



LEADERSHIP · PERFORMANCE · POTENTIAL



INTERIM REPORT TO SHAREHOLDERS
Q3 2011

Brookfield

Real Estate Services Inc.

PROFILE

The Company is a leading provider of services to residential real estate Brokers and their REALTORS®. The Company generates cash flow from franchise royalties and service fees derived from a national network of real estate Brokers and Agents in Canada operating under the Royal LePage, Via Capitale and Johnston & Daniel brand names. At September 30, 2011, the Company network consisted of 15,295 REALTORS®. The Company network has an approximate 23% share of the Canadian residential resale real estate market based on transactional dollar volume. The Company pays monthly dividends and trades on the Toronto Stock Exchange under the symbol "BRE". The Company's website address is www.brookfieldresinc.com.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report contain forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set out in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; the average rate of commissions charged; competition from other traditional real estate Brokers or from discount and/or Internet-based real estate alternatives; the availability of acquisition opportunities and/or the closing of existing real estate offices; other developments in the residential real estate brokerage industry or the Fund that reduce the number of and/or royalty revenue from the Company's REALTORS®; our ability to maintain brand equity through the use of trademarks; the availability of equity and debt financing; a change in tax provisions; and other risks detailed in the Fund's Annual Information Form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Q3 2011 INTERIM REPORT TO SHAREHOLDERS
FINANCIAL AND OPERATING HIGHLIGHTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

| Unaudited (In thousands of Canadian dollars) | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|---|--|--|---|---|
| Royalties | \$ 10,324 | \$ 9,780 | \$ 28,340 | \$ 28,472 |
| CFFO | \$ 7,347 | \$ 6,915 | \$ 19,853 | \$ 20,202 |
| Dividends | \$ 2,618 | \$ 3,329 | \$ 7,854 | \$ 9,988 |
| Interest on Exchangeable units | \$ 1,168 | \$ 1,168 | \$ 3,504 | \$ 3,504 |
| Income tax expense | \$ 1,212 | \$ – | \$ 3,327 | \$ – |

Per Share basis

| | | | | |
|--------------------------------|---------|---------|---------|---------|
| Royalties | \$ 0.81 | \$ 0.76 | \$ 2.21 | \$ 2.22 |
| CFFO | \$ 0.57 | \$ 0.54 | \$ 1.55 | \$ 1.58 |
| Dividends | \$ 0.28 | \$ 0.35 | \$ 0.83 | \$ 1.05 |
| Interest on Exchangeable units | \$ 0.35 | \$ 0.35 | \$ 1.05 | \$ 1.05 |
| Income tax expense | \$ 0.13 | \$ – | \$ 0.35 | \$ – |

During the Quarter, the Company generated cash flow from operations (“CFFO”) of \$7.3 million, or \$0.57 per share, as compared to \$6.9 million, or \$0.54 per share, for the same period in 2010. Royalties were \$10.3 million compared to \$9.8 million for the same period in 2010. Net earnings were \$8.1 million, or \$0.85 per share, compared to a net loss of \$12.1 million, or \$1.28 per share, for the same period in 2010.

To understand what has transpired in the Market for the first nine months of 2011 and how it impacts our outlook for the remainder of the year, a review of year-to-date 2011 and 2010 Market activity is required.

On a rolling twelve-month basis, the third quarter of 2011 closed out at a Market transactional dollar volume of \$162.8 billion, up 7% from December 31, 2010, driven by a 6% increase in selling price and a modest increase in home sale activity of 1%. For the three months ended September 30, 2011, transactional dollar volume was up 22% over the same period in 2010, driven by an 8% and a 14% increase in selling price and home sale activity, respectively. The steady increase in selling price on a twelve-month rolling and quarterly basis is largely driven by a combination of consistent shortage of listings, resulting in more competition among home buyers, positive employment and income growth, and continued expectation of low mortgage rates. While the twelve-month rolling home sale activity for September 30, 2011 compared to December 31, 2010 increased moderately by 1%, home sale activity on a quarter-over-same-quarter basis increased by 14% due to an active 2011 summer Market, the carry-through of second-quarter 2011 home sales and the fall-off of the 2010 comparative Market activity. The carry-through of second-quarter 2011 home sales arises as much of the increased home sales activity experienced in the second quarter of 2011 came through in the month of June, which benefited the Quarter due to the lag effect of the Company recording royalty revenue when a home sale closes, which is typically 30 to 45 days after the sale has been reported by the Market. In 2010, the Market was up significantly for the first two quarters as consumers sought to complete their home purchases ahead of the Harmonized Sales Tax (“HST”) and tighter mortgage-lending rules, with a subsequent reduction in home sale activity in the third and fourth quarters.

Based on stronger than expected Market activity in the Quarter and a favourable outlook for the balance of the year, management anticipates that the Company will generate CFFO in 2011 that will meet or exceed the CCFO generated in 2010.

“Brookfield Real Estate Services Inc. is pleased to report its third consecutive quarter of positive financial performance for 2011,” said Phil Soper, president and chief executive officer, Brookfield Residential Real Estate Services Inc. “The two primary measures used to determine our financial performance – namely, royalty revenues and cash flow from operations – both experienced quarter-over-quarter increases in Q3, underscoring the strength of the Company structure and its ability to generate strong, stable dividends for its shareholders.”

The Company Network

As at September 30, 2011, the Company Network consisted of 15,295 REALTORS[®], operating under 390 franchise agreements providing services from 656 locations, with an approximate 23% share of the Market based on 2010 transactional dollar volume. Our Agent count remains solid, with a loss of 13 Agents for the year against our network of 15,295 Realtors[®].

Monthly Cash Dividend

Today, the Company declared a cash dividend of \$0.092 per share for the month of October 2011, payable on November 30, 2011, to shareholders of record on October 31, 2011.

CFFO

This overview and accompanying financial statements make reference to cash flow from operations ("CFFO") on a total and per restricted voting share basis. CFFO is defined as net income prior to fair value changes, amortization, interest on Exchangeable units, interest on Trust units, income taxes, items related to other income and interests of Exchangeable unitholders. CFFO is used by the Company to measure the amount of cash generated from operations, which is available to the Company's shareholders on a diluted basis, where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable unitholders converted Class B LP units into shares of the Company. The Company uses CFFO to assess its operating results and the value of its business, and it believes that many of its shareholders and analysts also find this measure of value to them. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Outlook

Based on data from the Royal LePage House Price Survey, the average price of a home in Canada increased between 5.7% and 7.8% in the third quarter of 2011, depending on housing type, compared to the previous year. The strength of home price appreciation in the third quarter exceeded expectations as very low interest rates buoyed consumer confidence in a comparatively stable Canadian economy. However, year-over-year gains appear deceptively strong in comparison to a weak third quarter of 2010. A resilient domestic economy, coupled with the stimulative effect of very low interest rates, has extended the post-recession recovery in house prices. The third quarter saw a return to a normal seasonal business cycle as price appreciation slowed in many areas – with some average values even falling slightly – after the busy spring trading season. The strength in Canada's national housing market is being driven by the country's largest urban centres. While a broader slowdown is expected in the year ahead, the structure of the Company's royalty stream is expected to mitigate this impact.



Philip Soper
President and Chief Executive



Kevin Cash
Chief Financial Officer

November 4, 2011

2011

Management's Discussion and Analysis

| | | | |
|--|----|--|----|
| Highlights | 4 | Liquidity | 23 |
| Business Strategy | 4 | Capital Resources | 24 |
| Structure of Company Royalties | 5 | Off-Balance Sheet Arrangements | 24 |
| Monthly Dividends | 6 | Transactions With Related Parties | 24 |
| Overview of Third Quarter 2011 Operating Results | 6 | Basis of Presentation of the Consolidated Financial Statements | 26 |
| Recent Developments | 7 | Critical Accounting Estimates | 29 |
| Key Performance Drivers | 8 | Financial Instruments | 29 |
| The Canadian Residential Resale Real Estate Market | 11 | Disclosure Controls and Internal Controls | 29 |
| The Canadian Real Estate REALTOR® Population | 12 | Outstanding Restricted Voting Shares | 30 |
| The Company Network REALTORS® Growth | 12 | Company Structure | 30 |
| Network Diversity | 13 | Change in Accounting Policies | 30 |
| Realtor® Productivity | 13 | Risk Factors | 31 |
| Operating Results for the Quarter | 14 | Market Outlook | 31 |
| Year-to-Date Operating Results | 16 | Forward-Looking Statements | 31 |
| Acquisition of Franchise Agreements | 20 | Supplemental Information | 32 |
| Debt Financing | 21 | Interim Condensed Consolidated Financial Statements | 38 |
| Summary of Quarterly Results | 22 | | |

INTRODUCTION

This section of our interim report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended September 30, 2011 (the "Quarter") and nine months ended September 30, 2011 (the "Period") and has been prepared as at November 3, 2011. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") for interim financial statements and is expressed in Canadian dollars unless otherwise stated. The unaudited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and expected to be effective at the end of our first annual IFRS reporting period, which will be December 31, 2011.

The amounts in this MD&A and the accompanying interim financial statements for the three and nine months ended September 30, 2010 have been restated to reflect our adoption of IFRS, effective from January 1, 2010. Periods prior to January 1, 2010 have not been restated and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Please refer to Note 3 of the accompanying interim condensed consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS as at September 30, 2011 and January 1, 2010, and for the three months and nine months ended September 30, 2011 and 2010.

On December 31, 2010, the Brookfield Real Estate Services Fund (the "Fund") was converted to a corporate structure (the "Conversion") and carried on as Brookfield Real Estate Services Inc. (the "Company"). This MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future prospects. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2010, prepared in accordance with Canadian GAAP. Additional information relating to the Fund and our Company, including our Annual Information Form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

Statements contained in this MD&A that are not historical facts are forward-looking statements that involve risks, uncertainties and other factors, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the Company that may affect an investment in the Company's shares. A summary of these risks is outlined in the Company's Annual Information Form, which is filed on SEDAR at www.sedar.com. To the extent that these risks have changed during 2011, they are discussed in further detail in this MD&A.

Management's Discussion and Analysis of Results and Financial Condition

HIGHLIGHTS

| (\$ 000's) except Agents, Sales Representatives, units and per unit amounts | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|--|--|--|---|---|
| Royalties | \$ 10,324 | \$ 9,780 | \$ 28,340 | \$ 28,472 |
| Less: | | | | |
| Administration expenses | 270 | 316 | 899 | 726 |
| Management fee | 1,941 | 1,836 | 5,283 | 5,364 |
| Interest expense | 766 | 713 | 2,305 | 2,180 |
| Cash flow from operations ¹ | \$ 7,347 | \$ 6,915 | \$ 19,853 | \$ 20,202 |
| Amortization of intangible assets | (3,421) | (3,414) | (10,344) | (10,242) |
| Impairment of intangible assets | (383) | - | (383) | - |
| Interest on Exchangeable units | (1,168) | (1,168) | (3,504) | (3,504) |
| Interest on Trust units | - | (3,327) | - | (9,986) |
| Gain (loss) on fair value of Exchangeable units | 6,655 | (2,895) | 8,386 | (4,692) |
| Gain (loss) on fair value of purchase obligation | 113 | - | 113 | (21) |
| Loss on fair value of Trust unit liability | - | (8,251) | - | (13,372) |
| Other income | - | - | - | 101 |
| Current income tax expense | (1,212) | - | (3,327) | - |
| Income tax (recovery)/expense | 151 | - | 428 | (27) |
| Net and comprehensive earnings/(loss) | \$ 8,082 | \$ (12,140) | \$ 11,222 | \$ (21,541) |
| Basic earnings per share | \$ 0.85 | | \$ 1.18 | |
| Diluted earnings per share | \$ 0.20 | | \$ 0.49 | |
| Cash flow from operations per share | \$ 0.57 | \$ 0.54 | \$ 1.55 | \$ 1.58 |
| Total assets | \$ 114,222 | \$ 125,929 | \$ 114,222 | \$ 125,929 |
| Total long-term financial liabilities | \$ 52,547 | \$ 52,256 | \$ 52,547 | \$ 52,256 |
| Number of Agents ² and Sales Representatives ³ | 15,295 | 15,322 | 15,295 | 15,322 |

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the attached consolidated financial statements for the three and nine-month periods ended September 30, 2011.

BUSINESS STRATEGY

We are a long-established, Canadian-based real estate services firm, originally structured as an Income Trust and subsequently converted to a corporate structure on December 31, 2010. We focus on the provision of services to real estate Brokers and their Agents, who practice predominantly in the residential brokerage segment of the market, in order to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate franchise brands, each of which offers differing value propositions, we cater to the diverse service requirements of regional real estate professionals, in virtually all significant population centres, right across Canada.

¹ Cash flow from operations ("CFFO") is defined as net income prior to fair value changes, amortization, interest on Exchangeable units, interest on Trust units, income taxes, items related to other income and interests of Exchangeable unitholders. CFFO is used by the Company to measure the amount of cash generated from operations, which is available to the Company's shareholders on a diluted basis, where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable unitholders converted Class B LP units into shares of the Company. The Company uses CFFO to assess its operating results and the value of its business and believes that many of its shareholders and analysts also find this measure of value to them. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

² Agent is defined as an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with a Broker.

³ Sales Representative is defined as an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with an Agent.

Our objective is to provide our stakeholders with an investment vehicle that pays stable and growing dividends. Our revenue is driven primarily by royalties derived from long-term franchise contracts. These royalties are weighted toward fees that are fixed in nature; this has proven to be effective in moderating the variations in overall industry activity that can occur in the Canadian residential real estate market (the “Market”⁴). We manage our operating costs and associated risks by delivering our services and management of the Company through an Amended and Restated Management Services Agreement (“MSA”), which is provided by Brookfield Real Estate Services Manager Limited (the “Manager”), a subsidiary of Brookfield Asset Management Inc. (“BAM”). The senior management team of the Manager developed and managed the Royal LePage network prior to the inception of the Company, and BAM, through a wholly owned subsidiary, holds an approximate 26% interest (the “Exchangeable units”, formerly “non-controlling interest”, or “NCI”) in the Company. As a result of this arrangement, the underlying costs of the Company are not complex as they are limited to management fees paid under the MSA, public operating costs and carrying costs associated with our debt.

The number of REALTORS^{®5} and transaction volumes generated in the markets we serve, the manner in which we structure our contracted revenue streams and our success in attracting Agents and Brokers to our brands through our value proposition and track record are all key drivers of the Company’s performance. These drivers, in combination with other uncontrollable risk factors, including the economy at large, government and regulatory activity (see Recent Developments), all impact the Company’s performance and are discussed in greater detail throughout this MD&A.

Through the Manager, we seek to further increase dividends by increasing our Agent count through the acquisition of franchise contracts and attracting and retaining Brokers and their Agents through the provision of additional fee for service offerings and the provision of services, which increases our Brokers’ and their Agents’ productivity.

As at September 30, 2011, the network consisted of 15,295 Canadian REALTORS[®], operating from 656 locations, providing services under the Royal LePage, Johnston & Daniel and Via Capitale brand names (collectively the “Company Network”). The associated franchise contract stream (see Structure of Company Royalties) was approximately 68% fixed and 32% variable in 2010, after operating costs delivered \$1.97 of cash flow from operations per share for the twelve months ended December 31, 2010 (\$1.85 – 2009, see Cash Flow From Operations), against which the Company distributed \$1.60 per share in 2010 to shareholders, up from \$1.44 per share in 2009.

STRUCTURE OF COMPANY ROYALTIES

Royalty Fees

The Company generates royalties with both fixed and variable fee components. During 2010, approximately 68% of the annual royalties were partially insulated from market fluctuations as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS[®] in the network, increasing Agent and Broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

Fixed royalty fees are based on the number of Agents and fee-paying Sales Representatives, collectively “selling-REALTORS[®]” in the Company Network. Fixed franchise fees from Royal LePage franchisees consist of a monthly fixed fee of \$100 per selling-REALTOR[®], a technology fee and web services and other fees, while those from Via Capitale franchisees consist primarily of a monthly fee of approximately \$170 per selling-REALTOR[®].

Variable royalty fees are primarily driven by the volume of business transacted by our Agents. Variable franchise fees from Royal LePage franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent’s gross commission income, subject to a cap of \$1,300 per year. In 2010, 18% (17% – 2009) of the Agents in the Company Network reached the royalty cap.

In addition to these fees, 24 of the Company’s larger Royal LePage locations situated in the Greater Toronto Area (“GTA”) pay a **premium franchise fee** ranging from 1% to 5% of the location’s gross revenue. Of these locations, 16 are operated by the Manager and are contractually obligated to pay the premium franchise fee to August 2018.

Approximately 89% (88% – 2010) of the Company’s royalties during the Quarter were derived from the combined fixed fee per REALTOR[®] per month, 1% variable royalty fee and premium franchise fees. The remaining royalty stream is made up of other fees and services generated from APEC fees, technology fees, web services and other fees.

⁴ The Market is defined as the dollar value of residential resale units sold (“transactional dollar volume”) over a twelve-month period in a particular geographic area.

⁵ REALTOR[®] is defined as an individual licensed to trade in real estate and includes Brokers, Agents and Sales Representatives.

Management's Discussion and Analysis of Results and Financial Condition

Network Royalty Profile

The Royal LePage Network: The fees generated from the Royal LePage Network accounted for 91% of the Company's fees in 2010 and 2009 and are primarily made up of a fixed monthly fee per Agent of \$100 plus a \$20 technology fee per participating franchisee (representing 95% of Agents in 2010, 92% in 2009), a variable fee equal to 1% of the fees generated by the Agent, capped at \$1,300 per Agent and ancillary web services and learning services fees and a premium variable fee, as described above. Under this structure, exclusive of ancillary fees, an Agent earning in excess of the \$1,300 per annum fees cap will contribute \$2,740 per annum to the Company. In 2010, 18% (2009 – 17%) of the Royal LePage Agents capped on the \$1,300 variable fee.

Due to the variable fee-capping feature, approximately 68% (69% – 2009) of the Royal LePage Network fees were fixed in nature.

The Via Capitale Network: The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 9% of the Company's fees in 2010 and 2009. These fees are primarily made up of a fixed monthly fee per Agent of \$170 (\$2,040 per annum) and fees generated from APEC fees. In 2010, approximately 76% (76% – 2009) of Via Capitale's royalties were fixed in nature.

MONTHLY DIVIDENDS

The targeted annual cash dividend payable to public shareholders for 2011 is \$1.10 per share, to be paid monthly.

A special distribution of \$0.20 per unit was declared for unitholders of record on December 30, 2010, and was paid on January 28, 2011. Management and the Board of Directors periodically review the Company's targeted dividends and distributions.

OVERVIEW OF THIRD QUARTER 2011 OPERATING RESULTS

On a rolling twelve-month basis, the Company generated CFFO of \$1.94 per share, which was 1.5% less than the \$1.97 generated for the twelve months ended December 31, 2010. This decrease was due primarily to lower 2010 fourth-quarter Market activity resulting from the pull-through of Market activity in the first half of 2010. Management anticipates that the twelve-month rolling CFFO by the end of 2011 will be ahead of 2010's \$1.97 per share, resulting from a projected steady 2011 housing market and the non-recurrence of a \$0.05 per share one-time charge for the Conversion of the Company to a corporation taken in the fourth quarter of 2010, partially offset by costs expected to be incurred in 2011 for IFRS conversion. An overview of the year-over-year Market activity and the drivers of our royalties in support of our anticipated increase in CFFO per share follow.

Review of Year-Over-Year Market Activity

To understand what has transpired in the Market for the first nine months of 2011 and how it impacts our outlook for the remainder of the year, a review of year-to-date 2011 and 2010 Market activity is required.

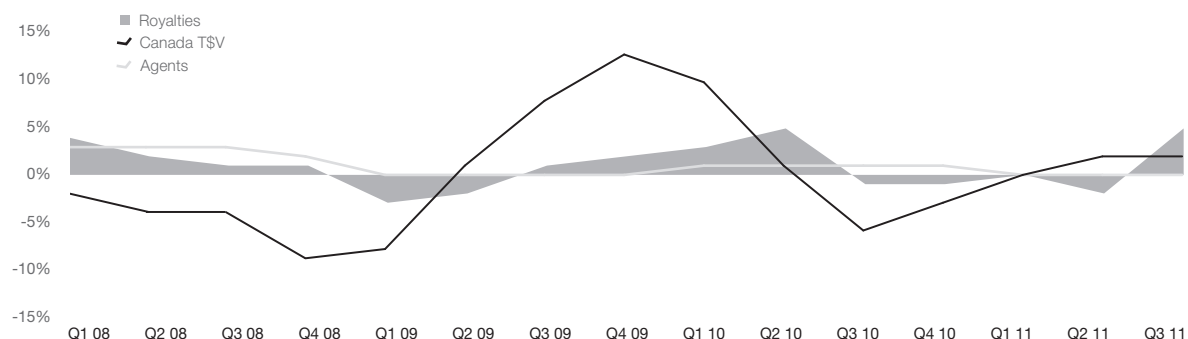
On a rolling twelve-month basis, the third quarter of 2011 closed out at a Market transactional dollar volume of \$162.8 billion, up 7% from December 31, 2010, driven by a 6% increase in selling price and a modest 1% increase in home sale activity. For the three months ended September 30, 2011, transactional dollar volume was up 22% over the same period in 2010, driven by an 8% and a 14% increase in selling price and home sale activity, respectively. The increase in selling price on a twelve-month rolling and quarterly basis is largely driven by a combination of a consistent shortage of listings, resulting in more competition among home buyers, positive employment and income growth, and continued expectation of low mortgage rates. While the twelve-month rolling home sale activity for September 30, 2011 as compared to December 31, 2010 increased moderately by 1%, home sale activity on a quarter-over-same-quarter basis increased by 14% due to an active 2011 summer Market, the carry-through of second-quarter 2011 home sales and the fall-off of the 2010 comparative Market activity. The carry-through of second-quarter 2011 home sales arises as much of the increased home sale activity experienced in the second quarter of 2011 came through in the month of June, which benefited the Quarter due to the lag effect of the Company recording royalty revenue when a home closes, which is typically 30 to 45 days after the sale has been reported by the Market. In 2010, the Market was up significantly for the first two quarters as consumers sought to complete their home purchases ahead of the HST and tighter mortgage-lending rules, with a subsequent reduction in home sale activity in the third and fourth quarters.

