2013

# Management's Discussion and Analysis


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# Introduction

This section of Brookfield Real Estate Services Inc.'s (the "Company" or "our") interim report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended June 30, 2013 (the "Quarter") and six months ended June 30, 2013 (the "Period") and has been prepared as at August 6, 2013. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars unless otherwise stated.

This MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future outlook. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2012, prepared in accordance with IFRS. Additional information relating to our Company, including our Annual Information Form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

# Management's Discussion and Analysis of Results and Financial Condition

## HIGHLIGHTS

| Unaudited ($ 000's) except Agents, Sales Representatives and per share amounts | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Royalties | $ 9,739 | $ 9,992 | $ 17,803 | $ 18,212 |
| Less: | | | | |
| Administration | 638 | (94) | 909 | 358 |
| Management fee | 1,741 | 1,949 | 3,223 | 3,431 |
| Interest expense | 807 | 775 | 1,526 | 1,500 |
| Cash flow from operations[1] | $ 6,553 | $ 7,362 | $ 12,145 | $ 12,923 |
| Amortization of intangible assets | (3,259) | (3,315) | (6,590) | (6,665) |
| Impairment of intangible assets | – | – | (388) | – |
| Interest on Exchangeable units | (1,168) | (1,168) | (2,336) | (2,336) |
| Gain on fair value of Exchangeable units | 2,096 | 5,624 | 1,397 | 2,097 |
| Gain on fair value of purchase obligation | 138 | – | 350 | – |
| Current income tax expense | (1,096) | (1,028) | (1,937) | (1,863) |
| Deferred income tax recovery | 110 | 372 | 190 | 513 |
| Net and comprehensive income | $ 3,374 | $ 7,847 | $ 2,831 | $ 4,669 |
| Basic earnings per share | $ 0.36 | $ 0.83 | $ 0.30 | $ 0.49 |
| Diluted earnings per share | $ 0.19 | $ 0.26 | $ 0.29 | $ 0.38 |
| Cash flow from operations per share | $ 0.51 | $ 0.57 | $ 0.95 | $ 1.01 |
| Total assets | $ 99,177 | $ 105,587 | $ 99,177 | $ 105,587 |
| Total financial liabilities | $ 99,485 | $ 96,558 | $ 99,485 | $ 96,558 |
| Number of Agents[2] and Sales Representatives[3] | 15,499 | 15,249 | 15,499 | 15,249 |

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2012.

As at June 30, 2013, the Company consisted of 15,499 Canadian REALTORS®[4] operating under 438 franchise agreements, providing services from 673 locations, operating under the Royal LePage, Johnston & Daniel and Via Capitale brand names (collectively the "Company Network"), with an approximate 24% share of the Canadian residential real estate Market[5] ("the Market") based on 2012 transactional dollar volume.

## BUSINESS STRATEGY

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

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

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

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

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

[4] REALTOR® is defined as an individual licensed to trade in real estate and includes brokers, Agents and Sales Representatives.

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

Management Services Agreement ("MSA"), which is provided by Brookfield Real Estate Services Manager Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"). This MSA was renewed on June 28, 2013 with effect from January 1, 2014 (see Recent Developments).

Our key measure of financial performance in delivering results to our stakeholders is cash flow from operations ("CFFO") per restricted voting share, which is a non-IFRS measure (see Cash Flow From Operations).

The senior management team of the Manager developed and managed the Royal LePage Network before the inception of the Company, and BAM, through a wholly owned subsidiary, holds an approximate 26% interest (the "Exchangeable units") in the Company. As a result of this arrangement, the underlying costs of the Company are not complex as they are limited to management fees paid under the MSA, public operating costs and carrying costs associated with our debt.

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

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

## STRUCTURE OF COMPANY ROYALTIES

### Royalty Fees

The Company generates royalties with both fixed and variable fee components. Approximately 89% (89% – 2012) of the Company's royalties during the Quarter were derived from the combined fixed fee per REALTOR® per month, 1% variable royalty fee and premium franchise fees. The remaining royalty stream is made up of other fees and services generated from home warranty fees, technology fees and other fees. Approximately 73% of the Company's annual royalties were partially insulated from market fluctuations as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS® representing the Royal LePage and Via Capitale brands, increasing Agent and broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

**Fixed royalty fees** are based on the number of Agents and fee-paying Sales Representatives, collectively "selling-REALTORS®", in the Company Network. Fixed franchise fees from Royal LePage franchisees consist of a monthly fixed fee of $100 per selling-REALTOR®, a technology fee and other fees, while fixed fees from Via Capitale franchisees consist primarily of a monthly fee of approximately $170 per selling-REALTOR®.

**Variable royalty fees** are primarily driven by the volume of business transacted by our Agents. Variable franchise fees from Royal LePage franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent's gross commission income, subject to a cap of $1,300 per year. In 2012, 24% (2011 – 19%) of the Agents in the Company Network reached the royalty cap.

In addition to these fees, 23 of the Company's larger Royal LePage locations situated in the Greater Toronto Area ("GTA") pay a **premium franchise fee** ranging from 1% to 5% of the location's gross revenue. Of these locations, 16 are operated by the Manager and are contractually obligated to pay the premium franchise fee to August 2018.

### Network Royalty Profile

**The Royal LePage Network:** The fees generated from the Royal LePage Network accounted for 91% of the Company's fees in 2013 and 2012 and are primarily made up of a fixed monthly fee per Agent of $100 plus a $20 technology fee per participating franchisee (representing 97% of Agents in 2012, 96% in 2011); a variable fee equal to 1% of the fees generated by the Agent, capped at $1,300 per Agent; learning services fees; and a premium franchise fee, as described earlier. Under this structure, exclusive of ancillary fees, an Agent earning in excess of the $1,300 per annum fee cap will contribute $2,740 per annum to the Company.

Due to the variable fee-capping feature, approximately 73% (73% – 2012) of the Royal LePage Network fees were fixed in nature.

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

## MONTHLY DIVIDENDS

The targeted annual cash dividend payable to public shareholders for 2013 is $1.10 per share, to be paid monthly. Management and the Board of Directors periodically review the Company's targeted dividends and distributions.

## OVERVIEW OF SECOND QUARTER OPERATING RESULTS

Net and comprehensive income for the three and six months ended June 30, 2013 were $3.4 million, or $0.36 per restricted voting share, and $2.8 million, or $0.30 per restricted voting share, respectively, as compared to $7.8 million, or $0.83 per restricted voting share, and $4.7 million, or $0.49 per restricted voting share, for the same periods in 2012, respectively. CFFO is the Company's key measure of financial performance and is a non-IFRS measure. A summary of our operating results on a CFFO basis is presented below, and a more detailed discussion of our operating results on an IFRS basis and a reconciliation of CFFO to cash flow from operations (see Cash Flow From Operations) are presented later in this MD&A.

For the three months ended June 30, 2013, the Company generated CFFO of $0.51 per restricted voting share, or $6.6 million, as compared to $0.57, or $7.4 million, for the same period in 2012. The underlying Market for the same period was up 1.0% on a 3.1% increase in average selling price, partially offset by a 2.1% decrease in units sold. The year-over-year decrease in CFFO of $0.8 million, or $0.06 per restricted voting share, resulted primarily from a $0.2 million – 2.5% decrease in royalties as compared to a 1.0% increase in the overall Market and a $0.7 million increase in administration expense. The decrease in royalties was largely attributable to the Company's variable and premium fees and the lag between the reporting of Market results when the home is sold and when the Company records the related variable and premium fees upon the closing of the home, which is typically 45 to 60 days later. This lag was much more pronounced during the Quarter as the market slowed in the latter half of the first quarter of 2013 and increased in the latter half of the second Quarter. Accordingly, the Company experienced the lag of slower first quarter Market activity coming into the Quarter and the increase in second Quarter activity flowing into the third quarter. The increase in administration expense was primarily due to $0.3 million in special committee, consulting and legal fees associated with the completion of the Company's new MSA and $0.2 million of increased bad debt expense due to the recovery of previously written-off amounts in the prior year comparative period.

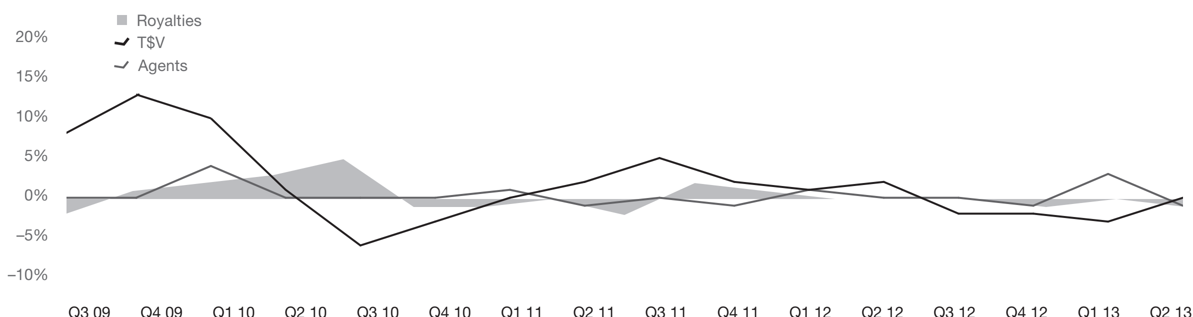
For the twelve months ended June 30, 2013, the Company generated CFFO of $24.6 million, or $1.92 per restricted voting share, down 3.1%, or $0.8 million, from $25.4 million, or $1.98 per restricted voting share, recorded for the twelve months ended December 31, 2012. The underlying Market for the same period was down 2.6% on a 1.3% increase in average selling price, offset by a 3.8% decrease in units sold. The $0.8 million reduction in CFFO was primarily attributable to a $0.4 million – 1.1% decrease in royalties and a $0.5 million increase in administration expense. The decrease in royalties was less than the 2.6% decrease experienced in the Market, due in part to the fixed nature of the Company's royalties, buoyed by the addition of new Agents through the acquisition of agreements on January 1, 2013, which was partially offset by the attrition of Agents experienced in the last half of 2012. The increase in administration expense was due primarily to $0.3 million in special committee, consulting and legal fees associated with the completion of the Company's new MSA and $0.1 million of increased bad debt expense resulting from the recovery of previously written-off amounts in the prior year comparative period.

