4,085,302)	3,087,690	4,081,269	(1,889,131)	5,970,400
Debenture issuance costs	-	-	-	30,660	53,171	(22,511)
Δ in value of investment properties	501,678	5,008,010	(4,506,332)	(1,546,054)	4,862,229	(6,408,283)
Δ in value of investment properties in joint ventures	427,047	6,681	420,366	583,734	163,104	420,630
Unit based compensation	78,540	(1,485)	80,025	259,845	79,025	180,820
Δ in liability component of convertible debentures	55,828	17,068	38,760	54,845	27,950	26,895
Δ in fair value of derivative financial instruments	1,210,590	(26,615)	1,237,205	1,104,060	45,105	1,058,955
Accretion of lease payments	9,057	-	9,057	38,395	-	38,395
Income taxes	10,588	5,057	5,531	8,640	10,097	(1,457)
FFO(1) - basic	1,295,716	923,414	40%	4,615,394	3,351,550	38%
FFO per unit - basic	0.0110	0.0091	21%	0.0414	0.0368	13%
Distributions paid on convertible debentures (if dilutive)	-	7,500	(7,500)	127,234	15,000	112,234
FFO - diluted	1,295,716	930,914	39%	4,742,628	3,366,550	41%
FFO per unit - diluted	0.0106	0.0089	19%	0.0413	0.0359	15%
Recurring FFO(2) - basic	1,295,716	923,414	40%	4,615,394	3,336,550	38%
Recurring FFO per unit - basic	0.0110	0.0091	21%	0.0414	0.0366	13%
Distributions	651,590	512,014	139,576	2,457,083	1,834,111	622,972
Distributions per unit	0.0056	0.0050	12%	0.0222	0.0202	10%
FFO - basic after distributions	0.0055	0.0040	0.0014	0.0192	0.0166	0.0026
Recurring FFO - basic after distributions	0.0055	0.0040	0.0014	0.0192	0.0164	0.0028
Distributions as a % of FFO - basic	50%	55%	(5%)	54%	55%	(1%)
Distributions as a % of Recurring FFO - basic	50%	55%	(5%)	54%	55%	(1%)
Weighted avg. units o/s						
Basic	117,403,566	101,590,060	15,813,506	111,384,880	91,163,634	20,221,246
Diluted	121,699,451	104,094,743	17,604,708	114,803,229	93,668,317	21,134,912

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Explanation of of non-IFRS financial measures"

(2) Recurring FFO excludes "Other income" as presented on the Consolidated Financial Statements

ADJUSTED FUNDS FROM OPERATIONS (AFFO)

Periods ended December 31	3 months 2019	3 months 2018	Δ	12 months 2019	12 months 2018	Δ
Basic FFO (1)	1,295,716	923,414	372,302	4,615,394	3,351,550	1,263,844
Amortization of finance charges included in interest expense	-	-	-	-	-	-
Non-cash revenue (straight line rent)	-	-	-	-	-	-
Maintenance/cap-ex on existing properties (2)	(47,545)	-	(47,545)	(91,031)	(313,439)	(222,408)
Leasing costs on existing properties	-	-	-	-	-	-
Debt extinguishment penalties	-	-	-	-	-	-
AFFO(1) - basic	1,248,171	923,414	35%	4,524,363	3,038,111	49%
AFFO per unit - basic	0.0106	0.0091	17%	0.0406	0.0333	22%
Interest paid on convertible debentures (if dilutive)	-	7,500	(7,500)	127,234	15,000	112,234
AFFO - diluted	1,248,171	930,914	34%	4,651,597	3,053,111	52%
AFFO per unit - diluted	0.0103	0.0089	15%	0.0405	0.0326	24%
Distributions	0.0056	0.0050	12%	0.0222	0.0202	10%
AFFO -basic after distributions	0.0051	0.0040	0.0011	0.0184	0.0132	0.0053
Distributions as a % of AFFO - basic	52%	55%	(3%)	55%	60%	(5%)
Weighted avg. units o/s						
Basic	117,403,566	101,590,060	15,813,506	111,384,880	91,163,634	20,221,246
Diluted	121,699,451	104,094,743	17,604,708	114,803,229	93,668,317	21,134,912

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Non-IFRS financial measures"

(2) The 2018 capital expenditure amount includes a $297,500 tenant allocation considered income generating capital expediture as Fronsac will generate higher revenues because of this investment.

