

**BROOKFIELD REAL ESTATE SERVICES INC.**

**Annual Information Form**

**March 28, 2014**

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## GLOSSARY OF TERMS

“**4.5% Option**” has the meaning ascribed thereto under “Description of the Business — Royalty Fees”;

“**4541219**” means 4541219 Canada Inc., corporation incorporated under the federal laws of Canada, being the former general partner of Via Capitale L.P.;

“**Agent**” means an individual who is licensed to buy or sell real estate, provided such individual is affiliated with a Broker;

“**Arrangement**” means the arrangement, under the provisions of section 182 of the OBCA, on the terms and conditions set forth in the Arrangement Agreement pursuant to which the holders of Fund Units exchanged their Fund Units for Restricted Voting Shares;

“**Arrangement Agreement**” means the arrangement agreement dated as of November 8, 2010, among the Fund, the Holding Trust, the Partnership, the General Partner and the Corporation pursuant to which the Fund, the Holding Trust, the Partnership, the General Partner and the Corporation proposed to implement the Arrangement;

“**BA Rate**” means the rate of Canadian dollar 30 day bankers’ acceptances as it appears on the Reuters Screen “CDOR Page”;

“**BNY**” means BNY Trust Company of Canada;

“**BNY Indebtedness**” means liability of the Partnership to BNY and the holders of BNY Notes;

“**BNY Notes**” means the Canadian \$32.7 million of 5.809% Senior Secured Notes issued by the Partnership on February 17, 2010;

“**BNY Trust Indenture**” means the trust indenture dated February 17, 2005 and amended by supplemental indenture dated February 17, 2010 between the Partnership and BNY, pursuant to which the BNY Notes were issued;

“**Board of Directors**” means the board of directors of the Corporation;

“**Board of Trustees**” means the board of trustees of the Fund;

“**Book-Entry Only System**” means the book-entry only system operated by CDS;

“**Broker**” means an individual licensed with the relevant regulatory body to manage a real estate brokerage office;

“**Brookfield Asset Management**” means Brookfield Asset Management Inc., a corporation incorporated under the laws of Ontario;

“**Brookfield Holdings**” means Brookfield Private Equity Direct Investments Holdings L.P., a partnership organized under the laws of the Province of Manitoba, a subsidiary of Brookfield Asset Management;

“**Business**” means the business of providing residential property brokerage services and acting as a franchisor to persons in the business of providing residential property brokerage services;

“**Canadian Real Estate Association**” or “**CREA**” is the national association which represents the real estate industry on federal public policy matters, and provides member services and education;

“**CIBC**” means Canadian Imperial Bank of Commerce;

“**CIBC Indebtedness**” means liability of the Partnership to CIBC pursuant to the CIBC Term Facility;

“**CIBC Term Facility**” means the \$20.3 million term credit facility between the Partnership and Canadian Imperial Bank of Commerce made on February 17, 2010;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**Class A LP Units**” means the Class A ordinary limited partnership units of the Partnership;

“**Class B LP Units**” means the Class B subordinated limited partnership units of the Partnership, all of which are held by Brookfield Holdings or an affiliate of Brookfield Holdings;

“**Corporation**” means Brookfield Real Estate Services Inc., a corporation incorporated under the laws of the Province of Ontario;

“**CRA**” means the Canada Revenue Agency;

“**Declaration of Trust**” means the amended and restated declaration of trust dated as of the 7<sup>th</sup> day of August, 2003 pursuant to which the Fund was created, as same may be amended or restated from time to time;

“**Determination Date**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**Determined Amount**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**distributable cash**” has the meaning given to it under “Description of the Partnership – Distributions”;

“**Exchange Agreement**” means the amended and restated exchange agreement among Brookfield Holdings, the Corporation, the Partnership, the General Partner and the Manager, made December 31, 2012, pursuant to which Brookfield Holdings has the right to indirectly exchange Class B LP Units (and the Manager will have the right to indirectly exchange Class A LP Units issued to the Manager pursuant to the Management Services Agreement) for shares of the Corporation on the basis of one Restricted Voting Share for each Class B LP Unit or Class A LP Unit exchanged, subject to adjustment;

“**Final Payment**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**Final Payment Amount**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**Forecast Determined Amount**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**Franchise**” means a residential real estate brokerage franchise operated pursuant to a Franchise Agreement;

“**Franchise Agreements**” means the franchise agreements and addendums thereto pursuant to which brokerage offices offer residential brokerage services using the Trademarks;

“**Franchisees**” means the franchisees under the Franchise Agreements;

“**Franchise Network**” means the Royal LePage Network and the Via Capitale Network;

“**Franchise Systems**” means Manager’s comprehensive systems consisting of proprietary technological, marketing, promotional, communication and support systems, as more fully described under Description of the Business;

“**Fund**” means Brookfield Real Estate Services Fund, a trust established under the laws of the Province of Ontario and governed by the Declaration of Trust;

**“General Partner”** means Residential Income Fund General Partner Limited, a corporation incorporated under the laws of the Province of Ontario to be the general partner of the Partnership;

**“GTA”** means the greater Toronto area;

**“Holding Trust”** means RL RES Holding Trust, a limited purpose trust established under the laws of the Province of Ontario and governed by the Holding Trust Declaration of Trust;

**“Holding Trust Declaration of Trust”** means the declaration of trust dated as of the 18<sup>th</sup> day of February, 2003 pursuant to which the Holding Trust was created, as same may be amended or restated from time to time;

**“IDX”** means an internet data exchange;

**“Incremental Franchises”** means franchises established pursuant to Franchise Agreements entered into following March 31, 2003 (other than renewals or replacements of existing Franchise Agreements) and including any acquisition made by existing Franchisees of additional offices and/or Agents and any business combination entered into by any existing Franchisee which results in the addition of offices and/or Agents which meet the criteria established from time to time by the directors of the Corporation;

**“Incremental Via Capitale Franchises”** means franchises established pursuant to Via Capitale Franchise Agreements (other than Via Capitale Franchise Agreements owned by Via Capitale L.P. or the Partnership as of January 1, 2008 or renewals or replacements thereof) and including any acquisition made by existing Via Capitale Franchisees of additional offices and/or Agents or any business combination entered into by any existing Via Capitale Franchisee which results in the addition of offices and/or Agents;

**“Independent Director”** means a director who is “independent” (as such term is defined in the rules and guidelines of the TSX and applicable securities regulatory authorities) to each of the Corporation, the Fund, the Holding Trust, the Partnership, the Manager and each of their affiliated entities;

**“Independent Trustee”** means a Trustee of the Fund who is “independent” (as such term is defined in the rules and guidelines of the TSX and applicable securities regulatory authorities) to each of the Corporation, the Fund, the Holding Trust, the Partnership, the Manager and each of their affiliated entities;

**“La Capitale License Agreement”** means the licence agreement between La Capitale Assurances MFQ Inc. and La Capitale (as predecessor to Via Capitale L.P.) pursuant to which Via Capitale L.P. was granted the rights to use the La Capitale Trademarks, including the “La Capitale” name and logo, in connection with the Business;

**“La Capitale Trademarks”** mean the trade-mark rights related to the Business held by or licensed to Via Capitale L.P. pursuant to the La Capitale License Agreement including, without limitation, the “La Capitale” name and logo;

**“LP Units”** means the Class A LP Units and the Class B LP Units;

**“Management Services Agreement”** means the third amended and restated management services agreement made effective January 1, 2014, among the Partnership, the Corporation, the General Partner, Via Capitale L.P. and the Manager pursuant to which, among other things, the Manager provides management and administrative services to the Partnership, the Corporation, the General Partner and Via Capitale L.P. including management of the Partnership Assets on behalf of the Partnership and Via Capitale L.P., as more particularly described under “Description of the Business — Management Services Agreement”;

**“Manager”** means Brookfield Real Estate Services Manager Limited, a corporation incorporated under the laws of the Province of Ontario to provide management and administrative services to the Corporation, the General Partner, the Partnership and Via Capitale L.P.;

**“MLS<sup>®</sup>”** or **“Multiple Listing Service<sup>®</sup>”** is a registered trademark of the Canadian Real Estate Association and refers to the real estate database service operated by local real estate boards under which properties may be listed, purchased or sold;

“**Notice of Meeting**” means the notice of meeting of Shareholders of the Corporation;

“**OBCA**” means the *Ontario Business Corporations Act*, as amended.

“**Operating Loan**” means an operating loan in the principal amount of \$2 million provided by CIBC which is used by the Partnership for working capital purposes and to normalize distributions to holders of Class B LP Units and Class A LP Units having regard to seasonality inherent within the Business. See “Credit Facilities”;

“**Partnership**” means Residential Income Fund L.P., a limited partnership established under the laws of the Province of Ontario;

“**Partnership Agreement**” means the second amended and restated limited partnership agreement dated the 31<sup>st</sup> day of December, 2012, among the General Partner and the Corporation, pursuant to which the Partnership is governed as the same may be amended from time to time;

“**Partnership Assets**” means, collectively, the Trademarks, all rights under the Franchise Agreements (other than the Franchise Agreements in respect of Incremental Franchises), and all rights to receive the Royalties;

“**Partnership Special Resolution**” means a resolution passed by a majority of not less than 85% of the votes cast, either in person or by proxy, at a meeting of the holders of LP Units or approved in writing by holders of LP Units representing not less than 85% of the votes attached to LP Units entitled to vote on such resolution;

“**Premium Franchise Fee**” has the meaning ascribed thereto under “Description of the Business — Royalty Fees”;

“**Registration Rights Agreement**” means the registration rights agreement among the Fund, the Manager and TBI (a predecessor of Brookfield Holdings), dated August 7, 2003 pursuant to which the Manager and a predecessor of Brookfield Holdings has been granted registration rights by the Fund;

“**Reporting Period**” has the meaning ascribed thereto under “Description of the Business — Management Services Agreement”;

“**Restricted Voting Shares**” mean the restricted voting shares in the capital of the Corporation and “**Restricted Voting Share**” means any one of them;

“**Royal LePage**” means, collectively, the Business as conducted by the Manager under the name Royal LePage, as a franchisor and as the manager of the Partnership, the General Partner, and the Corporation;

“**Royal LePage License Agreement**” means the licence agreement between The Royal Trust Company and Royal LePage Limited pursuant to which Royal LePage Limited was granted the exclusive rights to use the Royal LePage Trademarks, including the “Royal LePage” name and logo, in connection with its business of providing, in Canada, real estate services and those related financial services offered by Royal LePage;

“**Royal LePage Network**” means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more of the Trademarks (but excluding Franchises granted by the Manager that have not become Incremental Franchises);

“**Royal LePage Sub-License Agreement**” means the agreement between Royal LePage, a predecessor of Brookfield Holdings and the Manager pursuant to which Brookfield Holdings and the Manager have been provided a license to use the Royal LePage Trademarks in connection with the Business;

“**Royal LePage Trademarks**” mean the trade-mark rights related to the Business held by or licensed to Royal LePage pursuant to the Royal LePage License Agreement including, without limitation, the “Royal LePage” name and logo;

“**Royalties**” means the royalty payments described in “Description of the Business — Royalty Fees”, including, collectively fixed fee and variable fee royalties;

“**Sales Representative**” refers to individuals experienced in residential real estate that assist Agents with the buying and selling of residential real estate. Sales representatives may be Agents themselves or unlicensed salespersons or assistants;

“**selling-REALTORS®**” means, collectively, Agents and fee-paying Sales Representatives;

“**Shareholders**” means the holders of Shares;

“**Shareholders’ Agreement**” means the shareholders agreement between TBI (a predecessor of Brookfield Holdings), the Fund and the General Partner governing the administration and affairs of the General Partner, dated August 7, 2003 as the same may be amended from time to time;

“**Shares**” means the Restricted Voting Shares and Special Voting Shares;

“**Special Fund Units**” means the units of the Fund issued to represent voting rights in the Fund that accompanied securities convertible into or exchangeable for Units, including the Class B LP Units and Class A LP Units held by Brookfield Holdings or an affiliated entity of Brookfield Holdings or the Manager or an affiliated entity of the Manager;

“**Special Shareholders**” means holders of Special Voting Shares from time to time;

“**Special Voting Shares**” means the share of the Corporation issued to represent voting rights in the Corporation that accompany securities convertible into or exchangeable for Restricted Voting Shares;

“**Tax Act**” means the *Income Tax Act* (Canada) and regulations thereto, as amended from time to time;

“**TBI**” means Trilon Bancorp Inc., a predecessor to Brookfield Holdings;

“**Trademarks**” mean the trade-mark rights related to the Business held by or licensed to Brookfield Holdings, the Manager or Via Capitale including, without limitation, the Royal LePage Trademarks and the La Capitale Trademarks;

“**Trustees**” mean the trustees of the Fund and “**Trustee**” means any one of them;

“**TSX**” means the Toronto Stock Exchange;

“**Units**” means the units of the Fund, other than Special Fund Units, each representing an equal undivided beneficial interest in the Fund;

“**Via Capitale**” means, collectively, the Business as conducted by the Manager and the Via Capitale Manager;

“**Via Capitale L.P.**” means 9120 Real Estate Network, L.P./Réseau Immobilier 9120 S.E.C., a limited partnership established under the laws of the Province of Quebec;

“**Via Capitale Manager**” means 9120-5583 Quebec Inc., a wholly owned subsidiary of the Manager, incorporated under the laws of the Province of Quebec, doing business under the name of Réseau Immobilier La Capitale/La Capitale Real Estate Network; and

“**Via Capitale Network**” means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more of the La Capitale Trademarks (but excluding Franchises owned by the Manager or the Via Capitale Manager).



## THE CORPORATION

### General

The Corporation is a leading provider of services to residential real estate Brokers and their REALTORS®. The Corporation generates cash flow from Franchise royalties and service fees derived from a national network of real estate Brokers and Agents in Canada operating under the Royal LePage, Via Capitale and Johnston & Daniel brand names. At December 31, 2013, the Franchise Network consisted of 15,310 REALTORS® operating under 307 Franchise Agreements providing services from 627 locations, with an approximately 20% share of the Canadian residential resale real estate market based on transactional dollar volume. The Corporation generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional dollar volume from the sales commissions of REALTORS®, while fixed fees are based on the number of Agents and Sales Representatives in the Franchise Network. Approximately 73% of the Corporation’s annual royalties are based on fees that are fixed in nature; this provides revenue stability and helps insulate the Corporation’s cash flows from market fluctuations.

The Corporation was incorporated on October 28, 2010 pursuant to the provisions of the OBCA. The Corporation is listed on the TSX and trades under the symbol “BRE”. The registered and head office of the Corporation is located at 39 Wynford Drive, Don Mills, Ontario, M3C 3K5.

The business of the Corporation is conducted indirectly through the Partnership. The Partnership is a limited partnership formed under the laws of the Province of Ontario pursuant to the Partnership Agreement. The Partnership is ultimately controlled approximately 72% by the public and 28% by Brookfield Holdings. The general partner of the Partnership is the General Partner the shares which are owned as to 25% by Brookfield Holdings and as to 75% by the Corporation. The registered and head office of the Partnership is located at 39 Wynford Drive, Don Mills, Ontario, M3C 3K5.

The structure of the Corporation is as set out below:



## **DEVELOPMENT OF THE BUSINESS**

### **Business Strategy**

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

Our objective is to provide our stakeholders with an investment vehicle that pays stable and growing dividends. Our revenue is driven primarily by royalties derived from long-term Franchise Agreements. These Royalties are weighted toward fees that are fixed in nature; this has proven to be effective in moderating the variations in overall industry activity that can occur. We manage our operating costs and associated risks by delivering our services and management of the Corporation through the Management Services Agreement.

The senior management team of the Manager developed and managed the Royal LePage Network before the inception of the Corporation, and Brookfield Asset Management, through Brookfield Holdings, its wholly owned subsidiary, holds an approximate 28% interest in the Corporation. As a result of this arrangement, the underlying costs of the Corporation are not complex as they are limited to management fees paid under the Management Services Agreement, public operating costs and carrying costs associated with our debt.

The number of REALTORS<sup>®</sup> and transaction volumes generated in the markets we serve, the manner in which we structure our contracted revenue streams and our success in attracting Agents and Brokers to our brands through our value proposition and track record are all key drivers of the Corporation's performance. These drivers, in combination with other uncontrollable risk factors, including the economy at large, government and regulatory activity, all impact the Corporation's performance.

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

### **Events Occurring in 2011**

#### **2011 Royal LePage Incremental Franchise Purchases**

Effective January 1, 2011 the Partnership completed the purchase of 21 Royal LePage Incremental Franchises from the Manager, pursuant to an asset purchase agreement between the Manager and the Partnership effective January 1, 2011 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Royal LePage Incremental Franchises, calculated in and subject to adjustment in accordance with the Management Services Agreement, was \$2.5 million. \$2.0 million (being approximately 80% of the estimated purchase price) was payable in cash by the Partnership to the Manager on or about January 4, 2011. The Final Payment was paid in January, 2012, and was subject to an adjustment for the audit of the actual annual royalties earned from the Royal LePage Incremental Franchises for the twelve month period ending on or about October 31, 2011, in accordance with the Management Services Agreement. The acquisition of the Incremental Franchises was approved by the Independent Trustees in accordance with the Incremental Franchise Purchase Policy adopted by the Trustees. Mr. Myhal declared his interest to the Board of Trustees and abstained from voting on the motion to acquire the Incremental Franchises.

