ROYAL LePAGE FRANCHISE SERVICES FUND

2005 ANNUAL REPORT

Financial Review

ROYAL LePAGE

www.royallepage.ca

ABOUT THE ROYAL LEPAGE FRANCHISE SERVICES FUND

The Royal LePage Franchise Services Fund is a leading provider of services to residential real estate brokers and their REALTORS®. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating under the Royal LePage and Johnston & Daniel brand names. As at December 31, 2005, the Fund network is comprised of 11,542 REALTORS in 561 locations operating under 262 franchise agreements. The Fund has approximately 20% market share of the Canadian residential resale real estate market based on transactional dollar volume. Royal LePage Franchise Services Fund is a TSX listed income trust, which pays monthly distributions and trades under the symbol "RSF.un".

Highlights

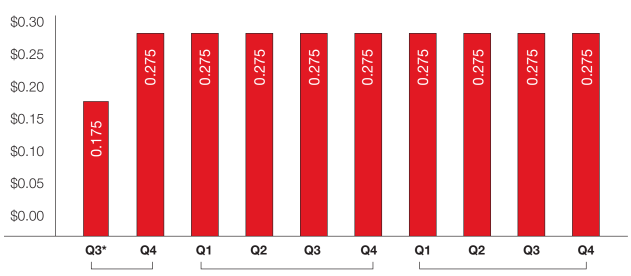
KEY ACHIEVEMENTS IN 2005 .05

- Met target distributions of $1.10 per unit
- Generated distributable cash of $1.55 per unit, 41% greater than target distributions (exceeding our goal of $1.40 by almost 11%)
- Attracted 1,185 new REALTORS to start January 1, 2006 with 11,888 REALTORS up 11% from January 1, 2005 (far exceeding our goal of 400). This growth consisted of:
  – 839 REALTORS through organic growth in the calendar year 2005
  – 346 REALTORS by way of acquisition on January 1, 2006, comprised of 21 new franchise locations
- Expanded our presence in British Columbia, Ontario and Quebec
- Advanced our strong market position through productivity-enhancing technology and services
- Successfully launched our Planning for Success business management training program for Agents

KEY OBJECTIVES FOR 2006 .06

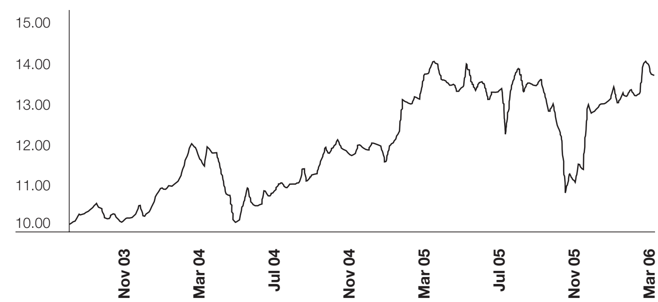
- Increase revenue by 5% over 2005
- Maintain a consistent monthly distribution to unitholders
- Increase the annual distribution target to $1.15 per unit, a 4.5% increase over the 2005 distribution of $1.10 per unit
- Increase net REALTOR count by 300 to 500 through recruitment, franchise conversions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

UNITHOLDER DISTRIBUTION ($ PER UNIT)

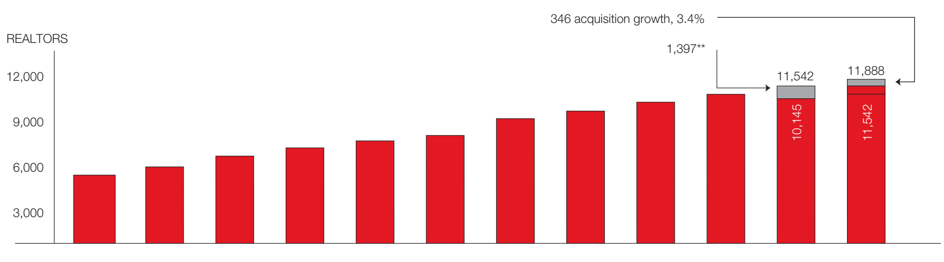


*Based on a 55 day period

UNIT PERFORMANCE ($)



FUND GROWTH



Year ended December 31, except 2006
*As at January 1, 2006

**1,397 growth consisting of 839 organic growth, 558 acquisition growth from Jan. 1/05

Letter to Unitholders

In 2005, the Royal LePage Franchise Services Fund had its best year since the inception of the Fund, thanks to the continuing strength of the Canadian real estate market and the strong underlying fundamentals of our business model. In Canada, more homes were sold in 2005 than any other year – a 5.9% increase over 2004, and average prices appreciated at a rate of 9.7%. The Fund exceeded the goals that we set for 2005, allowing us to announce for 2006 an increase in the Fund's annual distribution target from $1.10 to $1.15 per unit.

Our objective for the Fund is to provide consistent monthly income to our unitholders. The Fund's revenues are a function of the number of REALTORS in the Fund Network, their productivity and the service fees paid by franchisees. Our strategy for growth focuses on leveraging the strength of the Royal LePage brand, expanding our franchise network, attracting more REALTORS and providing the support, training and services to enhance REALTOR productivity. While we do not expect the same pace of growth in the Canadian real estate market as we enjoyed in 2005, the underlying structure of our business and our plans for continued expansion leave us well positioned for the future.

EXPANDING THE FUND NETWORK

Our ability to attract recognized professionals to the Fund Network is at the heart of our success in 2005. As of January 1, 2006, Royal LePage franchise agreements increased to 283 and we added 1,185 new REALTORS. Through selected expansions, we were able to increase our presence in the fast-growing markets of British Columbia, Ontario and Quebec. Expansions in 2005 included Ann Shears, the largest independent brokerage in Montreal; Royal City, one of the leading brokerages in Southern Ontario; and Seashell, a niche realtor serving the upscale market on B.C.'s Sunshine Coast. As recognition of the unparalleled support and services we provide them, the vast majority of the REALTORS associated with acquired franchises embraced the Royal LePage brand.

ENHANCED PRODUCTIVITY THROUGH PROPRIETARY SYSTEMS AND SUPPORT

If 2004 was a year of unprecedented change at Royal LePage with the development of new programs, tools, technology and training, 2005 was a year of implementation and enhancement. Foremost was the wholesale replacement of our existing systems with a single, web-based technology platform designed to facilitate REALTOR communications, marketing, client service and practice management. More than 82% of REALTORS have registered to take advantage of our Platinum Program of valued-added REALTOR services. We are breaking new ground in offering a national training system for agents, and in 2005 we enhanced our programs with the introduction of a one-day Planning for Success seminar. A unique proprietary program, the seminar teaches agents to use proven business planning techniques to manage and grow their practice.

We continue to support our REALTORS' efforts through national advertising, media releases of our often-quoted industry reports and in the community with the Royal LePage Shelter Foundation, a not-for-profit charity focused on helping women and children live safe and healthy lives free from violence. This year we launched Shelter Blooms™, which provided REALTORS with an opportunity to support the Foundation's good works with a gift of tulip bulbs to clients and prospects. In addition, 2005 saw the introduction of our Carriage Trade Luxury Home Program, an exclusive marketing program for elite, high-profile properties. And we became the first Canadian real estate company to be granted membership in The Leading Real Estate Companies of the World™, providing our REALTORS access to the world's largest international referral network.

Our efforts have clearly paid off. Not only has our Fund Network grown faster than the rest of the industry, our average annual sales per REALTOR has grown to approximately $2.3 million, much higher than the average of the industry. Furthermore, we implemented a new $100 fixed monthly fee and technology fee for sales representatives who work with our agents with little disruption to operations. This new fee structure is expected to contribute an additional $0.7 million to Fund revenues annually.

PACE OF GROWTH EXPECTED TO SLOW

Our outlook for the real estate market in Canada is one of moderating growth. We expect that the growth in the number of units sold and the pace of price appreciation will slow. Behind the slowdown is the combination of small, steady increases in residential mortgage rates and ever-increasing house prices that have put a new home beyond the reach of some first-time home buyers. However, the real estate market in Canada will remain healthy against a backdrop of a strong Canadian economy and high consumer confidence. Although the rate of growth in the industry will slow, we anticipate seeing new records set for average prices in 2006.

The structure of the Royal LePage Franchise Services Fund produces a substantial cushion against fluctuations in the underlying real estate market. Approximately 65% of the Fund's revenues are insulated against market variants. With our conservative approach to cash distributions and reserve strategy, we are confident that we will meet our increased distribution target in 2006.

CLEAR GOALS FOR 2006

Sustaining our success depends on continuing with the strategy that has served us so well to date. Through effective recruitment and targeted acquisitions, we intend to add another 300 to 500 REALTORS to our Network in 2006. In addition, we'll continue to work towards having a balanced representation across the country, specifically expanding our franchise presence in Alberta and British Columbia, where energy-related growth will create opportunities, and in Quebec and Atlantic Canada. After so much change, 2006 will be a year where we consolidate our advantage in technology and agent training and support to attract additional franchise operations and REALTORS, further enhance agent productivity and increase Fund revenues. As real estate markets tighten, the value REALTORS place on the distinct advantages Royal LePage can offer will only continue to grow.

The record results we posted in 2005 wouldn't have been possible without the valued guidance of our Board of Trustees and management team, and the outstanding contribution of our employees. In particular, I want to express my appreciation to Simon Dean, a former Royal LePage President and CEO who retired from active management in 2005, for his 10 years of exemplary service. We will continue to benefit from Simon's knowledge and insight as a member of the Board of Trustees.

Philip Soper
President and Chief Executive Officer

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

INTRODUCTION

This section of our annual report includes management's discussion and analysis of our financial results ("MD&A"). The MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future prospects. The information in this section should be read in conjunction with our audited financial statements.

