

**BROOKFIELD REAL ESTATE SERVICES INC.**

**Annual Information Form**

**March 24, 2016**

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## GLOSSARY OF TERMS

“**Agent**” means an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with a Broker.

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

“**Book-Entry-Only System**” means the book-entry-only system operated by CDS.

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

“**Broker-Owner**” means the individual or a controlling group of individuals who have entered into Franchise Agreements to provide services under the Royal LePage, Johnston and Daniel or Via Capitale brands. Where an individual or controlling group of individuals have entered into more than one Franchise Agreement, the Company reports the number of Broker-Owners it has under contract as one.

“**Brookfield**” means **Brookfield Private Equity Direct Investments Holdings LP**, a limited partnership governed by the laws of Manitoba and a subsidiary of Brookfield Asset Management Inc., together with its affiliates but excluding the Manager and the subsidiaries of the Manager.

“**Business**” means the business of providing residential property brokerage services to Brokers and acting as a franchisor to Brokers

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

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

“**Class A LP Units**” means the Class A ordinary limited Partnership Units of the Partnership.

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

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

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

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

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

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

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

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

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

“**Exchange Agreement**” means the amended and restated exchange agreement among Brookfield, the Company, the Partnership, the General Partner and the Manager, made December 31, 2012, pursuant to which Brookfield has the right to indirectly exchange Class B LP Units (and the Manager will have the right to indirectly exchange Class

A LP Units issued to the Manager pursuant to the Management Services Agreement) for shares of the Company on the basis of one Restricted Voting Share for each Class B LP Unit or Class A LP Unit exchanged, subject to adjustment.

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

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

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

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

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

**“Franchise Agreement”** means a franchise agreement pursuant to which brokerage offices offer residential brokerage services using the Trademarks.

**“Franchisees”** mean the Franchisees operating under the Franchise Agreements.

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

**“Franchise Network”** means the Royal LePage Network, Via Capitale Network and Johnston & Daniel Network.

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

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

**“Incremental Franchises”** means Franchises established pursuant to Royal LePage Franchise Agreements (other than renewals or replacements of existing Franchise Agreements) and including any acquisition made by existing Franchisees of additional offices and/or Agents and any business combination entered into by any existing Franchisee that results in the addition of offices and/or Agents that meet the criteria established from time to time by the directors of the Company.

**“Incremental Via Capitale Franchises”** means Franchises established pursuant to Via Capitale Franchise Agreements (other than renewals or replacements thereof) and including any acquisition made by existing Via Capitale Franchisees of additional offices and/or Agents or any business combination entered into by any existing Via Capitale Franchisee that results in the addition of offices and/or Agents.

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

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

**“Management Services Agreement”** or **“MSA”** means the third amended and restated Management Services Agreement, made effective January 1, 2014, among the Partnership, the Corporation, the General Partner, Via Capitale L.P. and the Manager, pursuant to which, among other things, the Manager provides management and administrative services to the Company including management of the Partnership Assets on behalf of the Partnership

and Via Capitale L.P., as more particularly described under “Description of the Business – Management Services Agreement”.

“**Manager**” means Brookfield Real Estate Services Manager Limited, a corporation incorporated under the laws of the Province of Ontario, together with its subsidiaries. The Manager provides management and administrative services to the Company.

“**MLS**®” or “**Multiple Listing Service**®” is a registered trademark of the Canadian Real Estate Association and refers to the real estate database service operated by local real estate boards under which properties may be listed, purchased or sold.

“**Net Increase (or Decrease) in Agents**” means, in respect of any fiscal year of the Company, the number of Agents in the Franchise Network at the end of the relevant fiscal year, less the number of Agents in the Franchise Network at the beginning of such fiscal year, but excluding (i) any Agents added as a result of the sale an Incremental Franchise or a Via Capitale Incremental Franchise to the Company during such fiscal year or (ii) any acquisition made by existing Franchisees of additional offices and/or Agents, or any business combination entered into by an existing Franchisee, that results in the addition of offices and/or Agents during such fiscal year.

“**Net Organic Agent Growth Fee**” means a fee payable to the Manager under the MSA for the net organic growth of the Company’s Network of Agents in each calendar year with such payment limited to the cumulative net organic agent growth since December 31, 2013.

“**Notice of Meeting**” means the Notice of Annual Meeting of Shareholders of the Company.

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

“**Other revenue**” means Franchise Fees which are not Fixed Franchise Fees, Variable Franchise Fees or Premium Franchise Fees.

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

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

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

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

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

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

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

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

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

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

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

**“Royal LePage Network”** means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more Royal LePage Trademarks or the Jonston and Daniel brand (but excluding Franchises granted by the Manager that have not become Incremental Franchises).

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

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

**“Royalties”** means Franchise Fees.

**“Shareholders”** mean the holders of Shares.

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

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

**“Special Fund Units”** means the Units of the Partnership issued to represent voting rights in the Fund that accompanied securities convertible into or exchangeable for Units, including the Class B LP Units held by Brookfield and Class A LP Units held by the Corporation.

**“Special Shareholders”** mean holders of Special Voting Shares from time to time.

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

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

**“Team”** means a group of two or more Agents who conduct the sale of real estate as a team.

**“Trademarks”** means the Trademark rights related to the Business held by or licensed to Brookfield, the Manager or Via Capitale, including, without limitation, the Royal LePage Trademarks and the Via Capitale Trademarks.

**“TSX”** is defined as the Toronto Stock Exchange.

**“Value per Agent”** means, in respect of any fiscal year of the Company, a dollar value per Agent paid by the Company for the acquisition of an Incremental Franchisee or a Via Capitale Incremental Franchisee. The Value Per Agent is determined by dividing (a) the product of (i) 92.5% of the Royalties for such fiscal year less the aggregate of (A) management fees payable in respect of such Royalties, and (B) any Royalties derived from Premium Franchise Fees and (ii) one minus the Actual Tax Rate for such fiscal year, by (b) the annual dividend yield on the Restricted Voting Shares for such fiscal year, then further dividing the result of such calculation by the number of Agents in the Network in Franchises in respect of which the Company or an affiliate of the Company is the franchisor as at December 31 of such fiscal year. The annual dividend yield is to be determined by dividing the total dividend amount per Restricted Voting Share declared by the Company in respect of such fiscal year (which, for

greater certainty, shall include all dividends declared in respect of such fiscal year, even those that are paid outside of such fiscal year) by the current market price per Restricted Voting Share on December 31 of such fiscal year.

**“Variable Franchise Fees”** means Franchise Fees which vary each month depending on the transaction volumes of each Agent or Team.

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

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

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

**“Via Capitale Network”** means, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more of the Via Capitale Trademarks (but excluding Franchises owned by the Manager or the Via Capitale Manager).



## THE COMPANY

### General

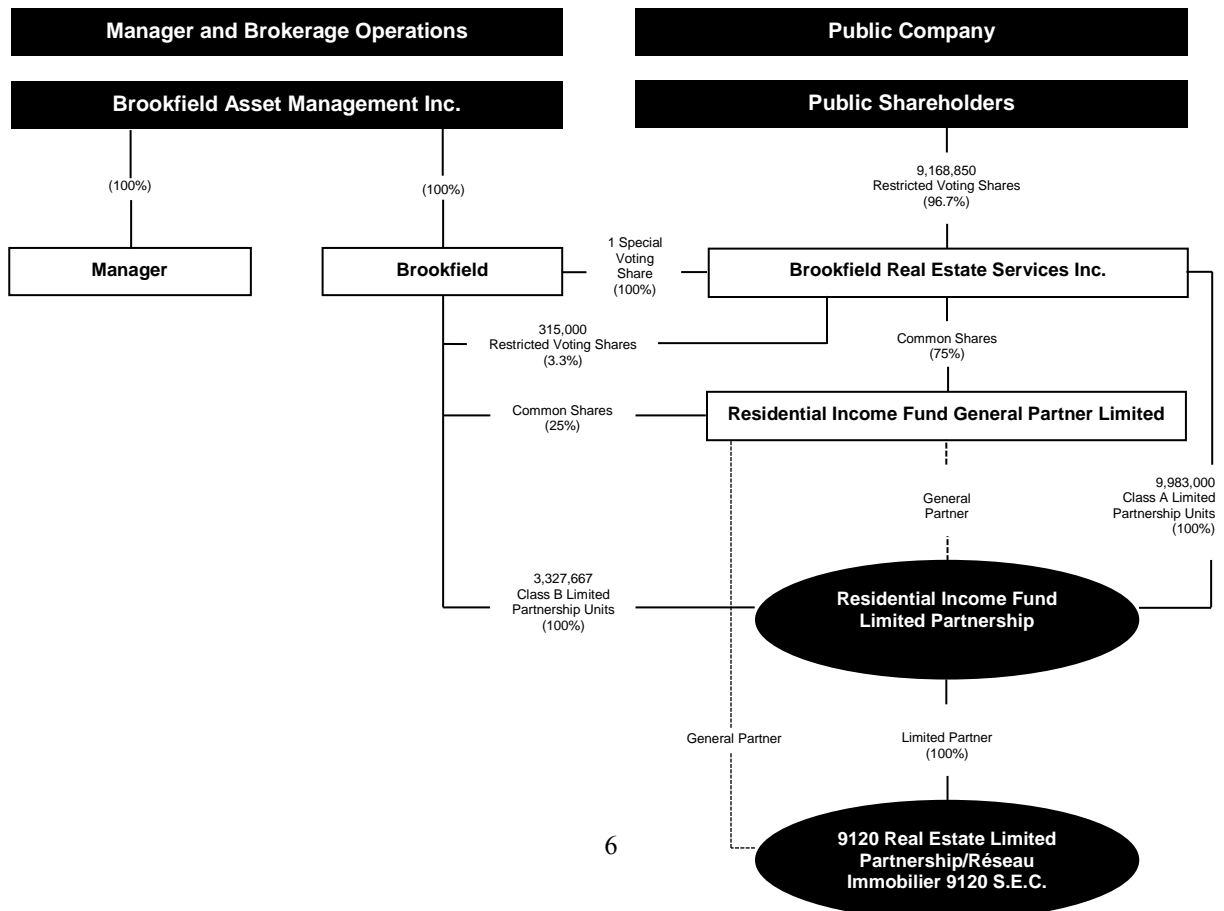
The Company is a leading provider of services to residential real estate Brokers and their REALTORS®. The Company generates cash flow from Royalties and service fees derived from a national network of real estate Brokers and Agents in Canada operating under the Royal LePage, Via Capitale and Johnston & Daniel brand names. At December 31, 2015, the Franchise Network consisted of 16,794 REALTORS® operating under 305 Franchise Agreements providing services from 662 locations, with an approximate one-fifth share of the Canadian residential resale real estate market based on transactional dollar volume. The Company generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional dollar volume from the sales commissions of REALTORS®, while fixed fees are based on the number of Agents in the Franchise Network.