## **2011 Via Capitale Incremental Franchise Purchases**

Via Capitale L.P. completed the purchase of two Via Capitale Incremental Franchises from the Via Capitale Manager, pursuant to an asset purchase agreement between Via Capitale Manager and Via Capitale L.P. effective January 1, 2011 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Incremental Franchises was \$1.0 million. \$0.8 million (being approximately 80% of the estimated purchase price) was payable in cash by Via Capitale L.P. to the Via Capitale Manager. In or about January of each of 2012 and 2013, the Manager calculated the average annual Royalties earned during the period commencing on November 1, 2010, and ending on the last day of the 44<sup>th</sup> week of 2011 and 2012, respectively. Based on this calculation, the Manager reforecasted the purchase price for the Via Capitale Incremental Franchises. In January 2012, 1/3 of such balance owing by Via Capitale L.P. was paid to the Via Capitale Manager together with interest thereon. In January 2013, 2/3 of such balance owing was paid to the Via Capitale Manager, less the amount paid in January 2011 together with interest thereon. The Final Payment was calculated based on the average annual Royalties actually earned by Via Capitale L.P. from November 1, 2010 through October 31, 2013 and was paid in January, 2014. The acquisition of the Incremental Franchises was approved by the Independent Trustees. Mr. Myhal declared his interest to the Board of Trustees and abstained from voting on the motion to acquire the Via Capitale Incremental Franchises.

## **La Capitale Rebranding**

In a consultative process with Via Capitale's Franchisees and Brokers, Via Capitale successfully rebranded from La Capitale to Via Capitale on March 7, 2011. The new marks are owned by Via Capitale L.P. The amended name transcends languages and positions Via Capitale well for growth within the Anglophone Quebec marketplace.

## **Events Occurring in 2012**

### **2012 Royal LePage Incremental Franchise Purchases**

Effective January 1, 2012 the Partnership completed the purchase of 20 Royal LePage Incremental Franchises from the Manager, pursuant to an asset purchase agreement between the Manager and the Partnership effective January 1, 2012 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Royal LePage Incremental Franchises, calculated in and subject to adjustment in accordance with the Management Services Agreement, was \$1.9 million. \$1.5 million (being approximately 80% of the estimated purchase price) was payable in cash by the Partnership to the Manager on or about January 4, 2012. The Final Payment was paid in January, 2013, subject to an adjustment for the audit of the actual annual royalties earned from the Royal LePage Incremental Franchises for the twelve month period ending on or about October 31, 2012, in accordance with the Management Services Agreement. The acquisition of the Incremental Franchises was approved by the Independent Directors in accordance with the Incremental Franchise Purchase Policy adopted by the directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Incremental Franchises.

### **2012 Via Capitale Incremental Franchise Purchases**

Via Capitale L.P. completed the purchase of five Via Capitale Incremental Franchises from the Via Capitale Manager, pursuant to an asset purchase agreement between Via Capitale Manager and Via Capitale L.P. effective January 1, 2012 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Incremental Franchises was \$1.0 million. \$0.8 million (being approximately 80% of the estimated purchase price) was payable in cash by Via Capitale L.P. to the Via Capitale Manager on or about January 2, 2012. In or about January of each of 2013 and 2014, the Manager calculated the average annual Royalties earned during the period commencing on November 1, 2011, and ending on the last day of the 44<sup>th</sup> week of 2012 and 2013, respectively. Based on this calculation, the Manager reforecasted the purchase price for the Via Capitale Incremental Franchises. In January 2013, 1/3 of such balance owing by Via Capitale L.P. was paid to the Via Capitale Manager together with interest thereon. In January 2014, 2/3 of such balance owing was paid to the Via Capitale Manager, less the amount paid in January 2012 together with interest thereon. The Final Payment will be calculated based on the average annual Royalties actually earned by Via Capitale L.P. from November 1, 2011

through October 31, 2014 and will be paid in January, 2015. The acquisition of the Incremental Franchises was approved by the Independent Directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Via Capitale Incremental Franchises.

### **Winding-Up of the Fund and the Holding Trust**

On December 31, 2012, (i) the Fund, as the sole unitholder and sole noteholder of the Holding Trust, resolved by special resolution to terminate the Holding Trust and distribute all of its assets to the Fund, and (ii) the Corporation, as sole unitholder of the Fund, resolved by special resolution to terminate the Fund and distribute all of its assets to the Corporation. This was the final step to complete the restructuring that began in 2010 with the conversion of the Fund from an income trust structure to a corporate structure. Subsequent to the completion of such distributions, the Corporation holds all of the Class A LP Units in the Partnership and 75% of the common shares of the General Partner. The Fund and the Holding Trust have been wound-up and are no longer part of the Corporation's structure. On December 31, 2012, the General Partner replaced 4541219 as the general partner of Via Capitale L.P.

### **Events Occurring in 2013**

#### **2013 Royal LePage Incremental Franchise Purchases**

Effective January 1, 2013 the Partnership completed the purchase of 37 Royal LePage Incremental Franchises from the Manager, pursuant to an asset purchase agreement between the Manager and the Partnership effective January 1, 2013 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Royal LePage Incremental Franchises, calculated in and subject to adjustment in accordance with the Management Services Agreement, was \$6.0 million. \$4.8 million (being approximately 80% of the estimated purchase price) was payable in cash by the Partnership to the Manager on or about January 2, 2013. The Final Payment was paid in January, 2014, subject to an adjustment for the audit of the actual annual royalties earned from the Royal LePage Incremental Franchises for the twelve month period ending on or about October 31, 2013, in accordance with the Management Services Agreement. The acquisition of the Incremental Franchises was approved by the Independent Directors in accordance with the Incremental Franchise Purchase Policy adopted by the directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Incremental Franchises.

#### **2013 Via Capitale Incremental Franchise Purchases**

Via Capitale L.P. completed the purchase of seven Via Capitale Incremental Franchises from the Via Capitale Manager, pursuant to an asset purchase agreement between Via Capitale Manager and Via Capitale L.P. effective January 1, 2013. The estimated purchase price for the Incremental Franchises was \$0.7 million. \$0.6 million (being approximately 80% of the estimated purchase price) was payable in cash by Via Capitale L.P. to the Via Capitale Manager on or about January 2, 2013. In or about January of each of 2014 and 2015, the Manager will calculate the average annual Royalties earned during the period commencing on November 1, 2012, and ending on the last day of the 44<sup>th</sup> week of 2013 and 2014, respectively. Based on this calculation, the Manager will reforecast the purchase price for the Via Capitale Incremental Franchises. In January 2014, 1/3 of such balance owing by Via Capitale L.P. was paid to the Via Capitale Manager together with interest thereon. In January 2015, 2/3 of such balance owing since Closing will be paid to the Via Capitale Manager, less the amount paid in January 2013 together with interest thereon. If the reforecast indicates that Via Capitale L.P. has overpaid, then the Via Capitale Manager shall make a corresponding payment of such amount to Via Capitale L.P., together with interest thereon since January 1, 2013. The Final Payment will be calculated based on the average annual Royalties actually earned by Via Capitale L.P. from November 1, 2012 through October 31, 2015 and will be paid in January, 2016. The acquisition of the Incremental Franchises was approved by Independent Directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Via Capitale Incremental Franchises.

### **Third Amended and Restated Management Services Agreement**

On June 28, 2013 the Corporation entered into a revised Management Services Agreement, effective as of January 1, 2014, with an initial five-year term and a provision for the automatic renewal of successive five-year terms. Under the terms of the Management Services Agreement, (i) the management fee has been standardized to 20% across all brands, (ii) the Manager can earn a new incentive fee for organic growth, aligning the Manager's and the Corporation's goals with growing the underlying network of Agents, (iii) the Manager may sell other branded Canadian franchises to the Corporation and (iv) updates were made to the manner in which amounts are paid to the Manager for Incremental Franchises.

### **Subsequent Events**

#### **2014 Royal LePage Incremental Franchise Purchases**

Effective January 1, 2014 the Partnership completed the purchase of 45 Royal LePage Incremental Franchises from the Manager, pursuant to an asset purchase agreement between the Manager and the Partnership effective January 1, 2014 and in accordance with the terms of the Management Services Agreement. The estimated purchase price for the Royal LePage Incremental Franchises, calculated in and subject to adjustment in accordance with the Management Services Agreement, was \$6.1 million. \$4.8 million (being approximately 80% of the estimated purchase price) was payable in cash by the Partnership to the Manager on or about January 2, 2014. The Final Payment will be paid in January, 2015, subject to an adjustment for the audit of the actual annual royalties earned from the Royal LePage Incremental Franchises for the twelve month period ending on or about October 31, 2014, in accordance with the Management Services Agreement. The acquisition of the Incremental Franchises was approved by the Independent Directors in accordance with the Incremental Franchise Purchase Policy adopted by the directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Incremental Franchises.

#### **2014 Via Capitale Incremental Franchise Purchases**

Via Capitale L.P. completed the purchase of one Via Capitale Incremental Franchise from the Manager, pursuant to an asset purchase agreement between the Manager and Via Capitale L.P. effective January 1, 2014. The estimated purchase price for the Incremental Franchise was \$0.2 million. \$0.1 million (being approximately 80% of the estimated purchase price) was payable in cash by Via Capitale L.P. to the Manager on or about January 2, 2014. In or about January of each of 2015 and 2016, the Manager will calculate the average annual Royalties earned during the period commencing on November 1, 2013, and ending on the last day of the 44th week of 2014 and 2015, respectively. Based on this calculation, the Manager will reforecast the purchase price for the Via Capitale Incremental Franchise. In January 2015, 1/3 of such balance owing by Via Capitale L.P. will be paid to the Manager together with interest thereon. In January 2016, 2/3 of such balance owing since Closing will be paid to the Manager, less the amount paid in January 2014 together with interest thereon. If the reforecast indicates that Via Capitale L.P. has overpaid, then the Manager shall make a corresponding payment of such amount to Via Capitale L.P., together with interest thereon since January 1, 2014. The Final Payment will be calculated based on the average annual Royalties actually earned by Via Capitale L.P. from November 1, 2013 through October 31, 2016 and will be paid in January, 2017. The acquisition of the Incremental Franchise was approved by Independent Directors. Mr. Myhal declared his interest to the Board of Directors and abstained from voting on the motion to acquire the Via Capitale Incremental Franchise.

### **DESCRIPTION OF THE BUSINESS**

The business of the Partnership and its Franchisees involves brokering the sale of residential resale housing or recreational properties comprising a single building or structure with six or less separate dwelling units, condominium units or vacant land intended for one of the foregoing uses. The Partnership provides its Franchisees and their Agents and Sales Representatives with the Franchise Systems designed to make each step of a real estate transaction more effective and efficient for buyers and sellers of homes, Agents and Franchisees. The Franchise Systems allow Franchisees to attract successful Agents and maximize their productivity, and help the Partnership, through the activities of the Manager, to recruit and retain successful Franchisees.

The enhanced tools of the Franchise Systems facilitate the real estate transaction for the Agent and allow him or her to provide greater value and service to his or her customer. The Franchise Systems are designed to allow Franchisees and Agents to focus on their customers, grow their business, and spend less time on administrative activities, thereby increasing overall productivity.

The Corporation's royalties are derived primarily from a diverse national network of 275 independently owned and operated Franchises operating under 307 Franchise Agreements. In addition, the Royal LePage Network is geographically diverse as the Agents and Sales Representatives are spread throughout Canada on approximately the same basis as the overall Canadian real estate Agent population.

### **Franchise Agreements**

The legal relationship between the Partnership or Via Capitale L.P., as the case may be, and a Franchisee is governed by a Franchise Agreement. The typical term for a Royal LePage Franchise Agreement is ten years with a right to renew for successive five-year renewal terms. Typically, Royal LePage Franchisees renew for further ten year terms. The typical term for a Via Capitale Franchise Agreement is five years with a right to renew for a further five-year renewal term. Typically, Via Capitale Franchisees renew for further five-year terms.

Each Franchise location or grouping thereof is subject to a separate Franchise Agreement. Where an existing Broker-owner is operating under an existing Franchise Agreement, changes, such as adding a new location, are typically undertaken by way of an addendum which forms a part of the existing Franchise Agreement. The Franchise Agreement grants a non-exclusive right to use the Franchise Systems as well as the Trademarks within a prescribed territory and specifies comprehensive standards of practice governing the use of the Trademarks, conduct of the Franchisee and its Agents and all material operating matters.

Pursuant to its terms, the Franchise Agreement may not be assigned by the Franchisee without the prior consent of the franchisor. The Partnership has a right of first refusal with respect to any offer made to purchase the business of a Royal LePage Franchisee. The Partnership has assigned to the Manager, among other things, the right to exercise this right of first refusal on behalf of the Partnership. See "Description of the Business - Management Services Agreement".

The Franchise Agreement may be terminated on the occurrence of certain prescribed circumstances, including the bankruptcy of a Franchisee or default by the Franchisee of its obligations under the Franchise Agreement. Failure to meet minimum Franchise fee performance levels may result in the termination of the Franchise or termination of the right to renew the Franchise for a successive term.

The Corporation has historically enjoyed 95%-plus renewal success of Franchise Agreements as they come due, expressed as a percentage of the number of REALTORS® at year-end. Due to the ongoing success of our Franchisees, a number of opportunities, such as increasing Franchisee locations, present themselves to renew Franchise Agreements before they come due.

### **Agents and Sales Representatives**

As of December 31, 2013 the Franchise Network was comprised of 15,310 Agents and Sales Representatives operating from 627 locations. For the year ended December 31, 2013, the Franchise Network increased by 224 Agents or 1.5%. The increase in Agents was comprised of a decline of 292 Agents offset by the 516 Agents acquired through the acquisition of contracts at the beginning of 2013. This net increase of 1.5% in the Franchise Network for 2013 is in contrast to a 2% increase experienced in the overall Canadian market. The increase in the number of Realtors in Canada has in part been driven by increases in discount brokerage offerings, which have attracted new entrants to the industry, resulting in a lower number of homes sold per Agent. The Franchise Network is highly productive, with an average transaction dollar volume in 2013 of \$2.3 million per Agent, which is approximately 50% more productive than the rest of Canada.

## **Royalty Fees**

The Corporation generates royalties with both fixed and variable fee components. Approximately 89% (89% – 2012) of the Corporation’s royalties during 2013 were derived from the combined fixed fee per REALTOR<sup>®</sup> per month, 1% variable royalty fee and Premium Franchise Fees. The remaining royalty stream is made up of other fees and services generated from home warranty fees, technology fees and other fees. Approximately 74% of the Corporation’s annual royalties were partially insulated from market fluctuations as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS<sup>®</sup> representing the Royal LePage and Via Capitale brands, increasing Agent and Broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

Fixed royalty fees are based on the number of selling-REALTORS<sup>®</sup> in the Franchise Network. Fixed Franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of \$102 per selling-REALTOR<sup>®</sup> (\$100 prior to December 31, 2013), a technology fee and other fees, while fixed fees from Via Capitale Franchisees consist primarily of a monthly fee of approximately \$170 per selling-REALTOR<sup>®</sup>.

Variable royalty fees are primarily driven by the volume of business transacted by our Agents. Variable Franchise fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent’s gross commission income, subject to a cap of \$1,300 per year. A limited number of smaller Franchisees pay 4.5% of each Agent’s gross commission fee (the “4.5% Option”).

In addition to these fees, 23 of the Corporation’s larger Royal LePage locations situated in the GTA pay a fee ranging from 1% to 5% of the location’s gross revenue (the “Premium Franchise Fee”). Of these locations, 17 are operated by the Manager and are contractually obligated to pay the Premium Franchise Fee to August 2018.

## **Network Royalty Profile**

### ***The Royal LePage Network***

The fees generated from the Royal LePage Network accounted for 92% of the Corporation’s fees in 2013 and are primarily made up of a fixed monthly fee per Agent of \$100 plus a \$20 technology fee per participating Franchisee representing 97% of Agents in 2013 (97% - 2012); a variable fee equal to 1% of the fees generated by the Agent, capped at \$1,300 per Agent; learning services fees; and a Premium Franchise Fee, as described earlier. Under this structure, exclusive of ancillary fees, an Agent earning in excess of the \$1,300 per annum fee cap will contribute \$2,740 per annum to the Corporation. Due to the variable fee-capping feature, approximately 70% of the Royal LePage Network fees were fixed in nature in 2013 (71% - 2012).