Management's Discussion and Analysis of Results and Financial Condition

FINANCIAL HIGHLIGHTS

($000's)	**Three Months Ended December 31, 2005**	Three Months Ended December 31, 2004	**Year Ended December 31, 2005**	Year Ended December 31, 2004
Royalties	**$ 6,525**	$ 5,536	**$ 27,196**	$ 23,740
Less:				
Administration expenses	**202**	215	**595**	513
Interest expense	**604**	377	**2,289**	1,327
Management fee	**915**	918	**3,660**	3,660
Earnings and distributable cash before working capital and other reserves	**$ 4,804**	$ 4,026	**$ 20,652**	$ 18,240
Distributions	**$ 3,662**	$ 3,662	**$ 14,647**	$ 14,647
Number of Agents[1] and Sales Representatives[2]	**11,542**	10,145	**11,542**	10,145

The table above sets out selected historical information and other data which should be read in conjunction with the attached consolidated financial statements for the year ended December 31, 2005. The consolidated financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles. External economic and industry factors remain substantially unchanged, unless otherwise stated.

OVERVIEW

This Management Discussion and Analysis ("MD&A") covers the period from January 1, 2005 to December 31, 2005 and has been prepared as at March 10, 2006.

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

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

As at January 1, 2006, the Fund Network was comprised of 11,888 REALTORS[3] operating from 582 locations under 283 franchise agreements. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

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

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

[3] REALTOR is defined as an individual licensed to trade in Real Estate and includes brokers, Agents and Sales Representatives.

Subsequent to year-end the following significant events occurred:

- On January 1, 2006, the Fund acquired 21 new franchise agreements serviced by 346 REALTORS, with an estimated annual royalty stream of $0.7 million. The agreements for these locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $6.2 million, with $5.0 million due on closing and the balance to be paid by way of cash or units during the first quarter of 2007, upon meeting certain terms and conditions of the MSA.
- Effective January 1, 2006, the target annual distribution was increased to $1.15 per unit.

STRUCTURE OF THE FUND

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

Royalty Fees

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

Prior to July 1, 2005 the fixed fee of $100 and a technology fee was only based on the number of Agents in the Fund Network. Effective July 1, 2005, franchisees began paying the fixed monthly fee of $100 and a technology fee for Sales Representatives. This change only impacts Sales Representatives that are selling-REALTORS, and excludes broker-owners and managers. As of December 31, 2005, there were 849 Sales Representatives, 566 of which paid the applicable fees. The vast majority of the remaining 283 Sales Representatives are brokers and managers.

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

Approximately 88% (88% - 2004) of the Fund's royalties are derived from the combined fixed fee of $100 per selling-REALTOR per month, 1% variable fee and premium fees. The remaining royalty stream is generated from technology fees, 4.5% option and web services and other fees. Approximately 65% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of selling-REALTORS in the network, increasing Agent and broker productivity and an increasing supply of new housing inventory will provide the base for a strong, stable and growing cash flow.

Monthly Distributions

During 2005, the target annual cash distribution of $1.10 per unit was paid monthly to public unitholders.

To reduce unitholder risk, 25% of the Fund's units, which are held by BAM are subordinated in their rights to distributions until public unitholders receive their target distribution of $0.0917 per unit per month. This subordination is in place until August 7, 2008. Effective January 1, 2006, the target annual cash distribution is $1.15 per unit.

OPERATIONS OVERVIEW

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

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

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

Number of selling-REALTORS in the Fund

- As of January 1, 2006 the Fund Network consisted of 11,888 REALTORS, an increase of 1,185 or 11% from January 1, 2005.
- Effective July 1, 2005, franchisees began paying a fixed monthly fee of $100 and a technology fee for Sales Representatives who are selling-REALTORS.

Transaction volumes

The performance of the Fund is dependent upon the receipt of royalty revenue, which, in turn, is partially dependent upon the level of residential resale real estate transactions. The residential real estate industry is affected by all of the factors affecting the economy in general, including changes in interest rates, unemployment and inflation. During 2005, the Canadian residential resale real estate market (the "market"[4]) remained healthy and was buoyed by strong consumer confidence and housing affordability. A summary of the market and related activity is as follows (as reported by Canada Mortgage and Housing Corporation (CMHC), Canadian Real Estate Association (CREA) and the Toronto Real Estate Board (TREB)):

- Canada's housing starts, the market's future inventory, totalled 225,481 for the year ended December 31, 2005, a decrease of 3.4% from the seventeen year high of 233,431 recorded during 2004.
- The Canadian resale market totalled $120.4 billion for the year ended December 31, 2005, an increase of 16.2% compared with the year ended December 31, 2004.
- The year-over-year growth in the Canadian market for the year ended December 31, 2005, was fuelled by an 9.7% increase in average selling price to $249,365 and a 5.9% increase in residential unit sales to 482,805.
- The GTA market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of $28.8 billion for the year ended December 31, 2005, a 7.7% increase over the same period in 2004. This market activity was fuelled by the sale of 85,710 homes at an average selling price of $336,190, representing a 1% increase in homes sold and a 6.6% increase in average price per home, over the same period in 2004.
- The Fund Network REALTOR productivity for the year ended December 31, 2005, was approximately $2.3 million per REALTOR in transactional dollar volume, which was 5% ahead of 2004 level of $2.2 million and 63% ahead of the rest of the Canadian REALTOR productivity estimated at $1.4 million per REALTOR.
- Strong consumer confidence combined with overall housing affordability continues to encourage existing homeowners to trade up to larger, more expensive dwellings.

Stability of the Fund's royalty stream

- The Fund's royalties are derived primarily from a diverse national network of 262 independently owned and operated franchises, the majority of which operate with less than 100 Agents.
- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian REALTOR population.
- During 2005 there were no agreements subject to renewal, however, 14 agreements were renewed in advance of expiry.
- For the year ended December 31, 2005, three franchise agreements were terminated resulting in a loss of four locations and 14 Agents.
- The Fund has secured 10, 15 and 20-year agreements, exceeding the industry norm of five-year agreements.
- As at December 31, 2005, the Fund had $9.4 million in working capital and other reserves to meet future cash flow requirements. Of these reserves, $7.9 million was used to finance the January 1, 2006 acquisition payments and the balance retained for future distributions in light of the seasonality of the market.

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

Fund growth opportunities

Our growth objective is to add between 300 to 500 REALTORS to the Fund Network during 2006, with approximately one half of this growth from acquisitions and one half from internal growth. Growth through acquisition is achieved through Centract's dedicated network development team operating under the MSA.

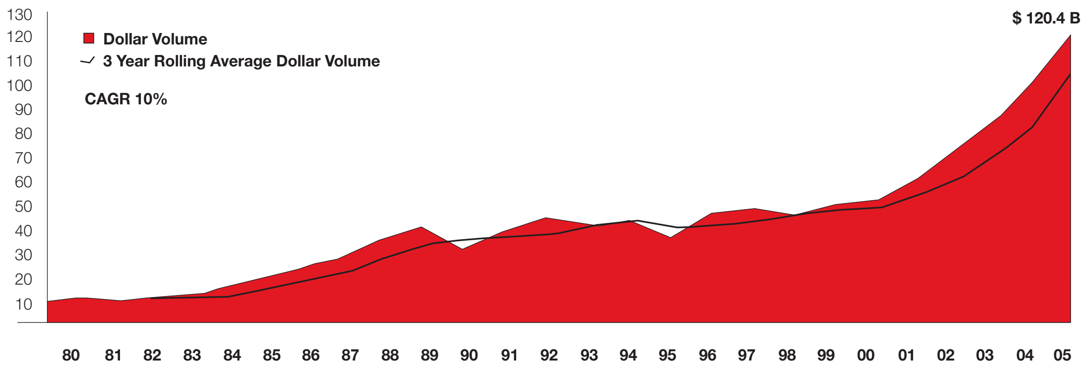
Growth in overall royalties is achieved by: increasing the number of selling-REALTORS in the Fund; increasing the productivity of Agents; expanding the range of products and services supporting the franchisees and Agents; increasing adoption of these products and services; and providing sales and marketing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

- Internal growth for 2005 totalled 839 REALTORS. This growth coupled with the acquisition of 21 franchise locations serviced by 346 REALTORS, added 1,185 REALTORS to the Fund's network in 2005, which far exceeded our annual growth target of 200 to 400 Agents.
- Effective July 1, 2005, franchisees began to pay the $100 per month fixed fee and technology fee for Sales Representatives. This change impacts selling-REALTORS only, and typically excludes broker-owners and managers. As of December 31, 2005, 566 of 849 Sales Representatives were paying royalties under the new fee structure. The vast majority of the remaining 283 Sales Representatives are brokers and managers.
- Centract continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining REALTORS and increasing their productivity and driving down administration costs.

THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

Since 1980, the Canadian Residential Resale Real Market has grown at a compounded annual growth rate of 10% and has been very resilient with only two significant downturns occurring in 1990 and 1995, both of which returned to pre-downturn levels within 24 months. During the 1990 downturn, interest rates were at all time highs and there was significant speculation in the form of building and multiple home ownership. Since that time lenders now require builders to pre-sell a significant portion of their developments before advancing funds. Market activity since 1980 is provided in the chart below.

