

Q2 2004

Royal LePage Franchise Services Fund



Interim Report to Unitholders Q2 2004 TSX-RSF.un

Royal LePage Franchise Services Fund TSX:RSF.un

LETTER TO UNITHOLDERS

Financial and Operating Highlights

For the three months ended June 30, 2004

	(thousands)	(per unit)
Royalties	\$ 6,397	\$ 0.48
Net earnings	\$ 1,213	\$ 0.13
Distributable cash	\$ 5,058	\$ 0.38
Distributions	\$ 3,664	\$ 0.28

Dear Unitholders:

We are pleased to present our results for the quarter ended June 30, 2004.

Revenue for the second quarter was \$6.4 million and distributable cash from operations was \$5.1 million or \$0.38 per unit, exceeding management's expectations.

On a pro forma basis this represents growth of 15% over the same period in 2003 had the Fund been in operation during the second quarter of 2003. These results were driven by 1.9% growth in the Fund's underlying network of agents and sales representatives as well as the continued strength of the Canadian residential resale real estate market.

Over the course of this quarter, internal growth through organic measures exceeded expectation. With the addition of 163 agents in the second quarter, resulting in an overall increase of 388 agents for the six months ended June 30, 2004, we are well ahead of the pace required to meet our annual growth target of 200 to 400 agents.

Growth Pipeline

The Fund has a solid growth pipeline backed by franchisee conversions and acquisitions. From November 1, 2003, to June 30, 2004, Centract Residential Property Services, the Fund Manager, converted franchises operating from seven locations serviced by 64 agents to the Royal LePage brand. The Fund Manager intends to present these franchisees to the Board of Trustees on October 31, 2004, for acquisition by the Fund on January 1, 2005.

In addition, we expect growth in the Fund will be fuelled by the September 2003 acquisition by the Fund Manager of Le Groupe Trans-Action, a prominent Montreal-based real estate franchisor with over 300 agents operating in 80 locations. The Fund Manager intends to present these franchises to the Fund's Board of Trustees for acquisition when the underlying contracts and operations are in a similar form to that of a current Fund franchise.



Royal LePage Franchise Services Fund TSX-RSF.un

Outlook

As a result of strong underlying market fundamentals, namely low mortgage rates, increased housing affordability, strong housing starts and buoyant consumer confidence, continued strength is anticipated for the Canadian residential real estate industry. As we move into the second half of the year, we continue to enhance our service and support offerings to improve our efficiencies and to attract franchisees and agents to our brand.

On behalf of the Fund's trustees and management team, thank you once again for your continued support.

Philip Soper
President and Chief Executive Officer

Kevin Cash
Chief Financial Officer



MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS AND FINANCIAL CONDITION

Financial Highlights

(\$ 000's)	Three months ended June 30 2004	Three months ended June 30 2003	Six months ended June 30 2004	Six months ended June 30 2003
Royalties	\$ 6,397	\$ 5,559	\$ 11,252	\$ <u>9,872</u>
Less:				
Administrative expenses	93		179	
Interest expense	296		657	
Management fee	<u>950</u>		<u>1,831</u>	
Earnings and distributable cash	<u>\$ 5,058</u>		<u>\$ 8,585</u>	
Distributions	<u>\$ 3,664</u>		<u>\$ 7,324</u>	
Number of agents and sales representatives	<u>9,922</u>	<u>9,204</u>	<u>9,922</u>	<u>9,204</u>

This table sets out selected historical information and other data which should be read in conjunction with the Management's Discussion and Analysis ("MD&A") in the Royal LePage Franchise Services Fund's (the "Fund") Annual Report for the 147-day period ended December 31, 2003, and the attached interim consolidated financial statements for the three months (the "Quarter") and six months ended June 30, 2004. These interim financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles.

As the Fund commenced its operations on August 7, 2003, certain comparative figures for the period ended June 30, 2004, are not available. External economic and industry factors remain substantially unchanged, unless otherwise stated.



Royal LePage Franchise Services Fund TSX-RSF.un

Overview

This MD&A covers the period from January 1, 2004, to June 30, 2004, and has been prepared as at July 30, 2004.

Royal LePage Franchise Services Fund was established on August 7, 2003, through an initial public offering. The Fund generates cash flow from the franchise royalties and service fees of a national network of real estate franchisees and sales representatives, operating under the Royal LePage, Johnston & Daniel and Realty World brand names (collectively the “Fund Network”).

As at June 30, 2004, the Fund Network was comprised of 9,142 agents and 780 sales representatives operating from 524 locations under 228 franchise agreements. The Fund Network has an approximate one-fifth share of the Canadian Residential Resale Real Estate market based on transactional dollar volume.

Management of the Fund is provided by Residential Income Fund Manager Limited (the “Fund Manager”), a division of Contract Residential Property Services, the real estate services division of Brascan Corporation. The senior management of the Fund Manager developed and managed the Fund Network prior to the inception of the Fund. Brascan Corporation through a wholly-owned subsidiary holds a 25% subordinated interest in the Fund (see Transactions with Related Parties).

Structure of the Fund

The Fund generates royalties with both fixed and variable fee components. A summary of these fees is as follows:

Royalty fees

Fixed franchise fees are based on the number of agents in the network and consist of a monthly flat fee of \$100 per agent, a technology fee and web services and other fees.