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

The Corporation is listed on the TSX and trades under the symbol “BRE”. The registered and head office of the Corporation is located at 39 Wynford Drive, Don Mills, Ontario, M3C 3K5.

The Business of the Company is conducted indirectly through the Partnership. The Partnership is ultimately controlled approximately 72% by the public and 28% by Brookfield. The general partner of the Partnership is the Residential Income Fund General Partner Limited, the shares of which are owned 25% by Brookfield and 75% by the Company. The registered office and head office of the Partnership is located at 39 Wynford Drive, Don Mills, Ontario, M3C 3K5.

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



## **DEVELOPMENT OF THE BUSINESS**

### **Business Strategy**

The Company is a long-established Canadian-based real estate services firm, originally structured as an income trust and subsequently converted to a corporate structure on December 31, 2010. The Company focuses on providing services to real estate Brokers and their Agents, who practise predominantly in the residential brokerage segment of the Canadian real estate market, in order to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate Franchise brands, each of which offers a differing value proposition, the Company caters to the diverse service requirements of regional real estate professionals across Canada.

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

The Company has no employees. The Company has entered into the Management Services Agreement with the Manager whereby the Manager performs all management services on behalf of the Company. As a result, the underlying costs of the Company are not complex as they are limited to management fees paid under the Management Services Agreement, public company operating costs and carrying costs associated with the Company's debt.

The number of REALTORS<sup>®</sup> and transactional dollar volumes generated in the markets served by the Franchise Network, the manner in which the Company's contracted revenue streams are structured and the Company's success in attracting Agents and Brokers to the Company's brands through the value proposition proposed by the Manager and track record are all key drivers of the Company's performance. These drivers, in combination with other uncontrollable risk factors, including the economy at large, government and regulatory activity, all impact the Company's performance.

Through the Manager and annual growth in the Franchise Network, the Company seeks to further increase dividends by increasing the number of Agents in the Franchise Network through the acquisition of Franchise Agreements and by attracting and retaining Brokers and their Agents through the provision of additional fee-for-service offerings and the provision of services, which increases the productivity of Brokers and their Agents.

### **Events Occurring in 2013**

#### ***2013 Incremental Franchise Purchases***

Effective January 1, 2013, the Company completed the purchase of Incremental Franchises representing 44 real estate operations from the Manager, pursuant to an asset purchase agreement between the Manager and the Company in accordance with the terms of the Management Services Agreement. Of the 44 real estate operation acquired, 37 were Royal LePage Franchises and 7 were Via Capitale Franchises. The total estimated purchase price for the Incremental Franchises, calculated in accordance with the Management Services Agreement, was \$6.7 million. Of this, \$5.4 million (being approximately 80% of the estimated purchase price) plus applicable taxes was payable in cash by the Company to the Manager in January, 2013. The Final Payment for the 37 Royal LePage Franchises of \$1.0 million was made in January 2014. The Final Payment plus applicable taxes for the 7 Via Capitale Franchises is payable in three instalments, with \$0.3 million paid in September 2013, \$0.1 million paid in January 2014, and \$0.2 payable outstanding as of December 31, 2015. The acquisition of the Incremental Franchises was approved by the Independent Directors.

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

On June 28, 2013, the Company entered into a revised Management Services Agreement, effective as of January 1, 2014, with an initial five-year term and a provision for the automatic renewal of successive five-year terms. The main changes under the terms of the Management Services Agreement include, (i) the management fee has been

standardized to 20% of net revenues less interest and administration costs for the Royal LePage Network and the Via Capitale Network ; (ii) the Manager can earn a new incentive fee for organic growth, aligning the Manager's and the Company's goals with growing the underlying networks of Agents; (iii) the Manager may sell other branded Canadian Franchises to the Company, subject to Board approval; and (iv) updates to the manner in which amounts are paid to the Manager for Incremental Franchises.

A copy of the Management Services Agreement can be found at [www.sedar.com](http://www.sedar.com).

## **Events Occurring in 2014**

### ***2014 Incremental Franchise Purchases***

Effective January 1, 2014, the Company acquired 46 Franchise Agreements for \$6.3 million comprising 493 REALTORS® generating approximately \$1.2 million in annual royalties. A payment of \$5.7 million, approximating 80% of the estimated purchase price and applicable taxes was paid in installments on January 7, March 27 and July 30, 2014 respectively using cash on hand. The remaining obligation for the 45 Franchise Agreements acquired under the Royal LePage Brand was paid on June 5 2015, while the remaining obligation on the one Franchise Agreement acquired under the Via Capitale Brand is to be paid in 2016, when the final purchase price is determined in accordance with the MSA. The acquisition of the Incremental Franchises was approved by the Independent Directors.

### ***Debt Refinancing***

On October 27, 2014, the Company refinanced its then existing \$53 million debt facility with a \$68 million debt facility (the "Debt Facility") with a Canadian chartered bank. See "Credit Facilities" for further details.

## **Events Occurring in 2015**

### ***2015 Incremental Franchise Purchases***

Effective January 1, 2015, the Company acquired 40 Franchise Agreements for \$10.2 million comprising 848 REALTORS® generating approximately \$1.5 million in annual royalties. A payment of \$9.2 million, approximating 80% of the estimated purchase price and applicable taxes was paid on January 2, 2015 using cash on hand and a drawdown of \$8.0 on the Company's then \$10.0 million Debt Facility. The remaining obligation is payable as at December 31, 2015, based on the purchase price determined in accordance with the MSA. The acquisition of the Incremental Franchises was approved by the Independent Directors.

Effective July 1, 2015, the Company acquired 12 Franchise Agreements for \$6.6 million comprising 719 REALTORS® generating approximately \$1.4 million in annual royalties. A payment of \$8.8 million, approximating 80% of the estimated purchase price and applicable taxes was paid on July 3, 2015 through a draw on the Company's Debt Facility. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA. The acquisition of the Incremental Franchises was approved by the Independent Directors.

### ***Debt Refinancing***

On June 18, 2015, the Company signed an amending agreement for its Debt Facility to increase the maximum borrowings under the Debt Facility to \$78.0 million. See "Credit Facilities" for further details.

## **Subsequent Events**

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

Effective January 1, 2016, the Company acquired 33 Franchise Agreements for \$6.6 million comprising 459 REALTORS® generating approximately \$1.0 million in annual royalties. A payment of \$6.0 million, approximating 80% of the estimated purchase price and applicable taxes was paid on January 8, 2016 through a draw on the Company's Debt Facility. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA. The acquisition of the Incremental Franchises was approved by the Independent Directors.

## **DESCRIPTION OF THE BUSINESS**

The Business of the Company and its Franchisees includes brokering the sale of residential real estate in Canada. The Company provides its Franchisees and their Agents with the Franchise Systems designed to make each step of a real estate transaction more effective and efficient for buyers and sellers of homes, for Agents and for Franchisees. The Franchise Systems allow Franchisees to attract successful Agents and maximize their productivity, and they help the Company, through the activities of the Manager, to recruit and retain successful Franchisees.

The enhanced tools of the Franchise Systems facilitate a real estate transaction for the Agent and allow him or her to provide greater value and service to his or her customer. The Franchise Systems are designed to allow Franchisees and Agents to focus on their customers, grow their business and spend less time on administrative activities, thereby increasing overall productivity.

