

# Leading Brands Leading Performance

# Q2



**Brookfield** Real Estate Services  
Interim Report to Unitholders Q2 2009



### **About the Brookfield Real Estate Services Fund**

The Fund is a leading provider of services to residential real estate REALTORS®. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating under the Royal LePage, La Capitale Real Estate Network and Johnston & Daniel brand names. At June 30, 2009, the Fund Network was comprised of 14,618 REALTORS®. The Fund Network has an approximate 22% share of the Canadian residential resale real estate market based on transactional dollar volume. The Fund is a TSX listed income trust, which pays monthly distributions and trades under the symbol "BRE.UN". The Fund's website address is [www.brookfieldres.com](http://www.brookfieldres.com)

### **Forward-Looking Statements**

This quarterly report contains 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 Fund to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements include a change in general economic conditions, interest rates, consumer confidence, the level of residential resale transactions, 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 Fund that reduce the number of and/or royalty revenue from the Fund'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 Fund's annual information form which is filed with securities commissions and posted on SEDAR at [www.sedar.com](http://www.sedar.com). The Fund 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.



Q2 2009 INTERIM REPORT TO UNITHOLDERS  
LETTER TO UNITHOLDERS

**Financial and Operating Highlights**

**For the three months ended June 30, 2009 and 2008**

	Q2 2009		Q2 2008	
	(thousands)	(per unit)	(thousands)	(per unit)
Royalties	\$ 8,839	\$ 0.68	\$ 9,404	\$ 0.71
Distributable cash	\$ 6,180	\$ 0.48	\$ 6,658	\$ 0.50
Net earnings	\$ 1,478	\$ 0.15	\$ 1,978	\$ 0.20
Distributions	\$ 4,556	\$ 0.35	\$ 4,150	\$ 0.31

We are pleased to report results for Brookfield Real Estate Services Fund (the "Fund") for the quarter ended June 30, 2009. Royalties for the quarter were \$8.8 million, 6.0% lower than royalties of \$9.4 million in the second quarter of 2008. Distributable cash<sup>1</sup> declined 7.2% to \$6.2 million, from \$6.7 million in the second quarter of 2008 while distributable cash per unit declined 4.0% or \$0.02 per unit to \$0.48 per unit resulting from a lower number of outstanding units due to the success of our normal course issuer bid program (NCIB). Net earnings were \$1.5 million (\$0.15 per unit) compared with \$2.0 million (\$0.20 per unit) in the second quarter of 2008.

The year-over-year decrease in royalties for the quarter was contrary to a 1.7% increase in transactional dollar volume in the Canadian residential real estate market overall, as the Fund recognizes variable fees when homes sales close, which typically is 45 to 60 days after the sales date used for Canadian market data. The improvement in the market for the quarter primarily occurred in the month of June which experienced a transactional dollar volume increase of 22.1% and 30.0% for Canadian and Greater Toronto Area markets, respectively. This improved market activity is expected to materialize as variable and premium fees in the third quarter.

The health of the Canadian residential real estate market improved considerably during the second quarter, with unit sales and average selling prices increasing slightly compared with a year ago and significantly when compared to the very poor market conditions of the previous six months. Improved affordability, driven by flat or lower home prices and inexpensive mortgage financing, has been the principle catalyst driving the increased transaction volumes. While we do not expect home prices to rise rapidly as they did earlier in the decade, we anticipate the improved market conditions represent a sustainable change and a positive development for our business.

The past year has been a very difficult one for those in the real estate business. We are pleased that the Fund's structure, which was conceived to mitigate the effects of cyclical market downturns through the high proportion (69%) of royalties which are fixed in nature, met that objective. Further, our business strategy which emphasizes REALTOR®<sup>2</sup> network growth and productivity-enhancing services which are tailored to current market conditions has helped us weather the recessionary storm.

**Six Month Results**

For the six months ended June 30, 2009, royalties were \$15.8 million, 9.5% lower than the same period a year ago, reflecting a reduction in variable, premium and other fees and services that are transaction based which more than offset the 1.5% increase in fixed franchise fees. Distributable cash decreased 11.1% to \$10.9 million (\$0.84 per unit) resulting from the lower royalties which were partially offset by a reduction in management fees. Net earnings were \$1.8 million (\$0.19 per unit), 43.6% lower than a year ago, reflecting the same factors noted above as well as an increase in amortization of intangible assets and tax expense, partially offset by a decrease in non-controlling interest.

**Fund Growth**

During the second quarter of 2009, the Fund experienced an organic net loss of 74 REALTORS® resulting in a net organic loss of 292 REALTORS® during the six months ended June 30, 2009. With the addition of 316 REALTORS® from the 21 franchise agreements acquired by the Fund on January 1, 2009, the Fund has a total increase of 24 REALTORS®, up 0.2% from December 31, 2008. At

<sup>1</sup> Defined as royalties less administrative expenses, interest expense and management fee. Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash for distribution to unitholders. Investors are cautioned that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows.

<sup>2</sup> REALTOR® is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association.

June 30, 2009, the Fund Network was comprised of 350 independently owned and operated franchises operating from 655 locations serviced by 14,618 REALTORS® with an approximate 22% share of the Canadian residential real estate market based on transactional dollar volume.

From November 1, 2008 through August 7, 2009, franchise contracts representing 12 locations serviced by an estimated 260 REALTORS® were added to the network. The Fund Manager, Brookfield Real Estate Services Limited, anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2010. In addition, consistent with the Fund's historical approach to acquisitions, after evaluation, the La Capitale agreements purchased by the Manager and still retained by the Manager for further development may be presented to the Fund's Trustees for acquisition in January of 2010.

### Monthly Cash Distribution

The Brookfield Real Estate Services Fund today declared a cash distribution of \$0.117 per unit for the month of August 2009, payable September 30, 2009, to unitholders of record on August 31, 2009.

### NCIB

On October 3, 2008, the Toronto Stock Exchange approved the Fund's notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 units outstanding as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008 to October 6, 2009. During July 2009, 167,030 units were purchased at an average price of \$8.40 which are in addition to the 168,400 units at an average price of \$8.67 per unit that were acquired during the three months ended March 31, 2009. The Fund now has purchased the maximum amount permitted under the NCIB.

### Fund Structure

The Fund generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional-dollar volume from agent sales commissions, while fixed franchise fees are based on the number of agents and sales representatives in the network. Approximately 69% of the Fund's revenue is based on fees that are fixed in nature from a large number of long-term franchisee contracts, which provide revenue stability and help insulate the Fund from market fluctuations.

### Outlook

If general economic conditions continue to show modest improvement, as we expect they will, 2009 will be characterized as a period of moderate housing market correction after several years of above average price growth. While transactional dollar volumes are expected to drop in the fall as the peak spring-summer market draws to a close, we forecast a healthy level of activity for the second half of 2009 as compared to a very weak second half of 2008. We anticipate improved markets will have a positive impact on transaction dollar volume to the benefit of the Fund. On a full-year basis, we expect house prices to remain flat or appreciate slightly in much of eastern and central Canada, while we project greater than national average price declines for the western cities that saw the greatest price inflation earlier in the decade, including Edmonton, Calgary and Vancouver. Based on a recent survey by Royal LePage, the national average house price is forecast to decline marginally by 2.0% and unit sales are projected to fall slightly, by 1.0% for the full year 2009.

We take a long-term view of residential real estate resale markets which have experienced compound annual growth of 9% since 1980. Management is pleased with the progress that our North American growth initiatives have shown in a difficult environment. We believe the steps we are taking today will position the Fund for both market share growth and the economic benefits of greater scale when overall growth resumes.



Philip Soper  
President and Chief Executive



Kevin Cash  
Chief Financial Officer

August 7, 2009

# Financial Review

## Management's Discussion and Analysis

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### Introduction

This section of our interim report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months (the "Quarter") and six months ended June 30, 2009. The MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future prospects. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2008, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Brookfield Real Estate Services Fund (the "Fund"), including our annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). All dollar amounts are in Canadian dollars unless otherwise specified.

Statements contained in this MD&A that are not historical facts are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the Fund which may affect an investment in the Fund's units. A summary of these risks is outlined in the Fund's annual information form which is filed on SEDAR at [www.sedar.com](http://www.sedar.com). Although these risks have not changed since the inception of the Fund, what is apparent is that there is an increased likelihood that certain of these risks will impact our future results. These risks are discussed in further detail in this MD&A to the extent they have changed since December 31, 2008.

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

## Highlights

(\$000's) except Agents, Sales Representatives, units and per unit amounts	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Royalties	\$ 8,839	\$ 9,404	\$ 15,836	\$ 17,496
Less:				
Administration expenses	208	215	425	405
Interest expense	798	766	1,582	1,577
Management fee	1,653	1,765	2,918	3,238
Earnings before undernoted	\$ 6,180	\$ 6,658	\$ 10,911	\$ 12,276
Amortization of intangible assets	4,167	4,035	8,308	7,931
Other income	(72)	(62)	(65)	(62)
Income tax	42	(11)	93	(46)
Non-controlling interest	565	718	739	1,194
Net and comprehensive earnings	\$ 1,478	\$ 1,978	\$ 1,836	\$ 3,259
Basic and diluted earnings per unit	\$ 0.15	\$ 0.20	\$ 0.19	\$ 0.33
Distributions	\$ 4,556	\$ 4,150	\$ 9,147	\$ 8,305
Cash distributions declared per units	\$ 0.35	\$ 0.31	\$ 0.70	\$ 0.63
Cash distributions declared per 3,327,667 Special Fund units	\$ 0.35	\$ 0.31	\$ 0.70	\$ 0.63
Total assets	\$ 127,277	\$ 137,427	\$ 127,277	\$ 137,427
Total long-term financial liabilities	\$ 1,580	\$ 51,511	\$ 1,580	\$ 51,511
Number of Agents <sup>1</sup> and Sales Representatives <sup>2</sup>	14,618	14,771	14,618	14,771

The table above sets out selected historical information and other data for the Brookfield Real Estate Services Fund (the "Fund") which should be read in conjunction with the attached consolidated financial statements for the Quarter and six months ended June 30, 2009.

## Overview

This MD&A covers the period from January 1, 2009 to June 30, 2009 and has been prepared as at August 6, 2009.

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

Management of the Fund is governed by an Amended and Restated Management Services Agreement ("MSA"). The services under the MSA are provided by Brookfield Real Estate Services Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"). The senior management team of the Manager developed and managed the Fund Network prior to the inception of the Fund. BAM, through a wholly-owned subsidiary, holds approximately 26% interest in the Fund as of the date of this MD&A. This change in ownership has occurred due to the units purchased by the Fund under the Normal Course Issuer Bid (see Normal Course Issuer Bid and Transactions with Related Parties).

As at June 30, 2009, the Fund Network was comprised of 14,618 REALTORS<sup>3</sup> operating from 655 locations. During 2008, the Fund Network had an approximate 22% share of the Canadian residential resale real estate market (the "Market"<sup>4</sup>) based on transactional dollar volume.

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> REALTOR<sup>®</sup> is defined as an individual licensed to trade in Real Estate and includes brokers, Agents and Sales Representatives.

<sup>4</sup> The market is defined as the dollar value of residential resale units sold ("Transactional Dollar Volume") over a 12-month period in a particular geographic area.

## Structure of the Fund

### Royalty Fees

The Fund generates royalties with both fixed and variable fee components. During 2008, approximately 69% of the 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® in the network, increasing Agent and broker productivity, and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

**Fixed franchise fees** are based on the number of Agents and fee paying Sales Representatives, collectively “selling-REALTORS®” in the Fund Network. Fixed franchise fees from Royal LePage franchisees consist of a monthly fixed fee of \$100 per selling-REALTOR®, a technology fee and web services and other fees while those from La Capitale franchisees consist primarily of a monthly fee of approximately \$170 per selling-REALTOR®.

**Variable franchise 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 comprised of 1% of each Agent’s gross commission income, subject to a cap of \$1,300 per year. In 2008, 20% of the Agents in the network reached the royalty cap. In addition, 24 of the Fund’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.

Approximately 87% (88% – 2008) of the Fund’s royalties during the Quarter and six months ended June 30, 2009, are derived from the combined fixed fee per REALTOR® per month, 1% variable fee and premium fees. The remaining royalty stream is generated from technology fees, the 4.5% variable fee option and web services and other fees. Other fees from La Capitale franchisees are comprised primarily of fees driven from a self-insured program called “APEC” which for all participating Agents provides home buyers a warranty on such items as appliances, plumbing, electrical and heating systems.

### Monthly Distributions

The targeted annual cash distribution for 2009 is \$1.40 per unit, to be paid monthly.

Management and the Board of Trustees periodically review the Fund’s targeted distribution.

## Recent Developments

### Franchise Agreement Acquisitions

#### Royal LePage Franchise Agreements

On January 1, 2009, the Fund acquired 18 new Royal LePage franchise agreements serviced by 230 REALTORS®, with an estimated annual royalty stream of \$0.5 million. The agreements for these 21 locations were acquired in accordance with the terms of the MSA at an estimated purchase price of \$2.5 million, with \$2.0 million (80% deposit) due on closing and the balance to be paid in cash or units during the first quarter of 2010, upon meeting certain terms and conditions of the MSA.

#### La Capitale Franchise Agreements

On January 1, 2009, the Fund acquired three franchise agreements operating under the La Capitale brand in the province of Quebec from an affiliate of the Fund Manager for an estimated purchase price of \$0.9 million. These agreements are represented by 86 REALTORS® operating from four locations with an estimated annual royalty stream of \$0.2 million. As outlined in the Fund’s MSA, 80% of the estimated acquisition price (\$0.7 million), which is subject to adjustment, was paid in January 2009. Under terms negotiated with the Fund’s Trustees, the balance of the purchase price is to be paid in annual installments over the next three years.

### Normal Course Issuer Bid (NCIB)

On October 3, 2008, the Toronto Stock Exchange approved the Fund’s notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund was permitted to purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases were made at market prices in accordance with the rules and policies of the Toronto Stock Exchange (“TSX”). Daily purchases were effected through the facilities of the TSX and were limited to 3,800 units, other than block purchase exceptions. Given market prices for the Fund units, management believed that the purchase by the Fund of a portion of its outstanding units was an appropriate use of available resources and in the best interests of the Fund and its unitholders. The Fund financed the purchases with available cash on hand. During 2008, 163,720 units were acquired at an average cost of \$7.53 per unit. During July 167,030 units were purchased at an average price

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

of \$8.40 in addition to the 168,400 units at an average price of \$8.67 per unit that were acquired during the three months ended March 31, 2009. With the units acquired in July the Fund had purchased the maximum amount permitted under the NCIB.

Units purchased were cancelled at the end of each month.

