Q3 2004

Royal LePage Franchise Services Fund

Interim Report to Unitholders Q3 2004 TSX-RSF.un

ROYAL LEPAGE

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LETTER TO UNITHOLDERS

Financial and Operating Highlights
For the three months ended September 30, 2004

	(thousands)	(per unit)
Royalties	$ 6,952	$ 0.52
Net earnings	$ 1,638	$ 0.16
Distributable cash	$ 5,629	$ 0.42
Distributions	$ 3,661	$ 0.28

Dear Unitholders:

We are pleased to present our results for the quarter ended September 30, 2004.

We achieved revenue for the third quarter of $7.0 million and distributable cash from operations of $5.6 million or $0.42 per unit, exceeding management's expectations.

On a pro forma basis this represents growth of 11% over the same period in 2003 had the Fund been in operation during the entire third quarter of 2003. These results were driven by 1.9% growth in the Fund's underlying network of agents as well as the continued strength of the Canadian residential resale real estate market.

Over the course of this quarter, internal growth through organic measures exceeded expectation. The addition of 175 agents in the third quarter, resulted in an overall increase of 563 agents for the nine months ended September 30, 2004, well ahead of our annual growth target of 200 to 400 agents.

Growth Pipeline

On September 11, 2003, the Fund Manager acquired the operations of Groupe Trans-Action, a Quebec-based franchisor operating with over 300 agents from 80 locations, 40 of which operate in areas not currently serviced by the Fund. As at October 31, 2004 a majority of the Groupe Trans-Action franchises have converted to the Royal LePage brand.

In addition, from November 1, 2003, to October 31, 2004, the Fund Manager converted 13 franchises serviced by 283 agents to the Royal LePage brand.

It is anticipated that franchise agreements with franchisees who have converted to Royal LePage prior to November 1, 2004, will be offered to the Fund in accordance with the process set out in the Management Services Agreement.

Outlook

The Canadian residential real estate market continues to thrive on strong underlying market fundamentals. Low mortgage rates, sustained affordability, strong new housing starts and buoyant consumer confidence have fueled growth throughout 2004. While historically low interest rates will likely increase somewhat in the short term, change is expected to be moderate. Economic growth prospects for Canada as a whole, and the outlook for the residential real estate sector in particular, continue to be favourable well into 2005.

Moving into the fourth quarter, we anticipate continued growth for the Fund. The next few months will see the introduction of enhanced service and support offerings, which should attract new franchisees and agents to the Fund.

On behalf of the Fund's trustees and management team, thank you once again for your continued support.

Philip Soper
President and Chief Executive Officer

Kevin Cash
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS AND FINANCIAL CONDITION

Financial Highlights

($ 000's)	**Three months ended Sept. 30 2004**	Three[1] months ended Sept. 30 2003	**Nine months ended Sept. 30 2004**	Nine[1] months ended Sept. 30 2003
Royalties	**$ 6,952**	$ 6,255	**$ 18,204**	$ 16,127
Less:				
Administrative expenses	**119**		**298**	
Interest expense	**293**		**950**	
Management fee	**911**		**2,742**	
Earnings and distributable cash	**$ 5,629**		**$ 14,214**	
Distributions	**$ 3,661**		**$ 10,985**	
Number of agents and sales representatives	**10,132**	9,346	**10,132**	9,346

This table sets out selected historical information and other data which should be read in conjunction with Management's Discussion and Analysis ("MD&A") in the Royal LePage Franchise Services Fund's (the "Fund") Annual Report for the 147-day period ended December 31, 2003, and the attached interim consolidated financial statements for the three months (the "Quarter") and nine months ended September 30, 2004. These interim financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles.

As the Fund commenced its operations on August 7, 2003, certain comparative figures for the period ended September 30, 2004, are not available. External economic and industry factors remain substantially unchanged, unless otherwise stated.

[1]The pro forma information sets forth unaudited information and has been prepared on a quarterly and year-to-date basis as if the Fund was in operation since January 1, 2003. The pro forma results have been adjusted to the number of agents, sales representatives, locations and fees that would have been recognized had the corporately-owned locations of Royal LePage Residential Brokerage Services been franchised on January 1, 2003.