The Company's Royalties are derived primarily from a diverse national network of 289 independently owned and operated Franchises operating under 305 Franchise Agreements. In addition, the Royal LePage Network is geographically diverse as Agents are spread throughout Canada on approximately the same basis as the overall Canadian real estate Agent population.

### **Franchise Agreements**

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

Each Franchise location or grouping thereof is subject to a separate Franchise Agreement. Where an existing Broker-Owner is operating under an existing Franchise Agreement, any changes, such as adding a new location, are typically undertaken by way of an addendum, which forms a part of the existing Franchise Agreement. The Franchise Agreement grants a non-exclusive right to use the Franchise Systems as well as the Trademarks within a prescribed territory and specifies comprehensive standards of practice governing the use of the Trademarks, conduct of the Franchisee and its Agents and all material operating matters.

Pursuant to its terms, a Franchise Agreement may not be assigned by the Franchisee without the prior consent of the franchisor. The Company has a right of first refusal with respect to any offer made to purchase the business of a Royal LePage Franchisee. The Company has assigned to the Manager, among other things, the right to exercise this right of first refusal on behalf of the Company. See "Description of the Business – Management Services Agreement".

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

The Company has historically enjoyed renewal rates of Franchise Agreements in excess of 95% (expressed as a percentage of the number of REALTORS<sup>®</sup> represented by those Franchise Agreements). Due to the ongoing success of the Company's Franchisees, a number of opportunities, such as increasing Franchise locations, present themselves to renew Franchise Agreements before they come due.

## Agents

As of December 31, 2015, the Franchise Network consisted of 16,794 REALTORS<sup>®</sup> comprising of 16,526 Agents and 268 Brokers who do not pay fees, who operate from 662 locations. For the Year ended December 31, 2015, the Franchise Network increased by 1,417 REALTORS<sup>®</sup>. The increase in REALTORS<sup>®</sup> was the result of 1,577 REALTORS<sup>®</sup> acquired through the acquisition of Franchise Agreements on January 1, 2015 and July 1, 2015, partly offset by 160 REALTORS<sup>®</sup> who transferred to other real estate companies. This net increase of 1,417 REALTORS<sup>®</sup> in the Franchise Network for 2015 is much greater than the 3% increase experienced in the overall Canadian market due to the Company's focused conversion and recruitment efforts. The increase in the number of REALTORS<sup>®</sup> in Canada has in part been driven by increases in discount brokerage offerings, which have attracted new entrants to the industry, resulting in a lower number of homes sold per REALTOR<sup>®</sup> and an industry-wide decrease in REALTORS<sup>®</sup> in the provinces of Quebec, Nova Scotia and New Brunswick. The Franchise Network is highly productive, with an approximate average transactional dollar volume in 2015 of \$2.5 million per REALTOR<sup>®</sup>, compared to an estimated \$1.9 million in transactional dollar volume generated by an average Canadian REALTOR<sup>®</sup> outside the Franchise Network.

## Franchise Fees

The Company generates Royalties with both fixed and variable fee components. Approximately 89% (89% – 2014) of the Company's Royalties during 2015 were derived from the combined fixed fee per REALTOR<sup>®</sup> per month, 1% variable royalty fee and Premium Franchise Fees. The remaining royalty stream is made up of other fees and services generated from home warranty fees, technology fees and other fees. Approximately 72% of the Company's annual Royalties were partially insulated from market fluctuations as they were not directly driven by transactional dollar volumes. Management believes that the combination of a royalty stream based on the number of REALTORS<sup>®</sup> representing the Royal LePage Network and Via Capitale Network, increasing Agent and Broker productivity and an increasing supply of new housing inventory provide the base for a strong and stable cash flow. The table below summarizes the composition of Franchise Fee Revenues in each of the past three years:

Fee type	Proportion of fees as % of total Franchise Fees		
	2013	2014	2015
Fixed Franchise Fees	52%	51%	51%
Variable Franchise Fees	22%	23%	23%
Premium Franchise Fees	15%	15%	15%
Other revenue	11%	11%	11%
Total Franchise Fees	100%	100%	100%

### Fixed Franchise Fees

Fixed Franchise Fees are paid based on the number of selling-REALTORS<sup>®</sup> in the Franchise Network. Fixed franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of \$105 per selling-REALTOR<sup>®</sup> (\$102 in 2014 and 2015, and \$100 prior to December 31, 2013), while fixed fees from Via Capitale Franchisees consist primarily of a monthly fee of approximately \$170 per selling-REALTOR<sup>®</sup>. On January 1, 2016, the Company increased the Royal LePage fixed fee to \$105 per selling-REALTOR<sup>®</sup> for approximately 85% of the Franchise Network and the balance of the increase will take effect on January 1, 2017.

### Variable Franchise Fees

Variable Franchise Fees are calculated as a percentage of the gross commission earned by the Franchisee's Agents. Variable Franchise Fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent's gross commission income, subject to a cap of \$1,325 per year (\$1,300 per year prior to December 31, 2015). A limited number of smaller Franchisees pay a 4.5% Variable Franchise Fee with no Fixed Franchise Fee. On January 1, 2016, the Company implemented an increase in the cap for the Variable Franchise Fee to \$1,325 per year for approximately 85% of the Network and the balance of the increase will take effect on January 1, 2017.

The amount of Variable Franchise Fee paid by an individual Agent can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices across Canada. However, Variable Franchise Fees are subject to a cap of \$1,325 (\$1,300 prior to 2016). For those agents who reach the cap, the Variable Franchise Fee is effectively fixed in nature, in that the Variable Franchise fee paid by the Agent will not change based on changes in the real estate market. In 2015, over 3,100 Agents and Teams exceeded the \$1,300 cap. As such, the Company considers 45% of its Variable Franchise Fees to be fixed in nature.

### Premium Franchise Fees

In addition to these fees, 21 of the Company's larger Royal LePage locations in the greater Toronto area (including 12 operated by the Manager) pay Premium Franchise Fees. These locations are contractually obligated to pay Premium Franchise Fees until August 2018.

### Other revenue

Other revenue include primarily a fixed technology fee of \$20 per month for Agents in the Royal LePage Network, and other ancillary services performed for Agents in the Via Capitale and Royal LePage Networks.

## **Network Royalty Profile**

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

Franchise Fees generated from the Royal LePage Network accounted for 93% of the Company's fees in 2015 (92% - 2014). Fixed Franchise Fees represented approximately 46% (45% - 2014) of royalty fees, Variable Franchise Fees represented approximately 38% (38% - 2014), while Other revenue represented 9% (9% - 2014). Due to the variable Franchise fee capping feature, approximately 70% (70% - 2014) of the royalties earned from the Royal LePage Network were fixed in nature. Under this Franchise Fee structure, the Company would receive total Franchise Fees of \$2,764 for each Agent who reached the Variable Franchise Fee cap in 2015, comprised of Fixed Franchise Fees of \$1,224 (12 months multiplied by \$102 per month) plus Variable Franchise Fees of \$1,300 plus Other revenue of \$240 (12 months multiplied by \$20 per month). When the increases in Franchise Fees noted previously are fully implemented, the Company will receive \$2,825 for each Agent who reaches the Variable Franchise Fee cap.

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

The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 7% of the Company's fees in 2015 (8% - 2014). Fixed Franchise Fees of \$170 per Agent per month (\$2,040 per year) represented 76% (2014 - 78%) of total Via Capitale Franchise Fees with the remainder coming from Other revenue.

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

For the twelve months ended December 31, 2015, the Royal LePage Network and the Via Capitale Network, collectively, accounted for approximately one-fifth of the \$224.2 billion dollar Canadian residential real estate market based on transactional dollar volume.

## **Locations and Branch Types**

The Royal LePage Network operates in each Canadian province through approximately 601 locations as of December 31, 2015. The Via Capitale Network operates in the province of Quebec through 61 locations as of December 31, 2015. Franchise locations are generally operated from leased premises, with the Franchisee as lessee. The Franchise Agreements provide the Company with the ability to review locations, signage and other aspects of individual Franchisee locations in order to ensure that the Trademarks are being used appropriately and the Franchisee is maintaining a high quality operation. In urban areas, Franchises are typically located in office/commercial developments, while in smaller municipalities the outlets are frequently in the more retail-oriented core business district.

## **Technology**

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

### ***Websites***

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

In 2013, both of these websites underwent significant upgrades to make them faster and more intuitive, while providing expanded functionality. To accommodate the proliferation of mobile devices, from smartphones to tablets, the websites have been designed to automatically respond to screen size and select the optimal display.

In 2015, Via Capitale launched an innovative webtool called Via Images Search tool. This tool allows prospective buyers to look for a property using pictures according to a specific category of room as the main search criteria. The pictures are generated based on the search criteria and the potential customers can continue their search by clicking on pictures that they like. Via Capitale is the only real estate company in Quebec that provide this type of search tool.