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 12-month period ended December 31, 2019, 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 mortgages on new acquisitions.

CASH FLOWS

Periods ended December 31	12 months 2019	2018	Δ
Operating activities	3,615,256	3,188,937	426,319
Investing activities	(28,215,324)	(32,829,359)	4,614,035
Financing activities	24,725,954	29,535,441	(4,809,487)
Increase in cash & cash equivalents	125,886	(104,981)	230,867
Cash & cash equivalents -Beginning of period	174,452	279,433	(104,981)
Cash & cash equivalents - End of period	300,338	174,452	125,886

Funds from investing activities can mainly be attributed to the acquisitions of properties, participations in joint ventures that took place over the course of the period. For more details regarding these acquisitions over the 12-month period ended December 31, 2019, please refer to Note 4 "Investment Properties" and Note 5 "Joint Arrangements" in the Financial Statements.

Cash derived from financing activities amounted to $24,725,954 ($29,535,441 for the same period in 2018). These amounts are the result of the money raised through new mortgages used to fund our acquisitions and through the private placements of August 2018 and April 2019.

Distributable Income and Distributions

	3 months			12 months		
Periods ended December 31	2019	2018	Δ	2019	2018	Δ
Cash flow provided from operating activities	1,355,866	1,058,502	297,364	3,615,256	3,188,937	426,319
Net change in non-cash asset and liability items	(212,621)	(184,467)	(28,154)	515,663	(97,088)	612,751
Income taxes	18,088	23,182	(5,094)	16,140	28,222	(12,082)
Accretion of lease payments	9,057	-	9,057	38,395	-	38,395
Δ in accrued interest	(3,285)	(32,695)	29,410	(38,980)	(45,054)	6,074
Debentures issuance costs	-	-	-	30,660	53,171	(22,511)
Unit based compensation	-	-	-	-	42,400	(42,400)
Δ in value of investment properties in joint ventures	427,047	6,681	420,366	583,734	163,104	420,630
Income from investment in joint ventures	(298,436)	52,211	(350,647)	(145,474)	17,858	(163,332)
FFO[(1)] - basic	1,295,716	923,414	40%	4,615,394	3,351,550	38%
Periodic mortgage principal repayments	(398,342)	(322,922)	(75,420)	(1,460,434)	(1,134,802)	(325,632)
Distributable income	897,374	600,492	49%	3,154,960	2,216,748	42%
Distributions to unitholders	(651,590)	(512,014)	27%	(2,457,083)	(1,834,111)	34%

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Non-IFRS financial measures"

RESULTS OF OPERATIONS

Periods ended December 31	3 months 2019	3 months 2018	Δ	12 months 2019	12 months 2018	Δ
Rental Income	2,738,295	1,719,184	1,019,111	9,388,326	6,275,277	3,113,049
Other revenues	-	-	-	-	15,000	(15,000)
Increase/(decrease) in fair values of investment properties	(501,678)	(5,008,010)	4,506,332	1,546,054	(4,862,229)	6,408,283
Financial expenses	1,910,468	442,287	1,468,181	3,583,094	1,602,914	1,980,180
Net income (loss) attributable to unitholders	(997,612)	(4,085,302)	3,087,690	4,081,269	(1,889,131)	5,970,400
Net income (loss) per unit Basic	(0.0085)	(0.0402)	0.0317	0.0366	(0.0207)	0.0573
FFO - basic[1]	1,295,716	923,414	40%	4,615,394	3,351,550	38%
FFO per unit	0.0110	0.0091	21%	0.0414	0.0368	13%
Recurring FFO - basic[2]	1,295,716	923,414	40%	4,615,394	3,336,550	38%
Recurring FFO per unit - basic	0.0110	0.0091	21%	0.0414	0.0366	13%
Weighted avg. units o/s Basic	117,403,566	101,590,060	15,813,506	111,384,880	91,163,634	20,221,246

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Non-IFRS financial measures"

