2014
ANNUAL REPORT

Brookfield
Real Estate Services Inc.

Momentum you can build on

Profile

Brookfield Real Estate Services, Inc. (TSX: BRE) is a leading provider of services to residential real estate brokers and a network of 16,235 REALTORS®[1], as at January 1, 2015. The Company generates cash flow from fixed and variable fees derived from real estate brokers and agents operating in Canada under the Royal LePage, Via Capitale and Johnston & Daniel brands. Approximately 71 per cent of company revenue is based on fees that are fixed in nature, providing revenue stability and helping insulate cash flows from market fluctuations. The recurring fixed revenue structure combined with strong brands and a successful growth strategy position the firm to continue generating stable, long-term cash flows and paying growing dividends to shareholders. For further information, please visit **www.brookfieldresinc.com**.

[1] REALTORS® is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association

Royal LePage

Royal LePage has been a leader in Canadian real estate since 1913, and as of early 2015, has grown to a network of over 15,000 agents in more than 600 locations in cities and towns across Canada. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force. Royal LePage offers its network of agents strong support with state-of-the-art marketing and lead generation tools, sophisticated business services, timely market data and analysis, as well as professional development and in-person training. Royal LePage is the only real estate company with its own branded charity, The Royal LePage Shelter Foundation, the largest foundation in Canada dedicated to eradicating domestic violence through education, and supporting the women and children who fall victim to it.

Johnston & Daniel

Founded in 1950, Johnston & Daniel is a leading residential real estate boutique firm selling distinctive homes in southern Ontario from offices in central Toronto and as of 2014, the wealthy city of Oakville. Johnston & Daniel maintains its market leadership through a combination of rich training and development opportunities for its brokers and agents, strategic partnerships, in-house marketing services and powerful brand awareness. Johnston & Daniel is affiliated with Leading Real Estate Companies of the World™ and is the premier Canadian representative for its Luxury Portfolio International® segment, providing its agents global exposure for their luxury home listings.

Via Capitale

Founded in 1991, Via Capitale Real Estate Network grew rapidly to become the fourth largest real estate business in Quebec, and the only major REALTOR® franchisor with a corporate headquarters in Quebec. Via Capitale has more than 1,100 brokers and agents in more than 65 locations, located across the province. The Company has launched numerous innovative, client-centric programs into the Quebec market, including buyer and seller protection, an ongoing training program for its brokers and specialized web platforms to meet the various needs of consumers. In 2014, Via Capitale was ranked as one of Quebec's 50 most admired companies.

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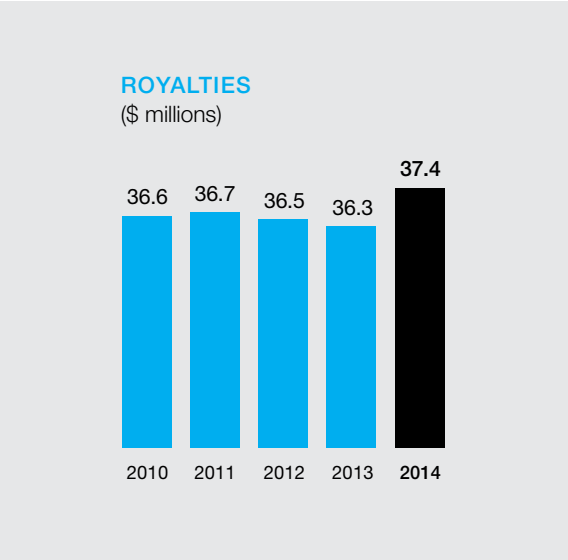
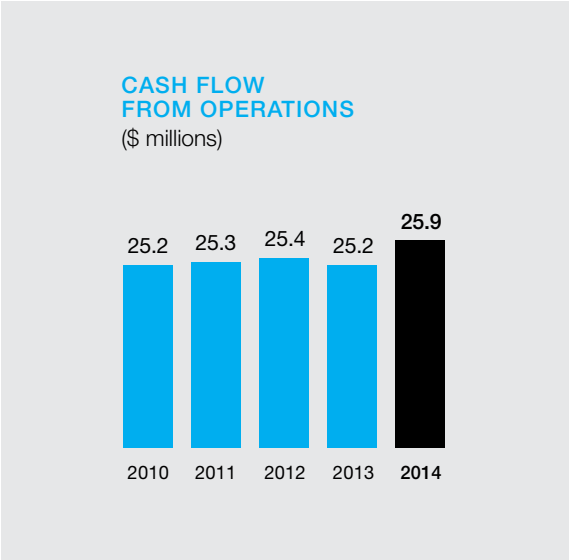
Business Strategy

Brookfield Real Estate Services, Inc. is an established, Canadian-based real estate services firm, originally structured as an income trust and converted to a corporate structure on December 31, 2010. The Company focuses on providing services to real estate brokers and their agents, who practice predominantly in the residential homes segment of the real estate market, with a smaller but growing presence in the commercial brokerage market. The Company provides services that assist REALTORS® and broker-managers with the profitable, 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, the Company caters to the diverse service requirements of regional real estate professionals in virtually all significant population centres across Canada.

The Company's primary objective is to provide superior services to real estate brokers and agents and through them, to consumer-clients, producing an attractive return on investment to shareholders through equity appreciation and growing dividends. Revenue streams are protected through long-term franchising agreements, with royalties predominantly driven by fixed fees based on the number of agents in the network, guarding the Company against market downturns. Growth is produced both organically and through acquisition. Company offices are diversified geographically across Canada, and within a trading area, across culturally distinct markets.

Financial Highlights





Letter to Shareholders

Three highlights emerge from our 2014 campaign: a remarkable string of successful growth initiatives, the completion of a favourable $68 million dollar financing package, and an increase in the dividend.

It was an exceptionally strong year for Brookfield Real Estate Services, Inc. agent growth – our best in seven years as 858 REALTORS® operating under the Royal LePage brand across Canada and the Via Capitale brand in the province of Quebec were added to the national network through acquisition of new franchise agreements. This expansionary period saw forty brokerage companies and some of the country's best real estate professionals join the Company. Of particular note were important acquisitions in Ontario, with the additions of Royal LePage Terrequity (formerly the nation's largest Coldwell Banker business), and the tripling in agent roster at Royal LePage Connect Realty. On the West Coast, our focus on British Columbia's lower mainland markets announced some three years ago, resulted in the creation of Royal LePage Sussex, moving our firm from third place to first in key trading areas, and quadrupling the volume of luxury transactions in this region which boasts Canada's most valuable residential real estate.

In October we completed a $68 million financing package with CIBC Business Banking, which sets our debt at an attractive fixed interest rate, substantially reducing annual interest expenses and locking in low cost funding for five years. Also included in our new financing vehicle is a $10 million line to support new growth initiatives.

The firm has an impressive dividend-paid track record that stretches back over a decade to inception. Supported by an innovative corporate structure that produces growing revenue based on a predominantly fixed royalty stream derived from long-term contracts, the Company has managed to grow or maintain the dividend through all markets, strong or weak. Royalties grew from $23.7 million in 2004 to $37.4 million last year. In 2014, investors were rewarded with a 9.1 per cent increase in the annual cash dividend, to $1.20 per share. Furthermore, we continued to maintain a conservative payout ratio of 66 per cent.

Superior financial results require an exceptional operational platform. To that end, the firm continued to invest in differentiating technologies, new business services to improve the efficiency of our agents and brokerages, marketing initiatives that support our valued brands, and the industry's best training and coaching, to ensure our teams know how to leverage all that is available to them.

Of particular note, Royal LePage introduced award-winning mobile technology during the year, and in the process, has rapidly grown the consumer user base. In fact, nearly half of the millions of consumer visits to our web properties are now accomplished through mobile devices. Early in 2015, Royal LePage delivered on a multi-year project to completely redesign and reengineer the platform upon which we deliver services to our REALTORS® and broker-managers. Based on Google™ technology, the new intranet should help front-line practitioners do more in less time, improving their productivity.

The firm boasts Canada's premium national real estate brand in Royal LePage. To more effectively market to the buyers and sellers of high-end real estate property, we introduced a substantially enhanced Royal LePage Carriage Trade luxury property program, which provides many tools, resources, training and referral opportunities to our luxury-focused agents. We have seen listing volumes on our exclusive luxury property website – **carriagetradeproperties.ca** – increase by more than 400 per cent since the introduction of the new program. These investments have helped us attract leading practitioners who service the luxury real estate market, particularly in Toronto and Vancouver.

Real estate markets across Canada begin 2015 with decidedly different prospects. Stoked by the availability of very low mortgage financing, business in our largest cities, Greater Toronto and Vancouver, continues to expand at a healthy clip. Consumer confidence in our energy-producing regions has been strained by the sudden drop in the value of oil, and the volume of transactions is expected to be subsequently lower than 2014 totals. It is worth noting that Alberta, Saskatchewan and Newfoundland are responsible for only 10 per cent of company revenue. In the balance of the nation, we expect markets to produce low single digit growth.

We enter our second decade with a tremendous amount of positive momentum. Increasingly, brokerages and agents from competing brands are taking note of our industry-leading growth and the superior value proposition that supports it. The real estate brokerage industry is experiencing long-term consolidation and we expect quality brands like ours will attract an increasing share of those looking to improve their prospects, a trend we call "flight to quality."

Our opportunity pipeline is strong and we expect to see continued expansion. The recurring, fixed revenue structure of our business positions us to continue delivering growing cash flows and shareholder dividends.

On behalf of the Board,

PHIL SOPER
President & Chief Executive

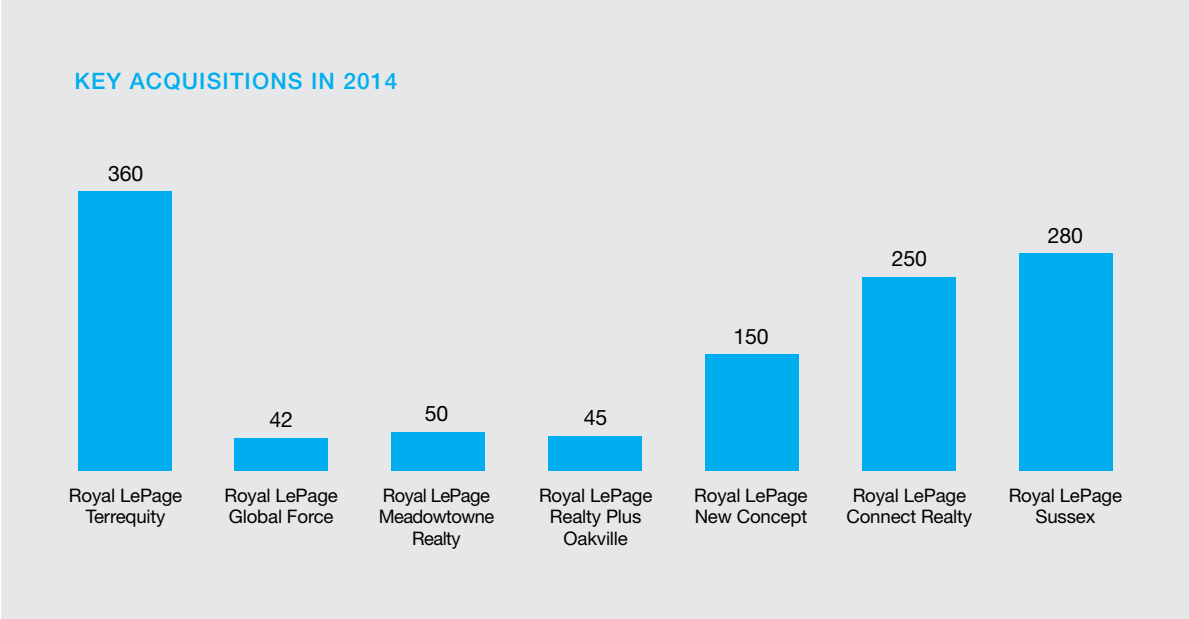
Growth

Growing Network

Brookfield Real Estate Services, Inc. produced exceptional growth through acquisitions in 2014, and has substantial momentum and a healthy pipeline heading into 2015. From coast-to-coast, brokerages from competing companies were attracted to our network and brands. Again in 2014, more brokers and agents joined Royal LePage than any other national real estate brand. In Quebec, where our francophone brand, Via Capitale complements Royal LePage, we added capacity with a key win. In the increasingly important luxury brokerage segment, we expanded the geographic footprint of our Johnston & Daniel brand with a competitive win from international luxury firm, Sotheby's Real Estate.

Royal LePage made acquisitions in jurisdictions across the country. Early in the year, Royal LePage announced the addition of Toronto-based Coldwell Banker Terrequity Realty to its network. The brokerage, which now operates as Royal LePage Terrequity Realty, was the largest Coldwell Banker franchise in Canada, with an extensive network of approximately 360 agents, operating out of 13 offices across the Greater Toronto Area. Royal LePage acquired another GTA brokerage, Coldwell Banker Case Realty, which joined forces with Royal LePage Connect Realty to become one of the brand's largest brokerages in the country. These are just two prominent examples in a very successful growth year for the Company.

As is customary for the Company, in December of each year we announce the acquisitions made for our various brands during the year and who will officially join the network on January 1 of the following year. In December 2014 the Company acquired franchise agreements representing 35 real estate operations and 811 REALTORS® to operate under the Royal LePage banner. Under the Via Capitale brand, the Company acquired franchise agreements representing five real estate brokerage offices and 47 REALTORS®. This brings the Company's network of REALTORS® to 16,235, which represents an almost doubling of the Company's agent count since its initial public offering in 2003.



Growth

Focus on British Columbia

Royal LePage is the leading real estate brokerage brand in many provinces across the country, but the brand has historically tended to be underrepresented in key Western Coast markets, particularly in British Columbia. Over the past two years the Company has put significant resources toward growing our presence in the west, and the investment is starting to pay dividends.

In December, Royal LePage announced a major expansion in British Columbia's Lower Mainland and Sunshine Coast. The acquisition brought Prudential Sussex Realty and a team of approximately 280 agents to the Royal LePage network. The transaction gives Royal LePage a more than 25 per cent share of the North Vancouver, West Vancouver and Sunshine Coast markets combined, and almost quadruples its share of the luxury real estate market in the Greater Vancouver Area.

Ethnic Brokerages

An area where Brookfield Real Estate Services sees the potential for new growth, and has had a special focus on over the past few years, is ethnic real estate brokerages. Company research revealed that new Canadian home buyers and sellers are looking for the same high-quality representation that Canadian-born consumers desire. However, if possible, they prefer to work with REALTORS® that live in their communities and who can communicate with them in their native language. One such brokerage – Royal LePage New Concept – primarily serves the Korean community in the GTA and the vast majority of the approximately 150 professionals in the firm are of Korean descent. The owners of the New Concept brokerage firm were very interested in joining the Royal LePage brand because it allows them to serve both residential and commercial brokerage needs, as Korean investors are the largest investors in commercial real estate in Canada.

In addition to New Concept, the Company has added brokerages to serve the Chinese (Royal LePage Golden Ridge in Markham, Ontario) and South Asian markets (Royal LePage Flower City in Brampton, Ontario, and Royal LePage Global Force in Surrey, British Columbia). Management looks for ethnic brokerages that share the same caliber of business acumen, values and spirit of collaboration that is the foundation upon which Brookfield Real Estate Services' network has been built.

Recruiting Initiatives

The Company invests in recruitment programs to help our brokers and managers efficiently attract and retain the best talent in the real estate business. In 2014, our Royal LePage brand piloted two programs that we believe will help our brokers grow their teams organically. The first program was delivered in partnership with Buffini & Company's 'Ultimate Recruiting Solution,' an industry-leading training program that was customized for the needs of Royal LePage. Brokers and managers participating in this program have hired an average of four new recruits in three months, which is 33 per cent better than industry performance in this training. The second pilot program was delivered in concert with TalentNest, a digital talent management system that leverages web and social media services to help attract, rate and manage a funnel of prospective new REALTORS®. TalentNest improved recruitment lead generation by 275 per cent among participant brokerages and its applicant tracking system supports a proven conversion process and includes a candidate assessment tool to accurately inform hiring decisions. Initial results from our recruitment pilot programs have been promising, and in 2015 the Company plans to roll out these programs to a wider pool of brokers and managers.

Royal LePage is the
leading real estate brokerage brand
in many provinces across the country

Brokers and managers participating Buffini & Company's 'Ultimate Recruiting Solution' have hired an
average of 4 new recruits in 3 months

TalentNest improved recruitment lead generation by
275%

Leadership

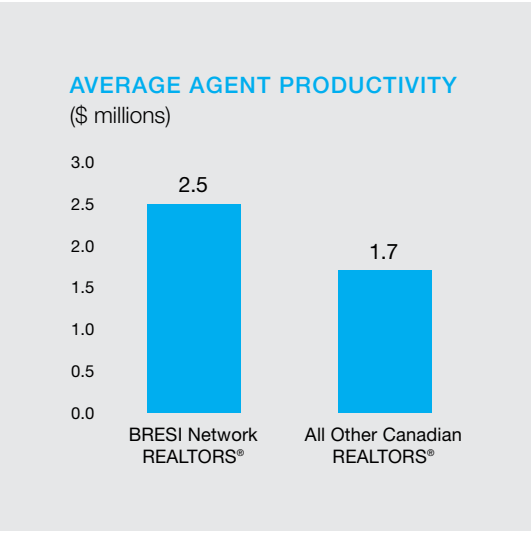
Industry Leadership

Brookfield Real Estate Services' brands are home to some of the leading figures in Canadian real estate. The President and CEO of Brookfield Real Estate Services and Royal LePage, Phil Soper, is one of the most quoted and influential voices in Canada when it comes to real estate. He was named the 2014 CEO of the Year and awarded the CEO Award of Excellence in Public Relations by the Canadian Public Relations Society. In addition, he was named the Most Influential Person in Canadian Real Estate by U.S.-based Swanepoel Trends Report. He was also declared one of the 25 most important leaders of the past 25 years by Real Estate Magazine.

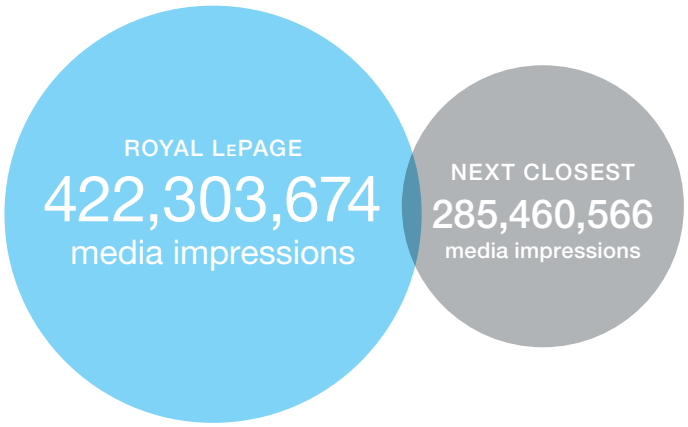
Many of the Company's brokers and agents help shape and guide the industry through their deep involvement with national, provincial and local real estate associations and boards. For instance, Pauline Aunger, Broker of Record with Royal LePage Advantage Real Estate, Brokerage in Smiths Falls and Perth, Ontario, will serve as the President of the Canadian Real Estate Association in 2015.

Agent Productivity

The average Brookfield Real Estate Services network REALTOR® generated approximately $2.5 million in transactional dollar volume for the twelve months ended December 31, 2014, which is up 11 per cent from 2013. This productivity was 51 per cent greater than the estimated average of $1.7 million for all other Canadian REALTORS®. Having highly productive agents is enviable for three reasons: firstly, higher productivity makes the Company less prone than the industry at large to attrition during softer real estate markets. Secondly, having more productive REALTORS® means that the Company can expect to receive higher variable royalties from its network. Finally, highly productive agents contribute to the profitability of our 271 broker-owners, who are an integral part of the Company's royalty stream and overall success.