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

The Royal LePage Intranet site, [rlpNetwork.com](http://rlpNetwork.com) (the "Intranet") is accessible by authorized Agents, Brokers and staff only. It is a key vehicle through which Royal LePage delivers many of its services as well as information about additional non-Intranet-based services. Information provided on the Intranet is designed to help Agents and Brokers manage their business, increase their business and develop their skills. On the Intranet, Agents and Brokers can access information about Royal LePage news and events, award levels, suppliers, privacy policies and other documentation to help them manage their businesses. Agents and Brokers can use the Royal LePage webmail system and online financial reporting system. They can increase their business by accessing information on Royal LePage's marketing programs, and they can also establish personal, optimized websites through the Intranet. In addition, Agents can access sales, marketing and technology training sessions offered at locations near them, or they can access online webinars.

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

The Via Capitale's Intranet site, [monintranet.ca](http://monintranet.ca) (the "Intranet") is accessible by authorized Brokers and staff only. It is a key vehicle through which Via Capitale delivers many of its services as well as information about additional non-Intranet-based services. Information provided on the Intranet is designed to help Brokers manage their business, increase their business and develop their skills. On the Intranet, brokers can access information about Via Capitale's news and events, suppliers, privacy policies and other documentation to help them manage their businesses. Brokers can establish personal, optimized websites through the Intranet. The Intranet enables the Brokers to manage their

listings and referrals and provides advanced statistics on listing's view. Brokers have promotional tools and surveys available as well. In addition, Via Capitale's Intranet provides detailed information regarding the franchisees billing.

### ***Agent Technology Programs***

The Company, through the Manager, offers technology programs to help Agents and Brokers run their businesses. Agents have access to the following services:

- The Royal LePage marketing centre, which provides Agents with print and online customizable marketing materials in both English and French. Marketing materials include property feature sheets, postcards, brochures, web commercials, web slide shows, e-newsletters and e-cards;
- Training in local computer labs to better use the suite of online tools made available to them by Royal LePage;
- Personal web site design and optimization; and
- Access to numerous training materials.

Brokers have access to the following additional services:

- Recruiting tools and strategies to be considered in recruiting new Agents;
- Profitability tools and services;
- Best practices sharing forum; and
- Lead management program.

### ***Royal LePage Data-Capture System***

The Manager uses a proprietary system designed to capture royalty fee, Broker and Agent revenue information from Royal LePage Franchisees. The data-capture system allows Royal LePage Franchisees across the country to transmit Agent and transaction information electronically every month to allow for the calculation and billing of Franchise Fees. The system captures useful statistical information, including information on the average split of commissions between Agents acting for the buyer and the seller and net recruiting results, which can be accessed by all Franchisees for comparison purposes.

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

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

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

### **Training**

The Manager provides training to its Franchisees and Agents with respect to its technology programs through its Learning Services team and its online learning tools. The Learning Services team includes professionally qualified trainers who spend the majority of their days on the road, delivering hands-on training to Brokers, Agents and administration staff covering a wide range of topics.

The Manager offers Agent sales training programs designed to provide new Agents and industry veterans with sales-enhancing techniques based on best practices. The Manager also offers several proprietary and outsourced personal



coaching, planning and training programs, including specialized designations (such as luxury properties and seniors) and webinars.

The online learning tools provided through the Royal LePage Franchise Services are accessible at all times through the Intranet. They comprise webinars from industry experts as well as technology webinars.

### **Marketing and Promotion**

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

Under the first tier, the Manager's initiatives aim at increasing consumer awareness and include the following:

- newspaper print advertising, which aids with recruiting and retention of agents;
- remaining one of the principal voices of real estate in the Canadian media; the Manager's national and local spokespersons are quoted and interviewed regularly and are viewed as experts in their field;
- publishing a quarterly survey of house prices, which has been keeping Canadians informed as to national housing prices for over 20 years and is widely used by municipalities, researchers and independent companies as the national housing reference guide;
- the Royal LePage Shelter Foundation, which was launched in 1998 to help raise money for shelters to house abused women and their children; since inception, the Royal LePage Shelter Foundation has successfully raised and distributed over \$22 million through national and local Broker and Agent initiatives and helps an estimated 30,000 women and children each year through the support of over 200 shelters across the country.

Under the second tier, the Manager's initiatives aim at providing a comprehensive marketing, advertising and recruitment system that enables Franchisees and Agents to effectively market themselves and includes the following:

- Broker business planning templates to help determine and manage net recruiting goals;
- Agent-focused sales training seminars across Canada;
- online education programs offered to non-Royal LePage and non-Via Capitale Agents;
- a career website and links to a Customer Relationship Management System;
- a one-to-one e-mail campaign to attract new and experienced Brokers and Agents;
- cold-calling scripts, online messaging scripts and internal surveys;
- sales meeting templates aimed at increasing retention and sales;
- designing advertising templates through the Royal LePage Marketing centre for local newspaper and radio and for sponsorship opportunities;
- using social media channels to continuously promote the brand;

### **Growth Strategy**

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

- identifying key franchise prospects based on profitability, reputation, business acumen and technology orientation;

- ongoing prospecting through various advertising programs, newsletters, press releases, sales and networking events, conferences and personal contact;
- creating and maintaining a database of brokerages with information including market share, number of Agents and owner/manager details;
- expanding the range of products and services provided by the Franchise Systems and increasing the adoption by Brokers and Agents of these products and services in order to make the Company brands more attractive to franchise prospects;
- providing programs to Franchisees supported by ongoing Franchisee and Agent training programs that assist Franchisees in presenting the distinctive benefits and record of success of Agents and Brokers to potential recruits; and
- providing financial and other consulting to, and otherwise supporting, Franchisees in acquiring local competitors and integrating such competitive brokerage operations into the Franchisees' owned brokerage operations.

The Manager currently licenses the rights to use the Prudential Real Estate brand in Canada. One of the conditions of these licenses is that Prudential franchisees cannot renew their franchise agreements under the Prudential name. As such, part of the Company's growth strategy has been to convert Prudential franchises to Royal LePage when their franchise agreements expire. Since 2011, when the Manager acquired the rights to use the Prudential name, 150 Agents have converted to Royal LePage Franchises, and 184 Agents currently operate under Prudential franchise agreements.

### **Quality Control**

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

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

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

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

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

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

In 2013, the Company terminated 6 Franchise Agreements representing 74 Agents. In 2014, the Company terminated 6 Franchise Agreements representing 15 Agents. In 2015, the Company terminated five Franchise Agreements of which one resulted in attrition of 47 agents and two Franchise Agreements were terminated as a result of Franchisees merging operations.

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

### **Franchise Reporting**

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

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

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

### **Government Regulation**

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

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

Most licensed Agents also belong to local real estate boards as well as to the Canadian Real Estate Association and are required by the rules thereof to adhere to prescribed standards of professionalism and a code of ethics. Local real estate boards provide a Multiple Listing Service to members, facilitate arbitration and ethical disputes among members and handle complaints from members of the public.

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

## ***Franchise Regulation***

The Company must comply with laws and regulations adopted in the provinces of Ontario, Alberta, Manitoba, Prince Edward Island and New Brunswick, which regulate the offer and sale of franchises. These laws require, among other things, that the Company provide prospective Franchisees with a disclosure document containing certain prescribed information.

## ***Employment***

As is the case with the majority of real estate Agents in Canada, Agents in the Franchise Network typically practise as independent contractors. Under this system, the Agents remit their own taxes to the Canada Revenue Agency, pay their own health insurance and deduct business expenses. The typical independent contractor agreement between a Broker-Owner and Agent has a one-month termination clause, allowing either the Broker-Owner or the Agent to terminate the contract on one month's notice.

## ***Dividend Policy***

During 2015, the Company paid dividends of \$1.23 per Restricted Voting Share (\$1.19 - 2014). The Board reviews the cash position and forecasts of the Company at its regularly scheduled Board meetings. The Board considers the recommendation of the Manager in determining the approval of any dividend. The Board targets a dividend level that is sustainable after considering, among other things, the cash resources and cash flow forecasts of the Company as well as the investment opportunities available to the Company. Effective January 2016, the Board of Directors has approved an increase in dividend to an annualized rate of \$1.30 per Restricted Voting Share.

## ***Management Services Agreement***

### ***General***

Pursuant to the provisions of the Management Services Agreement, the Manager has agreed to provide certain management, administrative and support services to the Company. The duties of the Manager include the following: (i) ensuring compliance with continuous disclosure obligations under all applicable securities legislation and stock exchange requirements; (ii) providing accounting and financial services; (iii) ensuring prompt collections under the Franchise Agreements and otherwise ensuring compliance by Franchisees with their respective obligations under the Franchise Agreements; (iv) pursuing the growth of the Franchise Network through the addition of Incremental Franchises and Incremental Via Capitale Franchises; (v) negotiating and communicating with third parties with respect to contractual and other matters; (vi) providing investor relations services; (vii) providing to Shareholders and holders of Special Voting Shares all information to which Shareholders and holders of Special Voting Shares are entitled; (viii) calling, holding and distributing materials (including notices of meetings and information circulars) in respect of all meetings of Shareholders and holders of Special Voting Shares; (ix) determining the amounts payable from time to time to Shareholders; and (x) if necessary, dealing with Franchisees on questions of interpretation of the Franchise Agreements.