Royalties

The most significant drivers of the Company's royalties are Market activity, the number of Agents in the Company Network and competition. The graph below summarizes the percentage change in transactional dollar volume in Canada, the Company's royalties and number of Agents on a rolling twelve-month quarter-over-quarter basis since 2007. As noted from the graph, the vend-in of franchise agreements in the first quarter of each year and the organic growth of Agents, combined with the fixed fee nature of our royalties, mitigate the impact of Market fluctuations. In addition, the lag effect of the Company's policy of recording variable and premium fee royalties when a home sale transaction closes, which occurs after the home sale has been reported by the Market, is quite evident. With a Market trajectory of at or slightly above

levels for the twelve months ended December 31, 2010, the Company's royalties may come in at or slightly above 2010 levels by the end of 2011.

Rolling Twelve-Month % Change From Prior Quarter



Our Agent count remains solid, with a loss of 13 Agents for the year against our Network of 15,295 Realtors®. We are pleased with the stability of our underlying Agent count but not with the erosion of the 247-Agent increase the Company commenced the year with as a result of the purchase of franchise contracts at the beginning of the year. The majority of the erosion is attributed to the changes in Real Estate Regulations in the province of Quebec, which through higher costs of association and education requirements have driven lower-producing Agents from the network and have substantially reduced the number of new entrants to the industry, who typically replace the lower-producing Agents who exit the industry. We believe we are through the rebalancing of the Quebec industry, as evidenced by the 66-Agent decline of Agents during the Quarter, which was largely attributed to the non-renewal of two Royal LePage franchisees.

RECENT DEVELOPMENTS

Internet Data Exchange

In the Canadian residential real estate industry, Royal LePage has been among the strongest proponents of the Internet Data Exchange (“IDX”) movement, which will give Multiple Listing Service (“MLS”) participants the tool they need to display each other’s listings on their websites and allow consumers to view all listings available at once, regardless of what real estate company owns the listing.

In October 2011, the Canadian Real Estate Association (“CREA”) formally agreed to support the IDX initiative and is moving ahead, developing the technology platform required to enable the transfer of data. We are hopeful that in 2012, the Company will be in a position to take advantage of this market opportunity, generated as a result of improved access to information. Subsequently, we believe that this will further our ability to attract and grow our Agent count as we make investments in the technology necessary to take advantage of this improved model.

Competition Bureau

On May 27, 2011, the Competition Bureau announced that it had filed an application with the Competition Tribunal, seeking to prohibit potentially anti-competitive practices by the Toronto Real Estate Board (“TREB”), which may be restricting consumer choice and the ability of real estate businesses to introduce innovative real estate brokerage services through the Internet. TREB is the largest real estate board in Canada, with approximately 31,000 members. It owns and operates the Toronto Multiple Listing Service system (the “Toronto MLS system”), which contains current property listings and historical information about the purchase and sale of residential real estate in Toronto and the surrounding area, including data about previous listings and selling prices, historical prices for comparable properties in the area and the amount of time a property has been on the market. Some of this information is accessible only to TREB’s members and not available on other public websites.

While member Agents can provide detailed MLS listing information not available on public websites to customers verbally and by hand, mail, fax or e-mail, the Competition Bureau contends that TREB is engaging in anti-competitive practices by effectively restricting its member Agents from providing the same MLS listing information to customers via public websites or other means, such as password-protected websites, also called Virtual Office Websites (VOWs). According to the Bureau, the existence of such services could allow a consumer to search a full inventory of listings containing up-to-date data online.

Management's Discussion and Analysis of Results and Financial Condition

On August 19, 2011, TREB responded to the Competition Bureau's concerns by following through on its commitment to developing a VOW policy. TREB continues to ensure that the privacy of consumer and member information are protected. Notwithstanding the official response received from TREB, the Competition Bureau continues to pursue TREB on its perceived anti-competitive practices through its application with the Competition Tribunal, filed in May 2011.

The Company does not believe that the Competition Bureau's dispute with TREB will have an adverse impact on its business. Our real estate Agents and their clients both want to be able to advertise their listed properties in the most effective manner, whether this be on the Realtor.ca website (operated by MLS) or some other alternative. Our Agents have legitimate concerns about the privacy and the proprietary nature of their listing information. That said, we encourage openness in our industry where practical and believe that real estate listing websites will continue to expand and flourish, regardless of the outcome of the current dispute between TREB and the Competition Bureau.

Discount Brokerage Activity and Impact

At present, discount brokerage continues to compete within the low-fee, narrow service segment of the Canadian real estate market. It has not had a substantive impact on the Company's financial performance to date. It is expected that the impact of discount brokerage models will be largely contained to this market segment, as opposed to the full service brokerage segment in which Company businesses operate. Longer-term, it is anticipated that consumers will continue to look to professionals to guide them through the home buying and selling process.

Basis of Presentation of the Consolidated Financial Statements

In our first-quarter MD&A, we provided disclosure regarding the presentation of our consolidated financial results in accordance with IFRS and the impact of the Conversion to a Corporation. As these changes are no longer a recent development, but continue to impact the basis of presentation of previously reported results, we have included this disclosure later in this MD&A.

KEY PERFORMANCE DRIVERS

The key drivers of the Company's business and dividends payable to shareholders are:

1. the number of REALTORS® in the Company;
2. transaction volumes;
3. the stability of the Company's royalty stream; and
4. the Company's growth opportunities.

A summary of our performance against these drivers and a discussion of the underlying Market and REALTOR® population with a review of the Company network growth, diversity and productivity against these variables follows:

Number of REALTORS® in the Company

As at September 30, 2011, the Company Network consisted of 15,295 REALTORS® operating under 390 franchise agreements, providing services from 656 locations, with an approximate 23% share of the Market based on 2010 transactional dollar volume.

For the nine months ended September 30, 2011, the Company Network decreased by 13 Agents, or 0.1%, consisting of 247 Agents acquired through the acquisition of contracts at the beginning of the year, less a net attrition of 260 Agents, of which 106 occurred in the first quarter, 88 in the second quarter and 66 in the third quarter. A substantial portion of the attrition in Agents experienced in the Company Network during 2011 occurred in our Quebec franchise operations as the introduction of new Real Estate Regulations significantly increased the educational requirements and association costs. Consequently, fewer new Agents entered the industry. The introduction of these regulations directly impacted our Quebec-based franchisees as the typical turnover and replacement of non-producing Agents with new Agents experienced by our franchises did not occur.

During the Quarter, franchise agreements representing 353 Agents were up for renewal, with an 88% renewal rate, while other franchisees representing 149 Agents renewed ahead of their contracted renewal dates. On a year-to-date basis, franchise agreements representing 491 Agents were up for renewal, with a 90% renewal rate, while other franchisees representing 600 Agents renewed ahead of their contracted renewal dates, for a year-to-date renewal rate of 99%.

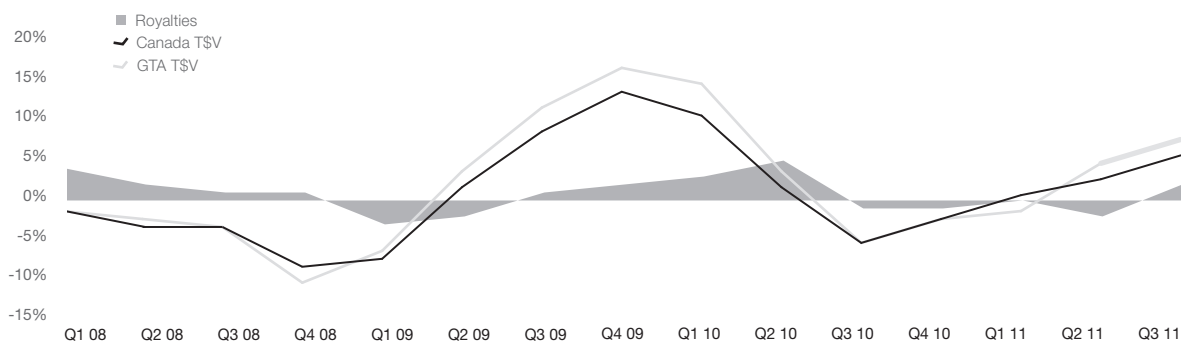
Transaction Volumes

The performance of the Company is dependent upon the receipt of royalty revenue, which, in turn, is partially dependent on the level of residential resale real estate transactions. The residential real estate industry is affected by all of the factors impacting the economy in general, including changes in interest rates, unemployment and inflation.

During the Quarter, the national market experienced a quarter-over-same-quarter increase of 22%, driven by an 8% and a 14% increase in selling price and home sale activity, respectively. On a rolling twelve-month basis, the third quarter of 2011 closed out at a Market transactional dollar volume of \$162.8 billion, up 7% from December 31, 2010, driven by a 6% increase in selling price and a modest increase in home sale activity of 1%. The steady increase in selling price on a twelve-month rolling and quarterly basis is largely driven by a combination of a consistent shortage of listings, resulting in more competition among home buyers, positive employment and income growth, and continued expectation of low mortgage rates. The quarter-over-quarter Market increase can be attributed to an active 2011 summer Market, the carry-through of second-quarter home sales and the fall-off of the 2010 comparative Market activity. The carry-through of second-quarter home sales arises as much of the increased home sale activity experienced in the second quarter of 2011 came through in the month of June, which benefited the Quarter due to the lag effect of the Company recording royalty revenue when a home closes, which is typically 30 to 45 days after the sale has been reported by the Market. In 2010, the Market was up significantly for the first two quarters as consumers sought to complete their home purchases ahead of the HST and tighter mortgage-lending rules, with a subsequent reduction in home sale activity in the third and fourth quarters.

During the Quarter, the GTA Market experienced a quarter-over-same-quarter increase of 32% on a 9% and 23% increase in selling price and home sale activity, respectively. On a rolling twelve-month quarter-over-same-quarter basis, the GTA Market experienced an 8% increase on a 6% and 2% increase in selling price and home sale activity, respectively, from December 31, 2010, for reasons described above.

Rolling Twelve-Month % Change From Prior Quarter



A summary of the key Market and related activity, as reported by the Canada Mortgage and Housing Corporation (the “CMHC”), CREA and TREB as follows:

From CMHC¹: Sales of existing homes are expected to remain stable for the remainder of 2011 at 446,700 units, while selling prices are expected to plateau and close out at \$367,500 by the end of the year.

From CREA²: Holding in line with the ten-year average, activity during the first nine months of 2011 pulled ahead of sales over the same period in 2010, with national housing market tightening in the month of September but remaining firmly entrenched in balanced territories. National sales activity is forecast to reach 450,800 units in 2011, up less than 1% from 2010, while average home prices are forecast to rise 7.2% in 2011 to \$363,500.

From TREB³: GTA home sales activity during the first three quarters of 2011 amounted to 70,588 units, representing a 2.6% increase compared to the same period in 2010. A shortage of listings resulted in more competition among home buyers, accelerating the growth in average selling price to close to 10% on a year-over-year basis.

¹ Source: CMHC Housing Market Outlook – Third Quarter 2011, published August 12, 2011.

² Source: CREA Updates Resale Housing Forecast, published August 16, 2011.

³ Source: TREB Market Watch September 2011, published October 5, 2011.

Management's Discussion and Analysis of Results and Financial Condition

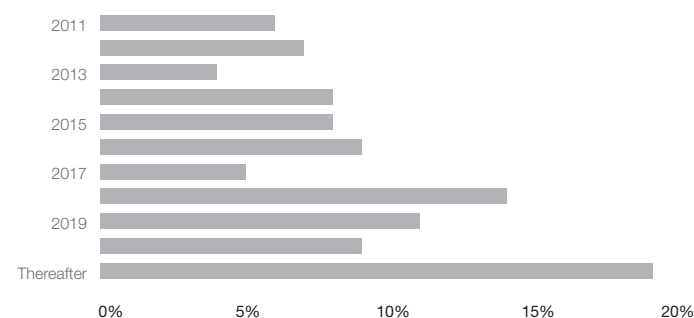
Stability of the Company's Royalty Stream

The stability of the Company's Royalty stream is derived from the following factors:

- The fixed nature of the Company Network agreements (see Structure of Company Royalties) is primarily driven by the number of REALTORS® in the Company Network, which results in an approximate 68% fixed and 32% variable royalty stream and partially insulates the Company from fluctuations in the Market.
- The Company's royalties are derived from a diverse network of independently owned and operated franchisees, the majority of which operate with fewer than 50 Agents (71% – 2010, 72% – 2009), thereby mitigating the impact of any one franchisee's results.
- The geographic distribution of the Company's Network of REALTORS® is similar to the distribution of the overall Canadian REALTORS® population, with overrepresentation in the province of Quebec as a result of the acquisition of the Via Capitale Network and an underrepresentation in Western Canada. This distribution of REALTORS® mitigates the impact of a single Market on the Company's results.
- The Royal LePage agreements, which make up 91% of the Company's REALTORS®, are 10 to 20 years in duration, significantly exceeding the industry norm of five years and thereby reducing agreement renewal risk. At the time of the initial public offering ("IPO"), the Company's Royal LePage franchise agreements were largely subject to five-year renewal terms. Subsequent to the IPO, the Company renewal terms for agreement additions are typically 10 years in duration. The Company further extended agreements in existence at IPO to 10 years as and when opportunities present themselves. The Company's overall agreement renewal profile by year is not overly skewed to any one year and, as such, is very manageable. A summary of our agreement renewal profiles as at December 31, 2010 for our combined Royal LePage and Via Capitale networks is as follows:

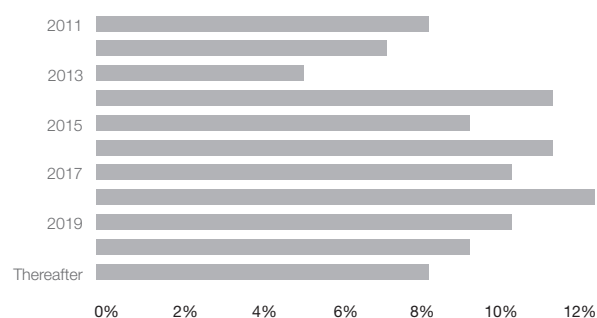
% of Franchise Agreements up for Renewal

(by Number of Agents)



% of Franchise Agreements up for Renewal

(by Number of Contracts)



The Company has historically enjoyed 99% plus renewal success of franchise agreements as they come due, expressed as a percentage of the number of REALTORS® at year-end. Due to the ongoing success of our franchisees, a number of opportunities such as increasing franchisee locations provide an opportunity to renew franchise agreements before they come due, and 2011 is no exception. During the Quarter, 13 Royal LePage agreements representing 402 Agents and one Via Capitale franchise agreement representing 59 Agents were renewed, and franchisees representing 149 Agents accelerated their agreement renewals. During the Quarter, three franchisees representing 42 Agents left the Company Network. On a year-to-date basis, five franchisees representing 50 Agents exited the Company Network.

Company's Growth Opportunities

Our growth objective for 2011 in light of the economy and Market conditions is to modestly increase the year-over-year Company Network of REALTORS®.

Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network has increased by 66% (6,057 REALTORS®) by way of acquisitions and organic growth.

Growth through acquisition is achieved through the purchase of franchise agreements acquired by the Manager's dedicated network development team.

Growth in overall royalties is achieved by increasing the number of REALTORS® in the Company, increasing the productivity of Agents, expanding the range of products and services supporting franchisees and their Agents, increasing the adoption of these products and services, and providing sales and marketing programs to the Company Network. These services are supported by ongoing training

programs for franchisees and REALTORS®, which assist in leveraging the Company’s competitive advantages to attract and retain potential recruits.

On January 1, 2011, franchise agreements representing 23 locations, serviced by an estimated 247 Agents operating under the Royal LePage and Via Capitale brands, were purchased by the Company. The estimated purchase price of these agreements is \$3.5 million, with an estimated annual royalty stream of \$0.5 million.

The average Company Network REALTOR® generated \$2.38 million in transactional dollar volume in 2010, which was 74% greater than all other Canadian REALTORS® and up 5.8% from 2009 (see REALTOR® Productivity).

The Manager continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining REALTORS®, increasing their productivity and reducing administration costs.

THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

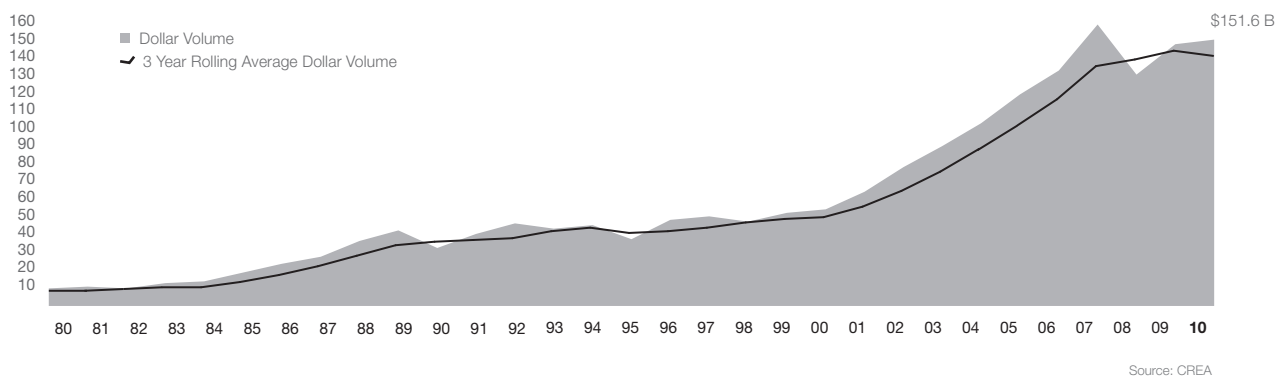
Since 1980, the Market has grown at a compound annual growth rate (“CAGR”) of 9.4%. The Canadian Market has been very resilient, with three significant downturns occurring in 1990, 1995 and 2008, all of which returned to pre-downturn levels within 24 months. The duration of these Market downturns was 13, 14 and 16 months, respectively, with decreases of 26%, 21% and 19%, respectively.

During the most recent downturn, the Market declined 19% during the 16-month period February 2008 through May 2009, with the most significant decline occurring during the fourth quarter of 2008, when the Market decreased 40% when compared to the fourth quarter of 2007. The Market improvement in 2009 began with the rate of decline moderating steadily from January to May, followed by four months of increasing market growth and subsequently ending the year with very strong growth of 90% in the Quarter over the same period in 2008. The strong Market continued into the first half of 2010 due in part to consumers seeking to close home sales ahead of government-mandated changes to mortgage rules, anticipated increases in mortgage rates and the introduction of the HST on July 1, 2010. These Market factors pulled 57% of the 2010 Market activity into the first half of 2010, compared to 46% in 2009, resulting in a year-over-year decline in the second half of 2010, which when combined with the first half of 2010, saw the overall Market up by 1.7% for the twelve-month period ended December 31, 2010, compared to the same period in 2009.

During the 1990 downturn, interest rates were relatively high, and there was significant speculation in the form of building and multiple home ownerships. Since that time, lenders now require builders to pre-sell a significant portion of their developments before advancing funds, and under the new mortgage-lending rules (see Recent Developments), non-owner-occupied property purchases that qualify for mortgage insurance have increased down payment requirements.

Market Dollar Volume – Canadian Residential Real Estate Market

(1980–2010) (in \$ billions)

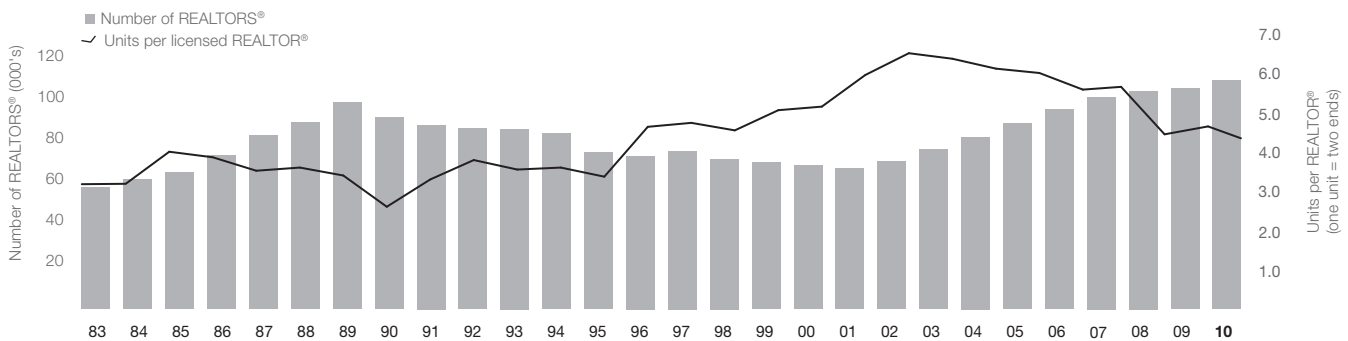


Management's Discussion and Analysis of Results and Financial Condition

THE CANADIAN REAL ESTATE REALTOR® POPULATION

The number of REALTORS® in the Company Network is a key driver of the Company's results. For the year ended December 31, 2010, the Canadian real estate REALTOR® membership grew by 3.8% to 101,916 members, with an average of 4.4 units sold per REALTOR®, compared to 1.0%, 98,161 and 4.7 units sold per REALTOR®, respectively, in 2009. The number of REALTORS® in the Company Network grew by 4.6% over the same period (0.3% – 2009). The Canadian REALTOR® population and the average number of units sold per REALTOR® are summarized in the chart below.