## Operations Overview

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

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

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

### Number of REALTORS® in the Fund

As at June 30, 2009, the Fund Network was comprised of 350 independently owned and operated franchises operating from 655 locations serviced by 14,618 REALTORS®, with an approximate 22% share of the Canadian residential resale real estate market based on 2008 transactional dollar volume.

During the Quarter, the Fund experienced a net organic loss of 74 REALTORS® resulting in a net organic loss of 292 REALTORS® during the six months ended June 30, 2009. Included in this organic loss are 21 and 25 REALTORS® represented by terminated franchises during the Quarter and six months ended June 30, 2009, respectively. With the addition of 316 REALTORS® from the 21 franchise agreements acquired by the Fund on January 1, 2009, the Fund has a total increase of 24 REALTORS®, up 0.2% from December 31, 2008.

### Transaction Volumes

The performance of the Fund is dependent upon the receipt of royalty revenue which, in turn, is partially dependent upon the level of residential resale real estate transactions. The residential real estate industry is affected by all of the factors affecting the economy in general, including changes in interest rates, unemployment and inflation.

During the Quarter, the Canadian Market began to show signs of stabilizing with unit sales and average selling price increasing slightly as compared to the same period in 2008. Although these increases were negligible, they represent a significant turnaround from the rates of decline experienced in the fourth quarter of 2008 as well as in the first three months of 2009.

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

- Canada's annual rate of housing starts, the market's future inventory, totalled 164,929 as of June 30, 2009, a decrease of 27.9% from the same period in 2008.
- The Canadian Market totalled \$121.8 billion for the 12 months ended June 30, 2009, a decrease of 19.5% from the same period ending in 2008, consisting of a 4.3% decrease in average selling price of a home to \$299,265 and a 15.8% decrease in residential unit sales to 406,934 units. When compared to the three months ended June 30, 2008 the Canadian Market for the Quarter increased 1.7%.
- The GTA Market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of \$27.4 billion for the 12 months ended June 30, 2009, a 19.3% decrease from the same period ending in 2008. This market activity is comprised of the sale of 72,900 homes at an average selling price of \$375,698, a 17.2% and 2.5% decrease, respectively, from the same period in 2008. When compared to the three months ended June 30, 2008 the GTA real estate resale market for the Quarter increased 4.5%.

### **Stability of the Fund's Royalty Stream**

The Fund's network as at June 30, 2009 is comprised of the Royal LePage and the La Capitale networks. The Royal LePage network is characterized as follows:

- Royalties are derived from a diverse national network of independently owned and operated franchises, the majority of which operate with fewer than 50 Agents.
- A significant portion of the Royalties are fixed in nature based on the number of Agents and their productivity, which through the combination of the \$100 per agent per month fee and the 1% variable fee generated by Agents earning in excess of the \$1,300 per annum cap contributed approximately 69% of the Fund's revenue for the year ended December 31, 2008.
- The geographic distribution of the Royal LePage Network is similar to the distribution of the overall Canadian REALTOR® population.
- Royalty agreements are 10, 15 and 20 years in duration, significantly exceeding the industry norm of five-years.
- During the Quarter, nine agreements representing 771 REALTORS® were renewed and three agreements representing 21 REALTORS® were terminated. For the six months ended June 30, 2009, 22 agreements representing 1,307 REALTORS® were renewed and six agreements representing 25 REALTORS® were terminated.

The La Capitale royalties are characterized as follows:

- The La Capitale network is situated in the province of Quebec.
- La Capitale agreements typically have five-year terms.
- Approximately 74% of the royalties are fixed in nature.
- The fixed element of the royalties is comprised primarily of a fixed fee of approximately \$170 per agent per month while the other fees are driven primarily from a self-insured program called "APEC" under which participating Agents provide a warranty on such items as appliances, plumbing, electrical and heating systems.
- During the Quarter, there were no renewals or terminations.

Overall approximately 69% of the Fund's revenue is fixed in nature.

### **Fund Growth Opportunities**

Our growth objective for 2009 is to offset an anticipated increase in REALTOR® attrition with focused recruiting and franchise acquisition efforts.

Growth through acquisition is achieved through the purchase of franchise agreements acquired by the Manager's dedicated network development team. While it has been and may continue to be a difficult year for real estate practitioners, we believe that a strong company such as ours may uncover new acquisition opportunities as weaker firms seek affiliation with an organization that is able to provide differentiating services to their agents.

Growth in overall royalties is achieved by: increasing the number of REALTORS® in the Fund; increasing the productivity of Agents; expanding the range of products and services supporting the franchisees and Agents; increasing adoption of these products and services; and providing sales and marketing programs to the Fund Network. These services are supported by ongoing training programs for franchisees and REALTORS® that assist in leveraging the Fund's competitive advantages to attract and retain potential recruits. A summary of our results against our growth initiatives to the date of this MD&A is as follows:

- Organic change for the Quarter and six months ended June 30, 2009 reflected a loss of 74 and 292 REALTORS®, respectively.
- On January 1, 2009, franchise agreements representing 21 locations serviced by an estimated 230 Agents operating under the Royal LePage brand were purchased by the Fund. The estimated purchase price of these agreements is \$2.5 million.
- Consistent with the Fund's historical approach to acquisitions made by the Fund Manager, after evaluation, some of the La Capitale contracts were acquired by the Fund on January 1, 2008, and the remainder were retained by the Manager for future development. On January 1, 2009, four La Capitale locations serviced by 86 Agents were purchased by the Fund for an estimated purchase price of \$0.9 million.
- From November 1, 2008 to August 6, 2009, franchise contracts representing 12 locations serviced by an estimated 260 REALTORS® were added to the network. The Fund Manager anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2010.
- The Manager continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining REALTORS®, increasing their productivity and driving down administration costs.

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

## The Canadian Residential Resale Real Estate Market

Since 1980, the Canadian Market has grown at a compound annual growth rate ("CAGR") of 9%. The Canadian Market has been very resilient with only two significant downturns occurring prior to 2008, in 1990 and 1995, both of which returned to pre-downturn levels within 24 months. The duration of these Market downturns were 13 months and 14 months, respectively, with decreases of 26% and 21%, respectively. The Market declined 19% during the 16-month period February 2008 through May 2009.

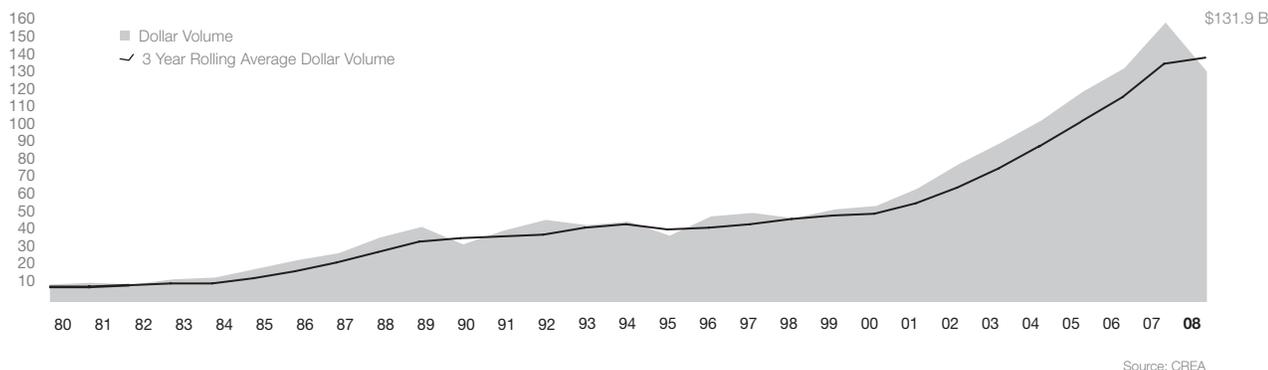
During this recent downturn, the most significant decline occurred during the fourth quarter of 2008 when the Market decreased 40% compared to the fourth quarter of 2007. The rate of decline moderated in the first quarter of 2009 to a decline of 33% over the same period in 2008. In fact, the rate of decline moderated in each successive month from January to May and the Quarter ended with an increase in the Market of 22% in June compared to June 2008. Although it is difficult to call an end to the Market downturn based on one month of positive activity, the market has been showing signs of progressive stabilization since the beginning of the year.

During the 1990 downturn, interest rates were relatively high and there was significant speculation in the form of building and multiple home ownership. Since that time, lenders now require builders to pre-sell a significant portion of their developments before advancing funds. Market activity since 1980 is provided in the chart below.

## The Canadian Real Estate REALTOR® Population

### Market Dollar Volume – Canadian Resale Residential Real Estate

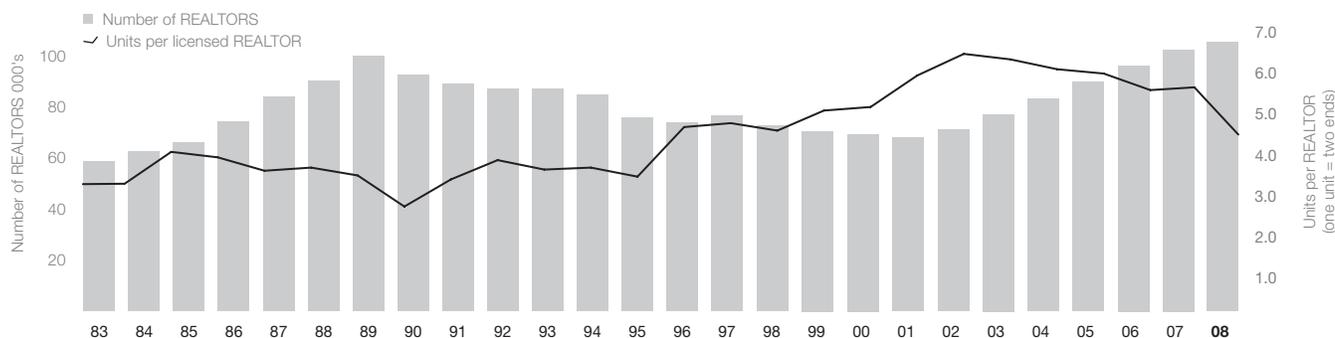
(1980 – 2008) (In \$ Billions)



The number of REALTORS® in the Fund Network is a key driver of the Fund's results. For the year ended December 31, 2008, the Canadian real estate REALTOR® membership grew by 2.8% to 97,168 members with an average of 4.5 units sold per REALTOR. The number of REALTORS® in the Fund Network grew by 10.8% over the same period. The Canadian REALTOR® population and the average number of units sold per REALTOR® are summarized in the chart below.

## Canadian Real Estate REALTORS®

(Year ended December 31)



## The Fund Network

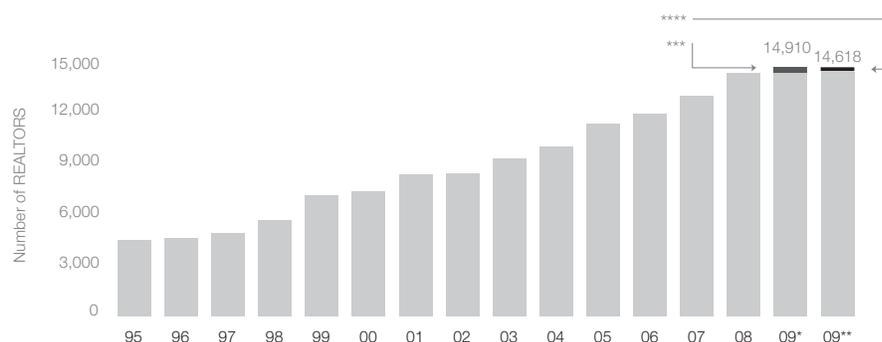
### REALTOR® Growth

As at June 30, 2009, the Fund Network was comprised of 350 independently owned and operated franchises operating from 655 locations serviced by 14,618 REALTORS®.

During the Quarter, the Fund Network decreased by 74 REALTORS® or 0.5% from December 31, 2008. This is in addition to the net organic decline of 218 REALTORS® during the first three months of 2009 for a six month net organic decline of 292 REALTORS®. With the addition of 316 REALTORS® from the 21 franchise agreements acquired by the Fund on January 1, 2009, the Fund had a net increase of 24 REALTORS®, up 0.2% from December 31, 2008.

During 2008, the number of REALTORS® in the Fund Network grew by 10.8% or 1,422 REALTORS® to 14,594. This gain in REALTORS® was obtained through the acquisition of agreements on January 1, 2008 representing 1,272 REALTORS® and the addition of 150 through organic growth. Industry wide, by comparison, CREA reported that the number of REALTORS® in Canada grew by 2.8%.

### Fund Growth



Year ended December 31, except 2009.

\* As at January 1, 2009.

\*\* As at June 30, 2009.

\*\*\* 316 REALTOR® growth of 2.2% consisting of 230 from the Royal LePage brand and 86 from the La Capitale brand.

\*\*\*\* Loss of 292 REALTORS®.

A summary of the Canadian and Fund's growth in REALTORS® during 2008 and 2009 follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
<b>Opening</b>	<b>94,506</b>	<b>6.3</b>	<b>13,172</b>	<b>8.4</b>
2008 Q1	1,728	1.8	1,418	10.8
2008 Q2	1,838	2.0	181	1.3
2008 Q3	387	0.4	(5)	0.0
2008 Q4	(1,291)	(1.4)	(172)	(1.3)
<b>Opening</b>	<b>97,168</b>	<b>2.8</b>	<b>14,594</b>	<b>10.8</b>
2009 Q1	(815)	(0.8)	98	0.7
2009 Q2	N/A		(74)	(0.5)
<b>Closing</b>	<b>96,353</b>	<b>(0.8)</b>	<b>14,618</b>	<b>0.2</b>

\* Source: CREA

N/A: Not available at time of MD&A.

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

## Network Diversity

The Fund Network is comprised of diverse operations with approximately 74% of the Fund's franchisees operating with fewer than 50 REALTORS® as at December 31, 2008. As summarized in the table below, the Fund Network of REALTORS® is geographically diverse, with REALTORS® spread throughout Canada with a more pronounced presence in the province of Quebec as a result of the acquisition of the La Capitale franchise network.

	Canadian <sup>1</sup> REALTOR® Population	Fund <sup>2</sup> Network REALTORS®
Ontario	51%	52%
Prairies	13%	10%
BC	18%	13%
Quebec	14%	21%
Maritimes	4%	4%
Total	100%	100%

<sup>1</sup> As at March 31, 2009, Source: CREA.

