

**BROOKFIELD REAL ESTATE SERVICES INC.**

**(Bridgemarq Real Estate Services)**

**Annual Information Form**

**March 25, 2019**

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## GLOSSARY OF TERMS

“**Board of Directors**” or “**Board**” means the Board of Directors of the Corporation.

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

“**Broker-Owner**” means the individual or a controlling group of individuals who have entered into Franchise Agreements to provide services under the Royal LePage, Johnston and Daniel or Via Capitale brands.

“**Brookfield**” means **Brookfield BBP (Canada) LP**, a limited partnership governed by the laws of Ontario and controlled by Brookfield Asset Management Inc., together with its affiliates but excluding the Manager and the subsidiaries of the Manager.

“**Business**” means the business of providing residential property brokerage and other services to REALTORS® or Brokers and acting as a franchisor to Broker-Owners.

“**Canadian Real Estate Association**” or “**CREA**” is the national association that represents the real estate industry on federal public policy matters and provides member services and education to REALTORS®.

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

“**Class A LP Units**” means the Class A ordinary limited partnership units of the Partnership, all of which are held by the Corporation.

“**Class B LP Units**” means the Class B subordinated limited partnership units of the Partnership, all of which are held by Brookfield.

“**Company**” means the Corporation, together with its subsidiaries.

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

“**Designated Director**” means a Director of the Corporation who is appointed as a Director by Brookfield. Brookfield is entitled to appoint up to two-fifths of the Directors so long as Brookfield holds an aggregate of at least 10% of the Restricted Voting Shares (on a diluted basis).

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

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

“**Director**” means a director of the Corporation.

“**Distributable Cash**” has the meaning given to it under “Description of the Partnership – Distributions”.

“**Elected Director**” means a Director of the Corporation who is not a Designated Director, but rather, is elected by the holders of Restricted Voting Shares.

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

“**Fixed Franchise Fees**” means Franchise Fees which are based on a fixed monthly payment without regard to transaction volumes.

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

**“Franchise” or “Franchisee”** means a residential real estate brokerage franchise operated pursuant to a Franchise Agreement with the Manager’s comprehensive systems consisting of proprietary technological, marketing, promotional, communications and support systems.

**“Franchise Agreement”** means a franchise agreement between a Franchisee and the Company pursuant to which the Franchisee operates one or more brokerage offices offering residential brokerage services using the Trademarks and Franchise Systems.

**“Franchise Fees”** means fees paid by Franchisees to the Company for use of the Franchise Systems and other services provided by the Company as part of their Business. Franchise Fees include Fixed Franchise Fees, Variable Franchise Fees and Premium Franchise Fees.

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

**“Franchise Systems”** means the Manager’s comprehensive systems of providing services to REALTORS® and Brokers, consisting of proprietary technological, marketing, promotional, communications and support systems, as more fully described under “Description of the Business”.

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

**“Incremental Franchises”** means Franchises established pursuant to Franchise Agreements entered into after March 31, 2003 (other than renewals or replacements of existing Franchise Agreements) but prior to October 31, 2017 and including any acquisition made by existing Franchisees of additional offices and/or REALTORS® and any business combination entered into by any existing Franchisee that results in the addition of offices and/or REALTORS® that meet the criteria established from time to time by the Directors.

**“Independent Director”** means a Director who is unrelated (as such term is defined in the Toronto Stock Exchange Company Manual as it exists as of the date hereof) to the Company, the Manager and Brookfield.

**“LP Units” or “Partnership Units”** means the Class A LP Units and the Class B LP Units.

**“Manager”** means Bridgemarq Real Estate Services Manager Limited (formerly known as Brookfield Real Estate Services Manager Limited), a corporation incorporated under the laws of the Province of Ontario, together with its subsidiaries. The Manager provided management and administrative services to the Company under the terms of the Previous MSA and continues to provide management and administrative services to the Company under the terms of the New MSA. The Manager may delegate the provision of certain of these services to the Via Capitale Manager.

**“Market Capitalization of the Company”** means, with respect to any calendar month, the volume-weighted average trading price of the Restricted Voting Shares on the Toronto Stock Exchange for such calendar month multiplied by the total number of Restricted Voting Shares outstanding at the end of such calendar month, after giving effect to the conversion of the Class B LP Units into Restricted Voting Shares.

**“New Management Services Agreement” or “New MSA”** means the fourth amended and restated management services agreement, made effective November 6, 2018, together with any amendments thereto, between the Company, its operating subsidiaries and the Manager pursuant to which, among other things, the Manager provides management and administrative services to the Company including management of the assets of the Company, as more particularly described under “Description of the Business – Management Services Agreement”.

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

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

**“Partnership Agreement”** means the second amended and restated limited Partnership Agreement dated December 31, 2012, between the General Partner and the Company, pursuant to which the Partnership is governed.

**“Partnership Assets”** means, collectively, the Trademarks and all rights under the Franchise Agreements owned by the Partnership including the right to receive the Franchise Fees under those Franchise Agreements.

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

**“Premium Franchise Fees”** are Franchise Fees collected on certain Franchise locations to reflect the premier locations (principally the Greater Toronto Area) in which such Franchises operate. The premium fee is payable in addition to the Fixed Franchise Fees and Variable Franchise Fees as an uncapped amount ranging from 1% to 5% of each REALTORS®’ Gross Revenues at that Brokerage.

**“Previous Management Services Agreement”** or **“Previous MSA”** means the third amended and restated Management Services Agreement, made effective January 1, 2014, together with any amendments thereto, between the Company, its operating subsidiaries and the Manager pursuant to which, among other things, the Manager provides management and administrative services to the Company including management of the assets of the Company, as more particularly described under “Description of the Business – Management Services Agreement”.

**“REALTOR®”** is the exclusive designation for a member of the Canadian Real Estate Association and is defined as an individual licensed to trade in real estate and includes Brokers.

**“Registration Rights Agreement”** means the registration rights agreement among the Company, the Manager and Brookfield, dated August 7, 2003, pursuant to which the Manager and Brookfield were granted registration rights by the Company.

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

**“Restricted Voting Shares”** means the Restricted Voting Shares in the capital of the Corporation.

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

**“Royal LePage Licence Agreement”** means the licence agreement between The Royal Trust Company and Royal LePage Limited (a subsidiary of Brookfield Asset Management Inc.), pursuant to which Royal LePage Limited was granted the exclusive rights to use the Royal LePage Trademarks, including the “Royal LePage” name and logo, in connection with its Business of providing, in Canada, real estate services and those related financial services offered by Royal LePage.

**“Royal LePage Network”** means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more Royal LePage Trademarks or the Johnston and Daniel brand.

**“Royal LePage Sub-Licence Agreement”** means the agreement between Brookfield and the Manager, pursuant to which Brookfield and the Manager were granted a licence to use the Royal LePage Trademarks in connection with the Business.

**“Royal LePage Trademarks”** means the trademark rights related to the Business held by or licensed to Royal LePage pursuant to the Royal LePage Licence Agreement, including, without limitation, the “Royal LePage” name and logo.

**“Shareholder(s)”** mean the holder(s) of Shares.

**“Shareholders’ Agreement”** means the Shareholders’ Agreement between Brookfield and the General Partner governing the administration and affairs of the General Partner, dated August 7, 2003.

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

**“Special Shareholders”** mean holders of Special Voting Shares.

**“Special Voting Shares”** means the Special Voting Shares in the capital of the Corporation issued to represent voting rights in the Corporation that accompany securities convertible into or exchangeable for Restricted Voting Shares, including the Class B LP Units held by Brookfield.

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

“**Team**” means a group of two or more REALTORS<sup>®</sup> who conduct the purchase and sale of real estate as a team.

“**Trademarks**” means the trademark rights related to the Business held by or licensed to Brookfield, or the Manager including, without limitation, those which allow the Company to operate the Business under the Royal LePage, Johnston & Daniel and Via Capitale brands.

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

“**Variable Franchise Fees**” means Franchise Fees which vary each month depending on the transaction volumes of each REALTOR<sup>®</sup> or Team.

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

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

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

“**Via Capitale Network**” means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more of the Via Capitale Trademarks.

## THE COMPANY

### General

The Company is a leading provider of services to residential real estate Brokers and their REALTORS<sup>®</sup>. The Company generates cash flow from Franchise Fees and other services derived from a national network of real estate Brokers and REALTORS<sup>®</sup> in Canada operating under the Royal LePage, Via Capitale and Johnston & Daniel brand names. At December 31, 2018, the Franchise Network consisted of 18,725 REALTORS<sup>®</sup> operating under 291 Franchise Agreements providing services from 673 locations, with an approximate one-fifth share of the Canadian residential resale real estate market based on transactional dollar volume. The Company generates both Fixed Franchise Fees and Variable Franchise Fees. Variable Franchise Fees are primarily driven by the total transactional dollar volume from the sales commissions of REALTORS<sup>®</sup>, while Fixed Franchise Fees are based on the number of REALTORS<sup>®</sup> in the Franchise Network. Commencing January 1, 2019, the Company earns revenue from certain ancillary services provided to REALTORS<sup>®</sup> including commercial real estate support services and referrals to Brokers and REALTORS<sup>®</sup>.

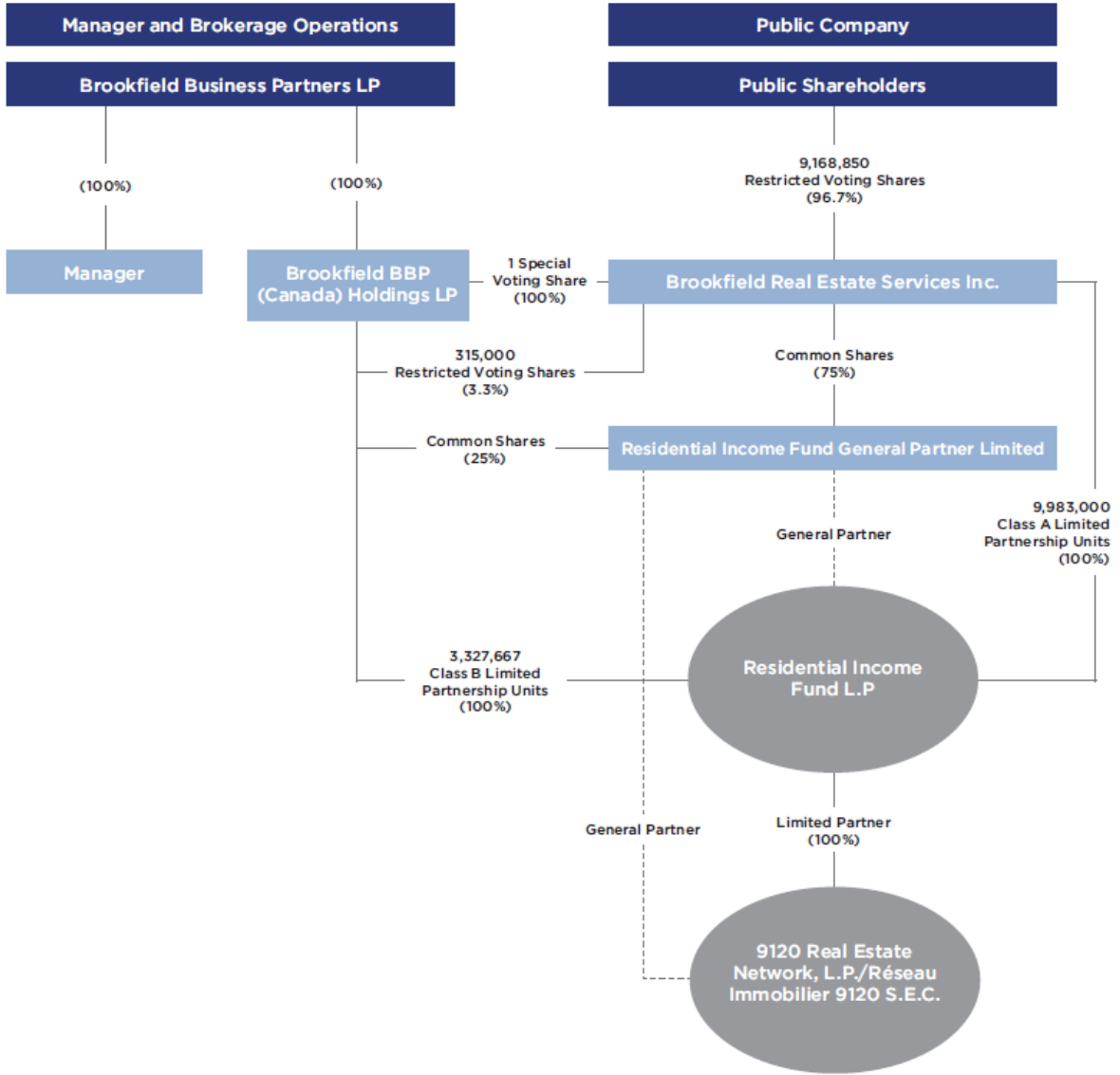
The Corporation was incorporated on October 28, 2010 pursuant to the provisions of the OBCA. The Company was originally structured as an income trust. It was converted to a corporate structure on December 31, 2010. The restructuring was effected pursuant to an arrangement agreement. Each holder of units of Brookfield Real Estate Services Fund received one Restricted Voting Share for each unit held. In addition, Brookfield received one Special Voting Share of the Corporation for nominal consideration. Detailed information about the restructuring is contained in the Company's Annual Information Form dated March 19, 2011, which is available at [www.sedar.com](http://www.sedar.com).