Canadian Real Estate REALTORS® (Year ended December 31)



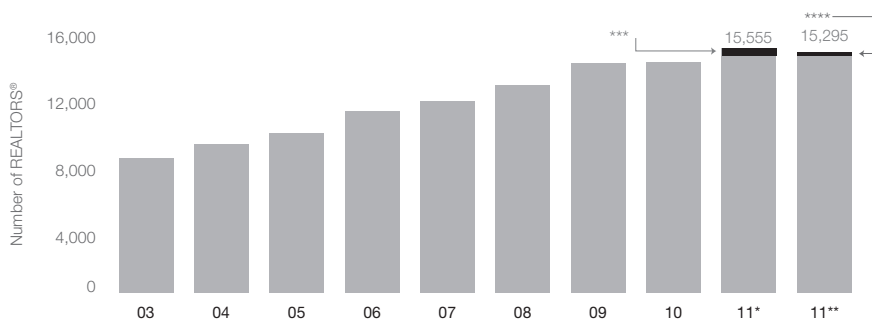
THE COMPANY NETWORK REALTORS® GROWTH

Realtor® Growth

As at September 30, 2011, the Company Network consisted of independently owned and operated franchisees, operating under 390 franchise agreements, operating from 656 locations serviced by 15,295 REALTORS®.

During the Quarter, the Company Network decreased by 66 REALTORS®. On a year-to-date basis, the Company Network decreased by 13 Agents. A substantial portion of the attrition in Agents experienced in the Company Network during 2011 occurred in our Quebec franchise operations as the introduction of new Real Estate Regulations significantly increased the educational requirements and association costs. Consequently, fewer new Agents entered the industry. The introduction of these regulations directly impacted our Quebec-based franchisees as the typical turnover and replacement of non-producing Agents with new Agents experienced by our franchisees did not occur.

Company Growth



Year ended December 31, except 2011

* As at January 1, 2011

** As at September 30, 2011

*** 247 REALTOR® growth of 1.6% consisting of 188 from the Royal LePage brand and 59 from the Via Capitale brand

**** Decrease of 260 REALTORS®

Summary of Canadian and Company Growth in REALTORS®

| | Canada* | | The Fund Network | |
|----------------|----------------------------|------------|----------------------------|------------|
| | Number of Licensed Members | % Change | Number of Licensed Members | % Change |
| Opening | 98,161 | 1.0 | 14,631 | 0.3 |
| 2010 Q1 | 1,658 | 1.7 | 639 | 4.3 |
| 2010 Q2 | 1,249 | 1.3 | 25 | 0.2 |
| 2010 Q3 | 538 | 0.5 | 27 | 0.2 |
| 2010 Q4 | 310 | 0.3 | (14) | (0.1) |
| Opening | 101,916 | 3.8 | 15,308 | 4.6 |
| 2011 Q1 | 1,291 | 1.3 | 141 | 0.9 |
| 2011 Q2 | 538 | 0.5 | (88) | (0.6) |
| 2011 Q3 | N/A | – | (66) | (0.4) |
| Closing | 103,745 | 1.8 | 15,295 | 0.1 |

* Source: CREA

N/A: Not available at time of MD&A

NETWORK DIVERSITY

The Company Network consists of diverse operations, with approximately 71% of the Company's franchisees operating with fewer than 50 REALTORS® as at December 31, 2010. As summarized in the table below, the Company Network of REALTORS® is geographically diverse, with REALTORS® spread throughout Canada, with a more pronounced presence in the province of Quebec as a result of the acquisition of the Via Capitale franchise network.

| | Canadian ¹ REALTOR® Population | Fund ² Network REALTORS® |
|--------------|---|---|
| Ontario | 51% | 55% |
| Prairies | 13% | 10% |
| BC | 18% | 12% |
| Quebec | 14% | 20% |
| Maritimes | 3% | 3% |
| Total | 100% | 100% |

Source: CREA

¹ As at June 30, 2011. Source: CREA

² As at September 30, 2011

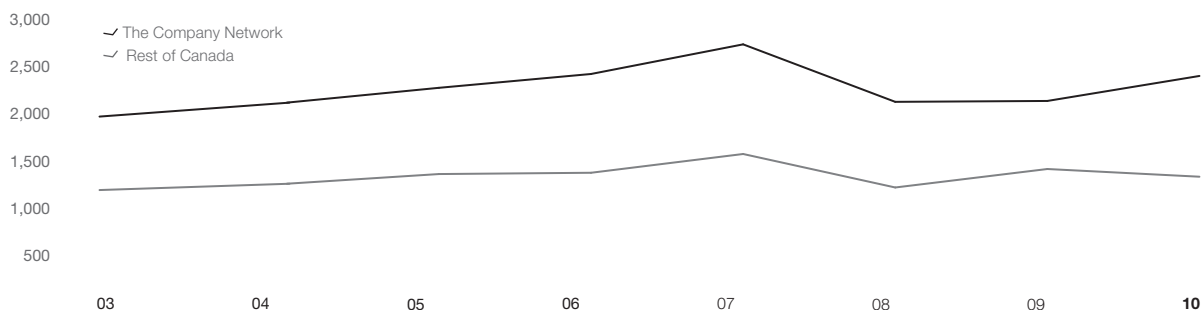
REALTOR® PRODUCTIVITY

The average Company Network REALTOR® generated approximately \$2.38 million in transactional dollar volume in 2010, up 5.8% from \$2.25 million in 2009. This productivity was 74% greater than the estimated average of \$1.36 million for all other Canadian REALTORS®, down 3.5% from 2009. Management believes that the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume. A summary of average transactional dollar volume per REALTOR® for the year ended December 31, 1994 through 2010 is as follows:

Management's Discussion and Analysis of Results and Financial Condition

Canadian Residential Real Estate Resale Market

(Average Transactional Dollar Volume per REALTOR®, \$ thousands)



Source: CREA and Company Management

OPERATING RESULTS FOR THE QUARTER

| | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|---|--|--|---|---|
| (\$ '000's) except Agents, shares and per share amounts | | | | |
| Royalties | | | | |
| Fixed franchise fees | \$ 4,736 | \$ 4,700 | \$ 14,255 | \$ 14,005 |
| Variable franchise fees | 2,531 | 2,203 | 6,788 | 6,976 |
| Premium franchise fees | 1,910 | 1,692 | 3,967 | 4,099 |
| Other revenue and services | 1,147 | 1,185 | 3,330 | 3,392 |
| | 10,324 | 9,780 | 28,340 | 28,472 |
| Less: | | | | |
| Administration | 270 | 316 | 899 | 726 |
| Management fee | 1,941 | 1,836 | 5,283 | 5,364 |
| Interest expense | 766 | 713 | 2,305 | 2,180 |
| | 2,977 | 2,865 | 8,487 | 8,270 |
| Cash flow from operations | 7,347 | 6,915 | 19,853 | 20,202 |
| Amortization of intangible assets | 3,421 | 3,414 | 10,344 | 10,242 |
| Impairment of intangible assets | 383 | – | 383 | – |
| Interest on Exchangeable units | 1,168 | 1,168 | 3,504 | 3,504 |
| Interest on Trust units | – | 3,327 | – | 9,986 |
| (Gain) loss on fair value of Exchangeable units | (6,655) | 2,895 | (8,386) | 4,692 |
| (Gain) loss on fair value of purchase obligation | (113) | – | (113) | 21 |
| Loss on fair value of Trust unit liability | – | 8,251 | – | 13,372 |
| Other income | – | – | – | (101) |
| Earnings (loss) before income tax | 9,143 | (12,140) | 14,121 | (21,514) |
| Current income tax expense | (1,212) | – | (3,327) | – |
| Deferred income tax recovery (expense) | 151 | – | 428 | (27) |
| Net and comprehensive earnings (loss) | \$ 8,082 | \$ (12,140) | \$ 11,222 | \$ (21,541) |
| Basic earnings per share | \$ 0.85 | | \$ 1.18 | |
| Diluted earnings per share | \$ 0.20 | | \$ 0.49 | |
| Number of Agents | 14,273 | 14,270 | 14,273 | 14,270 |
| Number of fixed-fee-paying Sales Representatives | 719 | 748 | 719 | 748 |

As summarized in the table above, during the Quarter, the Company generated CFFO of \$7.3 million and net and comprehensive earnings before income taxes of \$9.1 million, as compared to CFFO of \$6.9 million and net and comprehensive loss before income taxes of \$12.1 million for the same period in 2010.

The Company Network as at September 30, 2011, consisted of 14,273 Agents and 1,022 Sales Representatives, 719 of whom operate under the \$100 per month fixed fee plan and 303 of whom are primarily Brokers and managers who do not pay fees. Primarily all of our franchisees operate under the per Agent combined flat fee of \$100 per month and 1% of gross earnings option (the "\$100/1% option") or the approximate \$170 per month flat fee.

Royalties for the Quarter totalled \$10.3 million, compared to \$9.8 for the same period in 2010. Fixed, variable and premium franchise fees together represented 89% of royalties (88% – 2010). The 6% increase in royalties was primarily attributed to higher variable and premium franchise fees resulting from the lag effect of a strong June 2011 Market, which had a spillover effect into third-quarter revenue, compared to a slower comparative third quarter of 2010, which resulted from the pull-through effect of higher market activity to the first half of 2010, as previously described. A more detailed discussion of these results is provided below and in the Overview of Third Quarter 2011 Operating Results.

Fixed franchise fees for the Quarter increased by less than 1% over the same period in 2010; this was in line with the underlying Company Network of Agents, which decreased by less than 1% during the same period.

Variable franchise fees for the Quarter increased by 15% over the same period in 2010, compared to a 22% increase in the Canadian Market. The lower increase in the Company's variable franchise fees can be attributed to a combination of the lag effect in recording royalties when a home sale transaction closes, which is typically 30 to 45 days after the Market has reported the home sale, and the capping of variable fees to \$1,300 per Agent. The cumulative effect of Agents with sales above the capped level caused a less than proportionate increase in the Company's variable fees relative to the increase experienced in the Canadian Market.

Based on the lag effect described above, management expects the increase experienced in the Canadian Market during the Quarter will result in higher variable fees, partially mitigated by the capping of variable fees in the fourth quarter of 2011.

Premium franchise fees are derived from the 24 franchise locations servicing the GTA Market, which pay premium franchise fees ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the Quarter increased 13% over the same period in 2010, while the GTA Market activity for the same period increased by 32%. Compared to the increase experienced in the GTA Market during the Quarter, the lower increase in the Company's premium franchise fees can be attributed to the Market conditions in the individual market areas serviced by the premium-fee-paying franchises; these conditions differ from the overall GTA Market and the lag effect of recording premium fees when the home sale closes.

Other fees and services include APEC fees, technology fees, web services and other fees, and revenue accounted for approximately 11% of royalties for the Quarter, which is consistent with the same period in 2010.

Administration expenses of \$0.3 million for the Quarter are consistent with the same period in 2010.

Management fee expense of \$1.9 million for the Quarter increased by \$0.1 million, compared to the same period in 2010 due to increased royalties, as previously discussed. Management fees are determined in accordance with the amended and restated MSA, and they are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the Via Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Interest expense consists of interest on the Company's fixed rate \$32.7 million private debt placement, variable rate \$20.3 million credit facility and interest on the Company's purchase obligation. During the Quarter, the Company's interest expense totalled \$0.8 million, up \$0.1 million from the same period in 2010. The increase in interest expense is due primarily to interest payable on the Company's purchase obligation.

Amortization of intangible assets

Intangible assets relate to the values attributed to the franchise agreements and trademarks acquired by the Company since August 7, 2003. Trademarks are amortized on a straight-line basis over the expected useful life.

Impairment of intangible assets

During the Quarter, the Company recorded an impairment charge of \$0.4 million, of which \$0.3 million related to the expiry and non-renewal of two franchise agreements and \$0.1 million related to the write-off of the remaining net book value attributed to the La Capitale trademark. The Company successfully completed the conversion of the La Capitale network to Via Capitale earlier in 2011.

Interest on Exchangeable units represents the targeted pre-tax distribution of \$1.40 per annum, \$0.35 per quarter paid to the Exchangeable unitholders. The declared distribution of \$0.35 for the Quarter was unchanged from the comparative period in 2010.

Management's Discussion and Analysis of Results and Financial Condition

Interest on Trust units represents the targeted distribution of \$1.40 per annum in 2010, or \$0.35 per quarter, paid to public unitholders of the Fund. As discussed later in this MD&A (Basis of Presentation of the Consolidated Financial Statements), under IFRS the public unitholders' interest in the Fund is classified as Trust unit liability in 2010 and as a component of shareholders' equity as restricted voting shares effective December 31, 2010, when the public exchanged their Fund units for restricted voting shares. Consequently, the distributions declared payable to the Fund unitholders are classified as interest expense in 2010 and subsequently as dividends in 2011.

Gains (loss) on fair value of Exchangeable units and Trust unit liability represent the change in fair value during the period of the underlying 26% interest of the Exchangeable units in the Company and Trust unit liability held by the public. As the Company's share price decreased in value during the Quarter compared to an increase the same period in 2010, the Company recorded a gain for the resultant decrease in the fair value of the underlying obligations. As noted earlier, the Conversion on December 31, 2010, re-characterized the public's interest as a component of shareholders' equity, thereby eliminating the Trust unit liability classification in 2011.

Gain (loss) on purchase obligation adjustment represents the expected change to the purchase price of franchise agreements purchased based on future earn-out provisions governed by the terms set out in the Amended and Restated MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract that is not closely related to the host contract and are fair-valued at each reporting period. Changes in the fair value of purchase obligations are recognized as gains or losses in the period they arise. During the Quarter, the Company recorded a gain of \$0.1 million resulting from an expected reduction in the purchase obligation for franchise agreements acquired on January 1, 2011, and is based on actual royalties received, which are projected to be lower than the estimated royalties at the time of purchase.

Current Income Tax

Upon conversion to a corporate structure, the Company is subject to tax. Prior to 2011, the Company in its Fund format was not subject to income tax; accordingly, there is no comparative current tax in 2010. The expected tax rate for 2011 is 28.25%, with anticipated effective cash taxes of 22.5% once the Company's available tax shield and estimated taxable income for the year is taken into account. As this is the Company's first year as a corporate structure, the Company is not required to make instalments. Accordingly, the Company expects to continue to record a current income tax expense and liability, with an expected payment of the final tax payments by February 28, 2012.

Up to the close of business on December 31, 2010, the Company was taxed as an Income Trust. Under the Company's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Company shall be claimed to the extent that they bring the taxable income of the Trust to nil. To ensure that all taxable income of the Company was distributed and therefore not subject to tax within the Fund structure, the Board declared a special dividend of \$0.20 per unit to unitholders of record on December 30, 2010, payable on January 28, 2011.

The deductions available to the Company are made up of the costs of the offering and intangible assets. The estimated deductions available to the Company as at December 31, 2010, are made up of intangible assets of the Residential Income Fund L.P. and 9120 Real Estate Network, L.P. (the "LP"), acquisitions of franchise agreements subsequent to inception and costs associated with the \$53 million debt refinancing.

Deferred Income Tax

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at September 30, 2011, the Company's deferred tax asset was \$2.1 million (December 31, 2010 – \$1.7 million) and was calculated using an effective tax rate of 25% (2010 – 25%). During the three months ended September 30, 2011, the Company recorded a current income tax expense of \$1.2 million (2010 – \$nil) and \$0.2 million of deferred income tax recovery (2010 – \$nil) related to differences in the relative amounts of amortization deducted for tax and accounting purposes each year. The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability return on investments and business operations.

YEAR-TO-DATE OPERATING RESULTS

As summarized in the chart on page 14, during the Period, the Company generated CFFO of \$19.9 million and net and comprehensive earnings before income taxes of \$14.1 million, compared to CFFO of \$20.2 million and net and comprehensive loss before income taxes of \$21.5 million for the same period in 2010. A discussion of the operating results highlights for the Period follows.

Royalties for the Period of \$28.3 million were down 0.5% (\$0.1 million) over the same period of 2010 due primarily to the following:

- **Fixed franchise fees** for the Period were up 2% (\$0.2 million) over the same period in 2010, while the Company Network of Agents during the same period decreased negligibly by 0.1%, due primarily to the timing associated with the decrease in Agents over the Period.

- **Variable franchise fees** for the Period were down 3% (\$0.2 million) from the same period in 2010, due primarily to the pull-through effect of Market activity to the first half of 2010, as previously described.
- **Premium franchise fees** for the Period were down 3% (\$0.1 million), due primarily to the pull-through effect of Market activity to the first half of 2010, as previously discussed.
- **Other fee revenue and service fees** for the Period were down 2% (\$0.1 million) over the same period in 2010, due to the discontinuance of web-hosting services, an ancillary service that we offered to participating Agents in the second quarter of 2011.

Administration fees for the Period of \$0.9 million were up \$0.2 million over the same period in 2010, due primarily to costs associated with the conversion to IFRS and the Conversion of the Company to a Corporation.

Management fees for the Period of \$5.3 million were down \$0.1 million over the same period in 2010, in line with an overall decrease in royalties, calculated in accordance with the terms of the MSA.

Interest expense for the Period of \$2.3 million was up \$0.1 million over the same period in 2010, due to interest associated with the Company's franchise agreement purchase obligations. In 2010, the Company paid its purchase obligations on January 1, 2010.

Amortization of Intangible Assets

Intangible assets relate to the values attributed to the franchise agreements and trademarks acquired by the Company since August 7, 2003. Franchise agreements are amortized over the term of the agreements plus one renewal term. Trademarks are amortized on a straight-line basis over the term of the licence agreement plus one renewal period for the Royal LePage trademark and over the licence agreement for the Via Capitale trademark.

Impairment of Intangible Assets

During the Period, the Company recorded an impairment charge of \$0.4 million, of which \$0.3 million related to the expiry and non-renewal of two franchise agreements and \$0.1 million related to the write-off of the remaining net book value attributed to the La Capitale trademark. The Company successfully completed the conversion of the La Capitale network to Via Capitale earlier in 2011.

Interest on Exchangeable units represents the targeted pre-tax distribution of \$1.40 per annum, or \$0.35 per quarter, paid to the Exchangeable unitholders. The declared distribution of \$0.35 for the Period was unchanged from the comparative period in 2010.

Interest on Trust units represents the targeted distribution of \$1.40 per annum in 2010, or \$0.35 per quarter, paid to public unitholders of the Fund. As discussed later in this MD&A (Basis of Presentation of the Consolidated Financial Statements), under IFRS the public unitholders' interest in the Fund is classified as Trust unit liability in 2010 and as a component of shareholders' equity as restricted voting shares effective December 31, 2010, when the public exchanged their Fund units for restricted voting shares. Consequently, the distributions declared payable to the Fund unitholders are classified as interest expense in 2010 and subsequently as dividends in 2011.

Gains (loss) on fair value of Exchangeable units and Trust unit liability represent the change in fair value during the Period of the underlying 26% interest of the Exchangeable units in the Company and Trust unit liability held by the public. As the Company's share price decreased in value during the Period, the Company recorded a gain for the resultant decrease in the fair value of the underlying obligations. As noted earlier, the Conversion on December 31, 2010, re-characterized the public's interest as a component of shareholders' equity, thereby eliminating the Trust unit liability classification in 2011.

Gain (loss) on purchase obligation adjustment represents the expected change in purchase price obligations of franchise agreements as a result of changes in the royalties earned from these agreements in accordance with the as-future-earn-out provisions governed under the terms set out in the Amended and Restated MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract that is not closely related to the host contract and are fair-valued at each reporting period. Changes in the fair value of purchase obligations are recognized as gains or losses in the period they arise. During the Period, the Company recorded a gain of \$0.1 million resulting from an expected reduction in the purchase obligation for franchise agreements acquired on January 1, 2011, as a result of lower than expected franchise fees from these contracts.

Current Income Tax

Upon conversion to a corporate structure, the Company is subject to tax. Accordingly, there is no comparative current tax in 2010. The expected tax rate for 2011 is 28.25%, with anticipated effective cash taxes of 22.5% once the Company's available tax shield and estimated taxable income for the year is taken into account. As this is the Company's first year as a corporate structure, the Company is not required to make instalments. Accordingly, the Company expects to continue to record a current income tax expense and liability, with an expected payment of the final tax payments by February 28, 2012.

Management's Discussion and Analysis of Results and Financial Condition

Up to the close of business on December 31, 2010, the Company was taxed as an Income Trust. Under the Company's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Company shall be claimed to the extent that they bring the taxable income of the Trust to nil. To ensure that all taxable income of the Company was distributed and therefore not subject to tax within the Fund structure, the Board declared a special dividend of \$0.20 per unit to unitholders of record on December 30, 2010, payable on January 28, 2011.

The deductions available to the Company are made up of the costs of the offering and intangible assets. The estimated deductions available to the Company as at December 31, 2010, are made up of intangible assets of the Residential Income Fund L.P. and 9120 Real Estate Network, L.P. (the "LP"), acquisitions of franchise agreements subsequent to inception and costs associated with the \$53 million debt refinancing.

Deferred Income Tax

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at September 30, 2011, the Company's deferred tax asset was \$2.1 million (December 31, 2010 – \$1.7 million) and was calculated using an effective tax rate of 25% (2010 – 25%). During the Period, the Company recorded a current income tax expense of \$3.3 million (2010 – \$nil) and \$0.4 million of deferred income tax recovery (2010 – \$0.1 million) related to differences in the relative amounts of amortization deducted for tax and accounting purposes each year. The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

Cash Flow From Operations

For the rolling twelve months ended September 30, 2011, the Company generated CFFO of \$1.94 per restricted voting share, down 1.5% from the \$1.97 CFFO generated for the year ended December 31, 2010. The \$1.94 per share is inclusive of a \$0.05 charge per share for the cost of converting the Fund structure to a corporate structure; otherwise, the CFFO per share would have been \$1.99 per share. For the Quarter, the Company generated CFFO of \$0.57 per restricted voting share, an increase of 6% from the same period in 2010. A summary of the Company's CFFO per share is presented in the following chart.