For the twelve months ended June 30, 2013, the Company generated CFFO of $24.6 million, or $1.92 per restricted voting share, down 3.1%, or $1.1 million, from $25.7 million, or $2.00 per restricted voting share, for the same period in 2012. The underlying Market was down 5.9% on a 1.3% increase in average selling price, offset by a 7.1% decrease in units sold. The $1.1 million decrease in year-over-year CFFO was largely attributed to a $0.8 million – 2.2% decrease in royalties as compared to the 5.9% decrease in the Market and a $0.5 million increase in administration expense due primarily to the reasons described above.

### Royalties

The most significant drivers of the Company's royalties are Market activity, the number of Agents in the Company Network and competition. The chart below summarizes the percentage change in transactional dollar volume in Canada, the Company's royalties and the number of Agents on a rolling twelve-month quarter-over-quarter basis since 2009. As noted from the chart, the vend-in of franchise agreements in the second Quarter of each year and the organic change in the number of Agents, combined with the fixed-fee nature of our royalties, mitigate the impact of Market fluctuations. In addition, the "lag effect" of the Company's policy of recording variable and premium franchise fees when a home sale transaction closes, which occurs after the home sale has been reported by the Market, is quite evident.

## ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER




## RECENT DEVELOPMENTS

### Relaunch of Royal LePage Consumer Website

On April 16, the new RoyalLePage.ca website, designed by Plastic Mobile and powered by Google Application Engine and Cloud Storage, was launched. Google Search allows consumers to find listings by neighbourhood and points of interest. The website has been completely rewritten in an informal and approachable language style and redesigned to include responsive screen resizing to work from any device. The new site incorporates the Canadian Real Estate Association's ("CREA") Data Distribution Facility, which now allows real estate companies to display their competitors' listings on their websites. This has more than doubled the listings inventory available on the RoyalLePage.ca website. Additional rich content added to the site includes detailed neighbourhood content such as Walkscore rankings, Wikipedia articles, photos and points of interest. IP Geolocation has been introduced to provide users with a personalized experience based on their province or region. This next-generation site will allow the Royal LePage network to compete directly with other real estate sites that have historically had access to greater listings inventory and provide a superior user experience.

### MSA

On June 28, 2013, the Company entered into a new Management Services Agreement ('MSA") with the Manager, which has been the Manager of the Company since its inception as an Income Trust in 2003. The MSA is effective January 1, 2014, with an initial five-year term and a provision for the automatic renewal of successive five-year terms.

Under the new MSA, (1) the management fee has been standardized to 20% across all brands as compared to 20% for Royal LePage and 30% for Via Capitale under the existing MSA; (2) the Manager can earn a new incentive fee for organic growth, which closely aligns the Manager and the Company's goals with growing the underlying network of Agents, with the fee being calculated in accordance with the formula for incremental franchises based on the average annual royalty fees per Agent; (3) the Manager has the ability to sell other branded Canadian franchises to the Company; and (4) the following three changes were made to the manner in which amounts paid to the Manager for incremental franchise agreements are determined: (i) the discount factor was standardized to 7.5%, (ii) the final purchase price is based on the average annual royalties earned over two years and (iii) the 20% holdback on the initial purchase price for the incremental franchise agreements is paid over two years.

All other provisions under the new MSA remain substantially unchanged from the previous MSA.

## KEY PERFORMANCE DRIVERS

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

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

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

# Management's Discussion and Analysis of Results and Financial Condition

## STABILITY OF THE COMPANY'S ROYALTY STREAM

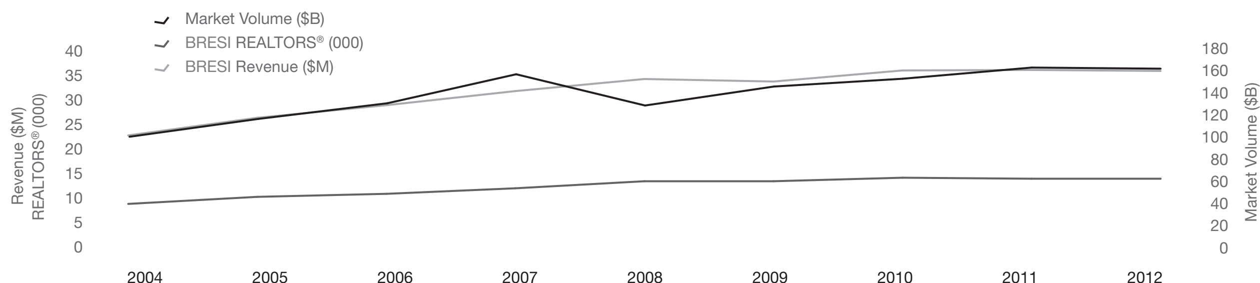
The stability of the Company's royalty stream is derived from a number of factors, including the fixed-fee structure of the Company's royalties, the diversity of the Company Network, the geographic distribution of the Company Network, the length of the Company's franchise agreements and the renewal of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

### Fixed-Fee Structure

The fixed nature of the Company Network agreements (see Structure of Company Royalties) is primarily driven by the number of REALTORS® in the Company Network, which results in an approximate 73% fixed and 27% variable royalty stream and partially insulates the Company from fluctuations in the Market.

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

## REVENUE, MARKET AND REALTOR® TRENDS




Note: In 2008, the Company acquired Via Capitale franchise agreements represented by 1,492 Agents operating from 68 locations.

### Network Diversity

The Company Network consists of diverse operations, with approximately 71% (72% – 2011) of the Company's franchisees operating with fewer than 50 REALTORS® as at December 31, 2012. As summarized in the table below, the Company Network of REALTORS® is geographically diverse, with REALTORS® spread throughout Canada. There is a more pronounced presence in the province of Quebec as a result of the acquisition of the Via Capitale Network.

| | Canadian[1] REALTOR® Population | Company[2] Network REALTORS® |
|---|---|---|
| Ontario | 54% | 59% |
| Prairies | 13% | 10% |
| BC | 17% | 11% |
| Quebec | 13% | 17% |
| Maritimes | 3% | 3% |
| Total | 100% | 100% |

Source: CREA

[1] As at March 31, 2013.

[2] As at June 30, 2013.

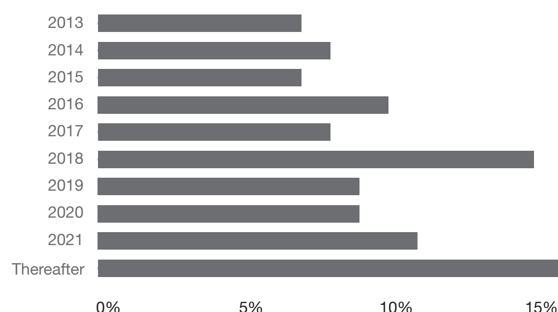
### Geographic Distribution

The geographic distribution of the Company Network of REALTORS®, as summarized in the table above, is similar to the distribution of the overall Canadian REALTOR® population, with over-representation in the province of Quebec as a result of the acquisition of the Via Capitale Network and an under-representation in Western Canada. This distribution of REALTORS® mitigates the impact of a single Market on the Company's results.

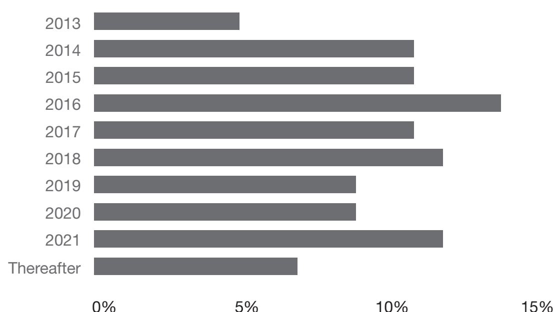
### Franchise Agreement Terms

The Royal LePage agreements, which are represented by 93% of the Company's REALTORS®, are 10 to 20 years in duration, significantly exceeding the industry norm of five years and thereby reducing agreement renewal risk. At the time of the initial public offering ("IPO"), the Company's Royal LePage franchise agreements were largely subject to five-year renewal terms. Since the IPO, the Company's standard renewal terms for agreement additions are typically 10 years in duration. The Company further extends agreements in existence at IPO to 10 years as and when opportunities present themselves. The Company's overall agreement renewal profile by year is not overly skewed to any one year and, as such, is very manageable. A summary of our agreement renewal profiles as at December 31, 2012 for our combined Royal LePage and Via Capitale networks is shown below.

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




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




### Renewals

The Company has historically enjoyed 99%-plus renewal success of franchise agreements as they come due, expressed as a percentage of the number of REALTORS® at year-end. Due to the ongoing success of our franchisees, a number of opportunities, such as increasing franchisee locations, present themselves to renew franchise agreements before they come due.

During the Quarter, the Company had franchise agreements with 11 franchisees representing 995 Agents renew, of whom 269 were subject to renewal during 2013 and 726 renewed ahead of their contracted terms. In addition, one franchise representing 191 Agents, which was up for renewal during the second Quarter, is currently in negotiations. For the six months ended June 30, 2013, 1,789 Agents, represented by franchises operating under 14 agreements with 14 franchisees, renewed; under these agreements, 567 Agents were subject to renewal during 2013 and 1,222 renewed ahead of their contracted terms.

During the Quarter, two Royal LePage franchise agreements representing 17 Agents were terminated, which, combined with the one Via Capitale agreement representing 42 Agents that was not renewed in the first quarter of 2013, resulted in three terminated agreements representing 59 Agents for the year.

## NUMBER OF REALTORS® IN THE COMPANY NETWORK

Year-to-date June 30, 2013, the Company Network of 15,499 REALTORS® increased by 413, as compared to a net increase of 188 REALTORS® during the first six months of 2012.

The net increase of 413 REALTORS® consisted of the acquisition of agreements on January 1, 2013 representing 516 Agents less a net decrease of 103 Agents, of which 59 were attributable to three franchisees whose agreements were terminated and the balance to net Agent attrition. The net increase of 188 REALTORS® in the first six months of 2012 consisted of the acquisition of agreements on January 1, 2012 representing 217 Agents less the net attrition of 29 Agents.

