

Q3



## **ABOUT THE ROYAL LePAGE FRANCHISE SERVICES FUND**

The Royal LePage Franchise Services Fund is a leading provider of services to residential real estate brokers and their Realtors. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating under the Royal LePage and Johnston & Daniel brand names. As at September 30, 2006, the Fund Network was comprised of 12,201 Realtors operating from 579 locations under 276 franchise agreements. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume. Royal LePage Franchise Services Fund is a TSX listed income trust, which pays monthly distributions and trades under the symbol "RSF.UN".

## Q3 2006 INTERIM REPORT TO UNITHOLDERS

### LETTER TO UNITHOLDERS

#### Financial and Operating Highlights For the three months ended September 30, 2006 and 2005

	Q3 2006		Q3 2005	
	(thousands)	(per unit)	(thousands)	(per unit)
Royalties	\$ 8,470	\$ 0.64	\$ 7,937	\$ 0.60
Operating earnings before management fees <sup>1</sup>	\$ 7,702	\$ 0.58	\$ 7,210	\$ 0.54
Net earnings	\$ 1,848	\$ 0.19	\$ 2,024	\$ 0.20
Distributable cash <sup>2</sup>	\$ 6,162	\$ 0.46	\$ 6,295	\$ 0.47
Distributions	\$ 3,827	\$ 0.29	\$ 3,662	\$ 0.28

<sup>1</sup> Defined as royalties less administration expense and interest expense. Operating earnings before management fees does not have a standardized meaning under Canadian generally accepted accounting principles and accordingly may not be comparable to similar measures used by other issuers.

<sup>2</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 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 that distributable cash should be not construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows.

Royal LePage Franchise Services Fund (the "Fund") is pleased to report record results for the third quarter of 2006. Royalty revenue for the three months ended September 30, 2006 (the "Quarter") totalled \$8.5 million, a 6.7% increase over the same period in 2005. Operating earnings before management fees for the third quarter increased 6.8% over the same period in 2005 to \$7.7 million. This performance reflects growth in the Fund's underlying network of Realtors, and continued strength in the residential resale housing market.

Distributable cash for the quarter of \$6.2 million decreased \$0.1 million or 1.6% compared to \$6.3 million in the third quarter of 2005. Net earnings of \$1.8 million or \$0.19 per unit decreased \$0.2 million or 10.0% compared to earnings of \$2.0 million or \$0.20 per unit in the third quarter of 2005. The reduction in the Fund's distributable cash and net earnings during the quarter compared with the prior year mainly reflected the Fund's previously announced decision, commencing in the first quarter of 2006, to accrue all management fees as earned.

#### Fund Growth

During the third quarter, the Fund network grew organically by 39 Realtors. Together, with the 274 Realtors added during the first six months of 2006, the Fund has grown organically by 313 Realtors or 2.6% since January 1, 2006. With the anticipated acquisition of franchise contracts on January 1, 2007 with 375 agents, the Fund network would have combined growth of 688 new Realtors, which exceeds our 2006 growth objective of adding 500 new Realtors.

#### Fund Structure

The Fund generates both fixed and variable fees. Variable fees are primarily driven by 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 65% of the Fund's revenue is based on fixed fees from a large number of long-term franchisee contracts, which stabilizes revenue and keeps the Fund insulated from market fluctuations.

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

On October 31st, Canada's Finance Minister announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. For income trusts that were publicly traded on October 31, 2006, including the Fund, it is proposed that the new tax will first apply to the 2011 taxation year. At this time, it is too early to determine the extent to which the proposed legislation will affect the Fund; accordingly management will continue to monitor and analyze this situation and its implications to the Fund as they develop.

### **Outlook**

Canada's solid market continued to advance during the third quarter, characterized by a moderating pace in both unit sales and average price appreciation relative to the first half of the year and 2005. However, the housing market in Western provinces, notably in Alberta, is still experiencing double digit growth as a result of the high migration and manageable affordability in this booming energy-based economy.

Nationally, we expect that the moderating growth trend in housing markets will continue for the remainder of the year. Strong economic conditions, low unemployment rates, modestly growing salaries and wages, and sound consumer confidence are contributing to the overall strength of the residential real estate sector. For all but the West, we expect to see continued single digit increases in housing prices. The sellers' market that we have lived with for some years has been replaced by a healthy balanced market characterized by more reliable conditions. With excellent coverage across the country, and higher Realtor productivity than the industry as a whole, the Fund remains well positioned to continue to generate growth for our unitholders.

From a North American perspective, Canada's housing market is likely to outperform the American market throughout 2007. A number of factors are working in Canada's favour, including healthy personal and governmental debt levels, the relatively modest rise in interest rates in our country, and general affordability in our major cities.



Philip Soper

President and Chief Executive Officer



Kevin Cash

Chief Financial Officer

## **FORWARD-LOOKING STATEMENTS**

Any “forward-looking statements” in this report such as “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 general economic conditions, interest rates, availability of equity and debt financing and other risks detailed from time to time in the Fund’s reports filed with Securities Commissions. 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.

# Financial Review

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Financial Highlights	5
Overview	5
Structure of the Fund	6
Operations Overview	6
The Canadian Residential Resale Real Estate Market	8
The Canadian Real Estate REALTOR Population	8
The Fund Network	9
Operating Results	11
Distributions	13
Distributable Cash	13
Acquisitions and Deposits on Acquisitions	15
Private Debt Placement	15
Liquidity	16
Capital Resources	16
Off-Balance Sheet Arrangements	17
Transactions With Related Parties	17
Critical Accounting Estimates	17
Financial Instruments	17
Outstanding Units	17
Fund Structure	18
Taxation of Fund Distributions	18
Outlook	19
Supplemental Information	20
Consolidated Financial Statements	26

## INTRODUCTION

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

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

## FINANCIAL HIGHLIGHTS

(\$ 000's, except Agents and Sales Representatives)	<b>Three months ended September 30, 2006</b>	Three months ended September 30, 2005	<b>Nine months ended September 30, 2006</b>	Nine months ended September 30, 2005
Royalties	<b>\$ 8,470</b>	\$ 7,937	<b>\$ 22,894</b>	\$ 20,671
Less:				
Administration expenses	<b>163</b>	125	<b>513</b>	393
Interest expense	<b>605</b>	602	<b>1,795</b>	1,685
Management fee	<b>1,540</b>	915	<b>6,080</b>	2,745
Earnings and distributable cash	<b>\$ 6,162</b>	\$ 6,295	<b>\$ 14,506</b>	\$ 15,848
Distributions	<b>\$ 3,827</b>	\$ 3,662	<b>\$ 11,478</b>	\$ 10,985
Number of Agents <sup>1</sup> and Sales Representatives <sup>2</sup>	<b>12,201</b>	11,337	<b>12,201</b>	11,337

The table above sets out selected historical information and other data, which should be read in conjunction with the attached consolidated financial statements for the three months (the "Quarter") and nine months ended September 30, 2006. The consolidated financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles ("GAAP"). External economic and industry factors remain substantially unchanged from the previous quarter, unless otherwise stated.

On October 31st, Canada's Finance Minister announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. For income trusts that were publicly traded on October 31, 2006, including the Fund, it is proposed that the new tax will first apply to the 2011 taxation year. At this time, it is too early to determine the extent to which the proposed legislation will affect the Fund; accordingly management will continue to monitor and analyze this situation and its implications to the Fund as they develop. In the meantime, the business fundamentals for the Fund remain strong and we will continue to build the business to create long-term sustainable value for unitholders.

## OVERVIEW

This MD&A covers the period from January 1, 2006 to September 30, 2006 and has been prepared as at November 8, 2006.

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

Management of the Fund is governed by a Management Services Agreement ("MSA"). The services under the MSA are provided by Residential Income Fund Manager ("Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"), formerly Brascan Corporation. 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 a 25% subordinated interest in the Fund (see Transactions with Related Parties).

As at September 30, 2006, the Fund Network was comprised of 12,201 REALTORS<sup>3</sup> operating from 579 locations under 276 franchise agreements. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market 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 is defined as an individual licensed to trade in Real Estate and includes Brokers, Agents and Sales Representatives.

## STRUCTURE OF THE FUND

### Royalty Fees

The Fund generates royalties with both fixed and variable fee components. Approximately 65% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of selling-REALTORS in the network, increasing Agent and broker productivity, and an increasing supply of new housing inventory provides the base for a strong, stable and growing cash flow. A summary of these fees is as follows:

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

Prior to July 1, 2005, the fixed fee of \$100 and technology fee was based on the number of Agents in the Fund Network. Effective July 1, 2005, franchisees began paying the fixed monthly fee of \$100 and a technology fee for Sales Representatives. This change only affected Sales Representatives that are selling-REALTORS, and excludes broker-owners and managers. As of September 30, 2006, there were 894 Sales Representatives, 644 of which pay the fixed franchise fees. The majority of the remaining 250 Sales Representatives are brokers and managers.

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

For the Quarter, approximately 89% (89% – 2005) of the Fund’s royalties were derived from the combined fixed fee of \$100 per selling-REALTOR per month, 1% variable fee and premium fees. The remaining royalty stream was generated from technology fees, 4.5% option and web services and other fees.

### Monthly Distributions

Effective January 1, 2006, the target annual cash distribution was increased from \$1.10 per unit to \$1.15 per unit. Public unitholder cash distributions are made monthly.

To reduce unitholder risk, 25% of the Fund’s units, which are held by BAM are subordinated in their rights to distributions until public unitholders receive their initial target distributions of \$0.0917 per unit per month, \$1.10 per unit per annum. This subordination is in place until August 7, 2008.