Royal LePage Franchise Services Fund TSX-RSF.un

Variable franchise fees are primarily driven by the total transaction dollar volume of business transacted by our agents. The Fund receives 1% of each agent's gross commission income, subject to a cap of \$1,300 per year. In addition, 22 of the Fund's larger locations situated in the Greater Toronto Area ("GTA") pay a premium franchise fee ranging from 1% to 5% of the location's gross revenue.

Approximately 88% of the Fund's annual royalties are derived from the combined fixed fee of \$100 per agent per month, 1% variable fee and premium fee. The remaining royalty stream is generated from technology fees, 4.5% option and web services and other fees. Approximately 60% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes.

The combination of a royalty stream based on the number of agents in the network, increasing agent and broker productivity and an increasing supply of new housing inventory provides the base for strong, stable and growing cash flow.

Monthly distributions

The target annual cash distribution is \$1.10 per unit. Public unitholder cash distributions are made monthly.

To reduce unitholder risk, 25% of the Fund's units, which are held by the Fund Manager, are subordinated in their rights to distributions until public unitholders receive their target distribution. This system is in place until 2008.

Operations Overview

The key drivers of the Fund's business and cash distributions to unitholders are:

1. The number of agents in the Fund;
2. Transaction volumes;
3. The stability of the Fund's royalty stream; and
4. The Fund's growth opportunities.

A summary of our performance against these drivers is as follows:

Royal LePage Franchise Services Fund TSX-RSF.un

Number of agents in the Fund

- During the quarter, the Fund Network of 9,142 agents grew by 163 agents or 1.8%.

Transaction volumes

- Canada's housing starts, the market's future inventory, continues to increase with 239,300 starts nationally for the 12 months ended June 30, 2004.
- The Canadian residential resale real estate market achieved record transactional dollar volumes for the month of June 2004 and the quarter then ended. The market as defined by transactional dollar volume was \$101.8 billion for the 12 months ended June 30, 2004, an increase of 26% and 13% as compared with 12 months ended June 30, 2003, and December 31, 2003, respectively.
- The year-over-year growth in the Canadian market for the 12 months ended June 30, 2004, was fuelled by a 14% increase in residential unit sales to 463,641 units and an 11% increase in average selling price to \$219,503.
- The GTA market, from which the Fund earns its premium franchise fees, achieved its best year ever in 2003. This trend continued in 2004 with 85,680 homes sold at an average price of \$305,568 for the 12 months ended June 30, 2004. This activity represents an increase of 16.9% in homes sold and 7.0% in average price, over the same period in 2003 and similarly an increase of 7.9% and 4.2%, over the 12 months ended December 31, 2003. Unit sales in the quarter set an all-time record for the GTA as 27,636 units were sold at an average price of \$321,034. This represents an 18% and 9% increase, respectively over the same period in 2003.
- Agent productivity for the 12 months ended December 31, 2003, was approximately \$2 million per agent in transactional dollar volume, which remains slightly ahead of 2002 levels and 67% ahead of the rest of the Canadian agent productivity of \$1.2 million per agent for the same period.
- Record low mortgage interest rates, strong consumer confidence, combined with the overall increase in housing affordability continues to encourage first-time buyers to enter the market and existing homeowners to trade up to larger, more expensive dwellings.

Stability of the Fund's royalty stream

- The Fund's royalties are derived primarily from a diverse national network of 228 independently owned and operated franchises, the majority of which operate with less than 100 agents.
- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian agent population.



Royal LePage Franchise Services Fund TSX-RSF.un

- During the quarter there were no franchise contracts subject to renewal.
- As at June 30, 2004 the Fund had \$1.3 million in working capital and other reserves to meet future distribution requirements in anticipation of the seasonality of the market and ongoing working capital requirements.

Fund growth opportunities

Our growth objective is to add 200 to 400 agents to the Fund Network annually, with approximately one half of this growth from acquisitions and one half from internal growth. Growth through acquisition is achieved through the Fund Manager's dedicated network development team operating under the Management Services Agreement ("MSA").

Growth in overall royalties is achieved by: increasing the number of agents in the Fund; increasing the productivity of agents; expanding the range of products and services supporting the franchisees and agents; increasing adoption of these products and services; and providing concise programs to the Fund Network supported by on-going training programs to franchisees and agents that assist in leveraging the Fund's competitive advantages to attract and retain potential recruits. A summary of immediate growth opportunities and results to the date of this report is as follows:

- Three franchises operating from three locations serviced by seven agents were acquired by the Fund on January 1, 2004.
- Internal growth and the acquisition noted above added 388 paying agents to the Fund's network for the six months ended June 30, 2004, a 4.4% increase and a level of progress that exceeds our minimum growth target of 200 agents for the year.
- On September 11, 2003, the Fund Manager acquired the operations of Le Groupe Trans-Action, a Quebec-based franchisor operating with over 300 agents from 80 locations, 40 of which operate in areas not currently serviced by the Fund. The Fund Manager intends to present these franchises to the Fund's Board of Trustees for acquisition when the underlying contracts and operations meet our eligibility and quality control criteria.
- From November 1, 2003, to June 30, 2004, the Fund Manager converted seven franchises serviced by 64 agents to the Royal LePage Brand. The Fund Manager intends to present these franchises to the Board of Trustees on October 31, 2004, for potential acquisition by the Fund on January 1, 2005.
- In the quarter, two franchises serviced by two agents were closed.
- The Fund Manager continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining agents, increasing agent productivity and driving down administrative costs.

