

Helping you is what we do.



ROYAL LePAGE
FRANCHISE SERVICES FUND



www.royallepage.ca

Profile

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

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

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

4 drivers of our performance

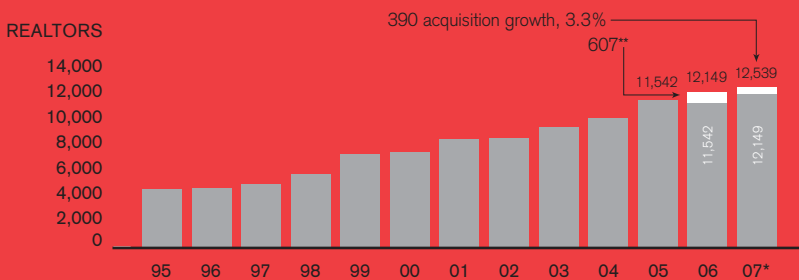
- 1. A business model designed to generate a growing royalty stream and stable cash distributions.** Franchise fees are secured by long-term contracts, creating a revenue stream that is based primarily on the number of agents in the Fund network, which reduces the Fund's exposure to fluctuations in home prices and resale volume.
- 2. Well qualified, highly productive real estate agents.** In 2006, our average Fund agent generated \$2.38 million in transactional dollar volume, compared to an average of \$1.43 million for agents working in competitive operations, increasing the productivity advantage compared to 2005.
- 3. Expanding network.** We plan to continue to expand our network, both through recruitment and by acquiring new franchisees, in order to achieve long-term, consistent growth.
- 4. Commitment to create long-term value for unitholders.** Our practice of maintaining a conservative payout ratio mitigates risk. Our proven ability to grow organically and through acquisitions provides the potential to continue to increase cash distributions.

“In 2006, we continued to achieve solid growth of our network of REALTORS, while delivering strong financial results. Based on our performance and outlook, at year end we announced an increase in cash distributions per unit.”

PHILIP SOPER, President and Chief Executive

performance highlights

REALTOR NETWORK GROWTH

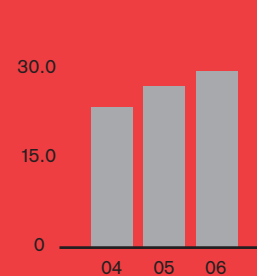


Year ended December 31, except 2007

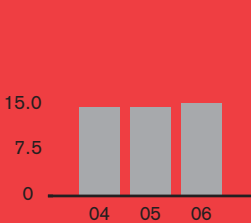
* as at January 1, 2007

** 607 REALTOR growth consisting of 261 agents organically and 346 REALTORS through acquisition.

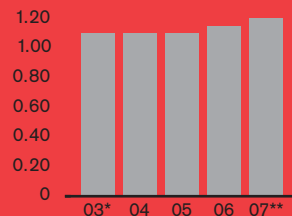
ROYALTIES (\$ MILLIONS)



DISTRIBUTIONS DECLARED (\$ MILLIONS)



UNITHOLDER DISTRIBUTION (\$ PER UNIT)



* annualized, as the Fund went public in August 2003

** target annual rate

365 days

a year, the women and men of Royal LePage are serving their clients and their communities.



from the president

Success for us begins with a corporate culture that encourages and celebrates service and collaboration. We are proud to have built a business that provides industry-leading support for franchisees, agents and clients. The theme of this year's report and our branding tagline, "Helping you is what we do.", is a reflection of how we work, which we believe is fundamental to sustainable growth.

Sound performance

During the year, we added a net 651 real estate agents to the Fund network, exceeding our 2006 growth target of 300 to 500. We began 2007 with 12,539 REALTORS in the business. Effective January 1, 2007, organic growth through recruitment accounted for 261 net new agents, with the additional 390 agents coming to us through the acquisition of 22 real estate brokerage contracts.

Royalty revenue increased 9.1% in 2006 to \$29.7 million, reflecting our expanding agent network and the underlying health of the Canadian residential real estate market. Based on our performance and outlook, the Fund's board of trustees approved an increase in our annual cash distribution target from \$1.15 in 2006 to \$1.20 in 2007.

Extending brand value

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

Selling to the affluent baby boomer demographic offers exciting opportunities. In 2006 we introduced new programs to help our franchisees succeed in marketing luxury homes to these clients in particular.

Balanced markets

The Fund's network is well positioned for the shift to balanced markets, from a strong sellers' market in recent years. Traditionally, when transaction volumes moderate, agents become increasingly attracted to the benefits of association with a strong national brand. As well, a market cycle change typically triggers new brokerage acquisition opportunities.