The Corporation's Restricted Voting Shares are listed on the TSX and trade under the symbol "BRE". The registered and head office of the Corporation is located at 39 Wynford Drive, Toronto, Ontario, M3C 3K5.

The Business of the Company is conducted indirectly through the Partnership. The Partnership is ultimately controlled approximately 72% by the public and 28% by Brookfield. The shares of the General Partner are owned 75% by the Corporation and 25% by Brookfield. The registered office and head office of the Partnership and the General Partner are located at 39 Wynford Drive, Toronto, Ontario, M3C 3K5.

The ownership structure of the Company and the Manager is set out below.





## **DEVELOPMENT OF THE BUSINESS**

### **Business Strategy**

The Company is a long-established Canadian-based real estate services firm focused on providing services to real estate Brokers and their REALTORS®. Services provided to Brokers and their REALTORS® are intended to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate Franchise brands, each of which offers a differing value proposition, the Company caters to the diverse service requirements of regional real estate professionals across Canada.

The Company's objective is to provide its stakeholders with an investment vehicle that pays stable and growing dividends. Revenue is driven primarily by Franchise Fees derived from long-term Franchise Agreements. These Franchise Fees are weighted toward fees that are fixed in nature which moderates the impact of cyclical variations in Canadian residential real estate.

The Company has no employees. The Company has entered into the New Management Services Agreement with the Manager whereby the Manager performs all management services on behalf of the Company. As a result, the underlying costs of the Company are comprised primarily of management fees paid under the New MSA, public company operating costs and carrying costs associated with the Company's debt.

Key drivers that impact the Company's financial and operating performance include:

- the number of REALTORS® in the Franchise Network;
- transactional dollar volumes generated in the Canadian residential real estate markets served by the Franchise Network;
- the manner in which the Company's contracted revenue streams are structured; and
- the Company's success in attracting REALTORS® and Brokers to the Company's brands.

These drivers, in combination with other uncontrollable risk factors including changes in the Canadian and international economies, housing markets in Canada in general, and government and regulatory activity impacting those economies and markets, all impact the Company's performance.

The Company seeks to grow its earnings and increase its cash flow by increasing the number of REALTORS® in the Franchise Network. It does this by attracting and retaining Brokers and their REALTORS® through the provision of high-quality, fee-for-service offerings. The provision of these services is intended to increase the productivity of Brokers and their REALTORS® and encourage Brokers and REALTORS® to enter into Franchise Agreements with the Company.

### **Events Occurring in 2016**

#### ***2016 Incremental Franchise Purchases***

Effective January 1, 2016, the Company acquired 33 Franchise Agreements for \$6.6 million comprising 459 REALTORS® generating approximately \$1.0 million in annualized royalties. A payment of \$5.3 million, approximating 80% of the estimated purchase price, plus applicable taxes was paid on January 8, 2016 through a draw on the Company's Debt Facility. The remaining obligation for the 27 Franchise Agreements acquired under the Royal LePage Brand was paid on December 28, 2016, while the remaining obligation on the six Franchise Agreements acquired under the Via Capitale Brand was paid on June 28, 2017. The acquisition of the Incremental Franchises was approved by the Independent Directors.

### **Events Occurring in 2017**

#### ***2017 Incremental Franchise Purchases***

Effective January 1, 2017, the Company acquired 55 Franchise Agreements for \$8.2 million comprising 568 REALTORS® generating approximately \$1.2 million in annualized royalties. A payment of \$6.6 million, approximating 80% of the estimated purchase price, plus applicable taxes was paid on January 6, 2017 through a draw

on the Company's Debt Facility. The remaining obligation was paid on February 26, 2018. The acquisition of the Incremental Franchises was approved by the Independent Directors.

## **Events Occurring in 2018**

### ***2018 Incremental Franchise Purchases***

Effective January 1, 2018, the Company acquired 38 Franchise Agreements for \$8.8 million comprising 563 REALTORS® generating approximately \$1.2 million in annualized royalties. A payment of \$7.1 million, approximating 80% of the estimated purchase price, plus applicable taxes was paid on January 3, 2018 through a draw on the Company's Debt Facility. The remaining obligation was paid on December 24, 2018. The acquisition of the Incremental Franchises was approved by the Independent Directors.

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

On November 6, 2018, the Company entered into the New MSA. The New MSA has an initial ten-year term with a provision for automatic renewal of successive ten-year terms subject to certain conditions. The New MSA contains a number of changes from the Previous MSA intended to simplify the relationship between the Manager and the Company including:

- the Company (through its operating subsidiaries) will directly enter into new Franchise Agreements with Franchisees, eliminating the cost of acquiring Incremental Franchises from the Manager;
- the Company will pay the Manager a fixed management fee equal to \$840,000 per month; and
- the monthly variable management fee paid to the Manager will be calculated as:
  - during the first five years of the initial term of the New MSA, the greater of (i) 23.5% of monthly Distributable Cash of the Partnership and Distributable Cash of 9120 (as such terms are defined in the New MSA), and (ii) 0.342% of the Market Capitalization of the Company, and
  - after the first five years of the initial term of the New MSA, the greater of (i) 25.0% of monthly Distributable Cash of the Partnership and Distributable Cash of 9120, and (ii) 0.375% of the Market Capitalization of the Company.

### ***Amended Finance Arrangements***

On December 13, 2018, the Company signed an amended and restated loan agreement related to its credit facilities to increase the maximum borrowings to \$80.0 million, extend the term of the credit facilities to December 31, 2023 and to amend certain financial covenants. See "Credit Facilities" for further details.

## **Subsequent Events**

Effective January 1, 2019 and in accordance with the terms of the New MSA, the Manager assigned to the Company at nominal cost, those Incremental Franchises not previously acquired by the Company as well as certain contracts associated with revenue streams that the Manager had developed outside of the Franchise Agreements owned by the Company.

## **DESCRIPTION OF THE BUSINESS**

The Business of the Company and its Franchisees includes brokering the sale of real estate in Canada. The Company provides its Franchisees and their REALTORS® with the Franchise Systems designed to make the purchase and sale of real estate more effective and efficient for buyers and sellers of homes, for REALTORS® and for Franchisees. The Franchise Systems allow REALTORS® to maximize their productivity, Franchisees to attract and retain successful REALTORS®, and the Company, with the support of the Manager, to recruit and retain successful Franchisees.

The enhanced tools of the Franchise Systems provide support for REALTORS® and allow them to provide greater value and service to their customers. The Franchise Systems are designed to allow Franchisees and REALTORS® to focus on their customers, grow their businesses and spend less time on administrative activities, thereby increasing overall productivity and profitability.

The Company's Franchise Fees are derived primarily from a diverse national network of 274 independently owned and operated Franchises operating under 291 Franchise Agreements. The Royal LePage Network is geographically diverse as REALTORS® operate throughout Canada in an approximately similar proportion as the overall Canadian REALTOR® population. The Johnston & Daniel brand operates in central Ontario but is positioned to expand geographically. The Via Capitale Network operates substantially in the province of Quebec.

### **Franchise Agreements**

The legal relationship between the Company and a Franchisee is governed by a Franchise Agreement. The typical term for a Royal LePage Franchise Agreement is ten years, with a right to renew for one ten-year renewal term. Typically, Royal LePage Franchisees renew for further ten-year terms. The typical term for a Via Capitale Franchise Agreement is five years, with a right to renew for a further five-year renewal term. Typically, Via Capitale Franchisees renew for further five-year terms.

Each Franchise location or group of locations is subject to a separate Franchise Agreement. Where an existing Broker-Owner is operating under an existing Franchise Agreement, any changes, such as adding a new location, are typically undertaken by way of an addendum or amendment, which forms a part of the existing Franchise Agreement. The Franchise Agreement grants a Franchisee the right to use the Franchise Systems as well as the Trademarks within a prescribed territory and specifies comprehensive standards of practice governing the use of the Trademarks, conduct of the Franchisee and its REALTORS® and all material operating matters. Substantially all Royal LePage Franchise Agreements grant a non-exclusive right within a prescribed territory while Via Capitale Franchise Agreements generally grant an exclusive right, subject to certain conditions.

Pursuant to its terms, a Franchise Agreement may not be assigned by the Franchisee without the prior consent of the franchisor. In most cases, the Company has a right of first refusal with respect to any offer made to purchase the business of a Franchisee.

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

The Company has historically enjoyed high renewal rates for Franchise Agreements with approximately 99% of Franchisees renewing from 2013-2018 (expressed as a percentage of the number of REALTORS® represented by those Franchise Agreements). In addition, the successful growth of the Company's Franchisees presents opportunities to renew Franchise Agreements before they come due.

### **REALTORS®**

As of December 31, 2018, the Franchise Network consisted of 18,725 REALTORS® comprised of 18,447 fee-paying REALTORS® and 278 Brokers who do not pay fees (as they are primarily responsible for managing their brokerage operations). For the year ended December 31, 2018, the Franchise Network increased by 590 REALTORS®. The increase in REALTORS® was the result of 563 REALTORS® acquired through the acquisition of Franchise Agreements on January 1, 2018, plus net recruitment of 27 REALTORS® during the year. Franchisees' recruitment efforts are supported by recruitment programs offered by the Company which allow Franchisees to target new REALTORS® as well as experienced REALTORS® who operate under competing brands. This net increase of 590 REALTORS® in the Franchise Network for 2018 is consistent with the 3% increase experienced in the overall Canadian market. The Franchise Network is highly productive, with an approximate average transactional dollar volume in 2018 of \$2.2 million per REALTOR®, compared to an estimated \$1.7 million in transactional dollar volume generated by an average Canadian REALTOR® outside the Franchise Network.

### **Franchise Fees**

The Company generates Franchise Fees with both fixed and variable fee components. Approximately 67% of the Company's royalties during 2018 were represented by Fixed Franchise Fees compared to 61% in 2017 and 60% in 2016. Management believes that the combination of a royalty stream based on the number of REALTORS® representing the Royal LePage Network and Via Capitale Network, increasing REALTOR® and Broker productivity and an increasing demand for new housing provide the base for a strong and stable cash flow. The table below summarizes the composition of Franchise Fee Revenues in each of the past three years:

Fee type	Proportion of fees as % of total Franchise Fees		
	2016	2017	2018
Fixed Franchise Fees	60%	61%	67%
Variable Franchise Fees	25%	24%	26%
Premium Franchise Fees	15%	15%	7%
Franchise Fees	100%	100%	100%

### Fixed Franchise Fees

Fixed Franchise Fees are collected from Franchisees based on the number of selling-REALTORS® in the Franchise Network. Fixed Franchise Fees from Royal LePage Franchisees consist of a monthly fixed fee of \$128 per selling-REALTOR® (\$125 per month prior to January 1, 2018), while Fixed Franchise Fees from Via Capitale Franchisees consist of a monthly fee of \$170 per selling-REALTOR®.

### Variable Franchise Fees

Variable Franchise Fees are earned from Royal LePage Franchisees and are driven by the transactional dollar volume transacted by REALTORS®. Variable Franchise Fees are calculated as 1% of gross commission income earned by each Franchisee's REALTORS®, subject to a cap of \$1,350 per year (\$1,325 per year prior to January 1, 2018). Certain REALTORS® in the Franchise Network work as part of a Team. All REALTORS® who are members of a Team pay Fixed Franchise Fees. However, for the purposes of the variable fee cap, the gross commission income of all Team members is aggregated to one cap.

The amount of Variable Franchise Fee paid by an individual REALTOR® or Team can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices. However, Variable Franchise Fees are subject to a cap of \$1,350 (\$1,325 prior to January 1, 2018). For those REALTORS® or Teams who reach the cap, the Variable Franchise Fee is effectively fixed in nature, in that the Variable Franchise Fee paid by the REALTOR® will not change based on changes in the Canadian real estate market. In 2018, the Variable Franchise Fees associated with approximately 2,600 REALTORS® (2017 - 2,900) and 1,000 Teams (2017 - 1,100) (representing more than 2,900 REALTORS® (2017 - 3,000)) that exceeded the variable fee cap accounted for approximately 12% of royalties (2017 - 13%).

A limited number of smaller Franchisees pay a 4.5% Variable Franchise Fee with no Fixed Franchise Fee.

### Premium Franchise Fees

In addition to Fixed Franchise Fees and Variable Franchise Fees, 21 of the Company's larger Royal LePage locations in the Greater Toronto Area (including 11 operated by the Manager) paid Premium Franchise Fees. The obligation to pay Premium Franchise Fees ended for six locations in February of 2018 while the obligation for the remaining locations ended in August 2018.