### ***The Via Capitale Network***

The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 8% of the Corporation’s fees in 2013 (9% - 2012). These fees are primarily made up of a fixed monthly fee per Agent of \$170 (\$2,040 per annum) and fees generated from home warranty fees. In 2013, approximately 78% (78% - 2012) of Via Capitale’s royalties were fixed in nature.

## **System Wide Transactional Dollar Volume**

For the twelve months ended December 31, 2013, the Royal LePage Network and the Via Capitale Network collectively accounted for approximately 20% of the \$175.1 billion Canadian residential resale real estate market based on transactional dollar volume.

## **Locations and Branch Types**

The Royal LePage Network operates in each Canadian province through approximately 566 locations as of December 31, 2013. The Via Capitale Network operates only in the Province of Quebec through 61 locations as of

December 31, 2013. Franchise locations are generally operated from leased premises with the Franchisee as lessee. The Partnership has control over franchised locations by way of an approval process governing renewals and approval of locations, in order to maintain location quality. In urban areas, Franchise branches are typically located in office/commercial developments, while in smaller municipalities the outlets are frequently in the more retail oriented core business district.

## **Technology**

The following is a summary of some of the Manager's main technology:

### ***Internet Sites***

The Royal LePage website, [www.royallepage.ca](http://www.royallepage.ca), has been branded as Canada's Real Estate Portal™. Both [www.royallepage.ca](http://www.royallepage.ca) and the Via Capitale website, [www.viacapitalevendu.com](http://www.viacapitalevendu.com), offer a variety of residential resale real estate-related information. In addition to offering listing, company, office and Agent information, they also provide resources for buying, selling and owning real estate.

In the past year both of these websites have undergone significant upgrades to make them faster and more intuitive while providing expanded functionality. To accommodate the proliferation of mobile devices, from smart-phones to tablets, the websites have been designed to automatically respond to the screen size and select the optimal display.

The Via Capitale Website also features repossessed properties listed by Via Capitale Agents. In 2013, Canadian Mortgage and Housing Corporation ("CMHC") renewed its contract with Via Capitale for one year with an option to renew for an additional one year. Under this contract, Via Capitale is the brokerage system responsible for the marketing and selling of repossessed properties on behalf of CMHC.

### ***The Royal LePage Intranet Site***

The Royal LePage intranet site (the "Intranet"), accessible by authorized Agents and staff only, is a key vehicle through which Royal LePage delivers many of its services, as well as information about additional non-Intranet based services. Information provided on the Intranet is designed to help Agents manage their business, increase their business and develop their skills. On the Intranet, Agents can access information about Royal LePage news and events, award levels, suppliers, privacy policies and helpful documentation. Agents can also use the Royal LePage webmail system and online financial reporting system. They can increase their business by accessing information on Royal LePage's local marketing programs and they can also establish personal, optimized websites through the Intranet. In addition, Agents can access sales, marketing and technology training sessions offered at locations near them or they can participate in online courses which are applicable towards continuing education requirements imposed on them by provincial regulatory requirements.

### ***Agent Technology Programs***

Each Royal LePage Franchise location may elect to be supported by Royal LePage's Platinum Program, which was designed to assist Agents to prospect for new clients, market properties on behalf of existing clients and develop Agents' core skills. As at December 31, 2013, approximately 97% of the Agents were participating in the Platinum Program.

In the Platinum Program, Agents and Sales Representatives have access to the Royal LePage marketing centre, which provides them with print and online customizable marketing pieces in both English and French. Marketing pieces include property feature sheets, postcards, 11" x 17" brochures, web commercials, web slide shows, e-newsletters and e-cards. In addition, Agents and Sales Representatives can receive training in local computer labs to better use the suite of on-line tools made available to them by Royal LePage, as well as access to online courses.



### ***Royal LePage Data Capture System***

The Manager uses a proprietary system designed to capture royalty fee, Broker and Agent revenue information from Royal LePage Franchisees. The data capture system allows Royal LePage Franchisees across the country to transmit Agent numbers and revenue information electronically every month to allow for the calculation and billing of Franchise royalty fees. The system captures useful statistical information, including information on the average split of commissions between Agents acting for the buyer and the seller, and net recruiting results, which can be accessed by all Franchisees for comparison purposes.

### **Marketing and Promotion**

The Manager employs a two-tiered marketing approach: first, increase brand awareness and positioning of Royal LePage and Via Capitale as the best residential resale real estate brands offering the best in technology and services to its Franchisees, Agents and consumers; and second, provide marketing, advertising and recruitment tools that enable Franchisees and Agents to effectively market themselves.

Under the first tier, the Manager's initiatives aim at increasing consumer awareness and include the following:

- newspaper print advertising which reinforces a select number of consistent messages and slogans;
- remaining one of the principal voices of real estate in the Canadian media. The Manager's national and local spokespersons are quoted and interviewed regularly and are viewed as experts in their field;
- publishing a quarterly survey of house prices which has been keeping Canadians informed as to national housing prices for over 20 years, and is widely used by municipalities, researchers and independent companies as the national housing reference guide;
- advertising in industry publications which focus on Agents and Franchisees; and
- the Royal LePage Shelter Foundation which was launched in 1998 to help raise money for shelters to house abused women and their children. Since inception, the Royal LePage Shelter Foundation has successfully raised over \$17 million through national and local Broker and Agent initiatives and helps an estimated 20,000 women and children each year through the support of over 200 shelters across the country.

Under the second tier, the Manager's initiatives aim at providing a comprehensive marketing, advertising and recruitment system tools which enable Franchisees and Agents to effectively market themselves and includes the following:

- Broker business planning templates to help determine and manage net recruiting goals;
- Agent focussed sales training seminars across Canada;
- web based education programs offered to non Royal LePage and non Via Capitale Agents;
- career Website and links with a customer relationship management system component;
- one to one e-mail campaign to attract new and experienced Brokers and Agents;
- cold calling scripts, online messaging scripts and internal surveys;
- sales meeting templates aimed at increasing retention and sales;

- an on-going campaign to market to potential Franchisees and recruits through an e-mail list in a “one to one” marketing strategy; and
- design of advertising templates for local newspaper and radio and for sponsorship opportunities.

### **Shared Listings and DDF**

In recent years, the availability of data has created better informed consumers who have more options. The proliferation of data and the change in consumer expectations are driving industry change.

The Company has been among the strongest proponents for shared listings, as it sees this as vital to being competitive online. CREA took the lead in developing a technology platform to enable shared listings, and in July 2012 they introduced the Data Distribution Facility (“DDF”), giving MLS® participants the tool they need to display each other’s listings on their websites and allow consumers to view all listings available at once, regardless of what real estate company owns the listing.

In April 2013, the Company’s Royal LePage brand was the first real estate company to adopt CREA’s DDF for its corporate website. Since launch the listing inventory has increased by two-and-a-half times, and with all the additional unique visitors coming to the site, the number of leads for Agents has roughly tripled.

### **Franchisee and Agent Communications**

In addition to the frequent communications opportunities utilized through the Manager’s technology platforms, the Franchisee and Agent communications strategy is focused on frequent, face to face or voice to voice contact. This contact takes many forms including a phone and internet based help desk, annual awards and recognition for top producing Agents, regional Franchisee meetings and National Broker and Agent conferences and regional Broker conference calls.

### **Training**

The Manager provides training to its Franchisees and Agents with respect to its technology programs through its Virtual Specialist Service team (“VSS team”) and its online learning tools. The VSS team is comprised of a group of trained individuals who spend the majority of their days on the road delivering hands on training to Sales Representatives, Brokers, Agents and administration staff covering a wide range of topics.

The Manager offers Agent sales training programs, designed to provide new Agents and industry veterans with sales enhancing techniques based on best practices. Since then the Manager expanded its offering to include several proprietary and outsourced personal coaching, planning and training programs, including specialized designations (such as luxury properties and seniors) and webinars.

The online learning tools provided through the Royal LePage “University” are accessible at all times through the Intranet. Online courses are available to assist Franchisees, Agents, Sales Representatives and administrative staff to improve various aspects of their business at their own pace. A number of provincial real estate boards have approved many of these courses for continuing education credits which are made available through an external learning centre on the internet.

### **Competitive Position**

The Manager has consistently developed its franchising strategy with extensive internal marketing research and tracking studies. This research is utilized, together with the results of the studies, to guide strategic marketing and product development decisions, guide tactical decisions regarding the “best” features and benefits needed to maximize the appeal of the Franchise Systems and to keep the Manager up-to-date with changes in its business environment.

Corporate positioning research based on the evaluations of consumers, Agents, Franchisees and competitors as measured against twenty five “evaluation criteria” centred around corporate visibility and momentum, leadership, program quality and innovativeness has been the cornerstone of the Manager’s marketing research initiatives. For example, Royal LePage’s current positioning statement, “Helping you is what we do”, reflects recent tracking studies and focus group testing.

### **Growth Strategy**

The Manager maintains dedicated network development teams which are focused solely on growing the Corporation’s presence in the Canadian market as industry consolidators. These teams are focused on attracting quality brokerages to the Via Capitale Network, the Royal LePage Network and expanding opportunities for existing Franchisees, and is a key factor in the Corporation’s success in growing its residential franchise brokerage network in Canada. Key elements of this strategy include:

- identifying key franchise prospects based on perceived profitability, reputation, business acumen and technology orientation;
- ongoing prospecting through various advertising programs, newsletters, press releases, sales and networking events, conferences and personal contact;
- creating and maintaining a database of brokerages with information including market share, number of Agents and owner/manager details;
- expanding the range of products and services comprising the Franchise Systems and increasing adoption by Brokers and Agents of these products and services;
- providing concise programs to Franchisees supported by ongoing Franchisee and Agent training programs that assist Franchisees in presenting the distinctive benefits and record of success of Agents and Brokers to potential recruits; and
- providing financing and consulting to, and otherwise supporting Franchisees in acquiring local competitors and integrating such competitive brokerage operations into the Franchisee’s owned brokerage operations.

In December 2011, an affiliate of the Manager announced that it had acquired the Prudential real estate franchise network in North America. In October 2012, the parent company of the Manager sold its US based Prudential and Real Living real estate franchise businesses to Home Services of America, a Berkshire Hathaway company, but continue to retain a minority position in the new venture. Management believes that the Corporation will continue to benefit through referrals from the new venture.

The sale did not impact Canadian Franchisees operating under the Prudential name, which were acquired by Brookfield Residential Property Services in 2011. These Franchisees represent a substantial opportunity for conversion to the Royal LePage brand, resulting in increased royalties to the Corporation. Since the acquisition, Prudential franchisees representing approximately 660 Agents have converted to Royal LePage Franchises, and approximately 650 Agents currently operate under Prudential franchise agreements.

The sale resulted in a realignment of the shared service operations, which previously serviced Brookfield Asset Management’s relocation, Canadian residential real estate and appraisal services portfolios, with the appointment of a dedicated CEO and CFO and supporting finance team focused on growing the Canadian residential real estate portfolio, which encompasses the Corporation, the Manager and the Prudential Canada network. Management believes that the Corporation will continue to benefit through referrals from Brookfield Global Relocation Services, the second-largest relocation company in the world.

## Quality Control

The buying and selling of a residence is typically the largest single financial transaction undertaken by an individual in his or her lifetime. Consequently, market knowledge, professionalism, principled conduct and high moral and ethical standards are critical to the success of the Franchise Systems. In order to maintain the reputation, goodwill, customer service, appearance and methods of the Franchise Systems, the Franchise Agreement requires a Franchisee to operate the Franchise under the Royal LePage or Via Capitale name in accordance with such methods, standard specifications and procedures as prescribed by the Manager.

Potential Franchisees are qualified through a review of their relevant experience, reputation and financial stability. Owners of Franchises are typically required to direct their full time and attention to the establishment, development and operation of the business.

The Manager requires Franchisees to operate from suitable premises that meet standards satisfactory to the Manager and that, unless otherwise permitted, are to be utilized strictly for the operation of the Business.

Franchisees are licensed to use the Trademarks and the Franchise Systems for the operation of the Franchise. In order to retain the integrity of the Trademarks and Franchise Systems, all Franchisees are required to abide by certain requirements, including the following:

- to ensure that only those types of interior and exterior signs that the Partnership has approved as meeting its specifications and standards for design and appearance are used in the operation of a Franchisee's business;
- to ensure that any supplies used in the Business, including written forms and materials, conform to specifications determined by the Partnership from time to time. In the case of signs and supplies, the Manager may recommend suitable suppliers, however, the Franchisee may use any supplier it chooses provided the supplier meets the standards established by the Partnership;
- to utilize and maintain such computer hardware, software and related technology that meet the Partnership's specifications and standards for use and compatibility with the Franchise Systems;
- to pay additional one time or ongoing fees that may be necessitated by changes in the real estate marketplace or improvements made to the Franchise Systems by the Partnership; and
- to comply with and facilitate any system implemented by the Partnership for the transfer of funds directly from the bank account of the Franchisee to the bank account of Partnership.

In the event that a Franchisee defaults in any commitments under its Franchise Agreement, the Partnership may notify the Franchisee in writing of the default and provide a reasonable period of time to cure the default. During this period, the Manager, on behalf of the Partnership would work closely with the Franchisee to cure the default. In the event that the Franchisee fails or refuses to cure the default, the Partnership has the right to terminate the Franchise Agreement and any other related agreements.

In 2011, the Partnership and Via Capitale L.P. terminated seven Franchise agreements representing nine locations and 54 Agents and Sales Representatives. In 2012, the Partnership and Via Capitale L.P. terminated two Franchise Agreements representing three Agents and Sales Representatives. In 2013, the Partnership and Via Capitale L.P. terminated six Franchise Agreements representing 74 Agents and Sales Representatives.

Upon termination of its Franchise Agreement, a Royal LePage Franchisee is required to assign all of the business phone numbers and telephone listings to the Partnership and permit the Partnership to enter the premises of the Franchisee to cure any default of the Franchisee, operate the business for the account of the Partnership or secure the Franchisee's complete and timely compliance. Further, upon termination, the Partnership may appoint a receiver or manager over the franchise business of the defaulting Franchisee and, within thirty days of termination, the franchisor has the right to purchase the business from the Franchisee at a price determined pursuant to a prescribed

formula and in a prescribed manner. Pursuant to the terms of the Management Services Agreement, the Partnership has assigned all of these rights to the Manager. See “Description of the Business — Management Services Agreement”.

## **Franchise Reporting**

Each Franchisee is required, by the fifth day of each month, to report key operating, personnel and financial statistics for the preceding month, including gross revenue, number and status of Agents, Agent roster, number of real estate transactions and fees payable. This reporting is primarily obtained through the Manager’s data capture system. See “Description of the Business — Technology”.

The integrity of Franchisee reporting is maintained through ongoing reviews of key statistics such as paying Agent count by the Manager and the periodic audit and on-site inspection of the Franchisees’ books, records, procedures and statement of gross revenues.

The Manager has retained and pays Brookfield Asset Management to provide internal audit services to the Partnership and Via Capitale L.P., which the Manager is required to provide pursuant to the Management Services Agreement. The internal audit services include reviews for compliance with Franchise Agreements and suggestions to Franchisees on operating issues and regulatory matters, where appropriate. See “Description of the Business — Management Services Agreement”.

## **Government Regulation**

### ***Local and Provincial Regulations***

In each province, licensed Agents are either self-regulated or regulated by the provincial government. All Agents must successfully complete various licensing courses prior to applying for a real estate license. The license is applied for through a residential resale real estate brokerage firm. The real estate brokerage firm must be operated by a Broker. No Agent may receive a license without first being registered with a Broker. The license allows the licensee to sell real estate anywhere within the province in which he or she is licensed and also allows the collection of referral fees through the brokerage they are licensed with, for business referred to real estate companies anywhere in the world.

Most licensed Agents also belong to local real estate boards, as well as to the Canadian Real Estate Association and are required by the rules thereof to adhere to prescribed standards of professionalism and a code of ethics. Local real estate boards provide a Multiple Listing Service to members, facilitate arbitration and ethical disputes among members and handle complaints from members of the public.

Provincial regulations also require that all Agents be affiliated with licensed Brokers in order to sell real estate. Brokers are licensed by provincial regulatory bodies and must periodically renew their registration. Brokers, among other things, are responsible for the ongoing supervision of Sales Representatives and Agents and the management of trust funds.

### ***Franchise Regulation***

The Partnership must comply with laws and regulations adopted in the Provinces of Ontario, Alberta and Prince Edward Island that regulate the offer and sale of franchises. These laws require, among other things, that the Partnership provide prospective Franchisees with a disclosure document containing certain prescribed information.

### ***Employment***

As is the case with the majority of real estate Agents in Canada, Agents in the Franchise Network typically practice as independent contractors. Under this system the Agents remit on their own taxes to the Canada Revenue Agency, pay their own health insurance and deduct business expenses. The typical independent contractor

agreement between a Broker-owner and Agent has a one-month termination clause, allowing either the Broker-owner or the Agent to terminate the contract on one month's notice.