Scalable platform for growth

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

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

Helping you is what we do. Exceptional service and excellent results for the consumer, the REALTOR, and for unitholders.

A handwritten signature in black ink, appearing to read "PS", written over a white background.

Philip Soper, President and Chief Executive
March 20, 2007



94 years

of innovation and outstanding commitment to our clients.

helping clients buy and sell

Royal LePage has a proud heritage of meeting client expectations dating back to 1913. Our founder, A.E. LePage, was an innovator. He introduced many firsts to the Canadian real estate industry, including outbound property showings by automobile, detailed description-listings in newspapers, and use of film to showcase fine homes.

Today, we continue this tradition of innovation with our industry-leading technologies, marketing services and unparalleled agent training programs. We are continually evolving our support tools and services to sharpen our agents' competitive edge to enable them to meet their clients' high expectations.

We've partnered with other home-related companies to provide clients with additional value through expert advice and exclusive promotions. A recent campaign in association with HomeSense offered clients decor ideas, advice on how to personalize a new home or prepare a home for sale, and a discount on homewares at HomeSense. The campaign also included a national online contest for a chance to win one of three \$5,000 room makeovers by sharing a story about how a Royal LePage agent has helped them or their community. Such campaigns offer Fund REALTORS and their clients benefits only available through Royal LePage.

Our industry leading market research reports, which garner national media attention, arm our agents with a deeper understanding of the Canadian real estate market and the credibility gained through this exposure helps increase the perceived value of the Fund brands.

The "Helping you is what we do." tagline underlines our culture of collaboration, service and support. Fund agents go above and beyond the call of duty every day. To draw attention to these exceptional people, we have collected stories on our website at www.royallepage.ca.



> **Home Buyer/Seller Promise:** Fund agents help their clients by buying and selling their homes for a fair price quickly and efficiently. We work to build trust by offering professional services and excellent advice and counsel.

> Our Web site, www.royallepage.ca, displays between 30,000 and 40,000 home listings at any one time. The web site attracts a steady stream of prospective buyers and sellers.

> Our exclusive Carriage Trade program brings clients the benefit of our extensive experience in the high-end residential real estate market.



66% more productive

than other agents within the Canadian residential real estate industry.

helping our agents achieve their goals

At Royal LePage, we help our agents succeed by providing them with an industry-leading suite of support products and services to give them a competitive advantage.

We provide unparalleled sales, marketing, communication, and technology tools, as well as training programs to help agents be more productive. Our technology platform provides REALTORS with an integrated Web-based portal for developing their skills as well as managing and growing their businesses. Our online Marketing Centre offers hundreds of professionally designed templates. Agents have access to ready-made material that is easily customizable for individual marketing campaigns.

We recognize that one size does not fit all, and provide a wide range of training and coaching programs to help our agents be the best they can be. These programs include *Planning for Success* that helps agents develop a personalized business plan, *Up and Running* coaching to help agents realize their goals, *REALTOR Marketing Workshops* and *Business Builder Webinars* that demonstrate how best to leverage our tools and *Teleseminars* that provide teleconferences on specialized career topics.

We also distinguish the capabilities of our agents through a number of innovative programs. We are the only national Canadian member of the Leading Real Estate Companies of the World™ referral organization.



> **Agent Promise:** Royal LePage helps agents achieve their personal and professional goals, supported by a comprehensive suite of services.

> Through over 110 computer facilities across Canada, we provide agents with interactive marketing and technology training.

> Royal LePage University offers accredited continuing education courses online, helping agents build their professional skills.

651 agents

joined our REALTOR network from coast to coast.



helping our franchisees build their businesses

The Fund helps our franchisees succeed by offering programs to recruit and retain agents. Franchisees succeed when their agents succeed. The extensive suite of services at their disposal have resulted in Fund REALTORS enjoying sales productivity well above that demonstrated in the rest of the industry.

We work hard to help our franchisees identify and attract high-potential agents. We work directly with franchisees in their local markets, helping them drive prospects to our online career site where we have a real estate simulator that qualifies prospects. We've also expanded the scope of our recruitment leads through special arrangements with other Web sites, such as www.monster.ca.

As one of the strongest and most trusted brands in Canadian residential real estate, Royal LePage attracts successful agents from across the country. The power of our brand name, coupled with the strength of our support services is a proven formula for success.

Our franchisees are entrusted and empowered to ensure that the Royal LePage culture represented by our branding tagline "Helping you is what we do." is embodied in their offices and exemplified by a high level of customer service.