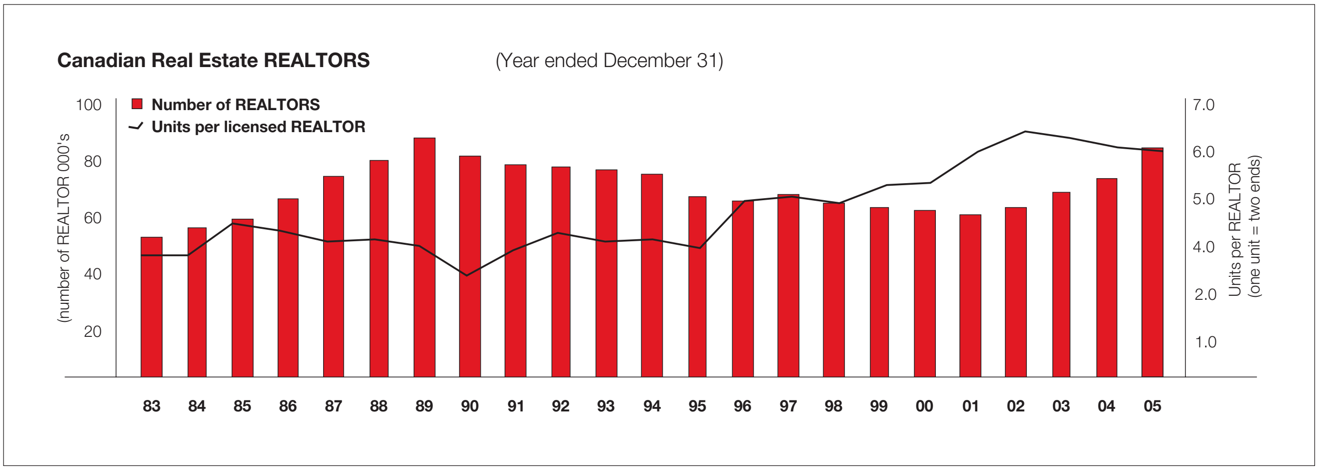
Market Dollar Volume – Canadian Resale Residential Real Estate (1980 - 2005) (in $ Billions)



Source: "CREA"

THE CANADIAN REAL ESTATE REALTOR POPULATION

The number of REALTORS in the Fund Network is a key driver of the Fund's results. For the year ended December 31, 2005, on the strength of a record residential resale real estate market, the Canadian Real Estate REALTOR membership grew by 8.0% to 82,852 members with an average of 6 units sold per REALTOR. The number of REALTORS in the Fund grew by 13.8% over the same period. The Canadian REALTOR population and the average number of units sold per REALTOR are summarized in the chart below.

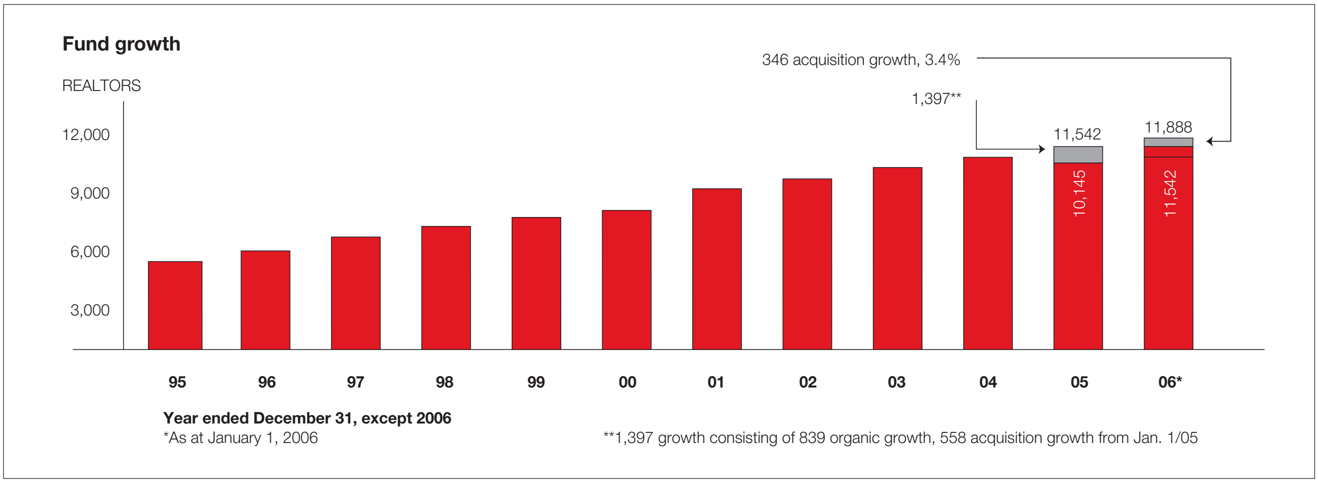


THE FUND NETWORK

Realtor growth

As at December 31, 2005, the Fund Network was comprised of 262 independently owned and operated franchises operating from 561 locations serviced by 11,542 REALTORS, with an approximate 20% share of the Canadian Residential Resale Real Estate market based on transactional dollar volume.

With the addition of 346 REALTORS from the 21 franchise agreements acquired by the Fund on January 1, 2006, the Fund begins 2006 with 11,888 REALTORS for a total increase of 1,185 REALTORS, which is an 11% increase over January 1, 2005. This increase is far in excess of the Fund's annual growth target of 200 to 400 net new REALTORS and exceeds the 8% growth rate experienced by the overall Canadian Real Estate REALTOR population for the same period.



A summary of the Canadian and Fund's growth in REALTORS for the calendar year ended December 31, 2005, is as follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**76,752**		**10,145**	
Q1	2,064	2.7%	750	7.4%
Q2	1,788	2.3%	323	3.2%
Q3	1,508	2.0%	119	1.2%
Q4	740	1.0%	205	2.0%
Closing	**82,852**	**8.0%**	**11,542**	**13.8%**

* Source - CREA

Network diversity

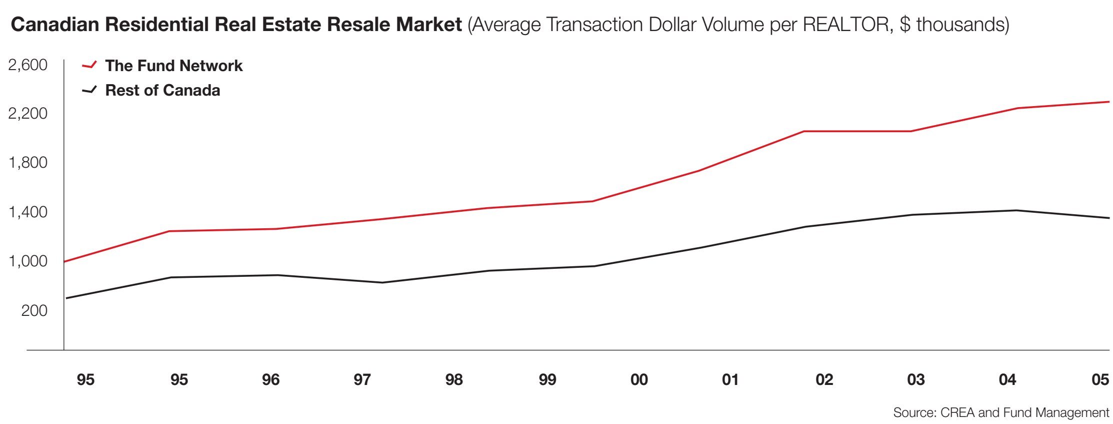
The Fund Network is comprised of diverse operations as the majority of the Fund's franchise fees are generated by franchisees with less than 100 REALTORS, with over 73% of the Fund's franchisees as at January 1, 2006, having less than 50 REALTORS. In addition, the Fund Network of REALTORS is geographically diverse with our REALTORS spread throughout Canada on approximately the same basis as the overall Canadian REALTOR population, as summarized in the chart below.

	Canadian[1] REALTOR Population	Fund[2] Network REALTORS
Ontario	49%	52%
Prairies	14%	12%
BC	19%	16%
Quebec	14%	15%
Maritimes	4%	5%
Total	100%	100%

1: As at December 31, 2005, Source: CREA
2: As at January 1, 2006

Realtor productivity

The average Fund Network REALTOR generated approximately $2.3 million in transactional dollar volume in 2005, 63% greater than the estimated average of $1.4 million for all other Canadian REALTORS. Management believes the higher productivity of Fund Network REALTORS makes the Fund less prone than the industry at large to losing its REALTORS during a period of reduced transaction dollar volume.



OPERATING RESULTS

($ 000's) except unit and per unit amounts	**Three Months Ended December 31, 2005**	Three Months Ended December 31, 2004	**Year Ended December 31, 2005**	Year Ended December 31, 2004
Royalties	**$ 6,525**	$ 5,536	**$ 27,196**	$ 23,740
Less:				
Administration expenses	**202**	215	**595**	513
Interest expense	**604**	377	**2,289**	1,327
Management fee	**915**	918	**3,660**	3,660
Earnings	**4,804**	4,026	**20,652**	18,240
Amortization of intangible assets	**3,589**	3,420	**14,150**	13,677
Non-controlling interest	**350**	189	**1,746**	1,232
Net earnings	**$ 865**	$ 417	**$ 4,756**	$ 3,331
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.09**	$ 0.04	**$ 0.48**	$ 0.33

Royalties for the three months ended December 31, 2005 (the "Quarter") of $6.5 million and for the year ended December 31, 2005 of $27.2 million, increased 18% and 15%, respectively over the same periods in 2004. The growth in royalties is explained in greater detail later in this MD&A.

Earnings of $4.8 million for the Quarter and $20.7 million for the year ended December 31, 2005, exceeded management's expectations due primarily to greater than anticipated selling-REALTOR growth and market activity and the introduction of a new fee structure for Sales Representatives.

Administration expenses were in line with management's expectations. **Interest expense** has increased over the same period in 2004 as we moved from a variable interest rate position on our $30.6 million term loan to a $38 million private debt placement at an effective fixed rate of 6.3%. **Management fees** have been calculated in line with the terms set out in the MSA, as 20% of royalties less administration expenses, interest expenses and changes in working capital and other reserves.

Net earnings for the Quarter totalled $0.9 million and $4.8 million for the year ended December 31, 2005. They represent earnings less non-cash charges of $3.6 million for the Quarter and $14.2 million for the year ended December 31, 2005, respectively, of amortization related to intangible assets and $0.3 million for the Quarter and $1.7 million for the year ended December 31, 2005, related to the non-controlling interest's 25% share of the operating results.

The Fund Network as at December 31, 2005, was comprised of 10,693 Agents and 849 Sales Representatives, with 10,398 of the Agents operating under the combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option"), 295 Agents operating under the 4.5% variable fee option (the "4.5% option") and 566 Sales Representatives operating under the $100 per month fixed fee plan.