## OPERATIONS OVERVIEW

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

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



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

### **Number of REALTORS in the Fund**

- During the Quarter, the Fund Network increased by 39 REALTORS. Together with the 274 REALTORS added during the first six months of 2006, the Fund achieved organic growth of 313 REALTORS or 2.6% since January 1, 2006. This organic growth is in addition to the 346 REALTORS who joined the Fund Network with the 16 franchise agreements acquired on January 1, 2006.

### **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 residential resale real estate market (the “market”<sup>4</sup>) remained healthy despite a moderating pace in both housing unit sales and average price appreciation relative to the first six months of the year and the same period in 2005. Some regional differences still exist with the Western provinces experiencing double digit growth in unit sales and average price appreciation as a result of the booming oil industry, however, this growth has also begun to moderate. Despite the continued rise in housing prices, housing remained affordable, driven by strong employment prospects, low mortgage rates and the introduction of new mortgage products with 30 and 35-year mortgage amortization periods as well as interest only mortgages. A summary of the market and related activity as reported by Canada Mortgage and Housing Corporation (“CMHC”), Canadian Real Estate Association (“CREA”) and the Toronto Real Estate Board (“TREB”), follows:

- Canada’s annual rate of housing starts, the market’s future inventory, totalled 227,748 as of September 30, 2006, and was almost unchanged with a decrease of 0.1% over the same period in 2005.
- The Canadian resale market totalled \$132.2 billion for the 12 months ended September 30, 2006, an increase of 13.8% over the same period in 2005.
- The year-over-year growth in the Canadian market for the 12 months ended September 30, 2006, was fuelled by an 11.2% increase in average selling price to \$272,145 and a 2.3% increase in residential unit sales to 485,733.
- During the Quarter and the nine months ended September 30, 2006, new MLS listings for the overall Canadian housing market were up 6% and 5% respectively, over the same periods in 2005. In contrast, during the Quarter and the nine months ended September 30, 2006, unit sales were down 7% and up 1% respectively, over the same periods in 2005. As a result of this increase of listings relative to new sales, a more balanced market has emerged. For the Quarter, new MLS listings as reported by CREA exceeded the 200,000 mark for the first time and set new quarterly records for the provinces of Alberta and Quebec.
- The GTA market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of \$29.8 billion for the 12 months ended September 30, 2006, a 5.8% increase over the same period in 2005. This market activity was fuelled by the sale of 85,330 homes at an average selling price of \$349,689, a 0.6% increase in homes sold and a 5.2% increase in average price per home, over the same period in 2005. Total unit sales and transaction dollar volume, as reported by TREB during the Quarter, were down 6.9% and 3.0% respectively from the record sales activity achieved during the same period in 2005.
- Strong consumer confidence combined with overall housing affordability continues to encourage existing homeowners to trade up to larger, more expensive dwellings.

### **Stability of the Fund’s royalty stream**

- The Fund’s royalties are derived primarily from a diverse national network of 276 independently owned and operated franchises, the majority of which operate with less than 100 Agents.
- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian REALTOR population.
- During the Quarter, one expiring agreement was renewed and seven other agreements were renewed in advance of their expiry. There have been a total of 13 early renewals during the first nine months of 2006.
- During the Quarter, one franchise agreement was terminated due to the retirement of the Broker thus, resulting in the loss of one location serviced by two REALTORS. During the first nine months of the year, two franchise agreements representing three locations and 12 REALTORS have been terminated.
- The Fund has secured 10, 15 and 20-year agreements, exceeding the industry norm of five-year agreements.
- As at September 30, 2006, the Fund had \$4.6 million in distributable cash not yet distributed which is being held for future cash flow considerations such as seasonal fluctuations in the business, to fund acquisitions, to service any indebtedness, fund debt repayment requirements or pay additional distributions.

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

**Fund growth opportunities**

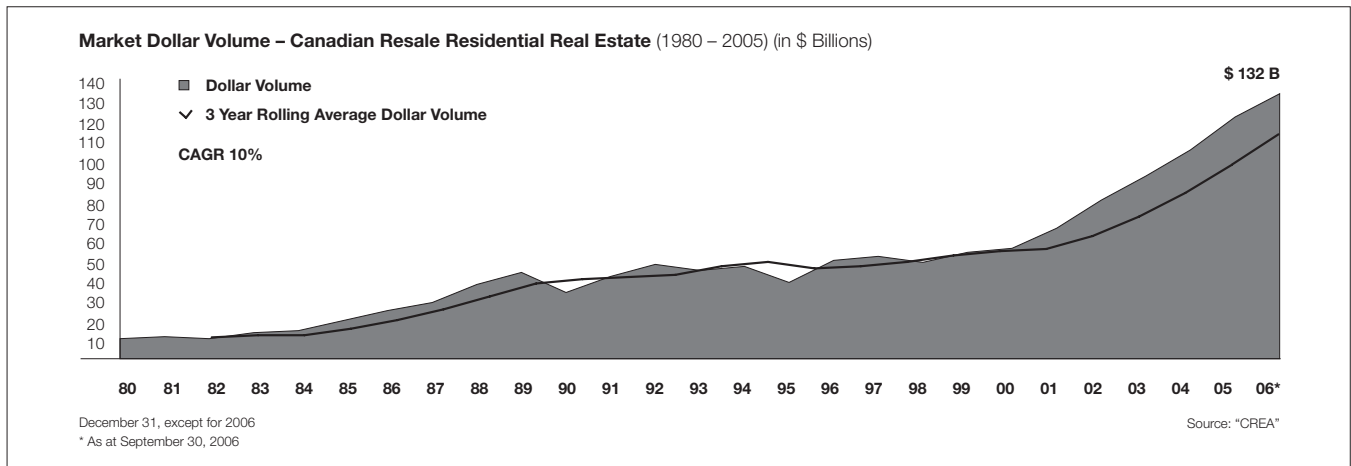
Our growth objective was to add between 300 to 500 REALTORS to the Fund Network during 2006, with approximately one half of this growth from acquisitions and one half from internal growth. Growth through acquisition is achieved through the Manager's dedicated network development team operating under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

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

- Organic growth for the Quarter and the nine months ended September 30, 2006 totalled 39 and 313 REALTORS, respectively.
- Since November 4, 2005, franchises operating from 20 locations serviced by 375 Agents were added to the Royal LePage brand. The Manager anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2007. The estimated purchase price of these contracts is \$6.9 million.
- The combination of organic growth and the anticipated franchise contract acquisitions on January 1, 2007, represents 688 new REALTORS, which exceeds our 2006 growth objective of adding 500 new REALTORS.
- 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.

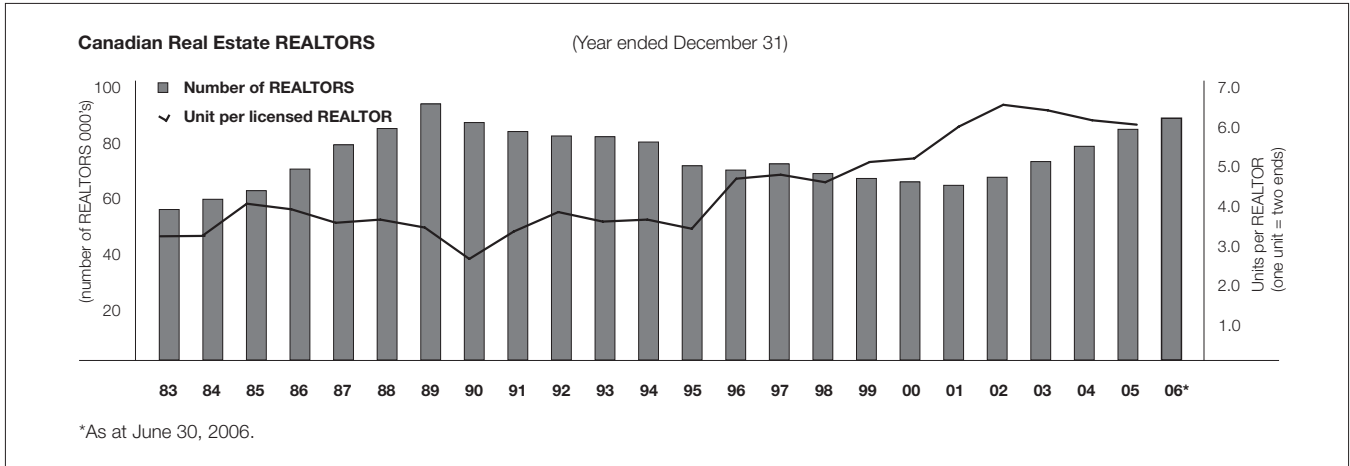
**THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET**

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



**THE CANADIAN REAL ESTATE REALTOR POPULATION**

The number of REALTORS in the Fund Network is a key driver of the Fund's results. For the year ended December 31, 2005, on the strength of a record residential resale real estate market, the Canadian real estate REALTOR membership grew by 8.0% to 82,852 members with an average of six units sold per REALTOR. The number of REALTORS in the Fund Network grew by 13.8% over the same period. For the six months ended June 30, 2006, the Fund Network REALTOR population grew by 5.3% while in comparison, the Canadian REALTOR population grew by 4.8% over the same period. The Canadian REALTOR population and the average number of units sold per REALTOR are summarized in the charts on the following pages.