Overview

This MD&A covers the period from January 1, 2004, to September 30, 2004, as at November 3, 2004.

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

As at September 30, 2004, the Fund Network was comprised of 9,317 agents and 815 sales representatives operating from 524 locations under 228 franchise agreements. The Fund Network has an approximate one-fifth share of the Canadian Residential Resale Real Estate market based on transactional dollar volume.

Management of the Fund is provided by Residential Income Fund Manager Limited (the "Fund Manager"), a division of Centract Residential Property Services, the real estate services division of Brascan Corporation. Senior management of the Fund Manager developed and managed the Fund Network prior to the inception of the Fund. Brascan Corporation, through a wholly-owned subsidiary holds a 25% subordinated interest in the Fund (see "Transactions with Related Parties").

Structure of the Fund

The Fund generates royalties with both fixed and variable fee components. A summary of these fees follows:

Royalty fees

Fixed franchise fees are based on the number of agents in the network and consist of a monthly flat fee of $100 per agent, a technology fee and web services and other fees.

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

Approximately 88% of the Fund's annual royalties are derived from the combined fixed fee of $100 per agent per month, 1% variable fee and premium fee. The remaining royalty stream is generated from technology fees, 4.5% option and web services and other fees. Approximately 60% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes.

The combination of a royalty stream based on the number of agents in the Fund Network, increasing agent and broker productivity and an increasing supply of new housing inventory provides the base for strong, stable and growing cash flow.

Monthly distributions

The target annual cash distribution is $1.10 per unit. Public unitholder cash distributions are made monthly.

To reduce unitholder risk, 25% of the Fund's units, which are held by the Fund Manager, are subordinated in their rights to distributions until public unitholders receive their target distribution until 2008.

Operations Overview

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

1. The number of agents in the Fund;
2. Transaction volumes;
3. The stability of the Fund's royalty stream; and
4. The Fund's growth opportunities.

A summary of our performance against these drivers follows:

Number of agents in the Fund

- During the Quarter, the Fund Network of 9,317 agents grew by 175 agents or 1.9%.

Transaction volumes

- Canada's annual housing starts, the market's future inventory totaled 231,000 for the 12 months ended September 30, 2004, down slightly from 239,300 starts for the 12 months ended June 30, 2004.

- The market, as defined by transactional dollar volume, was $103.0 billion for the 12 months ended September 30, 2004, an increase of 19% and 14% as compared with the 12 months ended September 30, 2003, and December 31, 2003, respectively.

- The year-over-year growth in the Canadian market for the 12 months ended September 30, 2004, was fueled by an 8% increase in residential unit sales to 461,999 units and a 10% increase in average selling price to $223,020.

- The GTA market, from which the Fund earns its premium franchise fees, achieved its best year ever in 2003. This trend continued in 2004 with 84,956 homes sold at an average price of $310,964 for the 12 months ended September 30, 2004. This activity represents an increase of 9.4% in homes sold and 7.4% in average price, over the same period in 2003 and similarly an increase of 7.0% and 6.0%, over the 12 months ended December 31, 2003. In the Quarter 20,660 units were sold at an average price of $312,545. This represents a 3.4% decrease in units sold, but a 7.5% increase in average price, over the same period in 2003.

- Agent productivity for the 12 months ended December 31, 2003, was approximately $2 million per agent in transactional dollar volume, which was slightly ahead of 2002 levels and 67% ahead of the rest of the Canadian agent productivity of $1.2 million per agent for the same period.

- Low mortgage interest rates, strong consumer confidence, combined with overall housing affordability continues to encourage first-time buyers to enter the market and existing homeowners to trade up to larger, more expensive dwellings.

During the Quarter there was a noted industry-wide increase in the inventory of residential resale properties listed for sale. We anticipate that this increase in listing inventory will add more balance to the demand and supply for residential resale properties, resulting in reducing the pace of price appreciation from double digits seen in the early part of the year to single digit appreciation in the near- to mid-term.