### **Dividend Policy**

In 2014, the Board of Directors anticipates paying monthly dividends at an annualized rate of \$1.20 per Restricted Voting Share. Management and the Board of Directors periodically review the Corporation's targeted dividends and distributions.

### **Management Services Agreement**

#### ***General***

On August 7, 2003, the Partnership, the Fund, the Holding Trust, the General Partner and the Manager entered into a Management Services Agreement the ("Original Management Services Agreement"). The Original Management Services Agreement was amended and restated on January 1, 2008, January 1, 2011, December 31, 2012 and January 1, 2014. Pursuant to the provisions of the Management Services Agreement, the Manager has agreed to provide certain management, administrative and support services to the Corporation, the General Partner, the Partnership, Via Capitale L.P. and any additional entity executing an addendum agreement thereto. The duties of the Manager include: (i) ensuring compliance with continuous disclosure obligations under all applicable securities legislation and stock exchange requirements; (ii) providing accounting and financial services; (iii) ensuring prompt collections under the Franchise Agreements and otherwise ensuring compliance by Franchisees with their respective obligations under the Franchise Agreements; (iv) pursuing the growth of the Franchise Network through the addition of Incremental Franchises and Incremental Via Capitale Franchises; (v) negotiating and communicating with third parties with respect to contractual and other matters; (vi) providing investor relations services; (vii) providing or causing to be provided to Shareholders and holders of Special Voting Shares all information to which Shareholders and holders of Special Voting Shares are entitled; (viii) calling, holding and distributing materials (including notices of meetings and information circulars) in respect of all meetings of Shareholders and holders of Special Voting Shares; (ix) determining the amounts payable from time to time to Shareholders; and, (x) if necessary, dealing with Franchisees on questions of interpretation of the Franchise Agreements.

In addition to the management, administrative and support services listed above, the Manager has agreed, among other things, to:

- operate and conduct its business in at least the manner and to at least the standards that the business was conducted prior to January 1, 2008;
- maintain and expand the Franchise Systems, including ongoing improvement of technology, marketing and promotional tools;
- manage and supervise the management of the Franchisees in a manner consistent with that of a competent and qualified manager of similar franchises of branded residential resale real estate brokerages;
- collect all fees and other amounts payable to the Partnership and Via Capitale L.P. under the Franchise Agreements by Franchisees;
- monitor the compliance of Franchisees with the character and quality standards set out under the Franchise Agreements, including with respect to the Trademarks; and
- enforce the observance and performance of Franchise Agreements by owner/operators of Franchises in a manner that is consistent with good and prudent business practices.

In exercising its powers and discharging its duties under the Management Services Agreement, the Manager is required to exercise the degree of care, diligence and skill that a reasonably prudent manager having responsibilities of a similar nature would exercise in comparable circumstances. As a result of the services provided by the Manager under the Management Services Agreement, the Manager is “a person or company in a special relationship with a reporting issuer” with respect to the Corporation for the purposes of the *Securities Act* (Ontario).

Under the Management Services Agreement, the Manager is entitled to an annual fee, payable by the Partnership on a monthly basis in arrears, equal to 20% of the cash of the Partnership otherwise available for distribution and, in respect of cash generated from the Via Capitale Network, the Manager is entitled to an annual fee, payable by the Partnership on a monthly basis in arrears, equal to 20% of the cash of Via Capitale L.P. otherwise available for distribution.

The Management Services Agreement has a term of five years expiring on December 31, 2018, and is automatically renewable for successive five-year terms unless notice of termination is given by either the Corporation, the General Partner and the Partnership or the Manager at least six months prior to the expiry of the initial or renewal term. The Management Services Agreement may be terminated earlier on behalf of the Corporation, the Partnership, the General Partner or Via Capitale L.P. by the Independent Directors if a substantial deterioration in the business of the Partnership occurs that is not caused by force majeure, provided that such termination is approved at a meeting of Shareholders and Special Shareholders by a resolution approved by holders representing at least 50% of the aggregate number of issued and outstanding Restricted Voting Shares and the Special Voting Share and at least 66 <sup>2</sup>/<sub>3</sub>% of the aggregate number of shares voted at the meeting, in each case excluding any Restricted Voting Shares and the Special Voting Share held by the Manager or any of its affiliated entities. In the event of such termination, and provided that the Manager is not then in default, the Corporation will pay to the Manager a fee equal to the aggregate of all fees paid to the Manager under the Management Services Agreement in the previous calendar year.

The Management Services Agreement may be terminated by the Manager in the event of the insolvency or receivership of the Corporation, the Partnership, the General Partner or Via Capitale L.P., or in the case of default by the Corporation, the Partnership, the General Partner or Via Capitale L.P. in the performance of a material obligation under the Management Services Agreement (other than as a result of the occurrence of a force majeure event) which is not remedied within 30 days after written notice thereof has been delivered. The Management Services Agreement may be terminated by the Corporation, the Partnership, the General Partner or Via Capitale L.P. in the event of the insolvency or receivership of the Manager, or in the case of default by the Manager in the performance of a material obligation under the Management Services Agreement (other than as a result of the occurrence of a force majeure event) which is not remedied within 30 days after written notice thereof has been delivered.

The Management Services Agreement contains provisions to regulate any conflicts of interest which may arise and provides for indemnification by the Manager of the Corporation, the Partnership, the General Partner and Via Capitale L.P. and by the Corporation, the Partnership, the General Partner and Via Capitale L.P. of the Manager in certain circumstances. The Management Services Agreement may be assigned by any party thereto with the prior written consent of all other parties.

Under the Management Services Agreement, the Partnership has the contractual right to control the character and quality of the services delivered by the Manager and the Franchisees, and to require that the Trademarks be used by the Manager and the Franchisees in a manner that enhances the reputation of the Trademarks and the value of the Franchise Agreements. Under the Management Services Agreement, the Partnership is entitled to:

- inspect the use of the Trademarks by the Manager and the Franchisees to ensure that they are protecting and enhancing the reputation associated with the Trademarks;
- obtain, on a quarterly basis, a certificate from an officer of the Manager to the effect the Manager is using the Trademarks in accordance with the Management Services Agreement;

- require the Manager to submit a report, on a quarterly basis, detailing the operations of the Franchisees and compliance with the Franchise Agreements; and
- establish the standards governing the character and quality of the services delivered, and the monitoring and enforcement of standards under the Franchise Agreements.

Under the Management Services Agreement, the Manager has the right to develop and offer new products and services to Franchisees or Agents in addition to the products and services as specifically dealt with in the Management Services Agreement. Pursuant to the terms of the Management Services Agreement, provided such products and services are new, and not mere enhancements of the products and services already provided as part of the Franchise Systems, the Manager shall be entitled, after negotiation with and mutual agreement of the Independent Directors of the Corporation, to be reimbursed for its costs and receive additional fees in respect of such products and services.

The Management Services Agreement also contains provisions requiring the Partnership to assign certain rights, including the right of first refusal to acquire the franchise operations of a Franchisee in certain circumstances, to the Manager. See “Description of the Business — Franchise Agreements” and “Description of the Business — Quality Control”.

### ***Incremental Franchises***

Under the Management Services Agreement, the Partnership has provided the Manager with a license to use the Trademarks to, among other things, enable the Manager to fulfill its obligations under the Management Services Agreement and to otherwise operate and grow the Franchise Network by entering into new Franchise Agreements either directly or through an affiliated entity.

The directors have adopted an Incremental Franchise Purchase Policy that requires the Independent Directors of the Corporation to review and determine, from time to time, by agreement with the Manager the criteria upon which the Independent Directors will base their decision to permit the Partnership to purchase Incremental Franchises from the Manager. All Incremental Franchises will, prior to being purchased by the Partnership, be subject to a satisfactory review based on the criteria established by the directors from time to time prior to their assignment to the Partnership. The criteria for Incremental Franchises include, unless the Independent Directors otherwise consent:

- a) the brokerage business which is the subject of the Franchise Agreement with respect to such Incremental Franchise must be located in Canada;
- b) the Franchise Agreement with respect to such Incremental Franchise must be the same or substantially similar to the Franchise Agreements for existing Franchises;
- c) the Franchise Agreement with respect to such Incremental Franchise must have a minimum term of ten years;
- d) the Franchisee in respect of such Incremental Franchise or its principal must have experience in the real estate industry;
- e) such Incremental Franchise must be operated in accordance with the established quality control requirements of the Manager; and
- f) the Franchisee must hold all necessary licenses to operate a residential real estate brokerage business and all such licenses must be in good standing.

Under the Management Services Agreement, Via Capitale L.P. has provided 9120-5583 Quebec Inc. (a wholly owned subsidiary of the Manager) with a license to use the certain trademarks to, among other things, enable the Manager to fulfill its obligations under the Management Services Agreement and to otherwise operate and grow the Via Capitale Network by entering into new Franchise Agreements either directly or through an affiliated entity. Incremental Via Capitale Franchises entered into up to the end of the 44<sup>th</sup> week of each fiscal year of the Corporation will be offered to Via Capitale L.P. or the Partnership by the Manager, on January 1 of the immediately



following fiscal year, in consideration of an amount to be determined based on the formula in the Management Services Agreement.

Subject to meeting the criteria set forth in the Corporation's Incremental Franchise Purchase Policy, as the same may from time to time be amended, all Incremental Franchises entered into, other than renewals or replacements of existing Franchise Agreements, up to the end of the 44<sup>th</sup> week of each fiscal year of the Corporation will be assigned to the Partnership by the Manager, on January 1 of the immediately following fiscal year (the "Payment and Adjustment Date"), in consideration of an amount (the "Determined Amount") to be determined annually on the Payment and Adjustment Date by a formula that is based upon:

- the amount of the tax-effected Royalties of the Incremental Franchises for the 52 week period ending at the end of the 44<sup>th</sup> week (the "Reporting Period") in the fiscal year of the Corporation that such Incremental Franchises are transferred to the Partnership; and
- the dividend yield paid on the Restricted Voting Shares for the 52 week period immediately preceding the beginning of such Reporting Period (the "Determination Date").

The Determined Amount for any Reporting Period is to be determined by dividing (a) the product of (i) 92.5% of the Royalties on a tax affected basis (net of management fees attributable to such Royalties) in respect of the first Reporting Period for which such Incremental Franchises are included in the calculation of Royalties and (ii) one minus the Actual Tax Rate; by (b) the annual dividend yield paid on the Restricted Voting Shares for the 52 week period immediately preceding the Determination Date in respect of such Reporting Period. The annual dividend yield is to be determined by dividing the total dividend amount per Restricted Voting Share declared by the Corporation in the 52 week period ending on the day immediately preceding such Determination Date by the Current Market Price of the Restricted Voting Shares on such Determination Date. The "Current Market Price" of the Restricted Voting Shares as at any date or for any period means the weighted average price at which the Restricted Voting Shares have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of such period (for the purposes of this calculation, (i) "Stock Exchange" means a stock exchange recognized by the Ontario Securities Commission, and where the Restricted Voting Shares have traded on more than one Stock Exchange during the relevant period, "Stock Exchange" shall mean the Stock Exchange where the greatest volume of Restricted Voting Shares traded during the relevant period, and (ii) "weighted average price", for any period, shall mean the amount obtained by dividing the aggregate sale price of all of the Restricted Voting Shares traded on the relevant Stock Exchange during such period divided by the total number of Restricted Voting Shares so traded).

The Determined Amount in respect of any Incremental Franchise shall be adjusted to eliminate the effect thereon of any Royalties paid by such Incremental Franchise during the Reporting Period in respect of Agents who joined the Franchisee of the Incremental Franchise from another Franchisee after the Franchise Agreement in respect of such Incremental Franchise was entered into. Similarly, the Determined Amount in respect of any Incremental Franchise which results from the acquisition or addition by an existing Franchisee of additional offices and/or Agents shall be adjusted by removing the effect thereon of any Royalties paid by such Incremental Franchise during the Reporting Period in respect of Agents who were Agents of the Franchisee which made the acquisition prior to such acquisition.

The Determined Amount for each Reporting Period is to be paid by the Partnership in cash or, at the option of the Partnership, through the issue of Class B LP Units.

An initial payment of the Determined Amount is to be made based upon the amount of the Royalties of the Incremental Franchises for such Reporting Period as forecast by the Manager (a "Forecast Determined Amount"), on the basis of assumptions that are considered to be reasonable by the Governance Committee of the board of directors of the General Partner. The Forecast Determined Amount will be adjusted after the end of such Reporting Period when the Determined Amount is determined on the basis of the actual Royalties for such Incremental Franchises for such Reporting Period. The Manager is to provide the Partnership with an audited report of the amount of such actual Royalties of the Incremental Franchises for the first Reporting Period in which such

Incremental Franchises are included in the calculation of total Royalties and the Actual Tax Rate for the Reporting Period during which such Incremental Franchises are assigned to the Partnership. .

The Determined Amount for any Reporting Period is to be paid in two instalments. The first payment, equal to 80% of the Forecast Determined Amount (the “Initial Payment”), is to be paid on the Payment and Adjustment Date immediately following the beginning of such Reporting Period. The second payment (the “Final Payment”), equal to the Determined Amount less the Initial Payment (the “Final Payment Amount”), is to be paid within 90 days of the immediately following Payment and Adjustment Date.

If the Determined Amount for any Reporting Period is to be paid in Class B LP Units, the Partnership will issue to the Manager Class B LP Units (at a price equal to the Current Market Price per Restricted Voting Share on the Payment and Adjustment Date) equal to the amount of the Initial Payment divided by the Current Market Price per Restricted Voting Share on the Payment and Adjustment Date. If the Determined Amount for any Reporting Period is to be paid in cash, then, to the extent that the Final Payment Amount is greater than zero, it will bear interest at a rate equal to the rate of interest payable during such Reporting Period on debt obligations of the Government of Canada having a term of 90 days.

If the Final Payment Amount is negative, then the Manager will be required to repay an amount equal to the Final Payment Amount to the Partnership. Where the Determined Amount is paid in Class B LP Units, the Manager will transfer to the Partnership that number of Class B LP Units having a value equal to the Final Payment Amount (based on the issue price of the Class B LP Units), together with an amount equal to all distributions paid on such Class B LP Units, and where the Determined Amount is paid in cash, the Manager will pay to the Partnership a cash amount equal to the Final Payment Amount, together with interest on such amount at a rate equal to the rate of interest payable during such Reporting Period on debt obligations of the Government of Canada having a term of 90 days.

Unless the Independent Directors otherwise consent, the assignment to the Partnership by the Manager of any Incremental Franchise will be subject to such Incremental Franchise meeting such criteria as may be determined from time to time by agreement between the Independent Directors and the Manager, each acting reasonably.

All Incremental Franchises will be subject to a satisfactory review by the Independent Directors, based on the criteria established by the directors from time to time, prior to the assignment to the Corporation.

Upon the termination of the Management Services Agreement, the rights of the Manager to enter into the Franchise Agreements as franchisor and the rights of the Manager to use the Trademarks will terminate other than (i) those rights provided for in the Franchise Agreements in respect of Franchises owned and operated by the Manager, and (ii) those rights necessary to allow the Manager to continue to act as franchisor of any Incremental Franchises until they are assigned to the Partnership on January 1 of the fiscal year of the Corporation commencing following the termination of the Management Services Agreement.

Under the Management Services Agreement, Via Capitale L.P. has provided the Manager with a license to use the certain trademarks to, among other things, enable the Manager to fulfill its obligations under the Management Services Agreement and to otherwise operate and grow the Via Capitale Network by entering into new Franchise Agreements either directly or through an affiliated entity. Incremental Via Capitale Franchises entered into up to the end of the 44<sup>th</sup> week of each fiscal year of the Corporation will be offered to Via Capitale L.P. or the Partnership by the Manager, on January 1 of the immediately following fiscal year, in consideration of an amount to be jointly determined by the Manager and the Independent Directors.

### **Management of the Corporation**

The section entitled “Management of the Corporation” contained in the Corporation’s Management Information Circular dated March 28, 2014 is incorporated herein by reference.

## DESCRIPTION OF THE CORPORATION AND CAPITAL STRUCTURE

The Corporation was incorporated on October 28, 2010 pursuant to the provisions of the OBCA for the sole purpose of participating in the Arrangement. Prior to completion of the Arrangement, the Corporation had not carried on any active business since its incorporation other than executing the Arrangement Agreement. The registered and head office of the Corporation is located at 39 Wynford Drive, Don Mills, Ontario, M3C 3K5.

