Financial Review

ROYAL LEPAGE
FRANCHISE SERVICES FUND

2006 ANNUAL REPORT

ROYAL LEPAGE

www.royallepage.ca

ABOUT THE ROYAL LePAGE FRANCHISE SERVICES FUND

The Royal LePage Franchise Services Fund (the “Fund”) is a leading provider of services to residential real estate franchisees and agents coast to coast in Canada. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate franchisees and agents operating under the Royal LePage and Johnston & Daniel brand names.

At January 1, 2007, the Fund Network was comprised of 12,539 REALTORS®* operating from 600 locations under 297 franchise agreements. With one of the strongest brands in the Canadian residential real estate market, Royal LePage has approximately 20% of the market based on transactional dollar volume. The Fund pays monthly distributions and trades on the TSX under the symbol “RSF.UN”.

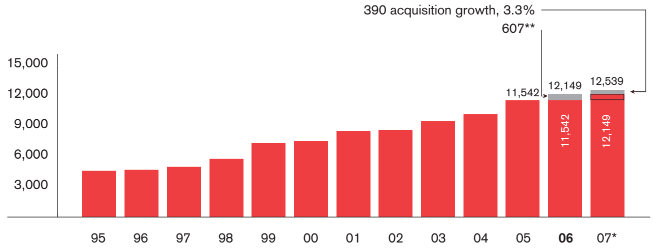
*REALTOR® – The term REALTOR® is a trademark identifying real estate licensees in Canada who are members of The Canadian Real Estate Association (CREA).

KEY OBJECTIVES FOR 2006

06

- Increase revenue by 5% over 2005
- Maintain a consistent monthly distribution to unitholders
- Increase the annual distribution target to $1.15 per unit, a 4.5% increase over the 2005 distribution of $1.10 per unit
- Increase net REALTOR count by 300 to 500 through recruitment, franchise conversions and acquisitions
- Continue to pursue growth opportunities across Canada, especially in Alberta, Atlantic Canada, British Columbia and Quebec markets
- Continue to promote our enhanced services platform to our REALTOR network, leveraging industry-leading technologies

FUND’S REALTOR GROWTH



Year ended December 31, except 2007
*As at January 1, 2007
** 607 REALTOR growth consisting of 261 Agents organically and 346 REALTORS through acquisition from Jan. 1/06

Highlights

06

KEY ACHIEVEMENTS IN 2006

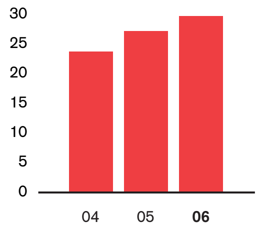
- Increased revenue by 9%
- Maintained a consistent monthly distribution to unitholders
- Increased the annual distribution to $1.15 per unit, a 4.5% increase over the 2005 distribution of $1.10 per unit
- Increased net REALTOR count 651 through recruitment, franchise conversions and acquisitions
- Expanded presence in British Columbia, Ontario, Quebec, New Brunswick and Newfoundland
- Advanced our strong market position by leveraging industry-leading technologies

07

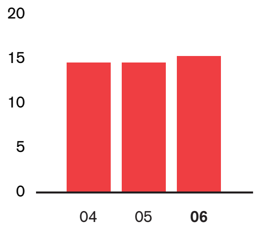
KEY OBJECTIVES FOR 2007

- Increase revenue by 4% over 2006
- Maintain a consistent monthly distribution to unitholders
- Increase the annual distribution target to $1.20 per unit, a 4.3% increase over the 2006 distribution of $1.15 per unit
- Increase the REALTOR count by 300 to 500 through recruitment, franchise conversions and acquisitions
- Continue to pursue growth opportunities across Canada and identify opportunities in the U.S.
- Continue to promote our enhanced services platform to our REALTOR network, leveraging industry-leading technologies

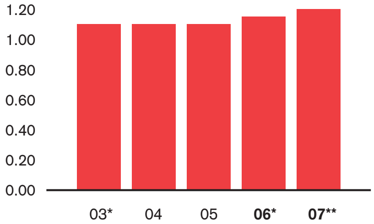
ROYALTIES
($ millions)



DISTRIBUTIONS DECLARED
($ millions)



UNITHOLDER CASH DISTRIBUTION
($ per unit)



* annualized, as the Fund went public in August 2003
** target annual rate

Letter to Unitholders

We are proud to have built a business that provides industry-leading support for our franchisees, agents and clients. We enter 2007 well positioned to continue to grow, both organically through agent recruitment and agent productivity improvement, and externally through select acquisitions.

SOUND PERFORMANCE

During the year, we added a net 651 real estate agents to the Fund network, exceeding our 2006 growth target of 300 to 500. We began 2007 with 12,539 REALTORS in the business effective January 1, 2007. Organic growth through recruitment accounted for 261 net new agents, with the additional 390 agents coming to us through the acquisition of 22 real estate brokerage contracts. We are delighted with the quality of these new franchisees, and are pleased that their agents continue to embrace our brands and the value they represent.

Royalty revenue for the year ended December 31, 2006, increased 9.1% over 2005 to $29.7 million, exceeding the Fund's target of 5%. The increase in royalty revenue reflects growth in the Fund's underlying network of REALTORS, and continued strength in the residential resale housing market. Operating earnings before management fees increased 9.5% over 2005 to $26.6 million while net earnings decreased 27.5% to $3.5 million due to increased management fees, as discussed below, and increased amortization charges related to franchise contracts acquired at the beginning of 2006.

During 2006, the Fund increased and met its target distribution of $1.15 per unit and generated distributable cash of $1.45 per unit, which exceeded target distributions by 26%. As a result of this strong growth in distributable cash the Fund increased target annual distributions for 2007 to $1.20 per unit. The growth in distributable cash during 2006 was offset by a $1.9 million accumulated management fee. This fee was recognized in the first quarter upon the payment of franchise contract purchase obligations and the recording of management fees on a "total" basis as a result of the elimination of working capital requirements for management fee purposes. Management fees charged to operations from inception to December 31, 2006 are the same as those, which would have been charged to operations on a "total" basis. Management evaluates the Fund's generation of distributable cash on a "total" basis and under this basis distributable cash has been steadily increasing to $1.60 per unit in 2006, up 10% from $1.46 per unit in 2005 and 21% from $1.32 per unit in 2004.

EXTENDING BRAND VALUE THROUGH LEADING SYSTEMS AND SUPPORT

We continually expand and improve the products and services we deliver through our Internet-enabled technology platform, in order to provide industry-leading support for our network from coast to coast. This platform provides our agents with communications, marketing, and client services and has become a significant competitive advantage. We also provide training and coaching programs to help agents apply these tools to increase sales, and to manage their own practices more effectively.

With Royal LePage and Johnston & Daniel, the Fund benefits from two of the strongest and most trusted brands in Canadian residential real estate. We continue to look for ways to extend the value these marques represent.

Selling to the large and increasingly affluent demographic born between 1940 and 1964, known as the baby boomers, offers exciting new opportunities. In 2006 we introduced new programs to help our franchisees succeed in marketing luxury homes to these clients in particular.

For Royal LePage we have the *Carriage Trade* program, complete with a new brand image, extensive marketing collateral, and early in 2007 an exciting new consumer Web portal. For Johnston & Daniel, we introduced a globally recognized offering called *Luxury Portfolio* to Canada, in conjunction with our membership in *Leading Real Estate Companies of the World™*. For all Fund REALTORS, membership in this organization offers business opportunity, as it is the world's largest international referral network.

We are also pleased to have introduced the Seniors Real Estate Specialist (SRES®) designation. This designation, which is recognized by CARP, Canada's association for people aged 50-plus, will provide our REALTORS with the tools and recognition to build their seniors client base.

Recognizing the importance of market leadership in attracting new business, we actively promote our brands in communities across the country. Royal LePage is the most recognized authority on Canadian residential real estate, publishing a comprehensive, broadly used and quoted quarterly report on Canadian housing prices. In addition, we provide formal forecast and other research reports, focusing on topical issues such as trends in the recreational and carriage trade luxury segments.

Our technology platform, training and marketing services enable us to attract and retain leading franchisees and agents, and contribute to the Fund's agent productivity, measured as average transactional dollar volume per Fund agent. The Fund's productivity was $2.38 million per agent in 2006, 66% higher than the industry residential resale average of $1.43 million.

BALANCED MARKETS

Canadian residential real estate markets set new records in 2006. It is important to note, however, that the national rate of growth moderated when compared to what we have experienced in recent years.

During 2006, the housing market in Ontario, Quebec and Atlantic Canada moved from a supply-constrained sellers' market to more balanced conditions. Unit sales volumes were similar to those experienced during the previous year and prices appreciated in the mid-single digits.

In Western Canada, and particularly in Alberta, strong global demand for oil, gas and other natural resources buoyed the provincial economies, sharply increasing the number of people moving into the region. This spike in population, coupled with tight housing supply conditions, fuelled a sharp increase in housing prices.

We expect Canadian real estate markets to remain healthy throughout 2007, due to strong underlying economic fundamentals. In Central and Atlantic Canada, price increases should remain in the mid-single digit range, with a slight decrease in the number of homes sold. In the west, eroding affordability should moderate demand, offering some relief from rapidly escalating prices.

We welcome this shift to balanced markets. When the number of homes available for sale roughly matches buyer demand, agents are more productive, reducing the time required to complete an average transaction, and increasing revenue on a per agent basis.

A moderating market typically benefits strong national firms such as ours, as agents and franchisees become increasingly interested in the benefits of association with a strong brand. This in turn supports our franchisees' recruitment efforts. As well, a market cycle change typically triggers new brokerage acquisition opportunities.

From a North American perspective, we expect Canada's housing market will continue to outperform the U.S. market during 2007. A number of factors are working in our favour, including healthy personal and governmental debt levels, the relatively modest rise in interest rates, and general housing affordability in our major cities.

Our business model is designed to reduce the Fund's exposure to fluctuations in home prices and resale volume, as franchise fees are secured by long-term contracts, creating a royalty stream that is based primarily on the number of agents in the Fund network. Some 67% of the Fund's royalties last year were fixed in this way.

SCALABLE PLATFORM FOR GROWTH AND 2007 OBJECTIVES

We have created a scalable service delivery platform that is able to efficiently convey services across great distances. Building on our extensive experience in brand management and franchise expansion, we remain focussed on growth through accretive acquisition, as well as organically through agent recruitment and improved productivity. We are investigating both the addition of new brands, and measured geographic expansion into the United States.

In 2007, we target increasing revenue by 4% over 2006, and continuing to maintain a consistent monthly distribution to unitholders. We plan to increase our network by 300 to 500 through recruitment, franchise conversions and acquisition. We will also continue to promote and enhance our service platform to our agent network, leveraging our industry-leading technologies.

In light of the Canadian federal government's proposed changes to the tax treatment of income trusts, anticipated to take effect in 2011, we are working with advisors from Brookfield Asset Management to understand the alternatives available, and to choose the structure that will most benefit our unitholders.

Our continued solid performance in 2006 would not have been possible without the valued guidance of our Board of Trustees and management team, and the outstanding contribution of our employees. We have a business model that can achieve both performance stability and sustainable growth and we will continue to work hard to continue to meet our business objectives and build unitholder value.

Philip Soper
President and Chief Executive
March 20, 2007

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of our annual report includes management's discussion and analysis ("MD&A") of our results and financial condition. The 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, 2006, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Fund, 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 which are not historical facts are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For more detail on these factors see the summary of risks as outlined in the Fund's annual information form which is filed on SEDAR at www.sedar.com.

Management's Discussion and Analysis of Results and Financial Condition

HIGHLIGHTS

($ 000's) except Agents, Sales Representatives, units and per unit amounts	**Year ended December 31, 2006**	Year ended December 31, 2005	Year ended December 31, 2004
Royalties	**$ 29,659**	$ 27,196	$ 23,740
Less:			
Administration expenses	**645**	595	513
Interest expense	**2,401**	2,289	1,327
Management fee	**7,285**	3,660	3,660
Distributable cash	**$ 19,328**	$ 20,652	$ 18,240
Amortization of intangible assets	**14,559**	14,150	13,677
Non-controlling interest	**1,319**	1,746	1,232
Net earnings	**$ 3,450**	$ 4,756	$ 3,331
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.35**	$ 0.48	$ 0.33
Distributions	**$ 15,303**	$ 14,647	$ 14,647
Cash distributions declared per 9,983,000 units	**$ 1.15**	$ 1.10	$ 1.10
Cash distributions declared per 3,327,667 Special Fund units	**$ 1.15**	$ 1.10	$ 1.10
Total assets	**$ 134,289**	$ 146,165	$ 143,954
Total long-term financial liabilities	**$ 38,000**	$ 38,000	$ 30,600
Number of Agents[1] and Sales Representatives[2]	**12,149**	11,542	10,145

The table above sets out selected historical information and other data for the Royal LePage Franchise Services Fund (the "Fund") which should be read in conjunction with the attached consolidated financial statements for the year ended December 31, 2006. The consolidated financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles ("GAAP"). There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the Fund which may affect an investment in the Fund's units. A summary of these risks is outlined in the Fund's annual information form which is filed on SEDAR at www.sedar.com. These risks are discussed in further detail in this MD&A to the extent they have changed since December 31, 2005, with the most significant development being the Federal Minister of Finance's Tax Fairness Plan announcement late in 2006 (see Recent Developments).