Royal LePage Franchise Services Fund TSX-RSF.un

Operating Results

	Three months ended June 30 2004	Three months ended June 30 2003	Six months ended June 30 2004	Six months ended June 30 2003
(\$ 000's)				
Royalties	\$ 6,397	<u>\$ 5,559</u>	\$ 11,252	<u>\$ 9,872</u>
Less:				
Administrative expenses	93		179	
Interest expense	296		657	
Management fee	<u>950</u>		<u>1,831</u>	
Earnings	5,058		8,585	
Amortization of intangible assets	3,418		6,838	
Non-controlling interest	<u>427</u>		<u>471</u>	
Net earnings	<u>\$ 1,213</u>		<u>\$ 1,276</u>	
Basic and diluted earnings per unit (9,983,000 units)	\$ 0.13		\$ 0.13	

Earnings for the quarter of \$5.1 million exceeded plan due primarily to greater than anticipated agent growth and market activity as previously described.

Royalties in the second quarter totaled \$6.4 million, 15% ahead of the same period in 2003 as summarized and explained below. Administrative costs were in line with management's expectations and we continued to benefit from low interest rates resulting from our variable interest rate position on our \$30.6 million term loan. Management fees have been calculated in line with the terms set out in the MSA, as 20% of royalties less administrative expenses, interest expenses and working capital and other reserves.

Net earnings for the quarter of \$1.2 million represent earnings less non-cash charges of \$3.4 million of amortization related to our intangible assets and \$427,000 related to the non-controlling interest's 25% share of the operating results.

The Fund Network as at June 30, 2004, was comprised of 9,142 agents and 780 sales representatives, with 8,809 of the agents operating under the combined flat fee of \$100 per month and 1% of gross earnings¹ option (the "\$100/1% option") and 333 agents operating under the 4.5% variable fee option (the "4.5% option"). Sales representatives currently do not pay fees to the Fund.

¹Approximately 18% of agents operating under the \$100/1% option exceeded the 1% of gross earnings cap in 2003.

Royal LePage Franchise Services Fund TSX-RSF.un

Royalties

	Three months ended June 30 2004	Three months ended June 30 2003	Six months ended June 30 2004	Six months ended June 30 2003
(\$ 000's)				
Fixed franchise fees	\$ 2,718	\$ 2,418	\$ 5,240	\$ 4,723
Variable franchise fees	2,008	1,709	3,187	2,775
Premium franchise fees	932	917	1,473	1,432
Other fees and services	739	515	1,352	942
	<u>\$ 6,397</u>	<u>\$ 5,559</u>	<u>\$ 11,252</u>	<u>\$ 9,872</u>

The Fund generates royalties from both fixed and variable fee components as described earlier in "Structure of the Fund."

Total fixed franchise fees, variable franchise fees and premium franchise fees represented 88% and 91% of our royalties for the quarter ended June 30, 2004, and 2003, respectively.

Fixed franchise fees for the quarter increased 12% over the same period in 2003, in line with the increase in the underlying number of agents.

Variable franchise fees for the quarter exceeded the same period in 2003 by 17%, due to the increase in the underlying number of agents and a 28% increase in quarter-over-quarter market activity.

Premium fees are a function of the mix of 22 franchise locations servicing the GTA market, which pay premium fees ranging from 1% to 5% of the location's gross revenue. These fees are paid to the Fund after the sales transaction closes. There is typically a 45 to 60 day delay between the house sale and closing. The GTA market increased by 28% in the quarter over the same period in 2003, while the overall gross revenue for our premium locations on a home sale and closing basis was up 23% and 9%, respectively for the same period. The resulting premium franchise fees for the quarter only increased by 2% over the same period in 2003 as a number of locations servicing the higher end markets, which pay the higher percentage premium fee, experienced a shortage of inventory relative to demand and consequently paid lower premium fees. This decrease in premium fees was offset by substantial increases in the gross revenue for locations paying the lower percentage premium fees.

Other fees and services represented 12% and 9% of Fund royalties for the quarter ended June 30, 2004 and 2003, respectively. These fees, comprised of technology, 4.5% option fees and web service and other fees, exceeded plan, due primarily to the greater than anticipated number of agents, utilization of the Fund's technology programs and the demand for our recently launched sales training programs.



Royal LePage Franchise Services Fund TSX-RSF.un

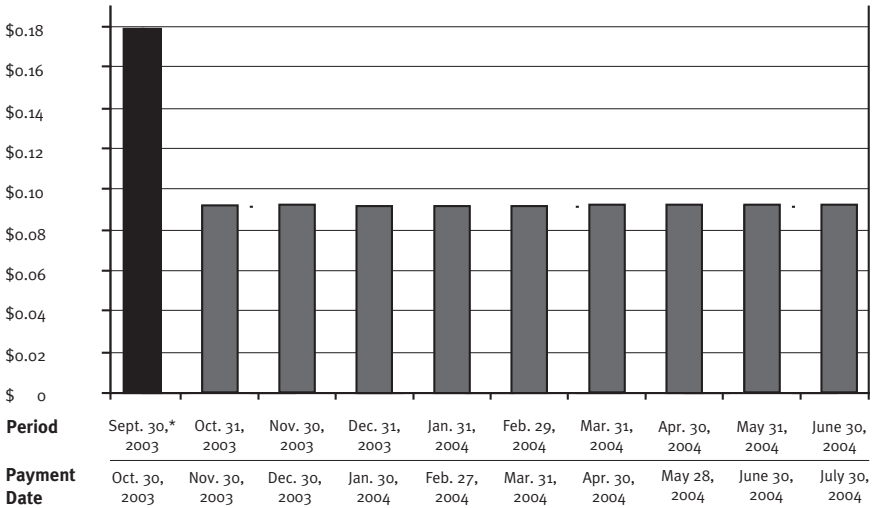
Interest expense

Interest expense for the quarter of \$296,000 related to the Fund's \$30.6 million term debt at an effective interest rate of 3.9%, and standby charges associated with the Fund's \$2 million operating line, which remained undrawn during the period.