## **Network Royalty Profile**

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

Franchise Fees generated from the Royal LePage Network accounted for 96% of the Company's fees in 2018 (2017 - 96% and 2016 - 95%). Fixed Franchise Fees represented approximately 67% of royalty fees (2017 - 61% and 2016 - 60%), Variable and Premium Franchise Fees represented the remaining 33% (2017 - 39% and 2016 - 40%). Due to the Variable Franchise Fee capping feature, approximately 79% of the royalties earned from the Royal LePage Network were fixed in nature (2017 - 73% and 2016 - 72%). Under this Franchise Fee structure, the Company receives total Franchise Fees of \$2,886 for each REALTOR® who reached the Variable Franchise Fee cap in 2018 comprised of Fixed Franchise Fees of \$1,536 (12 months multiplied by \$128 per month) plus Variable Franchise Fees of \$1,350.

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

The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 4% of the Company's fees in 2018 (2017 – 4% and 2016 - 5%). Fixed Franchise Fees of \$170 per REALTOR® per month (\$2,040 per year) represented 92% (2017 - 96% and 2016 - 87%) of total Via Capitale Franchise Fees.

### **System-Wide Transactional Dollar Volume**

For the twelve months ended December 31, 2018, the Royal LePage Network and the Via Capitale Network, collectively, accounted for approximately 18% of the \$224 billion Canadian residential real estate market based on transactional dollar volume.

### **Locations and Branch Types**

The Royal LePage Network operates in each Canadian province through approximately 615 locations as of December 31, 2018. The Via Capitale Network operates in the province of Quebec through approximately 58 locations as of December 31, 2018. Franchise locations are generally operated from leased premises, with the Franchisee as lessee. The Franchise Agreements provide the Company with the ability to review locations, signage and other aspects of individual Franchisee locations in order to ensure that the Trademarks are being used appropriately and the Franchisee is maintaining a high quality operation. In urban areas, Franchises are typically located in office/commercial developments, while in smaller municipalities the outlets are frequently in the more retail-oriented, core business district.

### **Technology**

The following is a summary of the Manager's principal technology, which forms a portion of the Franchise Services:

#### ***Websites***

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

Both of these websites are continually upgraded to ensure optimal functionality and usability. The websites have been optimized to accommodate the proliferation of mobile devices and provide an exciting user experience regardless of the viewing medium. The Company has established a number of exclusive tools to help home buyers shop for homes. In 2018, Royal LePage launched a number of noteworthy innovative features to differentiate [www.royallepage.ca](http://www.royallepage.ca) in the competitive consumer real estate portal landscape. Consumers are now offered a map-based visualization of one-year and five-year housing prices trends in a given area where the data exists. In a first for the industry, the website features a lifestyle matching service where the consumer can filter property search results by neighbourhood attributes such as pedestrian-friendliness, access to schools, and types of local attractions. Finally, the most popular feature launched in 2018 gives consumers the ability to search for homes by school catchment area for families looking for their children to attend specific schools. In 2017, Royal LePage launched "Your Perfect Life®", which allows home buyers to search for neighborhoods based on specific demographic characteristics. This accompanies both the standard search and a travel time search option which identifies listings that are within a specified commute time from their place of business, introduced in 2016. In recent years, Royal LePage has won awards from the Canadian Marketing Association for its use of data analytics and for developing positive consumer experiences on its website. The website was fully redesigned in 2017 to improve the overall mobile experience and enhance search engine optimization. Finally, Royal LePage is in the process of directly integrating local listings data with individual real estate boards to supplement existing sources of listings, allowing consumers to search for competitive listings as well as Royal LePage listings and improving the timeliness of when REALTORS® can access these listings and the quality of materials accompanying those listings.

The Via Capitale website includes innovative web tools such as the Via Images Search tool, which allows prospective buyers to look for a property using pictures according to a specific category of room as the main search criteria. The pictures are generated based on the search criteria and the potential customers can continue their search by clicking

on pictures that they like. Via Capitale is the only real estate company in Quebec that provides this type of search tool.

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

The Royal LePage Intranet site, [www.rlpNetwork.com](http://www.rlpNetwork.com) (the “RLP Intranet”), is accessible by authorized REALTORS<sup>®</sup>, Brokers and staff only. It is a key vehicle through which Royal LePage delivers many of its services (including those outlined under “REALTOR<sup>®</sup> Technology Programs”) as well as information about additional non-Intranet-based services. Information provided on the RLP Intranet is designed to help REALTORS<sup>®</sup> and Brokers manage their business, increase their profitability and develop their skills. On the RLP Intranet, REALTORS<sup>®</sup> and Brokers can access information about Royal LePage news and events, brand guidelines, marketing materials, training content, production award information, suppliers, privacy policies and other documentation to help them manage their businesses. In 2018, the RLP Intranet was completely rebuilt to be fully mobile-optimized and cloud-hosted. In addition to a redesign focused on a more customizable user experience, new features were added to the site, including an awards-level tracker, a customer relationship management (“CRM”) dashboard as well as an intuitive referral search intelligence making it easier for REALTORS<sup>®</sup> to promote themselves.

### ***The Via Capitale Intranet Site***

Via Capitale’s Intranet site, [monintranet.ca](http://monintranet.ca) (the “Via Intranet”), is accessible by authorized REALTORS<sup>®</sup> and staff only. It is a key vehicle through which Via Capitale delivers many of its services as well as information about additional non-Intranet-based services. Information provided on the Via Intranet is designed to help REALTORS<sup>®</sup> manage and increase their business and develop their skills. On the Via Intranet, REALTORS<sup>®</sup> can access information about Via Capitale’s news and events, suppliers, privacy policies and other documentation to help them manage their businesses. REALTORS<sup>®</sup> can establish personal, optimized websites through the Via Intranet. The Via Intranet enables the REALTOR<sup>®</sup> to manage their listings and referrals and provides advanced statistics on each listing’s viewings. REALTORS<sup>®</sup> have promotional tools and surveys available as well. In addition, Via Capitale’s Intranet provides detailed information regarding the Franchisees’ billings and fees.

### ***REALTOR<sup>®</sup> Technology Programs***

The Company, through the Manager, offers programs to help REALTORS<sup>®</sup> and Brokers run their businesses. These programs can be found on the RLP Intranet and/or the Via Intranet and include:

- an integrated marketing platform, which provides REALTORS<sup>®</sup> with customizable print and digital marketing materials, many of which are automated with integrated listings data for listings marketing. Marketing materials include property feature sheets, postcards, brochures, single property websites, slide shows, social media posts, e-Cards, print and e-newsletters;
- an integrated Customer Relationship Management (CRM) platform to rank and classify leads and contacts and manage them to conversion with the use of action plans and drip campaigns;
- personal websites;
- branded email;
- branded e-Store;
- preferred supplier programs offering discounts on products and services that support Brokers’ and REALTORS<sup>®</sup>’ businesses;
- referral directory that promotes intra-brand referrals;
- luxury and commercial real estate marketing programs; and
- webinar training to support usage of the suite of proprietary online tools.

Brokers have access to the following additional services:

- online recruiting leads;
- recruiting and retention tools in the form of goal setting, roles and responsibility setting within the brokerage, coaching and accountability, marketing support, a CRM and a brokerage satisfaction survey to support the recruitment of new and experienced REALTORS<sup>®</sup>;
- profitability education, consulting, benchmarking and templates to help brokers manage profitable businesses;
- best practices sharing forums and resources;
- brokerage and recruiting awards and recognition programs; and

- brokerage-specific portion of the RLP Intranet and the Via Intranet to share all brokerages to be able to communicate with their agents.

### ***Royal LePage Financial Reporting System***

The Manager recently upgraded its proprietary system designed to capture royalty fees, and Broker and REALTOR® revenue information from Royal LePage Franchisees. The financial reporting system allows Royal LePage Franchisees across the country to transmit REALTOR® and transaction information electronically every month to allow for the calculation and billing of Franchise Fees. The system captures useful statistical information, including information on the average split of commissions between REALTORS® acting for the buyer and the seller and net recruiting results, which can be accessed by all Franchisees for comparison purposes.

### ***Shared Listings and DDF***

The Company has been a strong advocate for sharing information amongst REALTORS® and consumers including the sharing of listings. The Company believes that broader access to information creates more informed parties to each transaction and smoother transaction execution. The Canadian Real Estate Association (“CREA”) was the industry leader in developing a technology platform to enable shared listings across real estate brands. In 2012, CREA introduced the Data Distribution Facility (“DDF”) giving real estate brokerages and franchisors the ability to display each other’s listings on their websites and allowing consumers to view all listings available at once, regardless of what real estate company owns the listing.

The Company’s Royal LePage brand was an early adopter of CREA’s DDF, increasing web traffic significantly.

### ***Access to “SOLD” Data and Historical Transaction Information***

Recent legal judgements relating to access to information are expected to increase the types of data that will be made public by real estate boards and Multiple Listing Services®, including the transaction prices of residential real estate. Royal LePage is actively developing infrastructure to support the display of transactional data to consumers who create an account on [www.royallepage.ca](http://www.royallepage.ca). Where real estate boards allow, [www.royallepage.ca](http://www.royallepage.ca) will indicate the current status of a listing (active, pending, or sold) as well as the listing price or selling price, as applicable. In addition to the status of the current listing, [royallepage.ca](http://royallepage.ca) will display previous listings of the property and indicate if the listing was cancelled, expired, or resulted in a sale of the property. If the property was sold, the price at which it was sold will be listed. The amount of information to be displayed to consumers will depend upon the availability of data from individual real estate boards.

### ***Training***

The Manager provides training to its Franchisees and REALTORS® with respect to its marketing and technology programs though in person and web-based training by its Learning Services team and online learning tools. The Learning Services team includes professionally qualified trainers who spend much of their time on the road, delivering hands-on training to Brokers, REALTORS® and administration staff covering a wide range of topics including the optimal use of the proprietary tools and technologies offered by the Company.

The Manager offers REALTORS® live and on-demand online training programs designed to provide new REALTORS® and industry veterans with productivity-enhancing techniques based on best practices and industry trends. The Manager also offers several proprietary and outsourced personal coaching, planning and training programs, including specialized industry designations for luxury properties, real estate for seniors, international property sales, buyer representation, seller representation and social media.

There are a number of online learning tools offered as part of the Franchise Services which are accessible at all times through the RLP Intranet and the Via Intranet. They include webinars from industry experts as well as technology and instructional webinars. In addition, there are a number of programs offered which provide certain REALTORS® with accreditation towards the continuing education requirements of their provincial licenses.



## Marketing and Promotion

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

The Manager's initiatives aimed at increasing consumer and REALTOR® awareness include the following:

- newspaper print advertising, which aids with recruiting and retention of REALTORS®;
- product marketing to promote products and services and increase adoption and engagement within the Franchise Network;
- content marketing through digital and social channels that reinforces brand key messages and being among the top knowledge leaders in the country;
- video production that promotes the Company's brands and their products and services and provides valuable information to consumers on buying and selling homes;
- brand promotions and recruiting campaigns utilizing the Company's social media presence;
- multi-media advertising;
- tools for use by REALTORS® to allow them to contact consumers and potential customers in a more targeted manner;
- media relations to support the Company's brands remaining among the principal voices of real estate in the Canadian media; the Manager's national and local spokespersons are quoted and interviewed regularly and are viewed as experts in their field;
- a public relations program which includes a quarterly survey of house prices, which has been keeping Canadians informed as to national housing prices for over 40 years and is widely used by municipalities, researchers and independent companies as the national housing reference guide;
- in the case of Via Capitale, a province wide, multi-media advertising campaign across Quebec;
- national and regional events that help raise awareness of the Company's brands and its products to Brokers and REALTORS®;
- support of charitable causes on a local, provincial and national level including:
  - the annual media food drive in Quebec which raises the awareness of the Via Capitale brand; and
  - the Royal LePage Shelter Foundation which raises money for shelters to house abused women and their children. Since its inception in 1998, the Royal LePage Shelter Foundation has successfully raised and distributed over \$30 million through national and local Broker and REALTOR® initiatives and helps an estimated 50,000 women and children each year through the support of over 200 shelters across the country.

## Growth Strategy

The Manager maintains brand-dedicated network development teams that are focused on growing the Company's presence in the Canadian market as industry consolidators. These teams are focused on attracting quality brokerages to the Via Capitale Network and the Royal LePage Network and expanding opportunities for existing Franchisees. Key elements of the Company's growth strategy include:

- identifying key franchise prospects based on profitability, reputation, business acumen and technology orientation;
- ongoing prospecting through various advertising programs, newsletters, press releases, sales and networking events, conferences and personal contact;
- creating and maintaining a database of brokerages with information including market share, number of

REALTORS® and owner/manager details;

- expanding the range of products and services provided by the Franchise Systems and increasing the adoption by Brokers and REALTORS® of these products and services in order to make the Company brands more attractive to franchise prospects;
- providing programs to Franchisees supported by ongoing Franchisee and REALTORS® training programs that assist Franchisees in presenting the distinctive benefits and records of success of REALTORS® and Brokers to potential recruits; and
- providing financial and other consulting to, and otherwise supporting, Franchisees in acquiring local competitors and integrating such competitive brokerage operations into the Franchisees' owned brokerage operations.