TRADITIONAL MEDIA IMPRESSIONS IN 2014



The Voice of Canadian Real Estate

Our Royal LePage brand is overwhelmingly considered The Voice of Canadian Real Estate, and is sought after by influential reporters across the country to comment on industry reports, surveys and the issues that matter in Canadian real estate. No other real estate company in Canada is quoted more than Royal LePage, which generated approximately 48 per cent more traditional media (print, television and radio) impressions than the nearest rival real estate company in 2014.

Our Royal LePage brand has also embraced the use of social media to engage consumers and agents alike. Royal LePage is the most social real estate company in Canada, actively managing 12 social media accounts, including Facebook (with 9,800 likes), Twitter (12,800 followers) and Google+ (over 320,000 views). Royal LePage uses social media to create calls to action that drive users to connect with its brokers and agents, and to provide a channel for intra-brand best practices sharing.

New Leadership at Via Capitale

In 2014 Brookfield Real Estate Services appointed David Martin to the position of president of its Via Capitale brand. Under his leadership Via Capitale has successfully pursued acquisitions and reinforced the Company's position as a provider of innovative and thoughtful real estate services to home buyers and sellers in Quebec. Before joining Via Capitale he spent nearly twenty years as franchisor, owner and operator of residential real estate businesses.

Leadership

Leaders in the Community

Royal LePage is a leader when it comes to giving back to the communities where it does business, by partnering with local women's shelters and committing to raising funds and providing tangible goods to benefit women and children affected by abuse or domestic violence. Its charitable foundation – the Royal LePage Shelter Foundation – surpassed the $20 million raised mark in 2014. Royal LePage covers the administrative costs of running the foundation which ensures that one hundred per cent of all funds donated are directed to shelters.

Royal LePage agents and offices across the country organized hundreds of fundraising events in support of the Shelter Foundation, with all funds going to their local women's shelters. Many Royal LePage agents committed to donating a portion of their commissions from each property sale or purchase to the Shelter Foundation.

During 2014, the Shelter Foundation:

- Supported more than 200 women's shelters across Canada.
- Made a significant donation to the Canadian Women's Foundation, contributing to 40 programs focused on violence prevention, teaching youth how to develop healthy relationships and helping women and children rebuild their lives after abuse.
- Organized the 6th annual National Garage Sale for Shelter, the nation's largest, which raised more than $320,000 at 120 community garage sale locations across Canada.
- Introduced "text to donate" campaigns and online "peer-to-peer" fundraisers to expand its network of supporters.

Royal LePage Shelter Foundation surpassed the
$20 million raised mark in 2014

Operating Platform

Technology

Brookfield Real Estate Services' brands continuously invest in cutting edge and transformative technologies. Over the past year, Royal LePage has made numerous enhancements to their online platforms, including adding a mobile app that was recognized with a W3 award from the Academy of Interactive and Visual Arts for mobile app excellence. Recent enhancements to **royallepage.ca** have yielded large returns and give the firm incredible reach with an average of two million visitors per month. The Royal LePage website and mobile app together funnel up to 100,000 consumer leads each year to Royal LePage agents.

During 2014, the Royal LePage brand invested in a redesign and reengineering of rlpNetwork, the intranet platform upon which the Company delivers the services used by agents and broker-managers. The highly integrated site is much easier to use and was designed to be more useful for an agent's or a manager's everyday needs. rlpNetwork includes a robust search function and referral directory, which allows our agents to search for anyone across the Royal LePage network using a variety of search criteria. This allows agents to give potential clients more refined and appropriate referrals.

Royal LePage is the first in the Canadian real estate industry to fully embrace Google Apps enterprise solutions, which offers its brokers and agents unprecedented collaboration and communication tools to help them work faster, smarter and more efficiently. In 2015, Royal LePage will be launching Google's commute cloud, which allows a person looking for a home to find properties within a user-defined radius of their work.

The Via Capitale brand has also made significant investments in its consumer website – **viacapitalevendu.com** – in recent years. The Via Capitale website, which receives almost 640,000 unique visitors per month, is adapted to the needs of consumers and features a modern look, seamless integration with social networks and responsive design technology. Always on the lookout for consumer needs and market trends, in 2014 Via Capitale launched the Via Commercial site in order to support its commercial brokers and enable them to offer their clients quality service.

Recent enhancements to **royallepage.ca** have yielded large returns and give the firm incredible reach with an average of
2 million visitors per month

The Royal LePage website and mobile app together funnel up to
100,000 consumer leads
each year to Royal LePage agents

Operating Platform

Marketing

Brookfield Real Estate Services brands are constantly looking for, and investing in, new and innovative ways to help agents market their services. From promotional tools to public relations to advertising, the Company helps support the network with first-class marketing programs. One recent example is the introduction of the Royal LePage Home Magazine, a premium publication that deftly wraps examples of Royal LePage homes for sale from among the tens of thousands in our national listings inventory around engaging editorial. This powerful new marketing tool is available exclusively to Royal LePage agents and brokers, and allows them to demonstrate how they can market homes both locally and nationally in a way that is differentiated from their competition.

In September 2014, our Royal LePage brand relaunched Carriage Trade, its exclusive real estate service marketing luxury homes in Canada to discerning buyers from around the world. The relaunch involved a refresh of the entire marketing suite, including an updated logo, new listings marketing and promotional material, as well as re-imagined partnerships with industry leaders in luxury marketing, training and advertising. This also included an automation feature, which allowed price-qualified properties to be automatically published to Royal LePage's exclusive property website – **carriagetradeproperties.ca**. In the six months since relaunch the site has seen an increase in listing volume of more than 400 per cent.

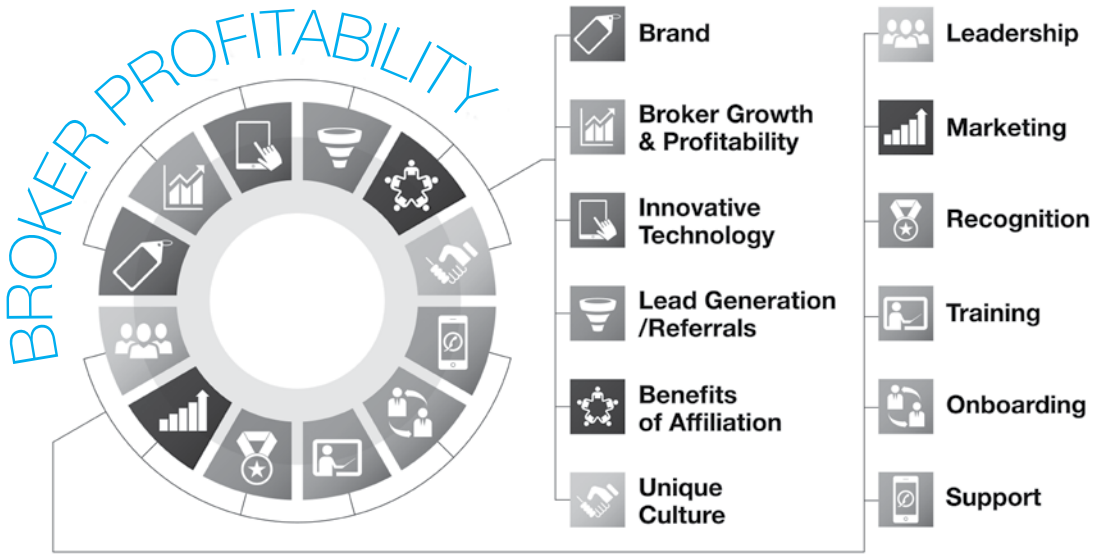
Global Referral Network

Brookfield Real Estate Services and its brands have developed an impressive global referral network. One of the most prominent examples is the relationship between Royal LePage and Berkshire Hathaway Home Services (BHHS), which was named U.S. Real Estate Brand of the Year in a Harris poll of 40,000 American consumers. BHHS is the fastest growing national real estate firm in America with 1,100 offices and nearly 40,000 sales associates, making them a powerful referral partner. Other international referral partners include International Realty Group Ltd., Paris Property Group, Bahamas Realty, Rego Sotheby's International Realty, Prudential California, Valerie Levy & Associates Limited and Real Living Casas Com Vida.

The Company's luxury-focused Johnston & Daniel brand has a powerful global referral network through its membership in the Leading Real Estate Companies of the World™, which is the largest global network of premier locally branded real estate companies.

Learning Services

Royal LePage agents are given access to a number of innovative learning opportunities that help them build their business, earn industry designations, improve their marketing efforts and increase their productivity and profitability. One example is a tailored program called Peak Producers, which is offered in partnership with Buffini & Company, one of the leading coaching and training companies in North America. Peak Producers is a 12-week program that teaches agents how to generate more leads and close more transactions, overcome peaks and valleys in their income, and produce at a consistently high level. Royal LePage agents also have access to a tailored Leader's Edge Virtual Training system – a 12-week course that teaches agents critical selling, objections handling and negotiation skills in addition to business planning and time management skills. These are just two examples of the many learning services available to Brookfield Real Estate Services agents.



A graphical representation of the suite of business services available to Royal LePage brokerages
A similar, robust services suite is also available to Royal LePage agents.

2014 Financials

Management's Discussion and Analysis

Introduction

This section of Brookfield Real Estate Services Inc.'s (the "Company") annual report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended December 31, 2014 (the "Quarter") and the year ended December 31, 2014 (the "Year") and has been prepared as at March 10, 2015. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards and is expressed in Canadian dollars unless otherwise stated.

The definitions of terms capitalized in this MD&A are provided in the Glossary of Terms.

This MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future outlook. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2014, prepared in accordance with IFRS. Additional information relating to our Company, including our Annual Information Form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

Management's Discussion and Analysis of Results and Financial Condition

Highlights

Years ended December 31, ($ 000's) except REALTORS® and per share amounts	2014	2013
Royalties	**$ 37,392**	$ 36,268
Less:		
Administration expenses	**1,626**	1,342
Management fee	**6,469**	6,677
Interest expense	**3,419**	3,040
Cash flow from operations	**$ 25,878**	$ 25,209
Amortization of intangible assets	**(10,828)**	(12,683)
Impairment of intangible assets	**(2,384)**	(1,391)
Interest on Exchangeable Units	**(5,856)**	(4,672)
Gain (loss) on fair value of Exchangeable Units	**1,164**	(2,429)
Loss on interest rate swap	**(482)**	–
Gain (loss) on fair value of purchase obligation	**(955)**	210
Current income tax expense	**(3,657)**	(3,958)
Deferred income tax recovery	**991**	602
Net and comprehensive income	**$ 3,871**	$ 888
Basic earnings per share	**$ 0.41**	$ 0.09
Diluted earnings per share	**$ 0.41**	$ 0.09
Cash flow from operations per share	**$ 2.02**	$ 1.97
Total assets	**$ 86,562**	$ 93,433
Total financial liabilities	**$ 101,558**	$ 100,919
Number of REALTORS®	**15,377**	15,310

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2014.

As at December 31, 2014, the Company consisted of 15,377 Canadian REALTORS® contracted with 271 Broker-Owners operating under 302 Franchise Agreements from 637 locations, providing services under the Royal LePage, Johnston & Daniel and Via Capitale brand names collectively as the Company Network, with an approximate one fifth share of the Canadian residential real estate Market based on 2014 transactional dollar volume.

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 practice predominantly in the residential brokerage segment of the market, in order to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate Franchise brands, each of which offers 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 in the Canadian residential real estate Market. We manage our operating costs and associated risks by delivering our services and management of the Company through an Amended and Restated Management Services Agreement ("MSA"), which is provided by Brookfield Real Estate Services Manager Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM").

Management's Discussion and Analysis of Results and Financial Condition

The senior management team of the Manager developed and managed the Royal LePage Network before the inception of the Company, and BAM, through its subsidiary holdings, holds an approximate 28.4% interest in the Company. As a result of this arrangement, the underlying costs of the Company are not complex as they are limited to management fees paid under the MSA, public company operating costs and carrying costs associated with our debt.

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

Through the Manager, we seek to further increase dividends by increasing our Agent count through the acquisition of Franchise 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.

Structure of Company Royalties

ROYALTY FEES

The Company generates royalties with both fixed and variable fee components. Approximately 89% (89% – 2013) of the Company's royalties during the Year were derived from the combined fixed fee per REALTOR® per month, 1% variable royalty fee and Premium Franchise Fees. The remaining royalty stream is made up of other fees and services generated from warranty fees ("APEC"), technology fees and other fees. Approximately 71% of the Company's annual royalties are partially insulated from market fluctuations as they are not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS® representing the Network, increasing Agent and Broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

Fixed royalty fees are based on the number of Agents and fee-paying Sales Representatives, collectively "selling-REALTORS®", in the Company Network. Fixed Franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of $102 ($100 prior to 2014) per selling-REALTOR®, a technology fee and other fees, while those from Via Capitale Franchisees consist primarily of a monthly fee of approximately $170 per selling-REALTOR®.

Variable royalty fees are primarily driven by the volume of business transacted by our Agents. Variable Franchise fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent's or Team of Agents' gross commission income, subject to a cap of $1,300 per year. In 2014 approximately 3,000 Agents and Teams exceeded the cap.

In addition to these fees, 23 of the Company's larger Royal LePage locations situated in the Greater Toronto Area ("GTA") pay a Premium Franchise Fee ranging from 1% to 5% of the location's Agent Gross Revenue. 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 Company's fees for the Year (92% – 2013) and are primarily made up of a fixed monthly fee per Agent of $102 plus a $20 technology fee per participating Franchisee (representing 97% of Agents in 2013); a variable fee equal to 1% of the fees generated by the Agent or Team of Agents, capped at $1,300 per Agent; and a premium variable fee, as described above.

Due to the variable fee-capping feature, approximately 70% (70% – 2013) of the Royal LePage Network fees were fixed in nature.

The Via Capitale Network: The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 8% of the Company's fees during the Period (8% – 2013). These fees are primarily made up of a fixed monthly fee per Agent of $170 ($2,040 per annum) and fees generated from APEC. Approximately 78% (78% – 2013) of Via Capitale's royalties for the Year were fixed in nature.

SALES REPRESENTATIVES

Sales Representatives are individuals in the Royal LePage Network who are licenced to buy and sell real estate and who do so through an affiliation with an Agent. This affiliation is called a Team. Sales Representatives pay the same monthly fixed fees as an Agent, however for purposes of the $1,300 variable fee cap, the gross commission income of all Team members is aggregated to one cap. In the past the Company has reported the number of Sales Representatives. Commencing with the Quarter the Company will no longer report the number of Sales Representative separately, as they pay the same fixed fees as Agents and for purposes of the analysis of the Company's variable fees the number of Agents and Teams that exceed the cap and the approximate percentage of gross commission this group captures of the overall Royal LePage Network is disclosed.

FRANCHISE AGREEMENTS

Franchise Agreements are defined as the agreements pursuant to which brokerage offices offer residential brokerage services. These Franchise Agreements are comprised of a standard contract which governs matters such as use of the Trademarks, initial and renewal terms, services to be provided and fees. Over the term of the standard contract the Franchisee may undertake activities which require an amendment to the standard contract such as the opening of a new location. These changes are documented by way of an addendum to the standard contract and form part of the standard contract.

In the past, these addendums have been reported by the Company as separate Franchise Agreements. However, effective December 31, 2013, the Company had redefined a Franchise Agreement as being inclusive of the addendums to the original Franchise Agreement. This change in reporting was undertaken as the addendums form part of the standard contract and the standard contract is what governs the contractual arrangements with our Broker-Owners. As at December 31, 2014, the Company owns 302 Franchise Agreements.

Monthly Dividends

The targeted annual cash dividend payable to public shareholders for 2015 is $1.20 per share, is unchanged from 2014 and is to be paid monthly. Management and the Board of Directors periodically review the Company's targeted dividends and distributions.

Overview of 2014 Operating Results

For the Year, the Canadian Market, as defined by Market transactional dollar volume, closed up 12.1%, at $196.3 billion, compared to the same period of 2013, driven by an increase of 6.7% in selling price and 5.1% increase in units sold. The impact of the increase in units sold and price appreciation on the Canadian Market continues to be most pronounced in the Toronto, Vancouver and Calgary markets while a number of other markets across the country experienced flat to moderate price and unit sales increases. The continued increase in price is a function of a continued tight market and the mix of homes sold, backstopped by a continued low interest rate environment.

For the Year the Company generated net and comprehensive earnings of $3.9 million (2013 – $0.9 million), or $0.41 per Restricted Voting Share, which was up $3.0 million, from $0.09 per Restricted Voting Share for the same period of 2013. The primarily drivers of this year over year increase was $2.8 million in net non–cash items, as a year over year increase of $0.7 million attributed to royalties less administration, management fee and interest costs (See cash flow from operations below) and $0.7 million of reduced year over year net income tax, was partially offset by a $1.2 million increase in interest on Exchangeable Units. Interest to Exchangeable Unit holders was increased during the year to bring the Exchangeable Unit holder's interests in line with their economic interest in the Company. The non-cash items are comprised of $3.6 million attributed to a $0.35 decrease in the Company's share price in 2014 as compared to a $0.73 increase in 2013, which resulted in a decrease in the fair value of the non-controlling interest's Exchangeable Units and a corresponding gain in net and comprehensive earnings. The remaining $0.8 million of non-cash items was attributed to $1.9 million of reduced amortization, partially offset by a $ 1.2 million year over year increase in the Company's fair value change in purchase obligations due to the better than expected performance of the underlying Franchise contracts, a $1.0 million increase in impairment of intangible asset charges recorded for certain Franchisees experiencing financial difficulties and $0.5 million attributed to a loss recorded on the valuation of the interest rate swap on the Company's new $53 million Term debt facility.

Management's Discussion and Analysis of Results and Financial Condition

For the Year, the Company generated CFFO of $25.9 million (2013 – $25.2 million), or $2.02 per Restricted Voting Share, up 2.5%, or $0.7 million, from $1.97 per Restricted Voting Share for the same period of 2013. This $0.7 million increase was primarily driven by an increase in royalties, partially offset by an increase in administration costs. Royalties were up $1.1 million due primarily to an increase in the number of Agents in the Network as a result of the acquisition of Franchise Agreements at the beginning of the year and the implementation of the previously announced $2 per month increase in the Royal LePage fixed Franchise fee. Operating costs were up $0.4 million year-over-year due primarily to bad debt provisions recorded for certain Franchisees that are experiencing financial challenges, a $0.4 million increase in interest expenses resulting from the refinancing of the Company's Debt facilities (see Debt Financing), partially offset by a $0.2 million reduction in management fees due to the reduction in management fees from 30% of royalties generated from the Via Capitale Network to 20% under the new MSA, which became effective at the beginning of 2014.

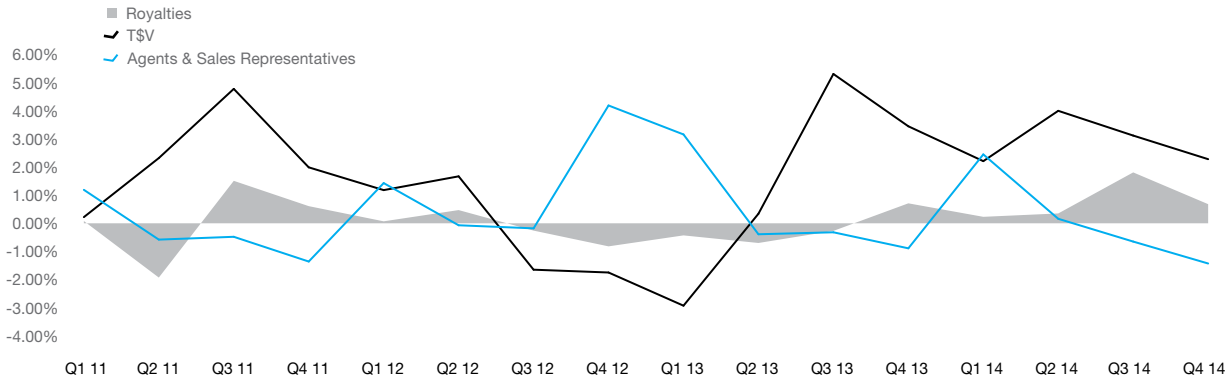
The Company Network experienced a net increase of 67 Agents during the Year, compared to a net increase of 224 Agents in the same period in 2013. During the Year the Company experienced attrition of 426 Agents (292 Agents – 2013) which was offset by the acquisition of Franchise Agreements represented by 493 Agents at the beginning of the year (516 Agents – 2013).