Royalties ($ 000's)	**Three Months Ended December 31, 2005**	Three Months Ended December 31, 2004	**Year Ended December 31, 2005**	Year Ended December 31, 2004
Fixed franchise fees	**$ 3,261**	$ 2,718	**$ 12,332**	$ 10,649
Variable franchise fees	**1,327**	1,149	**7,337**	6,377
Premium franchise fees	**1,065**	1,009	**4,241**	3,971
Other fees and services	**872**	660	**3,286**	2,743
	$ 6,525	$ 5,536	**$ 27,196**	$ 23,740

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

Total fixed franchise fees, variable franchise fees and premium franchise fees represented 87% and 88% of royalties for the Quarter and year ended December 31, 2005, respectively. In comparison, the combined fees for the respective periods for 2004 totalled 88%.

Fixed franchise fees increased 20% and 16% for the Quarter and year ended December 31, 2005, respectively, over the same periods in 2004. This increase exceeds the increase in the underlying Agents, as Sales Representatives began paying the $100 fixed fee per month effective July 1, 2005.

Variable franchise fees increased 15% for the Quarter and year ended December 31, 2005, over the same periods in 2004 while the market activity increased 20% and 16% for the Quarter and year ended December 31, 2005, respectively, over the same periods in 2004. The market activity for the Quarter outpaced the variable fees for the same period in 2005 as these fees are paid to the Fund after the sales transaction closes. There is typically a 45 to 60 day delay between a home sale and closing. As such, some of the market activity during the Quarter should materialize as variable fees in the quarter ended March 31, 2006. In addition, many Agents reach capping limits towards the end of the year.

Premium franchise fees are a function of the mix of 22 franchise locations servicing the GTA market, which pay premium fees ranging from 1% to 5% of the location's gross revenue. The premium franchise fees increased by 6% and 7%, for the Quarter and year ended December 31, 2005, respectively, over the same periods in 2004, while the GTA market activity for the same periods increased by 11% and 8%, respectively. As mentioned earlier there is typically a 45 to 60 day delay between the home sale and closing, as such, some of the market activity during the Quarter should materialize as premium fees in the quarter ending March 31, 2006. As well, market growth experienced in the individual market areas serviced by the premium fee paying franchise locations differs from the overall GTA market activity.

Other fees and services represented 13% and 12% of Fund royalties for the Quarter and year ended December 31, 2005 respectively, increased 32% and 20%, respectively, over the same periods in 2004. These fees, comprised of technology fees, 4.5% option fees, web service and other fees and revenue, increased over the same periods in 2004 due primarily to higher interest earned on the higher cash balances, the greater than anticipated number of REALTORS and an increase in the pricing of our new web services and training offerings.

Interest expense

Interest expense of $0.6 million for the Quarter and $2.3 million for the year ended December 31, 2005, is comprised of interest on the Fund's $30.6 million term loan from January 1 to February 17, 2005, interest on the $38 million private debt placement from February 18 to December 31, 2005, amortization of the financing charges incurred to secure the $38 million private debt placement, and standby charges associated with the Fund's $2 million operating line, which has remained unutilized since inception of the Fund.

The fixed interest rate on the $38 million private debt placement is 5.882% with an effective interest rate of 6.3%, once the five year amortization of the $0.8 million in financing costs associated with securing the private debt placement and $2 million operating line are taken into account.

Amortization of intangible assets

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

Management fee expense

Management fees of $0.9 million for the Quarter and $3.7 million for the year ended December 31, 2005, are in line with management's expectations. Management services are provided under the MSA by RIFML for a fee equal to 20% of cash otherwise available for distribution, which is calculated as distributable cash after reasonable reserves for future Fund distributions and obligations. The Fund generated reserves of $1.1 million during the Quarter ($0.4 million – quarter ended December 31, 2004) and $6.0 million for the year ended December 31, 2005 ($3.6 million for year ended December 31, 2004). In accordance with the MSA these reserve amounts have been deducted from cash otherwise distributable in arriving at the Fund's management fees.

On January 1, 2006, at the direction of the Board, $7.9 million of the reserves built up to December 31, 2005 were released to finance the acquisition of franchise agreements (see Reserves and Acquisitions and Deposits on Acquisitions). Accordingly, as prescribed in the MSA, the associated 20% management fee of $1.6 million is expected to be paid during 2006.

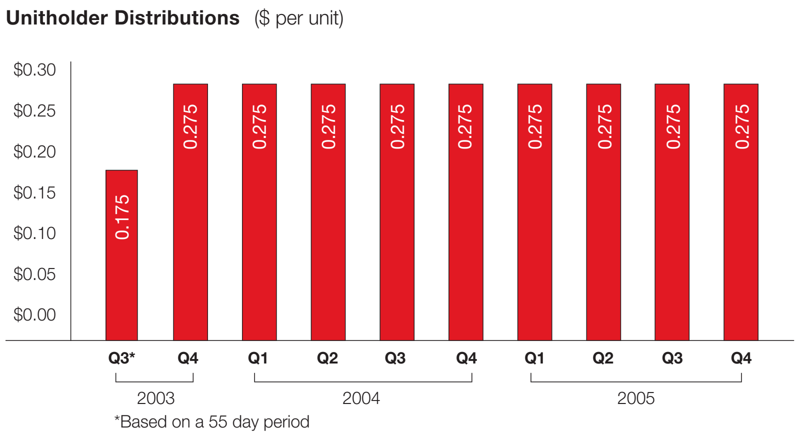
Since the inception of the Fund, management and the Board have been reserving all cash in excess of distributions as it built up a track record and to guard against working capital requirements brought on by the seasonality of the residential resale real estate market. Now with more than two years of positive results well in excess of target distributions, it is anticipated the Fund's cash reserves will be limited to reasonable working capital requirements and cash in excess of these reserves may be held to fund future acquisitions.

DISTRIBUTIONS

Distributions, as summarized in the following table, were in line with annualized targeted distributions of $1.10 per unit.

The current tax allocation of distributions declared for 2005 is 86% taxable income and 14% return of capital. The 2004 tax allocation was 70% taxable income and 30% return of capital.

Management and the Board of Trustees periodically review the Fund's distribution target. Effective January 1, 2006, the distribution target was increased to $1.15 per annum. The distributions since inception are summarized in the following chart.



DISTRIBUTABLE CASH

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

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

Distributable cash ($ 000's)	**Three Months Ended December 31, 2005**	Three Months Ended December 31, 2004	**Year Ended December 31, 2005**	Year Ended December 31, 2004
Royalties	**$ 6,525**	$ 5,536	**$ 27,196**	$ 23,740
Less:				
Administration expenses	**202**	215	**595**	513
Interest expense	**604**	377	**2,289**	1,327
Management fee	**915**	918	**3,660**	3,660
Distributable cash before working capital and other reserves	**4,804**	4,026	**20,652**	18,240
Less change in working capital and other reserves	**(1,142)**	(364)	**(6,005)**	(3,593)
Distributable cash	**$ 3,662**	$ 3,662	**$ 14,647**	$ 14,647

Distributable cash **Reconciled to the financial statements** ($ 000's)	**Three Months Ended December 31, 2005**	Three Months Ended December 31, 2004	**Year Ended December 31, 2005**	Year Ended December 31, 2004
Net earnings for the period	**$ 865**	$ 417	**$ 4,756**	$ 3,331
Add:				
Non-controlling interest share of net earnings	**350**	189	**1,746**	1,232
Amortization of intangible assets	**3,589**	3,420	**14,150**	13,677
Distributable cash before working capital and other reserves	**4,804**	4,026	**20,652**	18,240
Less change in working capital and other reserves	**(1,142)**	(364)	**(6,005)**	(3,593)
Distributable cash	**$ 3,662**	$ 3,662	**$ 14,647**	$ 14,647

Distributable cash before working capital and other reserves totalled $4.8 million for the Quarter and $20.7 million for the year ended December 31, 2005. This was ahead of management's expectations for reasons described earlier and since distributable cash before working capital and other reserves was greater than the declared distributions for the year, working capital and other reserves of $1.1 million were built up during the Quarter and $6.0 million for the year ended December 31, 2005, bringing total reserves, to $9.4 million (see Reserves).

RESERVES

Since inception, the Fund has built up $9.4 million in reserves as summarized in the table below. These reserves have been reduced by $0.1 million and $0.4 million for cash used to acquire franchise contracts on January 1, 2004 and January 1, 2005, respectively. Since the inception of the Fund, management and the Board have been reserving all cash in excess of distributions as it built up a track record to guard against working capital requirements brought on by the seasonality of the residential resale real estate market. Now with more than two years of positive results well in excess of target distributions, it is anticipated the Fund's cash reserves will be limited to reasonable working capital requirements and cash in excess of these reserves may be held to fund future acquisitions.

During December 2005, the Board approved the use of these reserves to finance the Fund's franchise contract acquisitions comprised of a $5.0 million deposit obligation for the January 1, 2006 acquisition and the $2.9 million final payment of the 2005 acquisition (see Acquisitions and Deposit on Acquisition).

Reserves ($ 000's)	August 7, 2003 to December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	**Total**
Royalties	$ 8,802	$ 23,740	$ 27,196	**$ 59,738**
Less:				
Administration expenses	231	513	595	**1,339**
Interest expense	620	1,327	2,289	**4,236**
Management fee	1,550	3,660	3,660	**8,870**
Distributable cash before working capital and other reserves	6,401	18,240	20,652	**45,293**
Less:				
Distributions to public unitholders	4,533	10,985	10,985	**26,503**
Distributions to non-controlling interest	1,511	3,662	3,662	**8,835**
Funding of acquisitions	–	120	414	**534**
	$ 357	$ 3,473	$ 5,591	**$ 9,421**

Distributable cash before working capital and other reserves Reconciled to the financial statements ($ 000's)	August 7, 2003 to December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	**Total**
Net earnings for the period	$ 1,947	$ 3,331	$ 4,756	**$ 10,034**
Add:				
Non-controlling interest share of net earnings	702	1,232	1,746	**3,680**
Amortization of intangible assets	3,752	13,677	14,150	**31,579**
Distributable cash before working capital and other reserves	$ 6,401	$ 18,240	$ 20,652	**$ 45,293**

ACQUISITIONS AND DEPOSIT ON ACQUISITIONS

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

2005 Acquisition

On January 1, 2005, the Fund acquired 38 franchise agreements at an estimated purchase price of $9.3 million. These agreements generate an estimated annual royalty stream of $1.2 million from 47 locations serviced by 558 REALTORS. An initial payment of $7 million was made and the balance was paid January 1, 2006 upon audit of the actual royalties generated under these agreements and the recalculation of the actual purchase price as detailed in the MSA.