Stability of the Fund’s royalty stream

- The Fund’s royalties are derived primarily from a diverse national network of 228 independently-owned and operated franchises, the majority of which operate with less than 100 agents.

- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian agent population.

- During the Quarter, the one franchise contract subject to renewal was renewed.

- As at September 30, 2004 the Fund had $3.2 million in working capital and other reserves to meet future cash flow requirements. This reserve may be used to: fund future distributions in light of the seasonality of the market; safeguard against increases in interest rates; fund potential acquisitions; and cover the anticipated reduction in the 1% variable franchise fee to year-end, as a number of agents exceeded the $1,300 per annum cap at this time of year.

Fund growth opportunities

Our growth objective is to add 200 to 400 agents to the Fund Network annually, with approximately one half of this growth from acquisitions and one half from internal growth. Growth through acquisition is achieved through the Fund Manager's dedicated network development team operating under the Management Services Agreement ("MSA").

Growth in overall royalties is achieved by: increasing the number of agents in the Fund; increasing the productivity of agents; expanding the range of products and services supporting the franchisees and agents; increasing adoption of these products and services; and providing concise programs to the Fund Network supported by ongoing training programs to franchisees and agents that assist in leveraging the Fund's competitive advantages to attract and retain potential recruits. A summary of immediate growth opportunities and results to the date of this report is as follows:

- Three franchises operating from three locations serviced by seven agents were acquired by the Fund on January 1, 2004.
- Internal growth and the acquisition noted above added 563 paying agents to the Fund's network for the nine months ended September 30, 2004, a 6.4% increase and a level of progress that exceeds our minimum growth target of 200 agents for the year.
- On September 11, 2003, the Fund Manager acquired the operations of Groupe Trans-Action, a Quebec-based franchisor operating with over 300 agents from 80 locations, 40 of which operate in areas not currently serviced by the Fund. As at October 31, 2004 a majority of the Groupe Trans-Actions franchises have converted to the Royal LePage brand.
- In addition, from November 1, 2003, to October 31, 2004, the Fund Manager converted 13 franchises serviced by 283 agents to the Royal LePage Brand.
- It is anticipated that franchise agreements with franchisees who have converted to Royal LePage prior to November 1, 2004, will be offered to the Fund in accordance with the process set out in the Management Services Agreement.
- No franchises were closed in the Quarter.
- The Fund Manager continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining agents, increasing agent productivity and driving down administrative costs.

Operating Results

($ 000's)	**Three months ended Sept. 30 2004**	Three[1] months ended Sept. 30 2003	**Nine months ended Sept. 30 2004**	Nine[1] months ended Sept. 30 2003
Royalties	**$ 6,952**	$ 6,255	**$ 18,204**	$ 16,127
Less:				
Administrative expenses	**119**		**298**	
Interest expense	**293**		**950**	
Management fee	**911**		**2,742**	
Earnings	**5,629**		**14,214**	
Amortization of intangible assets	**3,419**		**10,257**	
Non-controlling interest	**572**		**1,043**	
Net earnings	**$ 1,638**		**$ 2,914**	
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.16**		**$ 0.29**	

Earnings for the Quarter of $5.6 million exceeded plan due primarily to greater than anticipated agent growth and market activity as previously described.

Royalties in the Quarter totaled $7.0 million, 11% ahead of the same period in 2003 as summarized and explained below.

Administrative costs were in line with management's expectations and we continued to benefit from low interest rates resulting from our variable interest rate position on our $30.6 million term loan. Management fees have been calculated in line with the terms set out in the MSA as 20% of royalties less administration expenses, interest expenses and working capital and other reserves.

Net earnings for the Quarter of $1.6 million represent earnings less non-cash charges of $3.4 million of amortization related to our intangible assets and $0.6 million related to the non-controlling interest's 25% share of the operating results.

The Fund Network as at September 30, 2004, was comprised of 9,317 agents and 815 sales representatives, with 8,997 of the agents operating under the combined flat fee of $100 per month and 1% of gross earnings[2] option (the "$100/1% option") and 320 agents operating under the 4.5% variable fee option (the "4.5% option"). Sales representatives currently do not pay fees to the Fund.