During the Year, 17 Franchise Agreements representing 851 Agents that were subject to renewal, renewed. In addition one Franchise Agreement representing 199 Agents renewed early and six Franchise Agreements were terminated representing 15 Agents.

ROYALTIES

The most significant drivers of the Company's royalties are Market activity, the number of Agents in the Company Network and competition. The chart below summarizes the percentage change in transactional dollar volume in Canada, the Company's royalties and the number of Agents on a rolling twelve-month quarter-over-quarter basis since 2010. As noted from the chart below, the vend-in of Franchise Agreements in the first quarter of each Year and the organic change in the number of Agents, combined with the fixed-fee nature of our royalties, mitigate the impact of Market fluctuations. In addition, the Lag Effect of the Company's policy of recording variable and Premium Franchise Fee royalties when a home sale transaction closes, which occurs after the home sale has been reported by the Market, is quite evident.

ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



Recent Developments

INCREASE IN ROYAL LEPAGE FIXED FEES AND VARIABLE FEE CAP

On February 11, 2015 the Company announced that the Royal LePage Network monthly fee of $102 per Agent will be increased to $105 per Agent and the cap on the 1% variable fee payable will increase from $130,000 gross revenue to $132,500 gross revenue. The increase in the cap translates to a maximum annual increase of $25 for those Agents or Teams who earn $132,500 or more in gross income per annum. Approximately 3,100 Agents and Teams earned in excess of this cap in 2014.

Under the Franchise Agreements with our Broker-Owners, increases in fees are limited to increases in the Consumer Price Index. The increases to take place on January 1, 2016 impact approximately 85% of the Franchise Agreements for the Royal LePage Network of Agents. The fee increase for the remainder of the Royal LePage Network will be effective January 1, 2017. Based on the number of fixed fee paying Agents in Royal LePage Network as at January 1, 2015 and 2014 transaction dollar volumes this increase in fees translates into approximately $600,000 of incremental annual fees when fully implemented.

ECONOMIC DEVELOPMENTS

During early 2015 oil prices fell and the Bank of Canada cut its benchmark overnight lending rate. We expect the rapid drop in the value of oil will indirectly impact housing markets across the country. In central Canada, the correspondingly lower Canadian dollar and stimulative effect of lower fuel costs are expected to lift the export sector, buoy consumer spending and be generally supportive of the residential real estate industry. In the energy producing provinces of Alberta, Saskatchewan and Newfoundland, we expect to see lower consumer confidence and expect that low priced oil will be a drag on the market, firstly through lower transaction volumes, followed by softness in home prices. The Bank of Canada's move to lower the bank rate is expected to mitigate the negative impact of lower energy prices in the energy producing regions, and to further strengthen housing activity in other regions.

Key Performance Drivers

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

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

A summary of our performance against these drivers and a discussion of the underlying Market follows.

Stability of the Company's Royalty Stream

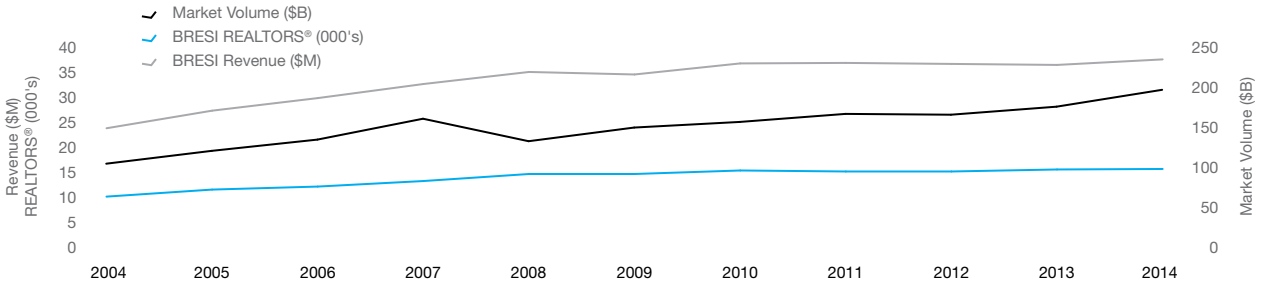
The stability of the Company's royalty stream is derived from a number of factors, including the fixed-fee structure of the Company's royalties, the diversity of the Company Network, the geographic distribution of the Company Network, the length of the Company's Franchise Agreements and the renewal of Franchise Agreements. A discussion of these factors follows.

FIXED-FEE STRUCTURE

The fixed nature of the fees generated under the Company Network Franchise Agreements (see Structure of Company Royalties) results in an approximate 71% fixed and 29% variable royalty stream which partially insulates the Company from fluctuations in the Market.

The fixed nature of the fee structure is quite evident, as can be seen in the chart below, which compares the Company's royalties to the Market and underlying Company Network.

REVENUE, MARKET AND REALTOR® TRENDS



Note: In 2008, the Company vended in Via Capitale Franchise contracts represented by 1,492 Agents operating from 68 locations.

Management's Discussion and Analysis of Results and Financial Condition

NETWORK DIVERSITY AND GEOGRAPHIC DISTRIBUTION

As at December 31, 2014 the diverse Company Network of 15,377 REALTORS® operates through 271 Broker-Owners providing services across the country through 637 locations operating under 302 Franchise Agreements.

With diverse Market requirements our broker-owner's operations are as diverse, varying in size and scope with 20% of the Company Network of Agents represented by 71% of our Broker-Owners who operate with fewer than 50 REALTORS® and 80% of the Company Network of Agents represented by 29% of our Broker-Owners who operate with 50 or more REALTORS®.

As noted in the chart below the Company Network of REALTORS® is geographically disbursed across Canada. As compared to the distribution of REALTORS® across Canada the Company Network is under represented in British Columbia and in the Prairies, while east of the Prairies the Company is over represented in Ontario, the Maritimes and the Province of Quebec which benefited in part from the acquisition of the Via Capitale Network in 2008.

	Canadian[1] REALTOR® Population	Company[2] Network REALTORS®
Ontario	55%	59%
Prairies	13%	11%
BC	17%	10%
Quebec	12%	16%
Maritimes	3%	4%
Total	100%	100%

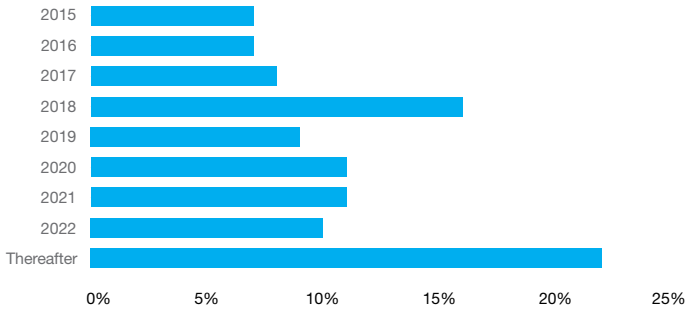
[1] Source CREA. As at December 31, 2014
[2] As at December 31, 2014

FRANCHISE AGREEMENT TERMS

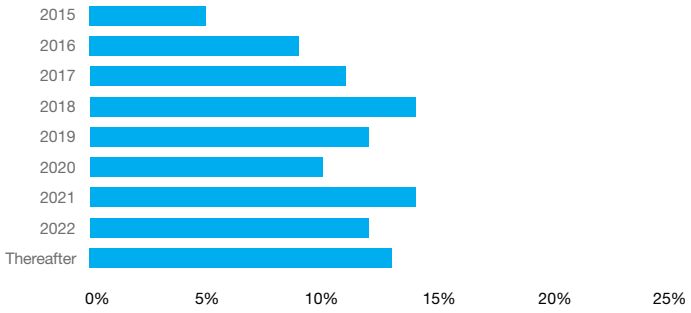
The Royal LePage Franchise Agreements, which are represented by 93% of the Company's REALTORS®, are 10 to 20 years in duration, significantly exceeding the industry norm of five years and thereby reducing agreement renewal risk. At the time of the initial public offering ("IPO"), the Company's Royal LePage Franchise Agreements were largely subject to five-year renewal terms. Since the IPO, the Company's standard renewal terms for agreement additions are typically 10 years in duration. The Company further extends agreements in existence at IPO to 10 years as and when opportunities present themselves. The Company's overall agreement renewal profile by year is not overly skewed to any one year and, as such, is very manageable. A summary of our agreement renewal profiles as at December 31, 2014 for our combined Royal LePage and Via Capitale networks is shown below.

The Via Capitale Franchise Agreements, which are represented by 7% of the Company's REALTORS®, are typically five years in duration.

% OF FRANCHISE AGREEMENTS UP FOR RENEWAL
(by Number of Agents)



% OF FRANCHISE AGREEMENTS UP FOR RENEWAL
(by Number of Agreements)



RENEWALS

The Company has historically enjoyed 95% plus renewal success of Franchise Agreements as they come due, expressed as a percentage of the underlying number of REALTORS® to these agreements. 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.

During the Year, 17 Franchise Agreements representing 851 Agents that were subject to renewal, renewed. In addition one Franchise Agreement representing 199 Agents renewed early.

During the Year, Franchise Agreements representing 15 Agents were terminated.

Number of REALTORS® in the Company

For the Year, the Company Network of 15,377 REALTORS® increased by 67 REALTORS®, compared to a net increase of 224 REALTORS® during the same period in 2013. After taking into account the 493 REALTORS® added through the acquisition of Franchise contracts on January 1 2014, the Company experienced net attrition of 426 REALTORS® or 2.7% as compared to the 2.4% growth experienced in the overall Canadian REALTOR® population.

Approximately 50% of the attrition experienced by the Company was concentrated in the Quebec, 34% in Ontario, 11% in the Maritimes and the balance in Western Canada. As discussed above a certain amount of province-wide REALTOR® attrition experienced in the Maritimes and Quebec would have impacted the Company, however a robust market combined with increased competition from both full service and low service providers has attracted REALTORS® and Teams of REALTORS® away from the Company's brands during 2014. In addition Management is of the view that the Company is not gaining its proportionate share of the increase in industry-wide REALTORS® as the combination of the proliferation of low service and discount service provider models and robust markets such as the Greater Toronto Area is attracting new entrants and low producing REALTORS® who are not a fit for the Company's full service offerings.

As noted in the table below, during the Year the Canadian REALTOR® population grew by 2.3% – 2,543 members to 110,821 REALTORS®. As described below this increase is composed of an industry wide decrease of 287 REALTORS® east of Ontario and increase of 2,830 REALTORS® west of the province of Quebec.

During the Year the province of Quebec and the Maritimes experienced declines of 1.3% – 169 REALTORS® and 3.4% – 118 REALTORS®, respectively. In Quebec the industry-wide exit of close to 600 Agents during the second quarter of 2014 was due in part to a slow Market, increased education requirements and costs which has led to an exit of non-productive Agents and fewer new entrants. The decrease in the second quarter was tempered by an increase of 74 agents over the last two quarters of 2014. The Maritimes experienced a moderate increase in REALTORS® during the first quarter of 2014 and then saw modest decreases in REALTORS® in each of the remaining three quarters of 2014.

The rest of Canada experienced a net increase in REALTORS® during 2014 with Ontario leading the way with an increase of 2,217 REALTORS® – 3.8%, followed by British Columbia up 481 REALTORS® – 2.6%, Alberta up 123 REALTORS® – 1.2% and the Prairies up 13 REALTORS® – 0.4%. After a slight decrease in Agents in the first quarter of 2014, Ontario experienced increase in each respective quarter – 1,162 REALTORS® during the second quarter, 321 REALTORS® during the third quarter, and 798 REALTORS® in the fourth quarter. A substantial proportion of the increase occurring in the Greater Toronto Area. The British Columbia REALTOR® population which grew by less than 100 in the first half of 2014 has since picked up with growth of close to 200 REALTORS® for each of the last two quarters of 2014. Alberta and the Prairie provinces experienced modest increases in the number of REALTORS® over the last three quarters of 2014 and then declined by close to 100 agents during the fourth quarter of the Year.

During the Quarter the Canadian REALTOR® population grew by 856 – 0.8% with Ontario, British Columbia and Quebec growing by 798, 182 and 51 REALTORS®, respectively, while the remainder of the provinces declined by 175 members.

The increase in the number of Canadian REALTORS® has in part been driven by increases in discount brokerage offerings, which have attracted new entrants to the industry and what appears to be an increase in market activity serviced by REALTORS® operating as Teams. This increase in REALTORS® and change in mix has resulted in a modest 3% year-over-year increase in the number of homes sold per REALTOR®. As summarized in the chart on the next page, it shows 2014 and 2013 closing up at 4.3 units per REALTOR®, from 4.2 in 2012 and in line with 4.3 units per REALTOR® in 2011.

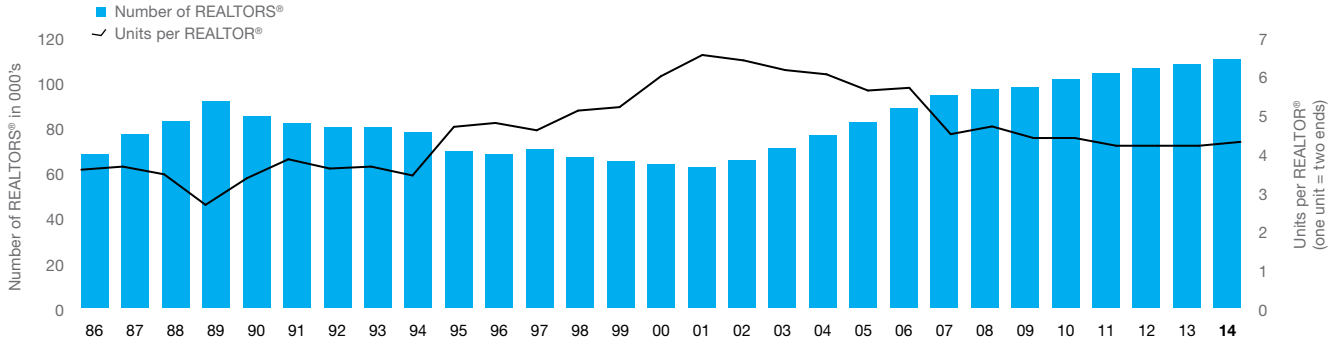
Management's Discussion and Analysis of Results and Financial Condition

SUMMARY OF CANADIAN AND COMPANY GROWTH IN REALTORS®

	Canada*		The Company Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**106,944**		**15,086**	
2013 Q1	133	0.1	472	3.1
2013 Q2	848	0.8	(59)	(0.4)
2013 Q3	271	0.3	(48)	(0.3)
2013 Q4	82	0.1	(141)	(0.9)
Opening	**108,278**	**1.2**	**15,310**	**1.5**
2014 Q1	428	0.4	375	2.4
2014 Q2	672	0.6	12	0.1
2014 Q3	587	0.5	(104)	(0.7)
2014 Q4	856	0.8	(216)	(1.4)
Closing	**110,821**	**2.3**	**15,377**	**0.4**

* Source – CREA
Beginning 2014, CREA no longer reports the number of affiliate members and as such the figures previously reported by CREA have been eliminated.

CANADIAN REAL ESTATE REALTORS®
(Years ended December 31)



Transaction Volumes

For the Year, the Canadian Market closed up 12.1%, at $196.3 billion, as compared to the same period of 2013, driven by a 6.7% and 5.1% increase in price and units sold, respectively. The increase in average selling price of a home was buoyed by robust activity in the Toronto, Vancouver and Calgary markets and the low interest rate environment.

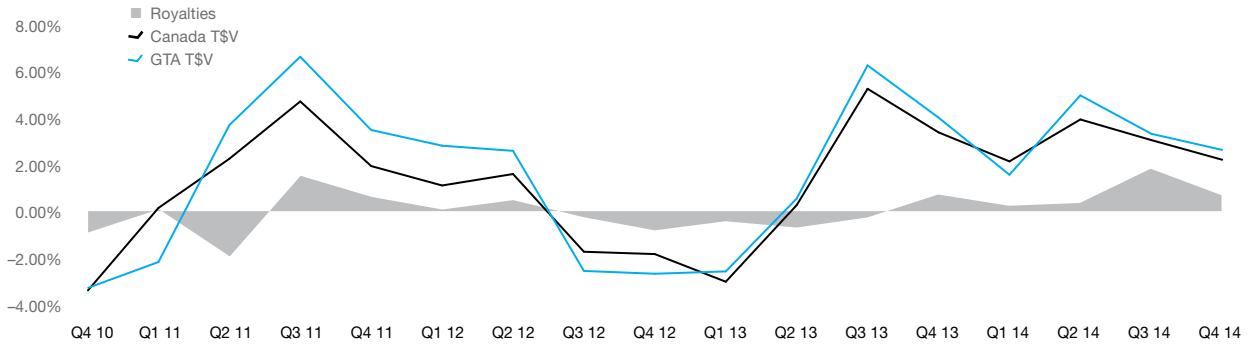
During the Quarter, the Canadian Market closed up 11.9%, at $41.4 billion, as compared to the same period of 2013, driven by a 5.7% and 5.9% increase in price and units sold, respectively, for the reasons noted above.

For the Year, the GTA Market closed up 13.3%, at $52.8 billion, as compared to the same period of 2013, driven by a 7.7% and 5.2% increase in price and units sold, respectively, for the reasons noted above.

During the Quarter, the GTA Market closed up 14.1%, at $11.3 billion, as compared to the same period of 2013, driven by a 6.2% and 7.4% increase in price and units sold, respectively.

The GTA market, as presented in the chart below, typically lags the Canadian Market and has had a more pronounced change in Market activity. This may cause the Premium Franchise Fees received by the Company from this Market to differ from the change in the overall Canadian Market.

ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



A summary of the key Market and related activity, as reported by the Canada Mortgage and Housing Corporation ("CMHC"), CREA and the Toronto Real Estate Board ("TREB"), follows:

From CMHC[1]: "MLS® sales are expected to range between 425,000 and 504,000 units in 2015, with a point forecast of 479,900 units. In 2015, resales are forecast to range from 410,000 units to 505,000 units, with a point forecast of 474,400 units. The average MLS® price is forecast to be between $384,000 and $428,000 in 2015, with a point forecast of $414,200. For 2016, the average MLS® price is forecast to be between $388,000 and $438,000, with a point forecast of $420,900."

From CREA[2]: "National activity is now forecast to reach 485,200 units in 2015, representing a year-over-year increase of 0.8 per cent. While sales nationally are still expected to peak this year and trend lower throughout 2015, they are not expected to return to weakened levels recorded in the first quarter of 2014. The national average price is forecast to edge higher by 0.9 per cent in 2015 to $409,300. Alberta and Manitoba are forecast to post average price gains of almost two per cent in 2015, followed closely by Ontario at 1.3 per cent. Average prices in other provinces are forecast to remain stable, edging up by less than one percentage point."

From TREB[3]: "The January (2015) results represented good news on multiple fronts. First, strong sales growth suggests home buyers continue to see housing as a quality long-term investment, despite the recent period of economic uncertainty. Second, the fact that new listings grew at a faster pace than sales suggests that it has become easier for some people to find a home that meets their needs. Home price growth is forecast to continue in 2015. Lower borrowing costs will largely mitigate price growth this year, which means affordability will remain in check. The strongest rates of price growth will be experienced for low-rise home types, including singles, semis and town houses. However, robust end-user demand for condo apartments will result in above-inflation price growth in the high-rise segment as well".