(2) Recurring FFO excludes "Other income" as presented on the Consolidated Financial Statements

RECONCILIATION OF NET INCOME TO EBITDA

Periods ended December 31	3 months 2019	3 months 2018	Δ	12 months 2019	12 months 2018	Δ
Net income (loss) attributable to unitholders	(997,612)	(4,085,302)	3,087,690	4,081,269	(1,889,131)	5,970,400
Δ in value of investment properties	501,678	5,008,010	(4,506,332)	(1,546,054)	4,862,229	(6,408,283)
Δ in value of investment properties in joint ventures	427,047	6,681	420,366	583,734	163,104	420,630
Financial expenses	1,910,468	442,287	1,468,181	3,583,094	1,602,914	1,980,180
Income taxes included in administrative expenses	18,088	23,182	(5,094)	16,140	28,222	(12,082)
Accretion of lease payments	(9,057)	-	(9,057)	(38,395)	-	(38,395)
Income taxes	(7,500)	(18,125)	10,625	(7,500)	(18,125)	10,625
EBITDA[1]	1,843,112	1,376,733	34%	6,672,288	4,749,213	40%
Interest expense	693,477	474,875	218,602	2,545,889	1,534,641	1,011,248
Principal repayments	398,342	322,922	75,420	1,460,434	1,134,802	325,632
Debt service requirements	1,091,819	797,797	37%	4,006,323	2,669,443	50%
Debt service ratios						
Interest coverage	2.7	2.9	(0.2)	2.6	3.1	(0.5)
Debt service coverage	1.7	1.7	-	1.7	1.8	(0.1)

(1) See appropriate sections for reconciliation to the closest IFRS measure and section "Non-IFRS financial measures"

RESULTS OF OPERATIONS FOR THE QUARTER ENDED DECEMBER 31, 2019

For the quarter ended December 31, 2019, the Trust had rental income of $2,738,295 ($1,719,184 in Q4 2018). 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 17 for more details).

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 $1,910,468 in Q4 2019 compared to $442,287 for the same period last year. Financial expenses for Q4 2019 are higher than for Q4 2018, mainly because of the change in fair value of convertible instruments and the increase in interest expense, which is due to the increase in the number of mortgages.

For the quarter ended December 31, 2019, the Trust recorded basic recurring FFO of $1,295,716 in comparison to $923,414 in Q4 2018. Basic recurring FFO per unit increased by 21% from 0.91¢ to 1.10¢ for the same period last year. 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 PERIOD ENDED DECEMBER 31, 2019

For the period ended December 31, 2019, the Trust had rental income of $9,388,326 ($6,275,277 for the same period in 2018). 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 17 for more details). As at December 31, 2019, the Trust has estimated that a 0.25% decrease in the capitalization rate applied to the overall portfolio would increase the fair value of the investment properties by approximately $4.9 million ($3.7 million in 2018) while an increase in the capitalization rate would decrease the fair value of the investment properties by aproximately $4.5 million ($3.5 million in 2018). The weighted average capitalization rate used in the calculation of the fair value of investment property is 6.35% (6.48% in 2018) while the range of capitalization rates used is 5.75% to 7.25% (5.75% to 7.25% in 2018). The fair value of the investment properties indicated in the consolidated financial statements has been calculated internally using the direct capitalization method, which consists in applying a capitalization rate to the adjusted rental income of each property. The capitalization rates used are provided by a third party firm specializing in the appraisal of commercial properties. The adjusted rental income is adjusted to take into consideration provision for vacancies, administrative fees, structural reserves and discounts on variable income.

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 $3,583,094 during the period ended December 31, 2019 compared to $1,602,914 for the same period last year. Financial expenses for the period in 2019 are higher than for the period in 2018, mainly because of the change in fair value of convertible instruments and the increase in interest expense, which is due to the increase in the number of mortgages.