OVERVIEW

This MD&A covers the period from January 1, 2006 to December 31, 2006 and has been prepared as at March 20, 2007.

The Fund was established on August 7, 2003, through an initial public offering. The Fund generates cash flow from the franchise royalties and service fees of a national network of real estate franchisees, Agents and Sales Representatives, operating under the Royal LePage and Johnston & Daniel brand names (collectively the "Fund Network").

Management of the Fund is governed by a Management Services Agreement ("MSA"). The services under the MSA are provided by Residential Income Fund Manager ("Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"), formerly Brascan Corporation. The senior management team of the Manager developed and managed the Fund Network prior to the inception of the Fund. BAM, through a wholly-owned subsidiary, holds a 25% subordinated interest in the Fund (see Transactions with Related Parties).

As at January 1, 2007, the Fund Network was comprised of 12,539 REALTORS[3] operating from 600 locations. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

[1] 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.

[2] 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.

[3] 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

STRUCTURE OF THE FUND

ROYALTY FEES

The Fund generates royalties with both fixed and variable fee components. Approximately 67% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of selling-REALTORS in the network, increasing Agent and broker productivity, and an increasing supply of new housing inventory provides the base for a strong, stable and growing cash flow. A summary of these fees is as follows:

Fixed franchise fees are based on the number of Agents and flat fee paying Sales Representatives, collectively "selling-REALTORS" in the Fund Network and consist of a monthly fixed fee of $100 per selling-REALTOR, a technology fee and web services and other fees.

Prior to July 1, 2005, the fixed fee of $100 and technology fee were based on the number of Agents in the Fund Network. Effective July 1, 2005, franchisees began paying the fixed monthly fee of $100 and a technology fee for Sales Representatives. This change only affected Sales Representatives that are selling-REALTORS, and excludes brokers and managers. As of December 31, 2006, there were 891 Sales Representatives, 644 of which pay the fixed franchise fees. The majority of the remaining 247 Sales Representatives are brokers and managers.

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

Approximately 88% (88% – 2005) of the Fund's royalties are derived from the combined fixed fee of $100 per selling-REALTOR per month, 1% variable fee and premium fees. The remaining royalty stream is generated from technology fees, the 4.5% variable fee option and web services and other fees.

MONTHLY DISTRIBUTIONS

During 2006, the targeted annual cash distribution of $1.15 per unit was paid monthly to public unitholders.

To reduce unitholder risk, 25% of the Fund's units, which are held by BAM are subordinated in their rights to distributions until public unitholders receive their initial target distributions of $0.0917 per unit per month, $1.10 per unit per annum. This subordination is in place until August 7, 2008.

The tax allocation for 2007 distributions is estimated at 89% taxable income and 11% return of capital as compared to 74% and 26%, respectively, for 2006.

Management and the Board of Trustees periodically review the Fund's targeted distribution.

RECENT DEVELOPMENTS

TAX FAIRNESS PLAN

Late in 2006, the Federal Minister of Finance released draft legislation in support of a Tax Fairness Plan for Canadians which, if enacted, would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by Canadian taxable corporations. The payment of such taxes would reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders or payment of franchise contract acquisition obligations. The proposed changes have caused uncertainty in the capital markets and have negatively impacted the unit prices of many income trusts, including the Fund. This uncertainty, and the related impact and proposed limits on equity issued by Income Funds to fund acquisitions, may affect the Fund's ability to make future acquisitions. While the tax proposals are not law, but may become law at any time, management and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, to protect and enhance unitholder value.

FRANCHISE ACQUISITIONS

On January 1, 2007, the Fund acquired 22 new franchise contracts serviced by 390 REALTORS, with an estimated annual royalty stream of $0.8 million. The agreements for these locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $7.2 million, with $5.7 million paid on closing and the balance to be paid in cash or units during the first quarter of 2008, upon meeting certain terms and conditions of the MSA.

DISTRIBUTION INCREASE

Effective January 1, 2007, the targeted annual distribution was increased from $1.15 to $1.20 per unit.

OPERATIONS OVERVIEW

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

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

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

NUMBER OF REALTORS IN THE FUND

As at December 31, 2006, the Fund Network was comprised of 275 independently owned and operated franchises operating from 578 locations serviced by 12,149 REALTORS, with an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

With the addition of an estimated 390 REALTORS from the 22 franchise contracts acquired by the Fund on January 1, 2007, the Fund began the year with 12,539 REALTORS, for a total increase of 651 REALTORS, up 5.5% from January 1, 2006. This exceeded our stated 2006 target growth range of 300 to 500.

TRANSACTION VOLUMES

The performance of the Fund is dependent upon the receipt of royalty revenue which, in turn, is partially dependent upon the level of residential resale real estate transactions. The residential real estate industry is affected by all of the factors affecting the economy in general, including changes in interest rates, unemployment and inflation. During 2006, the Canadian residential resale real estate market (the "market"[4]) remained healthy despite a slightly moderating trend in both housing unit sales and average price appreciation during the second half of the year. Some regional differences still existed with the western provinces experiencing double digit growth in unit sales and average price appreciation as a result of the booming oil industry, however, this growth also began to moderate during the second half of the year. Despite the continued rise in housing prices, housing remained affordable, driven by strong employment prospects and low mortgage rates. A summary of the market and related activity as reported by Canada Mortgage and Housing Corporation ("CMHC"), Canadian Real Estate Association ("CREA") and the Toronto Real Estate Board ("TREB"), follows:

- Canada's annual rate of housing starts, the market's future inventory, totalled 227,395 for the year ended December 31, 2006, relatively unchanged with a decrease of 0.8% over the same period in 2005.
- The Canadian resale market totalled $133.8 billion for the year ended December 31, 2006, an increase of 11.2% over the same period in 2005, fuelled by an 11.1% increase in average selling price of a home to $277,034 and a 0.1% increase in residential unit sales to 483,062 units.
- During 2006, new MLS listings for the overall Canadian housing market were up 5.8% from 2005 levels. As a result of this increase in listing inventory relative to sales, a more balanced market emerged.
- The GTA market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of $29.9 billion for the year ended December 31, 2006, a 3.8% increase over the same period in 2005. This market activity was fuelled by the sale of 84,859 homes at an average selling price of $352,382, a 1.0% decrease and 4.8% increase, respectively, over the same period in 2005.
- Strong consumer confidence combined with overall housing affordability continues to encourage existing homeowners to trade up to larger, more expensive dwellings.

[4] The market is defined as the dollar value of units sold ("Transactional Dollar Volume") over a 12-month period in a particular geographic area.

Management's Discussion and Analysis of Results and Financial Condition

STABILITY OF THE FUND'S ROYALTY STREAM

- The Fund's royalties are derived primarily from a diverse national network of 275 independently owned and operated franchises, the majority of which operate with fewer than 50 Agents.
- A significant portion of the Fund's royalties is fixed in nature based on the number of Agents and their productivity, which through the combination of the $100 per agent per month fee and the 1% variable fee generated by Agents earning in excess of the $1,300 per annum cap, contributed 67% of the Fund's royalties for the twelve months ended December 31, 2006. This compares to 65% for the same period in 2005.
- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian REALTOR population.
- During 2006, the Fund renewed two expiring agreements representing 12 REALTORS and 15 other agreements representing 905 REALTORS in advance of their expiry.
- During 2006, three franchise contracts were terminated resulting in a loss of four locations and 28 REALTORS.
- The Fund has secured 10-, 15- and 20-year agreements, significantly exceeding the industry norm of five-year agreements.

FUND GROWTH OPPORTUNITIES

In 2006, our growth objective was to add 300 to 500 REALTORS to the Fund Network with approximately one-half of this growth from acquisitions and one-half from internal growth. Growth through acquisition is achieved through the purchase of franchise contracts acquired by the Manager's dedicated network development team operating under the MSA.

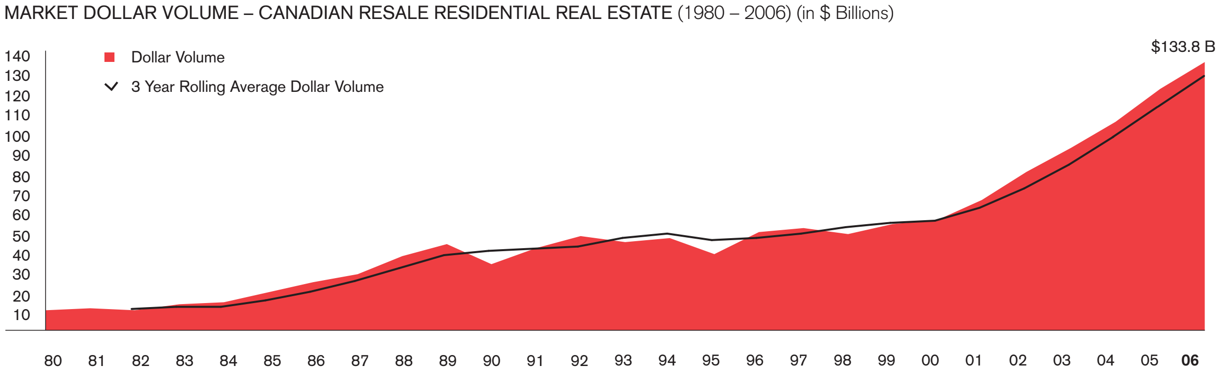
Growth in overall royalties is achieved by: increasing the number of selling-REALTORS in the Fund; increasing the productivity of Agents; expanding the range of products and services supporting the franchisees and Agents; increasing adoption of these products and services; and providing sales and marketing programs to the Fund Network. These services are supported by ongoing training programs for franchisees and selling-REALTORS that assist in leveraging the Fund's competitive advantages to attract and retain potential recruits. A summary of results to the date of this report follows:

- Organic growth for the year ended December 31, 2006 totalled 261 REALTORS.
- On January 1, 2007, franchise contracts representing 22 locations serviced by an estimated 390 Agents operating under the Royal LePage brand were purchased by the Fund.
- The combination of organic growth and the franchise contracts acquired on January 1, 2007, represents 651 new REALTORS, which exceeded our 2006 growth objective of 300-500 REALTORS.
- 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 driving down administration costs.

THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

Since 1980, the Canadian residential resale real estate market has grown at a compound annual growth rate ("CAGR") of 10%. The market has been very resilient with only two significant downturns occurring in 1990 and 1995, both of which returned to pre-downturn levels within 24 months. During the 1990 downturn, interest rates were relatively high and there was significant speculation in the form of building and multiple home ownership. Since that time, lenders now require builders to pre-sell a significant portion of their developments before advancing funds. Market activity since 1980 is provided in the chart below.

MARKET DOLLAR VOLUME – CANADIAN RESALE RESIDENTIAL REAL ESTATE (1980 – 2006) (in $ Billions)

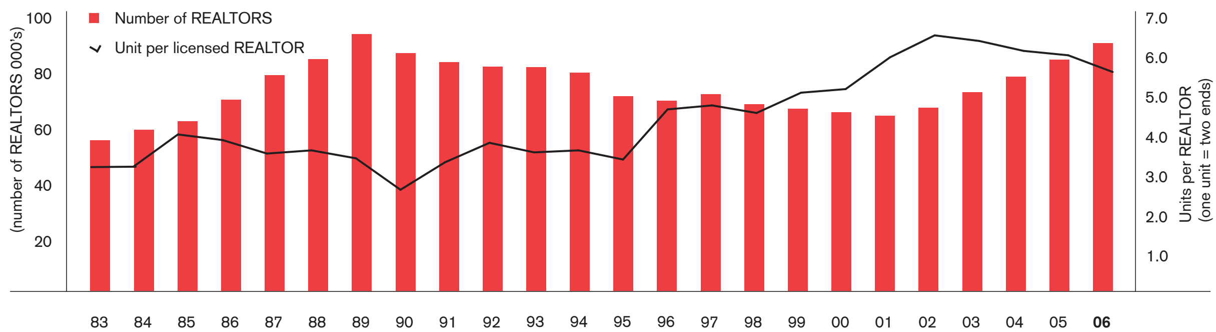


Source: CREA

THE CANADIAN REAL ESTATE REALTOR POPULATION

The number of REALTORS in the Fund Network is a key driver of the Fund's results. For the year ended December 31, 2006, on the strength of another robust residential resale real estate market, the Canadian real estate REALTOR membership grew by 7.3% to 88,906 members with an average of six units sold per REALTOR. The number of REALTORS in the Fund Network grew by 5.3% over the same period. 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)

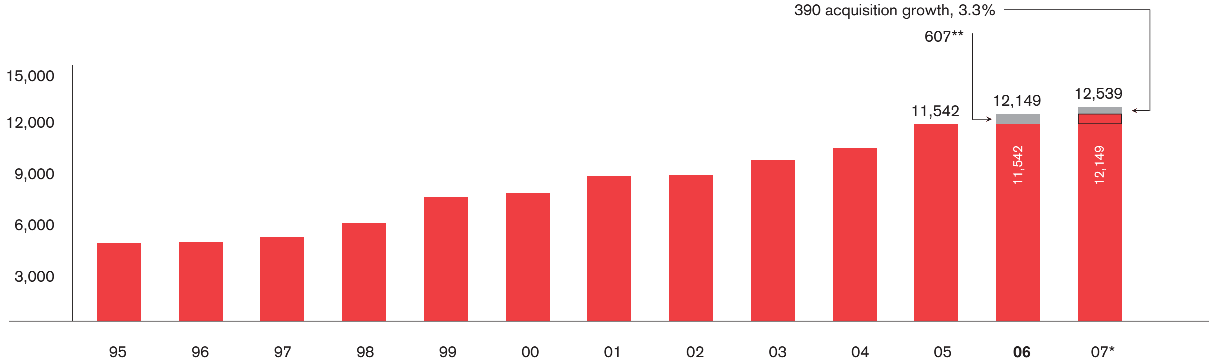


THE FUND NETWORK

REALTOR GROWTH

Year over year, the number of REALTORS in the Fund Network grew by 5.5% or 651 REALTORS to 12,539. Industry wide, by comparison, CREA reported that the number of REALTORS in Canada grew by 7.3% during 2006, which exceeded the Fund's growth. Three factors contributed to this difference: first, in anticipation of moderating market activity, many Fund brokerages who have been operating at full physical capacity, chose to focus on increasing agent productivity and more selective agent recruitment, over expanding facilities; second, three operations in Quebec rationalized operations, releasing some agents acquired after their previous year's expansions; and third, the Fund's agent population is slightly over-represented in Ontario and Atlantic Canada regions, which experienced lower growth than some other areas of the country. Management estimates that the slight market-share erosion that this agent change differential represents was offset by the growth in Fund agent productivity, which was greater than the rest of CREA's membership.