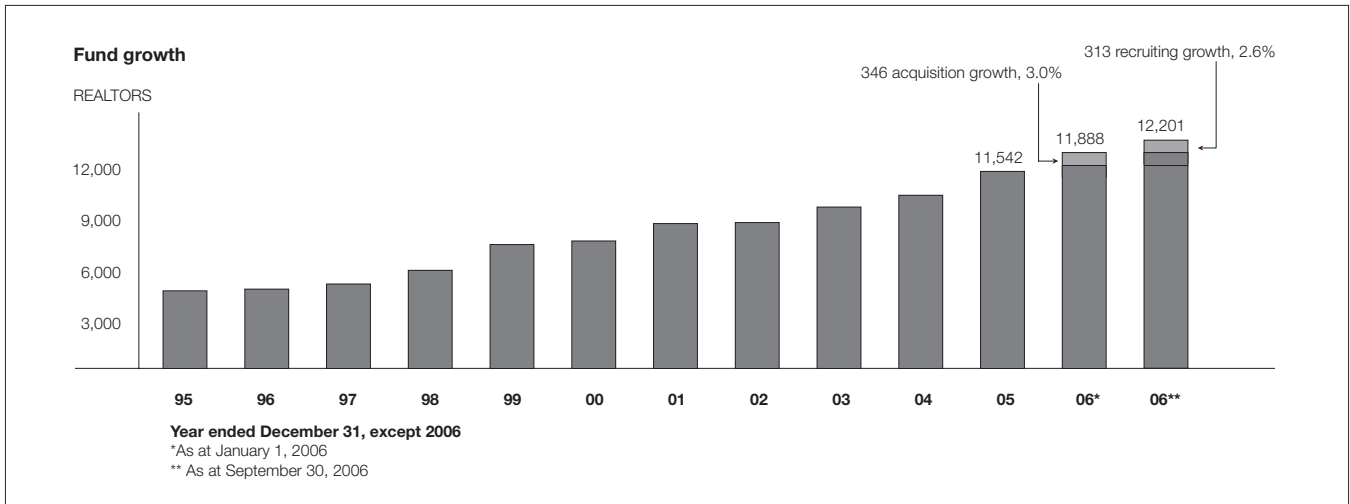


**THE FUND NETWORK**

**Realtor growth**

As at September 30, 2006, the Fund Network was comprised of 276 independently owned and operated franchises operating from 579 locations serviced by 12,201 REALTORS, with an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

With the addition of 346 REALTORS from the 16 franchise agreements acquired by the Fund on January 1, 2006, the Fund began 2006 with 11,888 REALTORS for a total increase of 1,185 REALTORS, or 11% from January 1, 2005.



A summary of the Canadian and Fund's growth in REALTORS during the nine months ended September 30, 2006 follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
<b>Opening</b>	<b>82,852</b>	<b>—</b>	<b>11,542</b>	<b>—</b>
Q1	2,509	3.0%	443	3.8%
Q2	1,477	1.8%	177	1.5%
Q3	N/A		39	0.3%
<b>Closing</b>	<b>86,838</b>	<b>4.8%</b>	<b>12,201</b>	<b>5.6%</b>

\* Source: CREA

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

### Network diversity

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

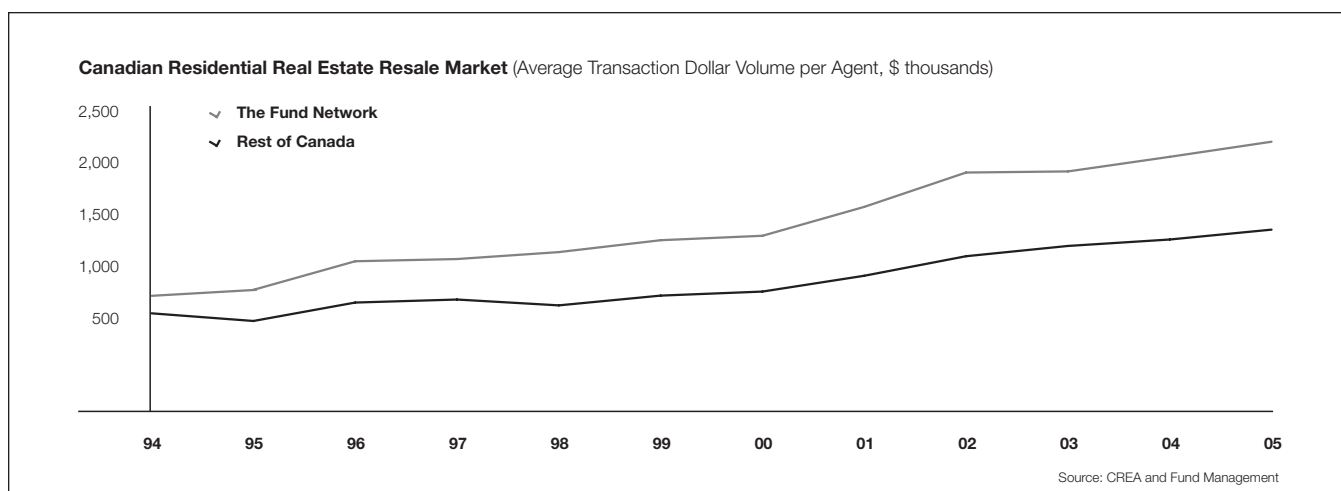
	Canadian <sup>1</sup> REALTOR Population	Fund <sup>2</sup> Network REALTORS
Ontario	50%	53%
Prairies	14%	12%
BC	18%	16%
Quebec	14%	15%
Maritimes	4%	4%
Total	100%	100%

<sup>1</sup> As at June 30, 2006, Source: CREA

<sup>2</sup> As at September 30, 2006

### Realtor productivity

The average Fund Network REALTOR generated approximately \$2.3 million in transactional dollar volume in 2005, 5% greater than 2004 and 64% greater than the estimated average of \$1.4 million for all other Canadian REALTORS. Management believes the higher productivity of Fund Network REALTORS makes the Fund less prone than the industry at large to losing its REALTORS during a period of reduced transaction dollar volume. A summary of average transaction dollar volume per agent for the 12 months ended December 31, 1995 through 2005 is as follows:



## OPERATING RESULTS

(\$ 000's, except unit and per unit amounts)	<b>Three months ended September 30, 2006</b>	Three months ended September 30, 2005	<b>Nine months ended September 30, 2006</b>	Nine months ended September 30, 2005
Royalties				
Fixed franchise fees	<b>\$ 3,485</b>	\$ 3,127	<b>\$ 10,318</b>	\$ 9,071
Variable franchise fees	<b>2,377</b>	2,444	<b>6,485</b>	6,010
Premium franchise fees	<b>1,685</b>	1,497	<b>3,498</b>	3,176
Other fee revenue and services	<b>923</b>	869	<b>2,593</b>	2,414
	<b>8,470</b>	7,937	<b>22,894</b>	20,671
Less:				
Administration expenses	<b>163</b>	125	<b>513</b>	393
Interest expense	<b>605</b>	602	<b>1,795</b>	1,685
Management fee	<b>1,540</b>	915	<b>6,080</b>	2,745
Earnings before undernoted	<b>6,162</b>	6,295	<b>14,506</b>	15,848
Amortization of intangible assets	<b>3,657</b>	3,569	<b>10,893</b>	10,561
Non-controlling interest	<b>657</b>	702	<b>1,002</b>	1,396
Net earnings	<b>\$ 1,848</b>	\$ 2,024	<b>\$ 2,611</b>	\$ 3,891
Basic and diluted earnings per unit (9,983,000 units)	<b>\$ 0.19</b>	\$ 0.20	<b>\$ 0.26</b>	\$ 0.39

**Royalties** for the Quarter of \$8.5 million and for the nine months ended September 30, 2006 of \$22.9 million increased 7% and 11%, respectively, over the same periods in 2005.

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

Fixed franchise fees, variable franchise fees and premium franchise fees together represented 89% of royalties for both the Quarter and nine months ended September 30, 2006. Fixed franchise fees increased 11% and 14% for the Quarter and nine months ended September 30, 2006, respectively. This increase exceeds the increase in the underlying Agents, as Sales Representatives began paying the \$100 fixed fee per month effective July 1, 2005.

Variable franchise fees decreased 3% for the Quarter and increased 8% for the nine months ended September 30, 2006, over the same periods in 2005 while the market activity increased 3% and 12%, respectively. The market activity for the Quarter outpaced the variable fees for the same period in 2006 due to the combination of Agents reaching the annual 1% cap of \$1,300 and the timing of the earning of variable 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 such, some of the market activity during the Quarter is expected to materialize as variable fees in the quarter ending December 31, 2006.

Premium franchise fees are a function of the mix of 22 franchise locations servicing the GTA market, which pay premium fees ranging from 1% to 5% of the location's gross revenue. The premium franchise fees increased by 13% and 10% for the Quarter and the nine months ended September 30, 2006, respectively, over the same periods in 2005, while the GTA market activity for the same periods experienced a 3% decrease and a 5% increase, respectively. As mentioned earlier there is typically a 45 to 60-day delay between the home sale and closing, as such, some of the market activity in the three-month period ended June 30, 2006, closed in the Quarter. As well, market growth experienced in the individual market areas serviced by the premium fee paying franchise locations can sometimes differ from the overall GTA market activity. Some of the moderation in market activity for the Quarter should impact premium fees in the quarter ending December 31, 2006.

Other fees and services accounted for 11% of Fund royalties for both the Quarter and nine months ended September 30, 2006, while for the same periods in 2005 they accounted for 11% and 12%, respectively. These fees, comprised of technology fees, 4.5% option fees, web service and other fees and revenue, increased 6% and 7%, respectively, over the same period in 2005, due primarily to the higher number of REALTORS in the network.