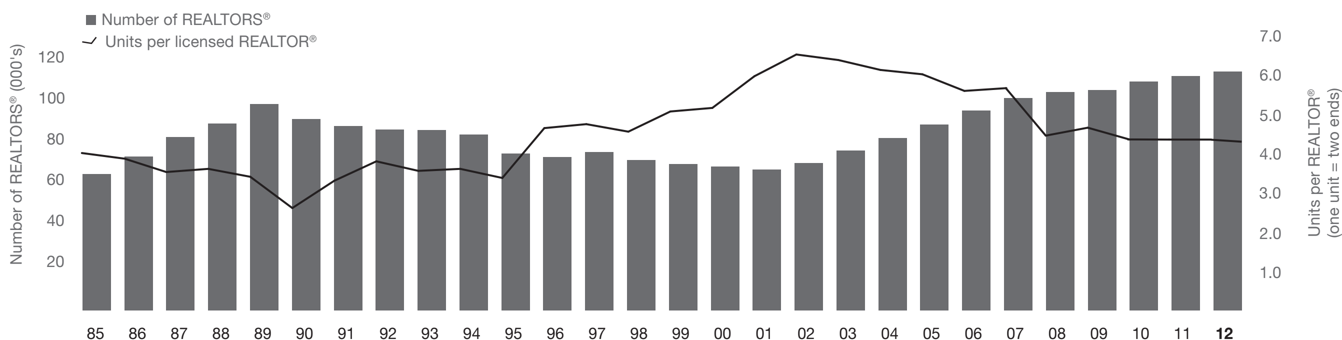
As noted in the table below, the number of REALTORS® in Canada during 2012 increased by 2.4% to 106,944 and increased by 0.1% to 107,077 in the first quarter of 2013, while the Company Network increased by 3%. The increase in the number of Canadian REALTORS® has in part been driven by increases in discount brokerage offerings, which have attracted new entrants to the industry and are resulting in a lower number of homes sold per REALTOR®. This is summarized in the table and chart below, which show 2012 closing out at 4.2 units per REALTOR®, down from 4.4 in 2011 and 4.5 in 2010.

## Summary of Canadian and Company Growth in REALTORS®

| | Canada* | | The Company Network | |
|---|---|---|---|---|
| | Number of Licensed Members | % Change | Number of Licensed Members | % Change |
| **Opening** | **104,407** | | **15,061** | |
| 2012 Q1 | 1,242 | 1.2 | 189 | 1.3 |
| 2012 Q2 | 386 | 0.4 | (1) | – |
| 2012 Q3 | 367 | 0.4 | (11) | – |
| 2012 Q4 | 542 | 0.5 | (152) | (1.0) |
| **Opening** | **106,944** | **2.4** | **15,086** | **0.3** |
| 2013 Q1 | 133 | 0.1 | 472 | 3.1 |
| 2013 Q2 | N/A | – | (59) | (0.4) |
| **Closing** | **107,077** | **2.5** | **15,499** | **3.0** |

* Source: CREA
N/A: Not available at time of MD&A

### CANADIAN REAL ESTATE REALTORS®
(Year ended December 31)




### TRANSACTION VOLUMES

For the rolling twelve months ended June 30, 2013, the Canadian Market closed down 5.9%, at $160.8 billion, as compared to the same period of 2012, driven by a 7.1% decrease in units sold, partially offset by a 1.3% increase in selling price. Management expects that this Market activity was impacted by tighter mortgage-lending rules introduced in July 2012, which have resulted in a pull of Canadian Market activity into the first half of 2012, with 58% of the Canadian Market activity coming through the first half of 2012, compared to 55% in 2011. The average selling price of a home remained largely unchanged, due primarily to a balanced market supported by reduced listings and low interest rates.

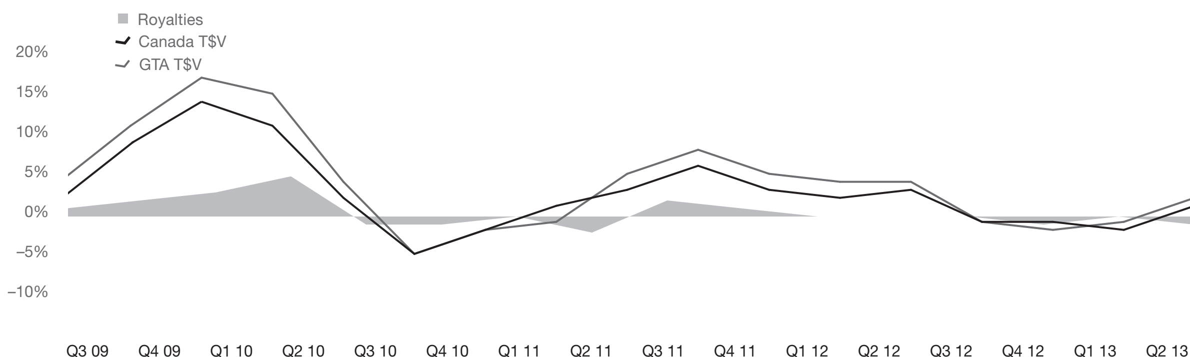
During the Quarter, the Canadian Market closed up 1% on a 3.1% increase in average selling price, partially offset by a 2.1% decrease in units sold, at $56.2 billion, compared to $55.7 billion for the same period of 2012, as buyers have begun to return to the Market.

For the rolling twelve months ended June 30, 2013, the GTA Market closed down 6.8%, at $42.1 billion, as compared to $45.2 billion for the same period of 2012, driven by a 10.9% decrease in units sold, partially offset by a 4.6% increase in average selling price. Management expects the reduced unit sales to be impacted by tighter mortgage-lending rules introduced in July 2012, which have resulted in a pull of GTA Market activity into the first half of 2012, with 59% of the GTA Market activity coming through the first half of 2012, compared to 54% in 2011. The average selling price of a home in the GTA increased, due primarily to a shortage of listings to support demand, which is in part supported by low interest rates.

During the Quarter, the GTA Market closed up 1.7%, at $15.5 billion, as compared to $15.2 billion for the same period of 2012, driven by a 2.2% decrease in units sold, offset by a 3.7% increase in selling price. Similar to the overall Canadian Market, the GTA Market is stabilizing and seeing increased activity as buyers return to the Market.

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

### ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER




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

From CMHC[1]: Existing home sales are expected to decline in 2013, but rise along with economic conditions in 2014. Specifically, sales through the Multiple Listing Service® (MLS®) are expected to decline to 443,400 units in 2013 before seeing an increase to 468,600 in 2014.

From CREA[2]: National sales activity is now forecast to reach 443,400 units in 2013. This represents a decline of 2.5% from 454,573 sales in 2012 and marks an upward revision from the previous forecast decline of 2.9%. Alberta and Prince Edward Island are the only provinces where sales are projected to post an annual increase in 2013, with declines in other provinces reflecting the impact of more restrictive mortgage-lending rules and guidelines. In contrast to sales, average prices have held firmer than expected. The national average home price is now forecast to rise by 2.1% to $370,900 in 2013.

From TREB[3]: GTA home sales activity for the second quarter of 2013 amounted to 29,054 units, with an average price of $533,455; this activity has decreased by 2.2% and increased by 3.7%, respectively, compared to the same period in 2012. Sales have been lower due to strict mortgage-lending rules and the additional Municipal Land Transfer Tax in the City of Toronto.

## THE COMPANY'S GROWTH OPPORTUNITIES

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

### Growth in Number of REALTORS®

Our growth objective for 2013 in light of the economy and Market conditions is to modestly increase the year-over-year Company Network of REALTORS®. In line with this objective, the Network has grown by 413 REALTORS® for the six months ended June 30, 2013.

[1] Source: CMHC Housing Market Outlook – Second Quarter 2013, published April 26, 2013.
[2] Source: CREA Updates Resale Housing Quarterly Forecast, published June 17, 2013.
[3] Source: TREB Market Watch April to June 2013, published May 3, 2013, June 5, 2013 and July 4, 2013.

# Management's Discussion and Analysis of Results and Financial Condition

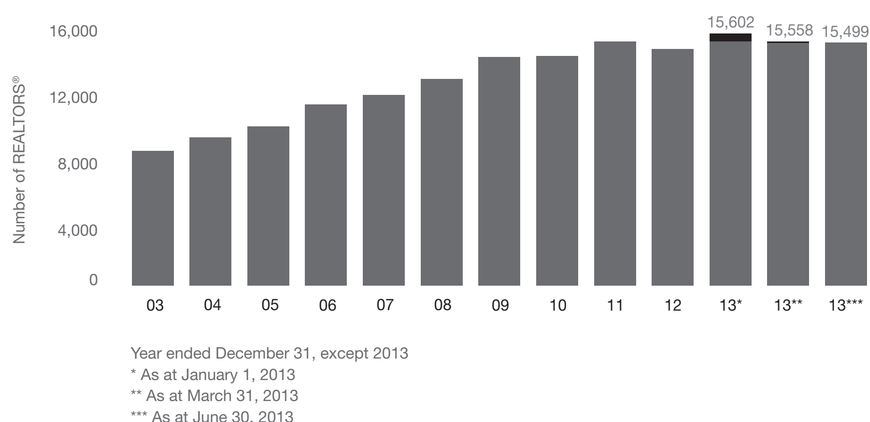
Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network to June 30, 2013, has increased by 67.8% (6,261 REALTORS®), of which 73% has been through acquisitions and 27% through organic growth.

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

On January 1, 2013, the Company purchased franchise agreements representing 27 locations, serviced by an estimated 516 Agents operating under the Royal LePage and Via Capitale brands. The estimated purchase price of these agreements is $6.7 million, with an estimated annual royalty stream of $1 million. (See Transactions with Related Parties.)

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

### COMPANY GROWTH



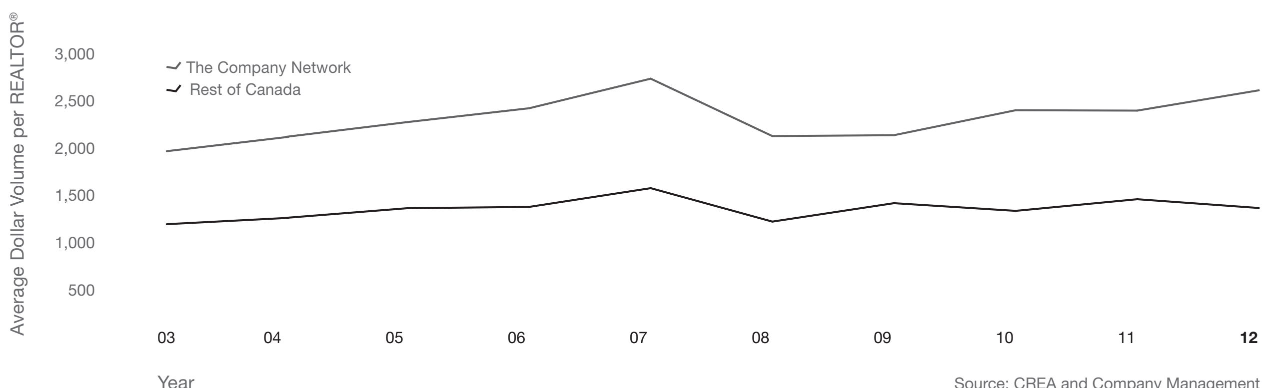

Year ended December 31, except 2013
* As at January 1, 2013
** As at March 31, 2013
*** As at June 30, 2013

### REALTOR® PRODUCTIVITY

The average Company Network REALTOR® generated approximately $2.58 million in transactional dollar volume for the twelve months ended December 31, 2012, up 8% from 2011. This productivity was 86% greater than the estimated average of $1.39 million for all other Canadian REALTORS®, down 6.1% from 2011. Management believes that the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume. A summary of average transactional dollar volume per REALTOR® for the years ended December 31, 2003 through 2012 is shown below.

### CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET REALTOR® PRODUCTIVITY

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




Source: CREA and Company Management

**Products and Services**

As noted in Recent Developments, the Manager has relaunched the Company's consumer website to capitalize on the referral, franchisee and REALTOR® attraction and retention opportunities represented by displaying the listings of all participating REALTORS® on the Company's consumer website.

Further, as noted in our 2012 Annual Report, the Company has announced a 2% increase in the Royal LePage fixed fee per month of $100 per Agent and Sales Representative to $102. The increase is to come into effect on January 1, 2014 for approximately 85% of the Royal LePage Network and increase to 100% over time, as permitted under the franchise agreements.

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

## THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

Since 1980, the Market has grown at a compound annual growth rate ("CAGR") of 9.4%. The Canadian Market has been very resilient, with three significant downturns occurring in 1990, 1995 and 2008, all of which returned to pre-downturn levels within 24 months. The duration of these Market downturns was 13, 14 and 16 months, respectively, with decreases of 26%, 21% and 19%, respectively.

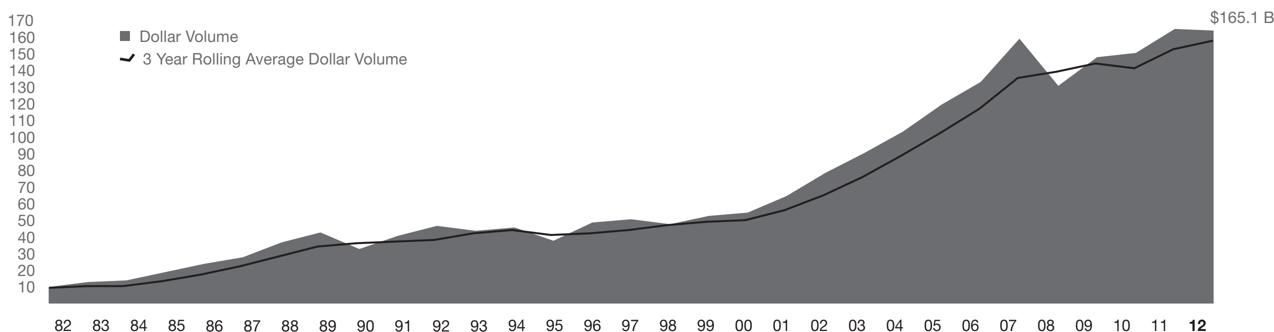
During the most recent downturn, the Market declined 19% during the 16-month period February 2008 through May 2009, with the most significant decline occurring during the fourth quarter of 2008, when the Market decreased 40% compared to the fourth quarter of 2007.

The Market improvement in 2009 began with the rate of decline moderating steadily from January to May, followed by four months of increasing Market growth and subsequently ending the year with very strong growth of 90% in the quarter over the same period in 2008. The strong Market continued into the first half of 2010, due in part to consumers seeking to close home sales ahead of government-mandated changes to mortgage rules, anticipated increases in mortgage rates and the introduction of the HST on July 1, 2010. These Market factors pulled 57% of the 2010 Market activity into the first half of 2010, compared to 46% in 2009, resulting in a year-over-year decline in the second half of 2010. When combined with the first half of 2010, this saw the overall Market rise by 1.7% for the twelve-month period ended December 31, 2010, compared to the same period in 2009.

During the 1990 downturn, interest rates were relatively high, and there was significant speculation in the form of building and multiple home ownerships. Since that time, lenders now require builders to pre-sell a significant portion of their developments before advancing funds, and under new mortgage-lending rules, non-owner-occupied property purchases that qualify for mortgage insurance have increased down payment requirements.

### MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

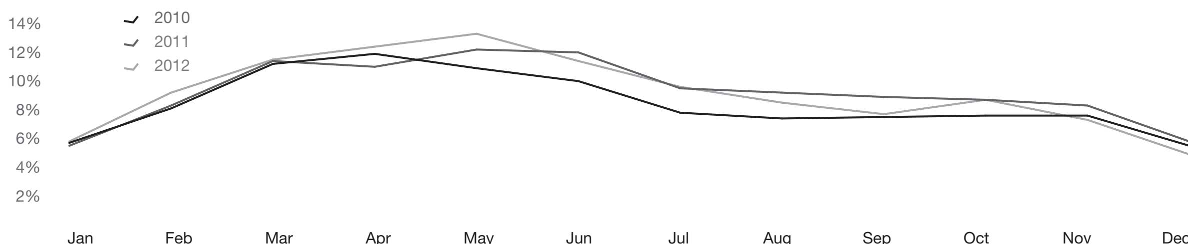
(1982–2012) (in $ billions)




The Company's royalty revenues are affected by the seasonality of the Market, which typically has stronger second and third quarters, as summarized in the chart below. The seasonality of the Market is in turn mitigated throughout the year by the fixed-fee nature of the Company's royalties and by the acquisition of franchise agreements at the beginning of the year and in the latter part of the year by the 24% (2011 – 19%) of our Royal LePage Agents who have capped out under the 1%/$1,300 per annum variable fee.

## CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

(% transactional dollar volume by month)




Source: CREA and Company Management

## OPERATING RESULTS FOR THE QUARTER

| ($ 000's) except Agents, shares and per share amounts | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Royalties | | | | |
| Fixed franchise fees | $ 4,726 | $ 4,716 | $ 9,497 | $ 9,435 |
| Variable franchise fees | 2,594 | 2,768 | 4,248 | 4,582 |
| Premium franchise fees | 1,314 | 1,455 | 2,038 | 2,276 |
| Other revenue and services | 1,105 | 1,053 | 2,020 | 1,919 |
| | 9,739 | 9,992 | 17,803 | 18,212 |
| Less: | | | | |
| Administration | 638 | (94) | 909 | 358 |
| Management fee | 1,741 | 1,949 | 3,223 | 3,431 |
| Interest expense | 807 | 775 | 1,526 | 1,500 |
| | 3,186 | 2,630 | 5,658 | 5,289 |
| Cash flow from operations | 6,553 | 7,362 | 12,145 | 12,923 |
| Amortization of intangible assets | 3,259 | 3,315 | 6,590 | 6,665 |
| Impairment of intangible assets | – | – | 388 | – |
| Interest on Exchangeable units | 1,168 | 1,168 | 2,336 | 2,336 |
| Gain on fair value of Exchangeable units | (2,096) | (5,624) | (1,397) | (2,097) |
| Gain on fair value of purchase obligation | (138) | – | (350) | – |
| Earnings before income tax | 4,360 | 8,503 | 4,578 | 6,019 |
| Current income tax expense | (1,096) | (1,028) | (1,937) | (1,863) |
| Deferred income tax recovery | 110 | 372 | 190 | 513 |
| Net and comprehensive earnings | $ 3,374 | $ 7,847 | $ 2,831 | $ 4,669 |
| Basic earnings per share | $ 0.36 | $ 0.83 | $ 0.30 | $ 0.49 |
| Diluted earnings per share | $ 0.19 | $ 0.26 | $ 0.29 | $ 0.38 |
| Number of Agents | 14,525 | 14,270 | 14,525 | 14,270 |
| Number of fixed-fee-paying Sales Representatives | 727 | 686 | 727 | 686 |

As summarized in the table above, during the Quarter, the Company generated net and comprehensive earnings before income taxes of $4.36 million and CFFO of $6.55 million, compared to net and comprehensive earnings before income taxes of $8.5 million and CFFO of $7.36 million for the same period in 2012.

**The Company Network** as at June 30, 2013 consisted of 14,525 Agents and 974 Sales Representatives, 727 of whom operate under the $100 per month fixed-fee plan and 247 of whom are primarily brokers and managers who do not pay fees. Primarily all of our franchisees operate under the per-Agent combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option") or the approximate $170 per month flat fee.

For the Period, the Company Network of 15,499 REALTORS® increased by 413, as compared to a net increase of 188 REALTORS® during the first six months of 2012. The net increase of 413 REALTORS® during the Period consisted of the acquisition of agreements on January 1, 2013 representing 516 Agents less a net decrease of 103 Agents, of which 59 were attributable to three franchise agreements that were terminated and the balance to net organic attrition. The net increase of 188 REALTORS® in the first six months of 2012 consisted of the acquisition of agreements on January 1, 2012 representing 217 Agents less the net attrition of 29 Agents.

**Royalties** for the Quarter totalled $9.7 million, compared to $10.0 million for the same period in 2012. Fixed, variable and premium franchise fees together represented 89% of royalties (89% – 2012). The decrease in royalties was primarily attributed to lower premium and variable fees largely driven by tighter mortgage-lending rules introduced in July 2012, which pulled a greater number of home sales into the first half of 2012, partially offset by increased other revenue and service fees as a result of increased Agent participation in the home warranty program.

**Fixed franchise fees** for the Quarter increased by 0.2% over the same period in 2012, due primarily to the acquisition of agreements representing 516 Agents at the beginning of the year as compared to the acquisition of agreements representing 217 Agents at the beginning of 2012. The increase in Quarter-over-same-quarter Agents was muted by the loss of Agents in the latter half of 2012.

**Variable franchise fees** for the Quarter decreased by 6.3% over the same period in 2012, due primarily to decreased market volume and largely driven by tighter mortgage-lending rules introduced in July 2012, which pulled a greater number of home sales into the first half of 2012. This is coupled with the lag between when the Market reports a home sale and 45 to 60 days later, when the Company records the related franchise fees when the home sale closes. This lag was much more pronounced during the Quarter as the market slowed in the latter half of the first quarter of 2013 and increased in the latter half of the second Quarter. Accordingly, the Company experienced the lag of slower first quarter Market activity coming into the Quarter and the increase in second Quarter activity flowing into the third quarter.