### Restricted Voting Shares

Holders of Restricted Voting Shares are entitled to one vote per share at meetings of shareholders of the Corporation, to receive dividends if, as and when declared by the Board of Directors of the Corporation (subject to the rights of shares, if any, having priority over the Restricted Voting Shares) and to receive pro rata the remaining property and assets of the Corporation upon its dissolution or winding-up, subject to the rights of shares, if any, having priority over the Restricted Voting Shares. The Restricted Voting Shares are designated as “restricted voting shares” in accordance with applicable securities laws and the rules of the TSX due to the fact that the Restricted Voting Shareholders do not vote for the directors who are appointed by the holder of the Special Voting Share. See “Description of Capital Structure – Special Voting Share”. As at the date hereof there are 9,483,850 Restricted Voting Shares issued and outstanding.

### Preferred Shares

The directors of the Corporation may, prior to the issuance of Preferred Shares, determine the series designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares of each series including, without limiting the generality of the foregoing: (i) the rate, amount or method of calculation of any dividends; (ii) redemption and/or purchase rights; (iii) voting rights and (iv) conversion rights, all subject to the issue by the director appointed under the OBCA of a certificate of amendment in respect of the Corporation’s articles to designate each series of Preferred Shares. There are no Preferred Shares issued and outstanding. The Preferred Shares are intended to provide future financing flexibility and are not intended to be used for dilutive purposes, such as to block any takeover bid for the Corporation. The Corporation will not, without prior shareholder approval, issue Preferred Shares for any anti-takeover purpose.

### Special Voting Share

Brookfield Holdings holds one Special Voting Share. The Special Voting Share is not transferable other than to affiliates of Brookfield Holdings. The Special Voting Share entitles the holder to a number of votes at any meeting of Restricted Voting Shareholders (except that the holder of the Special Voting Share is not entitled to vote for the election of the Independent Directors) equal to the number of Restricted Voting Shares that may be obtained upon the exchange of all the Class B LP Units held by the holder and/or its affiliates, but does not otherwise entitle the holder to any rights with respect to the Corporation’s property or income (other than a nominal amount on the dissolution or winding up of the Corporation). The Special Voting Share is redeemable at the option of the holder for nominal consideration.

So long as Brookfield Holdings and/or its affiliates hold the Special Voting Share and so long as it and/or its affiliates hold an aggregate of 10% of the Restricted Voting Shares then outstanding (calculated on the basis that all of the Class B LP Units held by Brookfield Holdings and/or its affiliates have been exchanged for Restricted Voting Shares), Brookfield Holdings is entitled to appoint two-fifths of the directors of the Corporation (provided that if two-fifths of the directors is not an integral multiple of one, then the number of directors that Brookfield Holdings is entitled to appoint shall be rounded up to the next highest integral multiple of one).

## Principal Holders of Voting Securities

To the knowledge of the directors and officers of the Corporation, the only persons or corporations which beneficially own, directly or indirectly, control or direct securities of the Corporation carrying 10% or more of the votes attached to any class of outstanding voting securities of the Corporation are:

| <u>Name</u>                 | <u>Number of Shares</u>            | <u>Percentage of Class</u> |
|-----------------------------|------------------------------------|----------------------------|
| Brookfield Holdings*        | 1 Special Voting Share             | 100.0%                     |
| 1832 Asset Management, L.P. | 1,223,300 Restricted Voting Shares | 12.9%                      |
| Fiera Capital Inc.          | 995,800 Restricted Voting Shares   | 10.5                       |

\*This entity also holds 3,327,667 Subordinated LP Units and 315,000 Restricted Voting Shares.

## Directors

The Corporation will have a minimum of three and a maximum of ten directors. The current directors are Lorraine Bell, Simon Dean, Allen Karp, Gail Kilgour and George Myhal. See “Directors and Officers of the Corporation” for the principal occupations of the directors.

At all times a majority of the directors will be Independent Directors. Brookfield Holdings may remove any of its nominees as directors and any other director may be removed by a resolution passed by a majority of the Shareholders. The vacancy created by the removal or resignation of a director, other than a nominee of Brookfield Holdings, may be filled at the same meeting, failing which it may be filled by the continuing director or directors.

## Audit Committee

The Audit Committee is comprised of Lorraine Bell (Chair), Allen Karp, Gail Kilgour and Simon Dean, all of whom are independent. All members of the Audit Committee are financially literate, and the Chair of the Audit Committee is a Chartered Accountant. See “Directors and Officers of the Corporation” for the principal occupations and relevant education and experience of the members of the Audit Committee. See Appendix A for the Audit Committee Charter.

## Governance Committee

The current members of the Governance Committee are Allen Karp (Chair), Lorraine Bell, Gail Kilgour and Simon Dean. See “Directors and Officers of the Corporation” for the principal occupations and relevant education and experience of the members of the Governance Committee. See Appendix A for the Governance Committee Charter.

## Information and Reports

The Corporation will furnish, in accordance with and subject to applicable securities laws, to Shareholders such consolidated financial statements of the Corporation (including quarterly and annual consolidated financial statements) and management’s discussion and analysis for the periods covered by the financial statements and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Shareholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Shareholders, the directors will provide Shareholders (along with a Notice of Meeting) all such information as is required by applicable law to be provided to such holders.

Each of the Partnership, the General Partner and Via Capitale L.P. have undertaken to the securities commissions or other securities regulatory authorities in each of the provinces of Canada and to the Corporation that, for so long as the Corporation is a reporting issuer (or the equivalent) under applicable securities laws, they will:

- (a) provide the Corporation with the information that would be required to be included in any continuous disclosure document which would be required to be filed with the securities commission or other securities regulatory authority in each of the provinces of Canada, with respect to the Partnership, the General Partner or Via Capitale L.P., as the case may be, if it were a reporting issuer (or the equivalent) in such province, and, to the extent that any such information is not included in the equivalent continuous disclosure document for the Corporation, prepare and file with the securities commissions or other securities regulatory authorities and mail to the Shareholders, if such a mailing would be required if it were a reporting issuer (or the equivalent), such a continuous disclosure document; and
- (b) implement a disclosure policy requiring that certain trades in the Restricted Voting Shares are reported in accordance with the insider trading provisions of the securities legislation in each of the provinces of Canada, including trades by the directors or senior officers of the General Partner, directors or senior officers of the Manager, or any securityholder of the Corporation or the Partnership who holds more than 10% of the Restricted Voting Shares of the Corporation (on a diluted basis and assuming exchange of LP Units which are exchangeable for Restricted Voting Shares).

### **Book-Entry Only System**

Registration of interests in and transfers of the Restricted Voting Shares will be made only through the Book-Entry Only System administered by CDS. Restricted Voting Shares must be purchased, transferred and surrendered for redemption through a participant in the CDS depository service. All rights of a Shareholder must be exercised through, and all payments or other property to which a Shareholder is entitled will be made or delivered by, CDS or the CDS participant through which Shareholder holds the Restricted Voting Shares. Upon a purchase of any Restricted Voting Shares, the Shareholder will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Restricted Voting Shares are purchased.

The ability of a beneficial owner of Restricted Voting Shares to pledge those Restricted Voting Shares or otherwise take action with respect to the Shareholder's interest in those Restricted Voting Shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

## **DESCRIPTION OF THE PARTNERSHIP**

### **General**

The Partnership is a limited partnership established under the laws of the Province of Ontario to own the Partnership Assets, conduct the business of a franchisor of residential property brokerages franchises, take actions consistent with the Management Services Agreement to exploit, to the fullest extent possible, the use of the Trademarks by the Manager and others, to collect Royalties and carry out all activities ancillary and incidental thereto. The following is a summary of the material attributes and characteristics of the LP Units and certain provisions of the Partnership Agreement, which summary is not intended to be complete. Reference is made to the Partnership Agreement and the full text of its provisions for a complete description of the LP Units.

### **General Partner**

The general partner of the Partnership is the General Partner.

### **Partnership Units**

The Partnership is entitled to issue various classes of partnership interests pursuant to the approval of the General Partner. The Partnership has 9,983,000 Class A LP Units and 3,327,667 Class B LP Units issued and

outstanding. All of the Class A LP Units outstanding are held by the Corporation. Class A LP Units may also be issued, as described under “Description of the Business — Management Services Agreement”, to the Manager in satisfaction of payment of the Determined Amount in respect of Incremental Franchises assigned to the Partnership by the Manager or Brookfield Holdings. All of the Class B LP Units outstanding are held by Brookfield Holdings.

The Partnership issued 3,327,667 Class B LP Units to TBI (a predecessor of Brookfield Holdings) in partial consideration for the Partnership’s acquisition of the Partnership Assets from TBI. Class B LP Units, which are issuable in series, may also be issued in respect of other acquisitions made by the Partnership from time to time. The Class B LP Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Class A LP Units. The Class B LP Units have the following attributes: (i) the Class B LP Units are exchangeable, indirectly, on a one-for-one basis (subject to customary anti-dilution provisions) for Restricted Voting Shares at the option of the holder, at any time; (ii) each Class B LP Unit entitles the holder thereof to receive distributions from the Partnership, where practicable, pro rata with dividends paid by the Corporation on its Shares.

Distributions to holders of Class B LP Units are made monthly on a pro rata basis (after funding of cash redemptions and repurchases of Shares, if any and expenses of the Corporation).

The Partnership, Brookfield Holdings and the Manager have entered into certain agreements to give effect to the terms of the Class B LP Units and the Class A LP Units issued to the Manager pursuant to the Management Services Agreement, including the Exchange Agreement specifying the procedures for the indirect exchange of the Class B LP Units and the Class A LP Units issued to Brookfield Holdings or the Manager for Restricted Voting Shares referred under “Retained Interest” and “Description of the Business — Management Services Agreement”.

## **Distributions**

The Partnership will distribute to the General Partner and to limited partners (listed on the record) holding LP Units of the Partnership on the last day of each month their pro rata portions of distributable cash as set out below. Distributions are made on the Class A LP Units within 30 days of the end of each month and are intended to be received by the Corporation, and on the Class B LP Units will be paid monthly. The Partnership may, in addition, make a distribution at any other time.

Distributable cash represents, in general, all of the Partnership’s cash, after:

- satisfaction of its debt service obligations (principal and interest), including on the BNY Indebtedness, the CIBC Indebtedness and the Operating Loan;
- satisfaction of its other obligations (including, without limitation, amounts payable to the Manager under the Management Services Agreement); and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for working capital expenditures as may be considered appropriate by the board of directors of the General Partner.

## **Allocation of Net Income and Losses**

The income or loss of the Partnership for each fiscal year will be allocated to the General Partner and to the limited partners as to 0.001% and 99.999%, respectively. The income for tax purposes of the Partnership for a particular fiscal year will be allocated to each limited partner by multiplying the total income allocated to the limited partners by a fraction, the numerator of which is the total sum of the cash distributions received by that limited partner with respect to that fiscal year (taking into account, without limitation, any non-payment of distributions to holders of Class B LP Units during the year pursuant to the subordination described above under “Description of the Partnership — Partnership Units”) and the denominator of which is the total amount of the cash distributions made by the Partnership to all limited partners with respect to that fiscal year. The amount of income allocated to a limited partner may exceed or be less than the amount of cash distributed by the Partnership to that limited partner.

Income and loss of the Partnership for accounting purposes is allocated to each partner in the same proportion as income or loss that is allocated for tax purposes.

If, with respect to a given fiscal year, no cash distribution is made by the Partnership to its partners, or the Partnership has a loss for tax purposes, one twelfth of the income or loss, as the case may be, for tax purposes of the Partnership for that fiscal year will be allocated to the General Partner and the limited partners at the end of each month ending in that fiscal year, as to 0.001% and 99.999%, respectively, and to each limited partner in the proportion that the number of LP Units held at each of those dates by that limited partner is of the total number of LP Units issued and outstanding at each of those dates (for such purposes treating all classes of limited partners as one).

### **Reimbursement of General Partner**

The Partnership reimburses the General Partner for all direct costs and expenses incurred in the performance of its duties under the Partnership Agreement on behalf of the Partnership.

### **Limited Liability**

The Partnership operates in a manner as to ensure to the greatest extent possible the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability is lost by reason of the negligence of the General Partner in performing its duties and obligations under the Partnership Agreement, the General Partner will indemnify the limited partners (each in respect of its own actions and inactions only) against all claims arising from assertions that their respective liabilities are not limited as intended by the Partnership Agreement. However, since the General Partner has no significant assets or financial resources, this indemnity may have nominal value.

### **Transfer of Partnership Units**

LP Units are fully transferable. However, an LP Unit is not transferable in part and no transfer of an LP Unit will be accepted by the General Partner unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of the Partnership. A transferee of the LP Unit will become a limited partner and will be subject to the obligations and entitled to the rights of a limited partner under the Partnership Agreement on the date on which the transfer is recorded. Class B LP Units will only be transferable as described under "Retained Interest".

## **DESCRIPTION OF THE GENERAL PARTNER**

### **General**

The General Partner is a corporation established under the laws of the Province of Ontario to act as the General Partner of the Partnership. The Corporation and Brookfield Holdings own 75% and 25%, respectively, of the outstanding shares of the General Partner. Pursuant to the Shareholders' Agreement, in the event that the Management Services Agreement is terminated, Brookfield Holdings will sell all of its shares in General Partner to the Corporation or such other person as the Corporation directs.

### **Functions and Powers of the General Partner**

The General Partner has the authority to manage the business and affairs of the Partnership, to make all decisions regarding the business of the Partnership and to bind the Partnership in respect of any such decision. The General Partner is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Partnership and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power to be vested in the General Partner to manage the business and affairs of the Partnership include all authority necessary or incidental to carry out the objects, purposes and business of the

Partnership, including the ability to engage agents to assist the General Partner to carry out its management obligations and administrative functions in respect of the Partnership and its business. Pursuant to the Management Services Agreement, the Manager will be actively engaged in the business of the Partnership, be responsible for, and have authority in, assisting the General Partner in the management of the business and affairs of the Partnership and performs such additional specific duties in connection with the business of the Partnership as provided in the Management Services Agreement. See “Description of the Business — Management Services Agreement”. The Manager provides ongoing and regular consultation and management services to the Partnership as to the operation and management of the business of the Partnership, in addition to the assistance provided to the General Partner.

The Partnership Agreement provides that all material transactions and agreements involving the Partnership must be approved by the General Partner’s board of directors and, where those agreements involve Brookfield Holdings or any affiliated entity or associate thereof, they must be approved by a majority of the Independent Directors.

### **Restrictions on Authority of the General Partner**

The authority of the General Partner is limited in certain respects under the Partnership Agreement and the Shareholders’ Agreement. The General Partner is prohibited, without the prior approval of the other partners given by Partnership Special Resolution, from dissolving the Partnership, winding up its affairs or selling, exchanging or otherwise disposing of all or substantially all of the assets of the Partnership (otherwise than in conjunction with an internal reorganization).

### **Withdrawal or Removal of the General Partner**

The General Partner may not be removed as general partner of the Partnership unless:

- the shareholders or directors of the General Partner pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of the General Partner, or the General Partner commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner agrees to act as general partner under the Partnership Agreement; or
- a Partnership Special Resolution approving such removal has been passed and a successor general partner agrees to act as general partner under the Limited Partnership Agreement.

If the General Partner withdraws or is removed as the general partner of the Partnership for any reason, a successor general partner of the Partnership may be appointed only if (i) such successor has been approved by a Partnership Special Resolution, and (ii) the successor general partner has the same relative ownership and board composition as the General Partner.

### **Restrictions Respecting Amendment**

The Partnership Agreement may not be amended in any way which would or might adversely affect the rights or obligations of any class of partners (including, for greater certainty, amendments which do not deal specifically by their terms with a class of units, but nevertheless affect the rights and/or obligations of holders of that class) including, without limitation, amendments that affect the voting rights, distribution entitlements, or liabilities of that class without the consent of such class of partners given by ordinary resolution at a duly constituted meeting or a written resolution of partners holding a majority of the Partnership interests of such class entitled to vote at a duly constituted meeting.

### **Shareholders’ Agreement**

TBI (a predecessor to Brookfield Holdings), the Fund and the General Partner entered into the Shareholders’ Agreement in respect of the General Partner, dated August 7, 2003.



## ***Directors***

The Shareholders' Agreement provides that the board of directors of the General Partner is the same size and has the same composition as the Corporation's board of directors.

The directors of the General Partner are not entitled to compensation for acting as such, but participate in the Corporation's insurance and indemnification arrangements and are reimbursed for out-of-pocket expenses for attending meetings.

## ***Amendment***

The Shareholders' Agreement provides that it can only be amended, modified or waived with the approval of the General Partner, Brookfield Holdings and the holders of LP Units by Partnership Special Resolution. Any amendment that would adversely affect the rights and obligations of a particular securityholder in a manner different from all other similarly situated securityholders, or would create or increase liability of a securityholder, requires the approval of each particularly affected securityholder in order to be effective against that person.

The board of directors of the General Partner has established the following committees:

### ***Audit Committee.***

The Audit Committee consists of four directors, all of whom are Independent Directors, and is responsible for monitoring the Partnership's financial reporting, accounting systems and internal controls, and liaising with external auditors.