The Manager currently licenses the rights to use the Prudential Real Estate brand in Canada. One of the conditions of these licenses is that Prudential franchisees cannot renew their franchise agreements under the Prudential name. As such, part of the Company's growth strategy has been to convert Prudential franchises to Royal LePage when their franchise agreements expire. Since 2011, when the Manager acquired the rights to use the Prudential name, approximately 1,116 REALTORS® have converted to Royal LePage Franchises, and 16 REALTORS® currently operate under the remaining Prudential franchise agreement which expires on August 21, 2020.

### **Quality Control**

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

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

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

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

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

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

In 2016, the Company terminated 13 Franchise Agreements, seven of which were terminated as a result of Franchisees merging operations and six of which resulted in attrition of 87 REALTORS®. In 2017, the Company terminated twelve Franchise Agreements nine of which were terminated as a result of Franchisees merging operations and three of which resulted in the attrition of 11 REALTORS®. In 2018, the Company terminated ten Franchise Agreements, two of which were terminated as a result of Franchisees merging operations and eight of which resulted in attrition of 37 REALTORS®.

Upon termination of its Franchise Agreement, a Franchisee is required to assign all of the business phone numbers and telephone listings to the Company and permit the Company to enter the premises of the Franchisee to cure any default of the Franchisee, operate the business for the account of the Company or secure the Franchisee's complete and timely compliance. Furthermore, upon termination, the Company may appoint a receiver or manager over the Franchise business and, within 30 days of termination, the franchisor has the right to purchase the business from the Franchisee at a price determined pursuant to a prescribed formula and in a prescribed manner.

### **Franchise Reporting**

Each Franchisee is required to report monthly on key operating, personnel and financial statistics, including gross revenue, number and status of REALTORS®, REALTOR® roster, number of real estate transactions and fees payable. This reporting is primarily obtained through the Manager's financial reporting system. See "Description of the Business – Technology".

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

The Manager has retained Brookfield to provide internal audit services to the Company pursuant to the terms of the Management Services Agreement. The internal audit services include reviews for compliance with Franchise Agreements and suggestions to Franchisees on operating issues and regulatory matters, where appropriate. See "Description of the Business – Management Services Agreement".

### **Government Regulation**

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

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

Most REALTORS® also belong to local real estate boards as well as to the Canadian Real Estate Association and are required by the rules thereof to adhere to prescribed standards of professionalism and a code of ethics. Local real estate boards will often operate a Multiple Listing Service® for members (under which properties may be listed, purchased or sold), facilitate arbitration and ethical disputes among members and handle complaints from members of the public.

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

#### ***Franchise Regulation***

The Company must comply with laws and regulations adopted in a number of Canadian provinces which regulate the offer and sale of franchises. These laws require, among other things, that the Company provide prospective Franchisees with a disclosure document containing certain prescribed information.

## ***Employment***

As is the case with many REALTORS® in Canada, REALTORS® in the Franchise Network practice as independent contractors. Under this system, the REALTORS® operate as businesses independent of the real estate brokerage with which they are affiliated. They remit their own taxes to the Canada Revenue Agency, pay their own health insurance and deduct business expenses. The typical independent contractor agreement between a Broker-Owner and a REALTOR® has a one-month termination clause, allowing either the Broker-Owner or the REALTOR® to terminate the contract on one month's notice.

## **Dividend Policy**

During 2018, the Corporation paid dividends of \$1.35 per Restricted Voting Share (2017 - \$1.32 and 2016 - \$1.30). The Board reviews the cash position and forecasts of the Company at its regularly scheduled Board meetings. The Board considers the recommendation of the Manager in determining the approval of any dividend. The Board targets a dividend level that is sustainable after considering, among other things, the cash resources and cash flow forecasts of the Company as well as the investment opportunities available to the Company.

## **Management Services Agreement**

### ***The New MSA***

The Previous Management Services Agreement had an initial term of five years and was set to expire on December 31, 2018. In September, 2018, the term of the Previous MSA was extended to June 30, 2019. With effect as of November 6, 2018, the Manager and the Company entered into the New Management Services Agreement. The New MSA replaced the Previous MSA except that the compensation of the Manager was governed under the Previous MSA until December 31, 2018.

The New MSA has an initial term of ten years (the "Initial Term") and is automatically renewable for successive ten-year terms unless notice of termination is given by the Company or the Manager at least twelve months prior to the expiry of the Initial Term or subsequent renewal term. Should the MSA not be renewed, the Company would be required to enter into an alternate arrangement for the provision of the services performed by the Manager.

### ***General***

Pursuant to the provisions of the New MSA, the Manager provides certain management, administrative and support services to the Company. The duties of the Manager include:

- (i) ensuring compliance with continuous disclosure obligations under all applicable securities legislation and stock exchange requirements;
- (ii) providing accounting and financial services;
- (iii) ensuring prompt collections under the Franchise Agreements and otherwise ensuring compliance by Franchisees with their respective obligations under the Franchise Agreements;
- (iv) pursuing the growth of the Franchise Network through the addition of incremental Franchises;
- (v) negotiating and communicating with third parties with respect to contractual and other matters;
- (vi) providing investor relations services;
- (vii) providing to Shareholders and holders of Special Voting Shares all information to which Shareholders and holders of Special Voting Shares are entitled;
- (viii) calling, holding and distributing materials (including notices of meetings and information circulars) in respect of all meetings of Shareholders and holders of Special Voting Shares;
- (ix) determining the amounts payable from time to time to Shareholders; and
- (x) dealing with Franchisees on questions of interpretation of the Franchise Agreements.

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

- maintain and use reasonable efforts to expand the Franchise Network, including ongoing improvement of technology, marketing and promotional tools;

- manage and supervise the management of the Franchisees in a manner consistent with that of a competent and qualified manager of similar franchises of branded residential resale real estate brokerages;
- collect all fees and other amounts payable to the Company under the Franchise Agreements;
- monitor the compliance of Franchisees with the character and quality standards set out under the Franchise Agreements, including with respect to the Trademarks; and
- enforce the observance and performance of Franchise Agreements by owner/operators of Franchises in a manner that is consistent with good and prudent business practices.

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

Under the Previous MSA, the Manager was entitled to an annual management fee, payable by the Partnership on a monthly basis in arrears, equal to 20% of the Distributable Cash of the Partnership and the Distributable Cash of 9120 (each as defined in the Previous MSA). In addition, the Manager would enter into Incremental Franchises and sell them to the Company in accordance with the terms of the Previous MSA. See “Description of the Business – Management Services Agreement – Incremental Franchises”.

Under the New MSA, the Manager is entitled to a monthly fee equal to \$840,000 plus:

- a) during the first five years of the Initial Term of the New MSA, the greater of:
  - (i) 23.5% of the Distributable Cash of the Partnership and the Distributable Cash of 9120 (each as defined in the New MSA); and
  - (ii) 0.342% of the Market Capitalization of the Company, and
- b) after the first five years of the Initial Term of the New MSA, the greater of:
  - (i) 25.0% of the Distributable Cash of the Partnership and the Distributable Cash of 9120; and
  - (ii) 0.375% of the Market Capitalization of the Company.

Under certain circumstances, the Company may pay the monthly fees to the Manager through the issuance by the Partnership of Class B LP Units.

Under the New MSA, the Manager no longer enters into Incremental Franchises and sells them to the Company. Rather, the Partnership or Via Capitale L.P. enter into Franchise Agreements directly with Franchisees.

The New MSA may be terminated prior to the end of the Initial Term or any subsequent renewal term on behalf of the Company by the Independent Directors if a substantial deterioration in the business of the Partnership and Via Capitale L.P., taken as a whole, occurs that is not caused by force majeure, provided that such termination is approved at a meeting of Shareholders by a resolution approved by holders representing at least 50% of the aggregate number of issued and outstanding Restricted Voting Shares and the Special Voting Share and at least  $66\frac{2}{3}\%$  of the aggregate number of Shares voted at the meeting, in each case excluding any Restricted Voting Shares and the Special Voting Share held by the Manager or any of its affiliated entities. In the event of such termination, and provided that the Manager is not then in default, the Company will pay to the Manager a fee equal to the aggregate of all fees paid to the Manager under the New MSA in the previous calendar year.

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

delivered.

The New MSA contains provisions to regulate any conflicts of interest that may arise and provides for indemnification by the Manager of the Company and by the Company of the Manager in certain circumstances. The New MSA may be assigned by any party thereto with the prior written consent of all other parties.

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

- inspect the use of the Trademarks by the Manager and the Franchisees to ensure that they are protecting and enhancing the reputation associated with the Trademarks;
- obtain, on a quarterly basis, a certificate from an officer of the Manager to the effect that the Manager is using the Trademarks in accordance with the New MSA and in a manner consistent with the agreements underlying the use of the Trademarks;
- require the Manager to submit periodic reports detailing the operations of the Franchisees and assuring compliance with the Franchise Agreements; and
- establish the standards governing the character and quality of the services delivered and the monitoring and enforcement of standards under the Franchise Agreements.

Under the New MSA, the Manager has the ability to develop and offer new products and services to Franchisees or REALTORS® in addition to the products and services as specifically dealt with in the New MSA. Pursuant to the terms of the New MSA, provided such products and services are new, and not mere enhancements of the products and services already provided as part of the Franchise Systems, the Manager shall be entitled, after negotiation with and the approval of the Independent Directors of the Company, to be reimbursed for its costs and receive additional fees in respect of such products and services.

### ***Incremental Franchises***

Under the Previous MSA, the Company provided the Manager with licenses to use the Trademarks to, among other things, enable the Manager to operate and grow the Franchise Network by entering into new Franchise Agreements either directly or through an affiliated entity.

The Previous MSA outlined the criteria considered by the Independent Directors in deciding to approve the purchase of Incremental Franchises by the Partnership from the Manager. The Previous MSA also provided that such criteria may be reviewed and amended upon agreement between the Independent Directors and the Manager. All Incremental Franchises were, prior to being purchased by the Partnership, subjected to a satisfactory review based on the criteria established by the directors from time to time prior to their assignment to the Partnership. The criteria for Incremental Franchises proposed for acquisition by the Partnership subject to a Franchise Agreement included:

- a) the brokerage business must be located in Canada;
- b) the Franchise Agreement must be the same or substantially similar to the Franchise Agreements for existing Franchises;
- c) the Franchise Agreement must have a minimum term of ten years (five years in the case of an Incremental Franchise operating under the Via Capitale Brand);
- d) the Franchisee or his or her management team in respect of such Incremental Franchise must have experience in the real estate industry;
- e) such Incremental Franchise must be operated in accordance with the established quality control requirements of the Manager;
- f) the Franchisee must hold all necessary licences to operate a residential real estate brokerage business, and all such licences must be in good standing; and
- g) the Franchisee must have sufficient operating experience to allow the Manager to assess the performance of the business prior to becoming a Franchisee.

Subject to meeting the criteria set forth in the Previous MSA, all Incremental Franchises entered into prior to the end of the 44th week of each fiscal year of the Company were sold to the Partnership by the Manager, on January 1 of the immediately following fiscal year (the “Payment and Adjustment Date”), in consideration of an amount (the “Determined Amount”) estimated on the Payment and Adjustment Date (and finalized at the end of the Reporting Period, as defined below) by a formula that was based upon, among other things:

- the amount of the tax-effected Franchise Fees of the Incremental Franchises for the 52-week period ending at the end of the 44th week (the “Reporting Period”) in the fiscal year of the Company that such Incremental Franchises were sold to the Partnership; and
- the dividend yield paid on the Restricted Voting Shares for the 52-week period immediately preceding the beginning of such Reporting Period (the “Determination Date”).

The Determined Amount for any Reporting Period was determined by dividing (a) 92.5% of the Franchise Fees (net of management fees attributable to such Franchise Fees) on a tax effected basis in respect of the first Reporting Period for which such Incremental Franchises were included in the calculation of Franchise Fees by (b) the annual dividend yield paid on the Restricted Voting Shares for the 52-week period immediately preceding the Determination Date in respect of such Reporting Period. The annual dividend yield was determined by dividing i) the total dividend amount per Restricted Voting Share declared by the Corporation in the 52-week period ending on the day immediately preceding such Determination Date by ii) the Current Market Price (as defined below) of the Restricted Voting Shares on such Determination Date.

The “Current Market Price” of the Restricted Voting Shares as at any date or for any period means the weighted average price at which the Restricted Voting Shares have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of such period. (For the purposes of this calculation, (a) “Stock Exchange” means a stock exchange recognized by the Ontario Securities Commission, and where the Restricted Voting Shares have traded on more than one Stock Exchange during the relevant period, “Stock Exchange” shall mean the Stock Exchange where the greatest volume of Restricted Voting Shares traded during the relevant period; and (b) “weighted average price”, for any period, shall mean the amount obtained by dividing i) the aggregate sale price of all of the Restricted Voting Shares traded on the relevant Stock Exchange during such period by ii) the total number of Restricted Voting Shares so traded.)

The Determined Amount in respect of any Incremental Franchise was adjusted to eliminate the effect thereon of any Franchise Fees paid by such Incremental Franchise during the Reporting Period in respect of REALTORS® who joined the Franchisee of the Incremental Franchise from another Franchisee after the Franchise Agreement in respect of such Incremental Franchise was entered into. Similarly, the Determined Amount in respect of any Incremental Franchise that resulted from the acquisition or addition by an existing Franchisee of additional offices and/or REALTORS® was adjusted to remove the effect thereon of any Franchise Fees paid by such Incremental Franchise during the Reporting Period in respect of REALTORS® who were REALTORS® of the Franchisee that made the acquisition prior to such acquisition.