**Premium franchise fees** are derived from the 23 franchise locations servicing the GTA Market, which pay premium franchise fees ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the Quarter decreased by 9.7% over the same period in 2012, due largely to the same reasons described for the decrease in variable franchise fees above.

**Other fees and services** include home warranty fees, technology fees and other fees, which accounted for approximately 11% of total royalties for the Quarter. Other fees increased 4.9% compared to the same period in 2012, as a result of increased Agent participation in the home warranty program.

**Administration expense** of $0.6 million for the Quarter was up $0.7 million compared to the same period in 2012, primarily due to $0.3 million of one-time special committee, legal and consulting fees incurred in finalizing the Company's new MSA and a net $0.2 million recovery of previously written-off receivables in the comparative period of 2012.

**Management fee expense** of $1.7 million for the Quarter, calculated in accordance with the MSA, was down 10.7%, in line with the reduced royalties and increase in administration expense.

**Interest expense** consists of interest on the Company's fixed-rate, $32.7 million private debt placement; a variable-rate, $20.3 million credit facility; and interest on the Company's purchase obligation. During the Quarter, the Company's interest expense totalled $0.8 million, little changed from the same period in 2012, as the Company continues to maintain its floating interest rate position.

### Amortization of Intangible Assets

Intangible assets relate to the values attributed to the franchise agreements and trademarks acquired by the Company since August 7, 2003. Franchise agreements and trademarks are amortized on a straight-line basis over their expected useful life. Amortization during the Quarter totalled $3.3 million, little changed from the same period in 2012.

### Impairment of Intangible Assets

During the Quarter, management's assessment of impairment did not result in any further charges for the year.

**Interest on Exchangeable units** represents the targeted pre-tax distribution of $1.10 per annum, $0.28 per quarter paid to the Exchangeable unitholders.

**Gain on fair value of Exchangeable units** represents the change in fair value during the period of the underlying 26% interest of the Exchangeable units in the Company. As the Company's share price decreased in value during the Quarter, the Company recorded a gain of $2.1 million, for the resulting decrease in the fair value of the underlying Exchangeable unit obligations.

### Current Income Tax

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

The effective tax rate for the year is 26.5% (2012 – 26.5%), which, after adjusting for the items noted earlier and the utilization of tax shields primarily attributable to the Company's franchise agreements, resulted in an overall tax provision of $1 million, consisting of a $1.1 million current income tax expense (2012 – $1.0 million) and a $0.1 million deferred income tax recovery (2012 – $0.4 million).

Throughout the Quarter, the Company made regular tax instalment payments totalling $1.1 million in respect of the final 2013 income tax expense; this has resulted in an income tax receivable balance of $0.4 million as at June 30, 2013.

### Deferred Income Tax

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at June 30, 2013, the Company's deferred tax asset was $4.5 million (December 31, 2012 – $4.3 million) and was calculated using an effective tax rate of 26.5% (2012 – 26.5%). During the Quarter, the Company recorded a $0.1 million deferred income tax recovery (2012 – $0.4 million). The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

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

### Company Tax Pools

($ millions)

| Future Deduction Basis | Balance December 31, 2012 | Estimated Addition for 2013 | Estimated Deduction for 2013 | Estimated Balance December 31, 2013 |
|---|---|---|---|---|
| 7% of balance | $ 68.7 | $ 6.2 | $ 5.1[1] | $ 68.3 |
| Five-year straight-line | $ 0.4 | $ – | $ 0.2 | $ 0.2 |
| | $ 69.1 | $ 6.2 | $ 5.3 | $ 68.5 |

[1] This estimated deduction for 2013 is calculated as 7% of the sum of the remaining balance as at December 31, 2012 and 75% of the estimated addition for 2013.

## YEAR-TO-DATE OPERATING RESULTS

During the Period, the Company generated net and comprehensive earnings before income taxes of $4.6 million and CFFO of $12.1 million, as compared to net and comprehensive earnings before income taxes of $6.0 million and CFFO of $12.9 million for the same period in 2012. A discussion of the operating results highlights for the Period follows:

**Royalties** for the Period of $17.8 million were down $0.4 million – 2.2% due primarily to the following, as described in Operating Results for the Quarter and Overview of Second Quarter Operating Results:

- **Fixed franchise fees** for the Period were up 0.7% ($0.1 million) over the same period in 2012, primarily due to the acquisition of a greater number of Agents under the annual January 1 acquisition of franchise agreements, which was muted by the loss of Agents in the latter half of 2012.
- **Variable franchise fees** for the Period were down 7.3% ($0.3 million) from the same period in 2012, primarily due to the combination of the decrease in year-over-year Market activity resulting from the pull of Market activity into the first half of 2012 due to the introduction of tighter mortgage-financing rules in July 2012 and the lag effect of when the Market records a sale as compared to when the Company records the corresponding revenue 45 to 60 days later, when the home sale closes.
- **Premium franchise fees** for the Period were down 10.5% ($0.2 million) due to the same reasons described for variable fees above.
- **Other revenue and services** for the Period were up 5.3% ($0.1 million) due primarily to the greater penetration of the Company's warranty program offering.

**Administration expense** for the Period of $0.9 million was up $0.5 million, due primarily to $0.3 million of one-time special committee, legal and consulting fees incurred in finalizing the Company's new MSA and a net $0.2 million recovery of previously written-off receivables in the comparative period of 2012.

**Management fees** for the Period, calculated in accordance with the terms of the MSA, were $3.2 million, down $0.2 million – 6.1%, which was in line with the overall decrease in royalties and increase in administration expense.

**Interest expense** for the Period was $1.5 million, which is flat compared to the same period of 2012, as expected.

## CASH FLOW FROM OPERATIONS

For the rolling twelve months ended June 30, 2013, the Company generated CFFO of $1.92 per restricted voting share, down 4.0% from the $2.00 CFFO generated during the same period of 2012 (see Overview of Second Quarter Operating Results). A summary of the Company's CFFO generated over the last seven quarters is presented in the table below.

### Rolling Twelve-Month Cash Flow From Operations

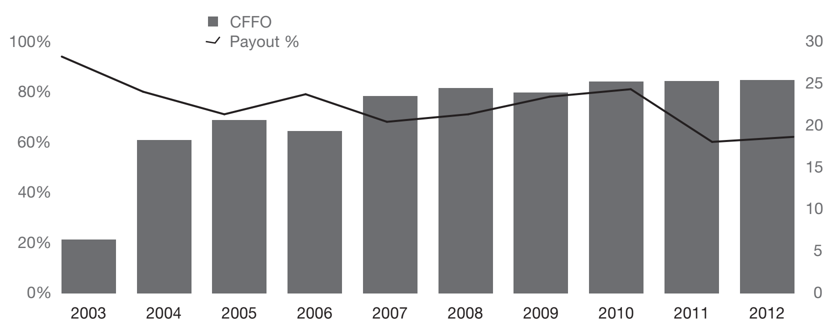
| Twelve months ended | **2013** | | 2012 | | | | 2011 |
|---|---|---|---|---|---|---|---|
| ($ 000's) except per share amounts | **June 30** | March 31 | Dec. 31 | Sept. 30 | June 30 | March 31 | Dec. 31 |
| Royalties | **$ 36,110** | $ 36,363 | $ 36,519 | $ 36,821 | $ 36,916 | $ 36,745 | $ 36,720 |
| Less: | | | | | | | |
| Administration | **1,912** | 1,180 | 1,361 | 1,645 | 1,396 | 1,851 | 1,667 |
| Interest expense | **2,987** | 2,955 | 2,961 | 2,974 | 3,003 | 3,039 | 3,042 |
| Management fee | **6,564** | 6,772 | 6,772 | 6,774 | 6,836 | 6,710 | 6,747 |
| | **24,647** | 25,456 | 25,425 | 25,428 | 25,681 | 25,145 | 25,264 |
| Cash flow from operations per share | **$ 1.92** | $ 1.99 | $ 1.98 | $ 1.98 | $ 2.00 | $ 1.96 | $ 1.97 |

The Company's operations have been a significant source of capital, with $224.5 million of CFFO generated since inception, of which $163.8 million has been paid to the public shareholders and Exchangeable unitholders. Of the remaining $60.7 million retained by the Company, $43.8 million has been invested in franchise agreements that earn attractive returns, and $4.1 million was used to purchase units of the Company in 2008 and 2009. Also see Supplemental Information – Cash Flow From Operations.

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

## CASH FLOW FROM OPERATIONS

Years ended December 31 (in $ millions)



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

**Cash Flow From Operations and Its Utilization**

| ($ 000's) | **Three months ended June 30, 2013** | Three months ended June 30, 2012 | **Six months ended June 30, 2013** | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Royalties | **$ 9,739** | $ 9,992 | **$ 17,803** | $ 18,212 |
| Less: | | | | |
| Administration | **638** | (94) | **909** | 358 |
| Management fee | **1,741** | 1,949 | **3,223** | 3,431 |
| Interest expense | **807** | 775 | **1,526** | 1,500 |
| Cash flow from operations | **6,553** | 7,362 | **12,145** | 12,923 |
| Less: | | | | |
| Dividends to shareholders | **2,618** | 2,618 | **5,236** | 5,236 |
| Interest on Exchangeable units | **1,168** | 1,168 | **2,336** | 2,336 |
| Total dividends and interest | **3,786** | 3,786 | **7,572** | 7,572 |
| Cash flow from operations less total dividends | **2,767** | 3,576 | **4,573** | 5,351 |
| Less: funding of acquisitions | **–** | 994 | **3,171** | 2,353 |
| Net change in the Period | **$ 2,767** | $ 2,582 | **$ 1,402** | $ 2,998 |

**Cash flow from operations reconciled to cash flow from operating activities**

| ($ 000's) | **Three months ended June 30, 2013** | Three months ended June 30, 2012 | **Six months ended June 30, 2013** | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Cash flow from operating activities | **$ 4,475** | $ 3,742 | **$ 5,621** | $ 3,278 |
| Add (deduct): | | | | |
| Interest on Exchangeable units | **1,168** | 1,168 | **2,336** | 2,336 |
| Income taxes paid | **1,074** | 1,760 | **2,278** | 6,160 |
| Changes in non-cash working capital items | **(118)** | 734 | **1,399** | 1,237 |
| Interest expense | **(1,975)** | (1,943) | **(3,862)** | (3,836) |
| Interest paid | **1,929** | 1,901 | **4,373** | 3,748 |
| Cash flow from operations | **$ 6,553** | $ 7,362 | **$ 12,145** | $ 12,923 |

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

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

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

## DEBT FINANCING

The Company's long-term debt comprises a $32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a $20.3 million term facility with a Canadian financial institution, with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3%, with terms of up to six months.