[1] The pro forma information sets forth unaudited information and has been prepared on a quarterly and year-to-date basis as if the Fund was in operation since January 1, 2003. The pro forma results have been adjusted to the number of agents, sales representatives, locations and fees that would have been recognized had the corporately-owned locations of Royal LePage Residential Brokerage Services been franchised on January 1, 2003.

[2] Approximately 18% of agents operating under the $100/1% option exceeded the 1% of gross earnings cap in 2003.

Royalties

($ 000's)	**Three months ended Sept. 30 2004**	Three[1] months ended Sept. 30 2003	**Nine months ended Sept. 30 2004**	Nine[1] months ended Sept. 30 2003
Fixed franchise fees	**$ 2,691**	$ 2,479	**$ 7,931**	$ 7,202
Variable franchise fees	**2,041**	1,901	**5,228**	4,676
Premium franchise fees	**1,489**	1,287	**2,962**	2,719
Other fees and services	**731**	588	**2,083**	1,530
	$ 6,952	$ 6,255	**$ 18,204**	$ 16,127

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

Total fixed franchise fees, variable franchise fees and premium franchise fees represented 89% and 91% of our royalties for the Quarter, and 2003, respectively.

Fixed franchise fees for the Quarter increased 9% over the same period in 2003, in line with the increase in the underlying number of agents.

Variable franchise fees for the Quarter exceeded the same period in 2003 by 7%, due to the increase in the underlying number of agents and a 5% increase in quarter-over-quarter market activity.

Premium fees are a function of the mix of 22 franchise locations servicing the GTA market, which pay premium fees ranging from 1% to 5% of the location's gross revenue. These fees are paid to the Fund after the sale transaction closes. There is typically a 45 to 60 day delay between the house sale and closing. The GTA market, as defined by transactional dollar volume, increased by 4% in the Quarter over the same period in 2003, while premium franchise fees for the Quarter increased by 16%. The difference in these rates of growth over the same period in 2003 are due primarily to the timing of the recognition of premium fee royalties on closing, which as described earlier, typically follows 30 to 45 days after the reporting of the related industry market sale statistics. Consequently the Fund premium fees were buoyed by the flow through of the GTA market's second quarter activity, which was up 28% over the same period in 2003.

Other fees and services represented 11% and 9% of Fund royalties for the Quarter ended September 30, 2004 and 2003, respectively. These fees, comprised of technology, 4.5% option fees and web service and other fees, exceeded plan, due primarily to the greater than anticipated number of agents, utilization of the Fund's technology programs and the demand for our recently launched sales training programs.

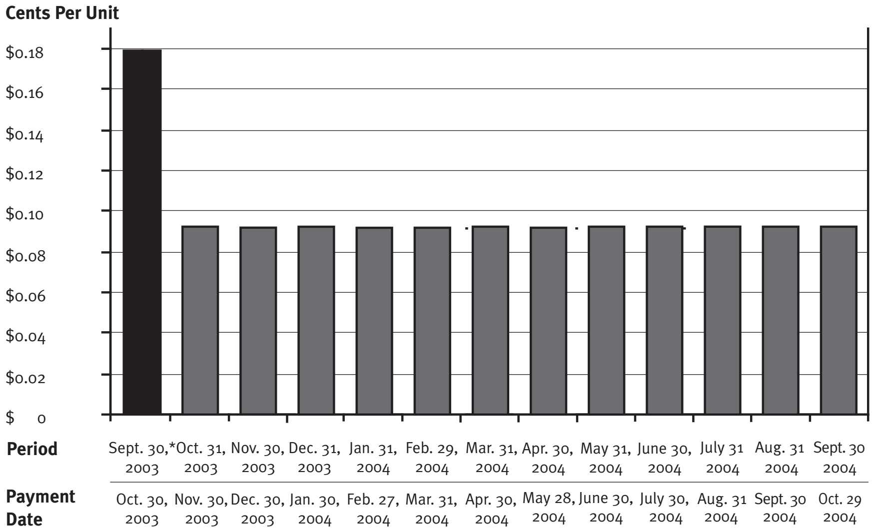
[1]The pro forma information sets forth unaudited information and has been prepared on a quarterly and year-to-date basis as if the Fund was in operation since January 1, 2003. The pro forma results have been adjusted to the number of agents, sales representatives, locations and fees that would have been recognized had the corporately-owned locations of Royal LePage Residential Brokerage Services been franchised on January 1, 2003.