**Administration expenses** for the Quarter and nine months ended September 30, 2006 were in line with management's expectations.

**Interest expense** for the Quarter of \$0.6 million was consistent with the same period in 2005. For the nine months ended September 30, 2006, interest expense increased over the same period in 2005 as we increased our debt and moved from a variable interest rate position on our \$30.6 million term loan to a \$38 million private debt placement at an effective fixed rate of 6.3% on February 18, 2005. Interest expense of \$1.8 million for the nine months ended September 30, 2006 as compared to \$1.7 million for the same period of 2005, is comprised of interest on the Fund's \$38 million private debt placement and amortization of the financing charges incurred to secure the placement. The \$2 million operating line has remained unutilized since inception of the Fund.

#### **Management fee expense**

Management fees of \$1.5 million for the Quarter and \$6.1 million for the nine months ended September 30, 2006 are in line with management's expectations and have been calculated based on the terms set out in the MSA, defined as 20% of royalties less administration expenses, interest expenses and changes in working capital reserves.

Included in the \$6.1 million management fee for the nine months ended September 30, 2006 was an accumulated management fee of \$1.9 million relating to the \$9.4 million of distributable cash previously withheld (see Distributable Cash).

#### **Amortization of intangible assets**

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

**Net earnings** for the Quarter and nine months ended September 30, 2006 totalled \$1.8 million and \$2.6 million, respectively. Net earnings for the Quarter and nine months ended September 30, 2006 represents earnings less non-cash charges of \$3.7 million and \$10.9 million, respectively, of amortization related to intangible assets and \$0.7 million and \$1.0 million, respectively, related to the non-controlling interest's 25% share of the operating results.

**The Fund Network** as at September 30, 2006, was comprised of 11,307 Agents and 894 Sales Representatives, with 11,008 of the Agents operating under the combined flat fee of \$100 per month and 1% of gross earnings option (the “\$100/1% option”), 299 Agents operating under the 4.5% variable fee option (the “4.5% option”) and 644 Sales Representatives operating under the \$100 per month fixed fee plan.

## DISTRIBUTIONS

Distributions were in line with the 2006 annualized targeted distributions of \$1.15 per unit. The tax allocation of distributions declared for 2005 is 86% taxable income and 14% return of capital. The tax allocation for 2006 distributions is estimated at 85% taxable income and 15% return of capital.

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

## DISTRIBUTABLE CASH

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

Distributable cash does not have a standardized meaning under 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. Please see the table under “Distributable cash” for a reconciliation of distributable cash to the comparable GAAP measure in the Fund’s unaudited interim financial statements.

### Distributable cash

(\$ 000's)	<b>Three months ended September 30, 2006</b>	Three months ended September 30, 2005	<b>Nine months ended September 30, 2006</b>	Nine months ended September 30, 2005
Royalties	<b>\$ 8,470</b>	\$ 7,937	<b>\$ 22,894</b>	\$ 20,671
Less:				
Administration expenses	<b>163</b>	125	<b>513</b>	393
Interest expense	<b>605</b>	602	<b>1,795</b>	1,685
Management fee	<b>1,540</b>	915	<b>6,080</b>	2,745
Distributable cash	<b>\$ 6,162</b>	\$ 6,295	<b>\$ 14,506</b>	\$ 15,848

### Distributable cash reconciled to cash flows from operating activities

(\$ 000's)	<b>Three months ended September 30, 2006</b>	Three months ended September 30, 2005	<b>Nine months ended September 30, 2006</b>	Nine months ended September 30, 2005
Cash flows from operating activities	<b>\$ 6,267</b>	\$ 6,764	<b>\$ 14,131</b>	\$ 15,515
Add (deduct):				
Charges in non-cash working capital items	<b>(63)</b>	(429)	<b>502</b>	431
Amortization of deferred charges	<b>(42)</b>	(40)	<b>(127)</b>	(98)
Distributable cash	<b>\$ 6,162</b>	\$ 6,295	<b>\$ 14,506</b>	\$ 15,848

Distributable cash totalled \$6.2 million and \$14.5 million for the Quarter and nine months ended September 30, 2006, respectively. This was in line with management’s expectations.

As at September 30, 2006, the Fund had approximately \$4.6 million in distributable cash not yet utilized as presented in the table below. This undistributed cash is comprised of distributable cash generated by the Fund less distribution to public unitholders, the non-controlling interest and \$8.4 million in cash utilized to meet the Fund's franchise agreement purchase obligations.

From inception through December 31, 2005, the Fund accumulated and retained cash of \$9.4 million, 80% of which was distributable to unitholders and 20% (\$1.9 million) was owed to the Manager as a management fee upon use of the accumulated funds. On January 1, 2006, the trustees utilized the accumulated cash to fund obligations related to the franchise agreements acquired by the Fund in 2005 and 2006 and triggered the recording and payment of the \$1.9 million accumulated management fee.

Consistent with past practice, the trustees intend to prudently withhold some cash that would otherwise be distributed, to provide for seasonal fluctuations in the business, to fund acquisitions; and/or service any indebtedness, debt repayment or future distributions declared. Currently, the Fund anticipates paying all management fees as earned.

### Distributable cash and utilization since fund inception

(\$ 000's)	August 7, 2003 to December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2006	<b>Total</b>
Royalties	\$ 8,802	\$ 23,740	\$ 27,196	\$ 22,894	<b>\$ 82,632</b>
Less:					
Administration expenses	231	513	595	513	<b>1,852</b>
Interest expense	620	1,327	2,289	1,795	<b>6,031</b>
Management fee	1,550	3,660	3,660	6,080	<b>14,950</b>
Distributable cash	6,401	18,240	20,652	14,506	<b>59,799</b>
Less:					
Distributions to public unitholders	4,533	10,985	10,985	8,607	<b>35,110</b>
Distributions to non-controlling interest	1,511	3,662	3,662	2,871	<b>11,706</b>
Funding of acquisitions	—	120	414	7,871	<b>8,405</b>
	\$ 357	\$ 3,473	\$ 5,591	\$ (4,843)	<b>\$ 4,578</b>
Cumulative	\$ 357	\$ 3,830	\$ 9,421	\$ 4,578	

### Distributable cash Reconciled to cash flows from operating activities

(\$ 000's)	August 7, 2003 to December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2006	<b>Total</b>
Cash flows from operating activities	\$ 5,456	\$ 17,772	\$ 20,607	\$ 14,131	<b>\$ 57,966</b>
Add (deduct):					
Changes in non-cash working capital items	945	468	183	502	<b>2,098</b>
Amortization of deferred charges	—	—	(138)	(127)	<b>(265)</b>
Distributable cash	\$ 6,401	\$ 18,240	\$ 20,652	\$ 14,506	<b>\$ 59,799</b>



## **ACQUISITIONS AND DEPOSIT ON ACQUISITIONS**

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

### **2005 Acquisition**

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

As at December 31, 2005, the royalties generated from these agreements resulted in a total purchase price obligation of \$9.9 million. Accordingly, intangible assets were increased by \$9.9 million and the remaining \$2.9 million purchase obligation was paid in January 2006.

### **2006 Acquisition**

On January 1, 2006, the Fund acquired 16 new franchise agreements, operating from 21 locations serviced by 346 REALTORS. As at the date of this MD&A the estimated annual royalties from these contracts is \$0.67 million, resulting in a purchase price of \$5.6 million in accordance with the terms of the MSA. A total of \$5.0 million was paid on the closing date of January 1, 2006 and the balance is expected to be paid by way of cash during the first quarter of 2007, upon meeting the terms and conditions outlined in the MSA.

### **2007 Acquisition**

Since November 4, 2005, franchises operating from 20 locations serviced by 375 Agents were added to the Royal LePage brand. Under the terms of the MSA the Manager anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2007. The estimated purchase price of these contracts is \$6.9 million. At the time of the acquisition, 80% (\$5.5 million) of the estimated purchase price is due.

## **PRIVATE DEBT PLACEMENT AND \$2 MILLION OPERATING LINE**

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

On an annualized basis, as compared to the year ended December 31, 2004, the private debt placement effectively increased the Fund's interest costs by \$1.0 million, from \$1.3 million in 2004 to \$2.3 million, with 23% of the increase coming from the increase in debt from \$30.6 million to \$38 million and the remainder from the increase in the effective interest cost from 4.6% in 2004 to 6.3% (comprised of 5.882% fixed interest plus issue costs) under the private debt placement. In what management anticipates will be a rising interest rate environment, the fixing of the interest rate on the Fund's debt will add stability and predictability to this significant component of the Fund's distributable cash until February 17, 2010.

On February 16, 2005, the Fund replaced its \$2 million operating line with a \$2 million operating line from a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force. The \$0.8 million in issue costs associated with the \$38 million private debt placement and the \$2 million operating line will be amortized over the term of the private debt placement. During the Quarter and nine months ended September 30, 2006, \$42,000 and \$127,000, respectively, of these charges were amortized.

## LIQUIDITY

The Fund utilized cash flow generated from operating activities for the Quarter and nine months ending September 30, 2006 of \$6.3 million and \$14.1 million, respectively, to meet acquisition and distribution requirements, without drawing on its \$2 million operating line.