The Company has a $2 million operating line provided by a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force.

The covenants of the long-term debt prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.25 to 1. Consolidated EBITDA is defined as earnings (loss) before tax, interest, interest on Exchangeable units, gain (loss) on fair value of Exchangeable units and gain (loss) on purchase obligation adjustment. As at June 30, 2013, the Company is compliant with its financial covenants.

Senior Indebtedness is defined as the Company's long-term debt, disclosed under Note 10 of the Interim Condensed Consolidated Financial Statements for the year ended December 31, 2012, and consists of $32,700 in private debt placement and $20,300 in term facilities. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

## SUMMARY OF QUARTERLY RESULTS

| Three months ended | 2013 | | 2012 | | | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| ($ 000's) except Agents, Sales Representatives and per share amounts | **June 30** | March 31 | Dec. 31 | Sept. 30 | June 30 | March 31 | Dec. 31 | Sept. 30 |
| Royalties | | | | | | | | |
| Fixed franchise fees | **$ 4,726** | $ 4,771 | $ 4,644 | $ 4,684 | $ 4,716 | $ 4,719 | $ 4,700 | $ 4,736 |
| Variable franchise fees | **2,594** | 1,654 | 1,238 | 2,506 | 2,768 | 1,814 | 1,430 | 2,531 |
| Premium franchise fees | **1,314** | 724 | 1,193 | 1,972 | 1,455 | 821 | 1,275 | 1,910 |
| Other fee revenue and services | **1,105** | 915 | 1,003 | 1,067 | 1,053 | 866 | 975 | 1,147 |
| | **9,739** | 8,064 | 8,078 | 10,229 | 9,992 | 8,220 | 8,380 | 10,324 |
| Less: | | | | | | | | |
| Administration | **638** | 271 | 484 | 519 | (94) | 452 | 768 | 270 |
| Management fee | **1,741** | 1,482 | 1,462 | 1,879 | 1,949 | 1,482 | 1,464 | 1,941 |
| Interest expense | **807** | 719 | 724 | 737 | 775 | 725 | 737 | 766 |
| Cash flow from operations | **6,553** | 5,592 | 5,408 | 7,094 | 7,362 | 5,561 | 5,411 | 7,347 |
| Interest on Exchangeable units | **1,168** | 1,168 | 1,768 | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 |
| (Gain) loss on fair value of Exchangeable units | **(2,096)** | 699 | (1,297) | 3,494 | (5,624) | 3,527 | 1,131 | (6,655) |
| Gain on fair value of purchase obligation | **(138)** | (212) | (331) | (24) | – | – | (31) | (113) |
| Amortization of intangible assets | **3,259** | 3,331 | 3,124 | 3,315 | 3,315 | 3,350 | 3,426 | 3,421 |
| Impairment of intangible assets | **–** | 388 | 785 | 685 | – | – | 2,435 | 383 |
| Earnings (loss) before income taxes | **4,360** | 218 | 1,359 | (1,544) | 8,503 | (2,484) | (2,718) | 9,143 |
| Current income tax expense | **1,096** | 841 | 774 | 1,147 | 1,028 | 837 | 856 | 1,212 |
| Deferred income tax recovery | **(110)** | (80) | (176) | (235) | (372) | (141) | (368) | (151) |
| Net and comprehensive earnings (loss) | **$ 3,374** | $ (543) | $ 761 | $ (2,456) | $ 7,847 | $ (3,180) | $ (3,206) | $ 8,082 |
| Basic earnings (loss) per share | **$ 0.36** | $ (0.06) | $ 0.08 | $ (0.26) | $ 0.83 | $ (0.33) | $ (0.33) | $ 0.85 |
| Diluted earnings (loss) per share | **$ 0.19** | $ (0.06) | $ 0.10 | $ (0.26) | $ 0.26 | $ (0.33) | $ (0.07) | $ 0.20 |
| Cash flow from operations per share (on a diluted basis) | **$ 0.51** | $ 0.44 | $ 0.42 | $ 0.55 | $ 0.57 | $ 0.44 | $ 0.43 | $ 0.57 |
| Number of Agents | **14,525** | 14,608 | 14,141 | 14,245 | 14,270 | 14,280 | 14,079 | 14,273 |
| Number of fixed-fee-paying Sales Representatives | **727** | 703 | 701 | 685 | 686 | 675 | 682 | 719 |

As summarized in the table above and explained earlier, during the Quarter, the Company generated CFFO of $6.6 million, down 10.8% from the same period of 2012.

## LIQUIDITY

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

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

| | 2013 | 2014 | 2015 | Beyond 2015 | Total |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 1,324 | $ – | $ – | $ – | $ 1,324 |
| Purchase obligation | 2,760 | 763 | 9 | 79 | 3,611 |
| Interest payable to Exchangeable unitholders | 389 | – | – | – | 389 |
| Dividends payable to shareholders | 872 | – | – | – | 872 |
| Interest on long-term debt | 1,521 | 3,042 | 761 | – | 5,324 |
| Private debt placement | – | – | 32,700 | – | 32,700 |
| Term facility | – | – | 20,300 | – | 20,300 |
| Exchangeable units | – | – | – | 40,598 | 40,598 |
| Total | $ 6,866 | $ 3,805 | $ 53,770 | $ 40,677 | $ 105,118 |

During the Quarter, the Company used cash balances on hand and cash flow generated from operating activities of $6.6 million to meet $3.8 million of dividend and distribution requirements. Subsequent to Quarter end, the Company used cash on hand to pay down $1.5 million of the current purchase obligation requirements. A summary of the Company's working capital position is shown below.

### Working Capital

| As at ($ 000's) | **June 30, 2013** | March 31, 2013 | Dec. 31, 2012 | Sept. 30, 2012 | June 30, 2012 | March 31, 2012 | Dec. 31, 2011 | Change in quarter |
|---|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | | |
| Cash and cash equivalents | **$ 2,317** | $ 460 | $ 5,103 | $ 3,814 | $ 1,282 | $ 1,152 | $ 5,593 | $ 1,857 |
| Accounts receivable | **5,545** | 5,539 | 4,247 | 4,975 | 5,795 | 4,714 | 4,043 | 6 |
| Income tax receivable | **400** | 423 | 60 | – | 115 | – | – | (23) |
| Prepaid expenses | **60** | 90 | 117 | 106 | 68 | 239 | 261 | (30) |
| | **$ 8,322** | $ 6,512 | $ 9,527 | $ 8,895 | $ 7,260 | $ 6,105 | $ 9,897 | $ 1,810 |
| **Current liabilities** | | | | | | | | |
| Accounts payable and accrued liabilities | **$ 1,324** | $ 1,262 | $ 1,408 | $ 1,297 | $ 1,621 | $ 1,445 | $ 1,299 | $ 62 |
| Purchase obligation – current portion | **3,523** | 3,661 | 463 | 504 | 1,186 | 2,181 | 663 | (138) |
| Current income tax liability | **–** | – | – | 369 | – | 619 | 4,183 | – |
| Interest payable to Exchangeable unitholders | **389** | 389 | 989 | 389 | 389 | 389 | 389 | – |
| Dividends payable to shareholders | **872** | 872 | 872 | 872 | 872 | 872 | 872 | – |
| | **6,108** | 6,184 | 3,732 | 3,431 | 4,068 | 5,506 | 7,406 | (76) |
| Net working capital | **$ 2,214** | $ 328 | $ 5,795 | $ 5,464 | $ 3,192 | $ 599 | $ 2,491 | $ 1,886 |

## CAPITAL RESOURCES

The existing capital resources that the Company can draw upon consist of a $2 million operating line, which is undrawn as at the date of this MD&A. Other capital resources include funds generated from operations, debt servicing, dividend and Exchangeable units requirements and financing for the acquisition of franchise agreements.

## OFF–BALANCE SHEET ARRANGEMENTS

The Company has no off–balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

As at the date of this MD&A, the Company's interests are ultimately controlled approximately 74% by the public and 26% by BAM. BAM derived its ownership interest in the Company through the sale of its interest in certain assets to the Company at its inception. These assets included the trademarks and franchise agreements related to the business of its Royal LePage residential resale real estate brokerage franchise operations.

BAM operates 17 corporately owned residential resale real estate brokerage locations in the GTA, serviced by over 1,300 Agents. Of these operations, 16 operate under three franchise agreements under the $100/1% option to August 2023, with an additional premium franchise fee ranging from 1% to 5% of the location's gross commission income to August 2018. The remaining location, which was opened during the third quarter of 2009, was included in the Company's acquisition of franchise agreements on January 1, 2010.

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

All other terms of the new MSA remain substantially unchanged from the previous MSA. The differences from the previous MSA in respect of the three changes made to the incremental franchise agreement calculation noted above are as follows: (i) the Via Capitale discount factor was 10%, (ii) the final purchase price for Royal LePage agreements was based on the average annual royalties earned over one year and (iii) the 20% holdback on the initial purchase price for Royal LePage incremental franchise agreements was paid after the end of the first year.

On January 1 of each year, the Company may, upon approval by the Board of Directors and criteria detailed in the MSA, purchase Royal LePage franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company, at the option of the Company; 80% is paid on acquisition and the remaining 20% a year later, when the actual franchise fees are audited and the acquisition calculations adjusted accordingly. Effective January 2014, the time to pay the remaining 20% balance will be extended to two years under the terms of the new MSA.

On January 1 of each year, the Company may, upon approval by the Independent Directors and criteria established by the Board of Directors, purchase Via Capitale franchises acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or shares of the Company at the option of the Company; 80% is paid on acquisition and the remaining 20% over the following three years, when the actual franchise fees are audited and the acquisition calculations are adjusted accordingly. Effective January 2014, the time to pay the remaining 20% balance will be reduced to two years under the terms of the new MSA.

The related party transactions entered into by the Company were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts can be found in Note 14 of the Interim Condensed Consolidated Financial Statements.