Interest expense

Interest expense for the Quarter of $293,000 related to the Fund's $30.6 million term debt at an effective interest rate of 3.8%, and standby charges associated with the Fund's $2 million operating line, which remained undrawn during the period.

Distributions

Distributions, as summarized below, were in line with annualized targeted distributions of $1.10 per unit. We intend to continue to meet the annualized target distribution of $1.10 per unit paid at a rate of $0.0917 per month, while still reassessing these distribution levels from time-to-time. Our distributions since inception are summarized in the chart below.



* based on a 55-day period

Distributable Cash

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

Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and accordingly may not be comparable to similar measures used by other issuers. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or as a statement of cash flows. Distributable cash per unit has been calculated on a basis with that prescribed by GAAP for calculating earnings per unit and is derived as follows:

Distributable Cash

($ 000's)	Three months ended Sept. 30 2004	Nine months ended Sept. 30 2004
Royalties	$ 6,952	$ 18,204
Less:		
Administrative expenses	119	298
Interest expense	293	950
Management fee	911	2,742
Distributable cash	5,629	14,214
Less change in working capital and other reserves	(1,968)	(3,229)
Distributable cash after reserves	$ 3,661	$ 10,985

Distributable Cash
Reconciled to the Financial Statements
($ 000's)

Net earnings for the period	$ 1,638	$ 2,914
Add:		
Non-controlling interest share of net earnings	572	1,043
Amortization of intangible assets	3,419	10,257
Distributable cash	5,629	14,214
Less change in working capital and other reserves	(1,968)	(3,229)
Distributable cash after reserves	$ 3,661	$ 10,985

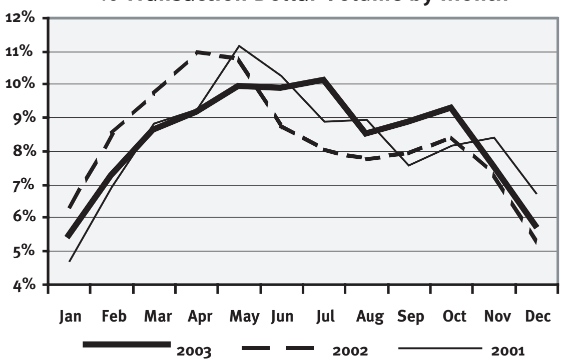
Distributions Declared During the Period

($ 000's)	Three months ended Sept. 30 2004	Nine months ended Sept. 30 2004
Unitholders	$ 2,746	$ 8,239
Non-controlling interest	915	2,746
	$ 3,661	$ 10,985

Distributable cash before reserves for the Quarter totaled $5.6 million, which was ahead of management's expectations for reasons described earlier. Distributable cash before reserves for the Quarter was $2.0 million greater than the declared distributions resulting in overall working capital and other reserves of $3.2 million or $0.24 per unit as at September 30, 2004. This reserve, which represents almost three months of target distributions,may be used to: fund future distributions in light of the seasonality of the market; safeguard against increases in interest rates; fund potential acquisitions; and cover the anticipated reduction in the 1% variable franchise fee to year-end, as a number of agents exceeded the $1,300 per annum cap at this time of year.

A summary of the market's seasonality over the last three years is as follows:

Canadian Residential Resale Real Estate Market
% Transaction Dollar Volume by Month



Liquidity

During the quarter, the Fund utilized the $5.3 million in cash flow generated from operating activities to meet our distribution requirements and to maximize our debt servicing options without drawing on its $2 million operating line.