Distributions

Distributions, as summarized below, were in line with annualized targeted distributions of \$1.10 per unit. We intend to continue to meet the annualized target distribution of \$1.10 per unit paid at a rate of \$0.0917 per month, while still reassessing these distribution levels from time-to-time. Our distributions since inception are summarized in the chart below.

Cents Per Unit



* based on a 55-day period

Distributable Cash

Distributions to unitholders are computed as net earnings, adjusted for the non-controlling interest share of net earnings, amortization and other reasonable working capital and other reserves as defined by the Fund's Amended and Restated Declaration of Trust.

Royal LePage Franchise Services Fund TSX:RSF.un

Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles (“GAAP”) and accordingly may not be comparable to similar measures used by other issuers. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. Distributable cash per unit has been calculated on a basis with that prescribed by GAAP for calculating earnings per unit and is derived as follows:

Distributable Cash

(\$ 000's)	Three months ended June 30 2004	Six months ended June 30 2004
Royalties	\$ 6,397	\$ 11,252
Less:		
Administrative expenses	93	179
Interest expense	296	657
Management fee	<u>950</u>	<u>1,831</u>
Distributable cash	5,058	8,585
Less change in working capital and other reserves	<u>(1,394)</u>	<u>(1,261)</u>
Distributable cash after reserves	<u>\$ 3,664</u>	<u>\$ 7,324</u>

Distributable Cash Reconciled to the Financial Statements (\$ 000's)

Net earnings for the period	\$ 1,213	\$ 1,276
Add:		
Non-controlling interest share of net earnings	427	471
Amortization of intangible assets	<u>3,418</u>	<u>6,838</u>
Distributable cash	5,058	8,585
Less change in working capital and other reserves	<u>(1,394)</u>	<u>(1,261)</u>
Distributable cash after reserves	<u>\$ 3,664</u>	<u>\$ 7,324</u>

Royal LePage Franchise Services Fund TSX-RSF.un

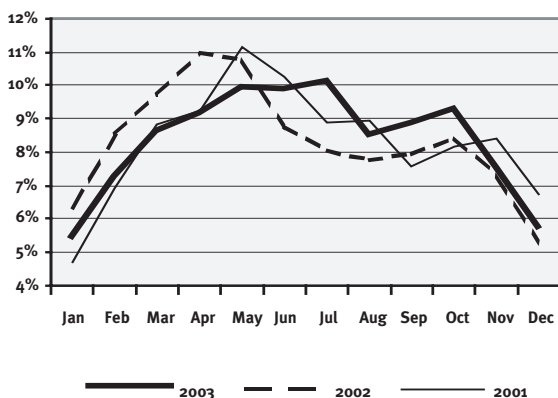
Distributions Declared During the Period

(\$ 000's)	Three months ended June 30 2004	Six months ended June 30 2004
Unitholders	\$ 2,748	\$ 5,493
Non-controlling interest	<u>916</u>	<u>1,831</u>
	<u>\$ 3,664</u>	<u>\$ 7,324</u>

Distributable cash before reserves for the quarter totalled \$5.1 million, which was ahead of management's expectations for reasons described earlier. Distributable cash for the quarter was \$1.4 million greater than the declared distributions resulting in overall working capital and other reserves of \$1.3 million or \$0.098 per unit as at June 30, 2004. This reserve, which represents approximately one month of target distributions may be used to fund future distributions in light of the seasonality of the market, to safeguard against increases in interest rates and to fund acquisitions.

A summary of the market's seasonality over the last three years is as follows:

**Canadian Residential Resale Real Estate Market
% Transaction Dollar Volume by Month**



Liquidity

During the quarter, the Fund utilized the \$4.5 million in cash flow generated from operating activities to meet our distribution requirements and to maximize our debt servicing options without drawing on our \$2 million operating line.

Royal LePage Franchise Services Fund TSX-RSF.un

Working Capital	As at June 30 2004	As at March 31 2004	As at Dec. 31 2003
(\$ 000's)			
Current assets			
Cash and cash equivalents	\$ 2,055	\$ 1,205	\$ 1,439
Accounts receivable	2,899	2,214	1,970
Prepaid expenses	66	104	241
	<u>\$ 5,020</u>	<u>\$ 3,523</u>	<u>\$ 3,650</u>
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,637	\$ 2,530	\$ 2,378
Distribution payable to unitholders	915	915	915
	<u>3,552</u>	<u>3,445</u>	<u>3,293</u>
Net working capital	<u>\$ 1,468</u>	<u>\$ 78</u>	<u>\$ 357</u>

As at June 30, 2004, the Fund had a net positive working capital position of \$1.5 million as compared to \$0.4 million as at December 31, 2003, as summarized in the table above.

Accounts receivable increased in line with the increase in revenues generated by franchisees. Prepaid expenses decreased in line with amortization of the underlying expenses. Accounts payable and accrued liabilities are comprised of a \$0.9 million quarterly distribution payable to the non-controlling interest, \$1.0 million in management fees payable to the Fund Manager and \$0.7 million attributed to PST and GST obligations, deferred service revenue and administrative expenses.