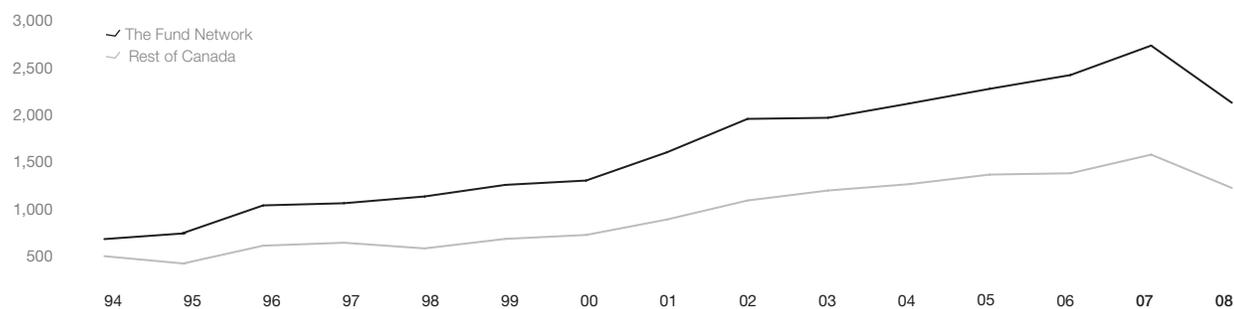
<sup>2</sup> As at June 30, 2009.

## REALTOR® Productivity

The average Fund Network REALTOR® generated approximately \$2.12 million in transactional dollar volume in 2008, down 22% from \$2.70 million in 2007. This productivity was 69% greater than the estimated average of \$1.25 million for all other Canadian REALTORS®, down 21% from 2007. Management believes the higher productivity of Fund Network REALTORS® makes the Fund less prone than the industry at large to losing its REALTORS® during a period of reduced transaction dollar volume. A summary of average transaction dollar volume per REALTOR® for the year ended December 31, 1994 through 2008 is as follows:

### Canadian Residential Real Estate Resale Market

(Average Transaction Dollar Volume Per REALTOR®, \$ thousands)



Source: CREA and Fund Management

## Operating Results

Six months ended June 30

(\$000's) except Agents, unit and per unit amounts

	2009	2008
Royalties		
Fixed franchise fees	\$ 8,912	\$ 8,776
Variable franchise fees	3,506	4,549
Premium franchise fees	1,340	1,999
Other fee revenue and services	2,078	2,172
	<b>15,836</b>	17,496
Less:		
Administration expenses	425	405
Interest expense	1,582	1,577
Management fee	2,918	3,238
Earnings before undernoted	10,911	12,276
Amortization of intangible assets	8,308	7,931
Other loss	(65)	(62)
Income tax	93	(46)
Net and comprehensive earnings before non-controlling interest	2,575	4,453
Non-controlling interest	739	1,194
Net and comprehensive earnings	\$ 1,836	\$ 3,259
Basic and diluted earnings per unit	\$ 0.19	\$ 0.33
Number of Agents	13,615	13,715
Number of fixed fee paying Sales Representatives	697	740

As summarized in the table above, during the six months ended June 30, 2009, the Fund generated net and comprehensive earnings before non-controlling interest of \$2.6 million, down \$1.9 million from the same period in 2008. The year-over-year results included a \$1.7 million (9.5%) decrease in royalties primarily attributed to a 26% decline in combined variable and premium franchise fees in relation to the market slowdown. A more detailed discussion of these results is provided below.

**The Fund Network** as at June 30, 2009, was comprised of 13,615 Agents and 1,003 Sales Representatives (697 Sales Representatives operating under the \$100 per month fixed fee plan and 306 Sales Representatives who are primarily brokers and managers who do not pay fees), with 13,434 of the Agents operating under the 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, and 181 Agents operating under the 4.5% variable fee option (the "4.5% option").

**Royalties** for the six months ended June 30, 2009, totalled \$15.8 million, down 9.5% from the same period in 2008.

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

Fixed, variable and premium franchise fees together represented 87% of royalties for the six months ended June 30, 2009, compared with the 88% during the same period in 2008.

Fixed franchise fees for the six months ended June 30, 2009 increased 1.5% over the same period in 2008 and reflect the higher agent count in the first quarter of 2009 compared to the same period of 2008. The fixed franchise fees were relatively unchanged in the Quarter from the same period in 2008 as the increased fees obtained through franchise contracts acquired at the beginning of the year were offset by REALTOR® attrition.

Variable franchise fees for the six months ended June 30, 2009 decreased by 22.9% from the same period in 2008 while the Canadian Market activity decreased 12.8%. These unfavourable results relative to the Market can be primarily attributed to the lag between home sales and closings.

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

A lag between variable fees recorded by the Fund and Market activity occurs as Market activity is reported when a home is sold, while the Fund does not record variable fees associated with the home sales until it closes, which is typically 45 to 60 days later. This lag created a spillover effect in the first half of 2009 as some of the 40.5% year-over-year decline in Market activity during the quarter ended December 31, 2008 and the 33.3% year-over-year decline in Market activity during the first three months of 2009 adversely impact variable fees.

The Market improved 1.7% in the Quarter primarily due to June transactional dollar volume which increased 22.1% year-over-year. A significant portion of this improved market activity in the month should materialize as variable fees in the third quarter.

Premium franchise fees are derived from the 24 franchise locations servicing the GTA market that pay premium fees ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the six months ended June 30, 2009 decreased 33.0% from the same period in 2008, while the GTA market activity for the same period experienced a 9.1% decrease. The unfavourable results relative to the GTA market for the first half of 2009 can be attributed to the Market in the fourth quarter of 2008 which was down 47.8% year-over-year as well as the 33.3% year-over-year decline in Market activity during the first three months of 2009 which materialized as lower premium fees.

The decrease in the market during for the first six months of the year was very pronounced in the earlier months and moderated in each subsequent month until June which experienced 30.0% year-over-year increase. A significant portion of this improved market activity in the month of June should materialize as premium fees in the third quarter.

As well, the percentage change in year-over-year premium fees is not entirely comparable to the overall GTA market change, as the change in the market activity experienced by the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity. As mentioned earlier, the lag effect and the increased market activity during the latter part of the Quarter is expected to result in relatively higher premium fees in the third quarter of 2009 due to the timing associated with the reported home sale market activity and the recording of actual premium fee by the Fund.

Other fees and services comprised of the APEC fee, technology fees, 4.5% option, web service plus other fees and revenue accounted for approximately 13% (12% – 2008) of Fund royalties for the six months ended June 30, 2009, decreased 4.3% from the same period in 2008. This decline was due primarily to the decrease in the 4.5% variable fee, resulting from slowing market activity, the conversion of some offices to the \$100/1% fee option and reduction in interest revenue resulting from the decrease in cash used for the NCIB.

**Administration expenses** of \$0.4 million for the six months ended June 30, 2009 were in line with management's expectations.

**Interest expense** is comprised primarily of interest on the Fund's \$38 million private debt placement from 2005 and the \$15 million credit facility. During the six months ended June 30, 2009, the Fund's interest expense totalled \$1.6 million, consistent with the same period in 2008. Total interest expense included \$0.2 million in non-cash charges as a result of the amortization of the financing charges incurred. The \$2 million operating line has remained undrawn since the inception of the Fund.

## **Management Fee Expense**

Management fees of \$2.9 million for the six months ended June 30, 2009 were down 9.9% from the same period of 2008. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the La Capitale franchise agreements and the 20% of the balance of royalties less administrative and interest costs.

### **Amortization of Intangible Assets**

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

### **Income Tax**

In accordance with new tax legislation, during the six months ended June 30, 2009, the Fund has recorded an income tax expense of \$93 thousand arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rate of 30.5%, applicable to the Fund in 2011 and 29% applicable thereafter (see Impact on Taxation of Income Trusts).

**Non-controlling interest (“NCI”)** of \$0.7 million represents the NCI's approximate 26% interest in the Fund's underlying operations.

### **Distributable Cash**

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

Distributable cash does not have a standardized meaning under GAAP and accordingly may not be comparable to similar measures used by other issuers. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the following chart for a reconciliation of distributable cash to the comparable GAAP measure in the Fund's financial statements).

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

<b>Distributable cash and its utilization since Fund inception</b>		Six months ended June 30, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
(\$000's)	<b>Total</b>							
Royalties	<b>\$172,607</b>	\$ 15,836	\$ 34,883	\$ 32,491	\$ 29,659	\$ 27,196	\$ 23,740	\$ 8,802
Less/(add):								
Administration expenses	<b>3,951</b>	425	817	725	645	595	513	231
Interest expense	<b>13,812</b>	1,582	3,174	2,419	2,401	2,289	1,327	620
Management fee	<b>31,397</b>	2,918	6,455	5,869	7,285	3,660	3,660	1,550
Distributable cash	<b>123,447</b>	10,911	24,437	23,478	19,328	20,652	18,240	6,401
Less:								
Distributions to public unitholders	<b>69,854</b>	6,811	13,083	11,980	11,477	10,985	10,985	4,533
Distributions to non-controlling interest	<b>23,358</b>	2,336	4,369	3,992	3,826	3,662	3,662	1,511
Total distributions	<b>93,212</b>	9,147	17,452	15,972	15,303	14,647	14,647	6,044
Distributable cash less total distributions	<b>30,235</b>	1,764	6,985	7,506	4,025	6,005	3,593	357
Less funding of acquisitions	<b>25,144</b>	4,827	5,564	6,333	7,886	414	120	–
Less purchase of units under NCIB	<b>2,692</b>	2,401	291	–	–	–	–	–
Net change in the period	<b>\$ 2,399</b>	\$ (5,464)	\$ 1,130	\$ 1,173	\$ (3,861)	\$ 5,591	\$ 3,473	\$ 357
Cumulative change		\$ 2,399	\$ 7,863	\$ 6,733	\$ 5,560	\$ 9,421	\$ 3,830	\$ 357
Distribution percentage payout <sup>1</sup>	<b>76%</b>	84%	71%	68%	79%	71%	80%	94%

<sup>1</sup> This represents the Total distributions paid as a percentage of Distributable cash.

<b>Distributable cash Reconciled to cash flow from operating activities</b>		Six months ended June 30, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
(\$000's)	<b>Total</b>							
Cash flows from operating activities	<b>\$121,492</b>	\$ 10,413	\$ 24,174	\$ 22,871	\$ 20,199	\$ 20,607	\$ 17,772	\$ 5,456
Add (deduct):								
Changes in non-cash working capital items	<b>2,873</b>	665	546	769	(703)	183	468	945
Non-cash interest expense	<b>(918)</b>	(167)	(283)	(162)	(168)	(138)	–	–
Distributable cash	<b>\$123,447</b>	\$ 10,911	\$ 24,437	\$ 23,478	\$ 19,328	\$ 20,652	\$ 18,240	\$ 6,401

For the six months ended June 30, 2009, the Fund generated distributable cash of \$10.9 million, down \$1.4 million (11.4%) from the same period in 2008. This decrease in distributable cash was primarily due to decreased royalties from variable and premium franchise fees, partially offset by a decrease in management fees.

From inception of the Fund to December 31, 2005, the Fund had accumulated and retained undistributed cash of \$9.4 million, which in the event of the release of this cash would result in a 20% management fee payable to the Manager of \$1.9 million. During 2006, the Fund released the \$9.4 million cash, a portion of which was used to fund the 2005 and 2006 franchise agreements purchase obligations. In addition, the Board of Trustees removed the requirement to retain distributable cash for purposes of the management fee calculation due to the Fund's demonstrated track record of generating distributable cash in excess of its targeted annual distributions. As a result of these two events, the \$1.9 million management fee described above was earned and paid during the first quarter of 2006. The management fee continues to be recorded on a "total" basis (see Summary of Quarterly Results for discussion of "total" basis). The Board of Trustees reserves the right to retain cash for working capital requirements.

From inception to June 30, 2009 the Fund has utilized distributable cash in excess of distributions to fund acquisitions and the normal course issuer bid obligations.

A summary of the main elements of the Fund's performance that assist in the assessment of the sustainability of the Fund's cash distributions is presented in the table below:

(\$000's)	<b>Three months ended June 30, 2009</b>	Three months ended June 30, 2008	<b>Six months ended June 30, 2009</b>	Six months ended June 30, 2008
Cash flows from operating activities	<b>\$ 5,391</b>	\$ 6,324	<b>\$ 10,413</b>	\$ 11,592
Net income for the period	<b>1,478</b>	1,978	<b>1,836</b>	3,259
Actual cash distributions paid	<b>3,388</b>	3,114	<b>6,811</b>	6,229
Excess of cash flows from operating activities over cash distributions paid	<b>2,003</b>	3,210	<b>3,602</b>	5,363
Shortfall of net income over cash distributions paid	<b>\$ (1,910)</b>	\$ (1,136)	<b>\$ (4,975)</b>	\$ (2,970)

The Fund's cash distributions to unitholders are fully funded by cash flow generated from operations. The Fund has consistently distributed cash in excess of net income to unitholders as a significant portion of the Fund's operating expenses are comprised of the non-cash amortization of intangible assets consisting of franchise agreements, relationships and trademarks. The distribution of this excess is not viewed by management 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 Fund lie in part with management's ability to retain and renew the underlying franchise agreements and ensure the ongoing integrity of the trademarks. The Fund has not distributed all of the cash flow generated from operations to unitholders as cash distributions, as the cash generated in excess of these amounts as summarized in the table above (see table – Distributable cash and its utilization since Fund inception), has been utilized to fund the acquisition of franchise agreements, pay distributions to the non-controlling interest and fund the purchase of units under the NCIB. It is management's expectation, at the discretion of the Board of Trustees, that for the foreseeable future cash distributions to unitholders will continue and the remaining cash flow will be utilized to fund acquisitions, and pay distributions to the non-controlling interest.

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

## Acquisitions and Deposit on Acquisitions

Under terms of the MSA, the Fund is permitted to acquire franchise agreements, approved by independent trustees of the Fund, from the Manager on January 1 of each year. The purchase price is estimated at the time of purchase and finalized at a future date in accordance with the terms of the MSA.

For Royal LePage acquisitions, the purchase price is based on the actual royalties generated under the agreements during the year ending on October 31 of the year of acquisition.

La Capitale acquisitions are subject to a three-year price determination period. In the first year, the initial estimate is adjusted in the manner described for Royal LePage acquisitions. In each of the subsequent two years, the purchase price is adjusted based on the average annual royalties generated under the agreements.

Audits are conducted annually to verify the royalty amounts used in all purchase price calculations.

The initial payment made at the time of acquisition, representing 80% of the estimated purchase price, is recorded as a deposit on acquisition. During the twelve months following the initial payment, at each quarter end, the purchase price obligation is recalculated based on the actual royalties generated from these agreements and the resultant amount is transferred from the deposit on acquisition to intangible assets. The increase in intangible assets is amortized in accordance with the Fund's intangible assets policy. When the accumulated purchase price obligation for the acquisition exceeds the initial deposit, the excess is recorded as a purchase obligation with the corresponding amount being recorded as intangible assets and amortization as previously described.