For the period ended December 31, 2019, the Trust recorded basic recurring FFO of $4,615,394 in comparison to $3,336,550 for the same period in 2018. Basic recurring FFO per unit increased by 13% from 3.66¢ to 4.14¢ 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 12-month period ended December 31, 2019, the Trust issued units as follows:

On March 19, 2019, Fronsac announced the issuance of 312,000 units of Fronsac REIT at a price of $0.57 per unit, which equates to $177,840 as partial compensation for the services rendered by certain members of management and the board of trustees during the fiscal year ended on December 31st, 2018. The issuance of the units of Fronsac REIT constitutes a portion of salaries as per their employment contract and board compensation package. Out of the 312,000 units, 200,000 were subject to the approval of unitholders at the annual general meeting of May 24, 2019. They were approved on May 24 and issued on June 3, 2019.

On April 10, 2019, Fronsac announced its intention to undertake a private placement of units of Fronsac (“Units”) at a price of $0.55 per Unit and 6% unsecured convertible debentures (the “Debentures”) for aggregate gross proceeds of up to $10,000,000, including up to $2,000,000 in principal amount of Debentures (collectively, the “Offering”).

On May 16, 2019, Fronsac announced the closing of its previously-announced private placement for aggregate gross proceeds of $9,910,000 (the “Offering”). Pursuant to the Offering, Fronsac issued 14,869,091 units (“Units”) at a price of $0.55 per Unit, for gross proceeds to Fronsac of $8,178,000, and $1,732,000 in principal amount of 6% unsecured convertible debentures (the “Debentures”).

The net proceeds of the Offering were used to partially-fund acquisitions, to repay certain indebtedness, which may be subsequently redrawn, and for working capital and general trust purposes.

Insiders of Fronsac have subscribed to an aggregate of 4,185,715 Units under the Offering, for aggregate gross proceeds of $2,302,143 to Fronsac. Such insiders’ participation in the Offering (the “Insider Participation”) is considered to be a “related party transaction” within the meaning of TSX Venture Exchange Policy 5.9 and *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* (“Regulation 61-101”). Pursuant to subsections 5.5(a) and 5.7(1)(a) of Regulation 61-101, Fronsac is exempt from obtaining a formal valuation and minority approval of its unitholders with respect to the Insider Participation as the fair market value of the gross proceeds of the Offering (including the Insider Participation) is below 25% of Fronsac’s market capitalization as determined in accordance with Regulation 61-101. Fronsac did not file a material change report 21 days prior to the closing of the Offering as the details of the Insider Participation had not been confirmed at that time. The Offering has been unanimously approved by the board of trustees of Fronsac, except that each trustee who is participating in the Offering has abstained from the approval of his respective portion of the Insider Participation.

The securities to be issued and sold under the Offering will be subject to a four-month hold period under Canadian securities laws. In connection with the Offering, Fronsac is paying an aggregate of $89,940 in finder’s fee to registered dealers in accordance with applicable laws.

The Debentures will mature on May 16, 2024, bear interest at a rate of 6% per annum, payable in equal semi-annual payments in arrears on August 28 and February 28 in each year, with the first such payment date falling on August 28, 2019, and are convertible to their holders’ option into Units at a price of $0.73 per Unit, representing a conversion rate of 1,369.86 Units for each $1,000 principal amount of Debentures. The Debentures will be redeemable at the option of Fronsac on or after May 16, 2022 if the closing price of the Units on the TSX Venture Exchange (the “TSX-V”) is higher than $0.73 for a period of forty-five (45) consecutive business days.