On January 1, 2013, the Partnership acquired 37 new Royal LePage franchise agreements from the Manager at an estimated purchase price of $6,019. A payment of $4,815, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid a year later, when the final purchase price is determined. Any subsequent changes to the value of the estimated purchase price are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA.

On January 1, 2013, VCLP acquired seven new Via Capitale franchise agreements from the Manager and a subsidiary of the Manager at an estimated purchase price of $720. A payment of $576, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid over the next three years. Until the final purchase price is determined, the estimated price is to be revised over a three-year period from November 1, 2012 to October 31, 2015, based on the average annual royalty stream earned. Any subsequent changes to the value of the estimated purchase obligation are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA.

## CRITICAL ACCOUNTING ESTIMATES

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

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

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

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation, current income tax liability, interest payable to Exchangeable unitholders, dividends payable to shareholders, a $32.7 million private debt placement, a $20.3 million term facility, Exchangeable units liability and a $2 million operating credit facility.

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

The Company's debt consists of a $32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a $20.3 million term facility with a Canadian financial institution, with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3%, with terms of up to six months.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

### Disclosure Controls and Procedures ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at June 30, 2013. The Company's management can therefore provide reasonable assurance that it receives material information relating to the Company in a timely manner so that it can provide investors with complete and reliable information.

### Internal Control Over Financial Reporting ("ICFR")

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at June 30, 2013.

## OUTSTANDING RESTRICTED VOTING SHARES

The Company is authorized to issue an unlimited number of restricted voting shares, an unlimited number of preferred shares and one special voting share. Effective December 31, 2010, 9,483,850 restricted voting shares were issued in exchange for 9,483,850 Partnership units outstanding, and one special voting share was issued in exchange for all special Trust units outstanding before the Company's conversion from an Income Trust (the "Conversion"). These restricted voting shares and special voting share remain unchanged at June 30, 2013.

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

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

## COMPANY STRUCTURE

The Company is governed by a Board of Directors (the "Board") and consists of a Corporation general partner and Limited Partnership ("LP") structure.

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

## RISK FACTORS

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

## MARKET OUTLOOK

The Canadian residential real estate market is in the late stages of a cyclical market correction that has seen fewer houses trading hands and below-average price appreciation for the last four quarters. It is the view of management that we will see sales volumes start to trend upward on a year-over-year basis in late 2013, and as we work our way through 2014, we also expect to see house price appreciation return to long-term historical averages.

The condominium sector may see some softness for the near term as the market absorbs new supply. In the longer term, however, we believe that changes to demography, city planning and customer preferences all presage positive growth for this category.

## FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report contain forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set out in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; the average rate of commissions charged; competition from other traditional real estate brokers or from discount and/or Internet-based real estate alternatives; the availability of acquisition opportunities and/or the closing of existing real estate offices; other developments in the residential real estate brokerage industry or the Company that reduce the number of and/or royalty revenue from the Company's REALTORS®; our ability to maintain brand equity through the use of trademarks; the availability of equity and debt financing; a change in tax provisions; and other risks detailed in the Company's Annual Information Form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## SUPPLEMENTAL INFORMATION – NET EARNINGS AND CASH FLOW FROM OPERATIONS FOR THE PERIOD

| Three months ended ($ 000's, unaudited) | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| Royalties | $ 10,324 | $ 8,380 | $ 8,220 | $ 9,992 | $ 10,229 | $ 8,078 | $ 8,064 | **$ 9,739** |
| Less: | | | | | | | | |
| Administration | 270 | 768 | 452 | (94) | 519 | 484 | 271 | **638** |
| Management fee | 1,941 | 1,464 | 1,482 | 1,949 | 1,879 | 1,462 | 1,482 | **1,741** |
| Interest expense | 766 | 737 | 725 | 775 | 737 | 724 | 719 | **807** |
| Cash flow from operations | 7,347 | 5,411 | 5,561 | 7,362 | 7,094 | 5,408 | 5,592 | **6,553** |
| Interest on Exchangeable units | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 | 1,768 | 1,168 | **1,168** |
| (Gain) loss on fair value of Exchangeable units | (6,655) | 1,131 | 3,527 | (5,624) | 3,494 | (1,297) | 699 | **(2,096)** |
| Gain on fair value of purchase obligation | (113) | (31) | – | – | (24) | (331) | (212) | **(138)** |
| Amortization of intangible assets | 3,421 | 3,426 | 3,350 | 3,315 | 3,315 | 3,124 | 3,331 | **3,259** |
| Impairment of intangible assets | 383 | 2,435 | – | – | 685 | 785 | 388 | **–** |
| Earnings (loss) before taxes | 9,143 | (2,718) | (2,484) | 8,503 | (1,544) | 1,359 | 218 | **4,630** |
| Current income tax expense | (1,212) | (856) | (837) | (1,028) | (1,147) | (774) | (841) | **(1,096)** |
| Deferred income tax recovery | 151 | 368 | 141 | 372 | 235 | 176 | 80 | **110** |
| Net and comprehensive earnings (loss) for the Period | 8,082 | (3,206) | (3,180) | 7,847 | (2,456) | 761 | (543) | **3,374** |
| Add: | | | | | | | | |
| Amortization of intangible assets | 3,421 | 3,426 | 3,350 | 3,315 | 3,315 | 3,124 | 3,331 | **3,259** |
| Impairment of intangible assets | 383 | 2,435 | – | – | 685 | 785 | 388 | **–** |
| Current income tax expense | 1,212 | 856 | 837 | 1,028 | 1,147 | 774 | 841 | **1,096** |
| Deferred income tax recovery | (151) | (368) | (141) | (372) | (235) | (176) | (80) | **(110)** |
| Interest on Exchangeable units | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 | 1,768 | 1,168 | **1,168** |
| (Gain) loss on fair value of Exchangeable units | (6,655) | 1,131 | 3,527 | (5,624) | 3,494 | (1,297) | 699 | **(2,096)** |
| Gain on fair value of purchase obligation | (113) | (31) | – | – | (24) | (331) | (212) | **(138)** |
| Cash flow from operations | 7,347 | 5,411 | 5,561 | 7,362 | 7,094 | 5,408 | 5,592 | **6,553** |
| Less change in: | | | | | | | | |
| Unutilized cash | (3,561) | (1,625) | (1,775) | (3,576) | (3,308) | (1,622) | (1,806) | **(2,767)** |
| Cash required for dividends | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | **$ 3,786** |
| Cash flow from operations available to: | | | | | | | | |
| Public shareholders | $ 2,618 | $ 2,618 | $ 2,618 | $ 2,618 | $ 2,618 | $ 2,618 | $ 2,618 | **$ 2,618** |
| Non-controlling interest | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 | 1,168 | **1,168** |
| | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | $ 3,786 | **$ 3,786** |

## SUPPLEMENTAL INFORMATION – SELECTED FINANCIAL AND OPERATING INFORMATION

| Three months ended ($000's, unaudited) | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| Fixed franchise fees | $ 4,736 | $ 4,700 | $ 4,719 | $ 4,716 | $ 4,684 | $ 4,644 | $ 4,771 | **$ 4,726** |
| Variable franchise fees | 2,531 | 1,430 | 1,814 | 2,768 | 2,506 | 1,238 | 1,654 | **2,594** |
| Premium franchise fees | 1,910 | 1,275 | 821 | 1,455 | 1,972 | 1,193 | 724 | **1,314** |
| Other fee revenue and services | 1,147 | 975 | 866 | 1,053 | 1,067 | 1,003 | 915 | **1,105** |
| | $ 10,324 | $ 8,380 | $ 8,220 | $ 9,992 | $ 10,229 | $ 8,078 | $ 8,064 | **$ 9,739** |
| **% Revenue by region** | | | | | | | | |
| British Columbia | 10 | 10 | 10 | 10 | 10 | 9 | 10 | **10** |
| Prairies | 9 | 9 | 9 | 10 | 9 | 9 | 10 | **10** |
| Ontario | 59 | 59 | 59 | 59 | 60 | 61 | 59 | **60** |
| Quebec | 19 | 19 | 19 | 18 | 18 | 18 | 18 | **17** |
| Maritimes | 3 | 3 | 3 | 3 | 3 | 3 | 3 | **3** |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | **100** |

| Three months ended **Changes during the Period** | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| Number of REALTORS® | (66) | (234) | 189 | (1) | (11) | (152) | 472 | **(59)** |
| Number of Agents | (69) | (194) | 201 | (10) | (25) | (104) | 467 | **(83)** |
| Number of fixed-fee-paying Sales Representatives | 1 | (37) | (7) | 11 | (1) | 16 | 2 | **24** |
| Number of locations | (7) | (2) | 14 | (6) | 0 | (6) | 23 | **(6)** |
| Number of franchise agreements | (2) | (1) | 25 | (2) | 0 | (6) | 34 | **(2)** |
| **At end of Period** | | | | | | | | |
| Number of REALTORS® | 15,295 | 15,061 | 15,250 | 15,249 | 15,238 | 15,086 | 15,558 | **15,499** |
| Number of Agents | 14,273 | 14,079 | 14,280 | 14,270 | 14,245 | 14,141 | 14,608 | **14,525** |
| Number of fixed-fee-paying Sales Representatives | 719 | 682 | 675 | 686 | 685 | 701 | 703 | **727** |
| Number of locations | 656 | 654 | 668 | 662 | 662 | 656 | 679 | **673** |
| Number of franchise agreements | 390 | 389 | 414 | 412 | 412 | 406 | 440 | **438** |

## SUPPLEMENTAL INFORMATION – DISTRIBUTIONS/DIVIDENDS HISTORY

| | Dividends Declared per Unit/Share | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Month | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | **2013** |
| January | | $ 0.0917 | $ 0.0917 | $ 0.0958 | $ 0.1000 | $ 0.1040 | $ 0.1170 | $ 0.1170 | $ 0.0920 | $ 0.0920 | **$ 0.0920** |
| February | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | **0.0920** |
| March | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | **0.0920** |
| April | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | **0.0920** |
| May | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | **0.0920** |
| June | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | **0.0920** |
| July | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1040 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | |
| August | | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | |
| September | $ 0.1789[1] | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | |
| October | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | |
| November | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1170 | 0.1170 | 0.0920 | 0.0920 | |
| December | 0.0917 | 0.0917 | 0.0917 | 0.0958 | 0.1000 | 0.1170 | 0.1570 | 0.3170 | 0.0920 | 0.0920 | |
| | $ 0.45 | $ 1.10 | $ 1.10 | $ 1.15 | $ 1.20 | $ 1.31 | $ 1.44 | $ 1.60 | $ 1.10 | $ 1.10 | **$ 0.55** |

[1] Based on a 55-day period.