### Working Capital

(\$ 000's)	As at September 30, 2006	As at June 30, 2006	As at March 31, 2006	As at December 31, 2005
<b>Current assets</b>				
Cash and cash equivalents	\$ 4,708	\$ 2,268	\$ 1,278	\$ 9,941
Accounts receivable and other	3,186	3,381	2,709	2,518
	<b>\$ 7,894</b>	<b>\$ 5,649</b>	<b>\$ 3,987</b>	<b>\$ 12,459</b>
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 2,189	\$ 2,320	\$ 2,573	\$ 2,064
Purchase obligation	27	—	—	2,893
Distribution payable to unitholders	956	957	957	915
	<b>3,172</b>	<b>3,277</b>	<b>3,530</b>	<b>5,872</b>
<b>Net working capital</b>	<b>\$ 4,722</b>	<b>\$ 2,372</b>	<b>\$ 457</b>	<b>\$ 6,587</b>

The Fund had a net positive working capital position of \$4.7 million as at September 30, 2006, an increase of \$2.3 million from \$2.4 million as at June 30, 2006 and a decrease of \$1.9 million from the \$6.6 million as at December 31, 2005. This decrease from December 31, 2005 was a direct result of the use of \$7.9 million in cash to fund acquisitions. (See Acquisitions and Deposit on Acquisitions).

Accounts receivable decreased \$0.2 million from June 30, 2006 and increased \$0.7 million from December 31, 2005 due primarily to seasonal fluctuations in revenues and increased revenues associated with the increase in the number of selling-REALTORS.

Accounts payable and accrued liabilities of \$2.2 million decreased \$0.1 million from June 30, 2006 and increased \$0.1 million from December 31, 2005. Accounts payable is comprised of a \$1.0 million (\$0.9 million – December 31, 2005) quarterly distribution payable to the non-controlling interest, \$0.4 million (\$0.3 million – December 31, 2005) in management fees payable to the Manager and \$0.8 million (\$0.9 million – December 31, 2005) in interest expense, deferred service revenue and administration expense accruals.

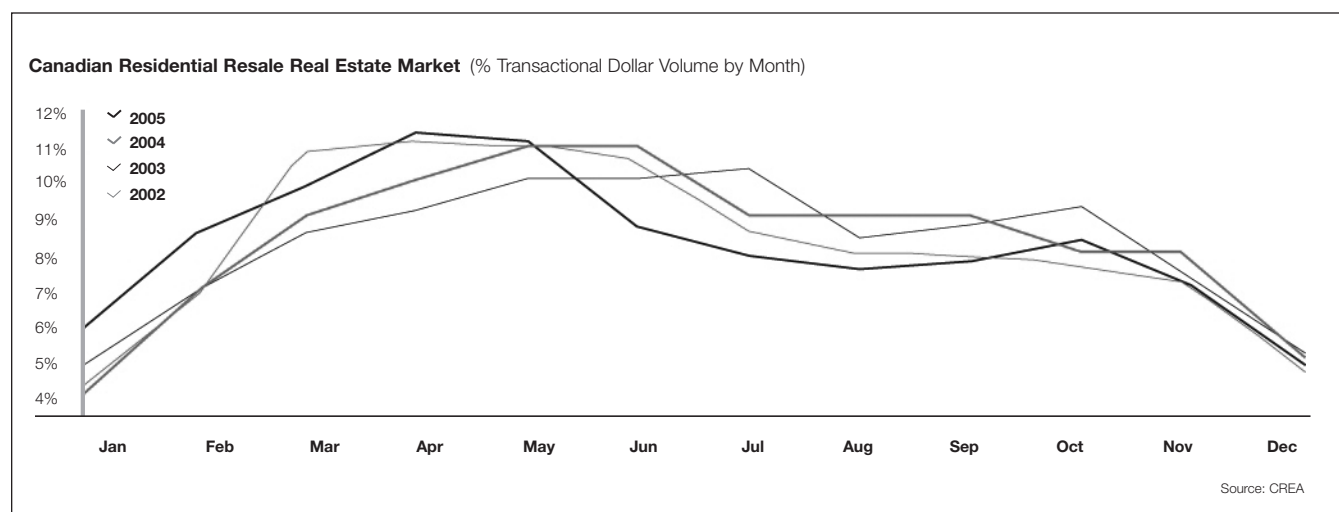
In January 2007, we anticipate approximately \$6.5 million in financing requirements comprised of \$5.5 million arising from the 2007 anticipated franchise contract obligation and the remainder from the balance of the 2006 franchise and associated GST obligations. Management anticipates utilizing existing cash balances to meet these requirements. (See Acquisitions and Deposits on Acquisitions).

## CAPITAL RESOURCES

The existing capital resources, which the Fund can draw upon, consists of a \$2 million operating line, which remains unutilized since the inception of the Fund. Other resources include: funds generated from operations in excess of administration costs; debt servicing and distribution requirements; and \$4.6 million in unutilized distributable cash held for future distributions in anticipation of the seasonality of the Canadian residential resale real estate market and to finance the acquisition of franchise agreements. Management will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

With \$4.6 million in cumulative unutilized distributable cash, an anticipated flow-through of strong market unit sales, and the anticipated generation of distributable cash in excess of distributions in the future, we anticipate meeting our near term financing requirements.

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



#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Fund has no off-balance sheet arrangements.

#### **TRANSACTIONS WITH RELATED PARTIES**

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

#### **CRITICAL ACCOUNTING ESTIMATES**

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms 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 \$0.6 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

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

#### **FINANCIAL INSTRUMENTS**

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and a \$38 million private debt placement.

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

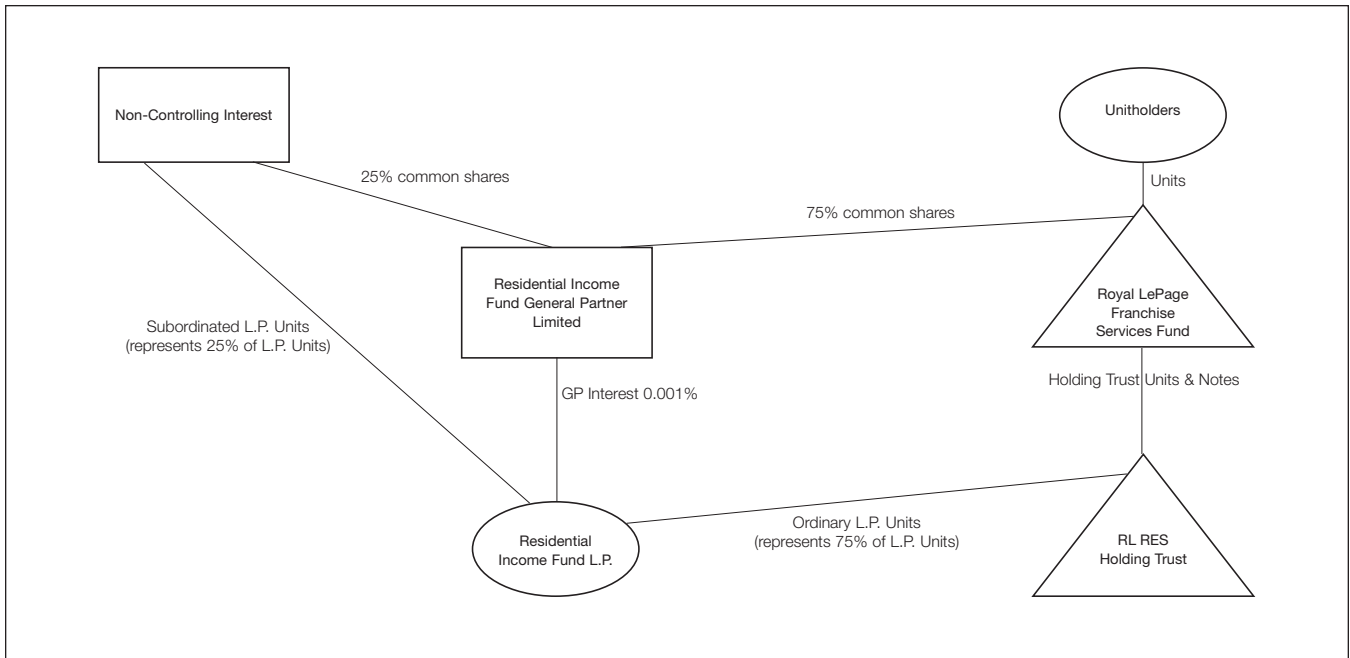
The Fund's \$38 million private debt is fixed at 5.882% with an effective rate of 6.3% for a five-year term commencing February 18, 2005 and as such is not subject to interest rate fluctuations.

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

#### **OUTSTANDING UNITS**

The Fund's capital structure remains unchanged from its launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at September 30, 2006, 9,983,000 units were issued and outstanding. In addition to these units, the Fund has also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units.

**FUND STRUCTURE**



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

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

Under the terms of the Offering, the subordinated unitholder must retain its full interest for five years from the commencement of the Fund. Fund distributions of all available cash are made on a monthly basis to public unitholders and on a quarterly basis to the subordinated unitholder. During the initial five-year period, the subordinated unitholder’s distributions are subordinated to the public unitholders’ distributions to the extent the public unitholders have not received the initial targetted monthly distribution of \$0.0917 per unit, \$1.10 per unit per annum. At the end of the five-year term, the subordinated unitholder may exchange its units for units of the Fund.

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

**TAXATION OF FUND DISTRIBUTIONS**

Under the Fund’s Amended and Restated Declaration of Trust the maximum tax deductions available to the Fund shall be claimed to the extent it brings its taxable income of the Trust to nil. The deductions available to the Trust are comprised of the costs of the offering and intangible assets. The estimated deductions available to the Trust as at December 31, 2006 are comprised of the costs of the initial public offering, intangible assets of the LP, acquisitions of franchise agreements subsequent to inception, and costs associated with the \$38 million private debt placement, which have the following deductibility profile and amounts:

### Impact of Taxation on Income Trusts

On October 31st, Canada's Finance Minister announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. For income trusts that were publicly traded on October 31, 2006, including the Fund, it is proposed that the new tax will first apply to the 2011 taxation year. At this time, it is too early to determine the extent to which the proposed legislation will affect the Fund; accordingly management will continue to monitor and analyze this situation and its implications to the Fund as they develop. In the meantime, the business fundamentals for the Fund remain strong and we will continue to build the business to create long-term sustainable value for unitholders.