Working Capital ($ 000's)	**As at Sept. 30 2004**	**As at June 30 2004**	**As at March 31 2004**	As at Dec. 31 2003
Current assets				
Cash and cash equivalents	**$ 3,647**	**$ 2,055**	**$ 1,205**	$ 1,439
Accounts receivable	**2,382**	**2,899**	**2,214**	1,970
Prepaid expenses	**41**	**66**	**104**	241
	6,070	**5,020**	**3,523**	3,650
Current liabilities				
Accounts payable and accrued liabilities	**1,719**	**2,637**	**2,530**	2,378
Distribution payable to unitholders	**915**	**915**	**915**	915
	2,634	**3,552**	**3,445**	3,293
Net working capital	**$ 3,437**	**$ 1,468**	**$ 78**	$ 357

As at September 30, 2004, the Fund had a net positive working capital position of $3.4 million as compared to $0.4 million as at December 31, 2003, as summarized in the table above.

Accounts receivable decreased in line with the anticipated increase in franchisee cash flow resulting from the strong summer and fall market. Prepaid expenses decreased in line with amortization of the underlying expenses. Accounts payable and accrued liabilities are comprised of a $0.9 million quarterly distribution payable to the non-controlling interest, $0.3 million in management fees payable to the Fund Manager and $0.5 million attributed to PST and GST obligations, deferred service revenue and administrative expense accruals.

As at the date of this report, the interest on our $30.6 million term loan is based on 30-day Banker Acceptance ("BA's") rates, which are at very favourable rates due to the overall low interest rate environment. We continue to assess the term and amount of these BA's. An increase in the BA rates or extension of the BA term will increase the amount of cash required to service the debt.

Our $30.6 million term loan and operating loan are due August 4, 2006. We anticipate that the term loan will be renewed in the future as an ongoing facility; however, we cannot predict the probability of this event occurring.

Management is currently in discussions to secure a fixed interest rate private debt placement prior to year-end. Proceeds from the private debt placement are to be used to retire the Fund's current $30.6 million term debt and to provide funds to meet the Fund's initial franchise contract acquisition obligations as previously described.

With $3.2 million in reserve to meet future working capital requirements, an anticipated flow through of strong market unit sales from the quarter and strong underlying market fundamentals, we anticipate meeting our near term funding requirements.

Capital Resources

Our existing capital resources upon which we can draw consists of a $2 million operating line, which remains unutilized. Other resources include funds generated from operations in excess of administrative costs, debt servicing and distribution requirements, with $3.2 million in working capital and other reserves held for future distributions in anticipation of the seasonality of the residential resale real estate market and to finance the acquisition of franchises.

We will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements as at the date of this MD&A.

Transactions with Related Parties

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

Critical Accounting Estimates

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms are the Fund's administrative costs and allocation of the intangible assets between franchise agreements, relationships, trademarks and their related amortization period. The Fund's administrative costs of approximately $0.4 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

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

Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to unitholders and a $30.6 million term loan. We estimate that the fair values of these financial instruments approximate their carrying value.

We are exposed to credit risk with respect to accounts receivable to the extent any franchisees are unable to pay their fees and to interest rate risk as our debt is at floating rates.

Outstanding Units

Our capital structure remains unchanged from our launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at September 30, 2004, 9,983,000 units were issued and outstanding.

In addition to these units, we have also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units. This structure remains unchanged from our launch on August 7, 2003.

Taxation of Fund Distributions

Under the Fund's Amended and Restated Declaration of Trust the maximum tax deductions available to the Fund shall be claimed to the extent it brings its taxable income of the Trust to nil. The estimated deductions available to the Trust are comprised of the costs of the offering and intangible assets. The deductions available to the unitholders for the year ended December 31, 2004 are estimated at $8.0 million.

Outlook

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

The growth in transaction dollar volume of residential resale real estate represents an opportunity for greater profitability through increased franchise fees earned from increased agent productivity as well as attracting franchisees and agents to our brands.

To this end, we anticipate continuing to enhance our service and support offerings and improving efficiencies.