For La Capitale acquisitions, changes to the purchase price obligation calculated at the end of the two subsequent years are recorded as changes to intangible assets and amortized accordingly.

<b>Date acquired by the Fund, January 1</b> (\$ millions unless stated otherwise)	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Purchase price					
Estimated	3.44	21.14	7.18	6.22	9.26
Actual (a) (d)	(a)	23.20	8.04	5.55	9.94
Payments					
Initial	2.75	16.91	5.74	4.98	7.05
Final (b) (c) (d)	(a)	2.67	2.30	0.57	2.89
Estimated					
Annual royalty stream	0.70	2.99	0.82	0.74	1.15
Number of REALTORS®	316	1,272	390	346	558
Number of locations	25	60	22	21	47
Number of contracts	21	60	22	16	38
Actual					
Annual royalty stream (b)	(d)	3.21	0.92	0.66	1.24
Number of REALTORS®	(d)	1,502	534	345	666
Number of locations	25	60	22	21	46
Number of contracts	21	60	22	16	37

(a) To be determined at the end of the year in accordance with the appropriate purchase agreement.

(b) Audited.

(c) Purchase price obligation as at December 31.

(d) Purchase price obligation and actual values for La Capitale are calculated over three years.

### **Royal LePage Franchise Agreements**

On January 1, 2009, the Fund acquired 18 new Royal LePage franchise agreements serviced by 230 REALTORS<sup>®</sup>, with an estimated annual royalty stream of \$0.5 million. The agreements for these 21 locations were acquired in accordance with the terms of the MSA at an estimated purchase price of \$2.5 million, with \$2.0 million (80% deposit) due on closing and the balance to be paid in cash or units during the first quarter of 2010, upon meeting certain terms and conditions of the MSA.

### **La Capitale Franchise Agreements**

On January 1, 2009, the Fund acquired three franchise agreements operating under the La Capitale brand in the province of Quebec from an affiliate of the Fund Manager for an estimated purchase price of \$0.9 million. These agreements are represented by 86 REALTORS<sup>®</sup> operating from four locations with an estimated annual royalty stream of \$0.2 million. As outlined in the Fund's MSA, 80% of the estimated acquisition price (\$0.7 million), which is subject to adjustment, was paid in January 2009. Under terms negotiated with the Fund's Trustees, the balance of the purchase price is to be paid in annual installments over the next three years.

### **Debt Financing**

In 2005, the Fund increased its debt to meet its franchise agreement purchase obligations and moved from a floating interest rate position to a fixed interest rate position. Accordingly, on February 18, 2005, the Fund completed a \$38 million private debt placement with a number of Canadian institutional investors for a five-year term with interest fixed at 5.882%, payable quarterly in arrears. The full amount of the debt is due upon maturity on February 17, 2010.

The Fund 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. On March 6, 2009, the operating line was renewed to February 17, 2010.

On April 4, 2008, the Fund completed a \$15 million term facility with a Canadian financial institution and with effect from April 7, 2008 entered into an interest rate swap agreement which fixed the variable portion of the term facility's interest at 3.29% for a total annual interest rate of 4.29% over the term of the facility (before legal and associated costs). On closing, the Fund drew down \$14 million, and on April 2, 2009 the Fund drew down the remaining \$1 million of the term facility to fund the obligations arising from the January 1, 2008 acquisitions. This term facility matures on February 17, 2010, the same date as the \$38 million private debt placement. Management has initiated the process for the refinancing of the Fund's debt obligations.

The interest rate swap is a financial derivative valued separately from the term facility. The Fund values the swap agreement at its market value. Changes in the value of the swap agreement are recorded as other income or loss.

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

## Summary of Quarterly Results

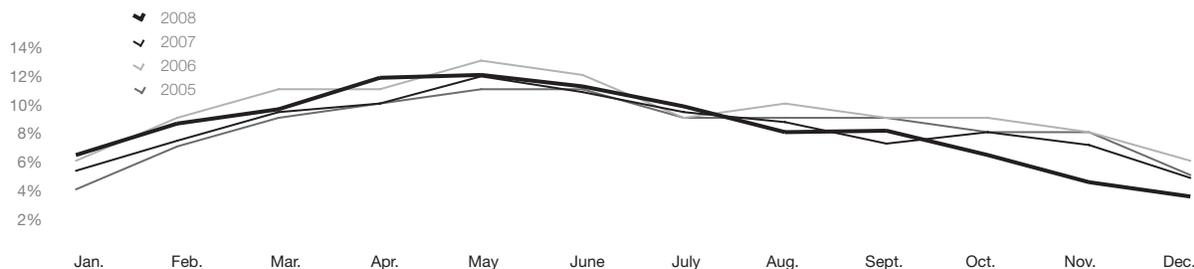
Three months ended	2009				2008			2007
(\$'000's) except Agents, unit and per unit amounts	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Royalties								
Fixed franchise fees	\$ 4,445	\$ 4,467	\$ 4,491	\$ 4,431	\$ 4,440	\$ 4,336	\$ 3,788	\$ 3,749
Variable franchise fees	2,312	1,194	1,243	2,499	2,628	1,921	1,315	2,661
Premium franchise fees	920	420	937	1,514	1,106	893	1,348	1,899
Other fee revenue and services	1,162	916	1,069	1,203	1,230	942	997	986
	<b>8,839</b>	6,997	7,740	9,647	9,404	8,092	7,448	9,295
Less:								
Administration expenses	208	217	224	188	215	190	192	184
Interest expense	798	784	794	803	766	811	606	606
Management fee	1,653	1,265	1,412	1,805	1,765	1,473	1,330	1,700
Earnings before undernoted	<b>6,180</b>	4,731	5,310	6,851	6,658	5,618	5,320	6,805
Amortization of intangible assets	4,167	4,141	4,658	4,297	4,035	3,896	3,746	3,723
Other loss (income)	(72)	7	335	92	(62)	–	–	–
Future income tax expense/(recovery)	42	51	(1)	(1)	(11)	(35)	293	(11)
Net and comprehensive earnings before non-controlling interest	<b>2,043</b>	532	318	2,463	2,696	1,757	1,281	3,093
Non-controlling interest	565	174	118	652	718	476	364	811
Net and comprehensive earnings	<b>\$ 1,478</b>	\$ 358	\$ 200	\$ 1,811	\$ 1,978	\$ 1,281	\$ 917	\$ 2,282
Basic and diluted earnings per unit	<b>\$ 0.15</b>	\$ 0.04	\$ 0.02	\$ 0.18	\$ 0.20	\$ 0.13	\$ 0.09	\$ 0.23
Number of Agents	<b>38,615</b>	13,696	13,600	13,732	13,715	13,551	12,201	12,117
Number of fixed fee paying Sales Representatives	<b>697</b>	699	699	729	740	728	735	716

With the exception of the results for the last two quarters, revenues increased in each quarter year over year due to a number of factors such as organic Agent growth, Agent productivity, and the acquisition of franchise agreements on January 1 of each year. Revenues in the Quarter and three months ended March 31, 2009 decreased year-over-year due to Market declines which impacted variable and premium fees.

The Fund's royalty revenues are affected by the seasonality of the Canadian Market which typically has stronger second and third quarters as summarized in the chart below. The seasonality of this market is mitigated by the timing of certain factors such as: the factors noted above, the significant fixed element of the Fund's Agent count-based fees and the fixed element of variable Royal LePage franchise fees resulting from the \$1,300 per annum capping feature described earlier.

## Canadian Residential Resale Real Estate Market

(% Transactional Dollar Volume by Month)



Source: CREA and Fund Management

A key statistic management utilizes to monitor Fund performance is the rolling 12-month distributable cash per unit, adjusted for management fees on a "total" basis. As noted on the table below, distributable cash calculated on this basis had been steadily increasing each quarter until leveling off in the fourth quarter of 2008 and subsequently declined 3.3% in the first quarter followed by a 1.1% decline in the Quarter.

### Adjusted<sup>1</sup> rolling twelve-month distributable cash

Twelve months ended	2009				2008			2007
(\$'000's) except per unit amounts	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Royalties	\$ 33,223	\$ 33,788	\$ 34,883	\$ 34,591	\$ 34,239	\$ 33,673	\$ 32,491	\$ 31,808
Less:								
Administration expenses	837	844	817	785	781	741	725	665
Interest expense	3,179	3,147	3,174	2,986	2,789	2,638	2,419	2,419
Adjusted Management fee <sup>1</sup>	6,135	6,247	6,455	6,373	6,268	6,113	5,869	5,745
	<b>23,072</b>	<b>23,550</b>	<b>24,437</b>	<b>24,447</b>	<b>24,401</b>	<b>24,181</b>	<b>23,478</b>	<b>22,979</b>
Adjusted Distributable cash per unit – total basis	\$ 1.76	\$ 1.78	\$ 1.84	\$ 1.84	\$ 1.83	\$ 1.82	\$ 1.76	\$ 1.73

### Adjusted<sup>1</sup> rolling twelve-month distributable cash Reconciled to cash flows from operating activities

Twelve months ended	2009				2008			2007
(\$'000's) except per unit amounts	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Cash flows from operating activities	\$ 22,996	\$ 23,928	\$ 24,174	\$ 23,539	\$ 24,744	\$ 24,335	\$ 22,871	\$ 23,998
Add (deduct):								
Changes in non-cash working capital items	414	(56)	546	1,149	(149)	12	769	(856)
Non-cash interest expense	(338)	(322)	(283)	(241)	(194)	(166)	(162)	(162)
	<b>23,072</b>	<b>23,550</b>	<b>24,437</b>	<b>24,447</b>	<b>24,401</b>	<b>24,181</b>	<b>23,478</b>	<b>22,979</b>
Adjusted Distributable cash per unit – total basis	\$ 1.76	\$ 1.78	\$ 1.84	\$ 1.84	\$ 1.83	\$ 1.82	\$ 1.76	\$ 1.73

<sup>1</sup> Above adjusted for management fees calculated before Reserve requirements.

A "total" basis refers to the calculation of the management fee as per the MSA before Reserves for working capital requirements.

Prior to 2005, a Reserve was deducted for the purposes of the management fee calculation.

This Reserve requirement was removed and the accumulated management fee was paid in the first quarter of 2006.

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

## SECOND QUARTER REVIEW

As summarized in the chart provided in the Summary of Quarterly Results, during the Quarter ended June 30, 2009, the Fund generated net and comprehensive earnings before non-controlling interest ("NCENCI") of \$2.0 million, down \$0.7 million (24.2%) from the same period of 2008 due primarily to the \$0.6 million decline in royalties. A more detailed discussion of these factors is provided below.

### The Fund Network

During the Quarter, the Fund experienced a net decline of 74 REALTORS®.

**Royalties** for the Quarter of \$8.8 million were down 6.0% from the same period in 2008. Both the overall Canadian Residential Real Estate Market and the Greater Toronto Area real estate Market experienced modest year-over-year growth during the Quarter however, it began with year-over-year declines in April, stabilized in May and experienced a substantial surge in growth during the month of June. The increase in market activity for the Quarter did not translate into an increase in the Fund's fees due to the timing of the earning of variable and premium fees as these fees are paid to the Fund after the sales transaction closes. There is typically a 45 to 60-day delay between a home sale and closing, as a result, some of the market activity during the Quarter is expected to materialize as variable fees during the quarter ending September 30, 2009. Combined, fixed franchise fees, variable franchise fees and premium franchise fees represented 87% of royalties for the Quarter, consistent with the same period in 2008.

*Fixed franchise fees* for the Quarter were relatively unchanged compared to the same period in 2008 as increased fees obtained through franchise contracts acquired at the beginning of the year were offset by REALTOR® attrition.

*Variable franchise fees* for the Quarter decreased 12.0% from the same period in 2008 while the related market activity increased by 1.7%. The quarter began with year-over-year declines in April, stabilized in May and experienced a substantial 22.1% increase in June. As the increase in the market activity occurred in June, a significant portion of this activity should materialize as variable fees in the third quarter. In addition, since the 1% variable fee generated by Agents is capped at \$1,300 per annum, a market change experienced by that many Agents with sales well above the capped level will have a less than proportionate impact on variable franchise fees.

*Premium franchise fees* for the Quarter were down 16.8% from the same period in 2008 despite a 4.5% increase in the GTA Market. This increase in the GTA Market for the Quarter consisted of a 11.5% year-over-year decline in April followed by a 1.2% increase in May and a 30.0% increase in June. As the most significant increase in the market activity occurred in June, a considerable part of this activity should materialize as premium fees in the third quarter. The percentage decrease in year-over-year premium fees is not comparable to the overall GTA market increase, as the market decline experienced in the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity. In addition, there is typically a 45 to 60-day delay between a home sale and closing, as such, some of the increased market activity during the Quarter is expected to materialize as higher premium fees in the quarter ending September 30, 2009.

*Other fees and services* comprised of the APEC fee, technology fees, 4.5% option, web service plus other fees and revenue accounted for approximately 13% (13% – 2008) of Fund royalties for the Quarter, decreased 5.5% from the same period in 2008. This decline was due primarily to the decrease in the 4.5% variable fee, resulting from slowing market activity and the conversion of some offices to the \$100/1% fee option and reduction in interest revenue resulting from the decrease in cash used for the NCIB.

**Administration expenses** for the Quarter were in line with management's expectations.

**Interest expense** for the Quarter of \$0.8 million was in line with the underlying debt agreements.

**Management fee expense** of \$1.7 million for the Quarter was in line with the Fund's royalties. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the La Capitale franchise agreements and the 20% of the balance of royalties less administrative and interest costs.

**Amortization of intangible assets** of \$4.2 million increased \$0.1 million over the comparative amount in 2008 in line with the additional amortization associated with the franchise agreements acquired on January 1, 2009.

**Income tax expense** of \$42 thousand was recorded in the Quarter.

**Non-controlling interest ("NCI")** charge of \$0.6 million represents the NCI's approximate 26% interest in the Fund's underlying operations.

**Distributable cash** for the Quarter totalled \$6.2 million, down 7.2% from the same period in 2008. The distributable cash per unit only declined 4.0% or \$0.02 per unit to \$0.48 per unit resulting from a lower number of outstanding units due to the success of our NCIB program.

## Liquidity

The Fund utilized cash flow generated from operating activities for the Quarter and six months ended June 30, 2009 of \$5.4 million and \$10.4 million, respectively, to meet acquisition and distribution requirements as well as the purchasing of Fund units under the NCIB.