As at the date of this report, the interest on our \$30.6 million term loan is based on 30-day Banker Acceptance ("BA's") rates, which are at very favourable rates due to the overall low interest rate environment. We continue to assess the term and amount of these BA's as well as alternative options, such as fixing the debt interest rate and refinancing the term debt. An increase in the BA rates or extension of the BA term will increase the amount of cash required to service the debt.

Our \$30.6 million term loan and operating loan are due August 4, 2006. We anticipate that the term loan will be renewed in the future as an ongoing facility, however, we cannot predict the probability of this event occurring.

With \$1.3 million in reserve to meet future working capital requirements, an anticipated flow through of strong market unit sales from the quarter and strong underlying market fundamentals, we anticipate meeting our near term funding requirements.



Royal LePage Franchise Services Fund TSX-RSF.un

Capital Resources

Our existing capital resources upon which we can draw consists of a \$2 million operating line, remains unutilized. Other resources include funds generated from operations in excess of administrative costs, debt servicing and distribution requirements, with \$1.3 million in working capital and other reserves held for future distributions in anticipation of the seasonality of the residential resale real estate market and to finance the acquisition of franchises.

We will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements as at the date of this MD&A.

Transactions with Related Parties

Related party transactions that we entered into were transacted at contracted rates or at exchange amounts approximating fair market value. These transactions were entered into in the ordinary course of business and were consistent with prior periods.

Critical Accounting Estimates

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms are the Fund's administrative costs and allocation of the intangible assets between franchise agreements, relationships, trademarks and their related amortization period. The Fund's administrative costs of approximately \$0.3 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

The allocation of the Fund's intangible assets between their various classifications is subject to management estimates. The Fund's intangible assets are continuously monitored to ensure that there is no impairment in the carrying value of these assets. A change in the carrying value would affect the net earnings of the Fund but would have no direct cash flow implications.



Royal LePage Franchise Services Fund TSX-RSF.un

Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and a \$30.6 million term loan. We estimate that the fair values of these financial instruments approximate their carrying value.

We are exposed to credit risk with respect to accounts receivable to the extent any franchisees are unable to pay their fees and to interest rate risk as our debt is at floating rates.

Outstanding Units

Our capital structure remains unchanged from our launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at June 30, 2004, 9,983,000 units were issued and outstanding.

In addition to these units, we have also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units. This structure remains unchanged from our launch on August 7, 2003.

Taxation of Fund Distributions

Under the Fund's Amended and Restated Declaration of Trust the maximum tax deductions available to the Fund shall be claimed to the extent it brings its taxable income of the Trust to nil. The estimated deductions available to the Trust are comprised of the costs of the offering and intangible assets. The estimated deductions available to the unitholders for the year ended December 31, 2004 are estimated at \$8.0 million.

Outlook

We expect continued strength in the mid-term due to strong underlying market fundamentals supported by low interest rates, consumer confidence, the relative affordability of residential real estate, a relatively strong economy and a steadily increasing inventory of residential resale homes.

The growth in transaction dollar volume of residential resale real estate represents an opportunity for greater profitability through increased franchise fees earned from increased agent productivity as well as attracting franchisees and agents to our brands. To this end, we anticipate continuing to enhance our service and support offerings and improve our efficiencies.



Royal LePage Franchise Services Fund TSX-RSF.un

Forward-Looking Statements

Certain statements in Management’s Discussion and Analysis of Results and Financial Condition may include statements that are “forward-looking statements”. These forward-looking statements may reflect the current internal projections, expectations or belief, future growth, performance and business prospects and opportunities of the Fund and are based on information currently available to the Fund. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties. Management cannot provide assurance that the actual results of developments will be realized or, even if substantially realized, that they would have the expected consequences to, or effects on, the Fund. These forward-looking statements are made as of the date of this report and the Fund assumes no obligation to update or revise them.

Additional Information

Additional information, such as the Fund’s Annual Information Form, Information Circular, Prospectus, material contracts, and press releases may be found on SEDAR at www.sedar.com. We also encourage you to visit the Fund’s website at www.rsfund.ca for further investor information.

Royal LePage Franchise Services Fund TSX:RSF.un

Interim Consolidated Balance Sheet

(in thousands of dollars)

Assets	June 30 2004 (unaudited)	Dec. 31 2003
Current assets		
Cash and cash equivalents	\$ 2,055	\$ 1,439
Accounts receivable	2,899	1,970
Prepaid expenses	<u>66</u>	<u>241</u>
	5,020	3,650
Intangible assets	<u>144,077</u>	<u>150,765</u>
	<u>\$149,097</u>	<u>\$ 154,415</u>
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,637	\$ 2,378
Distribution payable to unitholders	<u>915</u>	<u>915</u>
	3,552	3,293
Term loan	30,600	30,600
Non-controlling interest	<u>28,810</u>	<u>30,170</u>
	62,962	64,063
Unitholders' equity	<u>86,135</u>	<u>90,352</u>
	<u>\$149,097</u>	<u>\$ 154,415</u>

See accompanying notes to the interim consolidated financial statements.