### Taxation of Fund Distributions

(\$ millions)

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

The estimated tax allocation of distributions for 2006 is 85% taxable income and 15% return of capital.

### OUTLOOK

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

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

During 2004, we embarked on the largest technology revitalization in our history to improve our technology platform for web, internet, intranet and online services. The phased launch of these systems occurred during 2005. This improved technology platform has reinforced our leadership position in 2006 and will continue to do so in the years ahead.

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

## SUPPLEMENTAL INFORMATION – NET EARNINGS AND DISTRIBUTABLE CASH BY PERIOD

(\$ 000's except per unit amounts, unaudited)	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006
Royalties	\$ 5,536	\$ 5,596	\$ 7,138	\$ 7,937	\$ 6,525	\$ 6,492	\$ 7,932	\$ 8,470
Less:								
Administration expenses	215	123	145	125	202	160	190	163
Management fee	918	915	915	915	915	3,111	1,429	1,540
Interest expense	377	481	602	602	604	590	600	605
Amortization of intangible assets	3,420	3,471	3,521	3,569	3,589	3,604	3,632	3,657
Earnings (loss) before undernoted	606	606	1,955	2,726	1,215	(973)	2,081	2,505
Non-controlling interest	(189)	(175)	(519)	(702)	(350)	211	(556)	(657)
Net earnings (loss) for the period	417	431	1,436	2,024	865	(762)	1,525	1,848
Add :								
Amortization of intangible assets	3,420	3,471	3,521	3,569	3,589	3,604	3,632	3,657
Non-controlling interest	189	175	519	702	350	(211)	556	657
Distributable cash	4,026	4,077	5,476	6,295	4,804	2,631	5,713	6,162
Add (less) change in:								
Unutilized cash	(364)	(416)	(1,814)	(2,633)	(1,142)	1,196	(1,889)	(2,338)
Distributable cash	\$ 3,662	\$ 3,661	\$ 3,662	\$ 3,662	\$ 3,662	\$ 3,827	\$ 3,824	\$ 3,824
Distributable cash available to:								
Public unitholders	\$ 2,746	\$ 2,746	\$ 2,747	\$ 2,746	\$ 2,746	\$ 2,870	\$ 2,868	\$ 2,869
Non-controlling interest	916	915	915	916	916	957	956	958
	\$ 3,662	\$ 3,661	\$ 3,662	\$ 3,662	\$ 3,662	\$ 3,827	\$ 3,824	\$ 3,827
Distributions to public unitholders	\$ 2,746	\$ 2,746	\$ 2,747	\$ 2,746	\$ 2,746	\$ 2,870	\$ 2,868	\$ 2,868
Per unit (9,983,000 units):								
Basic and diluted earnings (loss)	\$ 0.04	\$ 0.04	\$ 0.14	\$ 0.20	\$ 0.09	\$ (0.08)	\$ 0.15	\$ 0.19
Basic and diluted distributable cash before working capital and other reserves	\$ 0.30	\$ 0.31	\$ 0.41	\$ 0.47	\$ 0.36	\$ 0.20	\$ 0.43	\$ 0.46
Basic and diluted distributions	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.29	\$ 0.29	\$ 0.29

## TAX ALLOCATION OF DISTRIBUTIONS

(Unaudited)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (estimated)
Other taxable income	50%	70%	86%	85%
Return of capital	50%	30%	14%	15%
<b>Total distributions of the period</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**SUPPLEMENTAL INFORMATION – SELECTED FINANCIAL AND OPERATING INFORMATION**

(\$ 000's, unaudited)	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006
<b>Revenue</b>								
Fixed franchise fees	\$ 2,718	\$ 2,945	\$ 2,999	\$ 3,127	\$ 3,261	\$ 3,380	\$ 3,453	\$ 3,485
Variable franchise fees	1,149	1,335	2,231	2,444	1,327	1,610	2,498	2,377
Premium franchise fees	1,009	576	1,103	1,497	1,065	688	1,125	1,685
Other fee revenue and services	660	740	805	869	872	814	856	923
	\$ 5,536	\$ 5,596	\$ 7,138	\$ 7,937	\$ 6,525	\$ 6,492	\$ 7,932	\$ 8,470
<b>% Revenue by region</b>								
British Columbia	13	15	15	14	14	16	15	14
Prairies	11	11	11	11	11	11	11	11
Ontario	62	57	57	59	59	56	57	59
Quebec	9	13	13	12	12	13	13	12
Maritimes	5	4	4	4	4	4	4	4
	100	100	100	100	100	100	100	100
<b>Additions for the period:</b>	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006
Number of Agents and Sales								
Representatives	13	750	323	119	205	443	177	39
Number of Agents	38	726	295	138	179	448	130	36
Number of fixed fee paying								
Sales Representatives	—	—	—	477	89	39	40	(1)
Number of locations	(6)	47	—	(4)	—	21	(2)	(1)
Number of franchisees	(1)	38	(1)	(2)	—	16	(1)	(1)
<b>At end of period</b>								
Number of Agents and Sales								
Representatives	10,145	10,895	11,218	11,337	11,542	11,985	12,162	12,201
Number of Agents	9,355	10,081	10,376	10,514	10,693	11,141	11,271	11,307
Number of fixed fee paying								
Sales Representatives	—	—	—	477	566	605	645	644
Number of locations	518	565	565	561	561	582	580	579
Number of franchisees	227	265	264	262	262	278	277	276

## SUPPLEMENTAL INFORMATION

### Fund Unit Performance

	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006
Trading price range of units (TSX: "RSF.UN")								
High	\$ 12.15	\$ 14.90	\$ 14.30	\$ 14.50	\$ 13.50	\$ 14.25	\$ 14.75	\$ 14.50
Low	\$ 11.40	\$ 11.50	\$ 12.60	\$ 12.05	\$ 10.31	\$ 12.50	\$ 12.41	\$ 13.00
Close	\$ 11.55	\$ 13.40	\$ 13.29	\$ 13.00	\$ 13.10	\$ 13.30	\$ 13.26	\$ 14.10
Average daily volume	22,531	25,689	5,646	7,467	4,481	11,570	18,383	5,883
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000
Net enterprise value at period end (thousands)								
Market capitalization <sup>5</sup>	\$ 153,738	\$ 178,363	\$ 176,899	\$ 173,039	\$ 174,370	\$ 177,032	\$ 176,499	\$ 187,680
Long-term debt	30,600	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Less:								
Cash on hand	4,444	3,658	5,430	8,532	9,941	1,278	2,268	4,708
	\$ 179,894	\$ 212,705	\$ 209,469	\$ 202,507	\$ 202,429	\$ 213,754	\$ 212,231	\$ 220,972

<sup>5</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 per Unit			
	2006	2005	2004	2003
January	\$ 0.0958	\$ 0.0917	\$ 0.0917	
February	0.0958	0.0917	0.0917	
March	0.0958	0.0917	0.0917	
April	0.0958	0.0917	0.0917	
May	0.0958	0.0917	0.0917	
June	0.0958	0.0917	0.0917	
July	0.0958	0.0917	0.0917	
August	0.0958	0.0917	0.0917	
September	0.0958	0.0917	0.0917	\$ 0.1750*
October		0.0917	0.0917	0.0917
November		0.0917	0.0917	0.0917
December		0.0917	0.0917	0.0917
	\$ 0.8625	\$ 1.1000	\$ 1.1000	\$ 0.4500

\* Based on a 55-day period



**SUPPLEMENTAL INFORMATION – CONDENSED BALANCE SHEET**

(\$ 000's, unaudited)	As at Dec. 31, 2004	As at March 31, 2005	As at June 30, 2005	As at Sept. 30, 2005	As at Dec. 31, 2005	As at March 31, 2006	As at June 30, 2006	As at Sept. 30, 2006
Cash and cash equivalents	\$ 4,444	\$ 3,658	\$ 5,430	\$ 8,532	\$ 9,941	\$ 1,278	\$ 2,268	\$ 4,708
Accounts receivable	2,176	2,874	3,074	2,797	2,434	2,614	3,320	3,159
Prepaid expenses	96	86	60	27	84	95	61	27
Deferred charges	—	749	743	703	684	640	599	557
Deposit on acquisition	—	4,038	1,118	—	—	2,979	1,423	—
Intangible assets	137,238	136,751	136,169	135,404	133,022	131,417	129,356	127,149
	<b>\$ 143,954</b>	<b>\$ 148,156</b>	<b>\$ 146,594</b>	<b>\$ 147,463</b>	<b>\$ 146,165</b>	<b>\$ 139,023</b>	<b>\$ 137,027</b>	<b>\$ 135,600</b>
Accounts payable and accrued liabilities	\$ 2,001	\$ 1,858	\$ 2,003	\$ 2,122	\$ 2,064	\$ 2,573	\$ 2,320	\$ 2,189
Purchase obligations	—	—	—	1,686	2,893	—	—	27
Distributions payable to unitholders	915	915	915	915	915	957	957	956
Long-term debt	30,600	38,000	38,000	38,000	38,000	38,000	38,000	38,000
Non-controlling interest	27,740	27,000	26,604	26,390	25,824	24,656	24,257	23,956
Unitholders' equity	82,698	80,383	79,072	78,350	76,469	72,837	71,493	70,472
	<b>\$ 143,954</b>	<b>\$ 148,156</b>	<b>\$ 146,594</b>	<b>\$ 147,463</b>	<b>\$ 146,165</b>	<b>\$ 139,023</b>	<b>\$ 137,027</b>	<b>\$ 135,600</b>