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

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

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

Under the Management Services Agreement, the Manager is entitled to an annual fee, payable by the Partnership on a monthly basis in arrears, equal to 20% of the cash of the Partnership otherwise available for distribution.

The Management Services Agreement has a term of five years, expiring on December 31, 2018, and is automatically renewable for successive five-year terms unless notice of termination is given by the Company or the Manager at least six months prior to the expiry of the initial or renewal term. The Management Services Agreement may be terminated earlier on behalf of the Company by the Independent Directors if a substantial deterioration in the Business of the Partnership occurs that is not caused by force majeure, provided that such termination is approved at a meeting of Shareholders and Special Shareholders by a resolution approved by holders representing at least 50% of the aggregate number of issued and outstanding Restricted Voting Shares and the Special Voting Share and at least  $66\frac{2}{3}\%$  of the aggregate number of Shares voted at the meeting, in each case excluding any Restricted Voting Shares and the Special Voting Share held by the Manager or any of its affiliated entities. In the event of such termination, and provided that the Manager is not then in default, the Company will pay to the Manager a fee equal to the aggregate of all fees paid to the Manager under the Management Services Agreement in the previous calendar year.

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

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

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

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

Under the Management Services Agreement, the Manager has the right to develop and offer new products and services to Franchisees or Agents in addition to the products and services as specifically dealt with in the Management Services Agreement. Pursuant to the terms of the Management Services Agreement, provided such products and services are new, and not mere enhancements of the products and services already provided as part of the Franchise Systems, the Manager shall be entitled, after negotiation with and mutual agreement of the

Independent Directors of the Company, to be reimbursed for its costs and receive additional fees in respect of such products and services.

The Management Services Agreement also contains provisions requiring the Company to assign certain rights, including the right of first refusal to acquire the Franchise operations of a Franchisee in certain circumstances, to the Manager. See “Description of the Business – Franchise Agreements” and “Description of the Business – Quality Control”.

### ***Incremental Franchises***

Under the Management Services Agreement, the Partnership has provided the Manager with a licence to use the Trademarks to, among other things, enable the Manager to fulfill its obligations under the Management Services Agreement and to otherwise operate and grow the Franchise Network by entering into new Franchise Agreements either directly or through an affiliated entity.

The directors have adopted an Incremental Franchise Purchase Policy that requires the Independent Directors of the Company to review and determine, from time to time, by agreement with the Manager, the criteria upon which the Independent Directors will base their decision to permit the Partnership to purchase Incremental Franchises or Incremental Via Capitale Franchises from the Manager. All Incremental Franchises and Incremental Via Capitale Franchises will, prior to being purchased by the Partnership, be subject to a satisfactory review based on the criteria established by the directors from time to time prior to their assignment to the Partnership. The criteria for Incremental Franchises or Incremental Via Capitale Franchises proposed for acquisition by the Partnership subject to a Franchise Agreement include, unless the Independent Directors otherwise consent:

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

Under the Management Services Agreement, Via Capitale L.P. has provided the Manager with a licence to use the certain Trademarks to, among other things, enable the Manager to fulfill its obligations under the Management Services Agreement and to otherwise operate and grow the Via Capitale Network by entering into new Franchise Agreements either directly or through an affiliated entity.

Subject to meeting the criteria set forth in the Company’s Incremental Franchise Purchase Policy, all Incremental Franchises or Incremental Via Capitale Franchises entered into prior to the end of the 44th week of each fiscal year of the Company will be assigned to the Partnership by the Manager, on January 1 of the immediately following fiscal year (the “Payment and Adjustment Date”), in consideration of an amount (the “Determined Amount”) to be determined annually on the Payment and Adjustment Date by a formula that is based upon, among other things:

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

During 2014 and 2015, the Manager was very successful in identifying Incremental Franchises and Incremental Via Capitale Franchises for purchase by the Partnership. As a result, the Board of Directors approved an amendment to

the Management Services Agreement to allow the Partnership to purchase a number of Incremental Franchises effective July 1, 2015. The Payment and Adjustment Date, the Reporting Period and the Determination Date for the acquisition of Incremental Franchise Agreements on July 1, 2015 were the same as what they would have been if the Incremental Franchises were purchased by the Partnership on January 1, 2016.

The Determined Amount for any Reporting Period is to be determined by dividing (a) the product of (i) 92.5% of the Royalties on a tax-affected basis (net of management fees attributable to such Royalties) in respect of the first Reporting Period for which such Incremental Franchises are included in the calculation of Royalties and (ii) one minus the Actual Tax Rate by (b) the annual dividend yield paid on the Restricted Voting Shares for the 52-week period immediately preceding the Determination Date in respect of such Reporting Period. The annual dividend yield is to be determined by dividing the total dividend amount per Restricted Voting Share declared by the Company in the 52-week period ending on the day immediately preceding such Determination Date by the Current Market Price of the Restricted Voting Shares on such Determination Date. The "Current Market Price" of the Restricted Voting Shares as at any date or for any period means the weighted average price at which the Restricted Voting Shares have traded on a Stock Exchange during the period of 20 consecutive trading days ending on the fifth trading day before such date or the end of such period. (For the purposes of this calculation, (i) "Stock Exchange" means a stock exchange recognized by the Ontario Securities Commission, and where the Restricted Voting Shares have traded on more than one Stock Exchange during the relevant period, "Stock Exchange" shall mean the Stock Exchange where the greatest volume of Restricted Voting Shares traded during the relevant period; and (ii) "weighted average price", for any period, shall mean the amount obtained by dividing the aggregate sale price of all of the Restricted Voting Shares traded on the relevant Stock Exchange during such period divided by the total number of Restricted Voting Shares so traded.)

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

The Determined Amount for each Reporting Period is to be paid by the Partnership in cash or, at the option of the Partnership, through the issue of Class B LP Units.

An initial payment of the Determined Amount is to be made based upon the amount of the Royalties of the Incremental Franchises for such Reporting Period, as forecast by the Manager (a "Forecast Determined Amount"), on the basis of assumptions that are considered to be reasonable by the Board of the Company. The Forecast Determined Amount will be adjusted after the end of such Reporting Period when the Determined Amount is determined on the basis of the actual Royalties for such Incremental Franchises for such Reporting Period. The Manager is to provide the Company with an audited report of the amount of such actual Royalties of the Incremental Franchises for the first Reporting Period in which such Incremental Franchises are included in the calculation of total Royalties and the Actual Tax Rate for the Reporting Period during which such Incremental Franchises are assigned to the Partnership.

The Determined Amount for any Reporting Period is to be paid in two instalments. The first payment, equal to 80% of the Forecast Determined Amount (the "Initial Payment"), is to be paid on the Payment and Adjustment Date immediately following the beginning of such Reporting Period. The second payment (the "Final Payment"), equal to the Determined Amount less the Initial Payment (the "Final Payment Amount"), is to be paid within 90 days of the immediately following Payment and Adjustment Date.

If the Determined Amount for any Reporting Period is to be paid in Class B LP Units, the Partnership will issue to the Manager Class B LP Units (at a price equal to the Current Market Price per Restricted Voting Share on the Payment and Adjustment Date) equal to the amount of the Initial Payment divided by the Current Market Price per Restricted Voting Share on the Payment and Adjustment Date. If the Determined Amount for any Reporting Period is to be paid in cash, then, to the extent that the Final Payment Amount is greater than zero, it will bear interest at a rate equal to the rate of interest payable during such Reporting Period on debt obligations of the Government of Canada having a term of 90 days.

If the Final Payment Amount is negative, then the Manager will be required to repay an amount equal to the Final Payment Amount to the Partnership. Where the Determined Amount is paid in Class B LP Units, the Manager will transfer to the Partnership that number of Class B LP Units having a value equal to the Final Payment Amount (based on the issue price of the Class B LP Units), together with an amount equal to all distributions paid on such Class B LP Units, and where the Determined Amount is paid in cash, the Manager will pay to the Partnership a cash amount equal to the Final Payment Amount, together with interest on such amount at a rate equal to the rate of interest payable during such Reporting Period on debt obligations of the Government of Canada having a term of 90 days.

All Incremental Franchises will be subject to a satisfactory review by the Independent Directors, based on the criteria established by the Directors from time to time.

Upon the termination of the Management Services Agreement, the rights of the Manager to enter into the Franchise Agreements as franchisor and the rights of the Manager to use the Trademarks will terminate other than (i) those rights provided for in the Franchise Agreements in respect of Franchises owned and operated by the Manager, and (ii) those rights necessary to allow the Manager to continue to act as franchisor of any Incremental Franchises until they are assigned to the Partnership on January 1 of the fiscal year of the Company commencing following the termination of the Management Services Agreement.

### **Organic Growth**

Under the new Management Services Agreement, the Manager is eligible to receive a fee for the cumulative net organic growth in the number of Agents in the Company Network of Agents since December 31, 2013 (the “Net Organic Agent Growth Fee”). Since the Company experienced a net organic loss of Agents in 2014 and 2015, a Net Organic Agent Growth Fee has not been earned. Further, the net organic loss of Agents experienced in 2014 and 2015 must be replaced before a Net Organic Agent Growth Fee can be earned in the future.