FUND'S REALTOR GROWTH



Year ended December 31, except 2007
*As at January 1, 2007
** 607 REALTOR growth consisting of 261 Agents organically and 346 REALTORS through acquisition from Jan. 1/06

Management's Discussion and Analysis of Results and Financial Condition

A summary of the Canadian and Fund's growth in REALTORS during the year ended December 31, 2006 follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**82,837**		**11,542**	
Q1	2,509	3.0%	443	3.8 %
Q2	1,477	1.8%	177	1.5 %
Q3	1,293	1.5%	39	0.4 %
Q4	790	1.0%	(52)	(0.4)%
Closing	**88,906**	**7.3%**	**12,149**	**5.3 %**

* Source – CREA

NETWORK DIVERSITY

The Fund Network is comprised of diverse operations with 74% of the Fund's franchisees operating with fewer than 50 REALTORS as at December 31, 2006. In addition, the Fund Network of REALTORS is geographically diverse with our REALTORS spread throughout Canada on approximately the same basis as the overall Canadian REALTOR population, as summarized in the table below.

	Canadian[1] REALTOR Population	Fund[2] Network REALTORS
Ontario	50%	53%
Prairies	14%	12%
BC	18%	16%
Quebec	14%	15%
Maritimes	4%	4%
Total	100%	100%

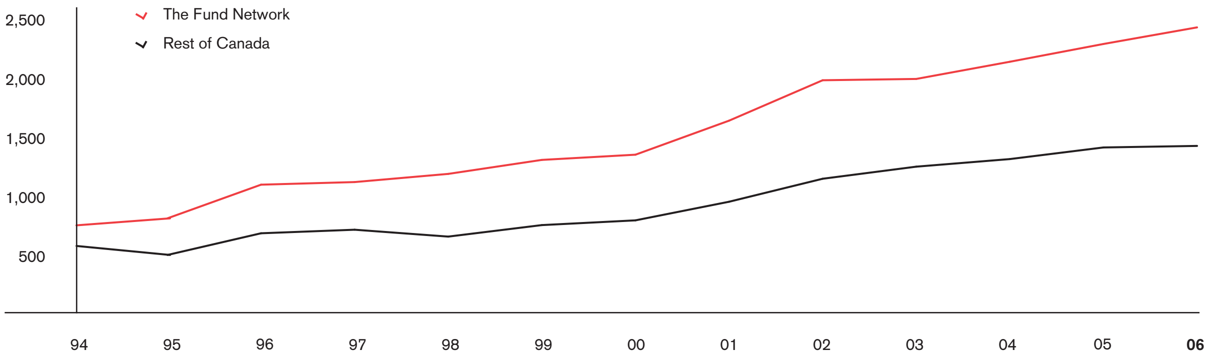
1: As at December 31, 2006, Source: CREA

2: As at December 31, 2006

REALTOR PRODUCTIVITY

The average Fund Network REALTOR generated approximately $2.38 million in transactional dollar volume in 2006, up 5% from $2.26 million in 2005. This productivity was 66% greater than the estimated average of $1.43 million for all other Canadian REALTORS, up 3% from 2005. Management believes the higher productivity of Fund Network REALTORS makes the Fund less prone than the industry at large to losing its REALTORS during a period of reduced transaction dollar volume. A summary of average transaction dollar volume per agent for the year ended December 31, 1994 through 2006 is as follows:

CANADIAN RESIDENTIAL REAL ESTATE RESALE MARKET (Average Transaction Dollar Volume per REALTOR, $ thousands)



Source: CREA and Fund Management

OPERATING RESULTS

($ 000's) except unit and per unit amounts	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Royalties			
Fixed franchise fees	**$ 13,827**	$ 12,332	$ 10,649
Variable franchise fees	**7,832**	7,337	6,377
Premium franchise fees	**4,488**	4,241	3,971
Other fee revenue and services	**3,512**	3,286	2,743
	29,659	27,196	23,740
Less:			
Administration expenses	**645**	595	513
Interest expense	**2,401**	2,289	1,327
Management fee	**7,285**	3,660	3,660
Distributable Cash	**19,328**	20,652	18,240
Amortization of intangible assets	**14,559**	14,150	13,677
Non-controlling interest	**1,319**	1,746	1,232
Net earnings	**$ 3,450**	$ 4,756	$ 3,331
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.35**	$ 0.48	$ 0.33

The Fund Network as at December 31, 2006, was comprised of 11,258 Agents and 891 Sales Representatives, with 10,956 of the Agents operating under the combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option"), 302 Agents operating under the 4.5% variable fee option (the "4.5% option") and 644 Sales Representatives operating under the $100 per month fixed fee plan.

Royalties for the year ended December 31, 2006 totalled $29.7 million, up 9% from the same period in 2005.

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

Combined fixed, variable and premium franchise fees represented 88% of royalties for the year ended December 31, 2006, unchanged from the same period in 2005.

Fixed franchise fees for the year ended December 31, 2006 increased 12% over the same period in 2005 exceeding the increase in the underlying Agents, as Sales Representatives began paying the $100 fixed fee per month effective July 1, 2005.

Variable franchise fees for the year ended December 31, 2006 grew by 7% over the same period in 2005 while the market activity increased 11%. As anticipated, the increase in market activity for the twelve months ended December 31, 2006 outpaced the increase in the Fund's variable fees as approximately 21% (2005 – 21%) of the Fund Network Agents exceeded the annual 1% variable fee cap of $1,300. The-year-over year increase in variable fees was due primarily to the increase in the number of Agents in the Fund Network.

Premium franchise fees are derived from the 22 franchise locations servicing the GTA market that pay premium fees ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the year ended December 31, 2006, increased 6% over the same period in 2005, while the GTA market activity for the same period experienced a 4% increase. The percentage increase in year-over-year premium fees as compared to the GTA market is not entirely comparable as the market growth experienced in the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity.

Other fees and services which accounted for 12% of Fund royalties for the year ended December 31, 2006, were consistent with the same period in 2005. These fees, comprised of technology fees, 4.5% option, web service and other fees and revenue, increased 7% over the same period in 2005, due primarily to the growth in the number of REALTORS in the network.

Administration expenses of $0.6 million for the year ended December 31, 2006 were in line with management's expectations.

Management's Discussion and Analysis of Results and Financial Condition

Interest expense is comprised of interest on the Fund's $38 million private debt placement and amortization of the financing charges incurred to secure the placement. The Fund's interest expense totalled $2.4 million for the year ended December 31, 2006, an increase of $0.1 million over the same period in 2005, the result of an increase in our debt and move from a variable interest rate position on our $30.6 million term loan to a $38 million private debt placement at an effective fixed rate of 6.3% on February 18, 2005. The $2 million operating line has remained undrawn since inception of the Fund.

Management fee expense

Management fees of $7.3 million for the year ended December 31, 2006, increased from $3.6 million in the same period in 2005, in line with management's expectations. Management fees represent 20% of royalties less administration expenses and interest expenses in accordance with the MSA.

Included in the management fee for the year ended December 31, 2006 was an accumulated management fee of $1.9 million relating to $9.4 million of distributable cash previously retained by the Fund (see Distributable Cash and Summary of Quarterly Results).

Amortization of intangible assets

Intangible assets relate to the values attributed to the franchise contracts and relationships and trademarks acquired by the Fund since August 7, 2003. Trademarks are amortized on a straight-line basis over the term of the agreement plus one renewal period, while franchise contracts are amortized over the term of the agreements. Relationships represent the value attributed to franchise renewals and are amortized over the renewal period, at the commencement of that period. See Acquisitions and Deposit on Acquisitions for further discussion regarding intangible assets arising on acquisitions.

Net earnings for the year ended December 31, 2006 totalled $3.5 million. Net earnings represent earnings less non-cash charges of $14.6 million of amortization related to intangible assets and $1.3 million related to the non-controlling interest's 25% share of the operating results.

DISTRIBUTABLE CASH

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

Distributable cash does not have a standardized meaning under GAAP and accordingly may not be comparable to similar measures used by other issuers. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the table on the following page for a reconciliation of distributable cash to the comparable GAAP measure in the Fund's audited financial statements).

Distributable cash and its utilization since Fund inception ($ 000's)	**Total**	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	August 7, 2003 to December 31, 2003
Royalties	**$ 89,397**	$ 29,659	$ 27,196	$ 23,740	$ 8,802
Less:					
Administration expenses	**1,984**	645	595	513	231
Interest expense	**6,637**	2,401	2,289	1,327	620
Management fee	**16,155**	7,285	3,660	3,660	1,550
Distributable cash	**64,621**	19,328	20,652	18,240	6,401
Less:					
Distributions to public unitholders	**37,980**	11,477	10,985	10,985	4,533
Distributions to non-controlling interest	**12,661**	3,826	3,662	3,662	1,511
Funding of acquisitions	**8,405**	7,871	414	120	–
Net change in the period	**$ 5,575**	$ (3,846)	$ 5,591	$ 3,473	$ 357
Cumulative change		$ 5,575	$ 9,421	$ 3,830	$ 357

Distributable cash Reconciled to cash flows from operating activities ($ 000's)	**Total**	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	August 7, 2003 to December 31, 2003
Cash flows from operating activities	**$ 64,034**	$ 20,199	$ 20,607	$ 17,772	$ 5,456
Add (deduct):					
Changes in non-cash working capital items	**893**	(703)	183	468	945
Amortization of deferred charges	**(306)**	(168)	(138)	–	–
Distributable cash	**$ 64,621**	$ 19,328	$ 20,652	$ 18,240	$ 6,401

For the year ended December 31, 2006, the Fund generated distributable cash of $19.3 million which was in line with management's expectations. The $1.3 million decrease in year-over-year distributable cash from $20.7 million was due in part to an accumulated $1.9 million management fee paid in 2006 as discussed below.

From inception of the Fund, up to December 31, 2005, the Fund had accumulated and retained undistributed cash of $9.4 million, which in the event of the release of this cash would result in a 20% management fee payable to the Manager of $1.9 million. During 2006, the Fund released the $9.4 million cash, a portion of which was used to fund the 2005 and 2006 franchise contracts purchase obligations. In addition, the Board of Trustees removed the requirement to retain distributable cash for purposes of the management fee calculation due to the Fund's demonstrated track record of generating distributable cash in excess of its targeted annual distributions. As a result of these two events, the $1.9 million management fee described above, was earned and paid during 2006. The management fee continues to be recorded on a "total" basis (see Summary of Quarterly Results for discussion of "total" basis). The Board reserves the right to retain cash for working capital requirements generated from operations before management fees in the future.

As at December 31, 2006, the Fund had approximately $5.6 million in distributable cash not yet utilized, as presented in the table above. This undistributed cash represents distributable cash generated by the Fund less distributions to public unitholders, the non-controlling interest and $8.4 million in cash utilized to meet the Fund's franchise contract purchase obligations.