A summary of the Fund's working capital position is as follows:

### Working Capital

(\$000's)	As at June 30, 2009	As at March 31, 2009	As at December 31, 2008
<b>Current assets</b>			
Cash and cash equivalents	\$ 1,962	\$ 155	\$ 7,924
Accounts receivable and other	4,193	3,530	3,369
Deposit on acquisition	699	1,572	–
	<b>\$ 6,854</b>	<b>\$ 5,257</b>	<b>\$ 11,293</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,768	\$ 1,979	\$ 2,551
Purchase obligation	1,593	1,615	3,031
Distribution payable to unitholders	1,128	1,129	1,148
Financial derivative	300	372	–
	<b>4,789</b>	<b>5,095</b>	<b>6,730</b>
Net working capital before debt	<b>\$ 2,065</b>	<b>\$ 162</b>	<b>\$ 4,563</b>
Debt	<b>52,776</b>	<b>51,697</b>	<b>–</b>
Net working capital	<b>\$ (50,711)</b>	<b>\$ (51,535)</b>	<b>\$ 4,563</b>

Changes in the Fund's 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.

During the Quarter, the Fund's net positive working capital before debt increased by \$1.9 million primarily due to positive cash flows from seasonal increases in sales activity.

The Fund had a net positive working capital position of \$2.1 million as at June 30, 2009, a decrease of \$2.5 million from December 31, 2008, due to the use of cash to fund obligations arising from the purchase of franchise agreements and the purchase of units under the NCIB.

The debt matures on February 17, 2010 and accordingly has been reclassified as current liabilities. Management has initiated the process for the refinancing of this debt.

On April 2, 2009, the Fund drew down the remaining \$1 million of the \$15 million term facility to meet purchase obligations, arising from the purchase of La Capitale franchise agreements in 2008.

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## Capital Resources

The existing capital resources that the Fund can draw on consist of a \$2 million operating line, which has been unutilized since the inception of the Fund.

Other capital resources include: funds generated from operations and \$2.4 million in unutilized distributable cash held for future distributions in anticipation of the seasonality of the Canadian Market; debt servicing; distribution requirements; and financing for the acquisition of franchise agreements.

The Fund's debt is comprised of a \$38 million Private Placement and \$15 million term facility, both of which mature on February 17, 2010. During 2009 the Fund will continue to benefit from the stability of fixed interest costs associated with the Fund's debt and will be focused on refinancing this debt as it matures in February 2010.

## Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements.

## Transactions With Related Parties

As at the date of this MD&A, the Fund's interests are ultimately controlled approximately 74% by the public and approximately 26% by BAM, which sold its interest in certain assets to the Fund. These assets included the relationships, trademarks and franchise agreements related to the business of its Royal LePage residential resale real estate brokerage franchise operations. Under the terms of the offering, the non-controlling interest was required to hold its original 25% interest for five years ending August 7, 2008 after which it may exchange its Subordinated LP units for units of the Fund. In addition, during the initial five-year period, the non-controlling interest's right to receive distributions on a quarterly basis was reduced to the extent that the public unitholders do not receive their initial targeted monthly distributions of \$0.0917 per unit. With the completion of the five-year subordination, the non-controlling interest receives its distributions on a monthly basis and continues to hold its LP units.

BAM operates 17 corporately-owned residential resale real estate brokerage locations in the GTA serviced by over 1,000 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. Management anticipates that the remaining location which was opened during the Quarter will be presented to the Fund's Board for acquisition on January 1, 2010.

The management of the Fund and its underlying structure are provided under an MSA by the Manager, which is a company controlled by the non-controlling interest. The MSA provides for an initial term expiring August 6, 2013 and is automatically renewable for successive 10-year terms subject to certain performance criteria and/or other notification requirements. The MSA details the Manager's responsibilities and provides for a monthly fee, payable in arrears, of 20% of cash otherwise distributable for Royal LePage agreements and 30% in respect of cash otherwise distributable from the La Capitale franchise agreements.

On January 1 of each year the Fund may, upon the Board of Trustees' approval 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 units of the Fund and are paid 80% on acquisition and the remaining 20% a year later when the actual franchise fees are reviewed and the acquisition calculations are adjusted accordingly.

On January 1 of each year, the Fund may, upon the Independent Trustees' approval and criteria established by the Board of Trustees, purchase La 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 units of the Fund. Modification of the MSA relating to the La Capitale acquisition costs and management fees are as follows:

- (a) the discount factor of 92.5%, which is applied to the Royalties upon which the purchase price is based, was increased to 90%, thereby reducing the purchase price;
- (b) the final purchase price is to be calculated based on the average annual Royalties earned from La Capitale franchise agreements over three years (instead of one year);
- (c) the Partnership will pay a management fee equal to 30% of net royalties (defined as Distributable Cash in the MSA), received from the La Capitale franchise agreements, instead of 20%. The increase in the management fee resulted in a direct and proportional decrease in the purchase price paid by the Partnership, as the purchase price is calculated based on Royalties earned from the La Capitale franchise agreements net of the management fee.

The related party transactions entered into by the Fund were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts in thousands of dollars follows:

(\$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
a) Royalties				
Fixed, variable and other franchise fees	\$ 584	\$ 603	\$ 1,104	\$ 1,209
Premium franchise fees	\$ 68	\$ 945	\$ 1,126	\$ 1,719
b) Expenses				
Management fees	\$ 1,653	\$ 1,765	\$ 2,918	\$ 3,238
Insurance and other	\$ 27	\$ 25	\$ 54	\$ 50
Interest on purchase obligation	\$ -	\$ 210	\$ -	\$ 210
c) Distributions				
Distributions paid to non-controlling interest	\$ 1,168	\$ 1,036	\$ 2,336	\$ 2,076

As at (\$000's)	June 30, 2009	Dec. 31, 2008
d) Accounts receivable		
Franchise fees receivable and other	\$ 633	\$ 394
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	\$ 389	\$ 389
Management fees	\$ 619	\$ 417
NCIB settlement payable	\$ -	\$ 942
f) Purchase obligation	\$ 3,173	\$ 6,211

Effective January 1, 2009, the Fund acquired 18 Royal LePage franchise agreements and three La Capitale franchise agreements for an estimated purchase price of \$2.5 million and \$0.9 million, respectively, with 80% (\$2.7 million) of the purchase price due during the first quarter (see Franchise Acquisition Agreements for further information). During the first quarter, the Fund paid the initial \$2.7 million purchase obligation from cash on hand.

## Critical Accounting Estimates

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms include: the Fund's administration costs, allocation of the intangible assets between franchise agreements and relationships, and trademarks and their related amortization periods. The Fund's administration costs of approximately \$0.8 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

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

## Financial Instruments

The Fund's financial instruments consist of cash, accounts receivable, financial derivative liability, accounts payable and accrued liabilities, purchase obligation, distributions payable to unitholders, a \$38 million private debt placement, a \$15 million term facility and a \$2 million credit facility.

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

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

On April 4, 2008, the Fund completed a \$15 million term facility with a Canadian financial institution and with effect from April 7, 2008 entered into an interest rate swap agreement which fixed the variable portion of the term facility's interest at 3.29% for a total effective annual interest rate of 4.29% over the term of the facility. The interest rate swap is a financial derivative valued separately from the term facility. The Fund values the swap agreement at its market value. Changes in the value of the swap agreement are recorded as other income or loss.

Management estimates the fair value of the Fund's financial instruments to approximate their carrying values.

## Disclosure Controls and Internal Controls

The Fund has designed and maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms.

The Fund has also designed and maintains a set of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Fund's internal controls over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## Outstanding Units

The Fund is authorized to issue an unlimited number of units of the same class with equal rights and privileges.

On October 3, 2008, the Toronto Stock Exchange approved the Fund's notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund was permitted to purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases were made at market prices in accordance with the rules and policies of the Toronto Stock Exchange. Daily purchases were effected through the facilities of the TSX and were limited to 3,800 units, other than block purchase exceptions.

During 2008, 163,720 units were purchased at an average price of \$7.53 per unit. During the first quarter, a further 168,400 units at an average price of \$8.67 per unit were acquired. With the 167,030 units acquired in July 2009 at an average price of \$8.40, the Fund has purchased the maximum amount permitted under the NCIB. Units purchased were cancelled at the end of each month.

Given market prices for the Fund units, management believes that the purchase by the Fund of a portion of its outstanding units was an appropriate use of available resources and in the best interests of the Fund and its unitholders. The Fund financed the purchases with available cash on hand.

## Fund Structure

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

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

As part of the Fund's purchase of the La Capitale assets on January 1, 2008, the LP acquired two companies, a Limited Partnership ("LCLP") which held the La Capitale Assets and the General Partner ("LCGP"). For a more detailed explanation of the Fund Structure please see the 2008 Annual Information Circular.

Under the terms of the Offering, the subordinated unitholder had to retain its full interest for five years from the commencement of the Fund. Fund distributions of all available cash were made on a monthly basis to public unitholders and on a quarterly basis to the subordinated unitholder. During the initial five-year period, the subordinated unitholder's distributions were subordinated to the public

unitholders' distributions to the extent the public unitholders had not received the initial targeted monthly distribution of \$0.0917 per unit, \$1.10 per unit per annum. The initial five year term ended August 7, 2008 after which the subordinated unitholder may exchange its units for units of the Fund and receives distributions on a monthly basis.

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

## Taxation of Fund Distributions

Under the Fund's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Fund shall be claimed to the extent it brings the taxable income of the Trust to nil. The deductions available to the Trust are comprised of the costs of the offering and intangible assets. The estimated deductions available to the Trust as at December 31, 2008 are comprised of the costs of the initial public offering, intangible assets of the LP, acquisitions of franchise agreements subsequent to inception, costs associated with the \$38 million private debt placement, and costs associated with the \$15 million credit facility, which have the following deductibility profile and amounts:

### Taxation of Fund Distributions

(\$ millions)

	Remaining balance December 31, 2008	Estimated addition for 2009	Estimated deduction for 2009	Estimated balance December 31, 2009
Future Deduction Basis				
7% of balance	78.6	2.5	5.6 <sup>1</sup>	74.9
Five-year straight-line	0.4		0.2	0.2
	79.0	2.5	5.8	75.1

<sup>1</sup> This estimated deduction for 2009 is calculated as 7% of the sum of the remaining balance as of December 31, 2008 and 75% of the estimated addition for 2009.

For the year ended December 31, 2008, the Fund had a return of capital per unit of approximately 0% (3% – 2007) and a taxable amount per unit of approximately 100% (97% – 2007). These calculations are summarized in the table below.

(\$ millions)	2003	2004	2005	2006	2007	2008
Fund net earnings	2.0	3.3	4.8	3.5	7.7	<b>5.3</b>
Add:						
Non-controlling interest	0.7	1.2	1.7	1.3	2.8	<b>2.0</b>
Amortization	3.8	13.7	14.2	14.6	14.8	<b>16.9</b>
Income tax	–	–	–	–	(1.8)	<b>–</b>
Other	(0.1)	–	–	–	0.1	<b>0.5</b>
Taxable earnings	6.4	18.2	20.7	19.4	23.6	<b>24.7</b>
Less:						
Tax deduction	3.4	8.0	8.2	8.1	8.1	<b>7.2</b>
Taxable income	3.0	10.2	12.5	11.3	15.5	<b>17.5</b>
Distributions	(6.0)	(14.6)	(14.6)	(15.3)	(16.0)	<b>(17.5)</b>
Return of capital	(3.0)	(4.4)	(2.1)	(4.0)	(0.5)	<b>–</b>
Return of capital	50%	30%	14%	26%	3%	<b>0%</b>
Taxable	50%	70%	86%	74%	97%	<b>100%</b>
Distributions						
Unitholders	4.5	11.0	11.0	11.5	12.0	<b>13.1</b>
Non-controlling interest	1.5	3.6	3.6	3.8	4.0	<b>4.4</b>
	6.0	14.6	14.6	15.3	16.0	<b>17.5</b>

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## **Impact of Taxation on Income Trusts**

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011. This trust legislation was substantially enacted into law on June 12, 2007. Accordingly, during the second quarter of 2007, the Fund began to recognize future income taxes or recoveries arising from those temporary tax differences expected to reverse after January 1, 2011.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

In 2011 when the Fund expects to become a taxable entity, income taxes payable will reduce net earnings and will affect distributable cash by an equal amount.

In accordance with new tax legislation, as at June 30, 2009 the Fund has recorded a non-cash future tax liability of \$1.2 million, arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rate of 30.5%, applicable to the Fund in 2011 and 29% applicable thereafter. The future tax liability is comprised of a \$3.2 million tax liability less a non-cash future tax asset of \$2.0 million. The \$3.2 million future income tax liabilities arise from the assets of La Capitale which were acquired on a tax deferred basis through a partnership with the underlying tax value attributed to the partnership units. As a result, the individual agreements and trademarks of the partnership at the time of acquisition by the Fund do not have a tax basis. The temporary difference between the carrying value of these agreements and trademarks and zero tax basis results in a future income tax liability of \$3.2 million.

Management of the Fund reviews the value of the Fund's future income tax assets and liabilities on a quarterly basis and records adjustments, as necessary, to reflect the realizable amounts of the Fund's future income tax assets and liabilities.

This trust legislation, and the related impact and proposed limits on equity issued by Income Funds to fund acquisitions, may affect the Fund's ability to make future acquisitions. Accordingly, management and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, to protect and enhance unitholder value.

## **Change in Accounting Policies**

### **Accounting Changes**

a) On January 1, 2009, the Fund adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. Section 3064 replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Fund has evaluated this standard and determined that there is no impact to the consolidated financial statements.

### **Accounting Changes – Future**

a) International Financial Reporting Standards ("IFRS")

Management has been assessing the impact of IFRS on the financial statements of the Fund and aside from prescribed changes in financial statement presentation and related disclosure the most significant impacts are on the accounting for the acquisition of franchise contracts, valuation of Intangibles and impairment of Intangibles.

### **Acquisition of Franchise Contracts**

Currently under GAAP the Fund records the initial franchise contract obligations as deposits on acquisition with subsequent adjustments to the deposit obligation or purchase obligation as royalties are earned from the contracts. Under IFRS the Fund would record the estimated purchase price as an asset and the related purchase obligation.

### **Valuation of Intangibles**

Under IFRS, intangible assets under certain conditions are to be revalued at the end of each reporting period with any changes in value going through the Fund's statement of earnings. A prerequisite for the application of this accounting treatment is there must be an active market for these assets and the assets must be held for trading. The Fund's intangibles are comprised of contracts, relationships and trademarks. The Fund does not trade these assets nor is there an active market for these assets and as such the Fund will not be required to revalue its intangibles under these IFRS requirements.