Rolling twelve-month cash flow from operations

| Twelve months ended | 2011 | | | | 2010 | | | |
|--|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| (\$ 000's) except per share amounts | Sept. 30 | June 30 | Mar. 31 | Dec. 31 | Sept. 30 | June 30 | Mar. 31 | Dec. 31 |
| Royalties | \$ 36,498 | \$ 35,954 | \$ 36,660 | \$ 36,630 | \$ 36,967 | \$ 37,215 | \$ 35,527 | \$ 34,359 |
| Less: | | | | | | | | |
| Administration expenses | 1,944 | 1,990 | 1,834 | 1,771 | 978 | 851 | 854 | 866 |
| Interest expense | 3,025 | 2,972 | 2,880 | 2,900 | 2,990 | 3,087 | 3,166 | 3,202 |
| Management fee | 6,632 | 6,527 | 6,719 | 6,713 | 6,924 | 6,975 | 6,613 | 6,365 |
| | 24,897 | 24,465 | 25,227 | 25,246 | 26,075 | 26,302 | 24,894 | 23,926 |
| Cash flow from operations per share | \$ 1.94 | \$ 1.91 | \$ 1.97 | \$ 1.97 | \$ 2.04 | \$ 2.05 | \$ 1.94 | \$ 1.85 |

The Company's operations have been a significant source of capital, with \$181.6 million of CFFO generated since inception, of which \$134.6 million has been paid to the public unit/shareholders and Exchangeable unitholders. Of the remaining \$47.0 million retained by the Company, \$38.5 million has been invested in franchise contracts that earn attractive returns, and \$4.1 million was used to purchase units of the Company in 2008 and 2009. Also see Supplemental Information – Cash Flow From Operations.

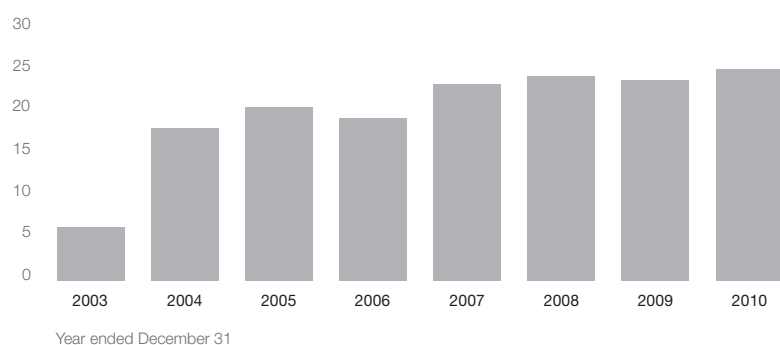
CFFO to restricted voting shareholders represents net and comprehensive earnings adjusted for interest in Exchangeable units, interest on Trust units, fair value of Exchangeable units and Trust unit liability, other income, amortization of intangible assets, current and deferred income taxes and purchase obligation adjustment.

CFFO does not have a standardized meaning under IFRS and accordingly may not be comparable to similar measures used by other issuers. Management believes that CFFO is a useful supplemental measure of performance as it provides investors with an indication of the amount of pre-tax cash generated from operations and available to restricted voting shareholders, to Exchangeable unitholders and to meet tax cash payments. Investors are cautioned, however, that CFFO should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the following chart for a reconciliation of CFFO to the comparable IFRS measure in the Company's financial statements.) A summary of the CFFO generated by the Company since its inception in August 2003 is as follows:

A summary of CFFO generated by the Company for the Quarter and its utilization reconciled to cash flow from operations is as follows:

CFFO

(in \$ millions)



Cash flow from operations and its utilization

| (\$ 000's) | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|--|---|---|--|--|
| Royalties | \$ 10,324 | \$ 9,780 | \$ 28,340 | \$ 28,472 |
| Less: | | | | |
| Administration expenses | 270 | 316 | 899 | 726 |
| Management fee | 1,941 | 1,836 | 5,283 | 5,364 |
| Interest expense | 766 | 713 | 2,305 | 2,180 |
| Cash flow from operations | 7,347 | 6,915 | 19,853 | 20,202 |
| Less: | | | | |
| Dividends to shareholders | 2,618 | 3,329 | 7,854 | 9,988 |
| Interest on Exchangeable units | 1,168 | 1,168 | 3,504 | 3,504 |
| Total dividends and interest | 3,786 | 4,497 | 11,358 | 13,492 |
| Cash flow from operations less total dividends | 3,561 | 2,418 | 8,495 | 6,710 |
| Less Funding of acquisitions | 2,466 | – | 6,062 | 6,415 |
| Net change in the period | \$ 1,095 | \$ 2,418 | \$ 2,433 | \$ 295 |

Cash flow from operations reconciled to cash flow from operating activities

| (\$ 000's) | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|---|---|---|--|--|
| Cash flow from operating activities | \$ 7,011 | \$ 3,489 | \$ 13,773 | \$ 4,961 |
| Add (deduct): | | | | |
| Interest on Exchangeable units | 1,168 | 1,168 | 3,504 | 3,504 |
| Current non-cash income tax expense | 1,212 | – | 3,327 | – |
| Interest on Trust units | – | 3,327 | – | 9,986 |
| Changes in non-cash working capital items | (2,005) | (1,031) | (1,303) | 1,890 |
| Interest expense | (1,934) | (5,208) | (5,809) | (15,670) |
| Interest paid | 1,895 | 5,170 | 6,361 | 15,531 |
| Cash flow from operations | \$ 7,347 | \$ 6,915 | \$ 19,853 | \$ 20,202 |

Management's Discussion and Analysis of Results and Financial Condition

From inception to date, the Company has used CFFO in excess of distributions/dividends to fund acquisitions and the Exchangeable unit obligations.

A summary of the main elements of the Company's performance, which assist in the assessment of the sustainability of the Company's cash distributions is presented in the table above.

The Company's payment of dividends to shareholders is fully funded by CFFO. The Company has consistently paid out cash in excess of net income to shareholders as a significant portion of the Company's operating expenses is made up of the non-cash amortization of intangible assets, consisting of franchise agreements and trademarks. The excess payment is not viewed by management as an economic return of capital as these intangible assets are not expected to require a further cash outlay in the future; rather, the value of these assets to the Company lies in part with management's ability to retain and renew the underlying franchise agreements and ensure the ongoing integrity of the trademarks. The Company has not paid out all of the CFFO to shareholders as the cash generated in excess of these amounts, as summarized in the table below (see Supplemental Information – Cash Flow From Operations), has been used to fund the acquisition of franchise agreements, pay distributions to the Exchangeable unitholders/servicing of the Trust unit liability, fund the purchase of units under the normal course issuer bid ("NCIB") and meet future tax liabilities. It is management's expectation, at the discretion of the Board of Directors, that for the foreseeable future, cash distributions to shareholders in the form of dividends will continue, and the remaining cash flow will be used to fund acquisitions and pay distributions to the Exchangeable unitholders.

ACQUISITION OF FRANCHISE AGREEMENTS

Under the terms of the MSA, the Company is permitted to acquire franchise agreements, approved by independent directors of the Company, from the Manager on January 1 of each year. The purchase price is estimated at the time of purchase and finalized at a future date, in accordance with the terms of the MSA.

For Royal LePage acquisitions, the purchase price is based on the actual royalties generated under the agreements during the twelve-month period ending on October 31 of the year of acquisition. Via Capitale acquisitions are subject to a three-year price determination period. In the first year, the initial estimate is adjusted in the manner described for Royal LePage acquisitions. In each of the subsequent two years, the purchase price is adjusted based on the average annual royalties generated under the agreements.

An initial payment representing 80% of the estimated purchase price is due upon acquisition of the franchise contracts, with the final obligation determined through an audit conducted annually to verify the royalty amounts used in all purchase price calculations. The final purchase obligation for Royal LePage contracts is determined and payable within one year of acquisition, while Via Capitale acquisitions are determined and payable two years after acquisition. Any changes to the original estimated obligation are recorded in the Company's statement of earnings and comprehensive earnings.

Royal LePage Franchise Agreements

On January 1, 2011, the Company acquired 21 new Royal LePage franchise agreements serviced by 188 REALTORS®, with an estimated annual royalty stream of \$0.4 million. The agreements for these six locations were acquired in accordance with the terms of the MSA at an estimated purchase price of \$2.5 million, with \$2.0 million, representing 80% of the estimated obligation, due on January 1, 2011. This Deposit Obligation was paid in cash during the third quarter of 2011.

Via Capitale Franchise Agreements

On January 1, 2011, the Company acquired two franchise agreements operating under the Via Capitale brand in the province of Quebec from the Company Manager for an estimated purchase price of \$1.0 million. These agreements are represented by 59 REALTORS® operating from two locations, with an estimated annual royalty stream of \$0.2 million. For a summary of the Company's acquisitions of franchise agreements, see Supplemental Information – Acquisitions.

DEBT FINANCING

On February 18, 2010, the Company completed the refinancing of its long-term debt of \$53 million, for a five-year term maturing on February 17, 2015. The refinancing is made up of a \$32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a \$20.3 million term facility with a Canadian financial institution with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months.

The Company has a \$2 million operating line provided by a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force.

The covenants of the long-term debt prescribe that the Company must maintain a ratio of Adjusted EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Adjusted EBITDA at a maximum of 2.25 to 1.

Senior Indebtedness is defined as the Company's long-term debt, disclosed under Note 10 of the interim condensed consolidated statement of earnings, which is made up of \$32,700 in private debt placement and \$20,300 in term facilities. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

Management's Discussion and Analysis of Results and Financial Condition

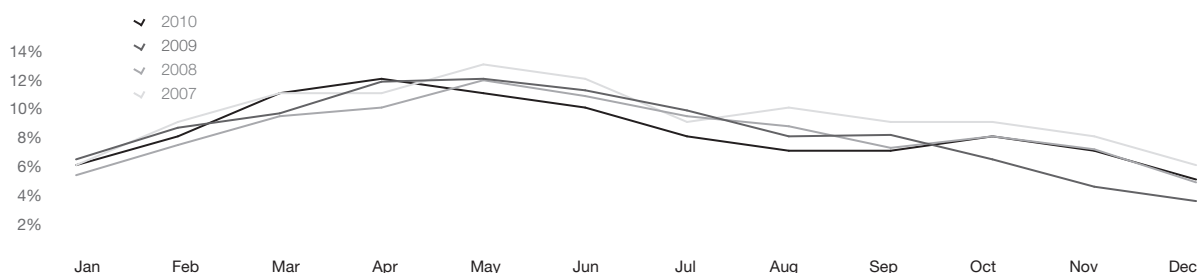
SUMMARY OF QUARTERLY RESULTS

| Three months ended (\$ 000's) except Agents, unit and per unit amounts | IFRS | | | | | | | Canadian GAAP |
|--|-----------------|----------|------------|-------------|-------------|----------|-------------|------------------|
| | 2011 | | | | 2010 | | | 2009 |
| | Sept. 30 | June 30 | March 31 | Dec. 31 | Sept. 30 | June 30 | March 31 | Dec. 31 |
| Royalties | | | | | | | | |
| Fixed franchise fees | \$ 4,736 | \$ 4,761 | \$ 4,758 | \$ 4,710 | \$ 4,700 | \$ 4,695 | \$ 4,610 | \$ 4,471 |
| Variable franchise fees | 2,531 | 2,560 | 1,697 | 1,269 | 2,203 | 2,990 | 1,783 | 1,631 |
| Premium franchise fees | 1,910 | 1,279 | 778 | 1,126 | 1,692 | 1,556 | 851 | 1,341 |
| Other fee revenue and services | 1,147 | 1,221 | 962 | 1,053 | 1,185 | 1,286 | 921 | 1,052 |
| | 10,324 | 9,821 | 8,195 | 8,158 | 9,780 | 10,527 | 8,165 | 8,495 |
| Less: | | | | | | | | |
| Administration expenses | 270 | 361 | 268 | 1,045 | 316 | 205 | 205 | 252 |
| Management fee | 1,941 | 1,823 | 1,519 | 1,349 | 1,836 | 2,015 | 1,513 | 1,560 |
| Interest expense | 766 | 811 | 728 | 720 | 713 | 719 | 748 | 810 |
| Cash flow from operations | 7,347 | 6,826 | 5,680 | 5,044 | 6,915 | 7,588 | 5,699 | 5,873 |
| Interest on | | | | | | | | |
| Exchangeable units | 1,168 | 1,168 | 1,168 | 1,833 | 1,168 | 1,168 | 1,168 | – |
| Interest on Trust units | – | – | – | 5,226 | 3,327 | 3,330 | 3,329 | – |
| (Gain) loss on fair value of Exchangeable units | (6,655) | (3,761) | 2,030 | 5,724 | 2,895 | (2,429) | 4,226 | – |
| (Gain) loss on fair value of Trust unit liability | – | – | – | 16,312 | 8,251 | (6,924) | 12,045 | – |
| (Gain) loss on purchase obligation | (113) | – | – | 590 | – | 21 | – | – |
| Other (income)/loss | – | – | – | – | – | – | (101) | (100) |
| Amortization of intangible assets | 3,421 | 3,461 | 3,462 | 3,414 | 3,414 | 3,414 | 3,414 | 4,491 |
| Impairment of intangible assets | 383 | – | – | – | – | – | – | – |
| Non-controlling interest | – | – | – | – | – | – | – | 599 |
| Earnings/(loss) before income taxes | 9,143 | 5,958 | (980) | (28,055) | (12,140) | 9,008 | (18,382) | 883 |
| Current income tax expense | 1,212 | 1,178 | 937 | – | – | – | – | – |
| Future income tax (recovery)/expense | (151) | (137) | (140) | 1,528 | – | – | 27 | (628) |
| Net and comprehensive earnings/(loss) | \$ 8,082 | \$ 4,917 | \$ (1,777) | \$ (29,583) | \$ (12,140) | \$ 9,008 | \$ (18,409) | \$ 1,511 |
| Basic earnings/(loss) per share | \$ 0.85 | \$ 0.52 | \$ (0.19) | \$ – | \$ – | \$ – | \$ – | \$ 0.16 |
| Diluted earnings/(loss) per share | \$ 0.20 | \$ 0.18 | \$ 0.11 | \$ – | \$ – | \$ – | \$ – | \$ – |
| Cash flow from operations per share | \$ 0.57 | \$ 0.53 | \$ 0.44 | \$ 0.39 | \$ 0.54 | \$ 0.59 | \$ 0.44 | \$ – |
| Number of Agents | 14,273 | 14,342 | 14,425 | 14,255 | 14,270 | 14,236 | 14,199 | 13,620 |
| Number of fixed-fee-paying Sales Representatives | 719 | 718 | 724 | 752 | 748 | 762 | 771 | 707 |

The Company's royalty revenues are affected by the seasonality of the Market, which typically has stronger second and third quarters, as summarized in the chart below. The seasonality of the Market is in turn mitigated throughout the year by the fixed fee nature of the Company's royalties, by the acquisition of franchise contracts at the beginning of the year and in the later part of the year by the 18% – 2010 (17% – 2009) of our Royal LePage Agents who have capped out under the 1%/\$1,300 per annum variable fee.

Canadian Residential Resale Real Estate Market

(% transactional dollar volume by month)



Source: CREAA and Company Management

In the past, the combination of these factors and our steadily growing Agent count has resulted in royalties that demonstrated quarter-over-same-quarter growth. In 2010, despite the 6.6% increase in year-over-year royalties, this trend did not occur on a quarter-over-quarter basis due to the pull-through of volumes to the first half of 2010, as a result of pulling out of the recessionary trough during the second half of 2009, and consumers who sought to complete home purchases ahead of government-mandated mortgage-lending rules, anticipated higher interest costs and misconceptions about the impact of the HST on the home sale transaction. This pull-through resulted in 57% of the Company's royalties being recognized in the first half of 2010, compared to 46% for the same period in 2009, which resulted in a decline in third- and fourth-quarter year-over-year variable and premium franchise fees.

The other items of note on a quarter-over-quarter basis were the reduction of interest expense as a result of refinancing the Company debt in the first quarter of 2010, with increases to the Quarter due to interest associated with the Company's franchise agreement purchase obligations, and an increase in administrative costs in the fourth quarter of 2010 as a result of recording \$0.7 million of operating costs associated with the conversion of the Fund to a corporate structure.

A key performance indicator used by management to monitor Company performance is the rolling twelve-month CFFO per restricted vote share. As previously discussed, the rolling twelve-month CFFO per restricted voting share for the twelve months ended September 30, 2011, is \$1.94. The \$1.94 is net of a \$0.05 per unit charge for operating costs associated with the conversion of the Fund to a corporate structure, which were recorded during the fourth quarter of 2010; otherwise, the CFFO per unit would have been \$1.99 per unit.

LIQUIDITY

Changes in the Company's net working capital are primarily driven by cash flow generated from operations, the recording of obligations arising from the purchase of franchise agreements and the settlement of these obligations and payment of dividends and interest.

During the Quarter, the Company used cash flow generated from operating activities of \$7.0 million to meet \$2.5 million of acquisition obligations and \$2.6 million of dividend requirements. A summary of the Company's working capital position is as follows:

Management's Discussion and Analysis of Results and Financial Condition

Working Capital

| (\$ 000's) | As at Sept. 30, 2011 | As at June 30, 2011 | As at March 31, 2011 | As at Dec. 31, 2010 | Change in quarter | Change in year |
|--|----------------------------|---------------------------|----------------------------|---------------------------|----------------------|-------------------|
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 3,396 | \$ 1,469 | \$ 1,573 | \$ 5,672 | \$ 1,927 | \$ (2,276) |
| Accounts receivable and other | 4,450 | 5,139 | 3,982 | 3,158 | (689) | 1,292 |
| Prepaid expenses | 189 | 234 | 270 | 267 | (45) | (78) |
| | \$ 8,035 | \$ 6,842 | \$ 5,825 | \$ 9,097 | \$ 1,193 | \$ (1,062) |
| Current liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 1,100 | \$ 1,041 | \$ 1,506 | \$ 1,910 | \$ 59 | \$ (810) |
| Purchase obligation – current portion | 706 | 3,236 | 4,832 | 3,282 | (2,530) | (2,576) |
| Current income tax liability | 3,327 | 2,115 | 937 | – | 1,212 | 3,327 |
| Interest payable to Exchangeable unitholders | 389 | 389 | 389 | 1,055 | – | (666) |
| Dividends payable to shareholders | 873 | 873 | 873 | 3,006 | – | (2,133) |
| | 6,395 | 7,654 | 8,537 | 9,253 | (1,259) | (2,858) |
| Net working capital | \$ 1,640 | \$ (812) | \$ (2,712) | \$ (156) | \$ 2,452 | \$ 1,796 |

CAPITAL RESOURCES

The existing capital resources that the Company can draw upon consist of a \$2 million operating line, which is undrawn as at the date of this MD&A.

Other capital resources include funds generated from operations, debt servicing, dividend and Exchangeable units requirements and financing for the acquisition of franchise contracts. In addition, during 2011, the Company's cash flow will benefit from the deferral of tax payments during its first year as a Corporation as the related tax payment is not due until two months after year-end.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

As at the date of this MD&A, the Company's interests are ultimately controlled approximately 74% by the public and 26% by BAM. BAM derived its ownership interest in the Company through the sale of its interest in certain assets to the Company at its inception. These assets included the relationships, trademarks and franchise agreements related to the business of its Royal LePage residential resale real estate brokerage franchise operations.

BAM operates 17 corporately owned residential resale real estate brokerage locations in the GTA, serviced by over 1,000 Agents. Of these operations, 16 operate under three franchise agreements under the \$100/1% option to August 2023, with an additional premium franchise fee ranging from 1% to 5% of the location's gross commission income to August 2018. The remaining location, which was opened during the third quarter of 2009, was included in the Company's acquisition of franchise contracts on January 1, 2010.

The management of the Company and its underlying structure is provided under an MSA by the Manager, which is a company controlled by the Exchangeable unitholders. The MSA provides for an initial term, expiring on August 6, 2013, and is automatically renewable for successive 10-year terms subject to certain performance criteria and/or other notification requirements. The MSA details the Manager's responsibilities and provides for a monthly fee, payable in arrears, of 20% of cash otherwise distributable from Royal LePage agreements and 30% in respect of cash otherwise distributable from Via Capitale franchise agreements.

On January 1 of each year, the Company may, upon the Board of Directors' approval and criteria detailed in the MSA, purchase Royal LePage franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company and are

paid 80% on acquisition and the remaining 20% a year later, when the actual franchise fees are audited and the acquisition calculations are adjusted accordingly.

On January 1 of each year, the Company may, upon the Independent Directors' approval and criteria established by the Board of Directors, purchase Via Capitale franchises acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or shares of the Company. Modification of the MSA relating to the Via Capitale acquisition costs and management fees are as follows:

- (a) the discount factor of 7.5%, which is applied to the royalties upon which the purchase price is based, was increased to 10%, thereby reducing the purchase price;
- (b) the final purchase price is to be calculated based on the average annual royalties earned from Via Capitale franchise agreements over three years (instead of one year);
- (c) the Partnership will pay a management fee equal to 30% of net royalties (defined as Distributable Cash in the MSA), received from the Via Capitale franchise agreements, instead of 20%. The increase in the management fee resulted in a direct and proportional decrease in the purchase price paid by the Partnership as the purchase price is calculated based on royalties earned from the Via Capitale franchise agreements net of the management fee.