> **Franchisee Promise:** Royal LePage helps franchisees maximize the value of their businesses by offering them and their agents an unparalleled suite of support services under a highly respected and trusted brand name.


> We're continually looking for new ways to expand our recruitment support program, including special arrangements with companies such as **www.monster.ca** whereby qualified leads are directed to the nearest franchisee.

> Franchisee support services include monthly recruitment calls, specialized training and coaching programs, bi-annual franchisee meetings, national conferences, merger and acquisition consultation, human resource services and much more.

9% increase in royalties

reflecting a balance of internal growth and acquisitions.





> **Unitholder Promise:** We help unitholders prosper when we help our franchisees build their businesses, when our agents succeed in growing their practices, and when clients achieve their home ownership goals.

> The Canadian residential real estate market continues to grow, with the pace of unit sales moderating, and average national price increases in the mid-single digit range.

> The Fund allows unitholders to participate in the \$135 billion Canadian residential real estate industry by investing in a geographically diversified market leader.

helping our unitholders prosper

We have structured the Royal LePage Franchise Services Fund to provide stable performance, insulated from the cyclical nature of the real estate market. Our growth strategy has produced years of consistent organic and acquisition-based expansion, dating to well before the launch of the Fund. Since the Fund's formation in 2003, we have achieved solid royalty revenue growth and raised the unit cash distribution target twice while maintaining a conservative payout ratio.

Our royalty revenue stream is comprised of franchise fees which are based primarily on the number of agents in the Fund network, reducing the Fund's exposure to fluctuations in home prices and resale volumes. Our financial structure supports stable cash distributions, as a service-based franchise business has predictable capital requirements provided as part of the management fee, and employs modest debt leverage.

With one of the strongest and most recognized brands in Canadian residential real estate, we enjoy a national market share of approximately 20%.

We have been steadily growing our franchisee and agent network organically and through acquisition, and supporting our network through industry-leading products and services that help make our agents achieve average transactional dollar volumes, which in 2006 were 66% greater than the estimated average for all other Canadian REALTORS.

As a leading provider of services to the real estate industry, we are well positioned in today's moderating market to benefit from our strong brand appeal among prospective franchisees and agents.

1 more thing

Royal LePage Shelter Foundation



helping those in need live safe and peaceful lives

The Royal LePage Shelter Foundation helps women and children find shelter and a safe haven when their lives are torn apart. From coast to coast, Royal LePage offices partner with a neighbourhood women's shelter, and because Royal LePage pays all administration costs, 100% of donations help families in local communities. Since 1998 we have raised over \$6 million for this cause. Thanks to the support of our agent network, we assist 150 shelters every year, and help 30,000 women and children live safer more hopeful lives. We also take a strong stand on eliminating violence.

Local program

All Royal LePage offices are encouraged to be community leaders and many agents donate part of their sales commission or volunteer their time and resources to provide much needed support to local shelters.

National program

On a national level, we support long-term systemic change and economic development opportunities for women through our partnership with the Canadian Women's Foundation. We also support *The Fourth R*, a high-school program aimed at helping kids form healthy relationships.

Working together for safer homes and safer communities www.royallepage.ca/shelter

Unitholder Information

MANAGEMENT

PHILIP SOPER, President and Chief Executive
KEVIN CASH, Chief Financial Officer
CAROLYN CHENG, Vice President, Strategic Business Services
MAX COHEN, Secretary & General Counsel
LISA da ROCHA, Vice President, Marketing Communications
WENDY FORSYTHE, Vice President, Sales Services
ANDY PUTHON, Executive Vice President, Network Development
GINO ROMANESE, Senior Vice President, Brokerage Services
GURINDER SANDHU, Vice President, Finance
SCOTT WEBB, Director, Information Systems

BOARD OF TRUSTEES

George Myhal, Chairman
Lorraine Bell
Simon Dean
Allen Karp
Gail Kilgour

HEAD OFFICE

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TRANSFER AGENT AND REGISTRAR

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Toronto, ON
M5C 2W9
Telephone: toll-free throughout North America
1-800-387-0825 or in Toronto (416) 653-5500
Facsimile: (416) 643-5501
inquiries@cibcmellon.com
www.cibcmellon.com/Investor

TSX SYMBOL: RSF.UN

Fund units are eligible investments for DPSPs,
RRSPs, RRIFs and RESPs

ANNUAL GENERAL MEETING

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

CONTACT US

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“Helping you is what we do.” describes our culture of collaboration, service and support. By helping our REALTORS provide superior service to their clients, we aspire to produce results that help our unitholders prosper.



www.royallepage.ca

www.rsfund.ca