As at December 31, 2005, the royalties generated to date from these agreements had resulted in a total purchase price obligation of $9.9 million. Accordingly, deposit on acquisition as at December 31, 2005 has been reduced by the full $7.0 million and intangible assets increased by $9.9 million resulting in a $2.9 million purchase obligation which was paid in January 2006. In addition, $0.5 million in related amortization has been recorded.

2006 Acquisition

On January 1, 2006, the Fund acquired 21 new franchise agreements serviced by 346 REALTORS, with an estimated annual royalty stream of $0.7 million. The agreements for these locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $6.2 million. $5.0 million was due and paid on the closing date of January 1, 2006 and the balance is to be paid by way of cash or units during the first quarter of 2007, upon meeting the terms and conditions outlined in the MSA as mentioned above.

PRIVATE DEBT PLACEMENT AND $2 MILLION OPERATING LINE

With the low interest rate environment and the $7 million deposit on acquisitions described earlier, the Fund sought to increase its debt and take advantage of the low interest rates by moving from a floating interest rate position to a fixed interest rate position. Accordingly, on February 18, 2005, the Fund completed a $38 million private debt placement with a number of Canadian institutional investors for a five-year term with interest fixed at 5.882%, payable quarterly in arrears. The private debt placement proceeds, net of approximately $0.8 million in issue costs, were used to repay the Fund's $30.6 million term loan. The remaining $6.6 million in net proceeds along with $0.4 million drawn from cash reserves were utilized to meet the Fund's January 1, 2005 initial franchise contract purchase obligation of $7 million (see Acquisitions and Deposit on Acquisitions).

On an annualized basis, as compared to the year ended December 31, 2004, the private debt placement effectively increased the Fund's interest costs by $1.0 million, from $1.3 million in 2004 to $2.3 million, with 23% of the increase coming from the increase in debt from $30.6 million to $38 million and the remainder from the increase in the effective interest cost from 4.6% in 2004 to 6.3% under the private debt placement. In what management anticipates will be a rising interest rate environment, the fixing of the interest rate on the Fund's debt will add stability and predictability over the next five years to this significant component in the determination of the Fund's distributable cash.

On February 16, 2005, the Fund replaced its $2 million operating line with a $2 million operating line from a single Canadian financial institution. As of the date of this MD&A this operating line remains undrawn and in force. The $0.8 million in issue costs associated with the $38 million private debt placement and the $2 million operating line will be amortized over the term of the private debt placement. During the Quarter and year ended December 31, 2005, $40,000 and $138,000, respectively, of these charges were amortized.

LIQUIDITY

The Fund utilized cash flow generated from operating activities for the Quarter and year ended December 31, 2005 of $5.1 million and $20.6 million, respectively, to meet administration and distribution requirements, without drawing on our $2 million operating line.

Working Capital ($ 000's)	**As at December 31, 2005**	As at September 30, 2005	As at June 30, 2005	As at March 31, 2005	As at December 31, 2004
Current assets					
Cash and cash equivalents	**$ 9,941**	$ 8,532	$ 5,430	$ 3,658	$ 4,444
Accounts receivable and other	**2,518**	2,824	3,134	2,960	2,272
	$ 12,459	$ 11,356	$ 8,564	$ 6,618	$ 6,716
Current liabilities					
Accounts payable and accrued liabilities	**$ 2,064**	$ 2,122	$ 2,003	$ 1,858	$ 2,001
Purchase obligation	**2,893**	1,686	–	–	–
Distribution payable to unitholders	**915**	915	915	915	915
	5,872	4,723	2,918	2,773	2,916
Net working capital	**$ 6,587**	$ 6,633	$ 5,646	$ 3,845	$ 3,800

The Fund had a net positive working capital position of $6.6 million as at December 31, 2005, unchanged from September 30, 2005 and increased significantly from the $3.8 million as at December 31, 2004 as summarized in the table above.

Accounts receivable decreased $0.3 million from September 30, 2005 due primarily to seasonal fluctuations in revenues and increased $0.2 million from December 31, 2004 due to increased revenues associated with the increase in the number of selling-REALTORS.

Accounts payable and accrued liabilities decreased $0.1 million from September 30, 2005 and increased $0.1 million from December 31, 2004. Accounts payable are comprised of a $0.9 million ($0.9 million – 2004) quarterly distribution payable to the non-controlling interest, $0.3 million ($0.3 million – 2004) in management fees payable to RIFML and $0.9 million ($0.8 million – 2004) in interest expense, deferred service revenue and administration expense accruals.

The purchase obligation of $2.9 million as at December 31, 2005 represents the purchase price obligation remaining from the January 1, 2005 franchise agreements acquisitions. Payment of this obligation was made during January 2006.

The purchase of the franchises represented by 346 REALTORS operating out of 21 locations led to a liability of $5.0 million to be paid in January 2006. As outlined in the MSA, this liability represents 80% of the estimated purchase price of $6.2 million (See Acquisitions and Deposit on Acquisitions). As the risks and rewards of ownership do not transfer to the Fund until the purchase date of January 1st, 2006, the liability and corresponding asset have not been recognized as at December 31, 2005.

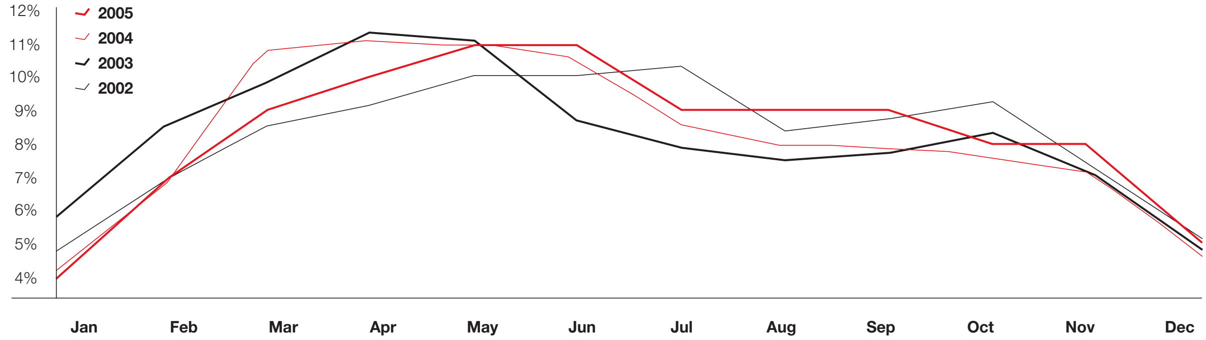
CAPITAL RESOURCES

Existing capital resources which the Fund can draw upon consists of a $2 million operating line, which remains unutilized since the inception of the Fund. Other resources include: funds generated from operations in excess of administration costs; debt servicing and distribution requirements; and $9.4 million in working capital and other reserves generated since the inception of the Fund and held for future distributions in anticipation of the seasonality of the Canadian residential resale real estate market (refer to graph below) and to finance the acquisition of franchises (see Reserves). Management will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

With $9.4 million in cumulative reserves, an anticipated flow through of strong market unit sales, and the anticipated generation of further reserves in the future due to continued market strength, we anticipate meeting our near term financing requirements.

A summary of the seasonality of the market over the last three years is provided in the chart below.

Canadian Residential Resale Real Estate Market (% Transactional Dollar Volume by Month)



Source: CREA

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

CRITICAL ACCOUNTING ESTIMATES

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

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

ACCOUNTING POLICIES

Deferred Charges

Since January 1, 2005 the Fund paid $0.8 million in issue costs associated with the $38 million private debt placement and the $2 million operating line. These costs have been deferred and are being amortized on a straight-line basis over the five-year term of the private debt placement. During the Quarter and year ended December 31, 2005, $40,000 and $138,000, respectively, of these charges were amortized. This amortization policy has been adopted to match the period over which the Fund will benefit from the financing.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and a $38 million private debt placement. We estimate that the fair values of these financial instruments approximate their carrying value.

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

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

Fair Value

The fair value of the Fund's financial instruments are estimated by management to approximate their carrying values.

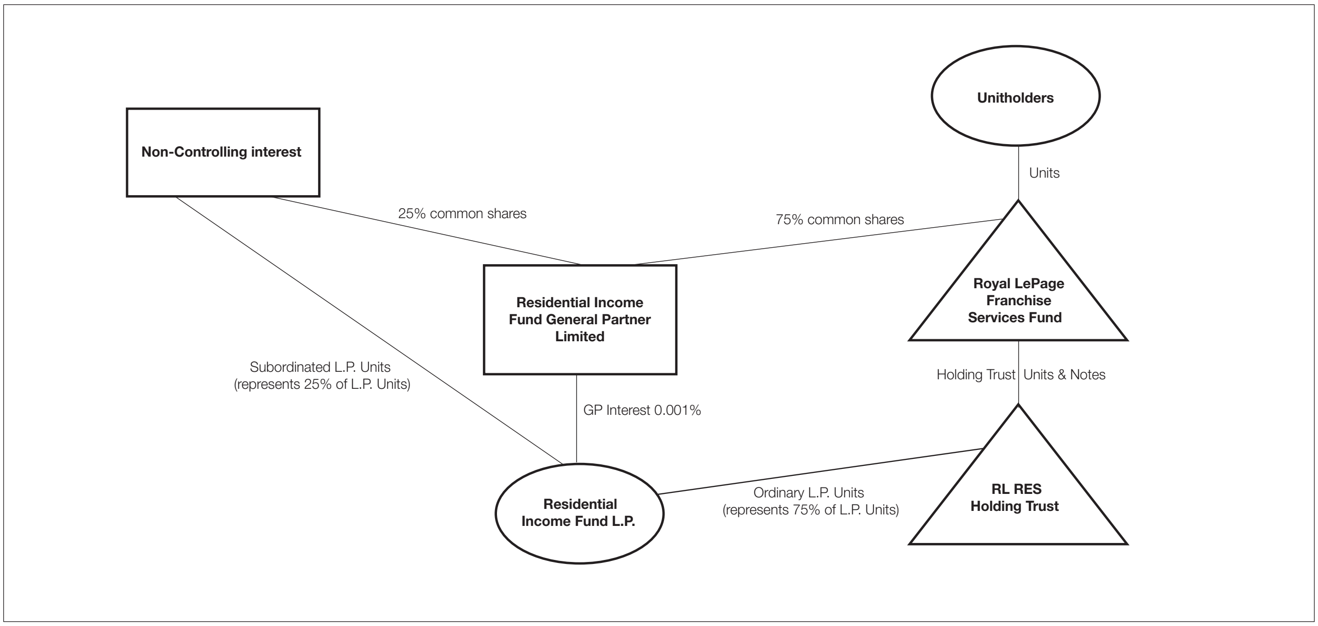
DISCLOSURE CONTROLS AND PROCEDURES

The Fund maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Fund evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at December 31, 2005 and have concluded that such disclosure controls and procedures are operating effectively.