Company's Growth Opportunities

Growth in the Company's royalties is achieved by increasing the number of REALTORS® in the Company Network through organic growth and acquiring Franchise Agreements from the Manager, increasing the productivity of Agents, expanding the range of products and services supporting Franchisees and their Agents and increasing the adoption of these products and services. These services are supported by ongoing training programs for Franchisees and REALTORS®, which assist in leveraging the Company's competitive advantages to attract and retain potential recruits.

GROWTH IN NUMBER OF REALTORS®

Our growth objective for 2015 in light of the economy and Market conditions is to increase the year-over-year Company Network of REALTORS® through the continued momentum of converting competitive offerings to the Company's brands and development of programs to increase organic agent growth.

Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network to December 31, 2014, has increased by 66.5% (6,139 REALTORS®), of which 79% has been through acquisitions and 21% through organic growth.

[1] Source: CMHC First Quarter 2015 Housing Market Outlook, Canada Edition
[2] Source: CREA Updates and Extends Resale Housing Forecast, published December 15, 2014
[3] Source: TREB Market Watch data, January 2015

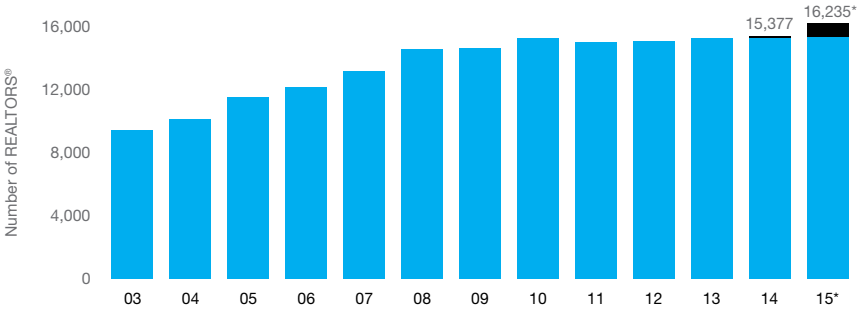
Management's Discussion and Analysis of Results and Financial Condition

Growth through acquisition is achieved by purchasing Franchise Agreements acquired by the Manager's dedicated Network development team.

On January 1, 2015, the Company purchased Franchise Agreements and addendums representing 40 real estate operations, serviced by an estimated 858 Agents operating under the Royal LePage and Via Capitale brands. The estimated purchase price of these agreements was $10.2 million, with an estimated annual royalty stream of $1.5 million. (See – Transactions with Related Parties.)

A summary of the growth of the Company Network since inception is summarized in the chart below.

COMPANY GROWTH



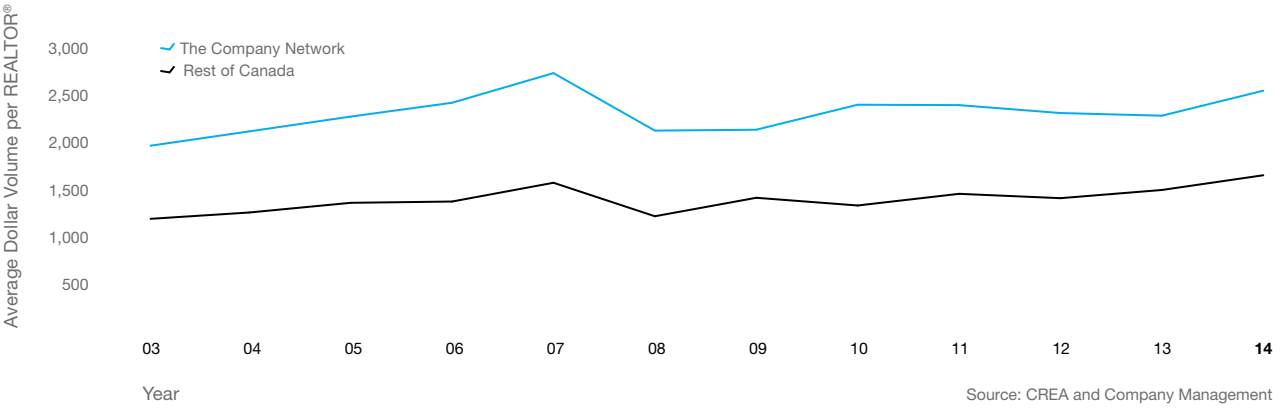
Year ended December 31, except 2015
* As at January 1, 2015

REALTOR® Productivity

The average Company Network REALTOR® generated approximately $2.5 million in transactional dollar volume for the twelve months ended December 31, 2014, which is up 11% from 2013. This productivity was 51% greater than the estimated average of $1.7 million for all other Canadian REALTORS®, up from $1.5 million in 2013. Management believes that the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume. A summary of average transactional dollar volume per REALTOR® for the years ended December 31, 2003 through 2014 is summarized in the chart below.

CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET REALTOR® PRODUCTIVITY

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



Source: CREA and Company Management

PRODUCTS AND SERVICES

During 2014 the Manager re-launched the Company's consumer-facing websites to capitalize on the referral, Franchisee and REALTOR® attraction and retention opportunities represented by displaying the listings of all participating REALTORS® on the Company's consumer-facing websites.

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

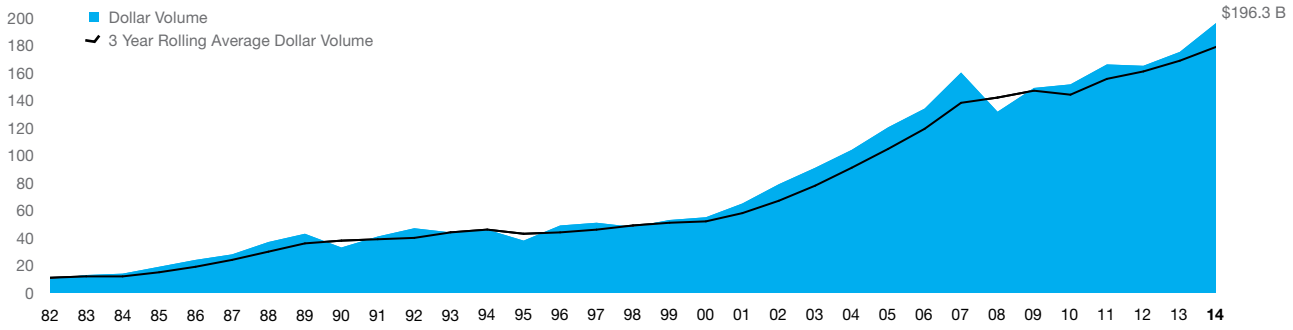
The Canadian Residential Real Estate Market

Since 1980, the Market has grown at a compound annual growth rate ("CAGR") of 9.7%. Over the last three years the Market has been relatively stable with a CAGR of 6% driven by a 1.5% increase in units and a 4.1% increase in selling price due in part to a combination of a low interest rate environment and government-mandated mortgage tightening rules. Over the last quarter century there have been three significant downturns, in each case the Market demonstrated its resilience by returning to pre-downturn levels within 24 months. These downturns occurred in 1990, 1995 and 2008 with durations of 13, 14 and 16 months and decreases of 26%, 21% and 19%, respectively.

During 2008 downturn the Market declined 19% during the 16 month period of February 2008 through May 2009 with the most significant downturn occurring in the fourth quarter of 2008, when the Market declined by 40% as compared to the same quarter in 2007. The Market began to gain momentum in early 2009 and gained further strength in the first half of 2010 due in part to consumers seeking to close home sales ahead of government-mandated changes to mortgage rules, anticipated increases in mortgage rates and the introduction of HST on July 1, 2010. The latter half of 2010 leveled off due in part the pull forward of demand as discussed above and set the stage for the relatively stable growth the Market has experienced since the end of 2010.

MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

(1982–2014) (In $billions)

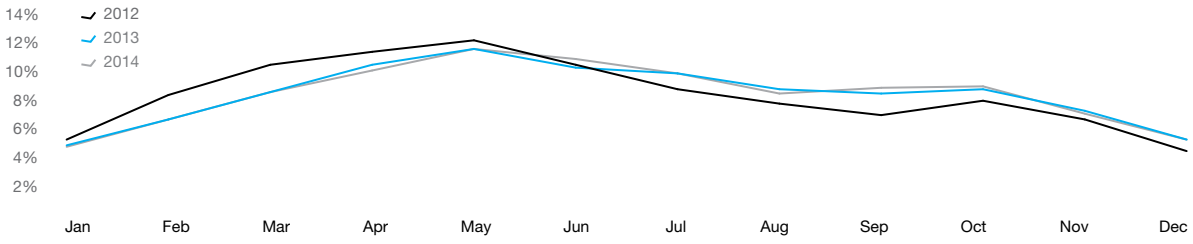


Source: CREA

The Company's royalty revenues are affected by the seasonality of the Market, which typically has stronger second and third quarters, as summarized in the chart below. The seasonality of the Market is in turn mitigated throughout the year by the fixed-fee nature of the Company's royalties, the acquisition of Franchise Agreements at the beginning of the year and in the latter part of the year by the Royal LePage Agents and Teams who have capped out under the 1%/$1,300 per annum variable fee.

Management's Discussion and Analysis of Results and Financial Condition

CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET
(% Transaction dollar volume by month)



Source: CREA and Company Management

Operating Results

Years ended December 31, ($ 000's) except REALTORS® and per share amounts	2014	2013
Royalties		
Fixed Franchise fees	$ 19,279	$ 18,941
Variable Franchise fees	8,560	8,116
Premium Franchise Fees	5,576	5,236
Other revenue and services	3,977	3,975
	37,392	36,268
Less:		
Administration	1,626	1,342
Management fee	6,469	6,677
Interest expense	3,419	3,040
	11,514	11,059
Cash flow from operations	25,878	25,209
Amortization of intangible assets	10,828	12,683
Impairment of intangible assets	2,384	1,391
Interest on Exchangeable Units	5,856	4,672
(Gain) loss on fair value of Exchangeable Units	(1,164)	2,429
Loss on interest rate swap	482	–
Loss (gain) on fair value of purchase obligation	955	(210)
Earnings before income taxes	6,537	4,244
Current income tax expense	(3,657)	(3,958)
Deferred income tax recovery	991	602
Net and comprehensive earnings	$ 3,871	$ 888
Basic earnings per share	$ 0.41	$ 0.09
Diluted earnings per share	$ 0.41	$ 0.09
Number of REALTORS®	15,377	15,310

As summarized in the table above, during the Year, the Company generated earnings before taxes of $6.5 million and CFFO of $25.9 million, compared to earnings before income taxes of $4.2 million and CFFO of $25.2 million for the same period in 2013.

The Company Network as at December 31, 2014 consisted of 15,377 REALTORS®, which includes 231 Broker-Owners and managers who do not pay fees. Approximately 93% of the Company Network of paying Agents are represented by our Franchisees operating under the per-Agent combined flat fee of $102 per month and 1% of gross earnings option (the "$102/1% option") and the balance approximate $170 per month flat fee.

Royalties for the Year totaled $37.4 million, compared to $36.3 million for the same period in 2013. Fixed, variable and premium Franchise fees together represented 89% of royalties (89% – 2013). Royalties increased due primarily to the larger Agent base, and the implementation of the two dollar increase in the Royal LePage monthly fixed fee.

Fixed Franchise fees for the Year increased by 1.8% as compared to the same period of 2013, due to increased fees from the larger Agent base and the implementation of the two dollar increase in the Royal LePage monthly fixed fee. The increase in the Agent base was due primarily to the acquisition of agreements representing 493 Agents at the beginning of the year, partially offset by attrition of 426 Agents.

Variable Franchise fees for the Year increased by 5.5%, which follows the increase in transaction dollar value of the Market driven by robust Toronto, Vancouver and Calgary markets, while other parts of the country experienced moderate increases to slight decreases in unit sales and selling prices.

Premium Franchise Fees are derived from the 23 Franchise locations servicing the GTA Market, which pay Premium Franchise Fees ranging from 1% to 5% of the location's gross revenue. Premium Franchise Fees for the Year have increased by 6.5%, which follows the increase in the underlying Market activity.

Other fees and services include home warranty fees, technology fees and other fees, which accounted for approximately 10.6% of total royalties for the Year. Other fees were substantially unchanged as compared to the same period in 2013.

Administration expenses of $1.6 million for the Year were up $0.3 million to compared 2013, as a result of the bad debt provisions recorded for certain Franchisees that are experiencing financial difficulties.

Management fee expense of $6.5 million for the Year, calculated in accordance with the MSA, was relatively flat compared to the same period in 2013, due primarily to increase in royalties being offset by the standardization of the Via Capitale management fee from 30% to 20% under the new MSA.

Interest expense consists of interest on the Company's former fixed-rate, $32.7 million private debt placement and variable-rate, $20.3 million credit facility; interest on the new $53 million Debt facility, $0.4 million in costs associated with the refinancing of the former debt arrangements and interest on the Company's purchase obligation. On October 27, 2014 the Company refinanced its $32.7 million private debt placement and $20.3 million credit facility with a $53 million Debt facility (See Debt Refinancing). The new $53 million Debt facility has a variable rate interest obligation which the Company swapped under contract to a fixed rate of 3.64%. The swap results in an annual interest obligation of $1.9 million which is approximately $1.0 million less than the estimated interest obligation for 2014 under the previous debt arrangements.

AMORTIZATION OF INTANGIBLE ASSETS

Intangible assets relate to the values attributed to the Franchise Agreements and Trademarks acquired by the Company since August 7, 2003. Franchise Agreements and trademarks are amortized on a straight-line basis over their expected useful life. Amortization during the Year totaled $10.8 million, a decrease of 15% from 2013 as older Franchise Agreements expire.

IMPAIRMENT OF INTANGIBLE ASSETS

During the Year, an impairment of $2.4 million was recorded to write down the carrying value of the terminated or impaired contracts. Terminated contracts represent Franchisees that are no longer with the Network, while impaired contacts represent Franchisees primarily from the province of Quebec that have experienced ongoing cash flow difficulties or collectability issues.

Interest on Exchangeable Units represents the targeted pre-tax distribution of $1.58 per annum, $0.40 per quarter paid to the Exchangeable Unitholders.

Loss on fair value of Exchangeable Units represents the change in fair value during the period of the underlying interest of the Exchangeable Units in the Company. As the Company's share price decreased in value during the Year, the Company recorded a gain of $1.2 million, for the resulting decrease in the fair value of the underlying Exchangeable Unit obligations

Loss on interest rate swap of $0.5 million is a non-cash item which results from the fair valuing of the five year interest rate swap the Company entered into on October 27, 2014 which fixed the annual interest rate on the Company's $53 million term debt at 3.64%. Since October 27th the cost of entering into a similar swap arrangement has decreased, which has resulted in the reported loss.

LOSS ON FAIR VALUE OF PURCHASE OBLIGATION

The Company recorded a $1.1 million increase in purchase obligation during the Year due primarily to the increased contract value of certain Franchisees that experienced financial and market improvement since the acquisition of these Franchise Agreements on January 1, 2014.

CURRENT INCOME TAX

In calculating current income taxes, earnings before income tax for the year is adjusted for the add-back of non-deductible items, which consist primarily of interest and fair value adjustments applicable to the Company's Exchangeable Units, amortization and intangible impairments; the deduction for income allocated to the Exchangeable Unitholders, who hold their ownership at the partnership level of the Company's structure; and changes in tax rates or filing positions.

The effective tax rate for the Year is 26.5% (2013 – 26.5%), which, after adjusting for the items noted earlier and the utilization of tax shields primarily attributable to the Company's Franchise Agreements, resulted in an overall tax provision of $2.8 million, consisting of a $3.7 million current income tax expense (2013 – $4.0 million) and a $1.0 million deferred income tax recovery (2013 – $0.6 million).

DEFERRED INCOME TAX

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at December 31, 2014, the Company's deferred tax asset was $5.9 million (December 31, 2013 – $4.9 million) and was calculated using an effective tax rate of 26.5% (2013 – 26.5%). During the Year, the Company recorded a $1.0 million deferred income tax recovery (2013 – $0.6 million). The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

A summary of the tax pools available to the Company are summarized as follows:

COMPANY TAX POOLS

($ millions) Future Deduction Basis	Balance December 31, 2014	Estimated Addition for 2015	Estimated Deduction for 2015	Estimated Balance December 31, 2015
7% of Balance	$ 68.6	$ 7.7	$ 5.3[1]	$ 71.0
5 Year Straight-Line	$ 0.2	–	–	$ 0.2
	$ 68.8	$ 7.7	$ 5.3	$ 71.2

[1] This estimated deduction for 2015 is calculated as 7% of the sum of the remaining balance as of December 31, 2014 and the tax effected estimated addition for 2015.

CASH FLOW FROM OPERATIONS

For the Year, the Company generated CFFO of $2.02 per restricted voting share, as compared to $1.97 CFFO generated during the same period of 2013 (see Overview of 2014 Operating Results). A summary of the Company's CFFO generated over the last eight quarters is presented in the table below.

ROLLING TWELVE-MONTH CASH FLOW FROM OPERATIONS

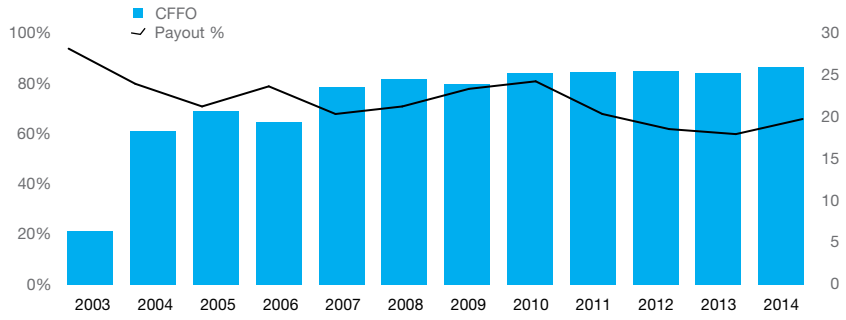
Twelve months ended	2014				2013			
($ 000's) except per share amounts	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Royalties	**$ 37,392**	$ 37,140	$ 36,478	$ 36,352	$ 36,268	$ 36,014	$ 36,110	$ 36,363
Less:								
Administration	**1,626**	1,327	1,118	1,325	1,342	1,786	1,912	1,180
Interest expense	**3,419**	3,080	3,067	3,092	3,040	3,014	2,987	2,955
Management fee	**6,469**	6,624	6,609	6,620	6,677	6,553	6,564	6,772
	25,878	26,109	25,684	25,315	25,209	24,661	24,647	25,456
Cash flow from operations per share	**$ 2.02**	$ 2.04	$ 2.00	$ 1.98	$ 1.97	$ 1.92	$ 1.92	$ 1.99

The Company's operations have been a significant source of capital, with $263.5 million of CFFO generated since inception, of which $188.5 million has been paid to the public shareholders and Exchangeable Unitholders. Of the remaining $75.0 million retained by the Company, $52.4 million has been invested in Franchise Agreements that earn attractive returns, $4.1 million was used to purchase units of the Company in 2008 and 2009 and the balance to pay income taxes and fund net working capital requirements. Also see Supplemental Information – Cash Flow Operations.

The chart below presents a summary of the CFFO generated by the Company since inception and the percentage payout of these amounts to shareholders and the Exchangeable Unitholders of the Company in the form of dividends to shareholders and interest to the Exchangeable Unitholders.

CASH FLOW FROM OPERATIONS

Years ended December 31 in $ millions



Management's Discussion and Analysis of Results and Financial Condition

The tables below presents a summary of the main elements of the Company's performance, which assist in assessing the sustainability of the Company's cash distributions from CFFO reconciled to operating activities, as presented in the Consolidated Statements of Cash Flows. See Supplemental Information – Cash Flow from Operations for CFFO from inception to date, reconciled to operating activities, as presented in the Consolidated Statements of Cash Flows.