**SUPPLEMENTAL INFORMATION — CONDENSED CASH FLOW BY PERIOD**

(\$ 000's, unaudited)	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended <b>Sept. 30, 2006</b>
Cash provided by (used for):								
<b>Operating activities</b>								
Net earnings (loss) for the period	\$ 417	\$ 431	\$ 1,436	\$ 2,024	\$ 865	\$ (762)	\$ 1,525	\$ <b>1,848</b>
Add (deduct)								
Non-controlling interest	189	175	519	702	350	(211)	556	<b>657</b>
Amortization of deferred charges	—	17	41	40	40	44	41	<b>42</b>
Amortization of intangible assets	3,420	3,471	3,521	3,569	3,589	3,604	3,632	<b>3,657</b>
Changes in non-cash working capital	433	(831)	(29)	429	248	360	(925)	<b>63</b>
	4,459	3,263	5,488	6,764	5,092	3,035	4,829	<b>6,267</b>
<b>Investing activities</b>								
Deposit on acquisition	—	(7,048)	—	—	—	(4,978)	—	—
Purchase of intangible assets	—	26	(19)	—	—	(2,893)	(15)	—
	—	(7,022)	(19)	—	—	(7,871)	(15)	—
<b>Financing activities</b>								
Distributions paid to unitholders	(2,746)	(2,746)	(2,747)	(2,746)	(2,746)	(2,870)	(2,869)	<b>(2,869)</b>
Distributions paid to non-controlling interest	(916)	(915)	(915)	(916)	(916)	(957)	(955)	<b>(958)</b>
Proceeds from long-term debt	—	38,000	—	—	—	—	—	—
Repayment of term loan	—	(30,600)	—	—	—	—	—	—
Deferred charges	—	(766)	(35)	—	(21)	—	—	—
	(3,662)	2,973	(3,697)	(3,662)	(3,683)	(3,827)	(3,824)	<b>(3,827)</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	797	(786)	1,772	3,102	1,409	(8,663)	990	<b>2,440</b>
<b>Cash and cash equivalents, beginning of period</b>	3,647	4,444	3,658	5,430	8,532	9,941	1,278	<b>2,268</b>
<b>Cash and cash equivalents, end of period</b>	\$ 4,444	\$ 3,658	\$ 5,430	\$ 8,532	\$ 9,941	\$ 1,278	\$ 2,268	\$ <b>4,708</b>

## SUPPLEMENTAL INFORMATION – CANADIAN REAL ESTATE MARKET

	Three months ended Dec. 31, 2004	Three months ended March 31, 2005	Three months ended June 30, 2005	Three months ended Sept. 30, 2005	Three months ended Dec. 31, 2005	Three months ended March 31, 2006	Three months ended June 30, 2006	Three months ended Sept. 30, 2006
<b>Canada</b>								
Transaction dollar volume (\$ millions)	\$ 21,335	\$ 24,814	\$ 37,809	\$ 32,190	\$ 25,601	\$ 30,585	\$ 42,607	\$ <b>33,200</b>
Average selling price	\$ 233,007	\$ 238,834	\$ 251,101	\$ 250,214	\$ 256,519	\$ 267,780	\$ 283,261	\$ <b>276,591</b>
Number of units sold	91,566	103,898	150,573	128,649	99,802	114,217	150,417	<b>120,032</b>
Number of REALTORS at period end	76,752	78,816	80,604	82,112	82,852	85,361	86,838	<b>N/A</b>
Housing starts	60,917	37,084	67,183	62,809	58,405	43,917	65,229	<b>60,197</b>

### Greater Toronto Area

Transaction dollar volume (\$ millions)	\$ 5,507	\$ 6,017	\$ 9,371	\$ 7,310	\$ 6,117	\$ 6,989	\$ 9,640	\$ <b>7,094</b>
Average selling price	\$ 320,165	\$ 330,120	\$ 344,557	\$ 329,131	\$ 338,396	\$ 348,579	\$ 363,429	\$ <b>343,014</b>
Number of units sold	17,199	18,228	27,196	22,211	18,075	20,050	\$ 26,525	<b>20,680</b>
Housing starts	10,253	6,918	13,050	11,774	9,854	7,290	11,462	<b>8,750</b>

	Twelve months ended Dec. 31, 2004	Twelve months ended March 31, 2005	Twelve months ended June 30, 2005	Twelve months ended Sept. 30, 2005	Twelve months ended Dec. 31, 2005	Twelve months ended March 31, 2006	Twelve months ended June 30, 2006	Twelve months ended Sept. 30, 2006
--	-----------------------------------	------------------------------------	-----------------------------------	------------------------------------	-----------------------------------	------------------------------------	-----------------------------------	------------------------------------

### Canada

Transaction dollar volume (\$ millions)	\$ 103,666	\$ 104,912	\$ 109,670	\$ 116,166	\$ 120,395	\$ 126,189	\$ 130,983	\$ <b>132,190</b>
Average selling price	\$ 227,261	\$ 231,335	\$ 238,134	\$ 244,667	\$ 249,365	\$ 255,814	\$ 265,640	\$ <b>272,145</b>
Number of units sold	456,108	453,506	460,537	474,795	482,805	493,285	493,085	<b>485,733</b>
Housing starts	233,431	231,133	230,938	227,993	225,481	232,314	230,360	<b>227,748</b>
Seasonally adjusted housing starts	234,400	218,500	237,200	230,500	227,700	252,300	232,200	<b>211,300</b>

### Greater Toronto Area

Transaction dollar volume (\$ millions)	\$ 26,763	\$ 26,851	\$ 27,352	\$ 28,205	\$ 28,815	\$ 29,786	\$ 30,056	\$ <b>29,839</b>
Average selling price	\$ 315,278	\$ 320,712	\$ 328,419	\$ 332,471	\$ 336,190	\$ 340,287	\$ 346,024	\$ <b>349,689</b>
Number of units sold	84,887	83,723	83,283	84,834	85,710	87,532	86,861	<b>85,330</b>
Housing starts	42,115	42,202	42,601	41,995	41,596	41,968	40,380	<b>37,356</b>

NA: Not available at date of Management's Discussion and Analysis

Source: CMHC, CREA and TREB

## Interim Consolidated Balance Sheets

As at (in thousands of dollars)	<b>September 30, 2006</b>	December 31, 2005
	(unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,708	\$ 9,941
Accounts receivable	3,159	2,434
Prepaid expenses	27	84
	<b>7,894</b>	12,459
Deferred charges	557	684
Intangible assets (note 3)	127,149	133,022
	<b>\$ 135,600</b>	\$ 146,165
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,189	\$ 2,064
Purchase obligation (note 3)	27	2,893
Distribution payable to unitholders	956	915
	<b>3,172</b>	5,872
Long-term debt (note 5)	38,000	38,000
Non-controlling interest	23,956	25,824
	<b>65,128</b>	69,696
Unitholders' equity	70,472	76,469
	<b>\$ 135,600</b>	\$ 146,165

See accompanying notes to the interim consolidated financial statements

On behalf of the board



Simon P. Dean  
Trustee



Allen Karp  
Trustee

## Interim Consolidated Statement of Earnings

(unaudited)

	<b>Three months ended Sept. 30, 2006</b>	Three months ended Sept. 30, 2005	<b>Nine months ended Sept. 30, 2006</b>	Nine months ended Sept. 30, 2005
(in thousands of dollars, except unit and per unit amounts)				
<b>Royalties</b>				
Fixed franchise fees	\$ 3,485	\$ 3,127	\$ 10,318	\$ 9,071
Variable franchise fees	2,377	2,444	6,485	6,010
Premium franchise fees	1,685	1,497	3,498	3,176
Other fee revenue and services	923	869	2,593	2,414
	<b>8,470</b>	7,937	<b>22,894</b>	20,671
<b>Expenses</b>				
Administration	163	125	513	393
Management fee (note 7 (ii))	1,540	915	6,080	2,745
Interest expense	605	602	1,795	1,685
Amortization of intangible assets	3,657	3,569	10,893	10,561
	<b>5,965</b>	5,211	<b>19,281</b>	15,384
<b>Earnings before undernoted</b>	<b>2,505</b>	2,726	<b>3,613</b>	5,287
Non-controlling interest	(657)	(702)	(1,002)	(1,396)
<b>Net earnings</b>	<b>\$ 1,848</b>	\$ 2,024	<b>\$ 2,611</b>	\$ 3,891
<b>Basic and diluted earnings per unit</b> (9,983,000 units) (note 6)	<b>\$ 0.19</b>	\$ 0.20	<b>\$ 0.26</b>	\$ 0.39

See accompanying notes to the interim consolidated financial statements

## Interim Consolidated Statements of Unitholders' Equity

(unaudited)

(in thousands of dollars)