While the Partnership did have the option to pay the Determined Amount through the issue of Class B LP Units, all Incremental Franchises purchased by the Partnership under the Previous MSA were paid for in cash.

An initial estimate of the Determined Amount was made based upon the amount of the Franchise Fees of the Incremental Franchises for such Reporting Period, as forecasted by the Manager (a “Forecast Determined Amount”), on the basis of assumptions that were considered to be reasonable by the Board. The Forecast Determined Amount was adjusted after the end of such Reporting Period when the Determined Amount was determined on the basis of the actual Franchise Fees for such Incremental Franchises for such Reporting Period. The Manager provided the Company with an audited report of the amount of such actual Franchise Fees of the Incremental Franchises for the first Reporting Period in which such Incremental Franchises were included in the calculation of total Franchise Fees and the Actual Tax Rate for the Reporting Period during which such Incremental Franchises were assigned to the Partnership.

The Determined Amount for any Reporting Period was paid in two instalments. The first payment, equal to 80% of the Forecast Determined Amount (the “Initial Payment”), was paid on the Payment and Adjustment Date. The second payment, equal to the Determined Amount less the Initial Payment, was to be paid within 30 days of the completion of the audited report.

All Incremental Franchises were subject to a satisfactory review by the Independent Directors, based on the criteria in the Previous MSA or those agreed between the Manager and the Independent Directors from time to time.

### **Organic Growth**

Under the Previous Management Services Agreement, the Manager was eligible to receive a fee for the cumulative net organic growth in the number of REALTORS® in the Company Network since December 31, 2013. Since the Company experienced a net organic loss of REALTORS® over the term of the Previous MSA, no amounts were paid to the Manager under these provisions of the Previous MSA.

### **Management of the Company**

The section entitled “Management of the Company” contained in the Company’s Management Information Circular dated March 25, 2019, the Previous MSA and the New MSA are incorporated herein by reference.

## **DESCRIPTION OF THE CORPORATION**

The Corporation was incorporated on October 28, 2010 pursuant to the provisions of the OBCA for the purpose of reorganizing the Business, which was previously organized using an income trust structure. Prior to this reorganization the Corporation had not carried on any active business since its incorporation.

### **Restricted Voting Shares**

The Corporation is authorized to issue an unlimited number of Restricted Voting Shares. Holders of Restricted Voting Shares are entitled to a) one vote per share at meetings of Shareholders of the Corporation; b) receive dividends if, as and when declared by the Board of Directors of the Corporation (subject to the rights of shares, if any, having priority over the Restricted Voting Shares); and c) receive their pro rata share of any remaining property and assets of the Corporation upon its dissolution or winding up (subject to the rights of shares, if any, having priority over the Restricted Voting Shares). The Restricted Voting Shares are designated as “restricted voting shares” in accordance with applicable securities laws and the rules of the TSX due to the fact that the Restricted Voting Shareholders do not vote for the Designated Directors who are appointed by the holder of the Special Voting Share. See “Description of the Corporation – Special Voting Share”. As at the date hereof, there are 9,483,850 Restricted Voting Shares issued and outstanding. The Restricted Voting Shares carry approximately 74% of the voting rights attached to all voting securities of the Corporation.

### **Preferred Shares**

The Corporation is authorized to issue an unlimited number of preferred shares and the Directors may issue such preferred shares in series with each series having various rights, privileges, restrictions and conditions attaching to them. The preferred shares are available to the Corporation to provide future financing flexibility. The Corporation has never issued any preferred shares and there are currently no preferred shares issued and outstanding.

### **Special Voting Share**

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

So long as Brookfield holds the Special Voting Share and so long as it and/or its affiliates hold an aggregate of 10% of the Restricted Voting Shares then outstanding (on a diluted basis), Brookfield is entitled to appoint two-fifths of the Directors of the Corporation. Currently there are two Designated Directors who have been appointed by Brookfield. Mr. Spencer Enright is the Chairman of the Company and the CEO of the Manager. Mr. Joe Freedman is Senior Vice



Chairman, Private Equity at Brookfield Asset Management

### Principal Holders of Voting Securities

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

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

\*This entity also holds 100% of the 3,327,667 Class B LP Units and 315,000 Restricted Voting Shares.

### Directors

The Corporation will have a minimum of three and a maximum of ten directors. The current Directors are Lorraine Bell, Simon Dean, Spencer Enright, Joe Freedman and Gail Kilgour. The Honourable Trevor J. Eyton OC was a Director until his passing in February, 2019. See “Directors and Officers of the Corporation” for the principal occupations of the Directors.

At all times a majority of the Directors will be Independent Directors. Presently, Mr. Spencer Enright and Mr. Joe Freedman are not Independent Directors. Mr. Enright is a senior officer and a director of the Manager. Mr. Freedman is a senior officer of Brookfield. Brookfield may remove any Designated Directors as directors at any time in its sole discretion. The Elected Directors may be removed by a resolution passed by a majority of the holders of Restricted Voting Shares. The vacancy created by the removal or resignation of an Elected Director may be filled at the same meeting, failing which it may be filled by the continuing directors.

### Audit Committee

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

### Governance Committee

The Governance Committee consists of Gail Kilgour (Chair), Lorraine Bell, Simon Dean and, until his passing, the Honourable Trevor J. Eyton OC, all of whom are Independent Directors. See “Directors and Officers of the Corporation” for the principal occupations and relevant education and experience of the members of the Governance Committee. See Appendix A for the Governance Committee Charter.

### Information and Reports

The Corporation will furnish materials to shareholders in accordance with and subject to applicable securities laws, including:

- quarterly and annual consolidated financial statements;
- management’s discussion and analysis for the periods covered by the financial statements;
- management’s information circular, notice of meeting, proxy information and other information to be provided prior to annual and special Shareholders’ meetings; and
- other reports as are from time to time required by applicable law.

All of the information furnished by the Company to Shareholders can be accessed on the Company's website at [www.bridgemarq.com](http://www.bridgemarq.com) or [www.sedar.com](http://www.sedar.com).

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

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

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

## **DESCRIPTION OF THE PARTNERSHIP**

### **General**

The Partnership is a limited partnership established under the laws of the Province of Ontario to own the Partnership Assets, conduct the Business of the Company and carry out all activities consistent with the strategy of the Company and the New Management Services Agreement. The following is a summary of the material attributes and characteristics of the Partnership and the LP Units and certain provisions of the Partnership Agreement, which summary is not intended to be complete. Reference is made to the Partnership Agreement and the full text of its provisions for a complete description of the LP Units.

### **General Partner**

The general partner of the Partnership is the General Partner.

### **Partnership Units**

The Partnership is entitled to issue various classes of partnership interests pursuant to the approval of the General Partner. The Partnership has 9,983,000 Class A LP Units and 3,327,667 Class B LP Units issued and outstanding. All of the Class A LP Units outstanding (representing a 75% interest in the Partnership) are held by the Corporation. All of the Class B LP Units outstanding (representing a 25% interest in the Partnership) are held by Brookfield.

Class B LP Units may be issued, as described under "Description of the Business – Management Services Agreement", to the Manager in satisfaction of payment of management fees payable under the New MSA. See "Description of the Business – Management Services Agreement – General".

Class B LP Units, which are issuable in series, may be issued in respect of other acquisitions made by the Partnership from time to time. The Class B LP Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Class A LP Units. The Class B LP Units have the following attributes:

(i) the Class B LP Units are exchangeable, indirectly, on a one-for-one basis (subject to customary anti-dilution provisions) for Restricted Voting Shares at the option of the holder, at any time; (ii) each Class B LP Unit entitles the holder thereof to receive distributions from the Partnership, where practicable, pro rata, with the distributions on the Class A LP Units.

Distributions to holders of Class B LP Units are made at the same time as distributions to the Corporation on the Class A LP Units and distributions to the General Partner. Distributions from the Partnership occur at the same time as dividends are paid on the Restricted Voting Shares.

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

### **Distributions**

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

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

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

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

The income or loss of the Partnership for each fiscal year will be allocated to the General Partner and to the limited partners as 0.001% and 99.999%, respectively. The income or loss of the Partnership for a particular fiscal year will be allocated to each limited partner based on their pro-rata share of cash distributions received.

### **Reimbursement of General Partner**

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

### **Limited Liability**

The Partnership operates in such a manner as to ensure, to the greatest extent possible, that the liability of the limited partners is limited to the amount of that limited partner’s net investment in the Partnership. The General Partner has agreed to indemnify each limited partner for any losses in excess of that limited partner’s net investment to the extent that those losses are caused by the negligence of the General Partner in performing its duties and obligations under the Partnership Agreement. The General Partner, at any point in time, may have little or no significant assets or financial resources.

### **Transfer of Partnership Units**

Class A LP Units are fully transferable and the transferee will be entitled to the rights of a limited partner under the Partnership Agreement on the date on which the transfer is recorded, so long as the transferee of the Class A LP Unit agrees to a) become a limited partner, and b) be subject to the obligations of the Class A LP Units. Class B LP Units will be transferable only as described under “Retained Interest”.

## **DESCRIPTION OF THE GENERAL PARTNER**

### **General**

The General Partner is a corporation established under the laws of the Province of Ontario to act as the general partner

of the Partnership. The Corporation and Brookfield own 75% and 25%, respectively, of the outstanding shares of the General Partner. Pursuant to the Shareholders' Agreement, in the event that the New MSA is terminated, Brookfield will sell all of its shares in the General Partner to the Corporation or such other person as the Corporation directs.

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

The General Partner is responsible for managing the Business and affairs of the Partnership, and to make all decisions regarding the Business of the Partnership.

Pursuant to the New MSA, the Manager is actively engaged in the Business of the Partnership and in assisting the General Partner in the management of the Business and affairs of the Partnership. For additional information about the New MSA and the Previous MSA, see "Description of the Business – Management Services Agreement".

The Partnership Agreement provides that all material transactions and agreements involving the Partnership must be approved by the General Partner's board of directors. Where Brookfield or any of its affiliates has a direct interest in any matter to be approved by the General Partner, such matter must be approved by a majority of the Independent Directors.

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

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

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

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

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

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

### **Restrictions Respecting Amendment**

The Partnership Agreement may not be amended in any way that could reasonably adversely affect the rights or obligations of any class of partners, including, without limitation, amendments that affect the voting rights, distribution entitlements or liabilities of that class without the consent of such class of partners given by ordinary resolution at a duly constituted meeting or a written resolution of partners holding a majority of the Partnership interests of such class entitled to vote at a duly constituted meeting.

### **Shareholders' Agreement**

Brookfield, the Corporation and the General Partner are parties to the Shareholders' Agreement, in respect of the General Partner.

## ***Directors***

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

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

The Directors and officers of the Company are covered under a directors' and officers' insurance policy that provides an aggregate limit of \$175 million inclusive of defense costs for claims where the Company is obligated and able to indemnify them, as well as those claims where indemnity is not available. These limits are part of a Brookfield Asset Management insurance program and accordingly, these limits are shared with other Brookfield companies.

The by-laws of the Company provide for the indemnification of its Directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to customary limitations.

## ***Amendment***

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

## **CREDIT FACILITIES**

Effective January 1, 2019, the Company amended its \$78 million debt facility (the "Debt Facility") which was scheduled to expire on February 17, 2020. The amendments increased the Company's borrowing capacity, to \$80 million and extended the maturity to December 31, 2023 (the "Maturity Date").

The Debt Facility is secured by first ranking security interest in substantially all assets of the Company. All amounts borrowed under the Debt Facility bear interest at variable interest rates of banker's acceptances + 1.70% or Canadian prime + 0.5%, at the option of the Company. Under the Terms of the Debt Facility, the Company has access to the following sources of funds:

- a) a \$55 million non-revolving term facility (\$53 million prior to January 1, 2019), due on the Maturity Date (the "Term Facility");
- b) a \$20 million revolving acquisition facility to support acquisitions completed by the Company (the "Acquisition Facility"). A standby fee of 0.15% applies on undrawn amounts under this facility. The Company has drawn \$18.5 million on the Acquisition Facility as of March 25, 2019; and
- c) a \$5 million revolving operating facility to meet the Company's day-to-day operating requirements. No amounts have been drawn on this facility as of March 25, 2019.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 3.0 to 1 (5.0 to 1 prior to January 1, 2019) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 4.0 to 1 (2.5 to 1 prior to January 1, 2019) (as such terms are defined in the Debt Facility agreements). Consolidated EBITDA is defined as operating income before deducting impairment and amortization of intangible assets. In the event that Senior Indebtedness to Consolidated EBITDA exceeds 3.40 to 1, the Company is obligated to make monthly repayments of combined interest and principal in an amount equal to an annual 10% straight line amortization of the outstanding Facilities until such time as the ratio of Senior Indebtedness to Consolidated EBITDA is less than 3.25 to 1 for a period of two consecutive months.