## Impairment of Intangibles

Under current GAAP the impairment of intangible assets is reviewed at the end of each reporting period by comparing the expected future undiscounted cash flows to be generated from the Fund's intangibles assets against the carrying value of the assets. Under IFRS the Fund is required to assess its intangibles for impairment in value using a discounted cash flow ("DCF") whereby the DCF expected to be derived from the Fund's intangible assets are compared to their carrying value in the financial statements at the end of each reporting period. Where the value of the DCF is less than the carrying value, the carrying value of the intangible is to be recorded at the DCF value with the difference or impairment being written off as a current period charge to the statement of earnings. IFRS does not permit a write-up of intangibles should the DCF exceed the carrying value regardless of whether or not the intangible was subject to an earlier impairment charge.

The primary drivers of the DCF as they relate to franchise contracts and relationships are the expected future cash flows from these assets over the remaining initial term of the contracts and the first renewal term, respectively, and the discount rate utilized. Management has determined that the yield on the Fund's units would be an appropriate rate to utilize for this purpose as this is the inherent rate of return for the Fund and was used in part to determine the purchase price for the Fund's franchise contract acquisitions.

The DCF approach to the valuation of intangibles does not recognize the future value of the contracts and relationships derived from the period occurring after the remaining initial and first renewal term of the underlying contracts. With the decreasing yield of the Fund due in part to the overall economic turmoil it is conceivable that an impairment charge in respect of the Fund's intangibles could arise as result of the application of this accounting requirement.

### b) Business Combinations

In January 2009, the CICA issued new accounting standards concerning Business Combinations ("Section 1582"), Non-controlling Interests ("Section 1602") and Consolidated Financial Statements ("Section 1601"), which is based on the IASB's International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The Non-controlling Interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards ("IFRS"). The impact of the new standards on the Company's results of operations, financial position and disclosures will be assessed as part of the Company's IFRS transition project.

## Risk Factors

Risks related to the residential resale real estate brokerage industry and the business of the Partnership and the Fund are outlined in the Fund's Annual Information Form which is available at [www.sedar.com](http://www.sedar.com) and on the Fund's website [www.brookfieldres.com](http://www.brookfieldres.com) under Investor Relations/Financial Reports.

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## Outlook

The recent Market downturn is into its sixteenth month to the end of May 2009 and has resulted in a 19% decline in the Market since the decline commenced in February 2008. During this downturn, the most significant decline occurred during the fourth quarter of 2008 when the Market decreased 40% compared to the fourth quarter of 2007. During 2009 the rate of decline moderated in each successive month from January to May and the Quarter ended up with an increase in the Market of 1.7% over the same quarter in 2008 while for the month of June the Market was up 22% as compared to June 2008. The GTA Market, from which the Fund receives its premium fees, was up 4.5% for the Quarter as compared to the same quarter in 2008 while for the month of June the GTA Market was up 30.0% as compared to June 2008. Although it is difficult to call an end to the Market downturn based on one month of positive activity, the market has been showing progressive signs of stabilization since the beginning of the year. However, a further retreat in the Market is possible in the midst of the current Canadian recession and global economic uncertainty. In May, prior to the June increase, CREA revised their original projection and is forecasting a more optimistic 3.6% weighted average drop in average MLS home prices and a 14.7% drop in national MLS unit sales activity in 2009, followed by steady prices and a 7.2% rebound in unit sales in 2010 with most of the increased activity in the second half of that year.

Real estate resale markets in Canada are being affected by a drop in consumer confidence resulting from widespread economic concerns, originating largely from the U.S. credit market crisis that has spread globally and has diminished the value of a range of asset classes. The sharp drop in commodity prices has affected Canada's resource-based regional economies, as have layoffs in manufacturing-based regions. A further decline in Canadian real estate markets is still possible until consumer confidence improves.

The reduction in unit sales from record levels and decline in transaction dollar volume in Canada in recent quarters may reduce the number of REALTORS® entering the industry and cause less productive Agents to seek other employment opportunities. Management believes when markets slow, established brands can gain market share as their reputation and support services make them a destination of choice. The Fund's three leading brands are well positioned for a market slowdown.

The variable and fixed elements of the Fund's royalty stream drive distributable cash. From a variable fee perspective the impact of a further market decline is mitigated by the composition of the royalty stream which for the twelve months ended December 31, 2008 is approximately 69% fixed and 31% variable resulting in an approximate 31% change in royalty fees for changes in overall Market activity. For example, all other factors being held constant, a 10% decrease in market activity would result in an approximate 3.1% decline in royalties. A more substantive change in the Fund's variable royalty fees revenue however could result if Market activity in the GTA were to differ significantly from the overall Market, as the Fund earned 13% of its fee revenue in the form of a premium royalty fee from this Market in 2008. In addition the Fund's variable fees may differ from the overall Market activity as a result of the Fund's over representation in the province of Quebec and under representation in the western provinces.

From a fixed fee perspective a loss of agents could result in a \$1,500 to \$2,000 fixed fee per agent reduction and up to \$1,300 per agent of variable fees for agents who have reached the related variable fee cap. In the Quarter the Fund experienced agent loss and this agent loss may continue to occur with less productive agents who are unable to generate sufficient income to meet their needs during a market correction. During 2008, the Fund's agents were on average 69% more productive than the rest of the industry and therefore, management believes, better able to withstand a further reduction in the market over the long term.

Another factor affecting REALTORS® of the Fund is the number of new Agents who have joined over the past two years, a significant number of whom have joined the Fund network. Typically these agents need two years to build a sufficient book of business and as such are more vulnerable to a contracting Market.

During the first two quarters of 2009, the Fund has experienced year-over-year declines in distributable cash. Our high proportion of fixed revenue and growth through acquisitions mitigates some of the impact of a potential flat or declining Market. These strategies have positioned the Fund to maintain performance stability throughout the Market cycle. Our objective is to offset an anticipated increase in REALTOR® attrition with focused recruiting and franchise acquisition efforts.

We maintain confidence in the long-term growth potential of the real estate services industry and of the Fund as we implement our multi-brand growth strategy. During this downturn we anticipate consolidation within the industry as the better capitalized, technologically advanced and service-oriented brands gain market share organically and through acquisitions. With leading brands and leading performance, we are a consolidator in the industry in Canada, and we continue to have our sights set on expansion into the U.S. at the appropriate time.

## Forward-Looking Statements

This MD&A and other content of this Financial Review report contains forward-looking information and other “forward-looking statements”. 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 Fund to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forward 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 Fund that reduce the number of and/or royalty revenue from the Fund’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 Fund’s annual information form which is filed with securities commissions and posted on SEDAR at [www.sedar.com](http://www.sedar.com). The Fund 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.

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

## Supplemental Information – Net Earnings and Distributable Cash by Period

Three months ended (\$000's except per unit amounts, unaudited)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
Royalties	\$ 9,295	\$ 7,448	\$ 8,092	\$ 9,404	\$ 9,647	\$ 7,740	\$ 6,997	\$ 8,839
Less:								
Administration expenses	184	192	190	215	188	224	217	208
Management fee	1,700	1,330	1,473	1,765	1,805	1,412	1,265	1,653
Interest expense	606	606	811	766	803	794	784	798
Other (income)/loss	–	–	–	(62)	92	335	7	(72)
Amortization of intangible assets	3,723	3,746	3,896	4,035	4,297	4,658	4,141	4,167
Earnings before undernoted	3,082	1,574	1,722	2,685	2,462	317	583	2,085
Future income tax recovery/(expense)	11	(293)	35	11	1	1	(51)	(42)
Non-controlling interest	(811)	(364)	(476)	(718)	(652)	(118)	(174)	(565)
Net and comprehensive earnings for the period	2,282	917	1,281	1,978	1,811	200	358	1,478
Add:								
Amortization of intangible assets	3,723	3,746	3,896	4,035	4,297	4,658	4,141	4,167
Non-cash other (income)/loss	–	–	–	(62)	92	335	7	(72)
Future income tax (recovery) expense	(11)	293	(35)	(11)	(1)	(1)	51	42
Non-controlling interest	811	364	476	718	652	118	174	565
Distributable cash	6,805	5,320	5,618	6,658	6,851	5,310	4,731	6,180
Less change in:								
Unutilized cash	(2,812)	(1,244)	(1,463)	(2,508)	(2,351)	(663)	(140)	(1,624)
Cash required for distributions	\$ 3,993	\$ 4,076	\$ 4,155	\$ 4,150	\$ 4,500	\$ 4,647	\$ 4,591	\$ 4,556
Distributable cash available to:								
Public unitholders	\$ 2,995	\$ 3,037	\$ 3,115	\$ 3,114	\$ 3,375	\$ 3,479	\$ 3,423	\$ 3,388
Non-controlling interest	998	1,039	1,040	1,036	1,125	1,168	1,168	1,168
	\$ 3,993	\$ 4,076	\$ 4,155	\$ 4,150	\$ 4,500	\$ 4,647	\$ 4,591	\$ 4,556
Distributions to public unitholders	\$ 2,995	\$ 3,037	\$ 3,115	\$ 3,114	\$ 3,375	\$ 3,479	\$ 3,423	\$ 3,388
Per unit (9,983,000 units less retired):								
Basic and diluted earnings	\$ 0.23	\$ 0.09	\$ 0.13	\$ 0.20	\$ 0.18	\$ 0.02	\$ 0.04	\$ 0.15
Basic and diluted distributable cash before working capital and other reserves	\$ 0.51	\$ 0.40	\$ 0.42	\$ 0.50	\$ 0.51	\$ 0.40	\$ 0.36	\$ 0.48
Basic and diluted distributions	\$ 0.30	\$ 0.30	\$ 0.31	\$ 0.31	\$ 0.34	\$ 0.35	\$ 0.35	\$ 0.35

## Tax Allocation of Distributions

For the year ended December 31

(Unaudited)	2003 <sup>1</sup>	2004	2005	2006	2007	2008
	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)
Other taxable income	50%	70%	86%	74%	97%	100%
Return of capital	50%	30%	14%	26%	3%	0%
Total distributions of the period	100%	100%	100%	100%	100%	100%

<sup>1</sup> Inception (August 7) to December 31, 2003.

## Supplemental Information – Selected Financial and Operating Information

Three months ended (\$000's, unaudited)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
<b>Revenue</b>								
Fixed franchise fees	\$ 3,749	\$ 3,788	\$ 4,336	\$ 4,440	\$ 4,431	\$ 4,491	\$ 4,467	\$ 4,445
Variable franchise fees	2,661	1,315	1,921	2,628	2,499	1,243	1,194	2,312
Premium franchise fees	1,899	1,348	893	1,106	1,514	937	420	920
Other fee revenue and services	986	997	942	1,230	1,203	1,069	916	1,162
	\$ 9,295	\$ 7,448	\$ 8,092	\$ 9,404	\$ 9,647	\$ 7,740	\$ 6,997	\$ 8,839
<b>% Revenue by region</b>								
British Columbia	13	13	14	13	11	11	13	12
Prairies	9	9	10	10	9	10	10	9
Ontario	63	63	55	54	59	53	53	54
Quebec	11	11	18	20	18	22	21	22
Maritimes	4	4	3	3	3	4	3	3
	100	100	100	100	100	100	100	100
<b>Changes during the period</b>								
Number of REALTORS®	125	87	1,418	181	(5)	(172)	98	(74)
Number of Agents	79	84	1,350	164	17	(132)	96	(81)
Number of fixed fee paying Sales Representatives	43	19	(7)	12	(11)	(30)	–	(2)
Number of locations	–	(3)	55	(2)	–	(1)	17	(5)
Number of franchise agreements	–	(4)	54	(1)	–	–	15	(3)
<b>At end of period</b>								
Number of REALTORS®	13,085	13,172	14,590	14,771	14,766	14,594	14,692	14,618
Number of Agents	12,117	12,201	13,551	13,715	13,732	13,600	13,696	13,615
Number of fixed fee paying Sales Representatives	716	735	728	740	729	699	699	697
Number of locations	594	591	646	644	644	643	660	655
Number of franchise agreements	289	285	339	338	338	338	353	350

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

## Supplemental Information – Fund Unit Performance

Three months ended	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
Trading price range of units (TSX: "RSF.UN")								
High	\$ 14.14	\$ 13.89	\$ 13.88	\$ 12.00	\$ 10.87	\$ 10.47	\$ 9.62	\$ 8.40
Low	\$ 12.26	\$ 11.50	\$ 11.01	\$ 10.00	\$ 8.04	\$ 6.15	\$ 7.00	\$ 7.50
Close	\$ 12.87	\$ 13.88	\$ 11.75	\$ 10.00	\$ 9.84	\$ 7.74	\$ 7.77	\$ 8.34
Average daily volume	3,618	8,266	4,385	5,110	10,901	11,121	5,230	20,924
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,819,280	9,650,880	9,650,880
Net enterprise value at period end (thousands)								
Market capitalization <sup>1</sup>	\$ 171,308	\$ 184,752	\$ 156,400	\$ 133,107	\$ 130,977	\$ 101,757	\$ 100,843	\$ 108,241
Long-term debt	37,576	37,617	37,660	51,511	51,532	51,615	51,697	52,776
Less:								
Cash on hand	6,652	7,516	2,365	5,307	7,746	7,924	155	1,962
	\$ 202,232	\$ 214,853	\$ 191,695	\$ 179,311	\$ 174,763	\$ 145,448	\$ 152,385	\$ 159,055

<sup>1</sup> Comprised of the number of units outstanding at period end and 3,327,667 subordinated units, multiplied by the closing unit price.

## Distribution History

Month	Distributions Declared per Unit							2009
	2003	2004	2005	2006	2007	2008		
January		\$ 0.0917	\$ 0.0917	\$ 0.0958	\$ 0.1000	\$ 0.1040	\$ 0.1170	
February		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
March		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
April		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
May		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
June		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
July		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	
August		0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	
September	\$ 0.1789*	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	
October	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	
November	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	
December	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	
	\$ 0.45	\$ 1.10	\$ 1.10	\$ 1.15	\$ 1.20	\$ 1.31	\$ 0.70	

\* Based on a 55-day period.