	<b>Units</b>	<b>Net Earnings</b>	<b>Distributions</b>	<b>Total</b>
<b>Balance, December 31, 2004</b>	\$ 92,938	\$ 5,278	\$ (15,518)	\$ 82,698
Changes during the period:				
Net earnings	—	3,891	—	3,891
Unit distributions	—	—	(8,239)	(8,239)
<b>Balance, September 30, 2005</b>	\$ 92,938	\$ 9,169	\$ (23,757)	\$ 78,350
<b>Balance, December 31, 2005</b>	\$ 92,938	\$ 10,034	\$ (26,503)	\$ 76,469
Changes during the period:				
Net earnings	—	2,611	—	2,611
Unit distributions	—	—	(8,608)	(8,608)
<b>Balance, September 30, 2006</b>	\$ 92,938	\$ 12,645	\$ (35,111)	\$ 70,472

See accompanying notes to the interim consolidated financial statements

## Interim Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)	<b>Three months ended Sept. 30, 2006</b>	Three months ended Sept. 30, 2005	<b>Nine months ended Sept. 30, 2006</b>	Nine months ended Sept. 30, 2005
<b>Cash provided by (used for):</b>				
<b>Operating activities</b>				
Net earnings for the period	\$ 1,848	\$ 2,024	\$ 2,611	\$ 3,891
Items not affecting cash				
Non-controlling interest	657	702	1,002	1,396
Amortization of deferred charges	42	40	127	98
Amortization of intangible assets	3,657	3,569	10,893	10,561
Changes in non-cash working capital	63	429	(502)	(431)
	<b>6,267</b>	6,764	<b>14,131</b>	15,515
<b>Investing activities</b>				
Deposit on acquisition (note 3)	—	—	(4,978)	(7,048)
Purchase of intangible assets	—	—	(15)	7
Payment of purchase price obligation	—	—	(2,893)	—
	—	—	<b>(7,886)</b>	(7,041)
<b>Financing activities</b>				
Distributions paid to unitholders	(2,869)	(2,746)	(8,608)	(8,239)
Distributions paid to non-controlling interest	(958)	(916)	(2,870)	(2,746)
Proceeds from long-term debt	—	—	—	38,000
Repayment of term loan	—	—	—	(30,600)
Deferred charges	—	—	—	(801)
	<b>(3,827)</b>	(3,662)	<b>(11,478)</b>	(4,386)
<b>Increase (decrease) in cash and cash equivalents</b>				
<b>during the period</b>	<b>2,440</b>	3,102	<b>(5,233)</b>	4,088
<b>Cash and cash equivalents, beginning of period</b>	<b>2,268</b>	5,430	<b>9,941</b>	4,444
<b>Cash and cash equivalents, end of period</b>	<b>\$ 4,708</b>	\$ 8,532	<b>\$ 4,708</b>	\$ 8,532
<b>Cash and cash equivalents are comprised of:</b>				
Cash	\$ 708	\$ 2,532	\$ 708	\$ 2,532
Commercial Paper	4,000	6,000	4,000	6,000
	<b>\$ 4,708</b>	\$ 8,532	<b>\$ 4,708</b>	\$ 8,532
<b>Supplementary Cash Flow Information</b>				
Interest paid	\$ 559	\$ 554	\$ 1,676	\$ 1,362

See accompanying notes to the interim consolidated financial statements

# Notes to the Interim Consolidated Financial Statements

As at and for the period ended September 30, 2006 (in thousands of dollars) (unaudited)

## 1. ORGANIZATION

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

These consolidated financial statements include the accounts of Royal LePage Franchise Services Fund, its wholly-owned subsidiary RL RES Holding Trust ("RLHT"), and its 75% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP") and Residential Income Fund L.P. (the "Partnership"). RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. (the "non-controlling interest") owns the remaining 25% interest in the Partnership and RIFGP. The Fund receives certain management, administrative and support services from Residential Income Fund Manager Limited ("RIFML"), 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. They do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the December 31, 2005 annual consolidated financial statements.

## 3. INTANGIBLE ASSETS

On January 1, 2006, the Partnership acquired 16 franchise agreements from RIFML at an estimated purchase price of \$6,222 in accordance with the Management Services Agreement ("MSA"). On January 4, \$4,978 was paid in cash on deposit against this purchase price obligation in accordance with the MSA. The final purchase price is based on the actual audited royalties derived from these franchises for the 12-month period ending October 31, 2006. Accordingly, the final purchase price is not determinable until that time.

Until the final purchase price is determined, 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. These assets are then amortized in accordance with the Fund's policy and calculated on a prospective basis.

The recalculated purchase price obligation in excess of the deposit on acquisition will be recorded as a purchase obligation and the corresponding amount added to the intangible assets and amortized as described above.

During the three and nine months ended September 30, 2006, \$1,423 and \$4,978, respectively, was transferred from "deposit on acquisition" and recorded as "intangible assets". During the three and nine months ended September 30, 2006, \$27 was recorded as "purchase obligation" and the corresponding amount was added to intangible assets.

On May 1, 2006, \$15 was paid in cash for legal due diligence relating to the January 1, 2006 acquisition and was recorded as "intangible assets".



### 3. INTANGIBLE ASSETS (cont'd)

On January 1, 2005, the Partnership acquired 38 franchise agreements from RIFM at a purchase price of \$9,934 calculated in accordance with the MSA. On February 18, 2005, \$7,041 was paid in cash against this purchase price obligation and the remaining \$2,893 was paid in cash on January 4, 2006.

A summary of intangible assets is as follows:

September 30, 2006			
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	\$ 127,271	\$ 41,868	\$ 85,403
Relationships and trademarks	42,350	604	41,746
	\$ 169,621	\$ 42,472	\$ 127,149

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

### 4. OPERATING CREDIT FACILITY

On February 16, 2005, the Partnership obtained a credit facility (the "revolver") of up to \$2,000 from a Canadian financial institution. This revolver may be used to provide working capital to the Partnership from time to time. The revolver is subject to annual renewal with outstanding principal under the revolver subject to interest at the lender's prime rate plus 1% to 1.5% or the banker acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. As at September 30, 2006, the operating credit facility had not been drawn upon.

### 5. LONG-TERM DEBT

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

## 6. EARNINGS PER UNIT

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

## 7. RELATED PARTY TRANSACTIONS

i) Unless disclosed elsewhere, the Fund had the following transactions with parties related to the non-controlling interest during the three and nine months ended September 30, 2006 and September 30, 2005. These transactions have been recorded at the exchange amount agreed to between the parties.

	<b>Three months ended Sept. 30, 2006</b>	Three months ended Sept. 30, 2005	<b>Nine months ended Sept. 30, 2006</b>	Nine months ended Sept. 30, 2005
a) Royalties				
Fixed, variable and other franchise fees	\$ 478	\$ 540	\$ 1,555	\$ 1,492
Premium franchise fees	\$ 1,410	\$ 1,241	\$ 2,906	\$ 2,661
b) Expenses				
Management fees (note 7 (ii))	\$ 1,540	\$ 915	\$ 6,080	\$ 2,745
Insurance and other	\$ 23	\$ 24	\$ 69	\$ 68
c) Distributions				
Distributions paid to non-controlling interest	\$ 958	\$ 916	\$ 2,870	\$ 2,746

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

As at	<b>September 30, 2006</b>	December 31, 2005
d) Accounts receivable		
Franchise fees receivable and other	\$ 582	\$ 438
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	\$ 957	\$ 915
Management fees	\$ 451	\$ 325
f) Purchase obligation	\$ 27	\$ 2,893

## ii) Management Fees

From inception to December 31, 2005, the Fund had accumulated and retained cash of \$9.4 million as a reserve, which in the event of the release of this reserve would result in a 20% management fee payable to RIFML. On January 1, 2006, the Fund released the \$9.4 million in reserves, a portion of which was used to fund the 2005 and 2006 franchise agreements purchase obligations. As a result, additional management fees of \$1.9 million relating to the \$9.4 million in reserves were incurred on January 1, 2006.

## 8. SUBSEQUENT EVENT

On October 31st, Canada's Finance Minister announced proposed changes to Canada's taxation system designed to level the playing field between trusts and corporations. For income trusts that were publicly traded on October 31, 2006, including the Fund, it is proposed that the new tax will first apply to the 2011 taxation year. At this time, it is too early to determine the extent to which the proposed legislation will affect the Fund; accordingly management will continue to monitor and analyze this situation and its implications to the Fund as they develop.

## **MANAGEMENT TEAM**

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

**Philip Soper,**

President and Chief Executive Officer

**Kevin Cash,**

Chief Financial Officer

**Andy Puthon,**

Executive Vice President, Network Development

**Gino Romanese,**

Senior Vice President, Brokerage Operations

**Max Cohen,**

Secretary & General Counsel

**Lisa Da Rocha,**

Director, Marketing

**Gurinder Sandhu,**

Vice President, Finance

**Carolyn Cheng,**

Vice President, Strategic Business Services

**Scott Webb,**

Director of Information Technology

**Wendy Forsythe,**

Director, Sales Services







**Communications to unitholders**

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

**Contact us**

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

**Please direct inquiries to:**

Gurinder Sandhu  
Vice President, Finance  
(416) 510-5701  
[gsandhu@royalpage.ca](mailto:gsandhu@royalpage.ca)

**Head office**

Royal LePage Franchise Services Fund  
39 Wynford Drive  
Don Mills, ON  
M3C 3K5  
Telephone: (416) 510-5800  
Facsimile: (416) 510-5856  
[info@rsfund.ca](mailto:info@rsfund.ca)

**[www.rsfund.ca](http://www.rsfund.ca)**

**Transfer Agent and registrar**

CIBC Mellon Trust Company

**Auditors**

Deloitte & Touche LLP

**Corporate counsel**

Goodman and Carr LLP

**Royal LePage Franchise Services Fund**

**Interim Report to Unitholders Q3 2006**

**TSX: RSF.un**



[www.royallepage.ca](http://www.royallepage.ca)