Royal LePage Franchise Services Fund TSX:RSF.un

Interim Consolidated Statement of Earnings

(unaudited)

(in thousands of dollars, except unit and per unit amounts)

	Three months ended June 30 2004	Six months ended June 30 2004
Royalties		
Fixed franchise fees	\$ 2,718	\$ 5,240
Variable franchise fees	2,008	3,187
Premium franchise fees	932	1,473
Other fees and services	<u>739</u>	<u>1,352</u>
	<u>6,397</u>	<u>11,252</u>
Expenses		
Administration	93	179
Management fees	950	1,831
Interest expense	296	657
Amortization of intangible assets	<u>3,418</u>	<u>6,838</u>
	<u>4,757</u>	<u>9,505</u>
Earnings before undernoted	1,640	1,747
Non-controlling interest	<u>427</u>	<u>471</u>
Net earnings for the period	<u>\$ 1,213</u>	<u>\$ 1,276</u>
Basic and diluted earnings per unit (9,983,000 units)	<u>\$ 0.13</u>	<u>\$ 0.13</u>



Royal LePage Franchise Services Fund TSX-RSF.un

Interim Consolidated Statement of Unitholders' Equity

For the six-month period ended June 30, 2004
 (unaudited)
 (in thousands of dollars)

	Units in \$	Net Income	Distributions	Total
Balance, December 31, 2003	\$ 92,938	\$ 1,947	\$ (4,533)	\$ 90,352
Changes during the period:				
Net income	—	1,276	—	1,276
Unit distributions	—	—	(5,493)	(5,493)
Balance, June 30, 2004	<u>\$ 92,938</u>	<u>\$ 3,223</u>	<u>\$ (10,026)</u>	<u>\$ 86,135</u>

See accompanying notes to the interim consolidated financial statements.

Royal LePage Franchise Services Fund TSX-RSF.un

Interim Consolidated Statement of Cash Flows

(unaudited)
 (in thousands of dollars)

	Three months ended June 30 2004	Six months ended June 30 2004
Cash provided by (used for):		
Operating activities		
Net earnings for the period	\$ 1,213	\$ 1,276
Items not affecting cash		
Non-controlling interest	427	471
Amortization of intangible assets	<u>3,418</u>	<u>6,838</u>
	5,058	8,585
Changes in non-cash working capital	<u>(540)</u>	<u>(525)</u>
	<u>4,518</u>	<u>8,060</u>
Investing activities		
Purchase of intangible assets (Note 3)	<u>(4)</u>	<u>(120)</u>
Financing activities		
Distributions paid to unitholders	(2,748)	(5,493)
Distributions paid to non-controlling interest	<u>(916)</u>	<u>(1,831)</u>
	<u>(3,664)</u>	<u>(7,324)</u>
Increase in cash and cash equivalents during the period	850	616
Cash and cash equivalents, beginning of period	<u>1,205</u>	<u>1,439</u>
Cash and cash equivalents, end of period	<u>\$ 2,055</u>	<u>\$ 2,055</u>
Supplementary Cash Flow Information		
Cash paid for interest	\$ 286	\$ 512

See accompanying notes to the interim consolidated financial statements.



Royal LePage Franchise Services Fund TSX:RSF.un

Notes to the Interim Consolidated Financial Statements

June 30, 2004

(unaudited)

(in thousands of dollars)

1. ORGANIZATION

Royal LePage Franchise Services Fund (the "Fund") is a limited purpose trust established under the laws of the Province of Ontario and pursuant to an Amended and Restated Declaration of Trust. On August 7, 2003, the Fund raised \$99,830 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the proceeds of a term loan were utilized to acquire franchise agreements, relationships and trademark rights.

These consolidated financial statements include the accounts of Royal LePage Franchise Services Fund, its wholly-owned subsidiary RL RES Holding Trust and its 75% owned subsidiaries Residential Income Fund General Partner Limited ("RIFGP") and Residential Income Fund L.P. (the "Partnership"). RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. ("the non-controlling interest") owns the remaining 25% interest in the Partnership and RIFGP.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements. They do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the annual consolidated financial statements.

3. ASSET ACQUISITION

On January 1, 2004, the Partnership acquired three franchise agreements from Centract Residential Property Services for \$146 and incurred related legal costs of \$4 of which \$120 was paid in cash and \$30 remains outstanding. This transaction has been recorded at the exchange amount agreed to between the parties.



Royal LePage Franchise Services Fund TSX-RSF.un

4. RELATED PARTY TRANSACTIONS

During the three and six month periods ended June 30, 2004, the Fund had the following transactions with parties related to the non-controlling interest. These transactions have been recorded at the exchange amount agreed to between the parties:

	<u>Three months ended June 30 2004</u>	<u>Six months ended June 30 2004</u>
a) Royalties		
Fixed franchise fees	\$ 245	\$ 482
Variable franchise fees	\$ 185	\$ 315
Premium franchise fees	\$ 815	\$ 1,259
Other fees and services	\$ 48	\$ 97
b) Expenses		
Management fees	\$ 950	\$ 1,831
Insurance and other	\$ 23	\$ 46
c) Distributions		
Distributions paid to non-controlling interest	\$ 916	\$ 1,831

The following amounts due to/from related parties are included in the account balance as described:

	<u>June 30 2004</u>	<u>Dec. 31 2003</u>
d) Accounts receivable		
Franchise fees receivable and other	\$ 560	\$ 375
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	\$ 915	\$ 915
Management fees	\$ 1,014	\$ 663
Due to non-controlling interest	\$ 30	\$ 100

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Net Earnings and Distributable Cash by Period¹