### ***Governance Committee.***

The Governance Committee consists of four directors, all of whom are Independent Directors, and is responsible for:

- (a) considering, and providing a recommendation on, any conflict of interest involving Brookfield Holdings or any of its affiliated entities and the Partnership (including any matter involving the Shareholders' Agreement, the Management Services Agreement, the Partnership Assets, the LP Units, the La Capitale License Agreement and the Royal LePage Sub-License Agreement) before such conflict of interest is approved by the board of directors of the General Partner;
- (b) annually reviewing:
  - the performance of the Manager as manager under the Management Services Agreement, including its business plans and prospects for the ensuing year;
  - the performance of the management of the Manager; and
  - adjustments to be made pursuant to the Management Services Agreement;
- (c) developing the Partnership's approach to governance issues;
- (d) advising the board in filling vacancies on the board; and
- (e) periodically reviewing the composition and effectiveness of the board and the contribution of individual directors.

## CREDIT FACILITIES

### **BNY Notes, CIBC Term Facility and Operating Loan**

On February 18, 2005, the Partnership completed the issuance of \$38.0 million of BNY Notes. The original BNY Notes matured on February 17, 2010. On February 17, 2010 the Partnership issued \$32.7 of BNY Notes, bearing interest at a rate of 5.809% per annum, payable quarterly in arrears, and maturing on February 16, 2015. The net proceeds of the issuance of the BNY Notes issued on February 17, 2010 were used to refinance the maturing BNY Notes. Each of the BNY Notes issued pursuant to the BNY Trust Indenture rank equally with each other. The BNY Trust Indenture also provides for the issuance of additional notes in the future. The BNY Indebtedness has been guaranteed by the Corporation pursuant to a limited recourse guarantee. The BNY Indebtedness is secured by a general security interest in all of the assets of the Partnership and the General Partner, as well as security interests in certain of the material contracts of the Partnership and a pledge by the Corporation of all of the units of the Partnership owned by the Corporation. Pursuant to the BNY Trust Indenture, the Partnership is subject to customary terms and conditions for indebtedness of this nature, including limits on incurring additional indebtedness, granting liens, selling assets and paying distributions. The Partnership is required to maintain a minimum specified ratio of adjusted EBITDA to senior interest expense, and a maximum specified ratio of senior indebtedness to adjusted EBITDA.

On August 6, 2010 the Corporation established a \$2.0 million Operating Loan with CIBC, replacing a similar facility previously maintained with Royal Bank of Canada. The Partnership pays fees for the Operating Loan of 0.5% to 0.625% based on the ratio of the total debt to the adjusted EBITDA of the Partnership. Interest is payable at the prime rate of the administrative agent of the Lenders plus 1.5% or the BA Rate plus 3.0%. The Operating Loan provides the Partnership with working capital required from time to time and will be used by the Partnership to normalize distributions. The Operating Loan and BNY Notes are subject to events of default usual for loans of this nature.

The CIBC Indebtedness has been guaranteed by the Corporation pursuant to a limited recourse guarantee. The CIBC Indebtedness is secured by a general security interest in all the assets of the Partnership and the General Partner, as well as security interests in certain of the material contracts of the Partnership and a pledge by the Corporation of all of the units of the Partnership owned by the Corporation. Pursuant to the CIBC Term Facility credit agreement, the Partnership is subject to customary terms and conditions for indebtedness of this nature, including limits on incurring additional indebtedness, granting liens, selling assets and paying distributions. The Partnership is required to maintain a minimum specified ratio of adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") to senior interest expense, and a maximum specified ratio of senior indebtedness to adjusted EBITDA. The security held by CIBC will rank equally with the security in favour of BNY, as trustee, on behalf of the holders of BNY Notes and security in favour of the CIBC in connection with the Operating Loan.

### **Security**

The BNY Indebtedness, the CIBC Indebtedness and the indebtedness and liability of the Partnership under the Operating Loan have been guaranteed by the Corporation, the Via Capitale L.P., 4541219 and the General Partner (with recourse limited, in the case of the Corporation, to LP Units) and has been secured by a first ranking security interest in all of the assets of the Partnership, the Via Capitale L.P., 4541219 and the General Partner, including the Partnership Assets and the rights and interest of the Partnership and the Via Capitale L.P. in the Management Services Agreement referred to under "Description of the Business — Management Services Agreement". The indebtedness secured by such security interests (including the BNY Indebtedness, the CIBC Indebtedness and the Operating Loan and any interest rate hedging facility) rank senior to all other indebtedness of the Partnership.

### **Restrictive Covenants**

So long as any BNY Notes remain outstanding the Partnership will not, and will not permit any material subsidiary to (i) directly or indirectly incur, issue, create, assume, guarantee or otherwise be or become directly or

indirectly liable for any senior indebtedness unless, after giving effect to such incurrence, issuance, creation, assumption or guarantee, no Default or Event of Default shall occur or be continuing at such time or as a result thereof; (ii) create, issue, incur, assume, have outstanding or permit to exist any liens on any of its property, other than liens permitted under the BNY Trust Indenture; (iii) directly or indirectly, make any asset sales to any Person of any of its property if at such time, or after giving effect to such asset sale, a Default or Event of Default has occurred and is continuing or would, or would reasonably be expected to occur as a result of such asset sale; (iv) directly or indirectly, make any asset sales to any Person of any of its property in excess of \$500,000 in any one fiscal year; provided that the Partnership and the material subsidiaries shall be permitted to dispose of Franchise Agreements, including an exchange of Franchise Agreements, where the net proceeds thereof to the Partnership and the material subsidiaries (after taking into account the costs of the acquisition of any Franchise Agreements by the Partnership and the material subsidiaries) in any one Fiscal Year exceeds \$500,000, but does not exceed \$2,000,000, provided that (A) notice thereof has been given to the trustee under the BNY Trust Indenture (the "BNY Trustee") and the noteholders within 30 days after the closing of each such transaction, setting forth the details of the sale or acquisition (or exchange), (B) the calculation of the respective acquisition prices of the Franchise Agreements in the case of an exchange is consistent as between the Franchise Agreements being sold and those being acquired, and (C) the net proceeds thereof in excess of \$500,000, in aggregate, in any one Fiscal Year (the "Excess Net Proceeds") must be reinvested by the Partnership in the Partnership's or a material subsidiary's business. If less than all of the Excess Net Proceeds are reinvested in the Partnership's or its material subsidiaries' business (such non-reinvested portion being the "Non-Reinvested Amount"), within 30 days after the end of the Fiscal Year, the Partnership will use the Non-Reinvested Amount to rateably repay outstanding senior indebtedness of the Partnership or a material subsidiary and, if the Partnership elects to redeem Notes, such redemption shall be made in accordance with the terms hereof, on a *pro rata* basis, equal to the Non-Reinvested Amount, at a purchase price per BNY Note equal to the greater of the Canada Yield Price and par, together in each case with accrued and unpaid interest to the date of payment. At the request of the Partnership, the BNY Trustee shall promptly upon the sale thereof release and discharge the security as to any assets the sale of which is permitted or not prohibited; (v) enter into a sale and leaseback transaction unless after giving effect to such sale and leaseback transaction, no Default or Event of Default has occurred and is continuing or would, or would reasonably be expected to occur as a result of such sale and leaseback transaction and such sale and leaseback transaction complies with the limitation on asset sales; (vi) enter into or undertake any merger, reconstruction, reorganization, recapitalization, combination, statutory arrangement, consolidation, amalgamation, liquidation, dissolution or winding-up or other similar transaction or arrangement or any asset sale whereby all or substantially all of the undertaking, property and assets of the Partnership or of a material subsidiary (as an entirety or substantially as an entirety in one transaction or a series of related transactions) would become the property of another Person (any of the foregoing being herein referred to as a "Transaction" and any such Person being herein referred to as a "Successor"), unless: (A) prior to or contemporaneously with the completion of the Transaction, the Successor will be bound by, and will have expressly assumed, all of the covenants and obligations of the Partnership and each material subsidiary, as applicable, under each of the transaction documents to which the Partnership or such material subsidiary is a party, and each of those transaction documents will be a legal, valid and binding obligation of the Successor, enforceable against the Successor in accordance with its terms; (B) the Successor is a solvent corporation, partnership, trust or other form of entity, validly existing under the federal Laws of Canada or the Laws of a province or territory of Canada; (C) the liens created by the Security will continue to be liens against the property of the Successor in substantially the same manner and to the same extent and priority as existed immediately prior to such transaction; (D) the transaction is on such terms, and carried out in such manner, as to preserve and not to impair, and to have no material adverse effect on, any of the rights and powers of the BNY Trustee and the BNY noteholders or otherwise under the transaction documents; (E) no Default or Event of Default will have occurred and be continuing immediately prior to that transaction and no Default or Event of Default would, or would reasonably be expected to occur as a result of that transaction; and (F) prior to or contemporaneously with the completion of the transaction, the Successor will have executed and delivered, or caused to have been executed and delivered, to the BNY Trustee and the Noteholders a legal opinion of Counsel; (vii) make or give effect to any distribution if a Default or an Event of Default has occurred and is continuing, or if such distribution would, or would reasonably be expected to result in a Default or an Event of Default. In addition, the Partnership will not, and will not permit any material subsidiary to, make or give effect to any distribution unless after giving effect to such distribution, the aggregate amount of all distributions since August 6, 2003 does not exceed an amount equal to the aggregate of all distributable cash since August 6, 2003; (viii) materially modify, alter, amend, extend, renew or replace their respective constating documents or by-laws unless any such action would not have or would not reasonably be expected to have a Material Adverse Effect;

(ix) engage in transactions with any Affiliates on terms that, on an overall basis, are materially less favourable to the Partnership, on a consolidated basis, than with an unrelated third party, excluding any transactions in accordance with the terms of the Management Services Agreement (as in effect on the date hereof) and except for any contract or transaction which involves the sale, lease or other disposition of property to transferees which are the Partnership and/or wholly-owned subsidiaries; (x) any amendment, termination, surrender or variation of any Material Contract or grant any waiver of the provisions of any Material Contract if such amendment, termination, surrender, variation or waiver would result in, separately or in the aggregate, a Material Adverse Effect.

### **RETAINED INTEREST**

The Class B LP Units owned by Brookfield Holdings represent a 25% interest in the Partnership and, if all such Class B LP Units were indirectly exchanged for Restricted Voting Shares, they would represent a 26.0% interest in the Corporation. In addition, Brookfield Holdings ultimately owns 315,000 Restricted Voting Shares of the Corporation, for a combined interest of 28%.

### **EXCHANGE RIGHTS**

TBI (a predecessor to Brookfield Holdings), the Fund, the Holding Trust, the General Partner, the Partnership and the Manager entered into the Exchange Agreement dated August 7, 2003. The Exchange Agreement was (i) amended on December 31, 2010 to give effect to the conversion of Fund Units into Restricted Voting Shares in the capital of the Corporation and (ii) amended and restated on December 31, 2012 to give effect to the wind-up of the Holding Trust and the Fund. The Exchange Agreement provides Brookfield Holdings and the Manager (or a party to whom Class B LP Units or Class A LP Units of the Partnership held by Brookfield Holdings or the Manager are transferred) the right, to require the Corporation to directly or indirectly exchange Class B LP Units and/or Class A LP Units for Restricted Voting Shares of the Corporation on the basis of one Restricted Voting Share of the Corporation for each Class B LP Unit and/or Class A LP Unit exchanged, provided that the exchange will not jeopardize the Fund's status as a "unit trust", or "mutual fund trust" under the Tax Act or result in the Units being considered "foreign property" for the purposes of the Tax Act.

The exchange procedure will be initiated by Brookfield Holdings or the Manager delivering to the General Partner as escrow agent under the Exchange Agreement a unit certificate in respect of the Class B LP Units and/or Class A LP Units to be exchanged, duly endorsed in blank for transfer.

The Class B LP Units and the Class A LP Units issued to Brookfield Holdings or the Manager or an affiliate thereof are subject to certain anti-dilution protections providing for adjustment of the exchange ratio applicable to the exchange of LP Units pursuant to the Exchange Agreement upon the occurrence of certain events, including subdivision or consolidation of the outstanding Restricted Voting Shares, any reclassification of the Restricted Voting Shares outstanding, any capital reorganization of the Fund or any consolidation, amalgamation, merger or other form of business combination of the Corporation with or into any other entity.

The Exchange Agreement may be assigned in whole or in part by Brookfield Holdings or the Manager only in connection with a sale by Brookfield Holdings or the Manager, as the case may be, of LP Units.

Brookfield Holdings and the Manager have been granted demand and "piggy-back" registration rights by the Corporation. These rights enable Brookfield Holdings or the Manager to require the Corporation to file a prospectus and otherwise assist with a public offering of Restricted Voting Shares held by Brookfield Holdings or the Manager or an affiliate thereof, as the case may be, subject to certain limitations. The Corporation's expenses will be borne by Brookfield Holdings and/or the Manager (or on a proportionate basis if both Brookfield Holdings and/or the Manager and the Corporation are selling Restricted Voting Shares) pursuant to the terms and conditions of the Registration Rights Agreement. In the event of a "piggy-back" offering, the Corporation's financing requirements are to take priority.

## DISTRIBUTIONS

### Distributions per Share for last three fiscal years

The following table sets forth the aggregate dividends declared in respect of the Restricted Voting Shares in each of 2013, 2012 and 2011:

| Period | Distributions Per Restricted<br>Voting Share or Unit |
|--------|--|
| 2013   | \$1.10   |
| 2012   | \$1.10   |
| 2011*  | \$1.10   |

\* includes a \$0.20 special distribution paid in 2011. The special distribution was declared because the Fund expected that taxable income generated in 2010 would exceed the aggregate monthly cash distributions declared by the Fund and, as required by the Fund's Declaration of Trust, the Fund was obligated to distribute all taxable income within a calendar year.

## MARKET FOR SECURITIES

The Restricted Voting Shares are currently listed for trading on the TSX under symbol "BRE". None of the units of the Partnership, units of Via Capitale L.P., or shares of the General Partner, are listed for trading on a recognized exchange nor is there a market for such securities. The following table sets forth the price ranges and volume traded for Restricted Voting Shares on the TSX for each month during 2013:

|                  | Jan     | Feb     | Mar     | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| High             | \$13.30 | \$13.30 | \$13.30 | \$13.02 | \$13.10 | \$13.10 | \$13.37 | \$13.35 | \$13.92 | \$13.98 | \$14.03 | \$14.03 |
| Low              | \$12.63 | \$12.52 | \$12.52 | \$12.75 | \$12.03 | \$12.02 | \$12.40 | \$12.96 | \$12.40 | \$13.10 | \$13.16 | \$13.10 |
| Close            | \$13.02 | \$12.99 | \$12.83 | \$13.00 | \$12.55 | \$12.20 | \$13.10 | \$13.25 | \$13.50 | \$13.78 | \$13.30 | \$13.35 |
| Avg Daily Volume | 22,486  | 20,442  | 17,596  | 8,873   | 12,741  | 11,156  | 12,318  | 6,576   | 8,939   | 4,495   | 15,029  | 9,441   |

## DIRECTORS AND OFFICERS OF THE CORPORATION

The names, principal occupations and municipalities of residence of our directors and officers, as well as the year each director first became a director are set out below. Each director is appointed to serve until the next annual meeting of shareholders or until his or her successor is elected or appointed.

### Directors

| Name, municipality of residence and Restricted Voting Shares owned as at March 28, 2014 | Director since | Present principal occupation                                  | Occupation history   |
|---|----------------|---|--|
| Lorraine Bell <sup>(1)(2)</sup><br>New York, NY, USA<br>6,500                           | 2003           | Self-employed<br>Consultant                                   | Ms. Bell is a Chartered Accountant with over thirty years of experience in the financial sector. She is a member of the Board of Directors and the Audit, Risk Management and Human Resources Committee of the Ontario Financing Authority and a Director and member of the Audit Committee of IBI Group Inc. She is also a member of the Board of Directors of University of Toronto Associates in New York. Prior to serving as a director, she was the founder and responsible for General Re Financial Products Canada, a derivatives services company, which she ran from 1993 to 1996.   |
| Simon Dean <sup>(1)(2)</sup><br>Oakville, ON, Canada<br>4,000                           | 2003           | Self-employed<br>Consultant                                   | Since April, 2005 Mr. Dean has been a self-employed consultant. Prior thereto he was Chief Executive Officer of the Manager (and its predecessor) since January 1995 and Managing Partner of Brookfield Business Services since 2001. Prior to joining the Manager's predecessor, 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, Q.C. <sup>(1)(2)(3)</sup><br>Toronto, ON, Ontario<br>0                      | 2003           | Corporate<br>Director   | 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 Chairman and C.E.O. in 2002; and as Chairman Emeritus in 2005. Mr. Karp also sits on the Board of Directors and is Co-Chairman of Tucows Inc. and is a director and the Chairman of IBI Group Inc.   |
| Gail Kilgour <sup>(1)(2)</sup><br>Toronto, ON, Canada<br>5,000                          | 2003           | Corporate<br>Director   | Ms. Kilgour, MBA, ICD.C. brings more than 25 years of experience in the financial services industry to the Board. She is Chair of the Board of St. George's Golf and Country Club and Chair of its Human Resources Committee. Previously, she was Vice-Chair of the Board of Directors for the Ontario Realty Corporation and Chair of its Governance Committee, a Director of Ontario Infrastructure and Lands Corporation and a Trustee of the University of Guelph, where she chaired its Audit Committee. A self-employed consultant since 2004, 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 & Chief Executive Officer of EDULINX Canada Corporation, a subsidiary of CIBC, and Senior Vice-President, e-Business Strategy. |
| George Myhal<br>Toronto, ON, Canada<br>38,600   | 2003           | Senior Managing<br>Partner,<br>Brookfield Asset<br>Management | Mr. Myhal is a Senior Managing Partner with Brookfield Asset Management, and currently has primary responsibility for strategic planning, business development and the Public Securities Operations. Mr. Myhal has held a number of senior positions within Brookfield Asset Management since joining the company in 1981. He was previously the President and CEO of Brookfield's financial services affiliate for ten years until it was merged into Brookfield in 2002. He has extensive experience in the financial services industry and has been instrumental in the development and growth of Brookfield's asset management business. He qualified as a Chartered Accountant in 1981 and has an industrial engineering degree from the University of Toronto.   |

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Governance Committee.
- (3) Mr. Karp is not standing for re-election at the Meeting.