The related party transactions entered into by the Company were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts in thousands of dollars follows:

| | Three months ended Sept. 30, 2011 | Three months ended Sept. 30, 2010 | Nine months ended Sept. 30, 2011 | Nine months ended Sept. 30, 2010 |
|--|--|--|---|---|
| a) Royalties | | | | |
| Fixed, variable and other franchise fees | \$ 681 | \$ 656 | \$ 1,984 | \$ 2,024 |
| Premium franchise fees | \$ 1,611 | \$ 1,451 | \$ 3,392 | \$ 3,514 |
| b) Expenses | | | | |
| Management fees | \$ 1,941 | \$ 1,836 | \$ 5,283 | \$ 5,364 |
| Insurance and other | \$ 27 | \$ 27 | \$ 81 | \$ 81 |
| Interest on purchase obligations | \$ 26 | \$ – | \$ 115 | \$ – |
| Interest on Exchangeable units | \$ 1,168 | \$ 1,168 | \$ 3,504 | \$ 3,504 |

| As at | Sept. 30, 2011 | June 30, 2011 | March 31, 2011 | Dec. 31, 2010 |
|---|-------------------|------------------|-------------------|------------------|
| c) Accounts receivable | | | | |
| Franchise fees receivable and other | \$ 1,229 | \$ 1,435 | \$ 1,018 | \$ 908 |
| d) Accounts payable and accrued liabilities | | | | |
| Management fees | \$ 643 | \$ 746 | \$ 535 | \$ 489 |
| Interest on purchase obligations | \$ 53 | \$ 89 | \$ 14 | \$ – |
| Sales tax payable on 2011 purchase obligation | \$ 2 | \$ – | \$ 458 | \$ 489 |
| e) Interest expense payable to Exchangeable unitholders | \$ 389 | \$ 389 | \$ 389 | \$ 1,055 |
| f) Purchase obligation payable | \$ 863 | \$ 3,442 | \$ 5,038 | \$ 3,563 |

Effective January 1, 2011, the Company acquired 21 Royal LePage franchise agreements and two Via Capitale franchise agreements for an estimated purchase price of \$2.5 million and \$1.0 million, respectively, with 80%, or \$2.8 million, of the purchase price due in the first quarter (see Acquisition of Franchise Agreements for further information). During the three and nine months ended September 30, 2011, the Company paid \$2.0 and \$2.8 million, respectively, of the purchase price, with the remaining purchase price obligation to be paid on January 1, 2012. In the interim, the Company accrues interest on the remaining purchase obligation at a rate of prime.

Management's Discussion and Analysis of Results and Financial Condition

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Conversion to IFRS

During the first quarter of 2011, the basis of presentation of the Company's financial statements was changed from reporting under Canadian GAAP to IFRS. Under IFRS, January 1, 2010 is considered the transition date, at which point the Company is to recognize the cumulative impact on previous periods of preparing our financial statements as if they had always been reported under IFRS. Under the IFRS reporting requirements, the Company's interim condensed consolidated financial statements as at June 30, 2011, and all comparative information, are prepared and presented on an IFRS basis. In addition, a comparative condensed consolidated balance sheet as at January 1, 2010, has been prepared and presented to capture the cumulative impact of IFRS on pre-2010 periods.

Impact of IFRS on the Conversion to a Corporate Structure

During 2010, the Company operated as an Income Trust. Within the Income Trust structure, the Company's Partnership acquires the franchise agreements, trademarks and other associated assets, receives the royalties from these agreements and distributes the net cash generated to the Fund's unitholders through the Fund structure and directly to the NCI through its interest in the Partnership. Under the Income Trust arrangement, the Company is obligated to distribute its partnership earnings (the "Payment Obligation") to Trust unitholders and the NCI in order to minimize the income tax effect of not making such a distribution. Under these arrangements, there are two key considerations: (i) the language in the relevant agreements provided no discretion for the trustees/partners to avoid distributions; and (ii) the Company prior to the Conversion was an open-ended trust, and as such the Trust units were "puttable" to the Company, and as such the Class B LP units were exchangeable into a "puttable" instrument, thereby creating a contractual obligation of the Trust (collectively the "Payment Option"). Under IFRS, the Payment Obligation results in the characterization of the Trust unitholders' and the NCI's respective interests as a debt obligation. The fair value of the debt obligation is determined at each reporting date at the underlying closing unit/share price, with the resultant change in value being recorded through the condensed consolidated statement of earnings, while distributions/dividends declared are reported as interest expense.

With the Conversion of the Fund to a corporate structure at the end of 2010, the Fund's unitholders exchanged their Fund units for restricted voting shares of the Company, which do not have a Payment Obligation, while the NCI retained its interests at the partnership level. Consequently, as a result of these arrangements, under IFRS in the comparative 2010 period, up to the Conversion, the unitholders' and the NCI's respective interests are presented as a debt obligation, with the commensurate impact on the condensed consolidated balance sheet and statement of earnings described above, while in 2011, the restricted voting interests are presented within shareholders' equity and dividends declared as a reduction of shareholders' equity.

Impact of Conversion to IFRS

When the Fund converted to a corporate structure on December 31, 2010, the cumulative impact of IFRS on the Company's condensed consolidated financial statements was a \$32.9 million reduction in shareholders' equity, resulting in shareholders' equity of \$11.1 million. The largest driver of this result is the characterization of the NCI as debt, with the resultant valuation of the debt at the underlying share price of the NCI's interests and the recording of the changes in the debt valuation in the condensed consolidated statement of earnings and the NCI's distributions as interest expense.

Provided in the table below is a summary of the cumulative impact of the conversion to IFRS on the Company's shareholders' equity as at January 1, 2010, and for the twelve months ended December 31, 2010. A summary-level discussion of these adjustments is presented below, while a more detailed analysis and discussion can be found later in this MD&A and in Note 3 of our unaudited interim condensed consolidated financial statements for 2011.

Continuity of shareholders' equity

| (\$ millions) | As at December 31, 2010 | As at January 1, 2010 | Difference |
|---------------------------|-------------------------------|-----------------------------|----------------|
| Balance under CGAAP | \$ 35.0 | \$ 44.0 | \$ 9.0 |
| Adjustments: | | | |
| Trust unit liability | – | (110.4) | 110.4 |
| NCI | (34.8) | (21.6) | (13.2) |
| Intangible assets | 7.1 | 4.9 | 2.2 |
| Deferred taxes | 3.8 | 5.3 | (1.5) |
| Balance Under IFRS | \$ 11.1 | \$ (77.8) | \$ 88.9 |

Conversion to IFRS - Cumulative Impact on Shareholders' Equity

As summarized in the table above, the cumulative impact of the change to IFRS as at January 1, 2010, was a \$121.8 million (December 31, 2010 – \$32.9 million) decrease in shareholders' equity, with \$110.4 million of the decrease being attributed to classification of Trust units under shareholders' equity to a Trust unit liability and revaluation of this liability to fair value. On December 31, 2010, as previously discussed, the Trust unit liability no longer exists as a result of the exchange of the underlying Fund units for restricted voting shares of the Company. However, as the comparative 2010 financial statements for the current 2011 reporting year are prepared on an IFRS basis, the \$110.4 million decrease in equity attributed to the Trust unit liability will continue to be reported throughout the comparative period of 2010. The remaining \$11.4 million cumulative charge to opening retained earnings is made up of:

- \$21.6 million reduction in the NCI due to the fair value of Exchangeable units as at January 1, 2010. The 3,327,667 convertible Class B LP units were fair-valued at \$11.64 per unit, partially offset by a
 - i) \$4.9 million net increase in intangible assets attributed to a \$16.9 million reduction in amortization of intangibles partially offset by an impairment charge of \$5.6 million and changes in purchase obligations recognized through gains or losses in earnings of \$6.4 million, and a
 - ii) \$5.3 million increase in future income tax assets as a result of the elimination of the tax accounting for certain GAAP book-to-tax differences under IFRS.

The \$4.9 million cumulative Canadian Generally Accepted Accounting Principles ("CGAAP") to IFRS increase in intangible assets as at January 1, 2010 is made up of the following:

- \$4.5 million reduction in the gross book value of intangible assets as a result of the elimination of the gross-up of intangible assets for the income tax impact of the acquisition of the Via Capitale assets in 2008;
- \$3.4 million impairment charge to intangible assets as a result of the different basis used to determine impairment under IFRS (see Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings);
- \$2.3 million reduction in intangible assets as the Company took the opportunity with the changeover to IFRS to write off balances associated with terminated contracts from inception to December 31, 2009, which on an annual basis were considered immaterial; and
- \$2.5 million reduction in the gross book value of intangible assets due to the elimination of deposit accounting for the Company's acquisition of franchise contracts, which gives rise to the following differences:
 - i) the acquisition of franchise contracts is recorded at their estimated fair value at the time of purchase, whereas under CGAAP, the intangible asset is recognized as the purchase obligation is effectively "earned" (see Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings); and
 - ii) subsequent changes in the estimated Purchase Obligation are recorded in the Company's condensed consolidated statement of earnings, whereas under CGAAP, these changes are recorded against the intangible asset.

The reductions of intangible assets noted above were offset by a cumulative \$17.6 million decrease in amortization as a result of the combination of the reduction of the intangible assets created by the adjustments noted above and a change in the amortization period of franchise agreements to reflect an estimated useful life, which includes the agreement term plus one renewal period.

Management's Discussion and Analysis of Results and Financial Condition

Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings

From a condensed consolidated statement of earnings perspective, IFRS as compared to CGAAP has resulted in the following six differences of note, which are expected to continue in the future under IFRS:

- 1) Amortization expense has decreased as a result of a number of IFRS transition adjustments, which have reduced the net book value of intangibles and the associated amortization (see 5 and 6 below);
- 2) Interest costs have increased under IFRS as distributions paid to Exchangeable unitholders are classified as interest expense;
- 3) Under IFRS, the Exchangeable unitholders' proportionate share of net income is no longer recorded due to its classification as a debt obligation;
- 4) Under IFRS, the Exchangeable units are valued at the closing price of the Company's shares at each reporting date, with the change in value between reporting periods being recorded through the condensed consolidated statement of earnings;
- 5) Under IFRS, the Company's franchise contracts are reviewed for impairment by comparing the net book value ("NBV") of the contracts against the estimated discounted cash flows ("DCF") of the franchise fees to be generated by these contracts over the remaining contract term on a contract-by-contract basis. Where the franchise contract DCF is less than its net book value, the difference is recognized as an impairment loss through the condensed consolidated statement of earnings. Under CGAAP, the undiscounted value of the estimated franchise fees was compared to the respective NBV on a contract-by-contract basis, and then, only in cases where the NBV exceeded the undiscounted value was the DCF valuation undertaken; and lastly
- 6) Under IFRS, subsequent adjustments to the purchase price of franchise contracts as a result of the earn-out provisions of the purchase agreement are recorded through the interim condensed consolidated statement of earnings, whereas under CGAAP, such adjustments were recorded as changes to intangible assets.

On a quarterly basis, the mark-to-market adjustment of the Exchangeable unitholders noted in 3) above and the recording of franchise contract obligations noted in 6) above are expected to add volatility to the Company's condensed consolidated statement of earnings, while the requirement to assess impairment of the Company's intangible assets on a DCF basis is expected to be assessed each reporting period.

It is also important to note that under IFRS, impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the conditions causing the impairment reversing themselves. In this event, the carrying value of the intangible asset or cash-generating unit is increased to its revised recoverable amount, limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

IFRS and Performance Monitoring

Since the inception of the Company as a Fund, one of the key performance indicators ("KPI") used by management to assess the Company's performance is the rolling twelve-month distributable cash per unit. This KPI represents the net cash generated from the Company's operations, which is available to distribute to its unitholders and to service its capital structure and franchise contract acquisition obligations. With the Conversion effective December 31, 2010 and the changeover to IFRS effective January 1, 2011, the comparable distributable cash KPI is CFFO, which is derived as net income or loss with the add-back of income taxes, adjustments to franchise contract purchase price obligations, amortization of intangible assets, the fair value and interest charges attributable to Exchangeable units and intangible asset impairment charges.

Change to a Corporation

As previously announced and approved by the Company's shareholders, effective December 31, 2010, the Fund was converted to a corporate structure through the introduction of the Company, which owns the previous Fund structure. Shareholders exchanged their units in the Fund for restricted voting shares of the Company. The changes of note as a result of becoming a corporation are the recording of payments to shareholders as dividends instead of distributions, the recording of a current tax liability for taxes due at the Company level and the declaration of the Exchangeable unitholders' distributions at the pre-tax level of \$1.40 per unit per annum versus \$1.10 per unit for public shareholders.

CRITICAL ACCOUNTING ESTIMATES

Substantially all of the Company's activities are based on cash transactions, with revenue and expenditures based on contracted terms. The operating activities not based on contractual terms include the Company's administration costs, allocation of the intangible assets between franchise agreements and trademarks and their related amortization periods. The Company's administration costs of approximately \$0.9 million per annum relate to the Company's public reporting, regulatory and insurance costs.

The allocation of the Company's intangible assets among their various classifications is subject to management estimates. The Company'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 Company but would have no direct cash flow implications.

In assessing the fair value of franchise agreements upon acquisition, impairment of intangible assets and measurement of deferred taxes, management estimates future cash flows by relying on external information and observable conditions where possible, supplemented by internal analysis.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation, interest payable to Exchangeable unitholders, a \$32.7 million private debt placement, a \$20.3 million term facility and a \$2 million operating credit facility.

The Company is exposed to credit risk with respect to accounts receivable to the extent that any franchisees are unable to pay their fees. The Company's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

On February 18, 2010, the Partnership completed the refinancing of its long-term debt of \$53 million for a five-year term maturing on February 17, 2015. The refinancing consists of a \$32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a \$20.3 million term facility with a Canadian financial institution, with interest available at a floating rate of prime plus 1.5% payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

As a public entity, we take every step to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, including the President and Chief Executive and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures, as well as internal control over financial reporting.

Disclosure Controls and Procedures ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, was performed under the supervision of the President and Chief Executive and the Chief Financial Officer. They conclude that these disclosure controls and procedures were adequate and effective as at June 30, 2011. The Company's management can therefore provide reasonable assurance that it receives material information relating to the Company in a timely manner so that it can provide investors with complete and reliable information.

Internal Control Over Financial Reporting ("ICFR")

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at September 30, 2011.

Management's Discussion and Analysis of Results and Financial Condition

OUTSTANDING RESTRICTED VOTING SHARES

The Company is authorized to issue an unlimited number of restricted voting shares, an unlimited number of preferred shares and one special voting share. As at December 31, 2010, 9,483,850 restricted voting shares were issued in exchange for 9,483,850 Trust units outstanding, and one special voting share was issued in exchange for all special Fund units outstanding prior to the Conversion. These restricted voting shares and special voting shares remain unchanged at September 30, 2011.

The restricted voting shares were issued to replace the Trust units outstanding prior to the Conversion. Each restricted voting share represents a proportionate voting right in the Company, and holders of the Company's restricted voting shares are entitled to dividends declared and distributed by the Company.

The special voting share was issued to replace all of the special Fund units outstanding prior to the Conversion, which represent the proportionate voting rights of Exchangeable units in the Company and are redeemable by the holder at \$0.01 per share; they are not entitled to dividends declared by the Company. No additional restricted voting shares were issued during the Quarter.

COMPANY STRUCTURE

The Company is governed by a Board of Directors (the "Board") and consists of a Corporation on a Trust-on-Trust (Holding Trust) structure that controls a general partner and Limited Partnership ("LP"). The Trust-on-Trust structure is a holdover from the Company's initial Income Trust structure (see Recent Developments), and it is the Board's and Management's intention to simplify the Trust structure in 2011.

Substantially all Company activity is transacted through the LP, which in turn flows distributions to public shareholders through the Trust structure to the Corporation and to the Exchangeable units through the LP structure. Through this structure, public shareholders hold a 74% interest in the economics of the Company's underlying assets, and the remaining non-controlling interests are held by subsidiaries of BAM.

CHANGE IN ACCOUNTING POLICIES

Accounting Changes – Future

The International Accounting Standards Board ("IASB") has issued the following new accounting standards:

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 is the first phase of the IASB's three-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 is applied prospectively, with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 9.

IFRS 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 is a new and comprehensive Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 12.

IFRS 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 provides new guidance on fair value measurement and disclosure requirements for IFRS. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 13.

RISK FACTORS

Risks related to the residential resale real estate brokerage industry and the business of the Partnership and the Company are outlined in the Fund's Annual Information Form, which is available at www.sedar.com and on the Fund's website at www.brookfieldresinc.com under Investor Relations/Financial Reports. Additional discussion regarding these risks as appropriate is provided in this MD&A.

MARKET OUTLOOK

Based on data from the Royal LePage House Price Survey, the average price of a home in Canada increased between 5.7% and 7.8% in the third quarter of 2011, depending on housing type, compared to the previous year. The strength of home price appreciation in the third quarter exceeded expectations as very low interest rates buoyed consumer confidence in a comparatively stable Canadian economy. However, year-over-year gains appear deceptively strong in comparison to a weak third quarter of 2010. A resilient domestic economy, coupled with the stimulative effect of very low interest rates, has extended the post-recession recovery in house prices. The third quarter saw a return to a normal seasonal business cycle as price appreciation slowed in many areas – with some average values even falling slightly – after the busy spring trading season. The strength in Canada's national housing market is being driven by the country's largest urban centres. While a broader slowdown is expected in the year ahead, the structure of the Company's royalty stream is expected to mitigate this impact.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report contain forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set out in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; the average rate of commissions charged; competition from other traditional real estate Brokers or from discount and/or Internet-based real estate alternatives; the availability of acquisition opportunities and/or the closing of existing real estate offices; other developments in the residential real estate brokerage industry or the Fund that reduce the number of and/or royalty revenue from the Company's REALTORS®; our ability to maintain brand equity through the use of trademarks; the availability of equity and debt financing; a change in tax provisions; and other risks detailed in the Fund's Annual Information Form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION - Net Earnings and Cash Flow From Operations for the Period

| Three months ended (\$ '000's except per unit amounts, unaudited) | Canadian GAAP | | | | IFRS | | | |
|---|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|
| | Dec. 31, 2009 | Mar. 31, 2010 | June 30, 2010 | Sept. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | June 30, 2011 | Sept. 30, 2011 |
| Royalties | \$ 8,495 | \$ 8,165 | \$ 10,527 | \$ 9,780 | \$ 8,158 | \$ 8,195 | \$ 9,821 | \$ 10,324 |
| Less: | | | | | | | | |
| Administration expenses | 252 | 205 | 205 | 316 | 1,045 | 268 | 361 | 270 |
| Management fee | 1,560 | 1,513 | 2,015 | 1,836 | 1,349 | 1,519 | 1,823 | 1,941 |
| Interest expense | 810 | 748 | 719 | 713 | 720 | 728 | 811 | 766 |
| Cash flow from operations | 5,873 | 5,699 | 7,588 | 6,915 | 5,044 | 5,680 | 6,826 | 7,347 |
| Interest on Exchangeable units | - | 1,168 | 1,168 | 1,168 | 1,833 | 1,168 | 1,168 | 1,168 |
| Interest on Trust units | - | 3,329 | 3,330 | 3,327 | 5,226 | - | - | - |
| (Gain) loss on fair value of Exchangeable units | - | 4,226 | (2,429) | 2,895 | 5,724 | 2,030 | (3,761) | (6,655) |
| (Gain) loss on fair value of Trust unit liability | - | 12,045 | (6,924) | 8,251 | 16,312 | - | - | - |
| (Gain) loss on purchase obligation | - | - | 21 | - | 590 | - | - | (113) |
| Other (income) loss | (100) | (101) | - | - | - | - | - | - |
| Amortization of intangible assets | 4,491 | 3,414 | 3,414 | 3,414 | 3,414 | 3,462 | 3,461 | 3,421 |
| Impairment of intangible assets | - | - | - | - | - | - | - | 383 |
| Non-controlling interest | 599 | - | - | - | - | - | - | - |
| Earnings (loss) before taxes | 883 | (18,382) | 9,008 | (12,140) | (28,055) | (980) | 5,958 | 9,143 |
| Current income tax expense | - | - | - | - | - | (937) | (1,178) | (1,212) |
| Future income tax recovery (expense) | 628 | (27) | - | - | (1,528) | 140 | 137 | 151 |
| Net and comprehensive earnings (loss) for the period | 1,511 | (18,409) | 9,008 | (12,140) | (29,583) | (1,777) | 4,917 | 8,082 |
| Add: | | | | | | | | |
| Amortization of intangible assets | 4,491 | 3,414 | 3,414 | 3,414 | 3,414 | 3,462 | 3,461 | 3,421 |
| Impairment of intangible assets | - | - | - | - | - | - | - | 383 |
| Non-cash other (income) loss | (100) | (101) | - | - | - | - | - | - |
| Current income tax expense | - | - | - | - | - | 937 | 1,178 | 1,212 |
| Future income tax (recovery) expense | (628) | 27 | - | - | 1,528 | (140) | (137) | (151) |
| Non-controlling interest | 599 | - | - | - | - | - | - | - |
| Interest on Exchangeable units | - | 1,168 | 1,168 | 1,168 | 1,833 | 1,168 | 1,168 | 1,168 |
| Interest on Trust units | - | 3,329 | 3,330 | 3,327 | 5,226 | - | - | - |
| (Gain) loss on fair value of Exchangeable units | - | 4,226 | (2,429) | 2,895 | 5,724 | 2,030 | (3,761) | (6,655) |
| (Gain) loss on fair value of Trust unit liability | - | 12,045 | (6,924) | 8,251 | 16,312 | - | - | - |
| (Gain) loss on purchase obligation | - | - | 21 | - | 590 | - | - | (113) |
| Cash flow from operations | 5,873 | 5,699 | 7,588 | 6,915 | 5,044 | 5,680 | 6,826 | 7,347 |
| Less change in: | | | | | | | | |
| Unutilized cash | (904) | (1,202) | (3,090) | (2,418) | 2,013 | (1,894) | (3,040) | (3,561) |
| Cash required for dividends | \$ 4,969 | \$ 4,497 | \$ 4,498 | \$ 4,497 | \$ 7,057 | \$ 3,786 | \$ 3,786 | \$ 3,786 |
| Cash flow from operations available to: | | | | | | | | |
| Public shareholders | \$ 3,668 | \$ 3,329 | \$ 3,330 | \$ 3,329 | \$ 5,224 | \$ 2,618 | \$ 2,618 | \$ 2,618 |
| Exchangeable unitholders/ Trust unitholders | 1,301 | 1,168 | 1,168 | 1,168 | 1,833 | 1,168 | 1,168 | 1,168 |
| | \$ 4,969 | \$ 4,497 | \$ 4,498 | \$ 4,497 | \$ 7,057 | \$ 3,786 | \$ 3,786 | \$ 3,786 |