Management's Discussion and Analysis of Results and Financial Condition

ACQUISITIONS AND DEPOSIT ON ACQUISITIONS

Under terms of the MSA the Fund is permitted to acquire franchise contracts approved by independent trustees of the Fund from the Manager on January 1 of each year. The purchase price is determined in line with the terms of the MSA. The actual purchase price for these contracts is not determined until after October 31 of each year when an audit of the actual royalties generated under these contracts is completed and the purchase price is recalculated as detailed in the MSA. As a result, the initial payment representing up to 80% of the estimated purchase price is recorded as a deposit on acquisition. At each quarter end, the purchase price obligation is recalculated based on the actual royalties generated from these contracts and the resultant amount is removed from the deposit on acquisition and reclassified to intangible assets. The increase in intangible assets is amortized in accordance with the Fund's intangible assets policy. Recalculated purchase price obligations in excess of the deposit on acquisitions are classified as purchase obligations and the corresponding amount transferred to intangible assets and amortization, as previously described, is recorded.

During 2006, the January 1, 2006 franchise contract acquisition obligation was audited and determined to be $5.6 million, $0.6 million less than the estimated obligation due primarily to the lower than estimated retention of Agents in one of the Fund's larger acquisitions. A summary of the franchise contracts acquired by the Fund since inception is summarized as follows:

Date acquired by the Fund, January 1 ($ milllions unless stated otherwise)	2007	2006	2005
Purchase Price			
Estimated	7.18	6.22	9.26
Actual	(a)	5.55	9.94
Payments			
Initial	5.74	4.98	7.05
Final (b) (c)	(a)	0.57	2.89
Estimated			
Annual royalty stream	0.82	0.74	1.15
Number of REALTORS	390	346	558
Number of locations	22	21	47
Number of contracts	22	16	38
Actual			
Annual royalty stream (b)	(a)	0.66	1.24
Number of REALTORS	(a)	345	666
Number of locations	22	21	46
Number of contracts	22	16	37

a) To be determined at the end of the year in accordance with the terms of the MSA

b) Audited

c) Purchase price obligation at December 31

PRIVATE DEBT PLACEMENT AND $2 MILLION OPERATING LINE

In the low interest rate environment of 2004 and 2005, the Fund sought to increase its debt to meet its franchise contract purchase obligations and move from a floating interest rate position to a fixed interest rate position. Accordingly, on February 18, 2005, the Fund completed a $38 million private debt placement with a number of Canadian institutional investors for a five-year term with interest fixed at 5.882%, payable quarterly in arrears. The private debt placement proceeds, net of approximately $0.8 million in issue costs, were used to repay the Fund's $30.6 million term loan. The remaining $6.6 million in net proceeds, along with $0.4 million drawn from unutilized distributable cash, were utilized to meet the Fund's January 1, 2005 initial franchise contract purchase obligation of $7 million (see Acquisitions and Deposit on Acquisitions). The full amount of the debt is due upon maturity on February 17, 2010.

On February 16, 2005, the Fund replaced its $2 million operating line with a $2 million operating line from a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force. The $0.8 million in issue costs associated with the $38 million private debt placement and the $2 million operating line are amortized over the term of the private debt placement. During the three months and year ended December 31, 2006, $41,000 and $168,000, respectively, of these charges were amortized.

SUMMARY OF QUARTERLY RESULTS

	2006				2005			
	Three months ended				Three months ended			
($ 000's) except Agents, unit and per unit amounts	**December 31**	**September 30**	**June 30**	**March 31**	December 31	September 30	June 30	March 31
Royalties								
Fixed franchise fees	**$ 3,509**	**$ 3,485**	**$ 3,453**	**$ 3,380**	$ 3,261	$ 3,127	$ 2,999	$ 2,945
Variable franchise fees	**1,347**	**2,377**	**2,498**	**1,610**	1,327	2,444	2,231	1,335
Premium franchise fees	**990**	**1,685**	**1,125**	**688**	1,065	1,497	1,103	576
Other fee revenue and services	**919**	**923**	**856**	**814**	872	869	805	740
	6,765	**8,470**	**7,932**	**6,492**	6,525	7,937	7,138	5,596
Less:								
Administration expenses	**132**	**163**	**190**	**160**	202	125	145	123
Interest expense	**606**	**605**	**600**	**590**	604	602	602	481
Management fee	**1,205**	**1,540**	**1,429**	**3,111**	915	915	915	915
Distributable Cash	**4,822**	**6,162**	**5,713**	**2,631**	4,804	6,295	5,476	4,077
Amortization of intangible assets	**3,666**	**3,657**	**3,632**	**3,604**	3,589	3,569	3,521	3,471
Non-controlling interest	**317**	**657**	**556**	**(211)**	350	702	519	175
Net earnings	**$ 839**	**$ 1,848**	**$ 1,525**	**$ (762)**	$ 865	$ 2,024	$ 1,436	$ 431
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.08**	**$ 0.19**	**$ 0.15**	**$ (0.08)**	$ 0.09	$ 0.20	$ 0.14	$ 0.04
Number of Agents	**11,258**	**11,307**	**11,271**	**11,141**	10,693	10,514	10,376	10,081
Number of fixed fee paying Sales Representatives	**644**	**644**	**645**	**605**	566	477	–	–

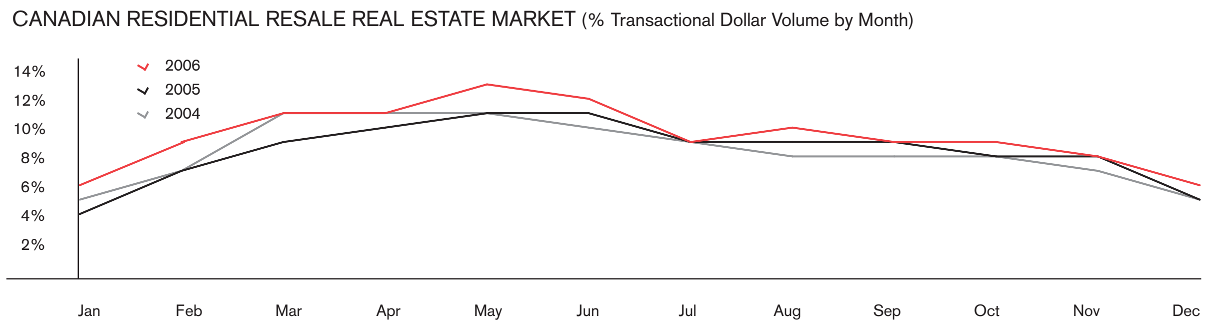
Revenues increased in each quarter, year over year due to a number of factors such as organic Agent count growth, increasing Agent productivity, the acquisition of franchise contracts on January 1 of each year, the introduction of new fees such as the $100 per month selling-REALTOR fee in July 2005 and the introduction of new services.

Interest expense increased over the three months ended March 31, 2005 due to the increase in the Fund's long-term debt to fund franchise contract obligations and as a result of moving from a floating rate to a fixed rate interest term (see Private Placement and $2 million operating line).

Management fees increased in 2006 due to the payment of an accumulated management fee (see Distributable Cash) and the recording of the fees on a "total" basis (see discussion of "total" basis below).

The Fund's royalty revenues are affected by the seasonality of the Canadian Residential Resale Real Estate Market which typically has stronger second and third quarters as summarized in the chart below. The seasonality of this market is mitigated by the timing of certain factors such as: the acquisition of contracts in January of each year; the introduction of new services and fees; and the significant fixed element of the Fund's agent count-based fees and services fees, as well as the Fund's variable franchise fee resulting from the $1,300 per annum capping feature described earlier.

Management's Discussion and Analysis of Results and Financial Condition



Source: CREA and Fund Management

A key statistic management utilizes to monitor Fund performance is the rolling twelve-month distributable cash per unit, adjusted for management fees on a "total" basis. A "total" basis refers to the calculation of the management fees as 20% of royalties less administration expenses and interest expense before reserves for working capital requirements ("Reserve"). Prior to the end of 2005, a Reserve was deducted for purposes of the management fee calculation. As discussed earlier, this Reserve requirement was removed and the accumulated management fee was paid in 2006. With this payment, on an inception to date basis the adjusted management fee presented in the table below totals the same amount expensed in the Fund's audited financial statements. As noted on the table below distributable cash calculated on this basis has been increasing each quarter and has significantly outpaced declared distributions.

Adjusted[1] rolling twelve-month distributable cash

	2006				2005			
	Twelve months ended				Twelve months ended			
($ 000's) except per unit amounts	**December 31**	**September 30**	**June 30**	**March 31**	December 31	September 30	June 30	March 31
Royalties	**$ 29,659**	**$ 29,419**	**$ 28,886**	**$ 28,092**	$ 27,196	$ 26,207	$ 25,222	$ 24,481
Less:								
Administration expenses	**645**	**715**	**677**	**632**	595	608	602	550
Interest expense	**2,401**	**2,399**	**2,396**	**2,398**	2,289	2,062	1,753	1,447
Adjusted management fee[1]	**5,323**	**5,261**	**5,163**	**5,012**	4,862	4,707	4,573	4,497
	21,290	**21,044**	**20,650**	**20,050**	19,450	18,830	18,294	17,987
Adjusted Distributable cash per unit – total basis	**$ 1.60**	**$ 1.58**	**$ 1.55**	**$ 1.51**	$ 1.46	$ 1.41	$ 1.37	$ 1.35

[1] Above adjusted for management fees calculated before Reserves requirements. See "total" basis description.

Adjusted[1] rolling twelve-month distributable cash

Reconciled to cash flows from operating activities

($ 000's) except per unit amounts	2006 Twelve months ended December 31	September 30	June 30	March 31	2005 Twelve months ended December 31	September 30	June 30	March 31
Cash flows from operating activities	**$ 20,199**	**$ 19,223**	**$ 19,720**	**$ 20,379**	$ 20,607	$ 19,974	$ 18,463	$ 17,493
Add (deduct):								
Changes in non-cash working capital items	**(703)**	**254**	**(112)**	**(1,008)**	183	(2)	803	1,314
Amortization of deferred charges	**(168)**	**(167)**	**(165)**	**(165)**	(138)	(98)	(58)	(17)
Management fee adjustment[1]	**1,962**	**1,734**	**1,207**	**844**	(1,202)	(1,044)	(914)	(803)
	21,290	**21,044**	**20,650**	**20,050**	19,450	18,830	18,294	17,987
Adjusted Distributable cash per unit – total basis	**$ 1.60**	**$ 1.58**	**$ 1.55**	**$ 1.51**	$ 1.46	$ 1.41	$ 1.37	$ 1.35

[1] Above adjusted for management fees calculated before Reserves requirements. See "total" basis description.

FOURTH QUARTER REVIEW

THE FUND NETWORK

During the Quarter, the Fund had a net decline of 49 Agents, which was partially attributable to the loss of one location with 18 Agents on termination of a franchise contract. Historically, few new Agents have joined the business in the final quarter of a year. The churn represented by the ongoing dynamic of agent recruitment; agent retirement, departure for competitors, and terminations, accounted for the balance of the small decline.

Royalties for the Quarter of $6.8 million increased 4% over the same period in 2005.

Combined fixed franchise fees, variable franchise fees and premium franchise fees represented 86% of royalties for the Quarter as compared to 87% for the same period in 2005.

Fixed franchise fees increased 8% for the Quarter over the same period in 2005. This increase exceeds the increase in the underlying Agents and Sales Representatives as a result of organic growth and franchise contract acquisitions on January 1, 2006.

Variable franchise fees increased 2% for the Quarter over the same period in 2005 while the market activity increased 6%. The market activity for the Quarter outpaced the variable fees for the same period in 2006 due to the combination of Agents reaching the annual 1% cap of $1,300 and the timing of the earning of variable fees as these fees are paid to the Fund after the sales transaction closes. There is typically a 45- to 60-day delay between a home sale and closing, and accordingly some of the market activity during the Quarter is expected to materialize as variable fees in the quarter ending March 31, 2007.

Premium franchise fees decreased by 7% for the Quarter over the same period in 2005, driven in part by a 3% decline in the GTA Market in the three month period ended September 30 2006, which due to the delay between home sales and closing, contributed to the reduction in fees in the fourth quarter.

Other fees and services accounted for 14% of the Fund's royalties for the Quarter, compared with 13% of royalties in the same period in 2005. These fees, comprised of technology fees, 4.5% option fees, web service and other fees and revenue, increased 5% over the same period in 2005, due primarily to the increased number of REALTORS in the network.

Administration expenses for the Quarter were in line with management's expectations.

Management's Discussion and Analysis of Results and Financial Condition

Interest expense for the Quarter of $0.6 million was in line with the underlying debt agreement and consistent with the same period in 2005.

Management fee expense of $1.2 million for the Quarter was in line with management's expectations and has been calculated in accordance with the terms set out in the MSA.

Net earnings for the Quarter totalled $0.8 million and represents earnings less non-cash charges of $3.7 million of amortization related to intangible assets and $0.3 million related to the non-controlling interest's 25% share of the operating results.

Distributable cash for the Quarter totalled $4.8 million which was in line with management's expectations.