On October 27, 2014, the Company entered into a five-year interest swap agreement to swap the variable interest obligation on the \$53 million Term Facility to a fixed rate of 3.64%. The swap matures on October 28, 2019 and is recorded at its fair value in the Company's financial statements.

## Security

The Debt Facility has an unconditional and unlimited guarantee and postponement and assignment of debts and claims issued by the Corporation and each of its subsidiaries. The Debt Facility is secured by a general security interest from the Company providing for a first-ranking security interest in all of the present and future assets, property and undertakings of the Company.

## Restrictive Covenants

So long as the Debt Facility remains outstanding, the Company is subject to certain restrictive covenants (subject to certain limitations), including:

- the Company will not incur, guarantee or otherwise be or become directly or indirectly liable for any indebtedness other than the Debt Facility;
- the Company will not create any liens on any of its property, other than encumbrances permitted in the Debt Facility;
- the Company will not directly or indirectly, sell any of its assets if, after giving effect to such sale of assets, a default or event of default occurs under the Debt Facility as a result of such sale. Subject to the foregoing, the Company may sell assets of less than \$500,000 in any one fiscal year. Additionally, the Company may sell assets for an amount greater than \$500,000 but less than \$2.0 million provided that (i) notice is duly given to the lender; and (ii) the net proceeds received in excess of \$500,000, in aggregate, in any one fiscal year (the “Excess Net Proceeds”) is reinvested by the Company in the Company’s Business. If less than all of the Excess Net Proceeds are reinvested in the Company’s business (such non-reinvested portion being the “Non-Reinvested Amount”), within 30 days after the end of the fiscal year, the Company will use the Non-Reinvested Amount to ratably repay outstanding Senior Indebtedness of the Company in accordance with the Debt Facility;
- subject to the limitation on asset sales noted above, the Company will not enter into a sale and leaseback transaction if, after giving effect to such sale and leaseback transaction, a default or event of default occurs under the Debt Facility;
- the Company will not undertake any merger, reconstruction, reorganization, recapitalization, combination, statutory arrangement, consolidation, amalgamation, liquidation, dissolution, winding-up or other similar transaction or arrangement or any sale of assets whereby all or substantially all of the undertaking, property and assets of the Company would become the property of another person (a “Person”) (any of the foregoing being herein referred to as a “Transaction”) unless: (i) that Person agrees to be bound by all terms of the Debt Facility; (ii) that Person is solvent and validly existing under the federal laws of Canada or the laws of a province or territory of Canada; (iii) the liens created by the security under the Debt Facility will continue to be valid against the property acquired by that Person in substantially the same manner and to the same extent and priority as existed immediately prior to such Transaction; (iv) the Transaction is carried out in such a manner as to preserve the rights and powers of the lender under the Debt Facility; (v) no default or event of default will have occurred immediately prior to or as a result of that Transaction; and (vi) prior to or contemporaneously with the completion of the Transaction, the Person will have executed and delivered certain legal opinions and certificates to the lender;
- the Company shall not purchase, hold or acquire any investments (including equity securities, indebtedness of third parties, options or warrants to acquire these types of securities or guarantees of these securities) except: (i) loans, advances or other forms of indebtedness or investments made between entities within the Company; (ii) Acquisitions that are of assets or equity securities, of an entity carrying on a business similar to and consistent with the Business; (iii) cash or cash equivalents; and (iv) Guarantees expressly permitted under the Debt Facility;
- the Company will not materially modify, alter, amend, extend, renew or replace any of its constating documents or by-laws unless any such action would not have or would not reasonably be expected to have a material adverse effect on the Company;

- the Company will not make or give effect to any distribution if a default or event of default will have occurred immediately prior to or as a result of that distribution;
- the Company will not engage in transactions with any Affiliates unless the terms of such transactions are no less favourable than if the transaction were undertaken with an unrelated third party, excluding any transactions in accordance with the terms of the New MSA;
- the Company shall not establish, sponsor, contribute to or assume an obligation to contribute to any pension plan except with the prior written consent of the lenders;
- the Company will not amend, terminate, surrender or vary (i) the New MSA or (ii) any other material contract if such amendment, termination, surrender, variation or waiver would result in a material adverse effect on the Company;
- the Company will not change its jurisdiction of incorporation or chief executive office and
- the Company shall not carry on any business other than the Business and any business reasonably incidental thereto and will not carry on business outside Canada.

### **RETAINED INTEREST**

The Class B LP Units owned by Brookfield represent a 25% interest in the Partnership and, if all such Class B LP Units were indirectly exchanged for Restricted Voting Shares, they would represent a 26% interest in the Corporation. In addition, Brookfield owns 315,000 Restricted Voting Shares of the Corporation, for a combined interest of 28%.

### **EXCHANGE RIGHTS**

Brookfield, the Company and the Manager are parties to an Exchange Agreement. The Exchange Agreement provides Brookfield and the Manager with the right to require the Company to directly or indirectly exchange Class B LP Units or Class A LP Units for Restricted Voting Shares of the Corporation on the basis of one Restricted Voting Share of the Corporation for each LP Unit exchanged.

The exchange procedure can be initiated by Brookfield or the Manager delivering to the General Partner, as escrow agent under the Exchange Agreement, a unit certificate in respect of the LP Units to be exchanged.

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

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

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

## DISTRIBUTIONS

### Distributions per Share for Last Three Fiscal Years

The following table sets out the aggregate dividends declared in respect of the Restricted Voting Shares in each of 2018, 2017 and 2016.

Period	Distributions Per Restricted Voting Share or Unit
2018	\$1.35
2017	\$1.32
2016	\$1.30

## MARKET FOR SECURITIES

The Restricted Voting Shares are currently listed for trading on the TSX under the symbol “BRE”. None of the units of the Partnership, units of Via Capitale L.P. or shares of the General Partner are listed for trading on a recognized exchange, nor is there a market for such securities. The following table sets out the price ranges and volume traded for Restricted Voting Shares on the TSX for each month during 2018:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
High	\$17.20	\$18.25	\$18.25	\$17.80	\$17.70	\$20.15	\$19.60	\$19.95	\$16.86	\$17.24	\$17.13	\$16.99
Low	\$16.27	\$16.47	\$17.22	\$16.67	\$17.02	\$17.18	\$18.28	\$15.71	\$15.40	\$15.86	\$15.91	\$12.36
Close	\$16.98	\$18.20	\$17.40	\$17.64	\$17.28	\$19.50	\$19.59	\$16.26	\$16.75	\$16.25	\$16.60	\$14.57
Avg. Daily Volume	17,956	15,305	6,927	10,119	4,700	8,886	7,083	26,986	16,754	10,311	11,798	21,353

## DIRECTORS AND OFFICERS OF THE CORPORATION

The names, principal occupations and municipalities of residence of the Company’s Directors and officers (as at December 31, 2018), as well as the year each Director first became a Director, are set out below. Each Director is appointed to serve until the next annual meeting of Shareholders or until his or her successor is elected or appointed. On February 25, 2019, the Honourable J. Trevor Eyton OC passed away. The Board operated with four Directors until March 12, 2019 when Brookfield appointed Mr. Joe Freedman as a Designated Director. In addition, Mr. Simon Dean announced that he will not be standing for re-election at the Company’s annual and special meeting to be held on May 6, 2019. The Company has nominated Mr. Colum Bastable to replace Mr. Dean. See the Company’s Management Information Circular Relating to the Annual and Special Meeting of Shareholders dated March 25, 2019 for disclosures regarding the director nominees proposed for election at the Company’s annual and special meeting.

### Directors

Name and Municipality of Residence	Position and/or Office with Corporation	Present Principal Occupation If Different from Office Held	Period During Which Served as Director	Restricted Voting Shares Beneficially Owned or Controlled as at March 25, 2019 <sup>3</sup>
Lorraine Bell <sup>1, 2, 4</sup> New York, NY, USA <i>Independent</i>	Director, Chair of the Audit Committee	Corporate Director	Since Jan. 3, 2003	12,500
Simon Dean <sup>1, 2, 5</sup> Oakville, ON, Canada <i>Independent</i>	Director	Self-employed Consultant	Since Jan. 3, 2003	10,000



Gail Kilgour <sup>1,2,6</sup> Toronto, ON, Canada <i>Independent</i>	Director, Chair of the Governance Committee	Corporate Director	Since Jan. 3, 2003	5,000
Honourable J. Trevor Eyton OC <sup>2,7</sup> Caledon, ON, Canada <i>Independent Director</i>	Director	Corporate Director	Since May 6, 2014	Nil
Spencer Enright <sup>8</sup> Oakville, ON, Canada <i>Related</i> <i>Director</i>	Chairman and Director	President and Chief Executive Officer, Brookfield Real Estate Services Manager Limited	Since May 6, 2014	1,300

<sup>1</sup> Member of the Audit Committee.

<sup>2</sup> Member of the Governance Committee.

<sup>3</sup> As of March 25, 2019, the current directors of the Corporation owned beneficially, directly and indirectly, 28,800 Restricted Voting Shares representing approximately 0.3% of the issued and outstanding Restricted Voting Shares. Brookfield holds one Special Voting Share.

<sup>4</sup> **Lorraine Bell – Director and Chair of the Audit Committee.** Ms. Bell is a Corporate Director and a Chartered Professional Accountant with many years of experience both as a Director and working in the financial sector. Ms. Bell is a Director of IBI Group Inc., a services and software company, where she is the Chair of the Audit Committee and a member of the Governance and Human Resources Committee. She recently completed twelve years of service as a Director of the Ontario Financing Authority’s Board of Directors. She is a member of the Board of Directors of the University of Toronto Associates in New York and the Hot Docs Foundation (USA) Board of Directors as well as being a Trustee of the New York Genealogical and Biographical Society and a Director of the New York Caledonian Club.

<sup>5</sup> **Simon Dean – Director.** Mr. Dean is a Corporate Director and self-employed consultant. Mr. Dean sits on the Board of the Royal LePage Shelter Foundation, a charitable organization. Prior to becoming a Corporate Director, Mr. Dean had significant senior leadership experience in the Retail, Real Estate and Communications industries.

<sup>6</sup> **Gail Kilgour – Director and Chair of the Governance Committee.** Ms. Kilgour, is a Corporate Director with over 25 years of experience in the financial services industry. She is a past Vice-Chair of the Board of Directors for the Ontario Realty Corporation, a Crown Corporation, and Chair of its Governance Committee, a past director of Ontario Infrastructure and Lands Corporation, a Crown Corporation. She is a past Trustee of the University of Guelph, where she chaired its Audit Committee and a past Chair of the Board of St. George’s Golf and Country Club.

<sup>7</sup> **The Honourable J. Trevor Eyton OC – Director.** Prior to his passing in February 2019, Mr. Eyton was a lawyer, a Corporate Director and a respected businessman. Prior to becoming a full time Corporate Director, Mr. Eyton was a Senator in the Canadian Senate and was appointed an Officer of the Order of Canada and Queen’s Counsel for Ontario. Mr. Eyton served as a director on numerous boards including most recently Altus Group Limited, a consultancy firm, LeadFX, a resource company Magna International Inc., an auto manufacturing company, Silver Bear Resources Inc., a resource company, and Cancana Resources Corp., a resource company.

<sup>8</sup> **Spencer Enright – Director and Chairman.** Mr. Enright is a Chartered Professional Accountant and has been Chief Executive Officer of the Manager since December 2012. Mr. Enright acted as a Senior Vice-President and Chief Operating Officer of an affiliate of the Manager from 2010-2012. Mr. Enright sits on the Board of the Bridgemarq Real Estate Services Charitable Foundation, a charitable organization. Prior to joining Bridgemarq Real Estate Services, he worked in the food manufacturing industry as Senior Vice President and General Manager for The Minute Maid Company Canada Inc. and Chief Financial Officer for Coca-Cola Ltd.

## Officers

Name, Municipality of Residence and Restricted Voting Shares Owned as at March 25, 2019	Position Held	Five-Year Occupational History
Philip Soper Toronto, ON, Canada 11,245 shares	President and Chief Executive Officer	Mr. Soper is the President and Chief Executive Officer of the Company and President of the Manager. Mr. Soper joined the organization as Vice President and General Manager, Corporate Relocation Solutions in February 2001 and was named President of what is now the Company in 2002, and Chief Executive Officer in 2004.
Spencer Enright Oakville, ON, Canada 1,300 shares	Chief Executive Officer, Bridgemarq Real Estate Services Manager Limited	Mr. Enright was appointed Chief Executive Officer of the Manager in December 2012. Mr. Enright acted as a Senior Vice-President and Chief Operating Officer of an affiliate of the Manager from 2010-2012. Mr. Enright sits on the Board of the Bridgemarq Real Estate Services Charitable Foundation, a charitable organization.
Glen McMillan <sup>(1)</sup> Toronto, ON, Canada 1,000 shares	Chief Financial Officer	Mr. McMillan was appointed Chief Financial Officer of the Company on May 19, 2015. Mr. McMillan is also the Chief Financial Officer of the Manager. Mr. McMillan was a Senior Vice President of Brookfield Capital Partners, an asset management company, from 2011-2015.