	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	Three months ended March 31 2004	Three months ended June 30 2004
(\$ ooo's except per unit amounts)	(reported)	(reported)	(reported)	(reported)
Royalties	\$ 3,600	\$ 5,202	\$ 4,855	\$ 6,397
Less:				
Administration expenses	70	161	86	93
Management fees	595	955	881	950
Interest expense	244	376	361	296
Amortization of intangible assets	1,402	2,350	3,420	3,418
Earnings before undernoted	1,289	1,360	107	1,640
Non-controlling interest	(322)	(380)	(44)	(427)
Net earnings for the period	967	980	63	1,213
Add:				
Amortization of intangible assets	1,402	2,350	3,420	3,418
Non-controlling interest	322	380	44	427
Distributable cash	2,691	3,710	3,527	5,058
Add (less) change in:				
Working capital and other reserves	(309)	108	260	(1,398)
Reserves for acquisition	—	(156)	(127)	—
Distributable cash after reserves	\$ 2,382	\$ 3,662	\$ 3,660	\$ 3,660
Distributable cash available to:				
Public unit holders	\$ 1,786	\$ 2,747	\$ 2,745	\$ 2,748
Non-controlling interest	596	915	915	916
	\$ 2,382	\$ 3,662	\$ 3,660	\$ 3,664
Distributions to public unitholders	\$ 1,787	\$ 2,747	\$ 2,745	\$ 2,748
Per unit (9,983,000 units):				
Basic and diluted earnings	\$ 0.10	\$ 0.10	\$ 0.00	\$ 0.13
Basic and diluted distributable cash	\$ 0.18	\$ 0.28	\$ 0.26	\$ 0.38
Basic and diluted distributions	\$ 0.18	\$ 0.28	\$ 0.28	\$ 0.28

¹ Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and accordingly may not be comparable to similar measures used by other issuers. Distributable cash per unit has been calculated on a basis with that prescribed by GAAP for calculating earnings per unit.

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Selected Financial and Operating Information²

	Three months ended March 31 2003	Three months ended June 30 2003	Three months ended Sept. 30 2003	Three months ended Dec. 31 2003	Three months ended March 31 2004	Three months ended June 30 2004
	(pro forma)	(pro forma)	(pro forma)	(reported)	(reported)	(reported)
Revenue (\$ 000's)						
Fixed franchise fees	\$2,305	\$2,418	\$2,479	\$2,465	\$2,522	\$2,718
Variable franchise fees	1,066	1,709	1,901	1,169	1,179	2,008
Premium franchise fees	515	917	1,287	930	541	932
Other fees and services	427	515	588	638	613	739
	\$4,313	\$5,559	\$6,255	\$5,202	\$4,855	\$6,397

% Revenue by region

British Columbia	14	13	12	13	15	14
Prairies	12	11	11	11	12	11
Ontario	58	60	63	62	58	60
Quebec	11	11	9	9	11	11
Maritimes	5	5	5	5	4	4
	100	100	100	100	100	100

Additions for the period:

Number of agents & sales representatives	367	292	142	108	279	189
Number of agents	366	292	142	101	225	163
Number of locations	3	3	(1)	(12)	6	9
Number of franchisees	2	1	—	(1)	4	(2)

At end of period:

Number of agents & sales representatives	8,912	9,204	9,346	9,454	9,733	9,922
Number of agents	8,219	8,511	8,653	8,754	8,979	9,142
Number of locations	519	522	521	509	515	524
Number of franchisees	226	227	227	226	230	228

²The pro forma information sets forth unaudited quarterly information and has been prepared on a quarterly basis as if the Fund was in operation since January 1, 2003. The pro forma results have been adjusted to the number of agents, sales representatives, locations and fees that would have been recognized had the corporately-owned locations of Royal LePage Residential Brokerage Services been franchised on January 1, 2003.



Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Fund Unit Performance

	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	Three months ended March 31 2004	Three months ended June 30 2004
Trading price range of units (TSX: "RSF.UN")				
High	\$ 10.64	\$ 10.92	\$ 12.10	\$ 11.90
Low	\$ 9.90	\$ 10.03	\$ 10.80	\$ 9.85
Close	\$ 10.26	\$ 10.85	\$ 11.70	\$ 11.00
Average daily volume	105,176	18,112	28,016	10,914
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000
Enterprise value at period end (thousands)	\$ 167,167	\$ 175,021	\$ 186,335	\$ 177,017

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Condensed Balance Sheet

(\$ 000's, unaudited)	As at Sept. 30 2003	As at Dec. 31 2003	As at March 31 2004	At at June 30 2004
Cash and cash equivalents	\$ 1,895	\$ 1,439	\$ 1,205	\$ 2,055
Accounts Receivable	\$ 2,063	\$ 1,970	\$ 2,214	\$ 2,899
Prepaid expenses	\$ 179	\$ 241	\$ 104	\$ 66
Intangible assets	\$ 153,015	\$ 150,765	\$ 147,491	\$ 144,077
	<u>\$ 157,152</u>	<u>\$ 154,415</u>	<u>\$ 151,014</u>	<u>\$ 149,097</u>
Accounts payable and accrued liabilities	\$ 1,078	\$ 2,378	\$ 2,530	\$ 2,637
Offering costs	\$ 964	—	—	—
Distributions payable to unitholders	\$ 1,786	\$ 915	\$ 915	\$ 915
Term loan	\$ 30,600	\$ 30,600	\$ 30,600	\$ 30,600
Non controlling interest	\$ 30,680	\$ 30,170	\$ 29,299	\$ 28,810
Unitholders' equity	\$ 92,044	\$ 90,352	\$ 87,670	\$ 86,135
	<u>\$ 157,152</u>	<u>\$ 154,415</u>	<u>\$ 151,014</u>	<u>\$ 149,097</u>