Warrants

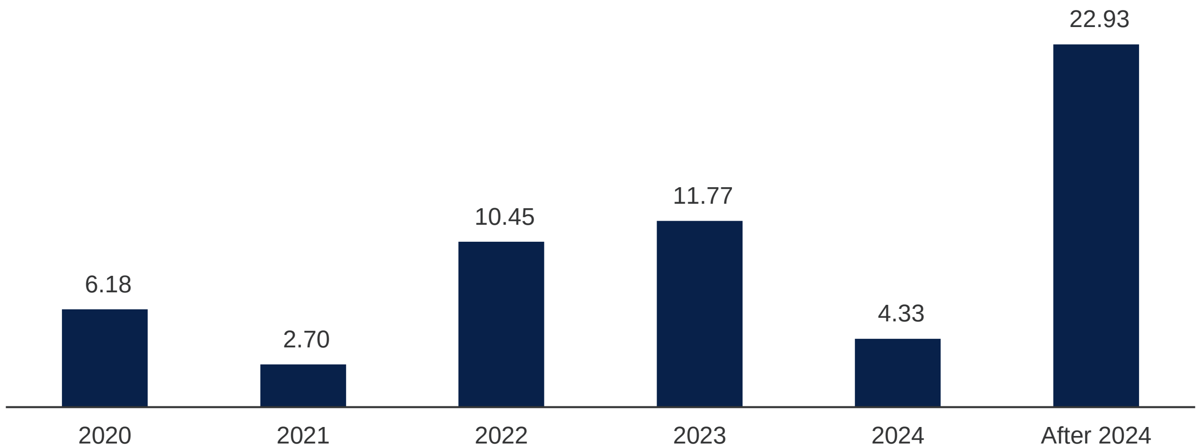
The Trust issued 5,102,040 warrants through its May 2017 private placement. Each warrant allows the holder to purchase a unit of Fronsac for the price of $0.61. During the 12-month period ending December 31, 2019, 51,020 warrants were exercised, resulting in the issuance of 51,020 units of Fronsac. The total number of warrants outstanding as of December 31, 2019 is of 5,051,020.

Convertible debentures

The nominal value of convertible debentures outstanding as of December 31, 2019 is of $3,136,000 and their conversion price is $0.73 per unit. During the 12-month period ended December 31, 2019, $250,000 worth of convertible debentures were converted into units at a price of $0.43, resulting in the issuance of 581,395 Fronsac units.

The total amount of units outstanding at December 31, 2019 was 117,403,566.

MORTGAGE BALANCES DUE AT MATURITY (in $M)



Maturity	2020	2021	2022	2023	2024	After 2024
Balance due ($):	6,183,739	2,701,448	10,448,112	11,767,322	4,328,492	22,932,677
Interest rate:	3.15%	2.85% - 3.32%	3.21% - 6.00%	3.41% - 4.20%	3.64% - 3.74%	3.80% - 4.98%
% of total debt:	10.6%	4.6%	17.9%	20.2%	7.4%	39.3%

Debts are composed of mortgages, loans, convertible debentures and secured credit facilities. As at December 31, 2019, there are 32 mortgages (including Fronsac's interest in mortgages held through joint ventures) with Canadian financial institutions with a total carrying value of $60,277,953 ($50,775,481 at December 31, 2018). These mortgages require the Trust to make principal payments of $32,314,416 over the next 5 year and $27,963,537 thereafter. The mortgages outstanding currently have an average term to maturity of 6.1 years (4.7 years at December 31, 2018). Convertible debentures in circulation as at December 31, 2019 have a carrying value of $3,023,326 ($1,593,481 at December 31, 2018). The Trust currently has 4 secured lines of credit with authorized limits of $6.0M, $2.9M, $1.5M, and $0.4M. These lines of credit have a $10.45M balance as at December 31, 2019 ($2.47M at December 31, 2018).

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 assessing the nature of an acquisition and whether it represents a business combination or an acquisition of assets and liabilities, whether a joint arrangement structured through a separate vehicle is a joint operation or a joint venture, the assessment of the fair values of investment properties and the assessment of the unit-based compensation and derivative financial instruments where the fair value cannot be derived from active markets.

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 by the Trust. 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. Investment properties are appraised primarily based on adjusted cash flows obtained from existing tenants, since market participants focus more on expected income. The fair value of investment properties indicated in the consolidated financial statements has been calculated internally using the direct capitalization method based on rental income. This fair value has been calculated by using a capitalization rate, provided by qualified independent professional appraisers, and applied on adjusted rental income. Rental income is adjusted to take into consideration provision for vacancies, administrative fees, structural reserves and discounts on variable income.

RISKS AND UNCERTAINTIES

All property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand for space particularly affect property investments. At December 31, 2019 the Trust held interests in 57 properties in Quebec, Ontario and Nova Scotia, 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

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 ($517K as at December 31, 2019 compared to $187K as at December 31, 2018). 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

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. Each change of 1% of the interest rates would have an impact of $620,342 on the financial expenses of the year.

Liquidity risk

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.