CASH FLOW FROM OPERATIONS AND ITS UTILIZATION

Years ended December 31, ($ 000's)	2014	2013
Royalties	**$ 37,392**	$ 36,268
Less:		
Administration expenses	**1,626**	1,342
Management fee	**6,469**	6,677
Interest expense	**3,419**	3,040
Cash flow from operations	**25,878**	25,209
Less:		
Dividends to shareholders	**11,305**	10,471
Interest on Exchangeable Units	**5,856**	4,672
Total dividends and interest	**17,161**	15,143
Cash flow from operations less dividends to shareholders and interest on Exchangeable Units	**8,717**	10,066
Less: funding of acquisitions	**5,998**	5,854
Net change in the year	**$ 2,719**	$ 4,212

CASH FLOW FROM OPERATIONS RECONCILED TO CASH FLOW FROM OPERATING ACTIVITIES

Years ended December 31, ($ 000's)	2014	2013
Cash flow from operating activities	**$ 17,104**	$ 14,965
Add (deduct):		
Interest on Exchangeable Units	**5,856**	4,672
Income taxes paid	**3,201**	4,046
Changes in non-cash working capital items	**127**	996
Interest expense	**(9,275)**	(7,602)
Interest paid	**8,865**	8,132
Cash flow from operations	**$ 25,878**	$ 25,209

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

CFFO does not have a standardized meaning under IFRS and, accordingly, may not be comparable to similar measures used by other issuers. Management believes that CFFO is a useful supplemental measure of performance as it provides investors with an indication of the amount of pre-tax cash generated from operations and available to restricted voting shareholders and Exchangeable Unitholders and to meet tax cash payments. Investors are cautioned, however, that CFFO should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the table under Supplemental Information – Cash Flow From Operations for a reconciliation of CFFO.)

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

Debt Financing

From January 1, 2014 to October 27, 2014 the Company's $53 million of Debt facilities were comprised of a $32.7 million private debt placement with a number of institutional investors with a fixed rate of interest of 5.809% and a $20.3 million term facility with a Canadian Institution, with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker Acceptance rates plus 3%, with terms up to six months. These Debt facilities were to mature on February 15, 2015. In addition the Company had a $2 million operating line provided by a single Canadian financial institution, which was undrawn.

On October 27, 2014 the Debt facilities and operating line were refinanced with a five year, $68 million financing package provided by Canadian Imperial Bank of Commerce Business Banking. These Debt facilities mature on February 17, 2020 and are comprised of the following three arrangements:

- A $53 million non-revolving term variable rate facility, replacing the current $53 million term facility which was to mature on February 17, 2015. This facility bears a variable interest rate of Banker's Acceptances (BAs) +1.70% or Prime + 0.5%, which the Company has swapped to a fixed rate of 3.64%, payable monthly. The swap contract matures on October 28, 2019.
- A $10 million non-revolving acquisition facility to support acquisitions pursued by the Company, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%. A standby fee of 0.15% applies on undrawn amounts under this facility.
- A $5 million revolving operating facility to meet the Company's day-to-day operating requirements, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 (unchanged from the previous financing) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1 (up from 2.25 to 1). Consolidated EBITDA is defined as earnings (loss) before tax, interest, interest on Exchangeable Unit, gain (loss) on fair value of Exchangeable Unit and gain (loss) on purchase obligation adjustment.

As part of retiring the $32.7 million private debt placement before the February 15, 2015 maturity date, the Company in accordance with the underlying debt arrangements, incurred an additional $0.4 million of early retirement interest and financing charges.

The annual interest of $1.9 million represented by the swap of the interest rate obligation to a 3.64% fixed rate on the new $53 million non-revolving term fixed rate represents an approximate $1.0 million reduction in annual interest charges as compared to what the Company would have recorded under the prior $53 million Debt facilities for 2014.

Management's Discussion and Analysis of Results and Financial Condition

Fourth Quarter Review

SUMMARY OF QUARTERLY RESULTS

Three months ended	2014				2013			
($ 000's) except Agents, Sales Representatives and per share amounts	**Dec. 31**	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Royalties								
Fixed Franchise fees	**$ 4,814**	$ 4,813	$ 4,913	$ 4,739	$ 4,719	$ 4,725	$ 4,726	$ 4,771
Variable Franchise fees	**1,457**	2,793	2,582	1,728	1,399	2,469	2,594	1,654
Premium Franchise Fees	**1,364**	2,153	1,268	791	1,285	1,913	1,314	724
Other revenue and services	**949**	1,036	1,102	890	929	1,026	1,105	915
	8,584	10,795	9,865	8,148	8,332	10,133	9,739	8,064
Less:								
Administration	**339**	602	431	254	40	393	638	271
Management fee	**1,431**	1,883	1,730	1,425	1,586	1,868	1,741	1,482
Interest expense	**1,089**	777	782	771	750	764	807	719
Cash flow from operations	**5,725**	7,533	6,922	5,698	5,956	7,108	6,553	5,592
Interest on Exchangeable Units	**1,318**	1,318	1,950	1,270	1,168	1,168	1,168	1,168
(Gain) loss on fair value of Exchangeable Units	**(2,928)**	(399)	(2,629)	4,792	(499)	4,325	(2,096)	699
Loss on interest rate swap	**482**							
Loss (gain) on fair value of purchase obligation	**260**	218	(420)	897	343	(203)	(138)	(212)
Amortization of intangible assets	**2,510**	2,633	2,743	2,942	2,882	3,211	3,259	3,331
Impairment of intangible assets	**1,096**	538	681	69	909	94	–	388
Earnings (loss) before income taxes	**2,987**	3,225	4,597	(4,272)	1,153	(1,487)	4,360	218
Current income tax expense	**836**	1,198	794	829	887	1,134	1,096	841
Deferred income tax recovery	**(298)**	(190)	(210)	(293)	(303)	(109)	(110)	(80)
Net and comprehensive income	**$ 2,449**	$ 2,217	$ 4,013	$ (4,808)	$ 569	$ (2,512)	$ 3,374	$ (543)
Basic earnings (loss) per share	**$ 0.26**	$ 0.23	$ 0.42	$ (0.51)	$ 0.06	$ (0.26)	$ 0.36	$ (0.06)
Diluted earnings (loss) per share	**$ 0.26**	$ 0.23	$ 0.26	$ (0.51)	$ 0.06	$ (0.26)	$ 0.19	$ (0.06)
Cash flow from operations per share (on a diluted basis)	**$ 0.45**	$ 0.59	$ 0.54	$ 0.44	$ 0.46	$ 0.55	$ 0.51	$ 0.44
Number of Agents and Sales Representatives	**15,143**	15,362	15,462	15,437	15,068	15,203	15,252	15,311
Number of REALTORS®	**15,377**	15,593	15,697	15,685	15,310	15,451	15,499	15,558

As summarized in the table above, during the Quarter the Company generated net income before income taxes of $3.0 million, CFFO of $5.7 million, and Net and comprehensive income of $2.5 million as compared to net income before income taxes of $1.2 million, CFFO of $6.0 million and net and comprehensive income of $0.6 million for the same period in 2013. A discussion of the operating results highlights for the Quarter follows:

Royalties for the Quarter of $8.6 million were up $0.3 million or 3.0% due primarily to the following and as described in Overview of 2014 Operating Results.

Fixed Franchise fees for the Quarter were up 2.0% ($0.1 million) over the same period in 2013, primarily due to an increase in Agents as a result of the acquisition of Franchise Agreements and addendums and the implementation of a $2 increase in the Royal LePage monthly fee at the beginning of the year, partially offset by the continued non-recognition of approximately $0.2 million of fees associated with non-performing Franchisees that are experiencing financial challenges.

Variable Franchise fees for the Quarter were up 4.1% ($0.1 million) from the same period in 2013, as compared to an 11.9% increase in the Canadian Market for the same period, due in part to the capping of the underlying Gross Commission Income and the Lag Effect described earlier.

Premium Franchise Fees for the Quarter were up 6.1% ($0.1 million) from the same period in 2013. However, this increase has not kept pace with the underlying growth in the Market as competitive offerings have captured a larger proportion of the increase in the Market activity.

Other revenue and services for the Quarter were relatively flat compared to the same period in 2013.

Administration expense for the Quarter of $0.3 million was $0.3 higher than the same period in 2013, due primarily to the recovery of previously written off receivables in the last quarter of 2013.

Management fees for the Quarter, calculated in accordance with the terms of the MSA, was $1.4 million, down $0.2 million – 10% from the same period in 2013 as the increased royalties were offset by the reduction of the Via Capitale management fee from 30% to 20% under the new MSA.

Interest expense for the Quarter was $1.1 million, an increase of $0.3 million over the same period of 2013 due primarily to costs associated with refinancing the Company's debt obligations as previously described.

Loss on interest rate swap of $0.5 million or the quarter is a non-cash item which results from the fair valuing of the five year interest rate swap the Company entered into on October 27, 2014 which fixed the annual interest rate on the Company's $53 million term debt at 3.64% as previously described.

Liquidity

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

The estimated contractual liabilities and their dates of maturity are summarized in the chart below.

	2015	2016	2017	Beyond 2017	Total
Accounts payable and accrued liabilities	$ 1,100	$ –	$ –	$ –	$ 1,100
Purchase obligation	2,150	107	20	–	2,277
Interest payable to Exchangeable Unitholders	423	–	–	–	423
Dividends payable to shareholders	948	–	–	–	948
Interest on long-term debt	1,929	1,929	1,929	4,100	9,887
Long-term debt	–	–	–	53,000	53,000
Exchangeable Units	–	–	–	43,260	43,260
Total	$ 6,550	$ 2,036	$ 1,949	$ 100,360	$ 110,895

During the Year working capital decreased by $2.3 million from a $5.6 million positive working capital position as at December 31, 2013 to $3.3 million at the end of 2014 primarily as a result of:

- A net $1.2 million increase in purchase obligation and associated HST for the acquisition of Franchise Agreements and addendums on January 1, 2014; and
- The use of $0.6 million of cash on hand and $16.8 million of cash generated from operating activities to meet purchase obligation and stakeholder dividend and distribution requirements.

Management's Discussion and Analysis of Results and Financial Condition

A summary of the Company's working capital is presented below:

WORKING CAPITAL

Year ended ($ 000's)	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Change in quarter	Change in year
Current assets							
Cash and cash equivalents	**$ 3,052**	$ 2,266	$ 537	$ 674	$ 3,633	$ 786	$ (581)
Accounts receivable and notes receivable	**5,034**	5,371	7,358	5,760	5,321	$ (337)	$ (287)
Income tax receivable	**–**	–	332	327	148	$ –	$ (148)
Prepaid expenses	**119**	142	62	89	90	$ (23)	$ 29
	$ 8,205	$ 7,779	$ 8,289	$ 6,850	$ 9,192	$ 426	$ (987)
Current liabilities							
Accounts payable and accrued liabilities	**$ 1,100**	$ 1,120	$ 1,752	$ 1,695	$ 1,384	$ (20)	$ (284)
Debt facilities	**–**	52,925	52,877	52,829		$ (52,925)	$ –
Purchase obligation – current portion	**2,150**	1,882	4,180	4,626	974	$ 268	$ 1,176
Current income tax liability	**308**	375	–	–	–	$ (67)	$ 308
Interest payable to Exchangeable Unitholders	**423**	423	423	423	389	$ –	$ 34
Dividends payable to shareholders	**948**	948	948	948	872	$ –	$ 76
	4,929	57,673	60,180	60,521	3,619	(52,744)	1,310
Net working capital	**$ 3,276**	$ (49,894)	$ (51,891)	$ (53,671)	$ 5,573	$ 53,170	$ (2,297)

Capital Resources

The existing capital resources that the Company can draw upon as at the date of this MD&A is a $5 million operating line and a $10 million non-revolving acquisition line. In January 2015, $8 million of the $10 million acquisition line was drawn to meet Franchise contract purchase obligations. Other capital resources include funds generated from operations, debt servicing, dividend and Exchangeable Unit requirements and financing for the acquisition of Franchise Agreements.

Off-Balance Sheet Arrangements

The Company has no off–balance sheet arrangements.

Transactions With Related Parties

As at the date of this MD&A, the Company's interests are ultimately controlled approximately 71.6% by the public and 28.4% by BAM. BAM primarily derived its ownership interest in the Company through the sale of its interest in certain assets to the Company at its inception. These assets included the Trademarks and Franchise Agreements related to the business of its Royal LePage residential resale real estate brokerage Franchise operations.

BAM operates 27 corporately owned Royal LePage residential brokerage locations. These locations are serviced by 1,860 Agents with 1,400 Agents operating out of 17 locations situated in the GTA Market and 450 Agents operating from 10 locations situated in the Vancouver mainland Market. The Vancouver operations are represented by 190 Agents acquired through the acquisition of an existing Independent Royal LePage Franchisee in the fourth quarter of 2013 and 270 Agents acquired through the acquisition and conversion of a competing Franchise operation during the Quarter. It is the Manager's intention to present the Franchise Agreement representing the operation which was converted in the Quarter to the Company for acquisition.

All of these operations operate under Franchise Agreements with the standard $102/1% option. The GTA based locations are up for renewal in 2023, while the Vancouver mainland based operations are under the standard Franchise Agreement ten year terms with five year renewal terms from their date of signing. Included in the GTA based Franchise Agreement is an additional premium fee ranging from 1% to 5% for 16 of the 17 location's gross commission income to August 2018.

The management of the Company and its underlying structure has been provided by the current Manager under an MSA since the Company's inception as an Income Trust in 2003. The Manager is a company controlled by the Exchangeable Unitholders. On June 28, 2013, the Company entered into a new MSA. The new MSA was effective January 1, 2014, with an initial five-year term and a provision for the automatic renewal of successive five-year terms. Under the new MSA: (1) the management fee has been standardized to 20% across all brands, as compared to 20% for Royal LePage and 30% for Via Capiale under the previous MSA; (2) the Manager can earn a new incentive fee for organic growth, which closely aligns the Manager and the Company's goals with growing the underlying network of Agents, with the fee being calculated in accordance with the formula for incremental Franchise based on the average annual royalty fees per Agent; (3) the Manager has the ability to sell other branded Canadian Franchises to the Company; and (4) the following three changes were made to the manner in which amounts paid to the Manager for incremental Franchise contracts are determined: (i) the accretion factor was standardized to 7.5%, (ii) the final purchase price is based on the average annual royalties earned over one year for existing brands and two years for new brands (iii) the 20% holdback on the initial purchase price for the incremental Franchise contracts is paid over one year for existing brands and two years for new brands. All other terms of the new MSA remain substantially unchanged from the previous MSA. The differences from the previous MSA in respect of the three changes made to the incremental Franchise contract calculation noted above are as follows: (1) the Via Capitale accretion factor was 10%, (2) the final purchase price for the contracts was based on the average annual royalties earned over one year for Royal LePage and three years for Via Capitale and (3) the 20% holdback on the initial purchase price for Royal LePage incremental Franchise contracts was paid after the end of the first year and evenly over three years for Via Capitale.

On January 1 of each year, the Company may, upon approval by the Independent Board of Directors and criteria detailed in the MSA, purchase Royal LePage and Via Capitale Franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company, at the option of the Company; 80% is paid on acquisition and the remaining 20% a year later, when the actual Franchise fees are determined, and the acquisition calculations adjusted accordingly.

On January 1 of each year, the Company may, upon approval by the Independent Directors and criteria established by the Board of Directors, purchase Franchises of other brands acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or shares of the Company at the option of the Company; 80% is paid on acquisition and the remaining 20% evenly over two years, when the actual Franchise fees are determined, and the acquisition calculations are adjusted accordingly.

The related party transactions entered into by the Company were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts can be found in Note 13 of the Consolidated Financial Statements.

On January 1, 2014, the Partnership acquired 45 new Royal LePage Franchise Agreements and addendums from the Manager at an estimated purchase price of $6,059. A payment of $4,847, equal to 80% of the estimated purchase price, was due and paid during 2014, and the remainder is to be paid in 2015, when the final purchase price is determined. Any subsequent changes to the value of the estimated purchase price are recognized in the Consolidated Statements of Earnings and Comprehensive Earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. Any unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA.

On January 1, 2014, VCLP acquired one new Via Capitale Franchise Agreement from the Manager at an estimated purchase price of $193. A payment of $154, equal to 80% of the estimated purchase price, was due on January 1, 2014, and the remainder is to be paid over the next three years. Until the final purchase price is determined, the estimated price is to be revised over a three-year period from November 1, 2013 to October 31, 2016, based on the average annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price are recognized in the Consolidated Statements of Earnings and Comprehensive Earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. Any unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA.

On January 1, 2015 the Company through the Partnership and VCLP acquired Franchise Agreements and addendums for $10.2 million that represented 40 real estate operations comprising 848 agents generating approximately $1.5 million in annual royalties. Under terms of the MSA, 80% of the purchase price and applicable taxes were due on January 1, 2015. The Company satisfied this obligation through cash on hand and a drawdown of $8 million on the Company's $10 million acquisition line. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA.

Critical Accounting Estimates and Assumptions

Substantially all of the Company's activities are based on cash transactions, with revenue and expenditures based on contracted terms. The operating activities not based on contractual terms include the Company's administration costs, and the amortization period of intangible assets. The Company's administration costs of approximately $1.1 million per annum relate to the Company's public reporting, regulatory and insurance costs.

The Company's intangible assets are continuously monitored for indication of impairment in the carrying value of these assets. A change in the carrying value would affect the net earnings of the Company but would have no direct cash flow implications.

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

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the impairment of intangible assets, determining the useful life of intangible assets, assessing the recoverability of accounts receivable, measurement of deferred taxes, measurement of the fair values of purchase obligation (receivable) and Exchangeable Units and fair values used for disclosure purposes.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods, and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments that have been made in applying the Company's accounting policies and that have the most significant effect on the amounts in the financial statements:

ACCOUNTING FOR FRANCHISE AGREEMENTS

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

IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

Under IAS 36, *Impairment of Assets*, the Company needs to ensure that the intangible assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value-in-use). The critical judgment made in impairment charges for intangible asset is determining whether there is any indication that a particular Franchise Agreement is potentially impaired. Management has identified a number of items that are important to the operating profitability of Franchisees and use them to assist in determining impairment indicators. These factors include aging of receivables, agent count, known financial difficulties, health concerns, non-compliance with contractual obligation and the underlying market conditions.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities, purchase obligation, Interest rate contract ,current income tax liability, interest payable to Exchangeable Unitholders, dividends payable to shareholders,$53 million Debt facility (2013 – $32.7 million private debt placement, a $20.3 million term facility), Exchangeable Unit liability, $10 million acquisition facility (2013 – $nil)and a $5 million operating credit facility (2013 – $2 million).

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

The Company has entered into an interest rate swap arrangement to fix the interest rate on the Company's $53 million non-revolving term Debt at 3.64% to October 28, 2019. As the Company's $53 million non-revolving term Debt has a maturity date of February 17, 2020 the Company is exposed to interest rate risk from the period of October 29, 2019 to February 17, 2020 to the extent the debt is outstanding at that time.

The Company is exposed to the risk of interest rate fluctuations on its $10 million non-revolving acquisition facility and $ 5 million Revolver as the interest rate on these facilities are tied to prime and Banker Acceptance rates. Both of these facilities were undrawn as at December 31, 2014.

Disclosure Controls and Internal Controls

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

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at December 31, 2014. The Company's management can therefore provide reasonable assurance that it receives material information relating to the Company in a timely manner so that it can provide investors with complete and reliable information.

INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2014. The design of ICFR is undertaken in accordance with the 1992 COSO framework. During 2015 it is management's intention to undertake the assessment, planning and implementation of the 2013 COSO framework as it relates to the Company's ICFR.