The mechanics of the calculation of the Net Organic Agent Growth Fee are similar to the Incremental Franchise Fee, with the base royalty fee being replaced by the average royalty fee per agent, or Value per Agent, exclusive of Premium Franchise Fees; the date of the calculation is at December 31; and the Value per Agent is multiplied by the net change in cumulative organic Agents in the calendar year, where such change in Agents is positive, and, when added to the underlying cumulative net organic growth in Agents for previous Net Organic Agent Growth Fee payments, does not exceed the net organic growth in Agents since December 31, 2013.

The detailed calculation of Net Organic Agent Growth Fee is defined as the Value per Agent multiplied by the net increase (or decrease) in Agents. See the Glossary of Terms for the associated definitions.

### **Management of the Company**

The section entitled “Management of the Company” contained in the Company’s Management Information Circular dated March 24, 2016 is incorporated herein by reference.

## **DESCRIPTION OF THE CORPORATION**

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

### **Restricted Voting Shares**

The Corporation is authorized to issue an unlimited number of Restricted Voting Shares. Holders of Restricted Voting Shares are entitled a) to one vote per share at meetings of Shareholders of the Company; b) to receive dividends if, as and when declared by the Board of Directors of the Company (subject to the rights of shares, if any, having priority over the Restricted Voting Shares); and c) to receive their pro rata share of any remaining property and assets of the Corporation upon its dissolution or winding up, subject to the rights of shares, if any, having priority over the Restricted Voting Shares. The Restricted Voting Shares are designated as “restricted voting shares” in accordance with applicable securities laws and the rules of the TSX due to the fact that the Restricted Voting



Shareholders do not vote for the Designated Directors who are appointed by the holder of the Special Voting Share. See “Description of the Corporation and Capital Structure – Special Voting Share”. As at the date hereof, there are 9,483,850 Restricted Voting Shares issued and outstanding.

### **Preferred Shares**

The Corporation is authorized to issue an unlimited number of preferred shares and the Directors may issue such preferred shares in series with each series having various rights, privileges, restrictions and conditions attaching to them. The preferred shares are available to the Corporation to provide future financing flexibility and are not intended to be used for dilutive purposes, such as to block any takeover bid for the Company. The Corporation has never issued any preferred shares and there are currently no preferred shares issued and outstanding.

### **Special Voting Share**

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

So long as Brookfield holds the Special Voting Share and so long as it and/or its affiliates hold an aggregate of 10% of the Restricted Voting Shares then outstanding (on a diluted basis), Brookfield is entitled to appoint two-fifths of the Directors of the Company. Currently there is one Designated Director who has been appointed by Brookfield, Spencer Enright.

### **Principal Holders of Voting Securities**

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

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

\*This entity also holds 3,327,667 Subordinated LP Units and 315,000 Restricted Voting Shares.

### **Directors**

The Corporation will have a minimum of three and a maximum of ten directors. The current Directors are Lorraine Bell, Simon Dean, Spencer Enright, the Honourable Trevor J. Eyton OC and Gail Kilgour,. See “Directors and Officers of the Company” for the principal occupations of the Directors.

At all times a majority of the Directors will be Independent Directors. Presently, Mr. Spencer Enright is the only Director who is not an Independent Director as a result of his position as an officer and a director of the Manager. Brookfield may remove any Designated Directors as directors at any time in its sole discretion. The Elected Directors may be removed by a resolution passed by a majority of the Shareholders. The vacancy created by the

removal or resignation of an Elected Director may be filled at the same meeting, failing which it may be filled by the continuing directors.

### **Audit Committee**

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

### **Governance Committee**

The current members of the Governance Committee are Gail Kilgour (Chair), Lorraine Bell, Simon Dean and Honourable Trevor Eyton. See “Directors and Officers of the Company” for the principal occupations and relevant education and experience of the members of the Governance Committee. See Appendix A for the Governance Committee Charter.

### **Information and Reports**

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

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

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

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

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

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

## **DESCRIPTION OF THE PARTNERSHIP**

### **General**

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

## **General Partner**

The general partner of the Partnership is the General Partner.

## **Partnership Units**

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

Class A LP Units may be issued, as described under “Description of the Business – Management Services Agreement”, to the Manager in satisfaction of payment of the Determined Amount in respect of Incremental Franchises assigned to the Partnership by the Manager or Brookfield.

Class B LP Units, which are issuable in series, may be issued in respect of other acquisitions made by the Partnership from time to time. The Class B LP Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Class A LP Units. The Class B LP Units have the following attributes: (i) the Class B LP Units are exchangeable, indirectly, on a one-for-one basis (subject to customary anti-dilution provisions) for Restricted Voting Shares at the option of the holder, at any time; (ii) each Class B LP Unit entitles the holder thereof to receive distributions from the Partnership, where practicable, pro rata, with dividends paid by the Corporation on its Shares.

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

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

## **Distributions**

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

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

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

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

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

### **Reimbursement of General Partner**

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

### **Limited Liability**

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

### **Transfer of Partnership Units**

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

## **DESCRIPTION OF THE GENERAL PARTNER**

### **General**

The General Partner is a corporation established under the laws of the Province of Ontario to act as the general partner of the Partnership. The Corporation and Brookfield own 75% and 25%, respectively, of the outstanding shares of the General Partner. Pursuant to the Shareholders' Agreement, in the event that the Management Services Agreement is terminated, Brookfield will sell all of its shares in the General Partner to the Corporation or such other person as the Corporation directs.

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

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

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

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

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

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

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

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

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

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

## **Restrictions Respecting Amendment**

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

## **Shareholders' Agreement**

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

### *Directors*

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

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

### *Amendment*

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

## **CREDIT FACILITIES**

On October 27, 2014, the Company refinanced its then existing \$53 million debt facility, increasing the Company's borrowing capacity to \$68 million financing debt facility (the "Debt Facility") with a Canadian chartered bank. On June 18, 2015, maximum borrowings under the Debt Facility were increased to \$78 million.

The Debt Facility matures on February 17, 2020 (the "Maturity Date") and all amounts borrowed under the Debt Facility bear interest a variable interest rate of bankers acceptances + 1.70% or Canadian prime + 0.5%, at the option of the Company. Under the Terms of the Debt Facility, the Company has access to the following sources of funds:

- a) a \$53 million non-revolving term facility, due on the Maturity Date (the “Term Facility”);
- b) a \$20 million revolving acquisition facility to support acquisitions pursued by the Company (the “Acquisition Facility”). A standby fee of 0.15% applies on undrawn amounts under this facility. The Company has drawn \$17.9 million on the Acquisition Facility as of March 24, 2016; and
- c) a \$5 million revolving operating facility to meet the Company’s day-to-day operating requirements (the “Operating Facility”). No amounts have been drawn on this facility as of March 24, 2016.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1 (as such terms are defined in the Debt Facility). Consolidated EBITDA is defined as operating income before deducting impairment and amortization of intangible assets.

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

## **Security**

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

## **Restrictive Covenants**

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

- The Company will not incur, guarantee or otherwise be or become directly or indirectly liable for any indebtedness other than the Credit Facility.
- The Company will not create any liens on any of its property, other than encumbrances permitted in the Debt Facility.
- The Company will not directly or indirectly, sell any of its assets if, after giving effect to such sale of assets, a default or event of default occurs under the Debt Facility as a result of such sale. Subject to the foregoing, the Company may sell assets of less than \$500,000 in any one fiscal year. Additionally, the Company may sell assets for an amount greater than \$500,000 but less than \$2 million provided that (i) notice is duly given to the lender; (ii) the net proceeds received in excess of \$500,000, in aggregate, in any one fiscal year (the “Excess Net Proceeds”) must be reinvested by the Company in the Company’s Business. If less than all of the Excess Net Proceeds are reinvested in the Company’s business (such non-reinvested portion being the “Non-Reinvested Amount”), within 30 days after the end of the fiscal year, the Company will use the Non-Reinvested Amount to rateably repay outstanding Senior Indebtedness of the Company in accordance with the Debt Facility.
- Subject to the limitation on asset sales noted above, the Company will not enter into a sale and leaseback transaction if, after giving effect to such sale and leaseback transaction, a default or event of default occurs under the Debt Facility.
- The Company will not undertake any merger, reconstruction, reorganization, recapitalization, combination, statutory arrangement, consolidation, amalgamation, liquidation, dissolution, winding-up or other similar transaction or arrangement or any sale of assets whereby all or substantially all of the undertaking, property and assets of the Company would become the property of another person (a “Person”) (any of the foregoing being herein referred to as a “Transaction”) unless: (i) that Person agrees to be bound by all terms of the Debt Facility; (ii) that Person is solvent and validly existing under the federal laws of Canada or the laws of a province or territory of Canada; (iii) the liens created by the security under the Debt Facility will

continue to be valid against the property acquired by that Person in substantially the same manner and to the same extent and priority as existed immediately prior to such Transaction; (iv) the Transaction is carried out in such a manner as to preserve the rights and powers of the lender under the Debt Facility; (v) no default or event of default will have occurred immediately prior to or as a result of that Transaction; and (vi) prior to or contemporaneously with the completion of the Transaction, the Person will have executed and delivered certain legal opinions and certificates to the lender.