Lease roll-over risk

Lease roll-over risk arises from the possibility that Fronsac may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants. Fronsac’s principal management of occupancy risk is the skewing of tenancies towards national tenants, the signing of longer term leases and significant pre-leasing of development space.

Development and Acquisition Risk
The Trust's external growth prospects will depend in large part on identifying suitable acquisition opportunities and conducting necessary due diligence. If the Trust is unable to manage its growth and integrate its acquisitions and developments effectively, its business operating results and financial condition could be adversely affected. Developments and acquisitions may not meet operational or financial expectations due to unexpected costs or market conditions, which could impact the Trust's performance.

Environmental Risk
Fronsac is subject to various laws relating to the environment which deal primarily with the costs of removal and remediation of hazardous substances such petroleum products. Environmental risk is relevant to Fronsac's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against Fronsac. Management is not aware of any material non-compliance with environmental laws or regulations with regard to Fronsac's portfolio, or of any material pending or threatened actions, investigations or claims against Fronsac relating to environmental matters. Fronsac manages environmental exposures in a proactive manner by conducting thorough due diligence before the acquisition of each property and by taking envrionmental insurance coverage on properties that where risk could potentially arise.

Status of the REIT
Fronsac is required to comply with specific restrictions regarding its activities and the investments held by it in order to maintain its real estate investment trust status ("REIT"). Should Fronsac cease to qualify as a REIT, the consequences could be material and adverse. As well, Fronsac conducts its affairs in order to qualify as a REIT under applicable tax statutes so that it retains its status as a flowthrough vehicle for the particular year. Should Fronsac not meet the conditions to qualify as a REIT in a particular year, it may be subject to tax similar to a corporation, which may have an adverse impact on it and its unitholders, on the value of the units and on its ability to undertake financings and acquisitions. This could also materially reduce its distributable cash. Management believes that it complies with the REIT rules.

Access to Capital
The Trust's growth prospects depends on its ability to access capital, mainly debt and equity. Adverse market conditions could lead to a negative capital markets environment in which the Trust might not be able to issue units, debentures or any other financial instruments in order to raise capital. Access to debt, mainly through mortgages, is also crucial for financing purposes, and the unavailibilty of the debt market would make it harder for Fronsac to acquire real estate assets that satisfy its investment criteria.

Public Health Risk in Relation to COVID-19
A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy. The COVID-19 could affect the Trust's ability to collect rent in certain instances. The COVID-19 has not had a material impact on the Trust's operations as of March 20, 2020.

Management is following closely the evolution but the impact on the operations of the Trust is unknown at the at the moment. The impacts will be accounted for when they will be known and when it will be possible to properly measure them.

RELATED PARTY TRANSACTIONS

The loans receivable include an amount of $100,000 (2018: $50 000) due from an officer of the Trust. Interest income on the loan amounts to $3,876 (2018: $2,177) for which no amount is receivable as at December 31, 2019 (2018: $0).

The credit facilities include an amount of $400,000 (2018: $400,000) obtained from a trustee. Interest on credit facilities includes an amount of $18,400 (2018: $8,433) paid to that trustee for which no amount is payable (2018: $0) as at December 31, 2019.

Issue costs of units include an amount of $2,145 paid to a financial institution in which a trustee was a director (2018 $0).

A former trustee who rents investment properties from the Trust has not seeked re-election to the Board of Trustees. Since May 25, 2019, the transactions related to this former trustee are deemed to be at arm's length.

For the period of January 1st, 2019 to May 25, 2019 and for the comparative period of the full year ending December 31, 2018, the results include the following transactions with this former trustee.

Rental income includes an amount of $212,098 (2018: $536,856) from companies controlled by this trustee.

Interest income includes an amount of $790 (2018: $2,138) from a person related to this trustee.

On June 29, 2018, the Trust acquired an interest in the limited partnership Odacite Mercier. This day, the Trust paid $463,275 for its interest in this company in which this former trustee has an interest.

Officers and Trustees Compensation

The Trust paid $360,852 as compensation to officers during the year ended December 31, 2019 (2018: $250,400).

Administrative fees include an amount of $35,000 (2018: $35,000) paid as professional fees to a trustee and to an entity controlled by a trustee.