Management's Discussion and Analysis of Results and Financial Condition

Outstanding Restricted Voting Shares

The Company is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. Effective December 31, 2010, 9,483,850 Restricted Voting Shares were issued in exchange for 9,483,850 Partnership units outstanding, and one special voting share was issued in exchange for all special Trust units outstanding before the Company's Conversion from an Income Trust. These Restricted Voting Shares and special voting share remain unchanged at December 31, 2014.

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

The special voting share was issued to replace all of the special Fund units outstanding prior to the Conversion. Special Partnership units represent the proportionate voting rights of Exchangeable Unitholders in the Company. The holders can redeem them at $0.01 per share; they are not entitled to dividends declared by the Company. No additional restricted voting shares were issued during the Year.

Company Structure

The Company is governed by a Board of Directors (the "Board") and consists of a corporation General Partner and Limited Partnership ("LP") structure.

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

Risk Factors

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

Market Outlook

In the final quarter of 2014 most Canadian provinces experienced modest year-over-year house price appreciation, while select markets in Toronto and Vancouver saw continued steep price increases. We expect the rapid drop in the value of oil will indirectly impact housing markets across the country. In central Canada, the correspondingly lower Canadian dollar and stimulative effect of lower fuel costs are expected to lift the export sector, buoy consumer spending and be generally supportive of the residential real estate industry. In the energy producing provinces of Alberta, Saskatchewan and Newfoundland, we expect to see lower consumer confidence and expect that low priced oil will be a drag on the market, firstly through lower transaction volumes, followed by softness in home prices. The Bank of Canada's move to lower the bank rate is expected to mitigate the negative impact of lower energy prices in the energy producing regions, and to further strengthen housing activity in other regions.

Forward-Looking Statements

This MD&A and other content of this Financial Review report contain forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set out in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; the average rate of commissions charged; competition from other traditional real estate brokers or from discount and/or Internet-based real estate alternatives; the availability of acquisition opportunities and/or the closing of existing real estate offices; other developments in the residential real estate brokerage industry or the Company

that reduce the number of and/or royalty revenue from the Company's REALTORS®; our ability to maintain brand equity through the use of Trademarks; the availability of equity and debt financing; a change in tax provisions; and other risks detailed in the Company's Annual Information Form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Supplemental Information – Net Earnings and Cash Flow From Operations for the Period

Three months ended ($ 000's, unaudited)	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Royalties	$ 8,064	$ 9,739	$ 10,133	$ 8,332	$ 8,148	$ 9,865	$ 10,795	**$ 8,584**
Less:								
Administration	271	638	393	40	254	431	602	**339**
Management fee	1,482	1,741	1,868	1,586	1,425	1,730	1,883	**1,431**
Interest expense	719	807	764	750	771	782	777	**1,089**
Cash flow from operations	5,592	6,553	7,108	5,956	5,698	6,922	7,533	**5,725**
Interest on Exchangeable Units	1,168	1,168	1,168	1,168	1,270	1,950	1,318	**1,318**
Loss (gain) on fair value of Exchangeable Units	699	(2,096)	4,325	(499)	4,792	(2,629)	(399)	**(2,928)**
Loss on interest rate swap								**482**
Loss (gain) on fair value of purchase obligation	(212)	(138)	(203)	343	897	(420)	218	**260**
Amortization of intangible assets	3,331	3,259	3,211	2,882	2,942	2,743	2,633	**2,510**
Impairment of intangible assets	388	–	94	909	69	681	538	**1,096**
Earnings (loss) before taxes	218	4,360	(1,487)	1,153	(4,272)	4,597	3,225	**2,987**
Current income tax expense	(841)	(1,096)	(1,134)	(887)	(829)	(794)	(1,198)	**(836)**
Deferred income tax recovery	80	110	109	303	293	210	190	**298**
Net income	(543)	3,374	(2,512)	569	(4,808)	4,013	2,217	**2,449**
Add :								
Amortization of intangible assets	3,331	3,259	3,211	2,882	2,942	2,743	2,633	**2,510**
Impairment of intangible assets	388	–	94	909	69	681	538	**1,096**
Current income tax expense	841	1,096	1,134	887	829	794	1,198	**836**
Deferred income tax recovery	(80)	(110)	(109)	(303)	(293)	(210)	(190)	**(298)**
Interest on Exchangeable Units	1,168	1,168	1,168	1,168	1,270	1,950	1,318	**1,318**
Loss (gain) on fair value of Exchangeable Units	699	(2,096)	4,325	(499)	4,792	(2,629)	(399)	**(2,928)**
Loss (gain) on fair value of purchase obligation	(212)	(138)	(203)	343	897	(420)	218	**260**
Cash flow from operations	5,592	6,553	7,108	5,956	5,698	6,922	7,533	**5,243**
Less change in:								
Unutilized cash	(1,806)	(2,767)	(3,322)	(2,170)	(1,583)	(2,127)	(3,370)	**(1,079)**
Cash required for dividends	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 4,115	$ 4,795	$ 4,163	**$ 4,164**
Cash flow from operations available to:								
Public shareholders	$ 2,618	$ 2,618	$ 2,618	$ 2,618	$ 2,845	$ 2,845	$2,845	**$ 2,846**
Non-controlling interest	1,168	1,168	1,168	1,168	1,270	1,950	1,318	**1,318**
	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 4,115	$ 4,795	$ 4,163	**$ 4,164**

Supplemental Information – Selected Financial and Operating Information

Three months ended ($000's, unaudited)	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Revenue								
Fixed Franchise fees	$ 4,771	$ 4,726	$ 4,725	$ 4,719	$ 4,739	$ 4,913	$ 4,813	**$ 4,814**
Variable Franchise fees	1,654	2,594	2,469	1,399	1,728	2,582	2,793	**1,457**
Premium Franchise Fees	724	1,314	1,913	1,285	791	1,268	2,153	**1,364**
Other fee revenue and services	915	1,105	1,026	929	890	1,102	1,036	**949**
	$ 8,064	$ 9,739	$ 10,133	$ 8,332	$ 8,148	$ 9,865	$ 10,795	**$ 8,584**
% Revenue by region								
British Columbia	10	10	11	10	10	10	10	**10**
Prairies	10	10	10	10	10	11	11	**11**
Ontario	59	60	59	59	59	59	59	**59**
Quebec	18	17	17	18	17	16	16	**16**
Maritimes	3	3	3	3	4	4	4	**4**
	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Number of REALTORS®	472	(59)	(48)	(141)	375	12	(104)	**(216)**
Number of Agents and Sales Representatives	469	(59)	(49)	(135)	369	25	(100)	**(219)**
Number of locations	23	(6)	(4)	(42)	19	(10)	(2)	**3**
At end of period								
Number of REALTORS®	15,558	15,499	15,451	15,310	15,685	15,697	15,593	**15,377**
Number of Agents and Sales Representatives	15,311	15,252	15,203	15,068	15,437	15,462	15,362	**15,143**
Number of locations	679	673	669	627	646	636	634	**637**
Number of Franchise Agreements				307	313	308	306	**302**

Supplemental Information – Distributions/Dividends History

	Dividends Declared per Share											
Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**
January		$ 0.0917	$ 0.0917	$ 0.0958	$ 0.1000	$ 0.1040	$ 0.1170	$ 0.1170	$ 0.0920	$ 0.0920	$ 0.0920	**$ 0.10**
February		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
March		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
April		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
May		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
June		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
July		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
August		0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
September	$ 0.1789[1]	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
October	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
November	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	0.0920	**0.10**
December	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1570	0.3170	0.0920	0.0920	0.0920	**0.10**
	$ 0.45	$ 1.10	$ 1.10	$ 1.15	$ 1.20	$ 1.31	$ 1.44	$ 1.60	$ 1.10	$ 1.10	$ 1.10	**$ 1.20**

[1] September 2003 is based on a 55-day period

Supplemental Information – Share and Exchangeable Unit Performance

Three months ended	Dec. 31, 2012	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Trading price range of units (TSX: "BRE")									
High	$ 13.07	$ 13.30	$ 13.10	$ 13.92	$ 14.03	$ 14.99	$ 14.95	$ 14.26	**$ 14.08**
Low	$ 11.71	$ 12.52	$ 12.02	$ 12.40	$ 13.10	$ 13.25	$ 13.95	$ 13.65	**$ 12.90**
Close	$ 12.62	$ 12.83	$ 12.20	$ 13.50	$ 13.35	$ 14.79	$ 14.00	$ 13.88	**$ 13.00**
Average daily volume	13,377	17,596	11,156	8,939	9,441	5,964	7,735	13,254	**14,139**
Number of units outstanding at period end	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	**9,483,850**
Net enterprise value at Period end (thousands)									
Market capitalization	$ 161,681	$ 164,372	$ 156,301	$ 172,955	$ 171,034	$ 189,482	$ 179,361	$ 177,824	**$ 166,550**
Debt facilities	52,602	52,645	52,691	52,736	52,782	52,829	52,877	52,925	**52,760**
Less:									
Cash on hand	5,103	460	2,317	2,939	3,633	674	537	2,266	**3,052**
	$ 209,180	$ 216,557	$ 206,675	$ 222,752	$ 220,183	$ 241,637	$ 231,701	$ 228,483	**$ 216,258**

Supplemental Information – Canadian Residential Resale Real Estate Market

Three months ended	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Canada								
Transaction dollar volume[1]	$ 34,808	$ 56,229	$ 47,104	$ 36,988	$ 38,682	$ 63,396	$ 52,913	**$ 41,356**
Average selling price	$ 369,460	$ 385,444	$ 382,262	$ 390,988	$ 399,921	$ 413,394	$ 403,306	**$ 414,040**
Number of units sold	94,187	145,881	123,224	94,601	96,725	153,355	131,199	**99,883**
Number of REALTORS® at period end	107,077	107,812	108,196	108,278	108,706	109,378	109,965	**110,821**
Housing starts	33,477	44,026	46,899	45,732	32,042	48,784	47,653	**43,436**
Greater Toronto Area								
Transaction dollar volume[1]	$ 9,089	$ 15,499	$ 12,149	$ 9,879	$ 9,854	$ 17,884	$ 13,836	**$ 11,267**
Average selling price	$ 507,787	$ 533,455	$ 516,451	$ 534,896	$ 549,061	$ 577,555	$ 556,803	**$ 577,292**
Number of units sold	17,899	29,054	23,524	18,469	17,947	30,965	24,849	**19,517**
Housing starts	6,695	8,583	8,233	10,036	7,090	8,558	6,621	**11,278**

Twelve months ended	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	**Dec. 31, 2014**
Canada								
Transaction dollar volume[1]	$ 160,217	$ 160,765	$ 169,296	$ 175,129	$ 179,003	$ 186,170	$ 191,979	**$ 196,347**
Average selling price	$ 364,502	$ 368,355	$ 375,901	$ 382,466	$ 388,773	$ 397,879	$ 403,420	**$ 408,068**
Number of units sold	439,551	436,440	450,374	457,893	460,431	467,905	475,880	**481,162**
Housing starts	208,402	190,403	176,964	170,134	168,699	173,457	174,211	**171,915**
Seasonally adjusted housing starts	175,191	199,586	193,637	189,672	156,823	198,185	197,343	**180,560**
Greater Toronto Area								
Transaction dollar volume[1]	$ 41,870	$ 42,129	$ 44,787	$ 46,616	$ 47,381	$ 49,766	$ 51,453	**$ 52,841**
Average selling price	$ 501,844	$ 508,981	$ 516,394	$ 524,092	$ 532,407	$ 547,451	$ 557,877	**$ 566,489**
Number of units sold	83,432	82,771	86,730	88,946	88,994	90,905	92,230	**93,278**
Housing starts	45,830	41,677	36,711	33,547	33,942	33,917	32,305	**33,547**

Source: CREA
[1] ($ millions)

Supplemental Information – Cash Flow From Operations

Cash flow from operations and its utilization since Company inception ($ 000's)	Total	Year ended Dec. 31, 2014	IFRS Year ended Dec. 31, 2013	IFRS Year ended Dec. 31, 2012	IFRS Year ended Dec. 31, 2011	IFRS Year ended Dec. 31, 2010	Canadian GAAP Aug.7, 2003 to Dec. 31, 2009
Royalties	$ 374,659	$ 37,392	$ 36,268	$ 36,519	$ 36,720	$ 36,630	$ 191,130
Less:							
Administration	12,159	1,626	1,342	1,361	1,667	1,771	4,392
Interest expense	30,794	3,419	3,040	2,961	3,042	2,900	15,432
Management fee	68,222	6,469	6,677	6,772	6,747	6,713	34,844
Cash flow from operations	263,484	25,878	25,209	25,425	25,264	25,246	136,462
Less:							
Dividends to shareholders	136,935	11,305	10,471	10,471	12,605	15,212	76,871
Interest/dividends to Exchangeable Unitholder/ non-controlling interest	51,636	5,856	4,672	5,272	4,672	5,337	25,827
Total dividends	188,571	17,161	15,143	15,743	17,277	20,549	102,698
Cash flow from operations less total dividends	74,913	8,717	10,066	9,682	7,987	4,697	33,764
Less: Funding of acquisitions	52,438	5,998	5,854	2,965	6,062	6,415	25,144
Less: Purchase of units under NCIB	4,096	–	–	–	–	–	4,096
Net change in the Period	$ 18,379	$ 2,719	$ 4,212	$ 6,717	$ 1,925	$ (1,718)	$ 4,524
Taxes and working capital	(15,327)	(3,300)	(5,682)	(7,207)	(2,004)	548	2,318
Change in period	$ 3,052	$ (581)	$ (1,470)	$ (490)	$ (79)	$ (1,170)	$ 6,842
Cash balance, beginning of Period	–	$ 3,633	$ 5,103	$ 5,593	$ 5,672	$ 6,842	–
Cash balance, end of Period	$ 3,052	$ 3,052	$ 3,633	$ 5,103	$ 5,593	$ 5,672	$ 6,842
Dividends percentage payout[1]	72%	66%	60%	62%	68%	81%	75%

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

Cash flow from operations Reconciled to cash flow from operating activities ($ 000's)	Total	Year ended Dec. 31, 2014	IFRS Year ended Dec. 31, 2013	IFRS Year ended Dec. 31, 2012	IFRS Year ended Dec. 31, 2011	IFRS Year ended Dec. 31, 2010	Canadian GAAP Aug.7, 2003 to Dec. 31, 2009
Cash flow from operating activities	$ 206,492	$ 17,104	$ 14,965	$ 12,946	$ 18,588	$ 6,100	$ 136,789
Add (deduct):							
Changes in non-cash working capital items	2,218	127	1,106	(49)	1,490	(1,224)	768
Interest on Exchangeable Units	25,809	5,856	4,672	5,272	4,672	5,337	–
Income taxes paid	15,276	3,201	4,046	8,029	–	–	–
Interest on Trust units	15,212	–	–	–	–	15,212	–
Non-cash interest expense	(1,523)	(410)	420	(773)	514	(179)	(1,095)
Cash flow from operations	$ 263,484	$ 25,878	$ 25,209	$ 25,425	$ 25,264	$ 25,246	$ 136,462

Supplemental Information – Acquisitions

Date acquired by the Company, January 1, ($ millions unless stated otherwise)	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Purchase price							
Estimated	10.16	7.21	6.74	2.88	3.48	5.24	3.44
Actual (a) (c)	(a)	(a)	6.60	2.70	3.34	5.70	3.31
Payments							
Initial	8.13	5.00	5.40	2.30	2.78	4.20	2.78
Final (b) (c)	(a)	(a)	1.20	0.40	0.56	1.50	0.53
Estimated							
Annual royalty stream	1.50	0.95	1.05	0.49	0.55	0.89	0.70
Number of REALTORS®	858	493	516	217	247	417	316
Number of agreements	40	46	44	25	23	21	21
Actual							
Annual royalty stream (b)	(a)	(a)	0.98	0.45	0.52	0.95	0.66
Number of REALTORS®	(a)	(a)	487	217	231	417	316
Number of agreements	40	46	44	25	23	21	21

a) To be determined at the end of the reporting period in accordance with the MSA and appropriate purchase agreement
b) Audited
c) Purchase price obligation and actual values for Via Capitale is calculated over three years for acquisitions made prior to 2015

Glossary of Terms

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

"Agents' Gross Revenues" is defined as, in respect of a Franchisee, the gross commission income (net of outside Broker payments) paid in respect of the closings of residential resale real estate transactions through Agents associated with such Franchisee.

"Broker" is defined as an individual licensed with the relevant regulatory body to manage a real estate brokerage office.

"Broker-Owner" is defined as the individual or a controlling group of individuals who have entered into Franchise Agreements to provide services under the Royal LePage, Johnston and Daniel or Via Capitale brands. Where an individual or controlling group of individuals have entered into more than one Franchise Agreement the Company reports the number of Broker-Owners it has under contract as one.

"Brookfield Asset Management" or **"BAM"** means Brookfield Asset Management Inc., a corporation incorporated under the laws of Ontario.

"Brookfield Holdings" or **"BHCI"** is defined as Brookfield Holdings Canada Inc., a subsidiary of Brookfield Asset Management, resulting from the amalgamation on January 1, 2012 of Brascan Asset Management Holdings and Trilon Bancorp Inc. and operating under the name Brookfield Holdings Canada Inc. effective January 10, 2012.

"Brookfield Private Equity Direct Investments Holdings LP" or **"BPEDIH LP"** is a wholly-owned subsidiary of Brookfield Asset Management operating in Canada.

"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.

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

"Class A LP Units" is defined as the Class A ordinary limited partnership units of the Partnership.

"Class B LP Units" is defined as the Class B subordinated limited partnership units of the Partnership, all of which are held by Brookfield Holdings or an affiliate of Brookfield Holdings.

"Canada Mortgage and Housing Corporation" or **"CMHC"** is Canada's national housing agency, established as a government-owned corporation. CMHC is Canada's premier provider of mortgage loan insurance, mortgage-backed securities, housing policy and programs, and housing research.

"Company" is defined as Brookfield Real Estate Services Inc., a corporation incorporated under the laws of the Province of Ontario.

"Company Network" is defined as the collective network of Franchisees providing services under the Royal LePage, Johnston & Daniel and Via Capitale brand names.

"Conversion" represents the Company's change from an Income Trust to a corporate structure on December 31, 2010.

"COSO" stands for the Committee of Sponsoring Organization of the Treadway Commission. The committee established a common framework on enterprise management, internal control and fraud deterrence.

"EBITDA" stands for Earnings Before Interest, Tax, Depreciation and Amortization. It is a useful indicator of the Company's profitability and a key metric used to assess compliance with the debt covenants.

"Exchangeable Units" represent the 3,327,667 Class B LP Units the Partnership issued to TBI (a predecessor of Brookfield Holdings) in partial consideration for the Partnership's acquisition of the Partnership Assets from TBI. 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 are indirectly exchangeable, on a one-for-one basis, subject to adjustment, for restricted voting shares of the Company.

"Franchise" is defined as a residential real estate brokerage Franchise operated pursuant to a Franchise Agreement with the Manager's comprehensive systems consisting of proprietary technological, marketing, promotional, communication and support systems.

"Franchise Agreements" is defined as the Franchise Agreements pursuant to which brokerage offices offer residential brokerage services using the Trademarks.

"Franchisees" is defined as the Franchisees operating under the Franchise Agreements.

"Franchise Network" is defined as the Royal LePage Network, Johnston & Daniel Network and the Via Capitale Network.

"General Partner" is defined as 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.

"Independent Director" is defined as a Director who is "unrelated" (as such term is defined in the TSX Company Manual as it exists as of the date hereof) to each of the Company, the Partnership, the Manager and each of their affiliated entities.

"International Accounting Standards" or **"IAS"** is an older set of standards for providing guidance on the preparation and disclosure of financial statements. Since 2001, a new set of standards known as the International Financial Reporting Standards (IFRS) has been issued to supplement and update IAS in an effort to globalize the standards.