LIQUIDITY

The Fund utilized cash flow generated from operating activities for the Quarter and year ending December 31, 2006 of $6.1 million and $20.2 million, respectively, to meet acquisition and distribution requirements, without drawing on its $2 million operating line. A summary of the Fund's working capital position follows:

Working Capital ($ 000's)	**As at December 31, 2006**	As at September 30, 2006	As at June 30, 2006	As at March 31, 2006	As at December 31, 2005
Current assets					
Cash and cash equivalents	**$ 6,951**	$ 4,708	$ 2,268	$ 1,278	$ 9,941
Accounts receivable and other	**2,791**	3,186	3,381	2,709	2,518
	$ 9,742	$ 7,894	$ 5,649	$ 3,987	$ 12,459
Current liabilities					
Accounts payable and accrued liabilities	**$ 2,998**	$ 2,189	$ 2,320	$ 2,573	$ 2,064
Purchase obligation	**576**	27	–	–	2,893
Distribution payable to unitholders	**956**	956	957	957	915
	4,530	3,172	3,277	3,530	5,872
Net working capital	**$ 5,212**	$ 4,722	$ 2,372	$ 457	$ 6,587

The Fund had a net positive working capital position of $5.2 million as at December 31, 2006, an increase of $0.5 million from $4.7 million as at September 30, 2006 and a decrease of $1.4 million from the $6.6 million as at December 31, 2005. This decrease from December 31, 2005 was due primarily to the use of cash to fund the acquisition of franchise contracts (see Acquisitions and Deposit on Acquisitions) and the payment of an accumulated management fee of $1.9 million (see Distributable Cash).

Accounts receivable decreased $0.4 million from September 30, 2006 and increased $0.3 million from December 31, 2005 due primarily to seasonal market fluctuations, the capping of the 1% variable franchise fee and increased revenues associated with the increase in the number of selling-REALTORS.

Accounts payable and accrued liabilities of $3.0 million increased $0.8 million from September 30, 2006 and $0.9 million from December 31, 2005 due primarily to the deferral of the management fee payment to accommodate the January 1, 2007 franchise contract acquisition payment. Accounts payable is comprised of a $1.0 million ($0.9 million – December 31, 2005) quarterly distribution payable to the non-controlling interest, $1.2 million ($0.3 million – December 31, 2005) in management fees payable to the Manager and $0.8 million ($0.9 million – December 31, 2005) in interest expense, deferred service revenue and administration expense accruals.

As discussed earlier, the Fund purchased franchise contracts representing an estimated 390 REALTORS operating out of 22 locations for an estimated purchase price of $7.2 million plus GST. As the risks and rewards of ownership do not transfer to the Fund until the purchase date of January 1, 2007, the liability and corresponding asset for this purchase have not been recognized as at December 31, 2006. Under terms of the MSA, 80% of the estimated purchase price is payable on acquisition. This obligation along with the $0.6 million purchase obligation from the January 1, 2006 franchise contract acquisitions were paid in early 2007 from existing cash and cash equivalents.

CAPITAL RESOURCES

The existing capital resources that the Fund can draw on consist of a $2 million operating line, which has been unutilized since the inception of the Fund. Other capital resources include: funds generated from operations; $5.6 million in unutilized distributable cash held for future distributions in anticipation of the seasonality of the Canadian residential resale real estate market; debt servicing and distribution requirements; financing for the acquisition of franchise contracts. Management will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

With $5.6 million in cumulative unutilized distributable cash, an anticipated flow-through of strong market unit sales, and the anticipated generation of distributable cash in excess of distributions in the future, we anticipate meeting our near-term financing requirements.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

As at December 31, 2006, the Fund's interests are ultimately controlled 75% by the public Fund and 25% by BAM, which sold its interest in certain assets to the Fund. These assets included the relationships, trademarks and franchise agreements related to the business of its Royal LePage residential resale real estate brokerage franchise operations. Under the terms of the offering, the non-controlling interest must hold its 25% interest for five years until August 7, 2008 at which time it may exchange its Subordinated LP units for units of the Fund. In addition, during the initial five-year period, the non-controlling interest's right to receive distributions on a quarterly basis is reduced to the extent that the public unitholders do not receive their targeted monthly distributions of $0.0917 per unit.

As at December 31, 2006, BAM continued to operate 15 corporately-owned residential resale real estate brokerage locations in the GTA serviced by over 1,000 Agents. Of these operations, 14 entered into a single franchise contract with the Fund on the inception of the Fund. This franchise contract provides for a 20-year term for these locations under the $100/1% option and an additional Premium franchise fee ranging from 1% to 5% of the location's gross commission income for a 15-year term after which time the Premium franchise fees cease.

The management of the Fund and its underlying structure is provided under an MSA by the Manager, which is a company controlled by the non-controlling interest. The MSA provides for an initial term of 10 years and is automatically renewable for successive 10-year terms subject to certain performance criteria and or other notification requirements. The MSA details the Fund Manager's responsibilities and provides for a monthly fee, payable in arrears, of 20% of cash otherwise distributable.

On January 1 of each year the Fund may, upon the Board of Trustees' approval and based upon criteria detailed in the MSA, purchase franchises acquired by the Fund 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 are satisfied by way of cash or units of the Fund and are paid 80% on acquisition and the remaining 20% a year later when the actual franchise fees are reviewed and the acquisition calculations are adjusted accordingly.

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

	Year ended December 31, 2006	Year ended December 31, 2005
a) Royalties		
Fixed, variable and other franchise fees	**$ 2,198**	$ 1,947
Premium franchise fees	**$ 3,756**	$ 3,551
b) Expenses		
Management fees	**$ 7,285**	$ 3,660
Insurance and other	**$ 93**	$ 92
c) Distributions		
Distribution paid to non-controlling interest	**$ 3,826**	$ 3,662
d) Accounts receivable		
Franchise fees receivable and other	**$ 375**	$ 457
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 957**	$ 915
Management fees	**$ 1,212**	$ 325
Purchase obligation	**$ 576**	$ 2,893

Effective January 1, 2007, the Fund acquired 22 new Royal LePage residential real estate brokerage franchise contracts representing 22 real estate brokerage locations serviced by an estimated 390 real estate agents. The Fund acquired the contracts from the Fund Manager through the Partnership, the limited partnership that held the real estate broker franchise contracts for the Fund. The purchase price of $7.2 million is based on an estimated annual royalty stream of $0.8 million and has been calculated in accordance with the formula set forth in the Fund's MSA. The initial purchase price obligation of $5.7 million was paid by the Partnership during January 2007 using cash on hand. The remaining $1.5 million is expected to be paid in the first quarter of 2008 upon meeting the terms set out in the MSA.

CRITICAL ACCOUNTING ESTIMATES

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms include: the Fund's administration costs, allocation of the intangible assets between franchise contracts and relationships, and trademarks and their related amortization periods. The Fund's administration costs of approximately $0.6 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

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

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, purchase obligation, distributions payable to unitholders and a $38 million private debt placement.

The Fund is exposed to credit risk with respect to accounts receivable to the extent any franchisees are unable to pay their fees.

The Fund's $38 million private debt is fixed at 5.882% with an effective rate of 6.3% for a five-year term commencing February 18, 2005 and as such is not subject to interest rate fluctuations.

Management estimates the fair value of the Fund's financial instruments to approximate their carrying values.

CONTROLS AND PROCEDURES

We maintain appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Our Chief Executive and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2006, and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Our Chief Executive and Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2006 and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed. No changes were made to the design of our internal controls over financial reporting during the three months ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Note, however that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

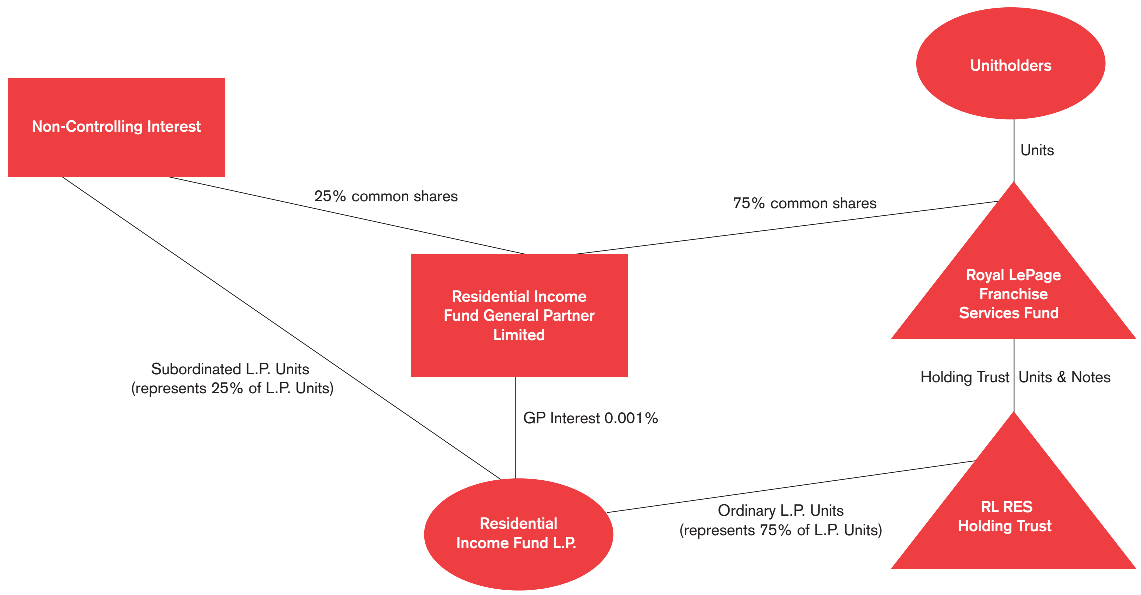
Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

OUTSTANDING UNITS

The Fund's capital structure remains unchanged from its launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at December 31, 2006, 9,983,000 units were issued and outstanding. In addition to these units, the Fund has also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units.

Management's Discussion and Analysis of Results and Financial Condition

FUND STRUCTURE



The Fund is governed by a Board of Trustees and is comprised of a Trust (Fund) on Trust (Holding Trust) structure, as summarized above, that controls a general partner and Limited Partnership. The Trust on Trust structure qualifies the Fund for Canadian RRSPs, RRIFs, RESPs, DPSPs and similar plans.

Substantially, all Fund activity is transacted through the Limited Partnership ("LP"), which in turn flows distributions to public unitholders and the non-controlling interest through the Fund structure. The Fund has a 75% interest in the LP by way of Ordinary LP units held by the Holding Trust while the subordinated unitholder has a 25% interest in the Partnership by way of Subordinated LP units. The Fund and the subordinated unitholder have a 75% and 25% respective ownership in the General Partner, which mirrors their LP interests.

Under the terms of the Offering, the subordinated unitholder must retain its full interest for five years from the commencement of the Fund. Fund distributions of all available cash are made on a monthly basis to public unitholders and on a quarterly basis to the subordinated unitholder. During the initial five-year period, the subordinated unitholder's distributions are subordinated to the public unitholders' distributions to the extent the public unitholders have not received the initial targeted monthly distribution of $0.0917 per unit, $1.10 per unit per annum. At the end of the five-year term, the subordinated unitholder may exchange its units for units of the Fund.

The LP manages the Fund's operations and underlying structure by way of the MSA, which was discussed in detail earlier.

TAXATION OF FUND DISTRIBUTIONS

Under the Fund's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Fund shall be claimed to the extent it brings its taxable income of the Trust to nil. The deductions available to the Trust are comprised of the costs of the offering and intangible assets. The estimated deductions available to the Trust as at December 31, 2006 are comprised of the costs of the initial public offering, intangible assets of the LP, acquisitions of franchise contracts subsequent to inception, and costs associated with the $38 million private debt placement, which have the following deductibility profile and amounts:

Taxation of Fund Distributions

($ millions) Future Deduction Basis	Actual Deduction for 2004	Actual Deduction for 2005	Actual Deduction for 2006	Remaining Balance	Estimated Deduction for 2007
7% of Balance	6.2	5.7	5.2	71.4	4.7
Five-year straight-line	1.8	1.9	1.9	3.4	1.9
Length of contract plus one renewal	–	0.6	0.9	14.0	1.4
	8.0	8.2	8.1	88.8	8.1

For the year ended December 31, 2006, the Fund had a return of capital per unit of approximately 26% (14% – 2005) and a taxable amount per unit of approximately 74% (86% – 2005). These calculations are summarized in the table below. The estimated tax allocation of distribution for 2007 is 89% taxable income and 11% return of capital.

($ millions)	**2006**	2005	2004	2003
Fund net earnings	**3.5**	4.8	3.3	2.0
Add				
Non-controlling interest	**1.3**	1.7	1.2	0.7
Amortization	**14.6**	14.2	13.7	3.8
Rounding and other				(0.1)
Taxable earnings	**19.4**	20.7	18.2	6.4
Less				
Tax deduction	**8.1**	8.2	8.0	3.4
Taxable income	**11.3**	12.5	10.2	3.0
Distributions	**(15.3)**	(14.6)	(14.6)	(6.0)
Return of capital	**(4.0)**	(2.1)	(4.4)	(3.0)
Return of capital	**26%**	14%	30%	50%
Taxable	**74%**	86%	70%	50%
Distributions				
Unitholders	**11.5**	11.0	11.0	4.5
Non-controlling interest	**3.8**	3.6	3.6	1.5
	15.3	14.6	14.6	6.0

IMPACT OF TAXATION ON INCOME TRUSTS

At this time, it is too early to determine the extent to which the proposed taxation of income trusts will affect the Fund (see Recent Developments). Management will continue to monitor and analyze this situation and its implications for the Fund as they develop. In the meantime, the business fundamentals for the Fund remain strong and we will continue to build the business to create long-term sustainable value for unitholders.