<sup>1</sup> Mr. McMillan served as an officer of Fraser Papers Inc., a forest products manufacturing company, (“Fraser”) from 2004 to 2011. In June 2009, Fraser initiated a court supervised restructuring under the Canadian Companies’ Creditors Arrangement Act and the US Bankruptcy Code. As part of these proceedings, Fraser sold substantially all of its assets. On March 10, 2011, the Ontario Securities Commission issued a cease trade order against Fraser and on June 23, 2011, Fraser was dissolved.

As of March 25, 2019, the current officers and Directors of the Corporation owned beneficially, directly and indirectly, 41,045 Restricted Voting Shares representing approximately 0.4% of the issued and outstanding Restricted Voting Shares. Brookfield holds one Special Voting Share and 315,000 Restricted Voting Shares.

As of the date hereof, no individual who is, or at any time during the most recently completed financial year of the Company ended December 31, 2018 was, a Director or senior officer of the Corporation, an individual proposed as a nominee for election to any such position, nor any associates of any such director, senior officer or proposed nominee, has been indebted to the Company nor has any such individual’s indebtedness to another entity at any time since the beginning of the most recently completed financial year been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company in connection with the purchase of securities of the Corporation.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The section entitled “Interest of Informed Persons in Material Transactions” contained in the Company’s Management Information Circular dated March 25, 2019 is incorporated herein by reference.

### AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of the Company is Deloitte LLP (“Deloitte”), Suite 200, 8 Adelaide Street West, Toronto, Ontario, Canada, M5H0A9. The Transfer Agent and registrar for the Corporation is AST Trust Company, Suite 1200, 1 Toronto Street Toronto, Ontario, M5C 2V6.

#### External Auditor Service Fees (by Category)

The following table sets out further information on the fees paid related to services provided for the years ended December 31, 2016 and December 31, 2017 and fees billed or expected to be billed for the year ended December 31, 2018 by Deloitte to the Company.

<b>Fees</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Audit fees	\$212,000	\$200,000	\$194,000
Audit-related fees	\$60,000	\$47,000	\$20,000
Tax fees	\$17,000	\$18,000	\$17,000
All other fees	-	-	-
<b>Total fees</b>	<b>\$289,000</b>	<b>\$265,000</b>	<b>\$231,000</b>

**Audit fees** were for professional services rendered for the audit of the Company’s consolidated financial statements as of and for the years ended December 31, 2018, 2017 and 2016, quarterly review of the financial statements included in the Company’s quarterly reports and review of filings with securities commissions.

**Audit-related fees** consist of a) administrative fees charged by Deloitte, and b) Canadian Public Accountability Board (“CPAB”) fees. In 2018, Deloitte charged an additional \$43,000 related to consultations on accounting matters associated with the New MSA and testing of the Company’s adoption of new accounting standards during the year. In 2017, Deloitte charged an additional \$26,000 related to the review of certain changes to the Company’s billing system and the Company’s adoption of new accounting standards effective January 1, 2018.

**Tax fees** consist of fees for services related to tax compliance, including the preparation of tax returns and refund claims and tax planning and advice.

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

## **MATERIAL CONTRACTS**

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

- Debt Facility Credit Agreement (including amendments thereto) and related security documentation
- Exchange Agreement
- Via Capitale Licence Agreement
- Royal LePage Licence Agreement
- New Management Services Agreement
- Partnership Agreement
- Registration Rights Agreement
- Shareholders' Agreement among Brookfield and the Company

## **RISK FACTORS**

The following section describes the more significant risks related to the residential resale real estate brokerage industry and the Business of the Company.

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

The performance of the Company is dependent upon the receipt of Franchise Fees. Franchise Fees are ultimately dependent on the number of REALTORS® in the Franchise Network and the level of residential real estate transactions in the Canadian market. The real estate industry is affected by all of the factors affecting the economy in general, including, without limitation, changes in interest rates, unemployment, inflation, commodity prices, international balance of trade, changes in income tax rates, immigration, changes in government policy, changes in laws and regulations and foreign exchange rates. In addition, the Company could be affected by the aging network of REALTORS® and Brokers across the country. The average age of a top-performing REALTOR®, according to the National Association of Realtors in the United States, is over 50, and the average age of a Broker-Owner is approaching 60. REALTORS® are predominantly independent contractors and can terminate their independent contractor agreements with the respective Franchise at any time. In addition, pressure on the rate of commissions charged to the consumer could adversely affect the profitability of REALTORS®, Franchisees and, ultimately, the Company. The popularity of internet use by real estate consumers has led to a questioning of the value of traditional real estate brokerage services. All of these factors could have a negative impact on the real estate industry and the Business of the Company.

### **Competition**

Royal LePage and Via Capitale compete with other national brands in Canada as well as a large number of local independent companies. Some competing franchisors have strong brand recognition nationally and locally as well as the perception within the industry of having comparable or better technology, REALTOR® and Broker tools and extensive marketing plans and resources. Different fee structures offered by competing franchisors allow for extensive annual marketing and media campaigns and potentially greater brand recognition among consumers. Some of the competing franchisors, particularly those that have a significant presence in the United States, have the advantage of spillover from U.S. television advertising.

The Canadian real estate market continues to see new entrants, offering different value propositions from the Company's brands. In particular, there has been an expansion in the lower service offering segment of the market in recent years. At present, lower service offering brokerages continue to compete within the low-fee, narrow service segment of the Canadian real estate market. However, these competitors offering lower fees and lower services could expand their market share and capture a larger segment of the Canadian real estate market.

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

The Company operates in the Canadian market and the Company does attempt to recruit REALTORS® in every province in Canada to ensure that it is proportionally represented in each real estate market in Canada. The Canadian market is geographically large and economically diverse such that regional factors may negatively affect some regions where the Company does business but may not affect others. Examples of matters which affected only some regions of Canada in recent years include:

- substantial net attrition of REALTORS® in Quebec due in part to the introduction of changes to real estate regulations;
- the negative economic impact of lower oil prices in those provinces economically reliant on oil production, and;
- the introduction of foreign buyer taxes and other government initiatives designed to slow down house price growth in certain urban regions.

While the Company did manage to grow its Franchise Network in most Canadian provinces in 2018, these regional matters plus, competition, use of the internet and the increasing popularity of lower service brokerages may make it more difficult for the Company to successfully recruit REALTORS® in the future.

A large part of the Canadian market is comprised of aging, empty-nest baby boomers who may opt for a lifestyle change to urban condominium living. Immigration is also playing an important role in the real estate market. It is very difficult to estimate the impacts these or any other demographic factors could have on the Canadian real estate market and, ultimately the Company. In addition, increased interest rates, unemployment and inflation over an extended period of time may have a negative effect on consumer confidence and make house purchases less affordable for first-time buyers and less appealing for buyers looking to move into larger homes or more expensive neighbourhoods.

## **Commission Rate**

Most REALTORS® in Canada are independent contractors. As such, the decision as to what rate to charge rests solely with the REALTOR® rather than with the Broker-Owner. Additionally, the number of discount and fee-for-service companies has grown in recent years, and discount brokerage operations have been active in Canadian residential resale real estate for many years. The ability of REALTORS® to compete by advertising commission rates which are lower than those charged by REALTORS® in the Franchise Network may put downward pressure on client commission rates and negatively impact the profitability of brokerages in the Franchise Network and the Franchise Fees received by the Company.

## **Additional Franchises and Franchise Operations**

The growth of Franchise Fees is dependent upon, among other things, the ability of the Manager to i) maintain and grow the Franchise Network; ii) execute its growth strategy for increasing the number of Franchisees; and iii) recruiting REALTORS® to Franchise Network offices. If the Manager is unable to attract qualified Franchisees and continue to grow the Franchise Network, Distributable Cash could be adversely affected. The slowing of growth could lead potential and existing Franchisees to begin to look elsewhere for alternative brand opportunities. The growth of the Franchise Network through adding new Franchisees is somewhat dependent upon available qualified Brokers in desirable locations and new Brokers wishing to start up a real estate brokerage or purchase an existing one.

## **The Closure of Franchises May Affect the Amount of Franchise Fees**

The amount of Franchise Fees payable by Franchisees is dependent both upon the number of Franchisees and the number of REALTORS® registered with each Franchisee. The closure or downsizing of a Franchise office will negatively affect the amount of Franchise Fees received by the Company. Closure of an office could result from any number of factors, including, without limitation; a Broker-Owner being unable to sell or transfer his or her business to a new owner; or the failure of an office due to a downturn in the economy or the closure or bankruptcy of a large industry in the city where the Broker-Owner operates. Any one of the above-mentioned factors could result in the exit of top-producing REALTORS® to competitors and could negatively affect the profitability of Franchisees and, ultimately, the Company.

## **Non-Renewal of Franchise Agreements**

The Manager has historically had a high degree of success in renewing Franchise Agreements after the end of their term. However, Franchisees and potential Franchisees have many options when selecting a franchisor or a brand to associate with. Often these competing brands will offer financial and other incentives to induce Franchisees to convert to the competitor's brand upon expiry of the Franchise Agreement. In other cases, Franchisees may decide to leave the Franchise Network to operate as an independent brokerage, effectively establishing and promoting their own brand. As such, there can be no certainty that the Manager will be able to renew all Franchisees at the end of the term of their Franchise Agreement. The Manager's inability to renew these Franchisees at the end of the term of their contract could negatively affect Distributable Cash and the financial position of the Company.

## **Increase in the Number of Teams**

Over the past several years, the number and size of Teams in the Franchise Network and the industry in general has been growing and is expected to continue to increase. The largest Team in the Franchise Network is approximately 30 REALTORS<sup>®</sup>, making that Team larger than 49% of the Company's Franchisees (based on REALTOR<sup>®</sup> count). While each Team is operated differently, some Teams operate very independently from the brokerage with which they are affiliated. Some Teams offer services which are similar to those services offered by brokerages, such as education and training, Team brand affiliation and regulatory advice. To the extent these large Teams are operating independently of their brokerage, they may place less value on the services offered by Franchisees. This could cause some of these Teams to leave the Franchise Network and run as an independent real estate brokerage. As the revenues of the Company are largely dependent upon the number of REALTORS<sup>®</sup> in the Franchise Network, the departure of large Teams could have a negative adverse effect on the Business and the profitability of the Company.

## **Dependence on Key Personnel**

The success of the Company is largely dependent on the personal efforts of senior management of the Manager. The real estate industry is a people- and service-oriented business. The loss of key senior management personnel could have a materially adverse effect on the revenue of the Company.

## **Intellectual Property**

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

The Company does not own the Royal LePage Trademarks, which are trademarks of the Canadian chartered bank affiliate of the Royal Trust Company. The Royal Trust Company has the exclusive right to use those Trademarks and to authorize others through sub-licence to use the Royal LePage Trademarks. Royal LePage Limited has obtained the exclusive rights to use the Royal LePage Trademarks, including the "Royal LePage" name and logo, in connection with its business of providing, in Canada, real estate services and those related financial services offered by Royal LePage Limited that relate to the purchase and sale of real estate, pursuant to the Royal LePage Licence Agreement (the "Licence Agreement"). The rights to use the Royal LePage Trademarks in connection with the Business have been sub-licensed by Royal LePage Limited to the Company. Pursuant to the terms of the Licence Agreement, the initial term of the agreement is for 25 years commencing as of December 2002 and the term automatically renews thereafter for additional five (5) year periods under the same terms and conditions unless terminated in accordance with the terms of the Licence Agreement. The provisions under which the Royal Trust Company may terminate the Licence Agreement include (a) a material breach of the Licence Agreement by the licensee (which is a wholly owned subsidiary of Brookfield); and (b) a change of control of the licensee or the Partnership. Despite the limited circumstances under which the Licence Agreement could be terminated, there can be no assurance that circumstances will not arise pursuant to which the Royal Trust Company may terminate the Licence Agreement. Any loss of the right of the Company to use the Royal LePage Trademarks could have a materially adverse effect on the revenue generated by the Company.

## **Premium Franchise Fees**

There are 21 Franchisee locations which paid Premium Franchise Fees to the Company until the obligation to do so expired in 2018. The loss of Premium Franchise Fees resulted in lower revenues for the Company in 2018. If the Company is not able to increase its revenues through increasing the number of REALTORS® in the Franchise Network or growing other sources of revenue to offset the negative impact of the loss of Premium Franchise Fees, the Company's Distributable Cash would be negatively affected.

## **Internet-Based Real Estate Business**

Internet-based real estate businesses have operated in the market for many years. While none have achieved material market share in Canada to date, innovation and technological advancement are constant, and disruptive business models could draw consumers away from traditional brokerages. New market entrants, including well-funded, U.S. and international companies looking to disrupt the industry, may put pressure on the ability of Brokers and REALTORS® in the Franchise Network to continue to operate profitably. REALTORS® may need to pay higher costs associated with maintaining their current and potential client base or could see a reduction in their client base as buyers and sellers of real estate utilize these internet-based business in greater numbers. Brokers may see these internet-based businesses provide services similar to what they provide to REALTORS® today, but at a lower cost or at a better quality. These factors could have a negative adverse effect on the Business of the Franchise Network, and ultimately, the profitability of the Company.