OUTSTANDING UNITS

The Fund's capital structure remains unchanged from our launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at December 31, 2005, 9,983,000 units were issued and outstanding. In addition to these units, the Fund has also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units.

FUND STRUCTURE



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

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

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

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

TAXATION OF FUND DISTRIBUTIONS

Under the Fund's Amended and Restated Declaration of Trust the maximum tax deductions available to the Fund shall be claimed to the extent it brings its taxable income of the Trust to nil. The deductions available to the Trust are comprised of the costs of the offering and intangible assets. The deductions available to the Trust as at December 31, 2005 are comprised of costs of the initial public offering, intangible assets of the LP, acquisitions of franchise agreements subsequent to inception, and costs associated with the $38 million private debt placement, which have the following deductibility profile and amounts:

Taxation of Fund Distributions ($ millions)	Actual Deduction for 2004	Actual Deduction for 2005	Remaining Balance	Estimated Deduction for 2006	Future Deduction Basis
	6.2	5.7	76.6	5.4	7% of Balance
	1.8	1.9	5.3	2.0	Five year straight- line
	–	0.6	9.4	1.0	Length of contract plus one renewal
	8.0	8.2	91.3	8.4	

For the year ended December 31, 2005, the Fund had a return of capital per unit of approximately 14% (30%- 2004) the taxable amount per unit of approximately 86% (70% - 2004) calculated as follows:

$ millions	**2005**	2004
Net earnings	**4.8**	3.3
Add		
Non-controlling interest	**1.7**	1.2
Amortization	**14.2**	13.7
Taxable earnings	**20.7**	18.2
Less		
Tax deduction	**8.2**	8.0
Taxable income	**12.5**	10.2
Distributions	**(14.6)**	(14.6)
Return of capital	**(2.1)**	(4.4)
Return of capital	**14%**	30%
Taxable	**86%**	70%
Distributions		
Unit holders	**11.0**	11.0
Non-controlling interest	**3.6**	3.6
	14.6	14.6

On November 23, 2005, the Department of Finance announced plans to boost the dividend tax credit and to leave the tax treatment for income trusts unchanged. Although a new minority government has now taken office, it has not indicated any desire to bring about additional changes that could impact income trusts.

OUTLOOK

We expect continued strength in the Canadian residential resale real estate market in the mid-term due to strong underlying market fundamentals supported by low interest rates, strong consumer confidence, the relative affordability of residential real estate, a relatively strong economy and a steadily increasing inventory of residential resale homes. This strength will be mitigated somewhat with rising interest rates and an increase in listing inventory levels. This rise in listing inventory is expected to lessen the pace of price appreciation from double digits seen in 2004 and 2005 to single digit for the near to mid-term, with the anticipated overall effect of a strong but more balanced market.

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

During 2004, we embarked on the largest technology revitalization in our history to improve our technology platform for web, internet, intranet and online services. The phased launch of these systems began in April 2005 and was completed at the beginning of August. This improved technology platform will reinforce our leadership position in the years ahead.

These strong market fundamentals and technology enhancements in combination with favourable debt refinancing and increased royalties from acquisitions, all set the stage for stable and sustainable unitholder distributions.

FORWARD-LOOKING STATEMENTS

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

SUPPLEMENTAL INFORMATION – NET EARNINGS AND DISTRIBUTABLE CASH BY PERIOD

($ 000's, unaudited)	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Royalties	$ 4,855	$ 6,397	$ 6,952	$ 5,536	$ 5,596	$ 7,138	$ 7,937	**$ 6,525**
Less:								
Administration expenses	86	93	119	215	123	145	125	**202**
Management fees	881	950	911	918	915	915	915	**915**
Interest expense	361	296	293	377	481	602	602	**604**
Amortization of intangible assets	3,420	3,418	3,419	3,420	3,471	3,521	3,569	**3,589**
Earnings before undernoted	107	1,640	2,210	606	606	1,955	2,726	**1,215**
Non-controlling interest	(44)	(427)	(572)	(189)	(175)	(519)	(702)	**(350)**
Net earnings for the period	63	1,213	1,638	417	431	1,436	2,024	**865**
Add:								
Amortization of intangible assets	3,420	3,418	3,419	3,420	3,471	3,521	3,569	**3,589**
Non-controlling interest	44	427	572	189	175	519	702	**350**
Distributable cash before working capital and other reserves	3,527	5,058	5,629	4,026	4,077	5,476	6,295	**4,804**
Add (less) change in:								
Working capital and other reserves	260	(1,398)	(1,964)	(364)	(416)	(1,814)	(2,633)	**(1,142)**
Reserves for acquisition	(127)	–	–	–	–	–	–	**–**
Distributable cash	$ 3,660	$ 3,660	$ 3,665	$ 3,662	$ 3,661	$ 3,662	$ 3,662	**$ 3,662**
Distributable cash available to:								
Public unit holders	$ 2,745	$ 2,748	$ 2,746	$ 2,746	$ 2,746	$ 2,747	$ 2,746	**$ 2,746**
Non-controlling interest	915	916	915	916	915	915	916	**916**
	$ 3,660	$ 3,664	$ 3,661	$ 3,662	$ 3,661	$ 3,662	$ 3,662	**$ 3,662**
Distributions to public unitholders	$ 2,745	$ 2,748	$ 2,746	$ 2,746	$ 2,746	$ 2,747	$ 2,746	**$ 2,746**
Per unit (9,983,000 units):								
Basic and diluted earnings	$ 0.00	$ 0.13	$ 0.16	$ 0.04	$ 0.04	$ 0.14	$ 0.20	**$ 0.09**
Basic and diluted distributable cash before working capital and other reserves	$ 0.26	$ 0.38	$ 0.42	$ 0.30	$ 0.31	$ 0.41	$ 0.47	**$ 0.36**
Basic and diluted distributions	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	**$ 0.28**

TAX ALLOCATION OF DISTRIBUTIONS

Unaudited	2003	2004	**2005**
	(actual)	(actual)	(actual)
Other taxable income	50%	70%	**86%**
Return of capital	50%	30%	**14%**
Total distributions of the period	100%	100%	**100%**

SUPPLEMENTAL INFORMATION – SELECTED FINANCIAL AND OPERATING INFORMATION

	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Revenue ($ 000's, unaudited)								
Fixed franchise fees	$ 2,522	$ 2,718	$ 2,691	$ 2,718	$ 2,945	$ 2,999	$ 3,127	**$ 3,261**
Variable franchise fees	1,179	2,008	2,041	1,149	1,335	2,231	2,444	**1,327**
Premium franchise fees	541	932	1,489	1,009	576	1,103	1,497	**1,065**
Other fees and services	613	739	731	660	740	805	869	**872**
	$ 4,855	$ 6,397	$ 6,952	$ 5,536	$ 5,596	$ 7,138	$ 7,937	**$ 6,525**
% Revenue by region								
British Columbia	15	14	12	13	15	15	14	**14**
Prairies	12	11	11	11	11	11	11	**11**
Ontario	58	60	64	62	57	57	59	**59**
Quebec	11	11	9	9	13	13	12	**12**
Maritimes	4	4	4	5	4	4	4	**4**
	100	100	100	100	100	100	100	**100**

Additions for the period:	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Number of Agents & Sales Representatives	279	189	210	13	750	323	119	**205**
Number of Agents	225	163	175	38	726	295	138	**179**
Number of fixed fee paying Sales Representatives	–	–	–	–	–	–	477	**89**
Number of locations	6	9	–	(6)	47	–	(4)	**–**
Number of franchisees	4	(2)	–	(1)	38	(1)	(2)	**–**
At end of period								
Number of Agents & Sales Representatives	9,733	9,922	10,132	10,145	10,895	11,218	11,337	**11,542**
Number of Agents	8,979	9,142	9,317	9,355	10,081	10,376	10,514	**10,693**
Number of fixed fee paying Sales Representatives	–	–	–	–	–	–	477	**566**
Number of locations	515	524	524	518	565	565	561	**561**
Number of franchisees	230	228	228	227	265	264	262	**262**

SUPPLEMENTAL INFORMATION – FUND UNIT PERFORMANCE

	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Trading price range of units (TSX: "RSF.UN")								
High	$ 12.10	$ 11.90	$ 12.25	$ 12.15	$ 14.90	$ 14.30	$ 14.50	**$ 13.50**
Low	$ 10.80	$ 9.85	$ 10.60	$ 11.40	$ 11.50	$ 12.60	$ 12.05	**$ 10.31**
Close	$ 11.70	$ 11.00	$ 11.95	$ 11.55	$ 13.40	$ 13.29	$ 13.00	**$ 13.10**
Average daily volume	28,016	10,905	5,369	22,531	25,689	5,646	7,467	**4,481**
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	**9,983,000**
Net enterprise value at period end (thousands)								
Market capitalization[5]	$155,735	$146,417	$159,062	$153,738	$178,363	$176,899	$173,039	**$ 174,370**
Debt	30,600	30,600	30,600	30,600	38,000	38,000	38,000	**38,000**
Less:								
Cash on hand	1,205	2,055	3,647	4,444	3,658	5,430	8,532	**9,941**
	$185,130	$174,962	$186,015	$179,894	$212,705	$209,469	$202,507	**$ 202,429**