Management's Discussion and Analysis of Results and Financial Condition

CHANGE IN ACCOUNTING POLICIES

FUTURE ACCOUNTING CHANGES – FINANCIAL INSTRUMENTS

The CICA has issued three new accounting standards:

- Section 3855, *Financial Instruments – Recognition and Measurement*, effective for fiscal years beginning on or after October 1, 2006. This section describes the standards for recognizing and measuring financial instruments in the balance sheet and the standards for reporting gains and losses in the financial statements. Financial assets available for sale, assets and liabilities held for trading and derivative financial instruments, part of a hedging relationship or not, have to be measured at fair value. The impact of remeasuring our financial assets and liabilities at fair value will be recognized in opening deficit and opening accumulated other comprehensive income as appropriate. The impact of the adoption of this new section on the consolidated financial statements is not expected to be material.
- Section 1530, *Comprehensive Income*, effective for fiscal years beginning on or after October 1, 2006. It describes reporting and disclosure recommendations with respect to comprehensive income and its components. Comprehensive income is the change in Unitholders' equity, which results from transactions other than those resulting from investments by Unitholders and distributions to Unitholders. These transactions and events include unrealized gains and losses resulting from changes in fair value of certain financial instruments.
- Section 3865, *Hedges*, effective for fiscal years beginning on or after October 1, 2006. The recommendations expand the guidelines outlined in Accounting Guideline 13 ("AcG-13"), *Hedging Relationships*. This Section describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from the derivative financial instruments in the same period as for those related to the hedged item. As the Fund is not expected to have any hedged items during the upcoming fiscal year, there is no expected impact of the adoption of this new section on the consolidated financial statements.

These standards will be effective for the Fund as of January 1, 2007 and will be adopted on a retroactive basis without restatement.

OUTLOOK

We expect continued strength in the Canadian residential resale real estate market in the mid-term due to strong underlying market fundamentals supported by low interest rates, strong consumer confidence, the relative affordability of residential real estate and a relatively strong economy. This strength has been, and will continue to be, mitigated somewhat by a trend toward rising interest rates and an increase in listing inventory levels. This rise in listing inventory is expected to lessen the pace of price appreciation across Canada from double digits seen over the past few years to single digits for the near and mid-term, with the anticipated overall effect of a strong but more balanced market in most regions of Canada. Alberta continues to record double digit price appreciation but the pace of growth there also has been moderating.

We are well positioned for the shift to balanced markets, as the benefits of strong brands and productivity-enhancing tools become more apparent to brokers and Agents when transaction volumes moderate, and there typically are more acquisition opportunities.

The continued strength of the Canadian residential real estate market is in contrast with our U.S. counterpart, which has softened significantly. While transactional dollar volume in the Canadian residential resale market increased 11.2% in 2006 fuelled by a selling price increase of 11.1%, sales in the U.S. of existing homes declined by 8.4% and the average house price increased by only 0.6%, which was well down from the average 9.1% appreciation of 2005. This divergent trend continued in January 2007, reflecting a number of factors, notably: the United States has a more aggressive monetary policy; more financial instruments that have stimulated speculative residential development and investment; a tax system that encourages maximum homeowner leverage; higher household debt; and a longer run-up and steeper house price increases. As a result, we expect this discrepancy between the two markets to continue in the short and mid-term.

The growth in transaction dollar volume of Canadian residential resale real estate represents an opportunity to generate greater distributable cash through increased franchise fees earned from increased Agent productivity and the attraction of franchisees and REALTORS to our brands. To this end, we will continue to seek ways to enhance our service and support offerings and improve our efficiencies.

During 2006, we continued to expand and improve our sales, marketing, communication and technology tools, as well as training programs to help Agents apply the tools in order to maximize their productivity. Our leading internet-based technology platform provides Agents with an integrated web-based portal for developing their skills and growing their businesses. We also expanded our program of training and coaching programs to help agents achieve their career objectives.

During 2007 we will continue to develop expertise in high growth niche markets. We were the first organization in Canada to announce the launch of a seniors real estate specialist designation (SRES®) program, effective in the first quarter of 2007. This designation, which is recognized by CARP, Canada's association for individuals who are aged 50-plus, will provide our Agents with the tools and recognition to build their seniors client base. We will also continue to develop our Carriage Trade program which provides comprehensive marketing support for high-end properties.

Continuing strong market fundamentals, our technology enhancements, marketing initiatives combined with favourable debt refinancing and increased royalties from acquisitions, set the stage for stable and sustainable unitholder distributions.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report contains 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 Fund to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward 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 Fund'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 Fund undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION – NET EARNINGS AND DISTRIBUTABLE CASH BY PERIOD

($ 000's except per unit amounts, unaudited)	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Royalties	$ 5,596	$ 7,138	$ 7,937	$ 6,525	$ 6,492	$ 7,932	$ 8,470	**$ 6,765**
Less:								
Administration expenses	123	145	125	202	160	190	163	**132**
Management fee	915	915	915	915	3,111	1,429	1,540	**1,205**
Interest expense	481	602	602	604	590	600	605	**606**
Amortization of intangible assets	3,471	3,521	3,569	3,589	3,604	3,632	3,657	**3,666**
Earnings (loss) before undernoted	606	1,955	2,726	1,215	(973)	2,081	2,505	**1,156**
Non-controlling interest	(175)	(519)	(702)	(350)	211	(556)	(657)	**(317)**
Net earnings (loss) for the period	431	1,436	2,024	865	(762)	1,525	1,848	**839**
Add :								
Amortization of intangible assets	3,471	3,521	3,569	3,589	3,604	3,632	3,657	**3,666**
Non-controlling interest	175	519	702	350	(211)	556	657	**317**
Distributable cash	4,077	5,476	6,295	4,804	2,631	5,713	6,162	**4,822**
Add (less) change in:								
Unutilized cash	(416)	(1,814)	(2,633)	(1,142)	1,196	(1,889)	(2,338)	**(997)**
Distributable cash	$ 3,661	$ 3,662	$ 3,662	$ 3,662	$ 3,827	$ 3,824	$ 3,824	**$ 3,825**
Distributable cash available to:								
Public unitholders	$ 2,746	$ 2,747	$ 2,746	$ 2,746	$ 2,870	$ 2,868	$ 2,869	**$ 2,870**
Non-controlling interest	915	915	916	916	957	956	958	**955**
	$ 3,661	$ 3,662	$ 3,662	$ 3,662	$ 3,827	$ 3,824	$ 3,827	**$ 3,825**
Distributions to public unitholders	$ 2,746	$ 2,747	$ 2,746	$ 2,746	$ 2,870	$ 2,868	$ 2,869	**$ 2,870**
Per unit (9,983,000 units):								
Basic and diluted earnings (loss)	$ 0.04	$ 0.14	$ 0.20	$ 0.09	$ (0.08)	$ 0.15	$ 0.19	**$ 0.08**
Basic and diluted distributable cash before working capital and other reserves	$ 0.31	$ 0.41	$ 0.47	$ 0.36	$ 0.20	$ 0.43	$ 0.46	**$ 0.36**
Basic and diluted distributions	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.29	$ 0.29	$ 0.29	**$ 0.29**

TAX ALLOCATION OF DISTRIBUTIONS

(Unaudited)	2003	2004	2005	**2006**	2007
	(actual)	(actual)	(actual)	(actual)	(estimated)
Other taxable income	50%	70%	86%	**74%**	89%
Return of capital	50%	30%	14%	**26%**	11%
Total distributions of the period	100%	100%	100%	**100%**	100%

SUPPLEMENTAL INFORMATION – SELECTED FINANCIAL AND OPERATING INFORMATION

($000's, unaudited)	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Revenue								
Fixed franchise fees	$ 2,945	$ 2,999	$ 3,127	$ 3,261	$ 3,380	$ 3,453	$ 3,485	**$ 3,509**
Variable franchise fees	1,335	2,231	2,444	1,327	1,610	2,498	2,377	**1,347**
Premium franchise fees	576	1,103	1,497	1,065	688	1,125	1,685	**990**
Other fee revenue and services	740	805	869	872	814	856	923	**919**
	$ 5,596	$ 7,138	$ 7,937	$ 6,525	$ 6,492	$ 7,932	$ 8,470	**$ 6,765**
% Revenue by region								
British Columbia	15	15	14	14	16	15	14	**14**
Prairies	11	11	11	11	11	11	11	**11**
Ontario	57	57	59	59	56	57	59	**59**
Quebec	13	13	12	12	13	13	12	**12**
Maritimes	4	4	4	4	4	4	4	**4**
	100	100	100	100	100	100	100	**100**

Changes during the period	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Number of Agents and Sales Representatives	750	323	119	205	443	177	39	**(52)**
Number of Agents	726	295	138	179	448	130	36	**(49)**
Number of fixed fee paying Sales Representatives	–	–	477	89	39	40	(1)	**–**
Number of locations	47	–	(4)	–	21	(2)	(1)	**(1)**
Number of franchisees	38	(1)	(2)	–	16	(1)	(1)	**(1)**
At end of period								
Number of Agents and Sales Representatives	10,895	11,218	11,337	11,542	11,985	12,162	12,201	**12,149**
Number of Agents	10,081	10,376	10,514	10,693	11,141	11,271	11,307	**11,258**
Number of fixed fee paying Sales Representatives	–	–	477	566	605	645	644	**644**
Number of locations	565	565	561	561	582	580	579	**578**
Number of franchisees	265	264	262	262	278	277	276	**275**

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION

FUND UNIT PERFORMANCE

	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Trading price range of units (TSX: "RSF.UN")								
High	$ 14.90	$ 14.30	$ 14.50	$ 13.50	$ 14.25	$ 14.75	$ 14.50	**$ 14.50**
Low	$ 11.50	$ 12.60	$ 12.05	$ 10.31	$ 12.50	$ 12.41	$ 13.00	**$ 11.00**
Close	$ 13.40	$ 13.29	$ 13.00	$ 13.10	$ 13.30	$ 13.26	$ 14.10	**$ 13.35**
Average daily volume	25,689	5,646	7,467	4,481	11,570	18,383	5,883	**11,731**
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	**9,983,000**
Net enterprise value at period end (thousands)								
Market capitalization[5]	$ 178,363	$ 176,899	$ 173,039	$ 174,370	$ 177,032	$ 176,499	$ 187,680	**$ 177,697**
Long-term debt	38,000	38,000	38,000	38,000	38,000	38,000	38,000	**38,000**
Less:								
Cash on hand	3,658	5,430	8,532	9,941	1,278	2,268	4,708	**6,951**
	$ 212,705	$ 209,469	$ 202,507	$ 202,429	$ 213,754	$ 212,231	$ 220,972	**$ 208,746**

[5] Comprised of the number of units outstanding at period end and 3,327,667 subordinated units, multiplied by the closing unit price.

DISTRIBUTION HISTORY

	Distributions per Unit			
Month	2003	2004	2005	**2006**
January		$ 0.0917	$ 0.0917	**$ 0.0958**
February		0.0917	0.0917	**0.0958**
March		0.0917	0.0917	**0.0958**
April		0.0917	0.0917	**0.0958**
May		0.0917	0.0917	**0.0958**
June		0.0917	0.0917	**0.0958**
July		0.0917	0.0917	**0.0958**
August		0.0917	0.0917	**0.0958**
September	$ 0.1750*	0.0917	0.0917	**0.0958**
October	0.0917	0.0917	0.0917	**0.0958**
November	0.0917	0.0917	0.0917	**0.0958**
December	0.0917	0.0917	0.0917	**0.0958**
	$ 0.45	$ 1.10	$ 1.10	**$ 1.15**

* Based on a 55-day period

SUPPLEMENTAL INFORMATION – CONDENSED BALANCE SHEET

($ 000's, unaudited)	As at March 31, 2005	As at June 30, 2005	As at Sept. 30, 2005	As at Dec. 31, 2005	As at March 31, 2006	As at June 30, 2006	As at Sept. 30, 2006	**As at Dec. 31, 2006**
Cash and cash equivalents	$ 3,658	$ 5,430	$ 8,532	$ 9,941	$ 1,278	$ 2,268	$ 4,708	**$ 6,951**
Accounts receivable	2,874	3,074	2,797	2,434	2,614	3,320	3,159	**2,699**
Prepaid expenses	86	60	27	84	95	61	27	**92**
Deferred charges	749	743	703	684	640	599	557	**516**
Deposit on acquisition	4,038	1,118	–	–	2,979	1,423	–	**–**
Intangible assets	136,751	136,169	135,404	133,022	131,417	129,356	127,149	**124,031**
	$ 148,156	$ 146,594	$ 147,463	$ 146,165	$ 139,023	$ 137,027	$ 135,600	**$ 134,289**
Accounts payable and accrued liabilities	$ 1,858	$ 2,003	$ 2,122	$ 2,064	$ 2,573	$ 2,320	$ 2,189	**$ 2,998**
Purchase obligations	–	–	1,686	2,893	–	–	27	**576**
Distributions payable to unitholders	915	915	915	915	957	957	956	**956**
Long-term debt	38,000	38,000	38,000	38,000	38,000	38,000	38,000	**38,000**
Non-controlling interest	27,000	26,604	26,390	25,824	24,656	24,257	23,956	**23,317**
Unitholders' equity	80,383	79,072	78,350	76,469	72,837	71,493	70,472	**68,442**
	$ 148,156	$ 146,594	$ 147,463	$ 146,165	$ 139,023	$ 137,027	$ 135,600	**$ 134,289**