- The Company shall not purchase, hold or acquire any investments (including equity securities, indebtedness of third parties, options or warrants to acquire these types of securities or guarantees of these securities) except: (i) loans, advances or other forms of indebtedness or investments made between entities within the Company; (ii) Acquisitions that are of assets or equity securities, of an entity carrying on a business similar to and consistent with the Business; (iii) cash or cash equivalents; and (iv) Guarantees expressly permitted under the Debt Facilities.
- The Company will not materially modify, alter, amend, extend, renew or replace any of its constituting documents or by-laws unless any such action would not have or would not reasonably be expected to have a material adverse effect on the Company.
- The Company will not make or give effect to any distribution if a default or event of default will have occurred immediately prior to or as a result of that distribution.
- The Company will not engage in transactions with any Affiliates unless the terms of such transactions are no less favourable than if the transaction were undertaken with an unrelated third party, excluding any transactions in accordance with the terms of the Management Services Agreement.
- The Company shall not establish, sponsor, contribute to or assume an obligation to contribute to any pension plan except with the prior written consent of the lenders.
- The Company will not amend, terminate, surrender or vary (i) the Management Services Agreement or (ii) any other material contract if such amendment, termination, surrender, variation or waiver would result in a material adverse effect on the Company.
- The Company will not change its jurisdiction of incorporation or chief executive office.
- The Company shall not carry on any business other than the Business and any business reasonably incidental thereto and will not carry on business outside Canada.
- The General Partner shall not cease to be the general partner of any member of the Company which is a limited partnership, unless the General Partner (as the case may be) is replaced as the general partner of such member of the Company and the interest of such replacement general partner is the applicable limited partnership is pledge in favour of the lender.

#### **RETAINED INTEREST**

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

#### **EXCHANGE RIGHTS**

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

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

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

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

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

## DISTRIBUTIONS

### Distributions per Share for Last Three Fiscal Years

The following table sets out the aggregate dividends declared in respect of the Restricted Voting Shares in each of 2015, 2014 and 2013:

Period	Distributions Per Restricted Voting Share or Unit
2015	\$1.23
2014	\$1.20
2013	\$1.10

## MARKET FOR SECURITIES

The Restricted Voting Shares are currently listed for trading on the TSX under symbol “BRE”. None of the units of the Partnership, units of Via Capitale L.P. or shares of the General Partner are listed for trading on a recognized exchange, nor is there a market for such securities. The following table sets out the price ranges and volume traded for Restricted Voting Shares on the TSX for each month during 2015:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
High	\$13.98	\$14.42	\$14.60	\$14.62	\$14.65	\$15.25	\$15.25	\$15.10	\$14.72	\$14.67	\$14.75	\$15.08
Low	\$12.56	\$13.40	\$14.02	\$14.01	\$13.82	\$14.41	\$14.50	\$13.75	\$13.25	\$13.26	\$14.03	\$14.24
Close	\$13.60	\$14.35	\$14.04	\$14.29	\$14.40	\$15.03	\$14.73	\$14.34	\$13.45	\$14.10	\$14.70	\$14.66
Avg. Daily Volume	13,778	14,779	17,255	4,391	12,103	7,205	5,955	5,045	4,910	5,713	3,915	3,283

## DIRECTORS AND OFFICERS OF THE COMPANY

The names, principal occupations and municipalities of residence of the Company’s Directors and officers, as well as the year each Director first became a Director, are set out below. Each Director is appointed to serve until the next annual meeting of Shareholders or until his or her successor is elected or appointed.



## Directors

Name and Municipality of Residence	Position and/or Office with Company	Present Principal Occupation If Different from Office Held	Period During Which Served as Director	Restricted Voting Shares Beneficially Owned or Controlled as at March 24, 2016 <sup>3</sup>
Lorraine Bell <sup>1, 2, 3, 4</sup> New York, NY, USA <i>Independent Director</i>	Director, Chair of the Audit Committee	Corporate Director	Since Jan. 3, 2003	8,000
Simon Dean <sup>1, 2, 3, 5</sup> Oakville, ON, Canada <i>Independent Director</i>	Director	Self-employed Consultant	Since Jan. 3, 2003	8,000
Gail Kilgour <sup>1, 2, 3, 6</sup> Toronto, ON, Canada <i>Independent Director</i>	Director, Chair of the Governance Committee	Corporate Director	Since Jan. 3, 2003	5,000
Honourable Trevor J. Eyton OC <sup>2, 7</sup> Caledon, ON, Canada <i>Related Director</i>	Director	Corporate Director	Since May 6, 2014	Nil
Spencer Enright <sup>3, 7, 8</sup> Toronto, ON, Canada <i>Related Director</i>	Chairman and Director	President and Chief Executive Officer, Brookfield Real Estate Services Manager Limited	Since May 6, 2014	1,000

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

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

<sup>3</sup> As of March 24, 2016, the current directors of the Company owned beneficially, directly and indirectly, 22,000 Restricted Voting Shares representing approximately 0.2% of the issued and outstanding Restricted Voting Shares. Brookfield holds one Special Voting Share.

<sup>4</sup> **Lorraine Bell – Director and Chair of the Audit Committee.** Ms. Bell is a Corporate Director and a Chartered Professional Accountant with over 30 years of experience in the financial sector. Ms. Bell is a member of the Board of Directors and the Audit, Risk Management, Human Resources and Governance Committees of the Ontario Financing Authority, a government financial management organization, and a director and chair of the Audit Committee of IBI Group Inc., a services company. She is also a member of the Board of Directors of University of Toronto Associates in New York.

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

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

<sup>7</sup> **The Honourable Trevor J. Eyton OC – Director.** Mr. Eyton is a Corporate Director and well-known businessman. Mr. Eyton serves as a director of Magna International Inc., an auto manufacturing company, as well as Chairman and a director of Silver Bear Resources Inc., a mining company. In addition, Mr. Eyton is the Honorary Chairman of the Canada Sports Hall of Fame. Prior to becoming a Corporate Director, Mr. Eyton was a Senator in the Canadian Senate.

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

## Officers

<b>Name, Municipality of Residence and Restricted Voting Shares Owned as at March 28, 2014</b>	<b>Position Held</b>	<b>Five-Year Occupational History</b>
Philip Soper Toronto, ON, Canada 11,245	President and Chief Executive Officer	Mr. Soper is the President and Chief Executive Officer of the Company and President of the Manager. Mr. Soper joined the Brookfield organization as Vice President and General Manager, Corporate Relocation Solutions in February 2001 and was named Chief Executive Officer of what is now Brookfield Real Estate Services, Inc. in 2002.
Spencer Enright Toronto, ON, Canada 1,000	Chief Executive Office, Brookfield Real Estate Services Manager Limited	Mr. Enright is the Chief Executive Officer of Brookfield Real Estate Services Manager Limited (the “Manager”) since December 2012. Mr. Enright acted as a Senior Vice-President and Chief Operating Officer of an affiliate of the Manager from 2010-2012. Mr. Enright sits on the Board of the Royal LePage Shelter Foundation, a charitable organization.
Glen McMillan Toronto, ON, Canada -	Chief Financial Officer	Mr. McMillan was appointed Chief Financial Officer of the Company on May 19, 2015. Mr. McMillan is also the Chief Financial Officer of the Manager. Mr. McMillan was a Senior Vice President of Brookfield Capital Partners, an asset management company, from 2011-2015. Prior to that, he was Chief Restructuring Officer and Chief Financial Officer at Fraser Papers Inc., a forest products company

As of March 24, 2016, the current officers and Directors of the Company owned beneficially, directly and indirectly, 33,245 Restricted Voting Shares representing approximately 0.4% of the issued and outstanding Restricted Voting Shares. Brookfield holds one Special Voting Share and 315,000 Restricted Voting Shares.

As of the date hereof, no individual who is, or at any time during the most recently completed financial year of the Company ended December 31, 2015 was, a Director or senior officer of the Company, an individual proposed as a nominee for election to any such position, nor any associates of any such director, senior officer or proposed nominee, has been indebted to the Company nor has any such individual’s indebtedness to another entity at any time since the beginning of the most recently completed financial year been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company in connection with the purchase of securities of the Company.

### INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The section entitled “Interest of Informed Persons in Material Transactions” contained in the Company’s Management Information Circular dated March 24, 2016 is incorporated herein by reference.

### AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Deloitte LLP (“Deloitte”), Suite 1400, Brookfield Place, 181 Bay Street, Toronto, Ontario, Canada, M5J 2V1. The Transfer Agent and registrar for the Company is CST Trust Company, 320 Bay Street, P.O. Box 1, Toronto, Ontario, M5H 4A6.

### External Auditor Service Fees (by Category)

The following table sets out further information on the fees paid related to services provided for the year ended December 31, 2014 and fees billed or expected to be billed for the year ended December 31, 2015 by Deloitte to the Company.