"International Accounting Standards Board" or **"IASB"** is an independent, not-for-profit organization responsible for developing International Financial Reporting Standards, and promoting the use and application of these standards.

"International Financial Reporting Standards" or **"IFRS"** is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). IFRS is a global framework that provides general guidance for the preparation of financial statements and its disclosure to the public to convey measureable and comparable financial information.

"Lag Effect" represents the timing differences between the time the Market reports a home sale and 45 to 60 days later when the Company records the related variable and premium fee revenue upon the close of the home sale.

"Management Services Agreement" is defined as the second amended and restated management services agreement made effective December 31, 2012, among the Partnership, the Company, 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 Company, the General Partner and Via Capitale L.P. including management of the Partnership Assets on behalf of the Partnership and Via Capitale L.P..

"Manager" is defined as 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 Company, the Fund, the General Partner and the Partnership.

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

"MLS® or Multiple Listing Service®" 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.

"Partnership" is defined as Residential Income Fund L.P., a limited partnership established under the laws of the Province of Ontario.

"Partnership Agreement" is defined as the second amended and restated limited partnership agreement dated the 31st day of December, 2012, among the General Partner and the Company, pursuant to which the Partnership is governed as the same may be amended from time to time.

"Partnership Assets" is defined as, 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.

"Period" is defined as twelve months ending December 31st, 2014.

"Premium Franchise Fees" are collected on certain Franchise locations to reflect the premier locations (principally the Greater Toronto Area) in which such Franchises operate. The premium fee is payable is in addition to the basic fixed fee and the basic variable fee as an uncapped amount ranging from 1% to 5% (based on location, with an average of 3%) of the Agents' Gross Revenue.

"REALTOR®" is the exclusive designation for a member of The Canadian Real Estate Association and is defined as an individual licensed to trade in real estate and includes Brokers, Agents and Sales Representatives.

“Residential Income Fund L.P.” or **“RIFLP”** is a limited partnership established under the laws of the Province of Ontario.

“Restricted Voting Shares” is defined as the restricted voting shares in the capital of the Company.

“Revolver” is an operating loan in the principal amount of $5 million (2013 – $2 million)provided by a Canadian Financial Institution 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.

“Royal LePage” is defined as, 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 Company.

“Royal LePage Network” is defined as, 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).

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

“Shareholders’ Agreement” is defined as the shareholders agreement between TBI (a predecessor of Brookfield Holdings), and the General Partner governing the administration and affairs of the General Partner, dated August 7, 2003.

“Special Voting Shares” is defined as the share of the Company issued to represent voting rights in the Company that accompany securities convertible into or exchangeable for Restricted Voting Shares, including the Subordinated LP Units and Ordinary LP Units held by Brookfield Holdings or an affiliated entity of Brookfield Holdings or the Manager or an affiliated entity of the Manager.

“System for Electronic Document Analysis and Retrieval” or **“SEDAR”** is a Canadian mandatory document filing and retrieval system for all Canadian public companies where documents such as prospectuses, financial statements and material change reports are filed and are accessible by the public to further the goal of transparency and full disclosure.

“TBI” is defined as Trilon Bancorp Inc., a predecessor to Brookfield Holdings.

“Team” is defined as a group of Agents and/or Sales Representatives in the Royal LePage Network who work, represent and market themselves as part of a team rather than as individual Agents. Each member of the Team pays the $102/month fixed fee and the collective gross income generated by the Team is subject to 1% variable fee cap of $1,300 per year, rather than $1,300 cap per Agent or Sales Representative.

“Toronto Real Estate Board” or **“TREB”** is Canada’s largest not-for-profit real estate board. TREB serves more than 36,000 licensed real estate Brokers and Salespersons in and about the Greater Toronto Area. The organization offers its members services that range from professional development, arbitration services to releasing a variety of residential and commercial market related reports.

“Trademarks” is defined as 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.

“TSX” is defined as the Toronto Stock Exchange.

“Unitholders” is defined as the holders of Units and a “Unitholder” means any one of them.

“Units” is defined as the units of the Partnership, other than Special Fund Units, each representing an equal undivided beneficial interest in the Partnership.

“Via Capitale” is defined as, collectively, the Business as conducted by the Manager and the Via Capitale Manager.

“Via Capitale L.P.” or **“VCLP”** is defined as 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” is defined as 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.

“Via Capitale Network” is defined as, 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).

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's discussion and analysis contained in this annual report are the responsibility of the management of the Company. To fulfill this responsibility, the Company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as Independent Registered Public Accounting Firm is set out on the following page.

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

TORONTO, CANADA, March 30, 2015

Philip Soper
President and Chief Executive Officer

Kevin A. Cash
Senior Vice-President, CFO

Independent Auditor's Report

To the Shareholders of Brookfield Real Estate Services Inc.

We have audited the accompanying consolidated financial statements of Brookfield Real Estate Services Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of earnings and comprehensive earnings, consolidated statements of changes in shareholders' deficit, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Real Estate Services Inc. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

March 30, 2015
Toronto, Canada

Consolidated Balance Sheets

As at December 31, (In thousands of Canadian dollars)	Note	2014	2013
Assets			
Current assets			
Cash		$ 3,052	$ 3,633
Accounts receivable	4	4,758	4,812
Current portion of notes receivable	5	276	509
Income tax receivable		–	148
Prepaid expenses		119	90
		8,205	9,192
Non-current assets			
Notes receivable	5	230	145
Deferred tax asset	8	5,915	4,924
Intangible assets	6, 7	72,212	79,172
		$ 86,562	$ 93,433
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,100	$ 1,384
Purchase obligation – current portion	6	2,150	974
Current income tax liability		308	–
Interest payable to Exchangeable Unitholders		423	389
Dividends payable to shareholders		948	872
		4,929	3,619
Non-current liabilities			
Debt facilities	9	52,760	52,782
Purchase obligation	6	127	94
Interest rate swap liability	9	482	–
Exchangeable Units	10	43,260	44,424
		101,558	100,919
Shareholders' deficit			
Restricted voting shares	11	140,076	140,076
Deficit		(155,072)	(147,562)
		(14,996)	(7,486)
		$ 86,562	$ 93,433

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

Simon Dean
Director

Lorraine Bell
Director

Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	Note	2014	2013
Royalties			
Fixed Franchise fees		**$ 19,279**	$ 18,941
Variable Franchise fees		**8,560**	8,116
Premium Franchise Fees		**5,576**	5,236
Other revenue and services		**3,977**	3,975
		37,392	36,268
Expenses			
Administration		**1,626**	1,342
Management fee	**3**	**6,469**	6,677
Interest expense		**3,419**	3,040
Impairment of intangible assets	**7**	**2,384**	1,391
Amortization of intangible assets	**7**	**10,828**	12,683
		24,726	25,133
Operating income		**12,666**	11,135
Interest on Exchangeable Units	**10**	**(5,856)**	(4,672)
Gain (loss) on fair value of Exchangeable Units	**10**	**1,164**	(2,429)
Loss on interest rate swap	**9**	**(482)**	–
(Loss) gain on fair value of purchase obligation	**6**	**(955)**	210
Earnings before income tax		**6,537**	4,244
Current income tax expense		**(3,657)**	(3,958)
Deferred income tax recovery		**991**	602
Income tax expense	**8**	**(2,666)**	(3,356)
Net and comprehensive income		**3,871**	888
Basic earnings per share	**12**	**$ 0.41**	$ 0.09
Weighted average number of shares outstanding used in computing basic earnings per share		**9,483,850**	9,483,850
Diluted earnings per share	**12**	**$ 0.41**	$ 0.09
Weighted average number of shares outstanding used in computing diluted earnings per share		**12,811,517**	12,811,517

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Deficit

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2013	$ 140,076	$ (147,562)	$ (7,486)
Net and comprehensive earnings	–	3,871	3,871
Dividends declared	–	(11,381)	(11,381)
Balance, December 31, 2014	**$ 140,076**	**$ (155,072)**	**$ (14,996)**

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2012	$ 140,076	$ (137,979)	$ 2,097
Net and comprehensive earnings	–	888	888
Dividends declared	–	(10,471)	(10,471)
Balance, December 31, 2013	$ 140,076	$ (147,562)	$ (7,486)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In thousands of Canadian dollars)	Note	2014	2013
Cash provided by (used for):			
Operating activities			
Net and comprehensive earnings for the year		$ 3,871	$ 888
Adjusted for:			
(Gain) loss on fair value of Exchangeable Units	10	(1,164)	2,429
Loss (gain) on fair value of purchase obligation	6	955	(210)
Loss on interest rate swap	9	482	–
Interest expense		9,275	7,712
Interest paid		(8,865)	(8,022)
Current income tax expense	8	3,657	3,958
Income taxes paid		(3,201)	(4,046)
Deferred income tax recovery	8	(991)	(602)
Impairment of intangible assets	7	2,384	1,391
Amortization of intangible assets	7	10,828	12,683
Changes in non-cash working capital		(127)	(1,216)
		17,104	14,965
Investing activity			
Purchase of intangible assets	6	(5,998)	(5,854)
Interest paid on purchase obligation		(134)	(110)
		(6,132)	(5,964)
Financing activity			
Proceeds from term facility, net of financing costs	9	52,752	–
Repayment of private debt placement and term facility	9	(53,000)	–
Dividends paid to shareholders		(11,305)	(10,471)
		(11,553)	(10,471)
Decrease in cash during the year		(581)	(1,470)
Cash, beginning of the year		3,633	5,103
Cash, end of the year		$ 3,052	$ 3,633

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2014 and 2013
(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization

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

The Company directly holds a 75% common share interest in Residential Income Fund General Partner Limited ("RIFGP") and its subsidiaries, Residential Income Fund L.P. (the "Partnership") and 9120 Real Estate Network, L.P. ("VCLP"), a wholly-owned subsidiary of the Partnership, both of which own and operate the assets from which the Company derives its sole source of revenue.

Brookfield Private Equity Direct Investments Holdings LP ("BPEDIH"), a wholly-owned subsidiary of Brookfield Asset Management ("BAM") operating in Canada, owns the remaining 25% common share interest in RIFGP. The shares were previously owned by another wholly-owned subsidiary of BAM, Brookfield Holdings Canada Inc. ("BHCI") until October 2013, when BHCI transferred all of its interest in the Partnership and RIFGP to BPEDIH. The transfer did not have any impact on the net assets, financial position or results of operations of the Company.

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on March 10, 2015.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a going concern basis and include the accounts of the Company, its 75% owned subsidiaries RIFGP, VCLP, and the Partnership. RIFGP is the managing general partner of the Partnership. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. ("BRESML"), a party related to BPEDIH via common control.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. The financial results of controlled subsidiaries are consolidated with the results of the Company from the date that control is acquired through to the date that control ceases. For the purpose of consolidating the financial results of the Company, control of an entity is deemed to exist when an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company's significant accounting policies are as follows:

CASH

Cash, consisting of cash on hand, is used to fund dividends to shareholders, the purchase of Franchise Agreements and other operating requirements.

ACCOUNTS RECEIVABLE

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

INTANGIBLE ASSETS

Intangible assets, consisting of Franchise Agreements and trademark rights, are accounted for using the cost method. Intangible assets are recorded at initial cost less accumulated amortization and accumulated impairment losses. Subsequent adjustments to the purchase price of intangible assets based on future earn-out provisions governed by the terms set out in the Amended and Restated Master Services Agreement ("MSA") dated January 1, 2014, are expensed as incurred.

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

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

INCOME TAXES

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

REVENUE RECOGNITION

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

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

Other revenue and services are generally recognized as income when the related services have been provided, the amount is determinable and the collectability is reasonably assured.

EXCHANGEABLE UNITS

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

EARNINGS PER SHARE

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

FINANCIAL INSTRUMENTS

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

The Company made the following classifications:

Financial Statement Item	Classification	Measurement
Cash	Loans and receivables	Amortized Cost
Accounts receivable	Loans and receivables	Amortized Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized Cost
Purchase obligation	FVTPL	Fair Value
Interest payable to Exchangeable Unitholders	Other financial liabilities	Amortized Cost
Long-term debt	Other financial liabilities	Amortized Cost
Interest rate swap liability	FVTPL	Fair Value
Exchangeable Units	FVTPL	Fair Value
Dividends payable to shareholders	Other financial liabilities	Amortized Cost

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

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

PURCHASE OBLIGATION

The Company's purchase obligation arises from the purchase of Franchise Agreements, for which the purchase price is based on future earn-out provisions governed by the MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract which is not closely related to the host contract. Such instruments are recorded in the consolidated balance sheet at fair value. Changes in the fair value of derivative instruments, including embedded derivatives, are recognized in net earnings.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the impairment of intangible assets, determining the useful life of intangible assets, assessing the recoverability of accounts receivable, measurement of deferred taxes, measurement of the fair values of purchase obligation (receivable) and Exchangeable Units and fair values used for disclosure purposes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods, and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments that have been made in applying the Company's accounting policies and that have the most significant effect on the amounts in the financial statements:

ACCOUNTING FOR FRANCHISE AGREEMENTS

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

IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

Under IAS 36, *Impairment of Assets*, the Company needs to ensure that the intangible assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value-in-use). The critical judgment made in impairment charges for intangible asset is determining whether there is any indication that a particular Franchise Agreement is potentially impaired. Management has identified a number of items that are important to the operating profitability of Franchisees and use them to assist in determining impairment indicators. These factors include aging of receivables, agent count, known financial difficulties, health concerns, non-compliance with contractual obligation and the underlying market conditions.

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Company adopted the following new standards in preparing these consolidated financial statements:

IMPAIRMENT OF ASSETS

IAS 36, *Impairment of Assets* ("IAS 36") was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard has not had any significant impact on the Company's results of operations and financial position. Additional disclosure requirements have been taken into consideration when preparing the financial statements.

FINANCIAL INSTRUMENTS – PRESENTATION

The IASB amended IAS 32 *Financial Instruments: Presentation* ("IAS 32"), clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments to IAS 32 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The adoption of this standard has not had significant impact on the Company's results of operations, financial position or disclosures.

AMENDMENTS TO IFRS 3, BUSINESS COMBINATIONS (CONTINGENT CONSIDERATION)

In the second quarter of 2014, the IASB issued Amendments to IFRS 3, *Business Combinations*. The amendments clarify the guidance in respect of the initial classification requirements and subsequent measurement of contingent consideration. This will result in the need to measure the contingent consideration at fair value at each reporting date, irrespective of whether it is a financial instrument or a non-financial asset or liability. Changes in fair value will need to be recognized in profit and loss. These amendments are effective for transactions with acquisition dates on or after July 1, 2014. These amendments had no impact on the Company's consolidated financial statements.

FUTURE ACCOUNTING AND REPORTING CHANGES

REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB published its new revenue standard, IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2017. Management is in the process of assessing the impact of adopting IFRS 15, if any.

AMENDMENTS TO IFRS 9, FINANCIAL INSTRUMENTS

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which is based on expected losses rather than incurred losses. This new Standard supersedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted. Management is in the process of assessing the impact of this new standard.

3. Management Services Agreement

On January 1, 2011, the Company entered into the Amended and Restated Management Services Agreement ("MSA") with BRESML. The MSA had been in effect since 2003, had an initial term of 10 years and an automatic renewal for successive 10-year periods subject to approval of the Company and BRESML.

Under the MSA, BRESML provided certain management, administrative and support services to the Company and its subsidiaries and in return paid a monthly fee equal to 20% and 30% of the distributable cash of the Partnership and VCLP, respectively.

The MSA also prescribed the conditions under which the Company purchases Franchise Agreements from BRESML and the formula for calculating the purchase price.

On June 28, 2013 the Company entered into a new Management Services Agreement ('New MSA") with BRESML. The New MSA was effective January 1, 2014 with an initial five year term and a provision for the automatic renewal of successive five year terms.

Under the New MSA, management fees have been standardized to 20% across all brands and the accretion factor was standardized to 7.5%. The final purchase price for existing brands is based on the average annual royalties earned over one year, with 80% of the purchase price payable upon acquisition and the remaining balance to be paid one year later subject to adjustment, if any, for the audit of the actual annual royalties earned. The New MSA also provides BRESML with the ability to sell other Canadian branded Franchises to the Company based on a predetermined formula and payment structure. Further, an incentive fee is to be paid to BRESML for net organic growth, with the fee being calculated in accordance with the formula noted above based on the average annual royalty fees per agent. All other provisions under the New MSA remain substantially unchanged from the previous MSA.

For the twelve months ended December, 2014, the Company incurred management fees of $6,469 (2013 – $6,677) for these services.

4. Accounts Receivable

Accounts receivable are related to fees due from the Company's Franchise network and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at December 31, 2014 the Company had accounts receivable of $4,758 (December 31, 2013 – $4,812) net of $810 (December 31, 2013 – $330) allowance for doubtful accounts. During the year ended December 31, 2014, $684 of net bad debt expense was included in administration expense (December 31, 2013 – $51). Management conducts an analysis to determine the allowance for doubtful accounts by assessing the collectability of receivables on a Franchisee by Franchisee basis. This assessment takes into consideration factors such as the aging of outstanding fees, Franchisee operating performance, historical payment patterns, current collection efforts and the Company's security interests.

The table below summarizes the aging of accounts receivable. Management considers amounts owed for longer than 90 days as overdue.

	90+ Days	60 Days	30 Days	Current	Total
Accounts receivable	$ 884	$ 222	$ 453	$ 3,199	$ 4,758

5. Notes Receivable

The Company has certain Franchisees with which it has entered into a payment plan in respect of Franchise fees currently due to the Company, which are in arrears. Generally, these payment plans extend more than one year from the financial statement date as at December 31, 2014 and as a result have been classified as non-current. The terms stipulated in the payment plan agreement require the Franchisees to repay the total outstanding balance in equal monthly payments based on a spread above prime rate. As at December 31, 2014, the Company had notes receivable of $506, of which $276 was due within 12 months and $230 was considered non-current (December 31, 2013 – $509 current and $145 non-current). These current amounts were presented as part of accounts receivable in the prior year consolidated balance sheet.

6. Asset Acquisitions

The Company's purchase of Franchise Agreements on January 1, 2014 is the final year in which it is governed by terms set out in the MSA. Future purchases beginning on January 1, 2015 will be governed by the terms set out in the New MSA.

On January 1, 2014, the Partnership acquired 45 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $6,059. A payment of $4,847, equal to 80% of the estimated purchase price, was due on January 1, 2014 and the remainder is to be paid when the final purchase price is determined on October 31, 2014, the determination date. Until the determination date, the estimated price is revised over the determination period, the one-year period starting November 1st of the year immediately preceding the purchase date through to October 31st of the following year, based on the annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price during the determination period are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA at the rate of prime plus 1%.

On January 1, 2014, VCLP acquired one new Via Capitale Franchise Agreement from BRESML at an estimated purchase price of $193. A payment of $155, equal to 80% of the estimated purchase price, was due on January 1, 2014 and the remainder is to be paid over the next three years when the final purchase price is determined on October 31, 2016, the determination date. Until the determination date, the estimated price is revised over the determination period, a three-year period starting November 1, 2013 to October 31, 2016, based on the annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price during the determination period are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA at the rate of prime plus 1%.

During the determination period, the Company records changes in the purchase obligation to reflect the fair value of outstanding purchase obligation. Actual cash flows generated from the Franchise Agreements during the determination period(s) are used to estimate and forecast the annual royalty fees to be earned during the determination period. The estimated yield expected to be generated from the royalty streams is determined by dividing the per share amount distributed in cash by the Company in the 52 week period ending the day preceding the purchase date by the current market price per share of the Company. Each reporting period until the determination date the estimated royalty stream is updated with actual cash flows generated for each Franchise Agreement for which an outstanding purchase obligation exists. The estimated yield is updated to reflect actual royalty fees generated and is used to calculate the fair value of outstanding purchase obligation.