## Supplemental Information – Condensed Balanced Sheet

As at (\$000's, unaudited)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
Cash and cash equivalents	\$ 6,652	\$ 7,516	\$ 2,365	\$ 5,307	\$ 7,746	\$ 7,924	\$ 155	<b>\$ 1,962</b>
Accounts receivable	3,054	2,752	3,272	3,801	3,322	3,224	3,428	<b>4,148</b>
Prepaid expenses	23	84	101	62	23	145	102	<b>45</b>
Deposit on acquisition	–	–	1,908	5,545	–	–	1,572	<b>699</b>
Financial derivatives	–	–	–	62	–	–	–	<b>–</b>
Future income tax asset	2,112	1,819	799	333	–	–	–	<b>–</b>
Intangible assets	119,593	117,279	121,857	122,317	125,921	126,647	123,717	<b>120,423</b>
	<b>\$ 131,434</b>	<b>\$ 129,450</b>	<b>\$ 130,302</b>	<b>\$ 137,427</b>	<b>\$ 137,012</b>	<b>\$ 137,940</b>	<b>\$ 128,974</b>	<b>\$127,277</b>
Accounts payable and accrued liabilities	\$ 2,978	\$ 2,232	\$ 2,336	\$ 2,422	\$ 1,842	\$ 2,551	\$ 1,979	<b>\$ 1,768</b>
Purchase obligations – short-term	862	2,295	5,358	–	1,386	3,031	1,615	<b>1,593</b>
Distributions payable to unitholders	998	998	1,038	1,038	1,168	1,148	1,129	<b>1,128</b>
Long-term debt	37,576	37,617	37,660	51,511	51,532	51,615	51,697	<b>52,776</b>
Purchase obligations – long-term	–	–	–	–	–	3,180	1,580	<b>1,580</b>
Financial derivatives	–	–	–	–	30	365	372	<b>300</b>
Future income tax liability	–	–	–	–	635	1,193	1,244	<b>1,286</b>
Non-controlling interest	22,740	22,106	21,542	21,224	20,751	19,701	18,707	<b>18,104</b>
Unitholders' equity	66,280	64,202	62,368	61,232	59,668	55,156	50,651	<b>48,742</b>
	<b>\$ 131,434</b>	<b>\$ 129,450</b>	<b>\$ 130,302</b>	<b>\$ 137,427</b>	<b>\$ 137,012</b>	<b>\$ 137,940</b>	<b>\$ 128,974</b>	<b>\$127,277</b>

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

## Supplemental Information – Condensed Cash Flow by Period

Three months ended (\$'000's, unaudited)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
Cash provided by (used for):								
<b>Operating activities</b>								
Net earnings for the period	\$ 2,282	\$ 917	\$ 1,281	\$ 1,978	\$ 1,811	\$ 200	\$ 358	\$ 1,478
Add (deduct):								
Non-controlling interest	811	364	476	718	652	118	174	565
Future income tax (recovery) expense	(11)	293	(35)	(11)	(1)	(1)	51	42
Non-cash interest expense	41	41	43	69	88	83	82	85
Non-cash other (income)/loss	–	–	–	(62)	92	335	7	(72)
Amortization of intangible assets	3,723	3,746	3,896	4,035	4,297	4,658	4,141	4,167
Changes in non-cash working capital	1,365	(420)	(393)	(403)	68	183	209	(874)
	8,211	4,941	5,268	6,324	7,007	5,576	5,022	5,391
<b>Investing activities</b>								
Deposit on acquisition	–	–	(3,949)	(12,965)	–	(70)	(1,572)	–
Payment of purchase price obligation	–	–	(2,295)	–	–	–	(3,051)	–
Repurchase of fund units	–	–	–	–	–	(291)	(2,401)	–
Purchase of intangible assets	–	–	(20)	(49)	(1)	70	(1,176)	(22)
	–	–	(6,264)	(13,014)	(1)	(292)	(8,200)	(22)
<b>Financing activities</b>								
Proceeds from term facility	–	–	–	13,782	(67)	–	–	994
Distributions paid to unitholders	(2,995)	(3,037)	(3,115)	(3,114)	(3,375)	(3,329)	(3,423)	(3,388)
Distributions paid to non-controlling interest	(998)	(1,040)	(1,040)	(1,036)	(1,125)	(1,777)	(1,168)	(1,168)
	(3,993)	(4,077)	(4,155)	9,632	(4,567)	(5,106)	(4,591)	(3,562)
<b>Increase (decrease) in cash and cash equivalents during the period</b>								
	4,218	864	(5,151)	2,942	2,439	178	(7,769)	1,807
<b>Cash and cash equivalents, beginning of period</b>								
	2,434	6,652	7,516	2,365	5,307	7,746	7,924	155
<b>Cash and cash equivalents, end of period</b>								
	\$ 6,652	\$ 7,516	\$ 2,365	\$ 5,307	\$ 7,746	\$ 7,924	\$ 155	\$ 1,962

## Supplemental Information – Canadian Real Estate Market

Three months ended	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 40,546	\$ 31,875	\$ 32,697	\$ 46,137	\$ 34,091	\$ 18,977	\$ 21,802	<b>\$ 46,911</b>
Average selling price	\$308,542	\$314,591	\$310,797	\$316,974	\$294,657	\$281,220	\$283,520	<b>\$319,433</b>
Number of units sold	131,412	101,323	105,202	145,556	115,699	67,481	76,896	<b>146,858</b>
Number of REALTORS® at period end	93,709	94,538	96,266	98,072	98,459	97,168	96,353	<b>N/A</b>
Housing starts	67,838	55,174	43,610	62,087	58,292	47,067	23,772	<b>35,798</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 8,788	\$ 7,838	\$ 6,641	\$ 10,645	\$ 7,572	\$ 4,093	\$ 4,589	<b>\$ 11,119</b>
Average selling price	\$368,685	\$394,382	\$379,006	\$397,591	\$368,516	\$359,883	\$357,817	<b>\$395,485</b>
Number of units sold	23,837	19,874	17,521	26,773	20,548	11,372	12,824	<b>28,115</b>
Housing starts	9,723	8,599	8,945	11,684	11,736	9,847	5,904	<b>5,639</b>
<b>Twelve months ended</b>								
	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008	March 31, 2009	June 30, 2009
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 155,507	\$ 160,093	\$ 157,503	\$ 151,255	\$ 144,922	\$ 131,905	\$ 121,010	<b>\$ 121,781</b>
Average selling price	\$300,141	\$306,539	\$310,425	\$312,838	\$308,803	\$303,594	\$297,928	<b>\$299,265</b>
Number of units sold	518,113	522,260	507,378	483,493	469,302	434,477	406,171	<b>406,934</b>
Housing starts	231,221	228,343	231,237	228,709	219,163	211,056	191,218	<b>164,929</b>
Seasonally adjusted housing starts	278,200	187,500	254,700	217,800	217,600	177,300	154,700	<b>140,700</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 34,248	\$ 35,905	\$ 35,108	\$ 33,912	\$ 32,695	\$ 28,950	\$ 26,898	<b>\$ 27,373</b>
Average selling price	\$368,444	\$377,066	\$380,447	\$385,337	\$385,942	\$379,853	\$376,109	<b>\$375,698</b>
Number of units sold	92,953	95,223	92,281	88,005	84,716	76,214	71,517	<b>72,859</b>
Housing starts	34,272	33,293	36,653	38,951	40,964	42,212	39,171	<b>33,126</b>

Source: CMHC, CREA and TREB

<sup>1</sup> (\$millions)

N/A: Not available at time of MD&A.

# Interim Consolidated Balance Sheets

As at (in thousands of dollars)	June 30, 2009 (unaudited)	December 31, 2008
<b>Assets</b>		
Current assets		
Cash	\$ 1,962	\$ 7,924
Accounts receivable	4,148	3,224
Prepaid expenses	45	145
Deposit on acquisition (note 4)	699	–
	<b>6,854</b>	11,293
Intangible assets (note 5)	120,423	126,647
	<b>\$ 127,277</b>	\$ 137,940
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,768	\$ 2,551
Purchase obligation – current portion (note 4)	1,593	3,031
Distribution payable to unitholders	1,128	1,148
Long-term debt – current portion (note 7)	52,776	–
Financial derivative (note 7)	300	–
	<b>57,565</b>	6,730
Long-term debt (note 7)	–	51,615
Purchase obligation (note 4)	1,580	3,180
Financial derivative (note 7)	–	365
Future income tax liability (note 3)	1,286	1,193
Non-controlling interest	18,104	19,701
	<b>78,535</b>	82,784
Unitholders' equity	48,742	55,156
	<b>\$ 127,277</b>	\$ 137,940

See accompanying notes to the interim consolidated financial statements.

On behalf of the board



Simon Dean  
TRUSTEE



Lorraine Bell  
TRUSTEE

# Interim Consolidated Statements of Earnings and Comprehensive Earnings

(unaudited) (in thousands of dollars, except unit and per unit amounts)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>Royalties</b>				
Fixed franchise fees	\$ 4,445	\$ 4,440	\$ 8,912	\$ 8,776
Variable franchise fees	2,312	2,628	3,506	4,549
Premium franchise fees	920	1,106	1,340	1,999
Other fee revenue and services	1,162	1,230	2,078	2,172
	<b>8,839</b>	<b>9,404</b>	<b>15,836</b>	<b>17,496</b>
<b>Expenses</b>				
Administration	208	215	425	405
Management fee	1,653	1,765	2,918	3,238
Interest expense	798	766	1,582	1,577
Other income (note 7)	(72)	(62)	(65)	(62)
Amortization of intangible assets (note 5)	4,167	4,035	8,308	7,931
	<b>6,754</b>	<b>6,719</b>	<b>13,168</b>	<b>13,089</b>
<b>Earnings before the undernoted</b>	<b>2,085</b>	<b>2,685</b>	<b>2,668</b>	<b>4,407</b>
Income tax (note 3)	(42)	11	(93)	46
<b>Earnings before non-controlling interest</b>	<b>2,043</b>	<b>2,696</b>	<b>2,575</b>	<b>4,453</b>
Non-controlling interest	(565)	(718)	(739)	(1,194)
<b>Net earnings and comprehensive earnings</b>	<b>\$ 1,478</b>	<b>\$ 1,978</b>	<b>\$ 1,836</b>	<b>\$ 3,259</b>
<b>Basic and diluted earnings per unit</b> (9,688,245 weighted average units) (2008 – 9,983,000 units) (note 9)	<b>\$ 0.15</b>	<b>\$ 0.20</b>	<b>\$ 0.19</b>	<b>\$ 0.33</b>

See accompanying notes to the interim consolidated financial statements.

## Interim Consolidated Statements of Unitholders' Equity

(unaudited) (in thousands of dollars)	Unitholders' Contribution	Contributed Surplus	Net Earnings	Distributions	Deficit	Total
<b>Balance, January 1, 2008</b>	\$ 92,938	\$ –	\$ 21,224	\$ (49,960)	\$ (28,736)	\$ 64,202
Changes during the period:						
Net earnings	–	–	3,259	–	3,259	3,259
Unit distributions	–	–	–	(6,229)	(6,229)	(6,229)
<b>Balance, June 30, 2008</b>	\$ 92,938	\$ –	\$ 24,483	\$ (56,189)	\$ (31,706)	\$ 61,232
<b>Balance, January 1, 2009</b>	\$ 91,301	\$ 404	\$ 26,494	\$ (63,043)	\$ (36,549)	\$ 55,156
Changes during the period:						
Issuer repurchases (note 8)	(1,684)	225	–	–	–	(1,459)
Net earnings	–	–	1,836	–	1,836	1,836
Unit distributions	–	–	–	(6,791)	(6,791)	(6,791)
<b>Balance, June 30, 2009</b>	<b>\$ 89,617</b>	<b>\$ 629</b>	<b>\$ 28,330</b>	<b>\$ (69,834)</b>	<b>\$ (41,504)</b>	<b>\$ 48,742</b>

See accompanying notes to the interim consolidated financial statements.

The Fund has no accumulated other comprehensive income at June 30, 2009 (June 30, 2008 – \$Nil).

## Interim Consolidated Statements of Cash Flows

(unaudited) (in thousands of dollars)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>Cash provided by (used for):</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 1,478	\$ 1,978	\$ 1,836	\$ 3,259
Items not affecting cash				
Non-controlling interest	565	718	739	1,194
Future income tax	42	(11)	93	(46)
Non-cash interest expense	85	69	167	112
Change in value of derivative	(72)	(62)	(65)	(62)
Amortization of intangible assets	4,167	4,035	8,308	7,931
	6,265	6,727	11,078	12,388
Changes in non-cash working capital	(874)	(403)	(665)	(796)
	5,391	6,324	10,413	11,592
<b>Investing activities</b>				
Deposit on acquisition (note 4)	-	(12,965)	(2,748)	(16,914)
Purchase of intangible assets (note 4)	(22)	(49)	(22)	(69)
Payment of purchase price obligation (note 4)	-	-	(3,051)	(2,295)
	(22)	(13,014)	(5,821)	(19,278)
<b>Financing activities</b>				
Repurchase of Fund units (note 8)	-	-	(2,401)	-
Proceeds from Term Facility (note 7)	994	13,782	994	13,782
Distributions paid to unitholders	(3,388)	(3,114)	(6,811)	(6,229)
Distributions paid to non-controlling interest	(1,168)	(1,036)	(2,336)	(2,076)
	(3,562)	9,632	(10,554)	5,477
<b>Increase (decrease) in cash during the period</b>	<b>1,807</b>	<b>2,942</b>	<b>(5,962)</b>	<b>(2,209)</b>
<b>Cash, beginning of period</b>	<b>155</b>	<b>2,365</b>	<b>7,924</b>	<b>7,516</b>
<b>Cash, end of period</b>	<b>\$ 1,962</b>	<b>\$ 5,307</b>	<b>\$ 1,962</b>	<b>\$ 5,307</b>
<b>Supplementary Cash Flow Information</b>				
Interest paid	\$ 698	\$ 827	\$ 1,351	\$ 1,595

See accompanying notes to the interim consolidated financial statements.

# Notes to the Interim Consolidated Financial Statements

June 30, 2009 and 2008 (unaudited) (in thousands of dollars)

## 1. Organization

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

These consolidated financial statements include the accounts of Brookfield Real Estate Services Fund, its wholly-owned subsidiary RL RES Holding Trust ("RLHT"), and its 75% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP"), Residential Income Fund L.P. (the "Partnership"), 9120 Real Estate Network, L.P. ("LCLP"), a wholly owned subsidiary of the Partnership, and 9188-5517 Quebec Inc., the "General Partner of LCLP". RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. (the "non-controlling interest") owns the remaining 25% interest in the Partnership and the RIFGP. The Fund receives certain management, administrative and support services from Brookfield Real Estate Services Ltd. ("BRESL"), a party related to the non-controlling interest via common control.

### Seasonality

The Fund's business follows a seasonal pattern, with revenue traditionally being lower in the first and fourth quarters. Due to this seasonality, the interim earnings statements are not necessarily indicative of annual earnings.

## 2. Summary of Accounting Policies

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements except as noted below. They do not include all the information and disclosure required by GAAP for annual audited financial statements, and should be read in conjunction with the December 31, 2008 annual consolidated financial statements.

On January 1, 2009, the Fund adopted CICA Handbook Section 3064 – Goodwill and Intangible Assets. Section 3064 replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. Section 3064 established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Fund has evaluated this standard and determined that there is no impact to the consolidated financial statements.

During the quarter, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparties in determining the fair value of financial assets and liabilities. EIC 173 must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Fund has evaluated this standard and determined there is no impact to the consolidated financial statements.