## **Information Technology**

Under the terms of the New MSA, the Manager provides a number of technology based products and solutions as part of the Franchise Systems. While the Company and the Manager are careful to ensure that these technology-based products and solutions are secure, these products (and the Manager's information systems in general) could be compromised by external parties. If the Manager's information systems were compromised, it could lead to an inability to provide products and services to the Franchise Networks for an extended period of time, which could result in lower Royalty Fee revenues. In addition, in the event that the Company, the Manager or any Franchisee experiences a breach which results in the loss or theft of personal data, the Company could suffer reputational harm which could have a material adverse impact on the Business and the Company.

## **Government Regulation**

The residential real estate business is subject to significant regulatory and licencing requirements at both the federal and provincial levels. Licensing, educational and other requirements and regulations governing the buying and selling of residential properties and the required qualifications of REALTORS® and Brokers are subject to change and these changes cannot be predicted. Changes to these requirements could negatively impact, among other things, the propensity of individuals to become REALTORS® or Brokers, the cost of licensing to become a REALTOR® or Broker and the profitability of REALTORS® and Franchises in the Franchise Network. Any adverse effects on the Franchise Network could ultimately result in an adverse financial impact on the Company.

## **Government Policy**

The federal and provincial governments have historically enacted policies which can directly or indirectly affect the market for residential real estate. These policies have served to, among other things, increase (or decrease) the repayment period of a mortgage that is eligible for government sponsored mortgage insurance, increase (or decrease) the amount of down-payment required to obtain government sponsored mortgage insurance, increase (or decrease) interest rates (which can have a direct impact on mortgage rates for home buyers), change the borrower qualification criteria under which financial institutions can extend mortgage financing and increase (or decrease) taxes including (but not limited to) land transfer tax, foreign buyer taxes and property taxes. The Government of Canada, either directly or through its Crown Corporation, Canada Mortgage and Housing Corporation, and provincial and municipal governments in Canada can enact policies which have the direct or indirect effect of increasing or decreasing the volume and price of houses sold in Canada. Changes to government policies could negatively impact, among other things, the price of homes sold, the volume of homes sold, the propensity of people to purchase homes and the propensity of land developers to build homes, each of which could have an adverse financial impact on the Franchise

Network and the Company.

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

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

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

The largest source of revenue of the Company is the Franchise Fees received from Franchisees and REALTORS®. Pursuant to the New MSA, the Manager collects Franchise Fees on behalf of the Company and is principally responsible for building and supporting the network of Franchisees. The Company is, therefore, subject to the risks encountered by the Manager in the operation of its Business, including the financial risks and risks relating to the real estate brokerage industry summarized herein, to the extent that the Manager is impaired in its ability to fulfill its obligations under the New MSA or otherwise to support the network of Franchisees. In addition, pursuant to the terms of the New MSA, the Manager may be terminated in certain circumstances. See “Description of the Business – Management Services Agreement”. If the Manager were to be terminated, retaining a replacement for the Manager may, among other things, i) require the Company to pay additional fees, ii) be on terms less favourable than those contained in the New MSA and iii) negatively affect the cash available for the Company to pay dividends and distributions.

The New MSA may be terminated on behalf of the Company by the Independent Directors of the Corporation (after approval by the Shareholders) if a substantial deterioration in the business of the Partnership and Via Capitale L.P., taken as a whole, occurs that is not caused by force majeure. The phrase “substantial deterioration of the business of the Partnership and Via Capitale L.P.” is not defined. As a result, it may be subject to differing interpretations, which may give rise to litigation in the event of the termination by the Company of the New MSA in its reliance on this provision. The New MSA has a current term that expires on December 31, 2028 and is automatically renewable for successive ten-year terms unless notice of termination is given by the Manager or the Company at least twelve months prior to the expiry of the initial or any renewal terms.

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

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

### **Leverage, Restrictive Covenants**

The Company has third-party debt service obligations under the Debt Facility. See “Credit Facilities”. The degree to which the Company is leveraged could have important consequences to the holders of the LP Units and could adversely impact the amount of cash available for the Company to pay dividends and distributions. In addition, the amount of leverage in the Company could negatively impact the Company’s ability to obtain additional financing for working capital in the future. All of the borrowings under the Debt Facility bear interest at variable interest rates meaning that an increase in market rates of interest could have an adverse impact on the cash flows of the Company. While the Company has entered into an interest rate swap agreement to fix the interest rate on a portion of the Company’s borrowings, there can be no assurances that the impact of the swap would offset the negative impact of an increase in variable rates. Additionally, the term of the interest rate swap expires in October 2019 at which time all of the Company’s debt service obligations will be at variable interest rates.

The Company's ability to make scheduled payments of the principal or interest associated with its borrowings, or its ability to refinance its indebtedness will depend on its future cash flow, which is subject to the operations of the Company, prevailing economic conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control.

The Debt Facility contains numerous restrictive covenants that limit the discretion of the Company with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to make distributions to its Shareholders or Unitholders, or to make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Debt Facility contains a number of financial covenants that require the Company to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Debt Facility could result in an event of default, which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Debt Facility were to be accelerated, there can be no assurance that the Company's assets would be sufficient to repay that indebtedness.

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

There can be no assurance regarding the amounts of income to be generated by the Company and distributed to the Shareholders or Unitholders. The actual amount of dividends in respect of the Restricted Voting Shares depends upon numerous factors, including payment of the Franchise Fees by Franchisees.

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

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

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

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

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

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

## **ADDITIONAL INFORMATION**

Additional information, including remuneration and indebtedness of the Directors of the Corporation, the principal holders of the Company's securities and the interest of insiders in material transactions, is contained in the Corporation's Management Information Circular, prepared for the annual and special meeting of Shareholders scheduled for May 7, 2019, at which the Independent Directors are to be elected. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended December 31, 2018, which information is incorporated herein by reference. These documents and additional information regarding the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).



## APPENDIX A

### BROOKFIELD REAL ESTATE SERVICES INC.

#### BOARD OF DIRECTORS CHARTER

##### 1. ROLE OF BOARD

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

The Board is elected by the Shareholders to oversee management to ensure that shareholder value is advanced in a manner that recognizes the concerns of other stakeholders in the Company, including its REALTORS®, Brokers, Franchisees, suppliers, customers and the communities in which they operate.

##### 2. AUTHORITY AND RESPONSIBILITIES

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

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

##### 3. COMPOSITION AND PROCEDURES

- a) **Size of Board and Selection Process** – Three-fifths of the directors of the Company are elected each year by the Shareholders at the annual meeting of Shareholders, while the remaining two-fifths of the directors of the Company are appointed by Brookfield BBP (Canada) Holdings LP in its capacity as the sole holder of the Company’s Special Voting Shares. Any Shareholder may propose a nominee for election to the Board at the annual meeting. The Board also recommends the number of directors on the Board to Shareholders for approval. Between annual meetings, the Board may appoint directors to fill vacancies until the next annual meeting.
- b) **Qualifications** – Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the Shareholders of the Company. They should possess skills and competencies in areas that are relevant to the Company’s and Partnership’s activities. A majority of the directors will be “Independent” Directors. “Independent” has the meaning based on the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities.
- c) **Meetings** – The Board of Directors has at least four scheduled meetings each year. The Manager will be responsible for presenting an agenda to the Board for consideration. Prior to each Board meeting, the

Manager will present agenda items for the meeting with the Directors for consideration. Materials for each meeting will be distributed to the Directors in advance of the meetings.

- d) **Committees** – The Board has established the following standing committees to assist the Board in discharging its responsibilities – Audit and Governance. Special committees may be established from time to time to assist the Board in connection with specific matters. The chair of each committee reports to the Board following meetings of the committee. The charter of each standing committee will be reviewed annually by the Board.
- e) **Access to Independent Advisors** – The Board and any committee may at any time retain financial, legal or other advisors at the expense of the Company.

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

### **AUDIT COMMITTEE CHARTER**

A committee of the Board of Directors of the Company to be known as the Audit Committee (the “Committee”) shall have the terms of reference set out below.

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

- a) Following each annual meeting of Shareholders, the Board of Directors of the Company (the “Board”) shall appoint from its number three or more directors (the “members”) to serve on the Committee until the close of the next annual meeting of Shareholders of the Company or until a member ceases to be a director, resigns or is replaced, whichever first occurs.
- b) All of the members of the Committee shall be Independent Directors within the meaning of the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities. No member of the Committee shall be an officer or employee of the Company or Brookfield Real Estate Services Manager Limited (the “Manager”) who manages the Company pursuant to a Management Services Agreement. A majority of the members of the Committee shall be directors who are resident Canadians.
- c) No director who receives any compensation from the Company, its affiliates or the Manager, other than director’s fees, shall be eligible for membership on the Audit Committee. Disallowed compensation for a Committee member includes fees paid directly or indirectly for services as a consultant or a legal or financial advisor, regardless of the amount. Disallowed compensation also includes compensation paid to such director’s firm for such consulting or advisory services, even if the director is not the actual service provider.
- d) Each member of the Committee shall, in the judgment of the Board, be financially literate. In addition, at least one member of the Committee shall, in the judgment of the Board, have accounting or related financial management expertise.
- e) The Board shall appoint one of the directors as the chairperson of the Committee. If the chairperson is absent from a meeting, the members shall select a chairperson from those in attendance to act as chairperson of the meeting.

#### **2. RESPONSIBILITIES**

- a) The Committee shall generally assume responsibility for developing the approach of the Company to the following matters: publicly disclosed financial information, financial accounting and reporting, internal control, risk management and insurance, and external and internal audit, and it shall review and make recommendations to the Board on all such matters.
- b) The Committee shall review and, where appropriate, recommend for approval by or report to the Board on the following:
  - i) interim financial statements;
  - ii) audited annual financial statements, in conjunction with the report of the external auditor;
  - iii) public disclosure documents containing audited or unaudited financial information, including management’s discussion and analysis of financial condition and results of operations;
  - iv) the effectiveness of management’s policies and practices concerning financial reporting and any proposed changes in major accounting policies; and
  - v) any report that accompanies published financial statements (to the extent that such a report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.
- c) The Audit Committee shall have the following responsibilities in its relations with the external and internal auditors of the Company:
  - i) to have the sole responsibility to retain or terminate the external auditor, subject to ratification by the Shareholders, and to approve the fees and expenses of such auditor;

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

### **3. MEETINGS**

- a) Meetings of the Committee may be called by the chairperson of the Committee, the Chairman of the Board of the Company or the Manager. Meetings will normally be held each quarter and shall be called not less than once annually.
- b) The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than a majority of the members of the Committee from time to time. Subject to the foregoing and unless otherwise determined by the Board, the Committee shall have the power to fix its quorum and to regulate its procedure.
- c) Notice of each meeting shall be given to each member and to the Chairman and the Manager. Notice of meeting may be given verbally or by letter, e-mail, telephone facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.
- d) Matters decided by the Committee shall be decided by majority vote.
- e) The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee.
- f) The Committee shall report to the Board on its proceedings, review undertaken and any associated recommendations.

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

### **GOVERNANCE COMMITTEE CHARTER**

A committee of the Board of Directors of the Company to be known as the Governance Committee (the “Committee”) shall have the terms of reference set out below.

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

- a) Following each annual meeting of Shareholders, the Board of Directors of the Company (the “Board”) shall appoint from its number three or more directors (the “members”) to serve on the Committee until the close of the next annual meeting of Shareholders of the Company or until a member ceases to be a director, resigns or is replaced, whichever first occurs.
- b) A majority of the members of the Committee shall be Independent Directors within the meaning of the rules and guidelines of the Toronto Stock Exchange and applicable securities regulatory authorities.
- c) The Board shall appoint one of the directors as the chairperson of the Committee. If the chairperson is absent from a meeting, the members shall select a chairperson from those in attendance to act as chairperson of the meeting.

#### **2. RESPONSIBILITIES**

- a) The Committee shall generally assume responsibility for developing the approach of the Company to the following matters: Board nominations, size and composition of the Board, Board member effectiveness, Board member orientation and directors’ compensation.
- b) The Committee will perform an annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors.
- c) The Committee will recommend to the Board the compensation and benefits for non-management directors. In reviewing the adequacy and form of compensation and benefits, the committee seeks to ensure that the compensation and benefits reflect the responsibilities and risks involved in being a director of the Company and align the interests of the directors with the best interests of the Shareholders.
- d) The Committee shall consider other matters as directed by the Board.

#### **3. MEETINGS**

- a) Meetings of the Committee may be called by the chairperson of the Committee, the Chairman of the Board of the Company or the Manager. Meetings will be called not less than once annually.
- b) The powers of the Committee shall be exercisable by a meeting at which a quorum is present. A quorum shall be not less than a majority of the members of the Committee from time to time. Subject to the foregoing, and unless otherwise determined by the Board, the Committee shall have the power to fix its quorum and to regulate its procedure.
- c) Notice of each meeting shall be given to each member and to the Chairman and the Manager. Notice of a meeting may be given verbally or by letter, e-mail, telephone facsimile transmission or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting. The notice need not state the purpose or purposes for which the meeting is being held.
- d) Matters decided by the Committee shall be decided by majority vote.
- e) The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee.
- f) The Committee shall report to the Board on its proceedings, any review undertaken and any associated recommendations.