For the year ended December 31, 2014, a loss of $955 on the fair value of purchase obligation was recorded (December 31, 2013 – gain of $210).

For the year ended December 31, 2014, the Company incurred $147 of interest expense related to outstanding purchase obligation payments (December 31, 2013 – $110).

On January 1, 2013, the Partnership acquired 37 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $6,019. A payment of $4,815, equal to 80% of the estimated purchase price, was paid from cash on hand in 2013 and the remainder was paid by January 31, 2014.

On January 1, 2013, VCLP acquired seven new Via Capitale Franchise Agreements from BRESML and a subsidiary of BRESML at an estimated purchase price of $720. A payment of $576, equal to 80% of the estimated purchase price was paid from cash on hand in 2013 and the remainder to be paid by January 31, 2016.

The additions to intangible assets during the years ended December 31, 2014 and 2013 are summarized as follows:

Years ended December 31,	Royal LePage	Via Capitale	2014	2013
Franchise Agreements	$ 6,059	$ 193	$ 6,252	$ 6,739

The purchase obligation consists of the following:

Years ended December 31,	Royal LePage	Via Capitale	2014	2013
Purchase obligation at beginning of year	$ 985	$ 83	$ 1,068	$ 393
Current year's purchase obligation	6,059	193	6,252	6,739
Price adjustment on current year purchases	990	(35)	955	(210)
Payment on current year purchases	(4,847)	(155)	(5,002)	(5,391)
Payment of obligations on prior years' purchases	(985)	(11)	(996)	(463)
Purchase obligation at end of year	$ 2,202	$ 75	$ 2,277	$ 1,068
Current portion of purchase obligation	$ 2,202	(52)	$ 2,150	$ 974
Long-term portion of purchase obligation	–	127	127	94
Purchase obligation at end of year	$ 2,202	$ 75	$ 2,277	$ 1,068

7. Intangible Assets

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

	Franchise Agreements	Trademarks	Total
Cost			
At January 1, 2013	$ 194,750	$ 5,427	$ 200,177
Purchases	6,739	–	6,739
Impairment	(292)	–	(292)
Amounts written-off	(2,988)	–	(2,988)
At December 31, 2013	$ 198,209	$ 5,427	$ 203,636
Purchases	6,252	–	6,252
Impairment	(836)	–	(836)
Amounts written-off	(6,043)	–	(6,043)
At December 31, 2014	**$ 197,582**	**$ 5,427**	**$ 203,009**
Accumulated amortization			
At January 1, 2013	$ 111,933	$ 1,737	$ 113,670
Amortization expense	12,498	185	12,683
Amounts written-off	(1,889)	–	(1,889)
At December 31, 2013	$ 122,542	$ 1,922	$ 124,464
Amortization expense	10,644	184	10,828
Amounts written-off	(4,495)	–	(4,495)
At December 31, 2014	**$128,691**	**$2,106**	**$130,797**
Carrying value			
At January 1, 2013	$ 82,817	$ 3,690	$ 86,507
At December 31, 2013	$ 75,667	$ 3,505	$ 79,172
At December 31, 2014	**$ 68,891**	**$ 3,321**	**$ 72,212**

For the year ended December 31, 2014, the Company recognized impairment charges and write-offs of $2,384 (December 31, 2013 – $1,391). Impairment charges relate to Franchisees where the carrying amount on the Franchise Agreement exceeds the recoverable amount (higher of fair value less costs of disposal and the value-in-use) or when the recovery of the capitalized value is no longer reasonably assured. Write-offs relate to the early termination, expiry and non-renewal of Franchise Agreements in the Royal LePage and Via Capitale networks. For the year ended December 31, 2014, the Company recorded $10,828 (December 31, 2013 – $12,683) intangible asset amortization expenses.

Management determined the recoverable amount using a value-in-use amount. The discount rate used was the pre-tax rate, which reflects current market assessment of the risks specific to the asset. In calculating the discounted future cash flow for each Franchisee, management performed a net present value of annuity calculation using forecasted cash flow based on agent count, historical data, market condition, company factors, the pre-tax discount rate and the life of the agreements plus one renewal term as the assumptions.

8. Income Taxes

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

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

Years ended December 31,		**2014**		2013
Earnings before income taxes for the year:	**$**	**6,537**	$	4,244
Expected income tax expense at statutory rate of 26.5% (2013 – 26.5%)		**1,732**		1,124
Increase (decrease) in income tax expense (recovery) due to the following:				
Non-deductible amortization		**1,254**		1,487
Non-deductible (gain) loss on fair value of Exchangeable Units		**(309)**		644
Non-deductible interest on Exchangeable Units		**1,552**		1,238
Non-deductible impairment and write-off on intangible assets		**158**		127
Non-deductible purchase obligation		**63**		(14)
Non-deductible loss on interest rate swap		**128**		–
Income allocated to Exchangeable Unitholders		**(1,523)**		(1,392)
True up from provision to tax return		**(270)**		139
Recognition of deferred tax assets		**(119)**		–
Other		**–**		3
Total income tax expense	**$**	**2,666**	$	3,356

The major components of income tax expense include the following:

Year ended December 31,		**2014**		2013
Current tax expense	**$**	**3,657**	$	3,958
Deferred tax recovery		**(991)**		(602)
Total income tax expense	**$**	**2,666**	$	3,356

Deferred income taxes arise from temporary differences in the recognition of income and expense for financial and tax purposes. The significant components of the Company's deferred tax assets are as follows:

As at December 31,		**2014**		2013
Intangible assets	**$**	**5,915**	$	4,938
Financing costs		**–**		(14)
Total deferred tax asset	**$**	**5,915**	$	4,924

9. Debt Facilities

The Company's debt is comprised of the following debt facilities:

As at December 31,	2014	2013
Term facility, net of financing costs	$ 52,760	$ 20,217
Acquisition facility	–	–
Operating facility	–	–
Private debt placement	–	32,565
	$ 52,760	$ 52,782

The Company announced on October 27, 2014 the closing of a five-year $68 million financing comprising the following three arrangements:

- A $53 million non-revolving term variable rate facility, replacing the current $53 million debt facility which was to mature on February 17, 2015. The new facility bears a variable interest rate of Banker's Acceptances (BAs) +1.70% or Prime + 0.5%, which the Company has swapped to a fixed rate of 3.64%, payable monthly. Repayment of principal outstanding is due on maturity;
- A $10 million non-revolving acquisition facility to support acquisitions pursued by the Company, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%. A standby fee of 0.15% applies on undrawn amounts under this facility. No amounts have been drawn on this facility at December 31, 2014; and
- A $5 million revolving operating facility to meet the Company's day-to-day operating requirements, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%. No amounts have been drawn on this facility at December 31, 2014.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 (unchanged from the previous financing) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1 (up from 2.25 to 1). Consolidated EBITDA is defined as earnings (loss) before tax, interest, interest on Exchangeable Unit, gain (loss) on fair value of Exchangeable Unit and gain (loss) on purchase obligation adjustment.

As part of retiring the $32.7 million private debt placement before the February 15, 2015 maturity date, the Company, in accordance with the underlying debt arrangements, incurred an additional $0.4 million of early retirement interest and financing charges.

On October 27, 2014 the Company entered into a five year interest swap agreement to swap the variable interest obligation on the $53 million term debt to a fixed rate of 3.64%. The swap is a financial instrument and is fair valued and classified as FVTPL. The fair value is determined using a discounted cash flow model using observable yield curves and applicable credit spread at a credit adjusted rate. At December 31, 2014 the Company determined that the interest rate swap was in a loss position and recorded a liability and loss of $482.

10. Exchangeable Units

BPEDIH owns 315,000 restricted voting shares of the Company, 25 common shares in RIFGP, 3,327,667 Exchangeable Units of the Partnership and one special voting share of the Company, which accompanies the Exchangeable Units; this reflects an effective 28.4% interest in the Partnership. The special voting share entitles the holder to a number of votes at any meeting of the restricted voting shareholders equal to the number of restricted voting shares that may be obtained upon the exchange of all the Exchangeable Units held by the holder and/or its affiliates. The Company indirectly holds the remaining 71.6% interest in the Partnership through Class A limited partnership units of the Partnership. The Exchangeable Unitholders are entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Exchangeable Units for restricted voting shares of the Company.

The Company measures the Exchangeable Units at their fair value using the closing price of the Company's actively traded shares listed on the TSX, as of the last date of market trading for the period. As at December 31, 2014, the closing market price of the Company's shares was $13.00 (December 31, 2013 – $13.35). During the year ended December 31, 2014, the Company recorded a gain of $1,164 related to the fair value of the Exchangeable Units (December 31, 2013 – loss of $2,429).

The Exchangeable Unitholders are entitled to cash distributions from the Partnership in respect of their economic interest in the Partnership as and when declared by the Board of Directors of RIFGP. Such distributions are made on a before tax basis and are directly taxable in the hands of the Exchangeable Unitholders. Distributions are also made from the Partnership to the Company. These distributions are subject to taxation at the Company level and as such reduce the amount of cash available for dividends to the restricted voting shareholders. During 2014 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of $5,856 (2013 – $4,672).

11. Share Capital

The Company is authorized to issue an unlimited number of restricted voting shares, an unlimited number of preferred shares and one special voting share.

Each restricted voting share represents a proportionate voting right in the Company, and holders of the Company's restricted voting shares are entitled to dividends declared and distributed by the Company.

The special voting share represents the proportionate voting rights of the Exchangeable Unitholders of the Partnership. The special voting share is redeemable by the holder at $0.01 per share, and the holder is not entitled to dividends declared by the Company.

No additional restricted voting shares were issued during 2014.

No preferred shares were issued or outstanding as at December 31, 2014.

The following table summarizes the outstanding shares of the Company:

As at December 31,	**2014**	2013
Restricted voting shares	**9,483,850**	9,483,850
Special voting share	**1**	1

12. Earnings Per Share

Basic and diluted earnings per share has been determined as follows:

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	**2014**	2013
Net earnings available to restricted voting shareholders – basic	**$ 3,871**	$ 888
Interest on Exchangeable Units	**5,856**	4,672
(Gain) loss on fair value of Exchangeable Units	**(1,164)**	2,429
Net earnings available to restricted voting shareholders – diluted	**$ 8,563**	$ 7,989
Weighted average number of shares outstanding used in computing basic loss per share	**9,483,850**	9,483,850
Total outstanding Exchangeable Units	**3,327,667**	3,327,667
Weighted average number of shares outstanding used in computing diluted loss per share	**12,811,517**	12,811,517
Basic earnings per share	**$ 0.41**	$ 0.09
Diluted earning per share	**$ 0.41**	$ 0.09
Dividends declared	**$ 11,381**	$ 10,471
Restricted voting shares	**9,483,850**	9,483,850
Dividends per restricted voting share	**$ 1.20**	$ 1.10

13. Related Party Transactions

Unless disclosed elsewhere, the Company had the following transactions with parties related to the Exchangeable Unitholders for the years ended December 31, 2014 and 2013. These transactions have been recorded at the exchange amount agreed to between the parties.

Years ended December 31,	2014	2013
a) Royalties		
Fixed, variable and other Franchise fees	$ 3,150	$ 2,632
Premium Franchise Fees	$ 4,781	$ 4,494
b) Expenses		
Management fees	$ 6,469	$ 6,677
Insurance and other	$ 88	$ 105
Interest on purchase obligations	$ 147	$ 110
c) Interest paid		
Interest paid to Exchangeable Unitholders	$ 5,822	$ 4,672

Insurance expense, as disclosed above, was incurred through an affiliate of BRESML and the Exchangeable Unitholder.

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

As at December 31,	2014	2013
d) Accounts receivable		
Franchise fees receivable	$ 696	$ 631
e) Accounts payable and accrued liabilities		
Management fees	$ 582	$ 580
Interest on purchase obligations	$ 20	$ 7
Administrative shared service liability and other	$ 205	$ 220
f) Interest payable to Exchangeable Unitholders	$ 423	$ 389
g) Purchase obligation payable	$ 2,277	$ 1,068

As at December 31, 2014, BRESML provided $900 in funding, in the form of a line of credit for certain Franchisee operations.

The Company is governed by an independent Board of Directors, who is required to participate in scheduled and special Board and committee meetings. During the year ended December 31, 2014, $204 (December 31, 2013 – $383) of director fee compensation was included in administration expense.

14. Financial Instruments

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

A) CREDIT RISK

Credit risk arises from the possibility that the Franchisees may experience financial difficulty and be unable to pay outstanding Franchise fees. The Company's credit risk is limited to the recorded amount of accounts and notes receivable. Management reviews the financial position of all Franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis. As at December 31, 2014, the Company has an allowance for doubtful accounts of $810 (December 31, 2013 – $330).

B) LIQUIDITY RISK

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs, including paying ongoing future dividends to shareholders and interest to Exchangeable Unitholders. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the debt facilities. Also, the Company has a $10,000 acquisition line of which $8,000 was drawn subsequent to year end (see Note 18) and a $5,000 unutilized operating facility, as described in Note 9.

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

	2015	2016	2017	Beyond 2017	Total
Accounts payable and accrued liabilities	$ 1,100	$ –	$ –	$ –	$ 1,100
Purchase obligation	2,150	107	20	–	2,277
Interest payable to Exchangeable Unitholders	423	–	–	–	423
Dividends payable to shareholders	948	–	–	–	948
Interest on long-term debt	1,929	1,929	1,929	4,100	9,887
Long term debt	–	–	–	53,000	53,000
Exchangeable Units	–	–	–	43,260	43,260
Total	$ 6,550	$ 2,036	$ 1,949	$ 100,360	$ 110,895

C) INTEREST RATE RISK

The Company is exposed to the risk of interest rate fluctuations on its Debt facilities as the interest rates on these facilities are tied to the prime and Banker's Acceptance rates.

As described in Note 9, on October 27, 2014 the Company entered into a five year interest rate swap to fix the interest on the Company's $53 million term debt at 3.64% to the October 28, 2019 maturity date of the swap. The Company's $53 million term debt has a maturity date of February 17, 2020.

D) FAIR VALUE

The fair value of the Company's financial instruments, comprising cash, accounts receivable, notes receivable, accounts payable and accrued liabilities, purchase obligation, interest payable to Exchangeable Unitholders and dividends payable to shareholders, are estimated by management to approximate their carrying values due to their short-term nature. The fair value of the Company's $53 million Term facility approximates its carrying value of $52.8 million as a result of its floating rate terms.

E) FAIR VALUE HIERARCHY

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2014 and December 31, 2013, classified using the fair value hierarchy:

As at December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset or liability:				
Purchase obligation, net	$ –	$ –	$ 2,277	$ 2,277
Interest rate swap liability	–	482	–	482
Exchangeable Units	43,260	–	–	43,260
Total	**$ 43,260**	**$ 482**	**$ 2,277**	**$ 46,019**

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial asset or liability:				
Purchase obligation, net	$ –	$ –	$ 1,068	$ 1,068
Exchangeable Units	44,424	–	–	44,424
Total	$ 44,424	$ –	$ 1,068	$ 45,492

See Note 6 for a reconciliation of the Level 3 fair values, Note 9 for disclosure related to Level 2 fair values and Note 10 for disclosures related to the Level 1 fair values. There were no transfers between fair value hierarchy levels during the year. The Level 3 fair values are calculated according to a predetermined formula specified in the MSA based on cash flow estimated from newly acquired Franchise Agreements during their determination period. As such, the fair value is sensitive to the cash flow amounts and all other inputs are observable.

15. Management of Capital

The Company's capital is made up of its cash on hand, debt facilities, Exchangeable Units and shareholders' equity.

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

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

The covenants of the debt facilities prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.50 to 1.

Senior Indebtedness is defined as the Company's debt facilities, disclosed under Note 9, which is made up of a $53 million term facility, a $10 million acquisition facility and a $5 million operating facility. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

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

16. Segmented Information

The Company has only one business segment which is the ownership and generation of residential brokerage Franchise Agreements.

17. Comparative Balances

Certain comparative balances have been reclassified to conform to the 2014 financial statement presentation.

18. Subsequent Events

On January 1, 2015 the Company through the Partnership and VCLP acquired Franchise Agreements and addendums for $10.2 million that represented 40 real estate operations comprising 848 agents generating approximately $1.5 million in annual royalties. Under terms of the MSA, 80% of the purchase price and applicable taxes were due on January 1, 2015. The Company satisfied this obligation through cash on hand and a drawdown of $8 million on the Company's $10 million acquisition line. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA.

Board of Directors

The Company is governed by a Board of Directors with five members, four of whom are independent of the Company and its Manager.

The Board oversees the business and affairs of the Company. The independent Directors also monitor the performance of the Manager, Brookfield Real Estate Services Manager Limited, a subsidiary of Brookfield Asset Management Inc., on behalf of the Company to ensure compliance with the terms of the Management Services Agreement.

The Directors have adopted formal terms of reference regarding their responsibilities and all matters of governance. They have agreed to formal distribution and disclosure policies, which are reviewed on an ongoing basis. The Company has two committees: the Audit Committee and Governance Committee.

Spencer Enright, CPA, CA
Director and Chairman of the Board of Directors

Lorraine Bell, CPA, CA
Director and Chair of Audit Committee[1, 2]

Simon Dean
Director[1, 2]

Hon. J. Trevor Eyton, O.C., Q.C.
Director

Gail Kilgour, ICD.D
Director and Chair of Governance Committee[1, 2]

[1] Member of the Audit Committee
[2] Member of the Governance Committee

Management Team

THE COMPANY

Philip Soper
President and Chief Executive

Kevin Cash
Chief Financial Officer

THE COMPANY MANAGER

Spencer Enright
President and CEO

Philip Soper
President and CEO, Royal LePage

David Martin
President, Via Capitale

Kevin Cash
Chief Financial Officer

Carolyn Cheng
Senior Vice President, Strategic Business Services

Sandra Helmi
Senior Vice President, Marketing & Communications

George Heos
Senior Vice President, Network Development

Yvonne Ratigan
Vice President, Network Service

Gino Romanese
Senior Vice President, Brokerage

Helping our Community

A home should be a place of safety, security and comfort. Sadly, for thousands of Canadian women and children, this is not the case. The Royal LePage Shelter Foundation helps local shelters provide safe haven and new beginnings for more than 30,000 women and children every year. More information about the Royal LePage Shelter Foundation can be found at: **www.royallepage.ca/shelter**.

ABOUT THE FOUNDATION:

- Royal LePage is the only major Canadian real estate company with its own charity;
- The foundation is the largest public foundation in Canada dedicated exclusively to supporting women's and children's shelters and violence prevention and education;
- Many Royal LePage offices across Canada partner with a local shelter providing much-needed financial support and essential goods and services. Funds raised by the local Royal LePage offices remain in their local communities;
- Royal LePage (The Manager) pays all the administrative costs of the charity so that 100% of funds raised go directly towards the cause;
- The Royal LePage Shelter Foundation provided the financial support used to create and launch the Fourth R, a curriculum based education program teaching grade 8 and 9 students about healthy relationships and dating violence.

Shareholder Information

We regularly provide shareholders with information about the Company through our annual report, quarterly reports, and news releases. Information is available online at **www.brookfieldresinc.com**. On the site you will find summary information about the Company including annual and quarterly reports, press releases, webcasts, slide presentations, and dividend information.

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AUDITORS

Deloitte & Touche LLP

CORPORATE COUNSEL

Goodmans LLP

TSX SYMBOL: BRE

Shares are eligible investments for DPSPs, RRSPs, RRIFs and RESPs.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday, May 6, 2015 at 10:00AM EST, at the Westin Prince Toronto, Princess Room, 900 York Mills Road, Toronto, Ontario, M3B 3H2.

DIRECT INQUIRIES TO:

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Senior Director
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Brookfield
Real Estate Services Inc.

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