SUPPLEMENTAL INFORMATION - Selected Financial and Operating Information

| Three months ended (\$000's, unaudited) | Sept. 30, 2009 | Dec. 31, 2009 | Mar. 31, 2010 | June 30, 2010 | Sept. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | June 30, 2011 | Sept. 30, 2011 |
|--|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|
| Revenue | | | | | | | | | |
| Fixed franchise fees | \$ 4,459 | \$ 4,471 | \$ 4,610 | \$ 4,695 | \$ 4,700 | \$ 4,710 | \$ 4,758 | \$ 4,761 | \$ 4,736 |
| Variable franchise fees | 2,738 | 1,631 | 1,783 | 2,990 | 2,203 | 1,269 | 1,697 | 2,560 | 2,531 |
| Premium franchise fees | 1,674 | 1,341 | 851 | 1,556 | 1,692 | 1,126 | 778 | 1,279 | 1,910 |
| Other fee revenue and services | 1,157 | 1,052 | 921 | 1,286 | 1,185 | 1,053 | 962 | 1,221 | 1,147 |
| | \$ 10,028 | \$ 8,495 | \$ 8,165 | \$ 10,527 | \$ 9,780 | \$ 8,158 | \$ 8,195 | \$ 9,821 | \$ 10,324 |

% Revenue by region

| | | | | | | | | | |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| British Columbia | 12 | 12 | 12 | 11 | 11 | 11 | 11 | 11 | 10 |
| Prairies | 9 | 9 | 10 | 9 | 9 | 9 | 9 | 9 | 9 |
| Ontario | 56 | 56 | 56 | 57 | 58 | 57 | 57 | 57 | 59 |
| Quebec | 20 | 20 | 19 | 20 | 19 | 20 | 20 | 20 | 19 |
| Maritimes | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

| Three months ended | Sept. 30, 2009 | Dec. 31, 2009 | Mar. 31, 2010 | June 30, 2010 | Sept. 30, 2010 | Dec. 31, 2010 | Mar. 2011, 2011 | June 30, 2011 | Sept. 30, 2011 |
|---|-------------------|------------------|------------------|------------------|-------------------|------------------|--------------------|------------------|-------------------|
| Changes during the period | | | | | | | | | |
| Number of REALTORS® | (51) | 64 | 639 | 25 | 27 | (14) | 141 | (88) | (66) |
| Number of Agents | (46) | 51 | 579 | 37 | 34 | (15) | 170 | (83) | (69) |
| Number of fixed-fee-paying Sales Representatives | 2 | 8 | 64 | (9) | (14) | 4 | (28) | (6) | 1 |
| Number of locations | (3) | (5) | 18 | 1 | (3) | (5) | 7 | (2) | (7) |
| Number of franchise agreements | 1 | (2) | 20 | (1) | (1) | 0 | 27 | (2) | (2) |
| At end of period | | | | | | | | | |
| Number of REALTORS® | 14,567 | 14,631 | 15,270 | 15,295 | 15,322 | 15,308 | 15,449 | 15,361 | 15,295 |
| Number of Agents | 13,569 | 13,620 | 14,199 | 14,236 | 14,270 | 14,255 | 14,425 | 14,342 | 14,273 |
| Number of fixed-fee-paying Sales Representatives | 699 | 707 | 771 | 762 | 748 | 752 | 724 | 718 | 719 |
| Number of locations | 652 | 647 | 665 | 666 | 663 | 658 | 665 | 663 | 656 |
| Number of franchise agreements | 351 | 349 | 369 | 368 | 367 | 367 | 394 | 392 | 390 |

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION - Distributions/Dividends History

| Month | Dividends Declared per Unit/Share | | | | | | | | 2011 |
|-----------|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------------------|------------------|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | |
| January | | \$ 0.0917 | \$ 0.0917 | \$ 0.0958 | \$ 0.1000 | \$ 0.1040 | \$ 0.1170 | \$ 0.1170 | \$ 0.0920 |
| February | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| March | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| April | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| May | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| June | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| July | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 |
| August | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | 0.0920 |
| September | \$ 0.1789 ¹ | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | |
| October | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | |
| November | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | |
| December | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1570 | 0.3170 | |
| | \$ 0.45 | \$ 1.10 | \$ 1.10 | \$ 1.15 | \$ 1.20 | \$ 1.31 | \$ 1.44 | \$ 1.60 ² | \$ 0.83 |

¹ Based on a 55-day period.

² A special distribution of \$0.20 per unit was declared for unitholders of record on December 31, 2010 and paid on January 28, 2011.

SUPPLEMENTAL INFORMATION - Share and Exchangeable Unit Performance

| Three months ended | Dec. 31, 2009 | Mar. 31, 2010 | June 30, 2010 | Sept. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | June 30, 2011 | Sept. 30, 2011 |
|--|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|
| Trading price range of units (TSX: "BRE") | | | | | | | | |
| High | \$ 12.00 | \$ 13.45 | \$ 13.90 | \$ 13.40 | \$ 15.50 | \$ 16.49 | \$ 15.67 | \$ 14.50 |
| Low | \$ 11.15 | \$ 12.31 | \$ 11.99 | \$ 11.67 | \$ 12.72 | \$ 14.40 | \$ 12.85 | \$ 12.00 |
| Close | \$ 11.64 | \$ 12.91 | \$ 12.18 | \$ 13.05 | \$ 14.77 | \$ 15.38 | \$ 14.25 | \$ 12.25 |
| Average daily volume | 14,434 | 24,796 | 11,022 | 7,186 | 13,564 | 12,816 | 8,748 | 7,987 |
| Number of units/shares outstanding at period end | | | | | | | | |
| | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 |
| Net enterprise value at period end (thousands) | | | | | | | | |
| Market capitalization | \$149,126 | \$165,397 | \$156,044 | \$167,190 | \$189,226 | \$197,041 | \$182,564 | \$156,941 |
| Long-term debt | 52,953 | 52,197 | 52,218 | 52,256 | 52,277 | 52,314 | 52,352 | 52,390 |
| Less: | | | | | | | | |
| Cash on hand | 6,842 | 402 | 1,063 | 4,552 | 5,672 | 1,573 | 1,469 | 3,396 |
| | \$195,237 | \$217,192 | \$207,199 | \$214,894 | \$235,831 | \$247,782 | \$233,447 | \$205,935 |

SUPPLEMENTAL INFORMATION - Canadian Residential Real Estate Market

| Three months ended | June 30, 2009 | Sept. 30, 2009 | Dec. 31, 2009 | Mar. 31, 2010 | June 30, 2010 | Sept. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | June 30, 2011 | Sept. 30, 2011 |
|--|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|
| Canada | | | | | | | | | | |
| Transactional dollar volume ¹ | \$ 46,938 | \$ 44,281 | \$ 36,023 | \$ 37,355 | \$ 49,352 | \$ 33,962 | \$ 30,857 | \$ 37,689 | \$ 52,871 | \$ 41,373 |
| Average selling price | \$ 318,675 | \$ 327,769 | \$ 338,940 | \$ 336,500 | \$ 345,015 | \$ 328,925 | \$ 344,349 | \$ 363,102 | \$ 374,207 | \$ 354,637 |
| Number of units sold | 147,291 | 135,098 | 106,281 | 111,011 | 143,042 | 103,252 | 89,610 | 103,797 | 141,288 | 116,664 |
| Number of REALTORS® at period end | 96,798 | 97,301 | 98,161 | 99,819 | 101,068 | 101,606 | 101,916 | 103,207 | 103,745 | N/A |
| Housing starts | 35,798 | 42,934 | 46,577 | 35,014 | 55,287 | 52,671 | 46,958 | 33,553 | 52,625 | 55,615 |
| Greater Toronto Area | | | | | | | | | | |
| Transactional dollar volume ¹ | \$ 11,343 | \$ 10,395 | \$ 8,981 | \$ 9,721 | \$ 12,666 | \$ 8,021 | \$ 7,724 | \$ 8,926 | \$ 14,068 | \$ 10,607 |
| Average selling price | \$ 395,964 | \$ 396,693 | \$ 418,777 | \$ 428,043 | \$ 439,802 | \$ 419,619 | \$ 439,113 | \$ 449,286 | \$ 479,830 | \$ 458,758 |
| Number of units sold | 28,647 | 26,205 | 21,446 | 22,711 | 28,799 | 19,115 | 17,589 | 19,867 | 29,319 | 23,122 |
| Housing starts | 5,639 | 6,712 | 7,694 | 5,669 | 7,962 | 7,845 | 7,719 | 8,374 | 11,245 | 10,147 |
| Canada | | | | | | | | | | |
| Transactional dollar volume ¹ | \$ 121,644 | \$ 131,929 | \$ 148,990 | \$ 164,597 | \$ 167,011 | \$ 156,692 | \$ 151,526 | \$ 151,860 | \$ 155,379 | \$ 162,790 |
| Average selling price | \$ 299,944 | \$ 309,786 | \$ 320,364 | \$ 329,404 | \$ 337,101 | \$ 338,000 | \$ 339,049 | \$ 345,371 | \$ 354,790 | \$ 360,667 |
| Number of units sold | 405,555 | 425,871 | 465,066 | 499,681 | 495,432 | 463,586 | 446,915 | 439,701 | 437,947 | 451,359 |
| Housing starts | 164,929 | 149,571 | 149,081 | 160,323 | 179,812 | 189,549 | 189,930 | 188,469 | 185,807 | 188,751 |
| Seasonally adjusted housing starts | 129,700 | 155,000 | 178,400 | 195,600 | 199,800 | 190,700 | 180,000 | 174,600 | 194,700 | 205,000 |
| Greater Toronto Area | | | | | | | | | | |
| Transactional dollar volume ¹ | \$ 27,641 | \$ 30,467 | \$ 35,359 | \$ 40,441 | \$ 41,764 | \$ 39,389 | \$ 38,132 | \$ 37,336 | \$ 38,739 | \$ 41,325 |
| Average selling price | \$ 376,063 | \$ 384,819 | \$ 396,154 | \$ 408,457 | \$ 421,169 | \$ 427,814 | \$ 432,264 | \$ 437,348 | \$ 451,027 | \$ 459,693 |
| Number of units sold | 73,501 | 79,173 | 89,255 | 99,009 | 99,161 | 92,071 | 88,214 | 85,370 | 85,890 | 89,897 |
| Housing starts | 33,126 | 28,102 | 25,949 | 25,714 | 28,037 | 29,170 | 29,195 | 31,900 | 35,183 | 37,485 |

Source: Conference Board of Canada, CMHC

¹ (\$ million)

N/A: Not Available

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION - Cash Flow From Operations

| Cash flow from operations and its utilization since Fund inception | Total | IFRS | | Canadian GAAP | | | | | | |
|--|------------|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------------|
| | | Nine months ended Sept. 30, 2011 | Year ended Dec. 31, 2010 | Year ended Dec. 31, 2009 | Year ended Dec. 31, 2008 | Year ended Dec. 31, 2007 | Year ended Dec. 31, 2006 | Year ended Dec. 31, 2005 | Year ended Dec. 31, 2004 | Aug. 7, 2003, to Dec. 31, 2003 |
| (\$ 000's) | | | | | | | | | | |
| Royalties | \$ 256,100 | \$ 28,340 | \$ 36,630 | \$ 34,359 | \$ 34,883 | \$ 32,491 | \$ 29,659 | \$ 27,196 | \$ 23,740 | \$ 8,802 |
| Less: | | | | | | | | | | |
| Administration expenses | 7,062 | 899 | 1,771 | 866 | 817 | 725 | 645 | 595 | 513 | 231 |
| Interest expense | 20,637 | 2,305 | 2,900 | 3,202 | 3,174 | 2,419 | 2,401 | 2,289 | 1,327 | 620 |
| Management fee | 46,840 | 5,283 | 6,713 | 6,365 | 6,455 | 5,869 | 7,285 | 3,660 | 3,660 | 1,550 |
| Cash flow from operations | 181,561 | 19,853 | 25,246 | 23,926 | 24,437 | 23,478 | 19,328 | 20,652 | 18,240 | 6,401 |
| Less: | | | | | | | | | | |
| Dividends to shareholders | 99,937 | 7,854 | 15,212 | 13,828 | 13,083 | 11,980 | 11,477 | 10,985 | 10,985 | 4,533 |
| Interest on Exchangeable units/ Trust units | 34,668 | 3,504 | 5,337 | 4,805 | 4,369 | 3,992 | 3,826 | 3,662 | 3,662 | 1,511 |
| Total dividends | 134,605 | 11,358 | 20,549 | 18,633 | 17,452 | 15,972 | 15,303 | 14,647 | 14,647 | 6,044 |
| Cash flow from operations less total dividends | 46,956 | 8,495 | 4,697 | 5,293 | 6,985 | 7,506 | 4,025 | 6,005 | 3,593 | 357 |
| Less Funding of acquisitions | 38,476 | 6,062 | 7,270 | 4,827 | 5,564 | 6,333 | 7,886 | 414 | 120 | - |
| Less Purchase of units under NCIB | 4,096 | - | - | 3,805 | 291 | - | - | - | - | - |
| Net change in the period | \$ 4,384 | \$ 2,433 | \$ (2,573) | \$ (3,339) | \$ 1,130 | \$ 1,173 | \$ (3,861) | \$ 5,591 | \$ 3,473 | \$ 357 |
| Cumulative change | \$ 4,384 | \$ 4,384 | \$ 1,951 | \$ 4,524 | \$ 7,863 | \$ 6,733 | \$ 5,560 | \$ 9,421 | \$ 3,830 | \$ 357 |
| Dividends percentage payout ¹ | 74% | 57% | 81% | 78% | 71% | 68% | 79% | 71% | 80% | 94% |

¹ This represents the total dividends paid as a percentage of cash flow from operations.

| Cash flow from operations Reconciled to cash flow from operating activities | Total | IFRS | | Canadian GAAP | | | | | | |
|---|------------|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------------|
| | | Nine months ended Sept. 30, 2011 | Year ended Dec. 31, 2010 | Year ended Dec. 31, 2009 | Year ended Dec. 31, 2008 | Year ended Dec. 31, 2007 | Year ended Dec. 31, 2006 | Year ended Dec. 31, 2005 | Year ended Dec. 31, 2004 | Aug. 7, 2003, to Dec. 31, 2003 |
| (\$ 000's) | | | | | | | | | | |
| Cash flow from operating activities | \$ 156,662 | \$ 13,773 | \$ 6,100 | \$ 25,710 | \$ 24,174 | \$ 22,871 | \$ 20,199 | \$ 20,607 | \$ 17,772 | \$ 5,456 |
| Add (deduct): | | | | | | | | | | |
| Changes in non-cash working capital items | (1,759) | (1,303) | (1,224) | (1,440) | 546 | 769 | (703) | 183 | 468 | 945 |
| Interest on Exchangeable units | 8,841 | 3,504 | 5,337 | - | - | - | - | - | - | - |
| Current non-cash income tax expense | 3,327 | 3,327 | - | - | - | - | - | - | - | - |
| Interest on Trust units | 15,212 | - | 15,212 | - | - | - | - | - | - | - |
| Non-cash interest expense | (722) | 552 | (179) | (344) | (283) | (162) | (168) | (138) | - | - |
| Cash flow from operations | \$ 181,561 | \$ 19,853 | \$ 25,246 | \$ 23,926 | \$ 24,437 | \$ 23,478 | \$ 19,328 | \$ 20,652 | \$ 18,240 | \$ 6,401 |

SUPPLEMENTAL INFORMATION - Acquisitions

| Date acquired by the Fund, January 1, (\$ millions unless stated otherwise) | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------|------|------|-------|------|------|
| Purchase price | | | | | | |
| Estimated | 3.48 | 5.24 | 3.44 | 21.14 | 7.18 | 6.22 |
| Actual (a) (d) | (a) | 5.70 | 3.31 | 23.50 | 8.04 | 5.55 |
| Payments | | | | | | |
| Initial | 2.78 | 4.20 | 2.75 | 16.91 | 5.74 | 4.98 |
| Final (b) (c) (d) | (a) | 0.00 | 0.35 | 4.54 | 2.30 | 0.57 |
| Estimated | | | | | | |
| Annual royalty stream | 0.55 | 0.89 | 0.70 | 2.99 | 0.82 | 0.74 |
| Number of REALTORS® | 247 | 417 | 316 | 1,272 | 390 | 346 |
| Number of locations | 8 | 17 | 25 | 60 | 22 | 21 |
| Number of agreements | 23 | 21 | 21 | 60 | 22 | 16 |
| Actual | | | | | | |
| Annual royalty stream (b) | (d) | 0.95 | 0.66 | 3.32 | 0.92 | 0.66 |
| Number of REALTORS® | (d) | 417 | 316 | 1,502 | 534 | 345 |
| Number of locations | 8 | 17 | 25 | 60 | 22 | 21 |
| Number of agreements | 23 | 21 | 21 | 60 | 22 | 16 |

(a) To be determined at the end of the year in accordance with the MSA and appropriate purchase agreement.

(b) Audited.

(c) Purchase price obligation as at December 31.

(d) Purchase price obligation and actual values for Via Capitale are calculated over three years.

Interim Condensed Consolidated Balance Sheets

| Unaudited In thousands of Canadian dollars | | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|---|------|-----------------------|----------------------|--------------------|
| | Note | | (Note 3) | (Note 3) |
| Assets | | | | |
| Current assets | | | | |
| Cash | | \$ 3,396 | \$ 5,672 | \$ 6,842 |
| Accounts receivable | 5 | 4,450 | 3,158 | 3,267 |
| Prepaid expenses | | 189 | 267 | – |
| | | 8,035 | 9,097 | 10,109 |
| Non-current assets | | | | |
| Deferred tax asset | 8 | 2,126 | 1,698 | 3,253 |
| Intangible assets | 6, 7 | 104,061 | 111,313 | 119,724 |
| | | \$ 114,222 | \$ 122,108 | \$ 133,086 |
| Liabilities and shareholders' equity (deficit) | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | | \$ 1,100 | \$ 1,910 | \$ 2,557 |
| Purchase obligation – current portion | 6 | 706 | 3,282 | 2,219 |
| Current income tax liability | 8 | 3,327 | – | – |
| Interest payable to Exchangeable unitholders | | 389 | 1,055 | 522 |
| Dividends payable to shareholders | | 873 | 3,006 | 1,489 |
| Financial derivative | | – | – | 101 |
| | | 6,395 | 9,253 | 6,888 |
| Non-current liabilities | | | | |
| Long-term debt | 10 | 52,390 | 52,277 | 52,953 |
| Purchase obligation | 6 | 157 | 281 | 1,924 |
| Exchangeable units | 11 | 40,764 | 49,150 | 38,734 |
| Trust unit liability | | – | – | 110,392 |
| | | 99,706 | 110,961 | 210,891 |
| Shareholders' equity (deficit) | | | | |
| Restricted voting shares | 12 | 140,076 | 140,076 | – |
| Deficit | | (125,560) | (128,929) | (77,805) |
| | | 14,516 | 11,147 | (77,805) |
| | | \$ 114,222 | \$ 122,108 | \$ 133,086 |

See accompanying notes to the interim condensed consolidated financial statements.