## 3. Future Income Taxes

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011. This trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

Due to the enactment of trust legislation, while the Fund is expected to not be liable for current taxes until January 1, 2011, beginning June 12, 2007, the Fund recognized future income taxes arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rates of 30.5% applicable to the Fund in 2011 and 29% applicable after January 1, 2012.

The Fund had a future income tax asset of \$1,867 at December 31, 2008. During the six months ended June 30, 2009, the Fund recorded an additional non-cash future tax asset of \$60. The resulting total future income tax asset was \$1,927 at June 30, 2009.

## Notes to the Interim Consolidated Financial Statements

The assets of LCLP acquired by the Partnership as described in Note 4 were obtained on a tax-deferred basis with the related tax value attributed to the partnership units of LCLP held by the Partnership. Accordingly, the individual franchise agreements and trademarks of the partnership at the time of acquisition by the Fund did not have a tax basis. The temporary difference between the carrying value of these agreements and zero tax basis resulted in a future income tax liability. Under GAAP the Fund is required to adjust the carrying value of the acquired assets by an amount equal to the income tax liability.

The Fund had future income tax liabilities of \$3,060 at December 31, 2008. During the six months ended June 30, 2009, the Fund recorded an additional income tax liability of \$153, in response to a 1% increase in the corporate taxation rate enacted on March 12, 2009. The total income tax liability at June 30, 2009 was \$3,213. When the future income tax liabilities are net against the future income tax assets described above, the results are a net future income tax liability of \$1,286 and \$1,193 at June 30, 2009 and December 31, 2008, respectively.

In 2011, when the Fund becomes a taxable entity, income taxes payable may reduce net earnings and may affect distributable cash by an equal amount.

### 4. Asset Acquisitions

On January 1, 2009, the Partnership acquired 18 new Royal LePage franchise agreements from BRESL. The estimated purchase price of \$2,532 is based on an estimated annual royalty stream of \$481 and has been calculated in accordance with a formula set out in the Amended and Restated Management Services Agreement (the "MSA"). A deposit of \$2,025, equal to 80% of the estimated purchase price, was paid from cash on hand on January 2, 2009 and the remainder is to be paid a year later, when the final purchase price is determined in accordance with the terms set out in the MSA. The Partnership used cash reserves to acquire these agreements.

On January 1, 2009, LCLP acquired three new La Capitale franchise agreements from BRESL. The estimated purchase price of \$903 is based on an estimated annual royalty stream of \$201 and has been calculated in accordance with a formula set out in the MSA. A deposit of \$723, equal to 80% of the estimated purchase price, was paid from cash on hand on January 6, 2009. The estimated price is to be revised at the end of each of the next three years based on the average annual royalty stream earned over the three-year period from November 1, 2008 to October 31, 2011. The Partnership used cash reserves to acquire these agreements.

During the first year, each quarter the purchase price obligation is recalculated based on the actual royalties received. Correspondingly, the deposit on acquisition is reduced by the calculated amount and transferred to intangible assets. The intangible assets are then amortized in accordance with the Fund's policy on a prospective basis. The recalculated purchase price obligation in excess of the deposit on acquisition is recorded as a purchase obligation and the corresponding amount added to the intangible assets and amortized as described above. For La Capitale acquisitions, at the end each of the subsequent two years, the purchase obligation is recalculated based on the average annual royalties received.

During the three and six months ended June 30, 2009, \$873 and \$2,049 respectively were transferred from deposit on acquisition to intangible assets.

On January 1, 2008, the Partnership acquired 16 new Royal LePage franchise agreements from BRESL at a purchase price of \$3,984 and \$303 of related legal and other acquisition costs, in accordance with the terms set out in the MSA.

On January 1, 2008, the Partnership acquired 100% of the partnership units of LCLP, which holds franchise agreements operating under the La Capitale brand in Quebec and associated trademarks, and 100% of the shares of the General Partner of LCLP for an estimated purchase price of \$18,907, including \$151 of related legal and other acquisition costs, from Trilon Bancorp Inc., the parent company of BRESL. The estimated purchase price is calculated in accordance with the terms of the Fund's MSA and the Unit and Share Purchase Agreement negotiated by the Fund's Trustees and is based on an estimated annual royalty stream of \$2,718. The estimated price is to be revised at the end of each of the next two years based on the average annual royalty stream earned over the three-year period from November 1, 2007 to October 31, 2010.

The purchase obligations consist of the following:

	June 30, 2009			December 31, 2008
	Royal LePage	LCLP	Total	Total
Obligation at beginning of period	\$ 1,319	\$ 4,892	\$ 6,211	\$ 2,295
Payment of current obligations	(1,319)	(1,732)	(3,051)	(2,295)
	–	3,160	3,160	–
Legal and other acquisition costs for the current year	24	11	35	454
Payment of acquisition costs	(22)	–	(22)	(69)
Purchase obligation at the end of the period	\$ 2	\$ 3,171	\$ 3,173	\$ 385
80% deposit paid on current year's additions	\$ (2,025)	\$ (723)	\$ (2,748)	\$ (16,914)
Earned asset value during the period	1,377	672	2,049	22,740
Deposit on acquisition at the end of the period	\$ (648)	\$ (51)	\$ (699)	\$ 5,826
Net purchase obligation (deposit on acquisition)	\$ (646)	\$ 3,120	\$ 2,474	\$ 6,211
Deposit on acquisition	\$ (648)	\$ (51)	\$ (699)	\$ –
Purchase obligation, short-term	2	1,591	1,593	3,031
Purchase obligation, long-term	–	1,580	1,580	3,180
Net purchase obligation (deposit on acquisition)	\$ (646)	\$ 3,120	\$ 2,474	\$ 6,211

## 5. Intangible Assets

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

	June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	\$ 148,548	\$ 83,878	\$ 64,670
Relationships and trademarks	58,011	2,258	55,753
	\$ 206,559	\$ 86,136	\$ 120,423

	December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	\$ 147,176	\$ 76,279	\$ 70,897
Relationships and trademarks	57,299	1,549	55,750
	\$ 204,475	\$ 77,828	\$ 126,647

The additions to intangible assets during the six months ended June 30, 2009 and 2008 are summarized as follows:

	Royal LePage	LCLP	Six months ended June 30, 2009	Six months ended June 30, 2008
Franchise agreements	\$ 1,068	\$ 304	\$ 1,372	\$ 6,906
Relationships and trademarks	333	379	712	6,063
	\$ 1,401	\$ 683	\$ 2,084	\$ 12,969

# Notes to the Interim Consolidated Financial Statements

## 6. Operating Credit Facility

On February 16, 2005, the Partnership obtained a credit facility (the “revolver”) of up to \$2,000 from a Canadian financial institution. This revolver may be used to provide working capital to the Partnership from time to time. The revolver is subject to annual renewal with outstanding principal under the revolver subject to interest at the lender’s prime rate plus 1% to 1.5% or the Bankers’ Acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. As at June 30, 2009, the operating credit facility had not been drawn upon.

The operating credit facility expires February 17, 2010.

## 7. Long-Term Debt

A summary of the Fund’s long term debt is comprised of the following debt facilities, both of which mature on February 17, 2010:

As at	June 30, 2009	December 31, 2008
Private debt placement	\$ 37,882	\$ 37,791
Term Facility	14,894	13,824
	<b>\$ 52,776</b>	<b>\$ 51,615</b>

### a) Private Placement

On February 18, 2005, the Partnership completed the issuance of a \$38,000 private debt placement, net of \$822 in issue costs (the “private placement”) provided by Canadian institutional investors. The private placement is for a five-year term with interest fixed at 5.882%, and interest only payable quarterly in arrears.

The private placement had a fair value of \$37,846 at June 30, 2009 (2008 – \$37,406).

During the three and six months ended June 30, 2009, \$46 and \$91, respectively of amortization of the issue costs was recorded as interest expense (2008 – \$43 and \$86).

### b) Term Facility

On April 4, 2008, in connection with the LCLP acquisition, the Partnership completed a \$15,000 Term Facility with a single Canadian financial institution from which the Fund drew down \$14,000 on closing. Interest on the Term Facility is available in the form of floating prime rate payable quarterly, or a Bankers’ Acceptance rates plus 1% with terms of up to six months. The Fund paid \$285 in issue costs for the Term Facility.

On April 7, 2008, the Partnership entered into an interest rate swap agreement, which fixed the variable portion of the term facility’s interest at 3.29%, which when added to the 1% stamp fee, results in an annual interest rate of 4.29%, excluding legal and associated costs, over the term of the facility. The Term Facility and interest rate swap mature on February 17, 2010.

On April 2, 2009 the Fund drew down the remaining \$1,000 of the Term Facility at the floating prime rate.

During the three and six months ended June 30, 2009, \$39 and \$76, respectively of amortization of issue costs was recorded as interest expense (2008 - \$26 and \$26).

The interest rate swap is a financial derivative valued separately from the Term Facility. The Fund values the swap agreement at its market value, which as at June 30, 2009 was in an unrealized loss position of \$300. Changes in the value of the swap agreement are recorded as other income or loss. During the three and six months ended June 30, 2009, \$72 and \$65, respectively was recorded as other income (2008 - \$62 and \$62).

The Term Facility had a fair value of \$15,000 on June 30, 2009.

## 8. Fund Units

On October 3, 2008, the Toronto Stock Exchange (“TSX”) approved the Fund’s notice of intention to make a normal course issuer bid (“NCIB”) for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases are made at market prices in accordance with the rules and policies of the TSX. Daily purchases are effected through the facilities of the TSX and limited to 3,800 units, other than block purchase exceptions.

The Fund believes that the purchase by the Fund of a portion of its outstanding units may from time to time be an appropriate use of available resources and in the best interests of the Fund and its unitholders.

The Fund finances these purchases with a special distribution from the Partnership. Units purchased are cancelled at the end of each month.

During the first quarter of 2009, the Fund purchased and cancelled 168,400 units at a total cost of \$1,459. The repurchased units had an issued value of \$1,684, resulting in a contributed surplus of \$225. During the three months ended June 30, 2009, the Fund did not repurchase any outstanding units. On January 8, 2009, the Fund paid the \$942 NCIB settlement payable at December 31, 2008.

Fund Units	June 30, 2009		June 30, 2008	
	Units	Amount	Units	Amount
Beginning of period	9,819,280	\$ 91,301	9,983,000	\$ 92,938
NCIB purchases	(168,400)	(1,684)	–	–
End of period	9,650,880	\$ 89,617	9,983,000	\$ 92,938

## 9. Earnings per Unit

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

## 10. Related Party Transactions

Unless disclosed elsewhere, the Fund had the following transactions with parties related to the non-controlling interest during the three and six months ended June 30, 2009 and 2008. These transactions have been recorded at the exchange amount agreed to between the parties.

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
a) Royalties				
Fixed, variable and other franchise fees	\$ 584	\$ 603	\$ 1,104	\$ 1,209
Premium franchise fees	\$ 768	\$ 945	\$ 1,126	\$ 1,719
b) Expenses				
Management fees	\$ 1,653	\$ 1,765	\$ 2,918	\$ 3,238
Insurance and other	\$ 27	\$ 25	\$ 54	\$ 50
Interest on purchase obligation	\$ –	\$ 210	\$ –	\$ 210
c) Distributions				
Distributions paid to non-controlling interest	\$ 1,168	\$ 1,036	\$ 2,336	\$ 2,076

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

As at	June 30, 2009	December 31, 2008
d) Accounts receivable		
Franchise fees receivable and other	\$ 633	\$ 394
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	\$ 389	\$ 389
Management fees	\$ 619	\$ 417
NCIB settlement payable	\$ –	\$ 942
f) Purchase obligation payable	\$ 3,173	\$ 6,211

# Notes to the Interim Consolidated Financial Statements

## 11. Financial Instruments

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

### a) Credit Risk

Credit risk arises from the possibility that the franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Fund's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

### b) Liquidity Risk

The Fund is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs including paying ongoing future distributions to unitholders. There is a risk that the lenders will not refinance maturing debts on terms and conditions acceptable to the Fund or on any terms at all. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the long-term debt. Also, the Fund has \$2,000 unutilized credit under the Operating Credit Facility described in note 6.

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

	2009	2010	2011	Total
Accounts payable and accrued liabilities	\$ 1,768	\$ –	\$ –	\$ 1,768
Purchase obligations	13	1,580	1,580	3,173
Distributions payable to unitholders	1,128	–	–	1,128
Private debt placement	–	38,000	–	38,000
Term Facility	–	15,000	–	15,000
<b>Total</b>	<b>\$ 2,909</b>	<b>\$ 54,580</b>	<b>\$ 1,580</b>	<b>\$ 59,069</b>

### c) Interest Rate Risk

The Fund has chosen to mitigate the interest rate associated with the Term Facility by entering into an interest rate swap agreement to effectively fix the interest rate associated with the Term Facility.

### d) Fair Value

The fair value of the Fund's financial instruments, which consist of cash, accounts receivable, deposits on acquisitions, accounts payable and accrued liabilities, purchase obligation and distributions payable to unitholders are estimated by management to approximate their carrying values due to their short term nature. Similarly, the Fund's floating rate debt has a fair value that approximates its face values. The Fund determines the fair value of the fixed rate debt through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium. The fair values of the Fund's long-term debt and derivative liability are disclosed in note 7.

## 12. Management of Capital

The Fund's capital is comprised of its cash reserves, long-term debt, unitholders' equity and non-controlling interest.

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

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

The covenants of the long-term debt prescribe that the Fund must maintain a ratio of Adjusted Earnings Before Income Taxes, Depreciation and Amortization ("Adjusted EBITDA") to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Adjusted EBITDA at a maximum 2.25 to 1. The Fund is compliant with all financial covenants.

There were no changes in the Fund's approach to capital management during the period.

## 13. Subsequent Events

During the month of July 2009, the Fund purchased and cancelled 167,030 units at a total cost of \$1,403. As at July 31, 2009, The Fund has purchased and cancelled the maximum allowable units under the NCIB described in note 8.







# Unitholder Information

## Officers

**Philip Soper,**  
President and Chief Executive

**Kevin Cash,**  
Chief Financial Officer

## Board of Trustees

**George Myhal,**  
Chairman

**Lorraine Bell**  
**Simon Dean**  
**Allen Karp**  
**Gail Kilgour**

We regularly provide unitholders with information about the Fund through our annual report, quarterly reports, and new releases. Information is available online at [www.brookfieldres.com](http://www.brookfieldres.com). On the website you will find information about the Fund, the industry, news releases, statutory filings, units and distribution information.

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## Auditors

Deloitte & Touche LLP

## Corporate Counsel

Goodmans LLP

## TSX symbol: BRE.UN

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

## Please Direct Inquiries to:

**Jane Watson**

Investor Relations

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