## SUPPLEMENTAL INFORMATION – SHARE AND EXCHANGEABLE UNIT PERFORMANCE

| Three months ended | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| Trading price range of units (TSX: "BRE") | | | | | | | | |
| High | $ 14.50 | $ 13.87 | $ 14.25 | $ 13.90 | $ 13.80 | $ 13.07 | $ 13.30 | **$ 13.10** |
| Low | $ 12.00 | $ 11.40 | $ 12.35 | $ 11.46 | $ 11.82 | $ 11.71 | $ 12.52 | **$ 12.02** |
| Close | $ 12.25 | $ 12.59 | $ 13.65 | $ 11.96 | $ 13.01 | $ 12.62 | $ 12.83 | **$ 12.20** |
| Average daily volume | 7,987 | 10,215 | 9,003 | 6,744 | 11,879 | 13,377 | 17,596 | **11,156** |
| Number of units outstanding at Period end | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | 9,483,850 | **9,483,850** |
| Net enterprise value at Period end (thousands) | | | | | | | | |
| Market capitalization | $ 156,941 | $ 161,297 | $ 174,877 | $ 153,226 | $ 166,678 | $ 161,681 | $ 164,372 | **$ 156,301** |
| Long-term debt | 52,390 | 52,428 | 52,475 | 52,517 | 52,559 | 52,602 | 52,645 | **52,691** |
| Less: | | | | | | | | |
| Cash on hand | 3,396 | 5,593 | 1,152 | 1,282 | 3,814 | 5,103 | 460 | **2,317** |
| | $ 205,935 | $ 208,132 | $ 226,200 | $ 204,461 | $ 215,423 | $ 209,180 | $ 216,557 | **$ 206,675** |

## SUPPLEMENTAL INFORMATION – CANADIAN RESIDENTIAL REAL ESTATE MARKET

| Three months ended | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | |
| Transactional dollar volume[1] | $ 41,388 | $ 34,093 | $ 39,652 | $ 55,681 | $ 38,573 | $ 31,155 | $ 34,808 | **$ 56,229** |
| Average selling price | $ 354,070 | $ 357,528 | $ 365,803 | $ 373,718 | $ 352,942 | $ 357,766 | $ 369,460 | **$ 385,444** |
| Number of units sold | 116,892 | 95,358 | 108,397 | 148,992 | 109,290 | 87,082 | 94,187 | **145,881** |
| Number of REALTORS® at Period end | 104,203 | 104,407 | 105,649 | 106,035 | 106,321 | 106,944 | 107,077 | **N/A** |
| Housing starts | 55,615 | 52,157 | 39,902 | 62,025 | 60,338 | 52,562 | 33,477 | **44,026** |
| **Greater Toronto Area** | | | | | | | | |
| Transactional dollar volume[1] | $ 10,607 | $ 9,191 | $ 10,159 | $ 15,240 | $ 9,491 | $ 8,050 | $ 9,089 | **$ 15,499** |
| Average selling price | $ 458,758 | $ 472,494 | $ 492,462 | $ 512,872 | $ 485,101 | $ 495,293 | $ 507,787 | **$ 533,455** |
| Number of units sold | 23,122 | 19,452 | 20,629 | 29,715 | 19,565 | 16,253 | 17,899 | **29,054** |
| Housing starts | 10,147 | 9,979 | 10,682 | 12,736 | 13,199 | 13,200 | 6,695 | **8,583** |

| Twelve months ended | Sept. 30, 2011 | Dec. 31, 2011 | March 31, 2012 | June 30, 2012 | Sept. 30, 2012 | Dec. 31, 2012 | March 31, 2013 | **June 30, 2013** |
|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | |
| Transactional dollar volume[1] | $ 162,819 | $ 166,055 | $ 168,013 | $ 170,814 | $ 167,999 | $ 165,061 | $ 160,217 | **$ 160,765** |
| Average selling price | $ 360,572 | $ 363,116 | $ 363,715 | $ 363,714 | $ 363,605 | $ 363,762 | $ 364,502 | **$ 368,355** |
| Number of units sold | 451,557 | 457,305 | 461,935 | 469,639 | 462,037 | 453,761 | 439,551 | **436,440** |
| Housing starts | 188,751 | 193,950 | 200,299 | 209,699 | 214,422 | 214,827 | 208,402 | **190,403** |
| Seasonally adjusted housing starts | 205,000 | 200,200 | 205,500 | 229,000 | 222,900 | 197,976 | 175,191 | **199,586** |
| **Greater Toronto Area** | | | | | | | | |
| Transactional dollar volume[1] | $ 41,325 | $ 42,792 | $ 44,025 | $ 45,197 | $ 44,081 | $ 42,940 | $ 41,870 | **$ 42,129** |
| Average selling price | $ 459,693 | $ 466,352 | $ 475,838 | $ 486,422 | $ 493,291 | $ 498,364 | $ 501,844 | **$ 508,981** |
| Number of units sold | 89,897 | 91,760 | 92,522 | 92,918 | 89,361 | 86,162 | 83,432 | **82,771** |
| Housing starts | 37,485 | 39,745 | 42,053 | 43,544 | 46,596 | 49,817 | 45,830 | **41,677** |

Source: CREA
[1] ($ millions).
N/A: Not available at time of MD&A

## SUPPLEMENTAL INFORMATION – CASH FLOW FROM OPERATIONS

| | | IFRS | | | | Canadian GAAP |
|---|---|---|---|---|---|---|
| **Cash flow from operations and its utilization since Company inception** ($ 000's) | **Total** | **Six months ended June 30, 2013** | Year ended Dec. 31, 2012 | Year ended Dec. 31, 2011 | Year ended Dec. 31, 2010 | Aug. 7, 2003 to Dec. 31, 2009 |
| Royalties | **$ 318,802** | **$ 17,803** | $ 36,519 | $ 36,720 | $ 36,630 | $ 191,130 |
| Less: | | | | | | |
| Administration | **10,100** | **909** | 1,361 | 1,667 | 1,771 | 4,392 |
| Interest expense | **25,861** | **1,526** | 2,961 | 3,042 | 2,900 | 15,432 |
| Management fee | **58,299** | **3,223** | 6,772 | 6,747 | 6,713 | 34,844 |
| Cash flow from operations | **224,542** | **12,145** | 25,425 | 25,264 | 25,246 | 136,462 |
| Less: | | | | | | |
| Dividends to shareholders | **120,395** | **5,236** | 10,471 | 12,605 | 15,212 | 76,871 |
| Interest/dividends to Exchangeable unitholders/non-controlling interest | **43,444** | **2,336** | 5,272 | 4,672 | 5,337 | 25,827 |
| Total dividends | **163,839** | **7,572** | 15,743 | 17,277 | 20,549 | 102,698 |
| Cash flow from operations less total dividends | **60,703** | **4,573** | 9,682 | 7,987 | 4,697 | 33,764 |
| Less: Funding of acquisitions | **43,757** | **3,171** | 2,965 | 6,062 | 6,415 | 25,144 |
| Less: Purchase of units under NCIB | **4,096** | **–** | – | – | – | 4,096 |
| Net change in the Period | **$ 12,850** | **$ 1,402** | $ 6,717 | $ 1,925 | $ (1,718) | $ 4,524 |
| Cumulative change | **$ 12,850** | **$ 12,850** | $ 11,448 | $ 4,731 | $ 2,806 | $ 12,386 |
| Dividends percentage payout [1] | **73%** | **62%** | 62% | 68% | 81% | 75% |

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

| | | IFRS | | | | Canadian GAAP |
|---|---|---|---|---|---|---|
| **Cash flow from operations reconciled to cash flow from operating activities** ($ 000's) | **Total** | **Six months ended June 30, 2013** | Year ended Dec. 31, 2012 | Year ended Dec. 31, 2011 | Year ended Dec. 31, 2010 | Aug. 7, 2003 to Dec. 31, 2009 |
| Cash flow from operating activities | **$ 180,044** | **$ 5,621** | $ 12,946 | $ 18,588 | $ 6,100 | $ 136,789 |
| Add (deduct): | | | | | | |
| Changes in non-cash working capital items | **2,384** | **1,399** | (49) | 1,490 | (1,224) | 768 |
| Interest on Exchangeable units | **17,617** | **2,336** | 5,272 | 4,672 | 5,337 | – |
| Income taxes paid | **10,307** | **2,278** | 8,029 | – | – | – |
| Interest on Trust units | **15,212** | **–** | – | – | 15,212 | – |
| Non-cash interest expense | **(1,022)** | **511** | (773) | 514 | (179) | (1,095) |
| Cash flow from operations | **$ 224,542** | **$ 12,145** | $ 25,425 | $ 25,264 | $ 25,246 | $ 136,462 |

## SUPPLEMENTAL INFORMATION – ACQUISITIONS

| **Date acquired by the Company, January 1,**<br>($ millions unless stated otherwise) | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Purchase price | | | | | |
| Estimated | 6.74 | 2.88 | 3.48 | 5.24 | 3.44 |
| Actual (a) (d) | (a) | 2.70 | 3.34 | 5.70 | 3.31 |
| Payments | | | | | |
| Initial | 5.40 | 2.30 | 2.78 | 4.20 | 2.75 |
| Final (b) (c) (d) | (a) | 0.40 | 0.56 | 1.50 | 0.56 |
| Estimated | | | | | |
| Annual royalty stream | 1.05 | 0.49 | 0.55 | 0.89 | 0.70 |
| Number of REALTORS® | 516 | 217 | 247 | 417 | 316 |
| Number of locations | 27 | 12 | 8 | 17 | 25 |
| Number of agreements | 44 | 25 | 23 | 21 | 21 |
| Actual | | | | | |
| Annual royalty stream (b) | (d) | 0.45 | 0.52 | 0.95 | 0.66 |
| Number of REALTORS® | (d) | 217 | 231 | 417 | 316 |
| Number of locations | 27 | 12 | 8 | 17 | 25 |
| Number of agreements | 44 | 25 | 23 | 21 | 21 |

(a) To be determined at the end of the year in accordance with the MSA and appropriate purchase agreement.
(b) Audited.
(c) Purchase price obligation as at December 31.
(d) Purchase price obligation and actual values for Via Capitale are calculated over three years.