Approved on behalf of the board



Simon Dean
Director



Lorraine Bell
Director

Interim Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

| Unaudited In thousands of Canadian dollars | Note | Three months ended September 30, 2011 | Three months ended September 30, 2010 | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|------|--|--|---|---|
| Royalties | | | | | |
| Fixed franchise fees | | \$ 4,736 | \$ 4,700 | \$ 14,255 | \$ 14,005 |
| Variable franchise fees | | 2,531 | 2,203 | 6,788 | 6,976 |
| Premium franchise fees | | 1,910 | 1,692 | 3,967 | 4,099 |
| Other revenue and services | | 1,147 | 1,185 | 3,330 | 3,392 |
| | | 10,324 | 9,780 | 28,340 | 28,472 |
| Expenses | | | | | |
| Administration | | 270 | 316 | 899 | 726 |
| Management fee | 4 | 1,941 | 1,836 | 5,283 | 5,364 |
| Interest expense | | 766 | 713 | 2,305 | 2,180 |
| Impairment of intangible assets | | 383 | – | 383 | – |
| Amortization of intangible assets | | 3,421 | 3,414 | 10,344 | 10,242 |
| | | 6,781 | 6,279 | 19,214 | 18,512 |
| Operating income before the undernoted | | | | | |
| Interest on Exchangeable units | | (1,168) | (1,168) | (3,504) | (3,504) |
| Interest on Trust units | | – | (3,327) | – | (9,986) |
| Gain (loss) on fair value of Exchangeable units | 11 | 6,655 | (2,895) | 8,386 | (4,692) |
| Gain (loss) on fair value of purchase obligation | | 113 | – | 113 | (21) |
| Loss on fair value of Trust unit liability | | – | (8,251) | – | (13,372) |
| Other income | | – | – | – | 101 |
| Earnings (loss) before income tax | | | | | |
| Current income tax expense | 8 | (1,212) | – | (3,327) | – |
| Deferred income tax recovery (expense) | 8 | 151 | – | 428 | (27) |
| Total income tax expense | | | | | |
| | | (1,061) | – | (2,899) | (27) |
| Net and comprehensive earnings (loss) | | | | | |
| | | \$ 8,082 | \$ (12,140) | \$ 11,222 | \$ (21,541) |
| Basic earnings per share | | | | | |
| | | \$ 0.85 | | \$ 1.18 | |
| Weighted average number of shares outstanding used in computing basic earnings per share | | | | | |
| | | 9,483,850 | | 9,483,850 | |
| Diluted earnings per share | | | | | |
| | | \$ 0.20 | | \$ 0.49 | |
| Weighted average number of shares outstanding used in computing diluted earnings per share | | | | | |
| | | 12,811,517 | | 12,811,517 | |

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

| Unaudited In thousands of Canadian dollars | Note | Common Equity | Deficit | Total Equity |
|---|------|-------------------|---------------------|------------------|
| Balance, December 31, 2010 | 3 | \$ 140,076 | \$ (128,929) | \$ 11,147 |
| Net earnings | | – | 11,222 | 11,222 |
| Dividends declared | | – | (7,853) | (7,853) |
| Balance, September 30, 2011 | | \$ 140,076 | \$ (125,560) | \$ 14,516 |

| Unaudited In thousands of Canadian dollars | Note | Unitholders' Equity | Deficit | Total Equity |
|---|------|------------------------|-------------|-----------------|
| Balance, January 1, 2010 | 3 | \$ – | \$ (77,805) | \$ (77,805) |
| Net loss | | – | (21,541) | (21,541) |
| Balance, September 30, 2010 | 3 | \$ – | \$ (99,346) | \$ (99,346) |

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

| Unaudited In thousands of Canadian dollars | Note | Three months ended September 30, 2011 | Three months ended September 30, 2010 | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|--|------|--|--|---|---|
| Cash provided by (used for): | | | | | |
| Operating activities | | | | | |
| Earnings (loss) for the period | | \$ 8,082 | \$ (12,140) | \$ 11,222 | \$ (21,541) |
| Items not affecting cash | | | | | |
| (Gain) loss on fair value of Exchangeable units | 11 | (6,655) | 2,895 | (8,386) | 4,692 |
| Loss on fair value of Trust unit liability | | – | 8,251 | – | 13,372 |
| (Gain) loss on fair value of purchase obligation | | (113) | – | (113) | 21 |
| Interest expense | | 1,934 | 5,208 | 5,809 | 15,670 |
| Interest paid | | (1,895) | (5,170) | (6,361) | (15,531) |
| Deferred income tax (recovery) expense | 8 | (151) | – | (428) | 27 |
| Change in value of financial derivative | | – | – | – | (101) |
| Amortization of intangible assets | | 3,421 | 3,414 | 10,344 | 10,242 |
| Impairment of intangible assets | | 383 | – | 383 | – |
| Changes in non-cash working capital | | 2,005 | 1,031 | 1,303 | (1,890) |
| | | 7,011 | 3,489 | 13,773 | 4,961 |
| Investing activities | | | | | |
| Purchase of intangible assets | 6, 7 | (2,019) | – | (2,780) | (4,196) |
| Payment of purchase price obligation | 6 | (447) | – | (3,282) | (2,219) |
| | | (2,466) | – | (6,062) | (6,415) |
| Financing activities | | | | | |
| Proceeds from term facility | 10 | – | – | – | 19,980 |
| Repayment of term facility | 10 | – | – | – | (15,000) |
| Proceeds of private debt placement | 10 | – | – | – | 32,184 |
| Repayment of long-term debt | 10 | – | – | – | (38,000) |
| Dividends paid to shareholders | | (2,618) | – | (9,987) | – |
| | | (2,618) | – | (9,987) | (836) |
| Increase (decrease) in cash during the period | | 1,927 | 3,489 | (2,276) | (2,290) |
| Cash, beginning of period | | 1,469 | 1,063 | 5,672 | 6,842 |
| Cash, end of period | | \$ 3,396 | \$ 4,552 | \$ 3,396 | \$ 4,552 |

See accompanying notes to the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

Three and nine months ended September 30, 2011 (Unaudited, expressed in thousands of Canadian dollars, unless stated otherwise)

1. ORGANIZATION

Brookfield Real Estate Services Inc. (the "Company"), formerly Brookfield Real Estate Services Fund (the "Fund"), is incorporated under the *Ontario Business Corporation Act*. Brookfield Real Estate Services Inc.'s registered office is located at 39 Wynford Drive, Toronto, Canada, M3C 3K5 and is listed on the Toronto Stock Exchange ("TSX"). Through its limited partnership holdings, the Company owns certain franchise agreements and trademark rights of residential real estate brands in Canada.

On December 31, 2010 (the "Conversion Date"), the Fund completed a transaction (the "Conversion") by way of a plan of arrangement with Trilon Bancorp Inc. ("Trilon"), which resulted in the Fund converting from a publicly traded limited purpose trust to a publicly traded corporation and the unitholders of the Fund becoming shareholders of the Company. The Conversion did not result in any changes to the underlying business operations of the Fund.

Effective on the closing of the Conversion, the Company now directly owns the Fund and its subsidiaries, which own and operate the businesses of Residential Income Fund L.P. and 9120 Real Estate Network, L.P., which own the assets from which the Company derives its sole source of revenue. The management and trustees of the Fund are now the management and directors of the Company.

Pursuant to the Conversion, unitholders of the Fund received one restricted voting share of the Company for each trust unit held on the effective date. The Company has 9,483,850 restricted voting shares issued and outstanding. The restricted voting shares of the Company are traded on the TSX under the symbol "BRE". All references to "shares" refer collectively to the Company's restricted voting shares on and subsequent to the Conversion Date and to the Fund's units prior to the Conversion Date. Similarly, all references to "shareholders" refer collectively to holders of the Company's restricted voting shares on and subsequent to the Conversion Date and to holders of the Fund's trust units prior to the Conversion Date. All references to "dividends" refer collectively to dividends declared by the Company on and subsequent to the Conversion Date and to distributions declared by the Fund prior to the Conversion Date.

Seasonality

The Company's business follows a seasonal pattern, with revenue traditionally being lower in the first and fourth quarters. Due to this seasonality, the interim statements are not necessarily indicative of annual earnings.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. The Company is a first-time adopter of International Financial Reporting Standards ("IFRS") and has followed the requirements of IFRS 1 – *First-time Adoption of IFRS* ("IFRS 1") in its initial application of IFRS, as disclosed more fully in Note 3 to these interim financial statements. IFRS requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

The policies set out below were consistently applied to all the periods presented unless otherwise required under IFRS 1 and as described in Note 3.

These consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on November 3, 2011.

Basis of presentation

These consolidated financial statements have been prepared on a going concern basis and include the accounts of the Company, its wholly owned subsidiary RL RES Holding Trust ("RLHT") and its 74% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP"), Residential Income Fund L.P. (the "Partnership"), 9120 Real Estate Network, L.P. ("VCLP"), a wholly owned subsidiary of the Partnership and 4541219 Canada Inc., the "General Partner of VCLP". RIFGP is the managing general partner of the Partnership. Trilon owns the remaining 26% interest in the Partnership and RIFGP. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. ("BRESML"), a party related to Trilon via common control. Royal LePage Real Estate Services Limited ("RES"), a wholly owned subsidiary of BRESML, pays royalties to the Company under a franchise agreement.

The Conversion has been accounted for as a continuity-of-interests, with no changes in carrying values. The Company's significant accounting policies are as follows:

Cash

Cash consisting of cash on hand is used to fund dividend distributions to shareholders, the purchase of franchise agreements and other operating requirements.

Accounts receivable

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectibility.

Intangible assets

Intangible assets, consisting of franchise agreements and trademark rights, are accounted for using the cost method. Intangible assets are recorded at initial cost less accumulated amortization and accumulated impairment losses. Subsequent adjustments to the purchase price of intangible assets based on future earn-out provisions governed by the terms set out in the Amended and Restated Master Services Agreements ("MSA") dated January 1, 2011, are expensed as incurred.

Franchise agreements are amortized over the term of the agreements plus one renewal period using the effective rate method on an agreement-by-agreement basis. Trademarks are amortized on a straight-line basis over the expected useful life.

The Company acquires intangible assets annually and capitalizes the estimated purchase price on the purchase date. The initial purchase price for franchise agreements is based on the expected discounted cash flows generated over their respective terms. At each balance sheet date, the Company assesses whether there are any indicators that intangible assets are impaired. If indicators of impairment exist, the recoverable amount of the intangible asset or cash-generating unit is estimated. The Company considers a franchise agreement to be a cash-generating unit. The recoverable amount of the cash-generating unit is the greater of its fair value less costs to sell and its value-in-use. Fair value is determined to be the amount for which the intangible asset can be sold in an arm's length transaction, whereas value-in-use is determined by estimating the present value of the future cash flows expected to be derived from the continued use of the intangible asset or cash-generating unit. If the carrying value of the intangible asset or cash-generating unit exceeds the recoverable amount, the intangible asset or cash-generating unit is written down to the recoverable amount, and an impairment loss is recognized and charged to income in the period. Impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the conditions causing the impairment reversing themselves. In this event, the carrying value of the intangible asset or cash-generating unit is increased to its revised recoverable amount limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

Income taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities, except to the extent that there was a temporary difference present on the initial recognition of an asset or liability outside of a business combination. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized directly in equity.

Revenue recognition

Franchise fees are generally based on a percentage of an Agent's gross revenue ("Variable Franchise Fees") to a specified maximum plus a dollar amount per Agent ("Fixed Franchise Fees"). Gross revenue is the gross commission income (net of outside Broker payments) paid in respect of the closings of residential resale real estate transactions. Variable Franchise Fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor, and collectibility is reasonably assured. Fixed Franchise Fees are recognized as income as earned, and collectibility is reasonably assured.

Premium franchise fees are calculated as a percentage ranging from 1% to 5% of an Agent's gross commission income for a select number of franchise locations. These fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor, and collectibility is reasonably assured.

Notes to the Interim Condensed Consolidated Financial Statements

Other revenue and services are generally recognized as income when the related services have been provided, and collectibility is reasonably assured. Any prepayment for future service is recorded as deferred revenue.

Exchangeable units

Exchangeable units represent the future distribution obligation of the Company in respect of Class B LP units of the Partnership, a wholly owned subsidiary of the Company, which are convertible into restricted voting shares of the Company. These financial instruments are classified as a financial liability as a result of their puttable feature as well as by virtue of the Partnership Agreement, whereby the Partnership is required to distribute all of its income to the partners. The Company has designated these financial liabilities as fair value through profit or loss. The fair value of these financial liabilities is based on the price of the Company's Trust units and the number of Exchangeable units outstanding at the reporting date.

Earnings per share

The earnings per share are based on the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated to reflect the dilutive effect, if any, of the Exchangeable unitholders exercising their right to exchange Class B LP units of the Partnership into restricted voting shares of the Company.

Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit or loss ("FVTPL"); held-to-maturity; loans and receivables; available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured at fair value, except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Transaction costs for financial liabilities are applied against these liabilities and amortized using the effective interest method, the resulting amortization being recorded as financial expenses. Gains and losses on financial assets and liabilities classified as FVTPL are included in net income in the period in which they arise.

The Company made the following classifications:

| | |
|--|-----------------------------|
| Cash | Loans and receivables |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Purchase obligation | FVTPL |
| Interest expense payable | Other financial liabilities |
| Long-term debt | Other financial liabilities |
| Exchangeable units | FVTPL |
| Trust unit liability | FVTPL |

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs that are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique that are not based on observable market data in determining fair values of the instruments.

The Company did not have any financial instruments at September 30, 2011 that would result in Other Comprehensive Earnings to the Company.

Purchase obligations

The Company's purchase obligations arise from the purchase of franchise agreements, for which the purchase price is based on future earn-out provisions governed by the MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract which is not closely related to the host contract. Such instruments are recorded in the consolidated balance sheet at fair value. Changes in the fair value of derivative instruments, including embedded derivatives, are recognized in other income (loss).

Critical accounting estimates and assumptions

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting

policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the fair value of franchise agreements upon acquisition and assessment of impairment of intangible assets, measurement of deferred taxes and fair values used for disclosure purposes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods, and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

Critical judgment in applying accounting policies

The following is the critical judgment that has been made in applying the Company's accounting policies and that has the most significant effect on the amounts in the financial statements:

Accounting for the purchase of franchise agreements

The critical judgment made in accounting for the acquisition of franchise agreements is determining if the acquisition is considered the acquisition of assets or a business. In applying the guidance in IFRS 3, *Business Combinations* ("IFRS 3"), the Company must evaluate if the acquisition includes both inputs and processes and, as well, whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company evaluated the criteria included in IFRS 3 and determined that the acquisition of franchise agreements is an acquisition of assets as no "processes" were acquired in respect of the franchise agreements. In addition, the Company must also apply judgment with respect to the accounting for the "earn-out" provisions, as set out in the MSA, in connection with the purchase of franchise agreements. The Company has determined that a portion of the purchase obligation is an embedded derivative instrument in a non-financial host contract, whereby the value changes in response to an underlying contract, which is the actual earned franchise revenues. The Company has elected to designate the entire purchase obligation as a financial liability at fair value through profit or loss.

Future accounting and reporting changes:

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 is the first phase of the IASB's three-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 is applied prospectively, with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 9.

IFRS 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 12.

IFRS 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 provides new guidance on fair value measurement and disclosure requirements for IFRS. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 13.

Notes to the Interim Condensed Consolidated Financial Statements

3. TRANSITION TO IFRS

The Company adopted IFRS on January 1, 2011, with a date of transition effective January 1, 2010. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The first annual financial statements issued by the Company that will comply with IFRS will be those issued for the year ending December 31, 2011. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2 and in accordance with the requirements of IFRS 1, which is applicable upon first-time adoption of IFRS. IFRS 1 requires that the same policies be applied for all periods presented and that those policies be based on IFRS effective at the end of the first IFRS year-end or December 31, 2011 for the Company. The Company will ultimately prepare its opening balance sheet by applying existing IFRS with an effective date of December 31, 2011. Accordingly, it is possible that the opening balance sheet and consolidated financial statements for 2010 and 2011 may differ from the information presented in these interim financial statements.

Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company considered the optional exemptions from full retrospective application of IFRS. There were no optional exemptions elected by the Company.

Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exception applied from full retrospective application of IFRS is described below.

Estimates

Hindsight was not used to create or revise estimates, and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Reconciliation of equity as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date:

| | Note | Common Equity | Contributed Surplus | Deficit | Shareholders' Equity |
|---|----------|------------------|------------------------|--------------------|-------------------------|
| As reported under CGAAP – December 31, 2009 | | \$ 87,947 | \$ 895 | \$ (44,798) | \$ 44,044 |
| Differences increasing (decreasing) reported amounts: | | | | | |
| Classification of Trust units | (i), (v) | (87,947) | (895) | – | (88,842) |
| Fair value of Trust units | (i) | – | – | (21,550) | (21,550) |
| Fair value of Exchangeable units | (i) | – | – | (21,673) | (21,673) |
| Impairment of intangible assets | (ii) | – | – | (5,655) | (5,655) |
| Amortization of intangible assets | (vi) | – | – | 16,930 | 16,930 |
| Intangible assets – prior to January 1, 2010 | (iii) | – | – | (6,391) | (6,391) |
| Deferred taxes | (iv) | – | – | 5,332 | 5,332 |
| As reported under IFRS – January 1, 2010 | | \$ – | \$ – | \$ (77,805) | \$ (77,805) |

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

| | Note | Common Equity | Contributed Surplus | Deficit | Shareholders' Equity |
|--|-------|-------------------|---------------------|---------------------|----------------------|
| As reported under CGAAP – December 31, 2010 | | \$ 87,947 | \$ 895 | \$ (53,848) | \$ 34,994 |
| Differences increasing (decreasing) reported amounts: | | | | | |
| Measurement of Trust units | (i) | 52,129 | (895) | – | 51,234 |
| Fair value of Trust units | (i) | – | – | (51,234) | (51,234) |
| Distributions to Trust unitholders classified as interest expense | (i) | – | – | (15,212) | (15,212) |
| Reclassification of distributions to Trust unitholders to expense | (i) | – | – | 15,212 | 15,212 |
| Fair value of Exchangeable units | (i) | – | – | (32,089) | (32,089) |
| Earnings attributable to Exchangeable unitholders | (i) | – | – | 2,654 | 2,654 |
| Distributions to Exchangeable unitholders classified as interest expense | (i) | – | – | (5,337) | (5,337) |
| Impairment of intangible assets | (ii) | – | – | (5,655) | (5,655) |
| Amortization of intangible assets | (vi) | – | – | 19,745 | 19,745 |
| Intangible assets – prior to January 1, 2010 | (iii) | – | – | (6,391) | (6,391) |
| Intangible assets – 2010 purchase | (iii) | – | – | (611) | (611) |
| Deferred taxes | (iv) | – | – | 3,837 | 3,837 |
| As reported under IFRS – December 31, 2010 | | \$ 140,076 | \$ – | \$ (128,929) | \$ 11,147 |

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at September 30, 2010:

| | Note | Common Equity | Contributed Surplus | Deficit | Shareholders' Equity |
|--|-------|---------------|---------------------|--------------------|----------------------|
| As reported under CGAAP – September 30, 2010 | | \$ 87,947 | \$ 895 | \$ 48,926 | \$ 39,916 |
| Differences increasing (decreasing) reported amounts: | | | | | |
| Classification of Trust units | (i) | (87,947) | (895) | – | (88,842) |
| Fair value of Trust units | (i) | – | – | (34,922) | (34,922) |
| Distributions to Trust unitholders classified as interest expense | (i) | – | – | (9,986) | (9,986) |
| Reclassification of distributions to Trust unitholders to expense | (i) | – | – | 9,986 | 9,986 |
| Fair value of Exchangeable units | (i) | – | – | (26,365) | (26,365) |
| Earnings attributable to Exchangeable units | (i) | – | – | 2,224 | 2,224 |
| Distributions to Exchangeable unitholders classified as interest expense | (i) | – | – | (3,504) | (3,504) |
| Impairment of intangible assets | (ii) | – | – | (5,655) | (5,655) |
| Amortization of intangible assets | (vi) | – | – | 18,886 | 18,886 |
| Intangible assets – prior to January 1, 2010 | (iii) | – | – | (6,391) | (6,391) |
| Intangible assets – 2010 purchase | (iii) | – | – | (21) | (21) |
| Deferred taxes | (iv) | – | – | 5,328 | 5,328 |
| As reported under IFRS – September 30, 2010 | | \$ – | \$ – | \$ (99,346) | \$ (99,346) |

(i) *Classification and measurement of Trust units and Exchangeable units prior to conversion*

For periods presented prior to the Conversion, Trust units of the Fund and the Class B LP units of the Partnership ("Exchangeable units") should be presented as a liability under IFRS in accordance with guidance in IAS 32, *Financial Instruments: Presentation*. The classification is primarily as a result of the mandatory distribution features in the Fund's Declaration of Trust and the "puttable" nature of the Trust units for which the Exchangeable units are exchangeable. Both the Trust and Exchangeable units are recorded at fair value, whereby any changes in the fair value is recognized in earnings during the period. Distributions made to both Trust unitholders and holders of Exchangeable units are recorded as interest expense. Under Canadian GAAP, Trust units were classified as an equity instrument measured at cost, and the Exchangeable units were presented as non-controlling interest and measured at the pro-rata share of net assets not owned by the Company of such consolidated subsidiaries.

Notes to the Interim Condensed Consolidated Financial Statements

(ii) Impairment of intangible assets

Under IFRS, the Company must calculate potential impairment by estimating the present value of the future cash flows expected to be derived from the continued use of the intangible asset, whereas Canadian GAAP calculated potential impairment using similar cash flows but on an undiscounted basis. This change in accounting policy resulted in the recognition of an impairment of \$3,398 upon transition. In addition, the Company has recognized an impairment loss of \$2,257, which is the correction of the Canadian GAAP balance upon transition.

Impairment charges recognized upon transition resulted in a reduction to amortization expense.

(iii) Intangible assets

Adjustments have been made to the carrying value of intangible assets to reflect that under IFRS, following the date of acquisition, changes to the purchase obligation are recognized as a gain or loss in earnings versus as adjustments to the carrying value of the intangible assets. This is consistent with accounting for the purchase obligation as an embedded derivative in a non-financial host contract, whereby the entire purchase contract is classified as fair value through profit or loss.

(iv) Deferred taxes

This adjustment reflects the application of guidance in IAS 12, *Income Taxes*, whereby deferred tax assets or liabilities for taxable temporary differences that arise from transactions which are not business combinations are not recognized, as well as the deferred tax impacts as a result of other IFRS Conversion adjustments.

(v) Classification of restricted voting shares post Conversion

Upon Conversion to a Corporation, restricted voting shares were issued in exchange for the Trust units outstanding. These restricted voting shares do not contain a mandatory dividend feature, and as such are classified as common equity, in accordance with guidance in IAS 32: *Financial Instruments: Presentation*. The assigned value of the outstanding restricted voting shares is equivalent to the last publicly traded price of the Trust units on December 31, 2010. Dividends declared to common shareholders are recorded as a reduction to shareholders' equity.

(vi) Amortization of intangible assets

This adjustment reflects the impact to amortization expense as a result of changes to the carrying value of intangible assets as a result of other adjustments disclosed herein as well as a change in the amortization period of intangible assets to reflect an estimated useful life, which includes the agreement term plus one renewal period.