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION – CONDENSED CASH FLOW BY PERIOD

($ 000's, unaudited)	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Cash provided by (used for):								
Operating activities								
Net earnings (loss) for the period	$ 431	$ 1,436	$ 2,024	$ 865	$ (762)	$ 1,525	$ 1,848	**$ 839**
Add (deduct)								
Non-controlling interest	175	519	702	350	(211)	556	657	**317**
Amortization of deferred charges	17	41	40	40	44	41	42	**41**
Amortization of intangible assets	3,471	3,521	3,569	3,589	3,604	3,632	3,657	**3,666**
Changes in non-cash working capital	(831)	(29)	429	248	360	(925)	63	**1,205**
	3,263	5,488	6,764	5,092	3,035	4,829	6,267	**6,068**
Investing activities								
Deposit on acquisition	(7,048)	–	–	–	(4,978)	–	–	**–**
Purchase of intangible assets	26	(19)	–	–	(2,893)	(15)	–	**–**
	(7,022)	(19)	–	–	(7,871)	(15)	–	**–**
Financing activities								
Distributions paid to unitholders	(2,746)	(2,747)	(2,746)	(2,746)	(2,870)	(2,869)	(2,869)	**(2,869)**
Distributions paid to non-controlling interest	(915)	(915)	(916)	(916)	(957)	(955)	(958)	**(956)**
Proceeds from long-term debt	38,000	–	–	–	–	–	–	**–**
Repayment of term loan	(30,600)	–	–	–	–	–	–	**–**
Deferred charges	(766)	(35)	–	(21)	–	–	–	**–**
	2,973	(3,697)	(3,662)	(3,683)	(3,827)	(3,824)	(3,827)	**(3,825)**
Increase (decrease) in cash and cash equivalents during the period	(786)	1,772	3,102	1,409	(8,663)	990	2,440	**2,243**
Cash and cash equivalents, beginning of period	4,444	3,658	5,430	8,532	9,941	1,278	2,268	**4,708**
Cash and cash equivalents, end of period	$ 3,658	$ 5,430	$ 8,532	$ 9,941	$ 1,278	$ 2,268	$ 4,708	**$ 6,951**

SUPPLEMENTAL INFORMATION – CANADIAN REAL ESTATE MARKET

	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006	**Three months ended Dec. 31, 2006**
Canada								
Transaction dollar volume[1]	$ 24,814	$ 37,809	$ 32,190	$ 25,601	$ 30,585	$ 42,607	$ 33,200	**$ 27,227**
Average selling price	$ 238,834	$ 251,101	$ 250,214	$ 256,519	$ 267,780	$ 283,261	$ 276,591	**$ 280,968**
Number of units sold	103,898	150,573	128,649	99,802	114,217	150,417	120,032	**96,903**
Number of REALTORS at period end	78,816	80,604	82,112	82,837	85,361	86,838	88,131	**88,906**
Housing starts	37,084	67,183	62,809	58,405	43,917	65,229	60,197	**58,052**
Greater Toronto Area								
Transaction dollar volume[1]	$ 6,017	$ 9,371	$ 7,310	$ 6,117	$ 6,989	$ 9,640	$ 7,094	**$ 6,180**
Average selling price	$ 330,120	$ 344,557	$ 329,131	$ 338,396	$ 348,579	$ 363,429	$ 343,014	**$ 351,070**
Number of units sold	18,228	27,196	22,211	18,075	20,050	26,525	20,680	**17,604**
Housing starts	6,918	13,050	11,774	9,854	7,290	11,462	8,750	**9,578**

[1] ($ millions)

	Twelve months ended March 31, 2005	Twelve months ended June 30, 2005	Twelve months ended Sept. 30, 2005	Twelve months ended Dec. 31, 2005	Twelve months ended March 31, 2006	Twelve months ended June 30, 2006	Twelve months ended Sept. 30, 2006	**Twelve months ended Dec. 31, 2006**
Canada								
Transaction dollar volume[1]	$ 104,912	$ 109,670	$ 116,166	$ 120,395	$ 126,189	$ 130,983	$ 132,190	**$ 133,825**
Average selling price	$ 231,335	$ 238,134	$ 244,667	$ 249,365	$ 255,814	$ 265,640	$ 272,145	**$ 277,034**
Number of units sold	453,506	460,537	474,795	482,805	493,285	493,085	485,733	**483,062**
Housing starts	231,133	230,938	227,993	225,481	232,314	230,360	227,748	**227,395**
Seasonally adjusted housing starts	218,500	237,200	230,500	227,700	252,300	232,200	211,300	**211,500**
Greater Toronto Area								
Transaction dollar volume[1]	$ 26,851	$ 27,352	$ 28,205	$ 28,815	$ 29,786	$ 30,056	$ 29,839	**$ 29,903**
Average selling price	$ 320,712	$ 328,419	$ 332,471	$ 336,190	$ 340,287	$ 346,024	$ 349,689	**$ 352,382**
Number of units sold	83,723	83,283	84,834	85,710	87,532	86,861	85,330	**84,859**
Housing starts	42,202	42,601	41,995	41,596	41,968	40,380	37,356	**37,080**

[1] ($ millions)

Source: CMHC, CREA and TREB

Management's Responsibility for the Financial Statements

The accompanying financial statements and other financial information have been prepared by the Fund's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Fund maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These financial statements have been prepared in conformity with Canadian generally accepted accounting principles, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this annual report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche, LLP, the independent auditors appointed by the unitholders, have examined the consolidated financial statements set out on pages 33 through 40 in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further examined by the Board of Trustees and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Trustees. The auditors have direct and full access to the Audit Committee and meet with the Committee both with and without management present. The Board of Trustees, directly and through its Audit Committee, oversees management financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Toronto, Canada. March 20, 2007

Philip Soper
President and Chief Executive

Kevin A. Cash
Senior Vice-President, CFO

Auditors' Report

TO THE UNITHOLDERS OF ROYAL LEPAGE FRANCHISE SERVICES FUND

We have audited the consolidated balance sheets of Royal LePage Franchise Services Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Canada, February 23, 2007

Consolidated Balance Sheets

As at December 31, 2006 and 2005 (in thousands of dollars)	**2006**	2005
Assets		
Current assets		
Cash	**$ 6,951**	$ 9,941
Accounts receivable	**2,699**	2,434
Prepaid expenses	**92**	84
	9,742	12,459
Deferred charges	**516**	684
Intangible assets (note 3)	**124,031**	133,022
	$ 134,289	$ 146,165
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,998**	$ 2,064
Purchase obligation (note 3)	**576**	2,893
Distribution payable to unitholders	**956**	915
	4,530	5,872
Long-term debt (note 6)	**38,000**	38,000
Non-controlling interest (note 7)	**23,317**	25,824
	65,847	69,696
Unitholders' equity	**68,442**	76,469
	$ 134,289	$ 146,165

See accompanying notes to the consolidated financial statements

On behalf of the board

Simon Dean
Trustee

Lorraine Bell
Trustee

Consolidated Statements of Earnings

Years ended December 31, 2006 and 2005 (in thousands of dollars, except unit and per unit amounts)	**2006**	2005
Royalties		
Fixed franchise fees	**$ 13,827**	$ 12,332
Variable franchise fees	**7,832**	7,337
Premium franchise fees	**4,488**	4,241
Other fee revenue and services	**3,512**	3,286
	29,659	27,196
Expenses		
Administration	**645**	595
Management fee (note 10)	**7,285**	3,660
Interest expense	**2,401**	2,289
Amortization of intangible assets	**14,559**	14,150
	24,890	20,694
Earnings before undernoted	**4,769**	6,502
Non-controlling interest (note 7)	**(1,319)**	(1,746)
Net earnings	**$ 3,450**	$ 4,756
Basic and diluted earnings per unit (9,983,000 units) (note 9)	**$ 0.35**	$ 0.48

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)	Units (note 8)	Net Earnings	Distributions	Total
Balance, December 31, 2004	$ 92,938	$ 5,278	$ (15,518)	$ 82,698
Changes during the year:				
Net income	–	4,756	–	4,756
Unit distributions	–	–	(10,985)	(10,985)
Balance, December 31, 2005	92,938	10,034	(26,503)	76,469
Changes during the year:				
Net income	**–**	**3,450**	**–**	**3,450**
Unit distributions	**–**	**–**	**(11,477)**	**(11,477)**
Balance, December 31, 2006	**$ 92,938**	**$ 13,484**	**$ (37,980)**	**$ 68,442**

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005 (in thousands of dollars)	2006	2005
Cash provided by (used for):		
Operating activities		
Net earnings for the year	**$ 3,450**	$ 4,756
Items not affecting cash		
Non-controlling interest	**1,319**	1,746
Amortization of deferred charges	**168**	138
Amortization of intangible assets	**14,559**	14,150
Changes in non-cash working capital (note 12)	**703**	(183)
	20,199	20,607
Investing activities		
Purchase of intangible assets (note 3)	**(4,993)**	(7,041)
Payment of purchase price obligation (note 3)	**(2,893)**	–
	(7,886)	(7,041)
Financing activities		
Distributions paid to unitholders	**(11,477)**	(10,985)
Distributions paid to non-controlling interest	**(3,826)**	(3,662)
Proceeds from private debt placement	**–**	38,000
Repayment of long-term debt (note 6)	**–**	(30,600)
Deferred charges	**–**	(822)
	(15,303)	(8,069)
(Decrease) Increase in cash during the year	**(2,990)**	5,497
Cash, beginning of year	**9,941**	4,444
Cash, end of year	**$ 6,951**	$ 9,941

Supplementary Cash Flow Information (note 12)

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005 (In thousands of dollars)

1. ORGANIZATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's significant accounting policies are as follows:

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 in income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor. Fixed Franchise Fees are recognized in income as earned.

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 in income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor.

Other fee-based revenues are generally recognized in income when the related services have been provided. Any prepayment for future service is recorded as deferred revenue. The deferred revenue at December 31, 2006 was $153 (2005 – $179).

INTANGIBLE ASSETS

Intangible assets, consisting of franchise agreements, relationships and trademark rights are recorded at cost less accumulated amortization. The franchise agreements are being amortized over the term of the franchise agreements using the effective rate method. Relationships are being amortized over one renewal period, at the commencement of that period, using the effective rate method. The trademarks are being amortized on a straight-line basis over the term of the franchise agreement plus one renewal period. The Fund reviews the carrying value of the intangible assets for impairment whenever events or circumstances indicate the carrying value may not be recoverable. If an impairment is determined to exist, the intangible assets are written down to their fair value.

DEFERRED CHARGES

Deferred charges consist of financing costs which are amortized on a straight-line basis over the term of the debt to which they relate. The deferred balance of $516 (2005 – $684) is net of accumulated amortization of $306 (2005 – $138).

EARNINGS PER UNIT

The earnings per unit are based on the weighted average number of units outstanding during the year. Diluted earnings per unit are calculated to reflect the dilutive effect, if any, of the non-controlling interest exercising its right to exchange its Subordinated LP Units of the Partnership into units of the Fund after August 7, 2008.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005 (In thousands of dollars)

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment in the value of intangible assets, useful lives for amortization and the fair value of long-term debt. Actual results could differ from those estimates.

INCOME TAXES

i) Pursuant to the terms of the Amended and Restated Declaration of Trust, the trustees of the Fund are required to make distributions or designate all taxable income earned by the Fund to its unitholders, including the taxable part of net realized capital gains, and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the Fund. Income tax obligations related to distributions by the Fund are the obligations of the unitholders. In respect of the assets and unit issuance costs of the Fund, the carrying value of the Fund's net assets at December 31, 2006 exceeds the amortizable tax basis by approximately $35,700 (2005 – $42,400).

ii) On October 31, Canada's Finance Minister announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. For income trusts that were publicly traded on October 31, 2006, including the Fund, it is proposed that the new tax will first apply to the 2011 taxation year. Should the legislation be substantively enacted, this would require the recognition of future tax assets and future tax liabilities with a corresponding impact on future tax expense related to temporary differences anticipated to reverse after January, 1 2011. At this time, it is too early to determine the extent to which the proposed legislation will affect the Fund and its future plans; accordingly, management will continue to monitor and analyze the situation and its implications to the Fund as they develop.