## Officers

| Name, municipality of residence and Restricted Voting Shares owned as at March 28, 2014 | Position Held                         | Five-year Occupation History   |
|---|---------------------------------------|--|
| Philip Soper<br>Toronto, ON, Canada<br>11,245   | President and Chief Executive Officer | Mr. Soper is the President and CEO of the Corporation, and President of the Manager. Mr. Soper joined the Brookfield organization as Vice President and General Manager, Corporate Relocation Solutions in February 2001 and was named CEO of what is now Brookfield Real Estate Services, Inc. in 2002. Prior to joining the Manager, he held various Canadian and international leadership positions with IBM, commencing in 1984, including General Manager for IBM's Information Technology Consulting and Services business from 1997 to 2001. Mr. Soper is Chairman of the Brookfield Real Estate Services Foundation. |
| Kevin Cash<br>Markham, ON, Canada<br>0  | Chief Financial Officer               | Mr. Cash was appointed as Chief Financial Officer of a predecessor to the Corporation on January 6, 2003. Mr. Cash has held various positions within Brookfield Asset Management (1999 to present) and is the CFO of the Manager.  |

As of March 28, 2014, the current officers and directors of the Corporation and owned beneficially, directly and indirectly, 65,345 Restricted Voting Shares representing approximately 0.7% of the issued and outstanding Restricted Voting Shares. Brookfield Holdings holds one Special Voting Share. Mr. Karp's wife, Sharon Karp, beneficially owns and controls 34,500 Restricted Voting Shares. However, Mr. Karp does not exercise control or direction over his wife's investment in the Restricted Voting Shares.

As of the date hereof, no individual who is, or at any time during the most recently completed financial year of the Corporation ended December 31, 2013 was, a director or senior officer of the Corporation or the General Partner, or a trustee of the Partnership or Via Capitale L.P., an individual proposed as a nominee for election to any such position, nor any associates of any such director, senior officer or proposed nominee, has been indebted to the Corporation, the General Partner, the Partnership or Via Capitale L.P., nor has any such individual's indebtedness to another entity at any time since the beginning of the most recently completed financial year been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation, the General Partner, the Partnership or Via Capitale L.P. in connection with the purchase of securities of the Corporation.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The section entitled "Interest of Informed Persons in Material Transactions" contained in the Corporation's Management Information Circular dated March 28, 2014 is incorporated herein by reference.

### AUDITORS, TRANSFER AGENTS AND REGISTRARS

The auditors of the Corporation are Deloitte LLP, Suite 1400, Brookfield Place, 181 Bay Street, Toronto, Ontario, Canada, M5J 2V1. The transfer agent and registrar for the Corporation is CST Trust Company, 320 Bay Street, P.O. Box 1, Toronto, Ontario, M5H 4A6.

### External Auditor Service Fees (By Category)

The following table sets forth further information on the fees billed or expected to be billed by Deloitte to the Corporation, the Partnership and Via Capitale L.P. relating to the fiscal years ended December 31, 2013 and 2012:

| Service Performed  | 2013      | 2012      |
|--------------------|-----------|-----------|
| Audit fees         | \$201,000 | \$207,900 |
| Audit related fees | \$30,000  | \$120,000 |
| Tax fees           | \$15,000  | \$23,219  |
| All other fees     | -         | -         |
| Total fees         | \$246,000 | \$351,119 |

*Audit fees* were for professional services rendered for the audit of our consolidated financial statements as of and for the years ended December 31, 2013 and 2012 and the audit of internal control over financial reporting as of December 31, 2013 and 2012, quarterly review of the financial statements included in our quarterly reports, consents and comfort letters issued and review of filings with securities commissions.

*Audit-related fees* consisted of fees for assurance and related services that are reasonably related to the performance of the audit and are not reported under “Audit fees.” Audit-related fees include fees relating to employee benefit plans, operating cost and escalation, joint venture and lender audits, as well as consultations concerning financial accounting and reporting standards.

*Tax fees* consist of fees for services related to tax compliance, including the preparation of tax returns and refund claims and tax planning and advice, including assistance with property tax assessment and appeals and technical advice related to income tax matters.

*Other fees* consist of fees for assistance with corporate and social responsibility reporting.

The Audit Committee of the Board of Directors has determined that the provision of these services is compatible with the maintenance of the independence of Deloitte.

### MATERIAL CONTRACTS

The following is a list of material contracts to which the Corporation is a party, or which, by their operation, is material to the Corporation, particulars of which are disclosed above:

- Arrangement Agreement
- BNY Trust Indenture and related security documentation
- CIBC Term Facility and related security documentation
- Exchange Agreement
- La Capitale License Agreement
- Royal LePage License Agreement
- Management Services Agreement
- Partnership Agreement
- Registration Rights Agreement



- Shareholders' Agreement among TBI, the Fund and the General Partner, in respect of the General Partner, dated August 7, 2003

## **RISK FACTORS**

### **Risks Related to the Residential Resale Real Estate Brokerage Industry and the Business of the Partnership and the Corporation**

#### **Residential Real Estate Resale Industry**

The performance of the Corporation is dependent upon receipt of the Royalties. Royalties in turn are ultimately dependent on the level of residential resale transactions. The real estate industry is affected by all of the factors affecting the economy in general, including changes in interest rates, unemployment and inflation. In addition, the Corporation could be affected by the aging network of real estate Agents and Broker across the country. The average age of a top-performing Agent, according to the National Association of Realtors in the United States, is approaching 50, and the average age of a Broker-owner is over 50. Agents are predominantly independent contractors and can terminate their independent contractor agreements with the respective franchise at any time. In addition, pressure on the rate of commissions charged to the consumer could adversely affect the Corporation. The popularity of internet use by real estate consumers has led to a questioning of the value of traditional real estate services.

#### **Competition**

Royal LePage and Via Capitale compete with other national brands in Canada as well as a diminishing number of local independent companies. The competing franchisors have excellent brand recognition nationally, as well as the perception within the industry of having comparable technology and Agent and Broker tools, and extensive marketing plans and resources. Different fee structures offered by competing franchisors allow for extensive annual marketing and media campaigns and greater brand recognition among consumers. The competing franchisors that originated in the U.S. have the advantage of spillover from U.S. television advertising.

The recent focus of the Competition Bureau has attracted new entrants, offering different value propositions from the Corporation's brands. In particular, there has been an expansion in the discount brokerage segment of the market. At present, discount brokerage continues to compete within the low-fee, narrow service segment of the Canadian real estate market. It has not had a substantive impact on the Corporation's financial performance to date.

#### **Demographics, Interest Rates, Economy, Consumer Confidence**

A substantial portion of the recent attrition in Agents experienced in the Franchise Network occurred in our Quebec Franchise operations as the introduction of new Real Estate Regulations significantly increased the educational requirements and association costs. Consequently, fewer new Agents entered the industry. The introduction of these regulations directly impacted our Quebec-based Franchisees as the typical turnover and replacement of non-producing Agents with new Agents experienced by our Franchises did not occur. In addition to the attrition in the Quebec market the Corporation also experienced a modest decrease in the BC market due primarily to the non-renewal of a limited number of Franchise Agreements.

Market transactional dollar volume for the twelve months ended December 31, 2013 closed up 6.1% from December 31, 2012, driven by a 5.1% increase in selling price and a 0.9% increase in sales. For the three months ended December 31, 2013, transactional dollar volume was up 18.7% over the same period in 2012, driven by a 9.3% increase in selling price and an 8.6% increase in sales.

A secondary market is the aging empty nest baby boomer opting for a lifestyle change to urban condominium living. Immigration is also playing an important role in the real estate market. Increased interest rates, unemployment and inflation over an extended period of time may have a negative effect on consumer confidence and make house purchases less affordable for first time buyers and less appealing for move up buyers.

## **Commission Rate**

The rate of commission charged to home sellers has dropped over the past several years due to a number of factors. With most Agents in Canada being independent contractors, the decision as to what rate to charge rests solely with the Agent rather than the Broker-owner. As a result, the rate of commission charged has dropped from a rate of approximately 6% in the early 1980s to an estimated rate of just under 5% based on internal information. Additionally, the number of discount and fee for service companies has grown over the past few years and discount brokerage operations have been active in Canadian residential resale real estate for many years. The ability of Agents to compete by advertising commission rates may put further downward pressure on client commission rates. The performance of the Corporation could be adversely affected if commission rates continue to fall.

## **Additional Franchises and Franchise Operations**

The growth of Royalties is dependent upon the ability of the Manager to maintain and grow the Franchise Network, and to execute its current growth strategy for both increasing the number of Franchisees and assigning them to the Partnership and recruiting new and existing Agents to Franchise Network offices. If the Manager is unable to attract qualified Franchisees, distributable cash could be adversely affected. The slowing of growth could lead potential and existing Franchisees to begin to look elsewhere for better brand opportunities. The growth of the Franchise Network through adding new Franchisees is somewhat dependent upon available qualified Brokers in desirable locations and new Brokers wishing to start up a real estate brokerage or purchase an existing one.

## **The Closure of Franchises May Affect the Amount of Royalties**

The amount of Royalties payable by the Franchisees is dependent both upon the number of Franchisees and the number of Agents registered with each Franchisee. The closure or failure or downsizing of a Franchise office will negatively affect the amount of the Royalties. Closure of an office could be the result of an aging Broker-owner being unable to sell or transfer his existing business to a new owner. The failure of an office could be the result of a downturn in the economy or the closure or bankruptcy of a large industry in the city or town where the Broker-owner operates. Any one of the above mentioned factors could result in the exit of top producing Agents to competitors.

## **Dependence on Key Personnel**

The success of the Partnership is largely dependent on the personal efforts of senior management of the Manager. The real estate industry is a people and service-oriented business. The loss of key senior management personnel, in either the Franchise sales or services area could have a material adverse effect on the revenue generated by the Partnership.

## **Intellectual Property**

The ability of the Partnership to maintain and increase revenue will depend on its ability to maintain its brand equity through the use of the Trademarks. All registered trademarks in Canada can be challenged pursuant to provisions of the *Trademarks Act* (Canada) and the successful challenge of any of the Trademarks could have an adverse effect on Royalties and Agent retention. None of the Trademarks have been successfully challenged in the past and the Manager has no reason to believe that there will be any such challenges in the future, or, if challenged, that such challenges would be successful.

The Partnership does not own the Royal LePage Trademarks which are trademarks of the Canadian chartered bank affiliate of The Royal Trust Company. The Royal Trust Company has the exclusive right to use those trademarks and to authorize others through sub-license to use the Royal LePage Trademarks. Royal LePage Limited has obtained the exclusive rights to use the Royal LePage Trademarks, including the "Royal LePage" name and logo, in connection with its business of providing, in Canada, real estate services and those related financial services offered by Royal LePage Limited which relate to the purchase and sale of real estate, pursuant to the Licence Agreement. The rights to use the Royal LePage Trademarks in connection with the Business have been sub-licensed by Royal LePage Limited to Brookfield Holdings on a royalty-free basis and the rights of Brookfield

Holdings under the sub-license were assigned to the Partnership on August 7, 2003. There can be no assurance that the Royal Trust Company will renew the license to use the Royal LePage Trademarks when the master license agreement governing such use expires in December, 2027. Any loss of the right of the Partnership to use the Royal LePage Trademarks could have a material adverse effect on the revenue generated by the Partnership.

The Partnership does not own the La Capitale Trademarks which are trademarks of La Capitale Assurances MFQ Inc. Via Capitale has obtained the rights to use the La Capitale Trademarks, including the “La Capitale” name and logo, in connection with its business of providing real estate brokerage services in Canada. The rights to use the La Capitale Trademarks expired on October 27, 2012. In a consultative process with Via Capitale’s Franchisees and Brokers, the Corporation addressed this issue with the successful rebranding of La Capitale to Via Capitale on March 7, 2011. No assurances can be given that the Via Capitale trademarks will be as successful in the market as the La Capitale Trademarks.

### **Internet-based Real Estate Business**

Internet-based real estate businesses have operated in the market for twenty years. While none have achieved material market share to-date, innovation in the space is constant, and disruptive business models could draw consumers away from tradition brokerages.

### **Competition Tribunal**

The Competition Bureau filed an application with the Competition Tribunal (the “Tribunal”) on February 8, 2010, alleging that the CREA used its control of the relevant trademarks to prevent competition from developing in the supply of less than full-service brokerages services to homeowners. On October 24, 2010, the Competition Bureau and the CREA reached a negotiated settlement, ending the Tribunal process.

On May 27, 2011, the Competition Bureau announced that it had filed an application with the Tribunal seeking to prohibit potentially anti-competitive practices by the Toronto Real Estate Board (“TREB”). On April 15, 2013, this case was dismissed by the Tribunal, which concluded that the abuse of dominance provision under section 79 of the Competition Act did not apply to the facts of the case. On February 3, 2014, Canada's Federal Court of Appeal overturned the Tribunal’s decision to dismiss the Competition Bureau’s abuse of dominance application against TREB, sending the application back to the Tribunal for a second hearing.

From our perspective, we do not believe that the Competition Bureau’s dispute with TREB will have a materially adverse impact on our business. Our real estate Agents and their clients both want to be able to advertise their listed properties in the most effective manner, whether this is on the Realtor.ca website (operated by MLS®) or some other alternative.

### **Government – Mortgage Lending Rules**

In 2010, the Canadian real estate market was impacted by two announcements by the Canadian government concerning the tightening of mortgage and lending rules, which were designed to help protect consumers from becoming over-leveraged and reducing the exposure of loan losses to the financial system. These rule changes are as follows:

- The Canadian government will no longer insure mortgages with amortization periods greater than 30 years;
- The maximum amount a homeowner is permitted to withdraw when refinancing a mortgage will be lowered to 85% from 95% of the value of the home;
- The Canadian government will no longer provide insurance against personal lines of credit;
- Borrowers are required to qualify for a five-year fixed-rate mortgage, irrespective of the type of mortgage they choose, including a lower variable rate. Prior to the announcement, lenders could use the three-year fixed rate when qualifying a mortgage; and
- To qualify for mortgage insurance, the required down payment on a non-owner-occupied property purchased for investment purposes increased to 20% from 5%.

The intent of these rules is that the Canadian government and the CMHC will continue to insure against high-ratio mortgages provided that a mortgage is used to finance the purchase of a principal residence and provided that a mortgage is steadily paid down until the risk of default is substantially mitigated. These rules commenced in the second quarter of 2010.

For the third time in recent years, Ottawa's regulators introduced mortgage-lending rules designed to tighten household debt levels. The most significant changes, which took effect on July 9, 2012, are as follows:

1. **Less Refinancing.** The maximum permitted loan to value ratio for an insured high ratio mortgage refinance declined from 85% to 80%.
2. **Shorter Amortization:** The maximum amortization period for an insured high ratio mortgage dropped from 30 to 25 years.
3. **Smaller Debt Ratio:** The gross debt service ratio was reduced to 39% and the total debt service ratio was reduced to 44%.
4. **Mortgage Insurance Changes:** The availability of government-backed mortgage insurance has been restricted to homes with a value of less than \$1 million.