Reconciliation of net income as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010, the three and nine months ended September 30, 2010:

| | Note | Three months ended September 30, 2010 | Nine months ended September 30, 2010 | Year ended December 31, 2010 |
|---|--------|--|---|------------------------------------|
| Net income as reported under Canadian GAAP | | \$ 2,022 | \$ 5,858 | \$ 6,162 |
| Earnings attributable to Exchangeable units | (i) | 776 | 2,224 | 2,654 |
| Interest on Exchangeable units | (ii) | (1,168) | (3,504) | (5,337) |
| Revaluation of Exchangeable units to fair value | (iii) | (2,895) | (4,692) | (10,416) |
| Amortization of intangible assets | (iv) | 691 | 1,956 | 2,815 |
| Intangible assets | (v) | – | (21) | (611) |
| Deferred income taxes | (vi) | 12 | (4) | (1,495) |
| Interest on Trust units | (vii) | (3,327) | (9,986) | (15,212) |
| Revaluation of Trust units to fair value | (viii) | (8,251) | (13,372) | (29,684) |
| Net loss as reported under IFRS | | \$ (12,140) | \$ (21,541) | \$ (51,124) |

(i) Earnings attributable to Exchangeable unitholders

Non-controlling interest in income of subsidiaries is included in the determination of net income reported by an entity under Canadian GAAP. Under IFRS, net income attributable to the Exchangeable unitholders is added back in determining net income as reported under IFRS.

(ii) Interest on Exchangeable units

Interest on Exchangeable Units represents distributions to Exchangeable unitholders, which are not included in the determination of net income under Canadian GAAP. Under IFRS, distributions to Exchangeable unitholders is accounted for as interest expense as the ownership of non-controlling interests in the net assets of the underlying consolidated subsidiaries contains a mandatory distribution feature, and as such is accounted for as a debt instrument.

(iii) Revaluation of Exchangeable units to fair value

Under Canadian GAAP, Exchangeable units were measured at the pro-rata share of net assets not owned by the Company of such consolidated subsidiaries. Under IFRS, the ownership of Exchangeable units contains a mandatory distribution feature and is accounted for as a debt instrument which is carried at fair value. Each Exchangeable unit has a fair value equal to the traded value of the Company's common shares. Changes in the fair value of the Company's Exchangeable units are accounted for as other gains or losses.

(iv) Amortization of intangible assets

This adjustment reflects the impact to amortization expense as a result of changes to the carrying value of intangible assets as a result of other adjustments disclosed herein as well as a change in the amortization period of intangible assets to reflect an estimated useful life, which includes the agreement term plus one renewal period.

(v) Intangible assets

Subsequent adjustments to the purchase price of intangible assets as a result of the earn-out provisions as governed by terms of the MSA are expensed or recovered as applicable in accordance with IFRS guidance. Under Canadian GAAP, these adjustments were added to the carrying value of the intangible assets.

(vi) Deferred income taxes

The change related to deferred taxes reflects the change in temporary differences resulting from the effect of the IFRS adjustments described herein.

(vii) Interest on Trust units

Interest on Trust units represents distributions to Trust unitholders, which are not included in the determination of net income under Canadian GAAP. Under IFRS, distributions to Trust unitholders, prior to the Conversion, are accounted for as interest expense as a result of the liability classification of the Trust units as disclosed.

(viii) Revaluation of Trust units to fair value

Under Canadian GAAP, Trust units were presented as part of unitholders' equity. Under IFRS Trust units, prior to the Conversion, are presented as Trust unit liability and measured at fair value, as disclosed above. Changes in the fair value of the Trust unit liability are accounted for as other gains or losses.

Changes to the cash flow statement

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

4. MANAGEMENT SERVICES AGREEMENT

On January 1, 2008, the Company entered into the MSA with BRESML, a party related to the Exchangeable unitholders via common control. This agreement replaced the Management Services Agreement as previously amended, which commenced on August 7, 2003 with an initial term of 10 years and automatic renewal for successive 10-year periods subject to approval of the Company and BRESML. The termination date and renewal periods of the MSA remain consistent with the original agreement. Under the MSA, BRESML is to provide certain management, administrative and support services to the Company and its subsidiaries and in return is paid a monthly fee equal to 20% and 30% of the distributable cash of the Partnership and VCLP, respectively. For the three and nine months ended September 30, 2011, the Company paid \$1,941 and \$5,283, respectively, for these services (three and nine months ended September 30, 2010 – \$1,836 and \$5,364, respectively). The MSA also prescribes the conditions under which the Company purchases contracts from BRESML and the formula for calculating the purchase price.

Notes to the Interim Condensed Consolidated Financial Statements

5. ACCOUNTS RECEIVABLE

Accounts receivable are related to fees due from the Company's franchise network and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at September 30, 2011 the Company had accounts receivable of \$4,450 (December 31, 2010 – \$3,158) net of \$100 (December 31, 2010 – \$48) allowance for doubtful accounts. During the three and nine months ended September 30, 2011, \$26 in recovery and \$52 of net bad debt expense, respectively, was included in Administration expense (three and nine months ended September 30, 2010 – \$nil and \$nil, respectively).

The table below summarizes the amount of accounts receivables that are overdue:

| | 90+ Days | 60 Days | 30 Days | Current | Total |
|---------------------|----------|---------|---------|----------|----------|
| Accounts receivable | \$ 757 | \$ 284 | \$ 395 | \$ 3,014 | \$ 4,450 |

6. ASSET ACQUISITIONS

The Fund's purchase of franchise agreements is governed by terms set out in the MSA.

On January 1, 2011, the Partnership acquired 21 new Royal LePage franchise agreements from BRESML at an estimated purchase price of \$2,524. A payment of \$2,019, equal to 80% of the estimated purchase price, was due on January 1, 2011, and the remainder is to be paid a year later, when the final purchase price is determined. Any subsequent changes to the value of the estimated purchase price are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as other income or loss in the period the change occurs. The unpaid balance due as of January 1, 2011 is subject to interest at the rate prescribed in the MSA.

On January 1, 2011, VCLP acquired two new Via Capitale (formerly known as La Capitale) franchise agreements from BRESML at an estimated purchase price of \$951. A payment of \$761, equal to 80% of the estimated purchase price, was due on January 1, 2011, and the remainder is to be paid over the next three years. Until the final purchase price is determined, the purchase price obligation is recalculated at each period end based on the actual royalties received. Any subsequent changes to the value of the estimated purchase obligation are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as other income or loss in the period the change occurs. The unpaid balance due as of January 1, 2011 is subject to interest at the rate prescribed in the MSA.

For the three and nine months ended September 30, 2011, \$113 was recorded as a reduction to the purchase obligation, and the corresponding amount was recorded as a gain on the fair value of purchase obligation (three and nine months ended September 30, 2010 – \$nil, respectively).

For the three and nine months ended September 30, 2011 the company incurred \$26 and \$115, respectively, of interest expense related to outstanding purchase obligation payments (three and nine months ended September 30, 2010 – \$nil and \$nil, respectively).

On January 1, 2010, the Partnership acquired 18 new Royal LePage franchise agreements from BRESML at an estimated purchase price of \$4,205. A payment of \$3,364, equal to 80% of the estimated purchase price, was paid from cash on hand on January 4, 2010.

On January 1, 2010, VCLP acquired three Via Capitale franchise agreements from BRESML for an estimated purchase price of \$1,040. A payment of \$832, equal to 80% of the estimated purchase price, was paid from cash on hand on January 4, 2010.

The additions to intangible assets during the nine months ended September 30, 2011 and 2010 are summarized as follows:

| | Royal LePage | VCLP | September 30, 2011 | Nine months ended September 30, 2010 |
|----------------------|-----------------|--------|-----------------------|---|
| Franchise agreements | \$ 2,524 | \$ 951 | \$ 3,475 | \$ 5,245 |

The purchase obligations consist of the following:

| | Royal LePage | VCLP | September 30, 2011 | December 31, 2010 |
|---|-----------------|----------|-----------------------|----------------------|
| Purchase obligation at beginning of year | \$ 1,238 | \$ 2,325 | \$ 3,563 | \$ 4,143 |
| Current year purchase obligation | 2,524 | 951 | 3,475 | 5,245 |
| Fair value adjustment on current year purchases | (38) | (75) | (113) | 429 |
| Fair value adjustment on prior years' purchases | - | - | - | 161 |
| 80% purchase price obligation payment on current year purchases | (2,019) | (761) | (2,780) | (4,196) |
| Prior year purchase payment of obligation | (1,238) | (2,044) | (3,282) | (2,219) |
| Purchase obligation at end of period | \$ 467 | \$ 396 | \$ 863 | \$ 3,563 |
| Current portion of purchase obligation | \$ 467 | \$ 239 | \$ 706 | \$ 3,282 |
| Long-term portion of purchase obligation | - | 157 | 157 | 281 |
| Purchase obligation at end of period | \$ 467 | \$ 396 | \$ 863 | \$ 3,563 |

7. INTANGIBLE ASSETS

A summary of intangible assets is provided in the chart below.

| | As at September 30, 2011 | | |
|----------------------|--------------------------|-----------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Franchise agreements | \$ 196,542 | \$ 96,401 | \$ 100,141 |
| Trademarks | 5,427 | 1,507 | 3,920 |
| | \$ 201,969 | \$ 97,908 | \$ 104,061 |

| | As at December 31, 2010 | | |
|----------------------|-------------------------|-----------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Franchise agreements | \$ 193,777 | \$ 86,687 | \$ 107,090 |
| Trademarks | 5,859 | 1,636 | 4,223 |
| | \$ 199,636 | \$ 88,323 | \$ 111,313 |

| | As at January 1, 2010 | | |
|----------------------|-----------------------|-----------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Franchise agreements | \$ 188,531 | 73,303 | 115,228 |
| Trademarks | 5,859 | 1,363 | 4,496 |
| | \$ 194,390 | 74,666 | 119,724 |

During the three and nine months ended September 30, 2011, the Company recognized an impairment charge of \$264 for the expiry and non-renewal of franchise agreements in the Royal LePage network, and \$119 for the rights to the La Capitale trademark. The Company converted the La Capitale logo to the Via Capitale logo in 2011.

8. INCOME TAXES

In prior years, the Company was organized as an income trust such that it could distribute its taxable income to unitholders and not be subject to entity level taxation. On October 31, 2006, the Minister of Finance announced proposed tax legislation (the "SIFT rules") that changed the income tax rules applicable to publicly traded trusts rendering income trusts taxable commencing in 2011. As a result of the SIFT rules becoming applicable, the Company reorganized itself on December 31, 2010, as further described in Note 1, such that it is to be subject to corporate income taxes in 2011 and subsequent years.

Notes to the Interim Condensed Consolidated Financial Statements

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either deferred income tax assets or liabilities, except to the extent a temporary difference was present on the initial recognition of the asset outside of a business combination. Deferred income taxes are computed using substantively enacted tax rates applicable to the years in which the temporary differences are expected to reverse.

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

Income tax expense (recovery) is calculated as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|-------------|-----------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Earnings (loss) before income taxes for the period: | \$ 9,143 | \$ (12,140) | \$ 14,121 | \$ (21,514) |
| Expected income tax expense (recovery) at statutory rate of 28.25% (2010 – 31%) | 2,583 | (3,763) | 3,989 | (6,669) |
| Increase (decrease) in income tax expense (recovery) due to the following: | | | | |
| Non-deductible amortization | 434 | 496 | 1,343 | 1,488 |
| Non-deductible (gain) loss on fair value of Trust and Exchangeable units | (1,880) | 3,455 | (2,369) | 5,600 |
| Non-deductible interest | 330 | 1,393 | 990 | 4,181 |
| Income allocated to Trust and Exchangeable unitholders | (404) | (1,593) | (1,109) | (4,596) |
| Effect of rescheduling temporary differences | 30 | 12 | 87 | 23 |
| Other | (32) | – | (32) | – |
| Total | \$ 1,061 | \$ – | \$ 2,899 | \$ 27 |

The major components of income tax expense (benefit) include the following:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---------------------------------|------------------------------------|-------------|-----------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Current tax expense | \$ 1,212 | \$ – | \$ 3,327 | \$ – |
| Deferred tax (recovery) expense | (151) | – | (428) | 27 |
| | \$ 1,061 | \$ – | \$ 2,899 | \$ 27 |

9. OPERATING CREDIT FACILITY

The Partnership has a credit facility (the “Revolver”) of up to \$2,000 from a Canadian financial institution. This Revolver may be used to provide working capital to the Partnership from time to time. The Revolver is subject to annual renewal, with outstanding principal under the Revolver subject to interest at the lender’s prime rate plus 2.5% to 3% or the Banker’s Acceptance rate plus 3.5% to 4%, based on the ratio of total debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) of the Partnership as defined in the amended credit agreement. As at September 30, 2011, the Company is compliant with its financial covenants.

As at September 30, 2011, the Revolver had not been drawn upon.

10. LONG-TERM DEBT

The Company’s long-term debt is comprised of the following debt facilities:

| As at | September 30, 2011 | December 31, 2010 | January 1, 2010 |
|------------------------|-----------------------|----------------------|--------------------|
| Private debt placement | \$ 32,324 | \$ 32,254 | \$ 37,975 |
| Term facility | 20,066 | 20,023 | 14,978 |
| | \$ 52,390 | \$ 52,277 | \$ 52,953 |

On February 18, 2010, the Partnership completed the refinancing of its \$53,000 debt obligations with a five-year term maturing on February 17, 2015. The refinancing included a \$32,700 private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a \$20,300 term facility provided by a Canadian financial institution with interest available in the form of a floating rate at prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months.

The Company incurred \$855 in issue costs associated with the new debt obligations, resulting in net proceeds of \$52,145. These proceeds and cash on hand were utilized to repay the previous private placement of \$38,000 and term facility of \$15,000, which matured on February 17, 2010.

The private placement and term facility had fair values of \$34,970 and \$20,300, respectively at September 30, 2011 (December 31, 2010 – \$34,003 and \$20,300).

During the three and nine months ended September 30, 2011, \$39 and \$115, respectively, of amortization of the issue costs was recorded as interest expense (three and nine months ended September 30, 2010 – \$38 and \$139, respectively).

11. EXCHANGEABLE UNITS

Tilon owns 25 common shares in RIFGP and 3,327,667 Exchangeable units of the Partnership; this reflects an effective 26% interest in the Partnership. Prior to the Conversion, an equivalent number of Special Fund Units, which represent voting rights in the Fund, also accompanied the Exchangeable units. Pursuant to the Conversion, the Special Fund Units were redeemed, and one Special Voting Share was issued by the Company. The Special Voting Share entitles the holder to a number of votes at any meeting of the Restricted Voting Shareholders equal to the number of Restricted Voting Shares that may be obtained upon the exchange of all the Exchangeable units held by the holder and/or its affiliates. The Company indirectly holds the remaining 74% interest in the Partnership through Class A limited partnership units of the Partnership ("Ordinary LP Units"). The Exchangeable unitholders are entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Exchangeable units for Restricted Voting Shares of the Company.

During the three and nine months ended September 30, 2011, the Company recorded gains of \$6,655 and \$8,386, respectively, related to the fair value of the Exchangeable units (three and nine months ended September 30, 2010 – loss of \$2,895 and \$4,692, respectively).

12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. As at December 31, 2010, 9,483,850 Restricted Voting Shares were issued in exchange for 9,483,850 Trust units outstanding, and one Special Voting Share was issued in exchange for all Special Fund Units outstanding prior to the Conversion.

The Restricted Voting Shares were issued to replace the Trust units outstanding prior to the Conversion. Each Restricted Voting Share represents a proportionate voting right in the Company, and holders of the Company's Restricted Voting Shares are entitled to dividends declared and distributed by the Company.

The Special Voting Share was issued to replace all of the Special Fund Units outstanding prior to the Conversion, and represents the proportionate voting rights of the Exchangeable unitholders of the Company. The Special Voting Share is redeemable by the holder at \$0.01 per share, and the holder is not entitled to dividends declared by the Company.

No additional Restricted Voting Shares were issued during the nine months ended September 30, 2011.

No preferred shares were issued or outstanding as at September 30, 2011.

13. EARNINGS PER SHARE

The Exchangeable units referred to in Note 11 were included in the diluted earnings per share calculations, which resulted in \$0.20 and \$0.49 diluted earnings per share for the three and nine months ended September 30, 2011, respectively.

Notes to the Interim Condensed Consolidated Financial Statements

14. RELATED PARTY TRANSACTIONS

Unless disclosed elsewhere, the Company had the following transactions with parties related to the Exchangeable unitholders during the three and nine months ended September 30, 2011 and 2010. These transactions have been recorded at the exchange amount agreed to between the parties.

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|----------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| a) Royalties | | | | |
| Fixed, variable and other franchise fees | \$ 681 | \$ 656 | \$ 1,984 | \$ 2,024 |
| Premium franchise fees | \$ 1,611 | \$ 1,451 | \$ 3,392 | \$ 3,514 |
| b) Expenses | | | | |
| Management fees | \$ 1,941 | \$ 1,836 | \$ 5,283 | \$ 5,364 |
| Insurance and other | \$ 27 | \$ 27 | \$ 81 | \$ 81 |
| Interest on purchase obligations | \$ 26 | \$ – | \$ 115 | \$ – |
| Interest on Exchangeable units | \$ 1,168 | \$ 1,168 | \$ 3,504 | \$ 3,504 |

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

| As at | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| c) Accounts receivable | | |
| Franchise fees receivable and other | \$ 1,229 | \$ 908 |
| d) Accounts payable and accrued liabilities | | |
| Management fees | \$ 643 | \$ 489 |
| Interest on purchase obligations | \$ 53 | \$ – |
| Sales tax payable on 2011 purchase obligation | \$ 2 | \$ 489 |
| e) Interest expense payable to Exchangeable unitholders | \$ 389 | \$ 1,055 |
| f) Purchase obligation | \$ 863 | \$ 3,563 |

15. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks are outlined below:

a) Credit risk

Credit risk arises from the possibility that the franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Company's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

b) Liquidity risk

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs including paying ongoing future dividends to shareholders and interest to Exchangeable unitholders. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the long-term debt. Also, the Company has \$2,000 unutilized credit under the Revolver, as described in Note 9.

Estimated maturities of the Company's financial liabilities are as follows:

| | 2012 | 2013 | 2014 | Beyond 2014 | Total |
|--|----------|--------|-------|----------------|------------|
| Accounts payable and accrued liabilities | \$ 1,100 | \$ — | \$ — | \$ — | \$ 1,100 |
| Purchase obligations | 706 | 118 | 39 | — | 863 |
| Current income tax liability | 3,327 | — | — | — | 3,327 |
| Interest payable to Exchangeable unitholders | 389 | — | — | — | 389 |
| Dividends payable to shareholders | 873 | — | — | — | 873 |
| Private debt placement | — | — | — | 32,700 | 32,700 |
| Term facility | — | — | — | 20,300 | 20,300 |
| Exchangeable units | — | — | — | 40,764 | 40,764 |
| Total | \$ 6,395 | \$ 118 | \$ 39 | \$ 93,764 | \$ 100,316 |

c) Interest rate risk

The Company is exposed to the risk of interest rate fluctuations on its Revolver and term facilities as the interest rates on these facilities are tied to the prime and Banker's Acceptance rates. Management has elected to continue with a floating rate position on these facilities and monitors this position on an ongoing basis. The Company's \$32,700 private debt placement is fixed and accordingly does not have cash flow risk of interest rate fluctuations. An increase of 1% in the Company's effective interest rate on its variable rate debt would result in an interest expense increase of approximately \$203.

d) Fair value

The fair value of the Company's financial instruments, which consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation, interest payable to Exchangeable unitholders and dividends payable to shareholders are estimated by management to approximate their carrying values due to their short-term nature. Similarly, the Company's floating rate debt has a fair value that approximates its face value. The Company determines the fair value of the fixed rate debt through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium. The fair value of the Company's long-term debt is disclosed in Note 10.

Notes to the Interim Condensed Consolidated Financial Statements

e) Fair value hierarchy

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at September 30, 2011 and December 31, 2010, classified using the fair value hierarchy described in Note 2:

| | As at September 30, 2011 | | | |
|------------------------------|--------------------------|-------------|---------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial asset or liability | | | | |
| Purchase obligations | – | – | 863 | 863 |
| Exchangeable units | 40,764 | – | – | 40,764 |
| Total | \$ 40,764 | \$ – | \$ 863 | \$ 41,627 |

| | As at December 31, 2010 | | | |
|------------------------------|-------------------------|-------------|-----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial asset or liability | | | | |
| Purchase obligations | – | – | 3,563 | 3,563 |
| Exchangeable units | 49,150 | – | – | 49,150 |
| Total | \$ 49,150 | \$ – | \$ 3,563 | \$ 52,713 |

16. MANAGEMENT OF CAPITAL

The Company's capital is made up of its cash on hand, long-term debt, Exchangeable units and shareholders' equity.

The Company's objectives when managing capital are to maintain a capital structure that provides financing options to the Company while remaining compliant with the covenants associated with the long-term debt; maintain financial flexibility to preserve its ability to meet financial obligations, including debt servicing and dividends to shareholders; and deploy capital to provide an appropriate investment return to its shareholders.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions.

The covenants of the long-term debt prescribe that the Company must maintain a ratio of Adjusted EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Adjusted EBITDA at a maximum of 2.25 to 1.

Senior Indebtedness is defined as the Company's long-term debt disclosed under Note 10, which is made up of \$32,700 in private debt placement and \$20,300 in term facilities. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

The Company is compliant with all financial covenants. There were no changes in the Company's approach to capital management during the year.

LEADERSHIP
PERFORMANCE
POTENTIAL

www.brookfieldresinc.com

Brookfield Real Estate Services Inc.

Brookfield