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

CONDENSED BALANCE SHEET

($ 000's, unaudited)	As at March 31 2004	As at June 30 2004	As at Sept. 30 2004	As at Dec. 31 2004	As at March 31 2005	As at June 30 2005	As at Sept. 30 2005	**As at Dec. 31 2005**
Cash and cash equivalents	$ 1,205	$ 2,055	$ 3,647	$ 4,444	$ 3,658	$ 5,430	$ 8,532	**$ 9,941**
Accounts receivable	2,214	2,899	2,382	2,176	2,874	3,074	2,797	**2,434**
Prepaid expenses	104	66	41	96	86	60	27	**84**
Deferred charges	–	–	–	–	749	743	703	**684**
Deposit on acquisition	–	–	–	–	4,038	1,118	–	**–**
Intangible assets	147,491	144,077	140,658	137,238	136,751	136,169	135,404	**133,022**
	$151,014	$149,097	$146,728	$143,954	$148,156	$146,594	$147,463	**$ 146,165**
Accounts payable and accrued liabilities	$ 2,530	$ 2,637	$ 1,719	$ 2,001	$ 1,858	$ 2,003	$ 2,122	**$ 2,064**
Purchase obligation	–	–	–	–	–	–	1,686	**2,893**
Distributions payable to unitholders	915	915	915	915	915	915	915	**915**
Long-term debt	30,600	30,600	30,600	30,600	38,000	38,000	38,000	**38,000**
Non-controlling interest	29,299	28,810	28,467	27,740	27,000	26,604	26,390	**25,824**
Unitholders' equity	87,670	86,135	85,027	82,698	80,383	79,072	78,350	**76,469**
	$151,014	$149,097	$146,728	$143,954	$148,156	$146,594	$147,463	**$ 146,165**

SUPPLEMENTAL INFORMATION – CONDENSED CASHFLOW BY PERIOD

($ 000's, unaudited)	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Cash provided by (used for):								
Operating activities								
Net earnings for the period	$ 63	$ 1,213	$ 1,638	$ 417	$ 431	$ 1,436	$ 2,024	**$ 865**
Add (Deduct)								
Non-controlling interest	44	427	572	189	175	519	702	**350**
Amortization of deferred charges	–	–	–	–	17	41	40	**40**
Amortization of intangible assets	3,420	3,418	3,419	3,420	3,471	3,521	3,569	**3,589**
Changes in non-cash working capital	15	(540)	(376)	433	(831)	(29)	429	**248**
	3,542	4,518	5,253	4,459	3,263	5,488	6,764	**5,092**
Investing activities								
Deposit on acquisition	–	–	–	–	(7,048)	–	–	**–**
Purchase of intangible assets	(116)	(4)	–	–	26	(19)	–	**–**
	(116)	(4)	–	–	(7,022)	(19)	–	**–**
Financing activities								
Proceeds from long term loan	–	–	–	–	38,000	–	–	**–**
Distributions paid to unitholders	(2,745)	(2,748)	(2,746)	(2,746)	(2,746)	(2,747)	(2,746)	**(2,746)**
Distributions paid to non-controlling interest	(915)	(916)	(915)	(916)	(915)	(915)	(916)	**(916)**
Repayment of long term loan	–	–	–	–	(30,600)	–	–	**–**
Deferred charges	–	–	–	–	(766)	(35)	–	**(21)**
	(3,660)	(3,664)	(3,661)	(3,662)	2,973	(3,697)	(3,662)	**(3,683)**
Increase (decrease) in cash and cash equivalents during the period	(234)	850	1,592	797	(786)	1,772	3,102	**1,409**
Cash and cash equivalents, beginning of period	1,439	1,205	2,055	3,647	4,444	3,658	5,430	**8,532**
Cash and cash equivalents, end of period	$ 1,205	$ 2,055	$ 3,647	$ 4,444	$ 3,658	$ 5,430	$ 8,532	**$ 9,941**

SUPPLEMENTAL INFORMATION – CANADIAN REAL ESTATE MARKET

	Three months ended March 31 2004	Three months ended June 30 2004	Three months ended Sept. 30 2004	Three months ended Dec. 31 2004	Three months ended March 31 2005	Three months ended June 30 2005	Three months ended Sept. 30 2005	**Three months ended Dec. 31 2005**
Canada								
Transaction dollar volume ($ millions)	$ 23,558	$ 33,051	$ 25,711	$ 21,335	$ 24,814	$ 37,809	$ 32,190	**$ 25,601**
Average selling price	$ 221,202	$ 230,253	$ 224,550	$ 233,007	$ 238,834	$ 251,101	$ 250,214	**$ 256,519**
Number of units sold	106,500	143,542	114,500	91,566	103,898	150,573	128,649	**99,802**
Number of REALTORS at period end	72,887	74,430	75,611	76,752	78,816	80,604	82,112	**82,852**
Housing starts	39,382	67,378	65,754	60,917	37,084	67,183	62,809	**58,405**
Greater Toronto Area								
Transaction dollar volume ($ millions)	$ 5,927	$ 8,872	$ 6,457	$ 5,507	$ 6,017	$ 9,371	$ 7,385	**$ 6,117**
Average selling price	$ 305,653	$ 321,034	$ 312,545	$ 320,165	$ 330,120	$ 344,557	$ 332,507	**$ 338,396**
Number of units sold	19,392	27,636	20,660	17,199	18,228	27,196	22,211	**18,075**
Housing starts	6,831	12,651	12,380	10,253	6,918	13,050	11,774	**9,854**

	Twelve months ended March 31 2004	Twelve months ended June 30 2004	Twelve months ended Sept. 30 2004	Twelve months ended Dec. 31 2004	Twelve months ended March 31 2005	Twelve months ended June 30 2005	Twelve months ended Sept. 30 2005	**Twelve months ended Dec. 31 2005**
Canada								
Transaction dollar volume ($ millions)	$ 94,457	$ 101,495	$ 102,529	$ 103,666	$ 104,912	$ 109,670	$ 116,166	**$ 120,395**
Average selling price	$ 212,432	$ 219,979	$ 223,806	$ 227,261	$ 231,335	$ 238,134	$ 244,667	**$ 249,365**
Number of units sold	444,643	461,387	458,115	456,108	453,506	460,537	474,795	**482,805**
Housing starts	219,538	227,766	230,749	233,431	231,133	230,938	227,993	**225,481**
Seasonally adjusted housing starts	216,200	239,300	231,000	234,400	218,500	237,200	230,500	**227,700**
Greater Toronto Area								
Transaction dollar volume ($ millions)	$ 24,214	$ 26,181	$ 26,418	$ 26,763	$ 26,851	$ 27,352	$ 28,205	**$ 28,815**
Average selling price	$ 297,431	$ 305,568	$ 310,964	$ 315,278	$ 320,712	$ 328,419	$ 332,471	**$ 336,190**
Number of units sold	81,409	85,680	84,956	84,887	83,723	83,283	84,834	**85,710**
Housing starts	42,563	43,914	43,971	42,115	42,202	42,601	41,995	**41,596**

Management's Responsibility for the Financial Statements

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

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

Deloitte & Touche, LLP, the independent auditors appointed by the unitholders, have examined the consolidated financial statements set out on pages 30 through 37 in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report is set out below.

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

Toronto, Canada. March 10, 2006

Philip Soper, President & CEO

Kevin A. Cash, Senior Vice-President, CFO

Auditors' Report

To the Unitholders of Royal LePage Franchise Services Fund

We have audited the consolidated balance sheets of Royal LePage Franchise Services Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Toronto, Canada. March 10, 2006

ROYAL LePAGE FRANCHISE SERVICES FUND

Consolidated Balance Sheets

As at December 31, 2005 and 2004 (in thousands of dollars)	**2005**	2004
Assets		
Current assets		
Cash and cash equivalents	**$ 9,941**	$ 4,444
Accounts receivable	**2,434**	2,176
Prepaid expenses	**84**	96
	12,459	6,716
Deferred charges	**684**	–
Intangible assets (note 4)	**133,022**	137,238
	$ 146,165	$143,954
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,064**	$ 2,001
Purchase obligation (note 3)	**2,893**	–
Distribution payable to unitholders	**915**	915
	5,872	2,916
Long-term debt (note 7)	**38,000**	30,600
Non-controlling interest (note 8)	**25,824**	27,740
	69,696	61,256
Unitholders' equity	**76,469**	82,698
	$ 146,165	$143,954

See accompanying notes to the consolidated financial statements

On behalf of the board

Simon Dean
Trustee

Lorraine Bell
Trustee

Consolidated Statements of Earnings

Year ended December 31 (in thousands of dollars, except unit and per unit amounts)	**2005**	2004
Royalties		
Fixed franchise fees	**$ 12,332**	$ 10,649
Variable franchise fees	**7,337**	6,377
Premium franchise fees	**4,241**	3,971
Other fee revenue and services	**3,286**	2,743
	27,196	23,740
Expenses		
Administration	**595**	513
Management fee (note 11)	**3,660**	3,660
Interest expense	**2,289**	1,327
Amortization of intangible assets	**14,150**	13,677
	20,694	19,177
Earnings before undernoted	**6,502**	4,563
Non-controlling interest (note 8)	**(1,746)**	(1,232)
Net earnings	**$ 4,756**	$ 3,331
Basic and diluted earnings per unit (9,983,000 units) (note 10)	**$ 0.48**	$ 0.33