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Condensed Cashflow by Period

	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	Three months ended March 31 2004	Three months ended June 30 2004
(\$ 000's, unaudited)				
Cash provided by (used for):				
Operating activities				
Net earnings for the period	\$ 967	\$ 980	\$ 63	\$ 1,213
Add (Deduct)				
Non-controlling interest	322	380	44	427
Amortization of intangible assets	1,402	2,350	3,420	3,418
Changes in non-cash working capital	(1,760)	815	15	(540)
	931	4,525	3,542	4,518
Investing activities				
Purchase of intangible assets	(121,140)	(100)	(116)	(4)
Financing activities				
Initial public offering of units	99,830	—	—	—
Issue costs paid	(8,326)	(667)	—	—
Proceeds from term loan	30,600	—	—	—
Distributions paid to unitholders	—	(3,618)	(2,745)	(2,748)
Distributions paid to non-controlling interest	—	(596)	(915)	(916)
	122,104	(4,881)	(3,660)	(3,664)
Increase (decrease) in cash and cash equivalents during the period	1,895	(456)	(234)	850
Cash and cash equivalents, beginning of period	—	1,895	1,439	1,205
Cash and cash equivalents, end of period	\$ 1,895	\$ 1,439	\$ 1,205	\$ 2,055

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Canadian Real Estate Market

	Three months ended March 31 2003	Three months ended June 30 2003	Three months ended Sept. 30 2003	Three months ended Dec. 31 2003	Three months ended March 31 2004	Three months ended June 30 2004
--	----------------------------------------	---------------------------------------	----------------------------------------	---------------------------------------	----------------------------------------	---------------------------------------

Canada

Transaction dollar volume (\$ 000's)	\$19,108,314	\$26,012,320	\$24,677,392	\$20,208,660	\$23,698,045	\$ 33,186,541
Average selling price	\$ 199,159	\$ 205,148	\$ 209,535	\$ 215,967	\$ 220,179	\$ 229,403
Number of units sold	95,945	126,798	117,772	93,573	107,631	144,665
Number of agents at period end	67,976	69,330	70,098	71,267	72,887	N/A
Housing starts	38,270	59,150	62,771	58,235	39,382	67,378

Greater Toronto Area

Transaction dollar volume (\$ 000's)	\$ 4,995,339	\$6,904,598	\$ 6,219,988	\$ 5,161,741	\$ 5,927,225	\$ 8,872,091
Average selling price	\$ 287,849	\$ 295,510	\$ 290,871	\$ 298,919	\$ 305,653	\$ 321,034
Number of units sold	17,354	23,365	21,384	17,268	19,392	27,636
Housing starts	9,743	11,300	12,323	12,109	6,831	12,651

N/A – Not available

Royal LePage Franchise Services Fund TSX-RSF.un

Supplemental Information Canadian Real Estate Market

	Twelve months ended March 31 2003	Twelve months ended June 30 2003	Twelve months ended Sept. 30 2003	Twelve months ended Dec. 31 2003	Twelve months ended March 31 2004	Twelve months ended June 30 2004
Canada						
Transaction dollar volume (\$ 000's)	\$ 78,536,474	\$ 80,462,410	\$86,423,788	\$90,006,685	\$94,596,417	\$101,770,639
Average selling price	\$ 192,616	\$ 197,204	\$ 202,819	\$ 207,347	\$ 212,207	\$ 219,503
Number of units sold	407,736	408,017	426,113	434,088	445,774	463,641
Housing starts	207,164	207,154	214,195	218,426	219,538	227,766
Greater Toronto Area						
Transaction dollar volume (\$ 000's)	\$ 20,390,720	\$ 20,938,930	\$22,492,660	\$23,281,665	\$24,213,552	\$26,181,045
Average selling price	\$ 280,185	\$ 285,696	\$ 289,540	\$ 293,327	\$ 297,431	\$ 305,568
Number of units sold	72,776	73,291	77,684	79,371	81,409	85,680
Housing starts	43,876	44,237	44,578	45,475	42,563	43,914

Unitholder Inquiries

The Royal LePage Franchise Services Fund welcomes inquiries from unitholders, analysts, media representatives and other interested parties. Questions relating to investor relations or media inquiries can be directed to:

Selena Fiacco, Manager, Investor Relations and National Communications

Telephone: (416) 510-5699
Email: selenafiacco@royallepage.ca.

Head Office

39 Wynford Drive
Toronto, Ontario M3C 3K5
Telephone: (416) 510-5800 Fax: (416) 510-5856

Web Site: www.rsfund.ca

Email: info@rsfund.ca

Transfer Agent and Registrar

CIBC Mellon Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Telephone: (416) 643-5500 or 1-800-387-0825 Fax: (416) 643-5501

Web Site: www.cibcmellon.com

Email: inquiries@cibcmellon.com

Communications

We endeavour to keep our unitholders informed of our progress through a comprehensive annual report, quarterly interim reports and periodic press releases. The Royal LePage Franchise Services Fund maintains a web site that provides summary information on the company and ready access to our public reports, press releases, statutory filings, units and distribution information. Directors and management meet with the company's unitholders at the Annual Meeting and are available to respond to questions at any time.

We maintain an investor relations program to respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and financial advisors to ensure that accurate information is available to investors to discuss the company's financial results. We also endeavour to ensure that the media are kept informed of our developments as they occur.

Interim Report to Unitholders Q2 2004 TSX-RSF.un