3. INTANGIBLE ASSETS AND ASSET ACQUISITIONS

On January 1, 2006, the Partnership acquired 16 franchise agreements from Residential Income Fund Management Limited ("RIFML") at a purchase price of $5,554 calculated in accordance with the Management Services Agreement ("MSA"). On January 4, 2006, $4,978 was paid in cash against this purchase price obligation and the remaining balance of $576 was paid in cash on January 2, 2007.

On May 1, 2006, $15 was paid in cash for legal due diligence regarding the January 1, 2006 acquisition and was recorded as "intangible assets".

On January 1, 2005, the Partnership acquired 38 franchise agreements from RIFML at a purchase price of $9,934 calculated in accordance with the MSA. On February 18, 2005, $7,041 was paid in cash against this purchase price obligation and the remaining $2,893 was paid in cash on January 4, 2006.

		2006	
	Cost	**Accumulated Amortization**	**Net Book Value**
Franchise agreements	**$ 127,665**	**$ 45,481**	**$ 82,184**
Relationships and trademarks	**42,504**	**657**	**41,847**
	$ 170,169	**$ 46,138**	**$ 124,031**

		2005	
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 123,622	$ 31,136	$ 92,486
Relationships and trademarks	40,979	443	40,536
	$ 164,601	$ 31,579	$ 133,022

Amortization for the year ended December 31, 2006 was $14,559 (2005 – $14,150).

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005 (In thousands of dollars)

4. FRANCHISE AGREEMENTS

	2006	2005
Number of franchises, beginning of year	**262**	227
Additions	**16**	38
Terminations	**(3)**	(3)
Number of franchises, end of year	**275**	262

5. OPERATING CREDIT FACILITY

On February 16, 2005, the Partnership obtained 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 1% to 1.5% or the banker acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. As at December 31, 2006, the operating credit facility had not been drawn upon.

6. LONG-TERM DEBT

On February 18, 2005, the Partnership completed the issuance of a $38,000 private debt placement (the "private placement") provided by Canadian institutional investors. The private placement is for a five-year term maturing February 17, 2010 with interest fixed at 5.882%, and only interest payable quarterly in arrears. The proceeds of the private placement, net of $822 in issue costs, were utilized by the Partnership to payout and retire its $30,600 term loan and to fund the Partnership's January 1, 2005 franchise agreement acquisition obligations.

7. NON-CONTROLLING INTEREST

A summary of the non-controlling interest is as follows:

	2006	2005
Non-controlling interest at beginning of year	**$ 25,824**	$ 27,740
Non-controlling interest earnings for the year	**1,319**	1,746
Distributions	**(3,826)**	(3,662)
	$ 23,317	$ 25,824

The non-controlling interest owns 25 common shares in RIFGP and 3,327,667 Class B subordinated limited partnership units of the Partnership ("Subordinated LP Units") which reflects an effective 25% interest in the Partnership. An equivalent amount of Special Fund Units, which represent voting rights in the Fund, also accompanied the Subordinated LP Units. The Fund indirectly holds the remaining 75% interest in the Partnership through Class A limited partnership units of the Partnership ("Ordinary LP Units").

The holders of the Ordinary LP Units and Subordinated LP Units are entitled to proportionately receive all distributions of the Partnership, in accordance with the aggregate number of Ordinary LP Units and Subordinated LP Units issued and outstanding as at the record date for such distribution and in accordance with the provisions of the Partnership Agreement. Distributions to the holder of the Subordinated LP Units are subordinated to the distributions to the holder of Ordinary LP Units until August 7, 2008 (the "Conversion Date"). The non-controlling interest is entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Subordinated LP Units for Units of the Fund on or after the Conversion Date.

8. FUND UNITS

The Fund is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the Fund. All units are of the same class with equal rights and privileges.

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005 (In thousands of dollars)

Pursuant to the Amended and Restated Declaration of Trust, the holder of the Special Fund Units, which accompanied the Subordinated LP Units (note 7), will be entitled to vote in all votes of Fund unitholders, as if they were holders of the number of units of the Fund they would receive if Subordinated LP Units were exchanged into units of the Fund as of the record date of such votes, and will be treated in all respects as unitholders of the Fund for the purpose of any such votes. The Special Fund Units are not entitled to receive distributions.

Units are redeemable at the option of the holder at a price based on the market value as defined in the Declaration of Trust, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund.

9. EARNINGS PER UNIT

The Special Fund Units were not included in the diluted per unit calculations as the effect would have been anti-dilutive.

10. MANAGEMENT SERVICES AGREEMENT

i) The Fund has a MSA with the Residential Income Fund Manager Limited ("RIFML"), a party related to the non-controlling interest via common control, under which RIFML is to provide certain management, administrative and support services to the Fund and its subsidiaries. The MSA commenced August 7, 2003, has an initial term of 10 years and is automatically renewable for successive 10-year periods subject to approval of the Fund and RIFML. The MSA provides for the payment of a monthly fee equal to 20% of the cash of the Partnership otherwise available for distribution. For the year ended December 31, 2006, RIFML earned $7,285 for these services (2005 – $3,660).

ii) Since inception, the Fund had accumulated and retained undistributed cash of $9.4 million, which in the event of the release of this excess cash would result in a 20% management fee payable to RIFML. During 2006, the Fund released the $9.4 million in excess cash, a portion of which was used to fund the 2005 and 2006 franchise agreements purchase obligations. As a result, management fees of $1.9 million relating to the $9.4 million was incurred and is included in management fees expense.

11. RELATED PARTY TRANSACTIONS

The Fund had the following transactions with parties related to the non-controlling interest. These transactions have been recorded at the exchange amount agreed to between the parties.

	2006	2005
a) Royalties		
Fixed, variable and other franchise fees	**$ 2,198**	$ 1,947
Premium franchise fees	**$ 3,756**	$ 3,551
b) Expenses		
Management fees	**$ 7,285**	$ 3,660
Insurance and other	**$ 93**	$ 92
c) Distributions		
Distributions paid to non-controlling interest	**$ 3,826**	$ 3,662

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

As at December 31	**2006**	2005
d) Accounts receivable		
Franchise fees receivable and other	**$ 375**	$ 457
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 957**	$ 915
Management fees	**$ 1,228**	$ 325
Purchase obligation	**$ 576**	$ 2,893

Notes to the Consolidated Financial Statements

December 31, 2006 and 2005 (In thousands of dollars)

12. SUPPLEMENTAL CASH FLOW INFORMATION

		2006		2005
a) Changes in non-cash working capital				
Accounts receivable	$	(265)	$	(258)
Prepaid expenses		(7)		12
Accounts payable and accrued liabilities		934		63
Distributions payable to unitholders		41		–
	$	703	$	(183)
b) Supplementary information				
Interest paid	$	2,235	$	1,921

13. FINANCIAL INSTRUMENTS

In the normal course of business the Fund 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 Fund's credit risk is limited to the recorded amount of accounts receivable.

(B) FAIR VALUE

The fair value of the Fund's financial instruments, which consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and the term loan, are estimated by management to approximate their carrying values.

14. SUBSEQUENT EVENTS

Effective January 1, 2007, the Partnership acquired 22 new franchise agreements from RIFML. The estimated purchase price of $7,179 is based on an estimated annual royalty stream of $822 and has been calculated in accordance with the formula set forth in the MSA. A deposit of $5,743, equal to 80% of the estimated purchase price was paid on January 2, 2007 and the remainder will be paid a year later, when the final purchase price is calculated in accordance with the terms set out in the MSA. The Partnership used cash reserves to acquire these agreements.

Board of Trustees

The Fund is governed by a board of five trustees, three of whom are independent of the Fund or its manager.

The Board oversees the business and affairs of the Fund. The independent Trustees also monitor the performance of the Manager on behalf of the Fund and ensure compliance with the terms of the Management Services Agreements.

The Trustees have adopted formal terms of reference regarding their responsibilities and all matters of governance. They have agreed to formal distribution and disclosure policies, which are reviewed on an ongoing basis.

Lorraine D. Bell, Trustee and Chair of the Audit Committee
Since 1996, Ms. Bell has been a self-employed consultant. Lorraine Bell is a Chartered Accountant with over 20 years of experience in the financial sector. Ms. Bell is a member of the Board of Directors and the Audit Committee of the Ontario Financing Authority. Prior to being self-employed, she was the founder and responsible for General Re Financial Products Canada, a derivatives services company, which she ran from 1993 until 1996.

Simon P. Dean, Trustee
Since April 2005, Mr. Dean has been a self-employed consultant. He was previously Chief Executive Officer of the Manager (and its predecessor RL RES) from January 1995 and Managing Partner of Brookfield Business Services from 2001. Prior to joining RL RES, he was President and Chief Executive Officer of three retail organizations owned by Rogers Communications Inc. from 1988 to 1993 and Executive Vice President of Rogers Cantel Mobile Communications Inc., a national cellular service provider from 1993 to 1994.

Allen Karp, Trustee and Chair of the Governance Committee
Mr. Karp resides in Toronto, Ontario. Mr. Karp was a partner in the law firm of Goodman and Carr LLP, where he practiced law from 1966 to 1986. Mr. Karp had been with Cineplex Odeon Corporation since 1986, where he retired as President and C.E.O. in 2002; and as Chairman Emeritus in 2005. Mr. Karp also sits on the Board of Directors of Alliance Atlantis Communications Inc.; Teknion Corporation; Tucows Inc.; is a Trustee and Chairman of IBI Income Fund; and is Chairman of the Toronto International Film Festival Group.

Gail Kilgour, Trustee
Ms. Kilgour brings more than 25 years of experience in the financial services industry to the Board. She currently serves on the Board of Governors at the University of Guelph and chairs their Audit Committee. She also serves on the Board of Directors for the Ontario Realty Corporation and chairs their Human Resources Committee. A self employed consultant since 2005 and Corporate Director, Ms. Kilgour was previously employed by the Canadian Imperial Bank of Commerce ("CIBC"), in a number of senior management roles including, Senior Vice President, Government Sponsored Student Loans, President and Chief Executive Officer, EDULINX Canada Corporation, a subsidiary of CIBC and Senior Vice-President, CIBC's e-Business Strategy.

George Myhal, Trustee and Chairman
Mr. Myhal is Managing Partner and Chief Operating Officer of BAM. Mr. Myhal has held a number of senior positions within Brookfield since joining the company in 1981. He has been instrumental in the development and growth of Brookfield's asset management business and is responsible for a number of other operations throughout Brookfield including corporate development. He is a Chartered Accountant and an industrial engineering graduate of the University of Toronto.

Audit Committee

The Audit Committee is comprised of three independent, financially literate Trustees. They meet on a quarterly basis and oversee financial accounting and reporting, internal control, risk management and insurance, external/internal audit and publicly disclosed financial information.

The Audit Committee reviews and reports to the Board of Trustees on interim financial statements, audited annual financial statements, public disclosure documents containing audited or unaudited financial information, and the effectiveness of management policies and practices concerning financial reporting and control.

The Audit Committee is also responsible for retaining the external auditor. It receives an annual report from the auditor on the independence of the auditors. The committee also reviews any relationship between the auditor, the Fund and the Manager – or any other relationships that may adversely affect the auditor's independence.

The Royal LePage Shelter Foundation

Royal LePage Shelter Foundation is a national public foundation dedicated to supporting shelters across Canada. Working in association with Royal LePage volunteers, the Shelter Foundation has partnerships with 150 women's shelters and services more than 30,000 women and children each year. Supported by our Agents and franchisees through local events, funds raised through the Shelter Foundation over the past five years exceeded $4 million.

SUPPORTING RESEARCH AND PROGRAMS

The Foundation's work focuses on assisting women and children fleeing violence and abuse, raising awareness of shelters through public awareness programs and promoting violence prevention education. In 2004, the Royal LePage Charitable Foundation approved a pledge of $1.2 million to the Shelter Foundation to support the Centre for Research on Violence associated with the University of Western Ontario in their development of programs designed to foster healthy relationships and life choices among young people.

Management Team

The Fund is managed by the same progressive team that developed the Royal LePage and Johnston & Daniel network prior to the Fund's launch.

Philip Soper,
President and Chief Executive

Kevin Cash,
Chief Financial Officer

Carolyn Cheng,
Vice President, Strategic Business Services

Max Cohen,
Secretary & General Counsel

Lisa Da Rocha,
Vice President, Marketing and Communications

Wendy Forsythe,
Vice President, Sales Services

Andy Puthon,
Executive Vice President, Network Development

Gino Romanese,
Senior Vice President, Brokerage Operations

Gurinder Sandhu,
Vice President, Finance

Scott Webb,
Director, Information Systems

Communications to Unitholders

We regularly provide unitholders with information about the Fund through our annual report, quarterly reports and periodic news releases. Information is available online at www.rsfund.ca. On our Web site you will find summary information about the Fund, public reports, press releases, statutory filings, units and distribution information.

PLEASE DIRECT INQUIRIES TO:
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ANNUAL GENERAL MEETING
The Annual General Meeting will be held on May 8, 2007
at 10:00 a.m. at the Hockey Hall of Fame, located at BCE Place,
30 Yonge Street, Toronto

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AUDITORS
Deloitte & Touche LLP

TSX SYMBOL: RSF.UN
Fund units are eligible investments for DPSPs, RRSPs, RRIFs
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