<b>Fees</b>	<b>2015</b>	<b>2014</b>
Audit fees	\$209,000	\$200,000
Audit-related fees	\$19,000	\$58,000
Tax fees	\$20,000	\$20,000
All other fees	–	–
<b>Total fees</b>	<b>\$248,000</b>	<b>\$278,000</b>

**Audit fees** were for professional services rendered for the audit of the Company’s consolidated financial statements as of and for the years ended December 31, 2015 and 2014 and quarterly review of the financial statements included in the Company’s quarterly reports, consents and comfort letters issued and review of filings with securities commissions.

**Audit-related fees** consist of a) fees for assurance and related services that are reasonably related to the performance of the audit and are not reported under “Audit fees”, b) fees related to consultations concerning financial accounting and reporting standards, c) administrative fees charged by Deloitte, and d) Canadian Public Accountability Board (“CPAB”) fees.

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

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

## **MATERIAL CONTRACTS**

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

- Debt Facility Credit Agreement and related security documentation
- Exchange Agreement
- Via Capitale Licence Agreement
- Royal LePage Licence Agreement
- Management Services Agreement
- Partnership Agreement
- Registration Rights Agreement
- Shareholders’ Agreement among Brookfield and the Company

## **RISK FACTORS**

The following sections describe the risks related to the residential resale real estate brokerage industry and the Business of the Company.

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

The performance of the Company is dependent upon receipt of Royalties. Royalties in turn are ultimately dependent on the number of Agents in the Franchise Network and the level of residential resale transactions. The real estate industry is affected by all of the factors affecting the economy in general, including, without limitation, changes in interest rates, unemployment, inflation, commodity prices, international balance of trade, changes in income tax rates and foreign exchange rates. In addition, the Company could be affected by the aging network of real estate

Agents and Brokers across the country. The average age of a top-performing Agent, according to the National Association of Realtors in the United States, is approaching 50, and the average age of a Broker-Owner is over 50. Agents are predominantly independent contractors and can terminate their independent contractor agreements with the respective Franchise at any time. In addition, pressure on the rate of commissions charged to the consumer could adversely affect the profitability of Agents, Franchisees and, ultimately, the Company. The popularity of internet use by real estate consumers has led to a questioning of the value of traditional real estate services.

### **Competition**

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

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

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

A substantial portion of the attrition in Agents experienced in the Franchise Network over the past several years has occurred in the Quebec Franchise operations as the introduction of new real estate regulations significantly increased the educational requirements and association costs for Agents. Consequently, fewer new Agents have entered the industry in Quebec. The introduction of these regulations directly impacted Quebec-based Franchisees as the typical turnover and replacement of non-producing Agents with new Agents experienced by Franchises did not occur. While the Company did manage to grow its Franchise Network in all provinces except Quebec and Alberta in 2015, competition, use of the internet and the increasing popularity of lower service brokerages may make it more difficult for the Company to successfully recruit agents in the future.

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

### **Commission Rate**

The rate of commission charged to home sellers has dropped over the past several years due to a number of factors. With most Agents in Canada being independent contractors, the decision as to what rate to charge rests solely with the Agent rather than the Broker-Owner. As a result, the rate of commission charged has dropped from a rate of approximately 6% in the early 1980s to an estimated rate of just under 4.5% today, based on internal information. Additionally, the number of discount and fee-for-service companies has grown over the past few years, and discount brokerage operations have been active in Canadian residential resale real estate for many years. The ability of Agents to compete by advertising commission rates may put further downward pressure on client commission rates. The performance of the Company could be adversely affected if commission rates continue to fall.

### **Additional Franchises and Franchise Operations**

The growth of Royalties is dependent, among other things, upon the ability of the Manager to i) maintain and grow the Franchise Network; ii) execute its growth strategy for both increasing the number of Franchisees and selling

them to the Company; and iii) recruiting Agents to Franchise Network offices. If the Manager is unable to attract qualified Franchisees and continue to grow the Franchise Network, Distributable Cash could be adversely affected. The slowing of growth could lead potential and existing Franchisees to begin to look elsewhere for alternative brand opportunities. The growth of the Franchise Network through adding new Franchisees is somewhat dependent upon available qualified Brokers in desirable locations and new Brokers wishing to start up a real estate brokerage or purchase an existing one.

### **The Closure of Franchises May Affect the Amount of Royalties**

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

### **Dependence on Key Personnel**

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

### **Intellectual Property**

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

The Company does not own the Royal LePage Trademarks, which are trademarks of the Canadian chartered bank affiliate of the Royal Trust Company. The Royal Trust Company has the exclusive right to use those Trademarks and to authorize others through sub-licence to use the Royal LePage Trademarks. Royal LePage Limited has obtained the exclusive rights to use the Royal LePage Trademarks, including the “Royal LePage” name and logo, in connection with its business of providing, in Canada, real estate services and those related financial services offered by Royal LePage Limited that relate to the purchase and sale of real estate, pursuant to the Royal LePage Licence Agreement. The rights to use the Royal LePage Trademarks in connection with the Business have been sub-licensed by Royal LePage Limited to the Company. There can be no assurance that the Royal Trust Company will renew the Royal LePage Licence Agreement when it expires in December 2027. Any loss of the right of the Company to use the Royal LePage Trademarks could have a materially adverse effect on the revenue generated by the Company.

### **Premium Franchise Fees**

There are 21 Franchisee locations which currently pay Premium Franchise Fees to the Company. The obligation of these operations to pay Premium Franchise Fees is scheduled to expire in August 2018. If these Premium Franchise Fees are not renewed after August 2018, it could have a negative adverse effect on the revenues of the Company.

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

Internet-based real estate businesses have operated in the market for 20 years. While none have achieved material market share to date, innovation in the space is constant, and disruptive business models could draw consumers away from traditional brokerages. This could have a negative adverse effect on the Business of the Franchise Network, and ultimately, the profitability of the Company.

## **Government Regulation**

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

## **Government Policy**

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

## **Potential Litigation and Other Complaints**

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

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

The only sources of revenue of the Company are the Royalties received from Franchisees and Agents. Pursuant to the Management Services Agreement, the Manager collects Royalties on behalf of the Company and is principally responsible for building and supporting the network of Franchisees, which will determine the amount of Royalties. The Company is, therefore, subject to the risks encountered by the Manager in the operation of its Business, including the financial risks and risks relating to the real estate brokerage industry summarized above, to the extent that the Manager is impaired in its ability to fulfill its obligations under the Management Services Agreement or otherwise to support the network of Franchisees. In addition, pursuant to the terms of the Management Services Agreement, the Manager may be terminated in certain circumstances. See “Description of the Business – Management Services Agreement”. In that case, retaining a replacement for the Manager may require the Company to pay additional fees, may be on terms less favourable than those contained in the Management Services Agreement and may negatively affect the cash available for the Company to pay dividends and distributions.

The Management Services Agreement may be terminated on behalf of the Company by the Independent Directors of the Company if a substantial deterioration in the Business of the Company occurs that is not caused by force majeure, provided that such termination is approved at a meeting of Shareholders by a resolution approved by holders representing at least 50% of the aggregate number of issued and outstanding Restricted Voting Shares and Special Voting Shares and at least 66<sup>2</sup>/<sub>3</sub>% of the aggregate number of Restricted Voting Shares. The phrase “substantial deterioration of the Business of the Partnership” is not defined. As a result, it may be subject to differing interpretations, which may give rise to litigation in the event of the termination by the Company of the Management Services Agreement in its reliance on this provision. The Management Services Agreement has an initial term that expires on December 31, 2018 and is automatically renewable for successive five-year terms unless notice of

termination is given by the Manager or the Company at least six months prior to the expiry of the initial or any renewal terms.

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

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

### **Leverage, Restrictive Covenants**

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

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

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

### **Dividends Are Not Guaranteed and Will Fluctuate with the Partnership’s Performance**

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

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

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

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

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

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

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

### **ADDITIONAL INFORMATION**

Additional information, including remuneration and indebtedness of the Directors of the Company, the principal holders of the Company's and the Partnership's securities and the interest of insiders in material transactions, is contained in the Company's Management Information Circular, prepared for the annual meeting of Shareholders scheduled for May 4, 2016, at which the Independent Directors are to be elected. Additional financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the Year commencing January 1, 2015 and ended December 31, 2015, which information is incorporated herein by reference. These documents and additional information regarding the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).



## APPENDIX A

### BROOKFIELD REAL ESTATE SERVICES INC.

#### BOARD OF DIRECTORS CHARTER

##### 1. ROLE OF BOARD

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

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

##### 2. AUTHORITY AND RESPONSIBILITIES

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

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

##### 3. COMPOSITION AND PROCEDURES

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

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

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

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

### **AUDIT COMMITTEE CHARTER**

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

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

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

#### **2. RESPONSIBILITIES**

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

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

### **3. MEETINGS**

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

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

### **GOVERNANCE COMMITTEE CHARTER**

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

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

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

#### **2. RESPONSIBILITIES**

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

#### **3. MEETINGS**

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