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)	Units (note 9)	Net Earnings	Distributions	Total
Balance, December 31, 2003	$ 92,938	$ 1,947	$ (4,533)	$ 90,352
Net income	–	3,331	–	3,331
Unit distributions	–	–	(10,985)	(10,985)
Balance, December 31, 2004	92,938	5,278	(15,518)	82,698
Net income	–	4,756	–	4,756
Unit distributions	–	–	(10,985)	(10,985)
Balance, December 31, 2005	**$ 92,938**	**$ 10,034**	**$ (26,503)**	**$ 76,469**

See accompanying notes to the consolidated financial statements

ROYAL LEPAGE FRANCHISE SERVICES FUND

Consolidated Statements of Cash Flows

Year ended December 31 (in thousands of dollars)	**2005**	2004
Cash provided by (used for):		
Operating activities		
Net earnings	**$ 4,756**	$ 3,331
Items not affecting cash		
Non-controlling interest	**1,746**	1,232
Amortization of deferred charges	**138**	–
Amortization of intangible assets	**14,150**	13,677
Changes in non-cash working capital (note 13)	**(183)**	(468)
	20,607	17,772
Investing activities		
Purchase of intangible assets (note 3)	**(7,041)**	(120)
Financing activities		
Distributions paid to unitholders	**(10,985)**	(10,985)
Distributions paid to non-controlling interest	**(3,662)**	(3,662)
Proceeds from private debt placement	**38,000**	–
Repayment of long-term debt	**(30,600)**	–
Deferred charges	**(822)**	–
	8,069	(14,647)
Increase in cash and cash equivalents during the year	**5,497**	3,005
Cash and cash equivalents, beginning of year	**4,444**	1,439
Cash and cash equivalents, end of year	**$ 9,941**	$ 4,444
Cash and cash equivalents are comprised of:		
Cash	**$ 9,941**	$ 443
Commercial paper	**–**	4,001
	$ 9,941	$ 4,444

Supplementary Cash Flow Information (note 13)

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2005 and 2004 (in thousands of dollars)

1. ORGANIZATION

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

2. SUMMARY OF ACCOUNTING POLICIES

Basis of presentation

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

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

Revenue recognition

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

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

Other fee-based revenues are generally recognized in income when the related services have been provided.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term, highly liquid investments with a maturity of 90 days or less.

Intangible assets

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

Deferred charges

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

Earnings per unit

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

Use of estimates

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

Income taxes

Pursuant to the terms of the Amended and Restated Declaration of Trust, the trustees of the Fund are required to make distributions or designate all taxable income earned by the Fund to its unitholders, including the taxable part of net realized capital gains, and will deduct such distributions and designations for income tax purposes. Therefore, no provision for income taxes is required on income earned by the Fund. Income tax obligations related to distributions by the Fund are the obligations of the unitholders. In respect of the assets and unit issuance costs of the Fund, the carrying value of the Fund's net assets at December 31, 2005 exceeds the amortizable tax basis by approximately $ 42,400 (2004 – $48,400).

3. ASSET ACQUISITIONS

a) On January 1, 2005, the Partnership acquired 38 franchise agreements from Residential Income Fund Manager Limited ("RIFML") at a purchase price of $9,934 calculated in accordance with the Management Services Agreement ("MSA"). On February 18, 2005, $7,041 was paid in cash against this purchase price obligation and the remaining balance of $2,893 was paid in cash on January 4, 2006.

b) On January 1, 2004, the Partnership acquired three franchise agreements from RIFML at a purchase price of $120 calculated in accordance with the MSA.

4. INTANGIBLE ASSETS

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

	2004		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$115,492	$ 17,168	$ 98,324
Relationships and trademarks	39,175	261	38,914
	$154,667	$ 17,429	$137,238

Amortization during the year ended December 31, 2005 was $14,150 (2004 – $13,677).

5. FRANCHISE AGREEMENTS

	2005	2004
Number of franchise agreements, beginning of year	**227**	226
Additions	**38**	4
Terminations	**(3)**	(3)
Number of franchise agreements, end of year	**262**	227

6. OPERATING CREDIT FACILITY

On February 16, 2005, the Partnership obtained a credit facility (the "revolver") of up to $2,000 from a Canadian financial institution. This revolver may be used to provide working capital to the Partnership from time to time. The revolver is subject to annual renewal with outstanding principal under the revolver subject to interest at the lender's prime rate plus 1% to 1.5% or the banker acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. The Fund's $2,000 operating credit facility which existed prior to February 16, 2005, was terminated and replaced with the new revolver. As at December 31, 2005, the operating credit facility had not been drawn upon.

7. LONG-TERM DEBT

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

8. NON-CONTROLLING INTEREST

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

	2005	2004
Non-controlling interest at beginning of year	**$ 27,740**	$ 30,170
Non-controlling interest earnings for the year	**1,746**	1,232
Distributions	**(3,662)**	(3,662)
	$ 25,824	$ 27,740

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

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

9. FUND UNITS

The Fund is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the Fund. All units are of the same class with equal rights and privileges. As at December 31, 2005 and 2004, 9,983,000 units were issued and outstanding.

Pursuant to the Amended and Restated Declaration of Trust, the holder of the Special Fund Units, which accompanied the Subordinated LP Units (note 8), will be entitled to vote in all votes of Fund unitholders, as if they were holders of the number of units of the Fund they would receive if Subordinated LP Units were exchanged into units of the Fund as of the record date of such votes, and will be treated in all respects as unitholders of the Fund for the purpose of any such votes. The Special Fund Units are not entitled to receive distributions.

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

10. EARNINGS PER UNIT

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

11. MANAGEMENT SERVICES AGREEMENT

The Fund has a management services agreement (MSA) with the Residential Income Fund Manager Limited ("RIFML"), a party related to the non-controlling interest via common control, under which RIFML is to provide certain management, administrative and support services to the Fund and its subsidiaries. The MSA commenced August 7, 2003, has an initial term of 10 years and is automatically renewable for successive 10-year periods subject to approval of the Fund and RIFML. The MSA provides for the payment of a monthly fee equal to 20% of the cash of the Partnership otherwise available for distribution. For the year ended December 31, 2005, RIFML earned $3,660 for these services (2004 – $3,660).

12. RELATED PARTY TRANSACTIONS

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

	2005	2004
a) Royalties		
Fixed, variable and other franchise fees	**$ 1,947**	$ 1,782
Premium franchise fees	**$ 3,551**	$ 3,347
b) Expenses		
Management fees	**$ 3,660**	$ 3,660
Insurance and other	**$ 92**	$ 91
c) Distributions		
Distributions paid to non-controlling interest	**$ 3,662**	$ 3,662

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

		2005		2004
d) Accounts receivable				
Franchise fees receivable and other	**$**	**457**	$	438
e) Accounts payable and accrued liabilities				
Distributions payable to non-controlling interest	**$**	**915**	$	915
Management fees	**$**	**325**	$	329
Due to non-controlling interest	**$**	**–**	$	30
Purchase obligation	**$**	**2,893**	$	–

13. SUPPLEMENTAL CASH FLOW INFORMATION

		2005		2004
a) Changes in non-cash working capital				
Accounts receivable	**$**	**(258)**	$	(206)
Prepaid expenses		**12**		145
Accounts payable and accrued liabilities		**63**		(407)
	$	**(183)**	$	(468)
b) Supplementary information				
Interest paid	**$**	**1,921**	$	1,092

14. FINANCIAL INSTRUMENTS

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

(a) Interest rate risk

The Fund's long-term debt bears interest at a fixed rate and does not mature until February 2010. The credit facility bears interest at floating rates and as a result is exposed to changes in interest rates. As at December 31, 2005, the Fund had not drawn on this facility. Accordingly, the Fund is not currently subject to any significant interest rate risk.

(b) Credit risk

Credit risk arises from the possibility that the franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Fund's credit risk is limited to the recorded amount of accounts receivable.

(c) Fair value

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

15. SUBSEQUENT EVENTS

Effective January 4, 2006, the Partnership acquired 21 new franchise agreements from RIFML. The purchase price of $6,222 is based on an estimated annual royalty stream of $740 and has been calculated in accordance with the formula set forth in the MSA. $4,978 of the purchase price was paid on January 4, 2006 and the remainder will be paid a year later in accordance with the terms set out in the MSA. The Partnership used cash reserves to acquire these agreements.

Board of Trustees

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

The Board oversees the business and affairs of the Fund. The independent Trustees also monitor the performance of the fund manager, Centract Residential Property Services, on behalf of the Fund and ensure compliance with the terms of the Management Services Agreements.

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

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

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

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

Gail Kilgour, Trustee
Ms. Kilgour brings more than 25 years of experience in the financial services industry to the Board. She currently serves on the Board of Governors at the University of Guelph and chairs their Audit Committee. Since 2004, Ms. Kilgour is a self-employed consultant. Prior to 2004, she was Senior Vice President, Government Sponsored Student Loans, of the Canadian Imperial Bank of Commerce ("CIBC") and was also President and Chief Executive Officer, EDULINX Canada Corporation, a subsidiary of CIBC. Ms. Kilgour was previously Senior Vice-President, e-Business Strategy of CIBC.

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

Audit Committee

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

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

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

The Royal LePage Shelter Foundation

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

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

MANAGEMENT TEAM

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

Philip Soper,
President and Chief Executive Officer

Kevin Cash,
Chief Financial Officer

Andy Puthon,
Executive Vice President, Network Development

Gino Romanese,
Senior Vice President, Brokerage Operations

Max Cohen,
Secretary & General Counsel

Jim Dunbar,
Vice President, Marketing & Communications

Gurinder Sandhu,
Vice President, Finance

Carolyn Cheng,
Vice President, Strategic Business Services

COMMUNICATIONS TO UNITHOLDERS

We regularly provide unitholders with information about the Fund through our annual report, quarterly interim reports and periodic press releases. All up-to-date information is available online at www.rsfund.ca. On the site you will find summary information about the company, public reports, press releases, statutory filings, units and distribution information.

Contact us

We welcome inquiries from unitholders, analysts, media representatives and other interested parties.

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CIBC Mellon Trust Company

Auditors
Deloitte & Touche LLP

Corporate counsel
Goodman and Carr LLP