### **Regulatory – Quebec Real Estate Regulations**

Under Quebec's *Real Estate Brokerages Act*, which came into effect on May 1, 2010, all Brokers in the province of Quebec (formerly called Agents) were required to pay significantly increased licence fees commencing in September 2010. In addition, the Act introduced a more rigorous educational requirement for prospective REALTORS® in the province, which resulted in the doubling of the time and financial investment required to become a REALTOR®. One may have expected these changes to result in increased organic growth for the industry and the Corporation in the early part of 2010 as prospective REALTORS® sought to complete their educational requirements before September 2010, with a subsequent reduction in REALTORS® as the higher fees and more rigorous educational requirements came into effect. In 2010, this may have indeed been the case as the number of Agents in Quebec increased by 6.2% to the end of September and then increased by 1.0% to the end of the year, for a net increase of 7.2%. During this period, the Corporation experienced an increase of 1.8%, followed by a decline of 0.3%, for a net change of 1.5% in the number of Agents; this was lower than the growth experienced by the overall Quebec market, due in part to an increased number of REALTORS® in Quebec who opted to operate independently of a brokerage, as permitted under the new legislation. The decrease in Agents in the Corporation's Franchise Network in 2011 is primarily attributed to the increased education and costs of association for Quebec based Agents, which has resulted in a decline in new Agents entering the Quebec market.

### **Potential Litigation and Other Complaints**

The Partnership could from time to time be the subject of complaints or litigation from members of the public complaining about poor service, misrepresentation, or other legal issues. The Partnership could also be the subject of complaints or litigation from its Franchisees or Agents complaining about Franchise contract issues or other operational issues. Adverse publicity resulting from such allegations may materially affect revenue to Brokers and Franchisee fees, whether the allegations are true or not, and whether the Partnership or a Franchisee is ultimately held liable.

### **Dependence of the Corporation on the Partnership**

The Corporation is a limited purpose entity that is entirely dependent on the operations and assets of the Partnership through the indirect ownership of LP Units. The cash dividends to the Shareholders are dependent upon the ability of the Partnership to make distributions on the LP Units.

## **Dependence of the Partnership on Franchise Operations and the Management Services Agreement**

The only sources of revenue of the Partnership are the Royalties payable to it by Franchisees and Agents. Pursuant to the Management Services Agreement, the Manager collects Royalties on behalf of the Partnership and is principally responsible for building and supporting the network of Franchisees which will determine the amount of Royalties. The Partnership is, therefore, indirectly subject to the risks encountered by the Manager in the operation of its business, including financial risks and risks relating to the real estate brokerage industry summarized above to the extent that the Manager is impaired in its ability to fulfill its obligations under the Management Services Agreement or otherwise to support the network of Franchisees. In addition, pursuant to the terms of the Management Services Agreement, the Manager may be terminated in certain circumstances. See “Description of the Business — Management Services Agreement”. In that case, retaining a replacement for the Manager may require the Partnership to pay additional fees, may be on terms less advantageous than those contained in the Management Services Agreement and may negatively affect distributions payable by the Partnership.

The Management Services Agreement may be terminated on behalf of the Corporation by the Independent Directors of the Corporation if a substantial deterioration in the business of the Partnership occurs that is not caused by force majeure, provided that such termination is approved at a meeting of Shareholders by a resolution approved by holders representing at least 50% of the aggregate number of issued and outstanding Restricted Voting Shares and Special Voting Shares and at least  $66\frac{2}{3}\%$  of the aggregate number of Restricted Voting Shares. The phrase “substantial deterioration of the business of the Partnership” is not defined. As a result, it may be subject to differing interpretations, which may give rise to litigation in the event of the termination by the Corporation of the Management Services Agreement in reliance on this provision. The Management Services Agreement has an initial term that expires on December 31, 2018 and is automatically renewable for successive five-year terms unless notice of termination is given by the Manager, the Corporation, the General Partner, the Partnership or Via Capitale L.P. at least six months prior to the expiry of the initial or any renewal terms.

## **Dependence of the Partnership on the Performance of Franchisees**

The success of the Partnership is largely dependent on the operations of its Franchisees. Franchisees are susceptible to a number of risks in the operation of their businesses, including risks associated with changes in legislation and regulations governing Franchisees, increases in the costs of operating Franchise locations, increases in the proportion of commission income paid to Agents and certain tax matters, including the possibility that CRA could challenge the characterization of Agents as independent contractors and take the position that they are employees. Adverse changes in or determinations in respect of any such matters could adversely affect the operations of certain Franchisees and have a negative impact on the ability of such Franchisees to fulfil their obligations to pay Royalties to the Partnership.

## **Leverage, Restrictive Covenants**

The Partnership has third-party debt service obligations under the BNY Notes, the CIBC Term Facility and the Operating Loan. See “Credit Facilities”. The degree to which the Partnership is leveraged could have important consequences to the holders of the LP Units, including: (i) the Partnership’s ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the Partnership’s cash flow from operations will be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to the Corporation; and (iii) certain of the Partnership’s borrowings are at variable rates of interest, which will expose the Partnership to the risk of increased interest rates. The Partnership’s ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the operations of the Partnership, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The BNY Trust Indenture and the CIBC Term Facility contain numerous restrictive covenants that limit the discretion of the Partnership’s management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Partnership to incur additional indebtedness, to create liens or other encumbrances, to make distributions to its partners or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the

BNY Trust Indenture and the CIBC Term Facility contain a number of financial covenants that require the Partnership to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the BNY Trust Indenture or the CIBC Term Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and acceleration. If the BNY Indebtedness or CIBC Indebtedness were to be accelerated, there can be no assurance that the Partnership's assets would be sufficient to repay in full that indebtedness.

### **Dividends Are Not Guaranteed and Will Fluctuate with the Partnership's Performance**

There can be no assurance regarding the amounts of income to be generated by the Partnership and distributed to the Corporation. The actual amount of dividends in respect of the Restricted Voting Shares depends upon numerous factors, including payment of the Royalties by Franchisees.

### **Nature of Restricted Voting Shares**

The Restricted Voting Shares do not represent a direct investment in the Partnership and should not be viewed by Shareholders as Partnership interests. As holders of Restricted Voting Shares, Shareholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Corporation's only assets are Class A LP Units and shares of the General Partner.

### **The Corporation May Issue Additional Restricted Voting Shares Diluting Existing Shareholders' Interests**

The Corporation may issue an unlimited number of Restricted Voting Shares for such consideration and on such terms and conditions as shall be established by the Directors without the approval of any Shareholders. Additional Restricted Voting Shares will be issued by the Corporation upon the exchange of the LP Units held by Brookfield Holdings or the Manager.

### **Investment Eligibility and Foreign Property**

There can be no assurance that the Restricted Voting Shares will continue to be qualified investments under the Tax Act or that the Restricted Voting Shares will not be foreign property under the Tax Act. The Tax Act may impose penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property.

## **ADDITIONAL INFORMATION**

Additional information, including remuneration and indebtedness of the Directors of the Corporation, the directors of the General Partner, principal holders of the Corporation's, and the Partnership's securities, interest of insiders in material transactions, is contained in the Corporation's information circular for most recent annual meeting of Shareholders scheduled for May 6, 2014, at which the Independent Directors are to be elected. Additional financial information is provided in the Corporation's comparative financial statements and management's discussion and analysis for the year commencing January 1, 2013 and ended December 31, 2013, which information is incorporated herein by reference. These documents and additional information regarding the Corporation are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## APPENDIX A

### BROOKFIELD REAL ESTATE SERVICES INC.

#### BOARD OF DIRECTORS CHARTER

#### 1. ROLE OF BOARD

The role of the Brookfield Real Estate Services Inc. (the “Corporation”) board of directors is to oversee, directly and through its committees, the business and affairs of the Corporation, which are conducted by the officers and employees of the Corporation’s manager, Brookfield Real Estate Services Manager Limited (the “Manager”). In doing so, the board acts at all times with a view to the best interests of the Corporation.

The board is elected by the shareholders to oversee management to ensure that shareholder value is advanced in a manner that recognizes the concerns of other stakeholders in the Corporation including its agents, brokers, franchisees, suppliers, customers and the communities in which they operate.

#### 2. AUTHORITY AND RESPONSIBILITIES

The board of directors meets regularly to review reports by the Manager on the performance of the Corporation and the Residential Income Fund L.P. (the “Partnership”) which owns the assets from which the Corporation currently derives its sole source of revenue. In addition to the general supervision of the Manager, the board performs the following functions:

- (a) **Strategic Planning** – overseeing the strategic planning process for the Corporation together with the Manager and reviewing, approving and monitoring the strategic plan for the Corporation and the Partnership including fundamental financial and business strategies and objectives;
- (b) **Risk Management** – assessing the major risks facing the Corporation and reviewing, approving and monitoring the manner of managing those risks;
- (c) **Manager** – monitoring the performance of the Manager on behalf of the Corporation and the Partnership, with reference to the Management Services Agreement among the Corporation, the Manager, the Partnership, its general partner, and others;
- (d) **Incremental Franchises** - reviewing and evaluating the purchase of Incremental Franchises by the Partnership, as contemplated in the Corporation’s prospectus, including determining or amending appropriate criteria to be used as a basis for selecting Incremental Franchises; and
- (e) **Maintaining Integrity** - reviewing and monitoring the controls and procedures within the Corporation to maintain its integrity including its disclosure controls and procedures, its internal controls and procedures for financial reporting and compliance with its code of ethics.

#### 3. COMPOSITION AND PROCEDURES

(a) **Size of board and selection process** – The directors of the Corporation are elected each year by the shareholders at the annual meeting of shareholders. Any shareholder may propose a nominee for election to the board at the annual meeting. The board also recommends the number of directors on the board to shareholders for approval. Between annual meetings, the board may appoint directors to fill vacancies until the next annual meeting.

(b) **Qualifications** – Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the shareholders of the Corporation. They should possess skills and competencies in areas that are relevant to the Corporation’s and Partnership’s activities. A majority of the directors will be “independent” directors. “Independent” has the meaning based on the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities.

(c) **Meetings** – The Board of Directors has at least four scheduled meetings each year. The Manager will be responsible for presenting an agenda to the Board for consideration. Prior to each board meeting, the Manager will present agenda items for the meeting with the Directors for consideration. Materials for each meeting will be distributed to the Directors in advance of the meetings.

(d) **Committees** – The board has established the following standing committees to assist the board in discharging its responsibilities – Audit and Governance. Special committees may be established from time to time

to assist the board in connection with specific matters. The chair of each committee reports to the board following meetings of the committee. The charter of each standing committee will be reviewed annually by the board.

(e) **Access to independent advisors** – The board and any committee may at any time retain financial, legal or other advisors at the expense of the Corporation.



## **BROOKFIELD REAL ESTATE SERVICES INC.**

### **AUDIT COMMITTEE CHARTER**

A committee of the board of directors of the Corporation to be known as the Audit Committee (the “Committee”) shall have the following terms of reference set out below.

#### **1. MEMBERSHIP AND CHAIRPERSON**

(a) Following each annual meeting of shareholders, the board of directors of the Corporation (the “board”) shall appoint from its number three or more directors (the “members”) to serve on the Committee until the close of the next annual meeting of shareholders of the Corporation or until the member ceases to be a director, resigns or is replaced, whichever first occurs.

(b) All of the members of the Committee shall be independent directors, within the meaning of the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities. No member of the Committee shall be an officer or employee of the Corporation or Brookfield Real Estate Services Manager Limited (the “Manager”), who manages the Corporation pursuant to a Management Services Agreement. A majority of the members of the Committee shall be directors who are resident Canadians.

(c) No director who receives any compensation from the Corporation, its affiliates or the Manager, other than director’s fees, shall be eligible for membership on the Audit Committee. Disallowed compensation for a Committee member includes fees paid directly or indirectly for services as a consultant or a legal or financial advisor, regardless of the amount. Disallowed compensation also includes compensation paid to such director’s firm for such consulting or advisory services, even if the director is not the actual service provider.

(d) Each member of the Committee shall, in the judgment of the board, be financially literate. In addition, at least one member of the Committee shall, in the judgment of the board, have accounting or related financial management expertise.

(e) The board shall appoint one of the directors as the chairperson of the Committee. If the chairperson is absent from a meeting, the members shall select a chairperson from those in attendance to act as chairperson of the meeting.

#### **2. RESPONSIBILITIES**

(a) The Committee shall generally assume responsibility for developing the approach of the Corporation to the following matters; publicly disclosed financial information; financial accounting and reporting; internal control; risk management and insurance; and external and internal audit; and shall review and make recommendations to the board on all such matters.

(b) The Committee shall review and, where appropriate, recommend for approval by or report to the board on the following:

- (i) interim financial statements;
- (ii) audited annual financial statements, in conjunction with the report of the external auditor;
- (iii) public disclosure documents containing audited or unaudited financial information, including management’s discussion and analysis of financial condition and results of operations;
- (iv) the effectiveness of management’s policies and practices concerning financial reporting and any proposed changes in major accounting policies; and
- (v) any report, which accompanies published financial statements (to the extent such a report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.

(c) The Audit Committee shall have the following responsibilities in relations with the external and internal auditors of the Corporation:

- (i) to have the sole responsibility to retain or terminate the external auditor, subject to ratification by the shareholders, and to approve the fees and expenses of such auditor;

- (ii) to receive, at least annually, a report from the external auditor on their independence and to review any relationship between the auditor and the Corporation and the Manager or any other relationship that may adversely affect the independence of the auditor and, based on such review, to assess the independence of the auditor;
  - (iii) to determine, through discussion with the external and internal auditors, that no restrictions were placed by the Manager on the scope of their examination or on its implementation;
  - (iv) to approve the Corporation's policy on non-audit related work by its external auditor, and pre-approve or reject any proposed non-audit related work to be conducted by the external auditor for the Corporation;
  - (v) to meet with the external and internal auditors in private session, at least annually, to review any matters arising from the annual external audit and internal audits conducted throughout the year; and
  - (vi) to review and approve the annual Internal Audit Plan and Budget.
- (d) In addition, the Committee shall:
- (i) review such litigation, claims, tax assessments, transactions or other contingencies as the external auditor or any officer of the Corporation may bring to its attention and which may have a material impact on financial results or which may otherwise adversely affect the financial well-being of the Corporation; and
  - (ii) consider other matters of a financial nature as directed by the board.

### **3. MEETINGS**

(a) Meetings of the Committee may be called by the chairperson of the Committee, the Chairman of the board of the Corporation or the Manager. Meetings will normally be held each quarter and shall be called not less than once annually.

(b) The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than a majority of the members of the Committee from time to time. Subject to the foregoing and unless otherwise determined by the board, the Committee shall have the power to fix its quorum and to regulate its procedure.

(c) Notice of each meeting shall be given to each member, and to the Chairman and the Manager. Notice of meeting may be given verbally or by letter, email, telephone facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.

(d) Matters decided by the Committee shall be decided by majority vote.

(e) The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee.

(f) The Committee shall report to the board on its proceedings, review undertaken and any associated recommendations.

## **BROOKFIELD REAL ESTATE SERVICES INC.**

### **GOVERNANCE COMMITTEE CHARTER**

A committee of the board of directors of the Corporation to be known as the Governance Committee (the "Committee") shall have the following terms of reference set out below.

#### **1. MEMBERSHIP AND CHAIRPERSON**

(a) Following each annual meeting of shareholders, the board of directors of the Corporation (the "board") shall appoint from its number three or more directors (the "members") to serve on the Committee until the close of the next annual meeting of shareholders of the Corporation or until the member ceases to be a director, resigns or is replaced, whichever first occurs.

(b) A majority of the members of the Committee shall be independent directors, within the meaning of the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities.

(c) The board shall appoint one of the directors as the chairperson of the Committee. If the chairperson is absent from a meeting, the members shall select a chairperson from those in attendance to act as chairperson of the meeting.

#### **2. RESPONSIBILITIES**

(a) The Committee shall generally assume responsibility for developing the approach of the Corporation to the following matters: board nominations, size and composition of the board, board member effectiveness, board member orientation, directors' compensation.

(b) Evaluation - The Governance Committee will perform an annual evaluation of the effectiveness of the board as a whole, the committees of the board and the contributions of individual directors.

(c) Compensation - The Governance Committee will recommend to the board the compensation and benefits for non-management directors. In reviewing the adequacy and form of compensation and benefits, the committee seeks to ensure that the compensation and benefits reflect the responsibilities and risks involved in being a director of the Corporation and align the interests of the directors with the best interests of the shareholders.

(d) The Committee shall consider other matters as directed by the board.

#### **3. MEETINGS**

(a) Meetings of the Committee may be called by the chairperson of the Committee, the Chairman of the board of the Corporation or the Manager. Meetings will be called not less than once annually.

(b) The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than a majority of the members of the Committee from time to time. Subject to the foregoing, and unless otherwise determined by the board, the Committee shall have the power to fix its quorum and to regulate its procedure.

(c) Notice of each meeting shall be given to each member, and to the Chairman and the Manager. Notice of meeting may be given verbally or by letter, email, telephone facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.

(d) Matters decided by the Committee shall be decided by majority vote.

(e) The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee.

(f) The Committee shall report to the board on its proceedings, review undertaken and any associated recommendations.