As noted earlier, prior to year-end, the Fund Manager will present franchise agreements with franchises who have converted to the Royal LePage brand before November 1, 2004 for acquisition by the Fund on January 1, 2005, in accordance with the terms of the Management Services Agreement.

Management is currently in negotiations to secure a fixed interest rate private debt placement prior to year-end. Proceeds from the private debt placement are to be used to retire the Fund's current $30.6 million term debt and to provide funds to meet the Fund's initial franchise contract acquisition obligations.

Forward-Looking Statements

Certain statements in Management's Discussion and Analysis of Results and Financial Condition may include statements that are "forward-looking statements". These forward-looking statements may reflect the current internal projections, expectations or belief, future growth, performance and business prospects and opportunities of the Fund and are based on information currently available to the Fund. Actual results and developments may differ materially from results and developments discussed in the forward-looking statements as they are subject to a number of risks and uncertainties. Management cannot provide assurance that the actual results of developments will be realized or, even if substantially realized, that they would have the expected consequences to, or effects on, the Fund. These forward-looking statements are made as of the date of this report and the Fund assumes no obligation to update or revise them.

Additional Information

Additional information, such as the Fund's Annual Information Form, Information Circular, Prospectus, material contracts, and press releases may be found on SEDAR at www.sedar.com. We also encourage you to visit the Fund's website at www.rsfund.ca for further investor information.

Interim Consolidated Balance Sheet

(in thousands of dollars)

Assets	**Sept. 30 2004 (unaudited)**	Dec. 31 2003
Current assets		
Cash and cash equivalents	**$ 3,647**	$ 1,439
Accounts receivable	**2,382**	1,970
Prepaid expenses	**41**	241
	6,070	3,650
Intangible assets	**140,658**	150,765
	$146,728	$ 154,415

Liabilities and Unitholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	**$ 1,719**	$ 2,378
Distribution payable to unitholders	**915**	915
	2,634	3,293
Term loan	**30,600**	30,600
Non-controlling interest	**28,467**	30,170
	61,701	64,063
Unitholders' equity	**85,027**	90,352
	$146,728	$ 154,415

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Statements of Earnings

(unaudited)
(in thousands of dollars, except unit and per unit amounts)

	Three months ended Sept. 30 2004	**Nine months ended Sept. 30 2004**	55 days ended Sept. 30 2003 (Note 1)
Royalties			
Fixed franchise fees	**$ 2,691**	**$ 7,931**	$ 1,506
Variable franchise fees	**2,041**	**5,228**	1,007
Premium franchise fees	**1,489**	**2,962**	738
Other fees and services	**731**	**2,083**	349
	6,952	**18,204**	3,600
Expenses			
Administration	**119**	**298**	70
Management fees	**911**	**2,742**	595
Interest expense	**293**	**950**	244
Amortization of intangible assets	**3,419**	**10,257**	1,402
	4,742	**14,247**	2,311
Earnings before undernoted	**2,210**	**3,957**	1,289
Non-controlling interest	**572**	**1,043**	322
Net earnings for the period	**$ 1,638**	**$ 2,914**	$ 967
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.16**	**$ 0.29**	$ 0.10

Interim Consolidated Statements of Unitholders' Equity

For the nine-month period ended September 30, 2004
(unaudited)
(in thousands of dollars)

	Units in $	Net Earnings	Distributions	Total
Balance, December 31, 2003	$ 92,938	$ 1,947	$ (4,533)	$ 90,352
Changes during the period:				
Net earnings	—	2,914	—	2,914
Unit distributions	—	—	(8,239)	(8,239)
Balance, September 30, 2004	$ 92,938	$ 4,861	$ (12,772)	$ 85,027

	Units in $	Net Earnings	Distributions	Total
Balance, August 7, 2003	$ —	$ —	$ —	$ —
Changes during the period:				
Issue of units, net of issue costs	92,863	—	—	92,863
Net earnings	—	967	—	967
Unit distributions	—	—	(1,786)	(1,786)
Balance, September 30, 2003	$ 92,863	$ 967	$ (1,786)	$ 92,044

See accompanying notes to the interim consolidated financial statements.

Interim Consolidated Statements of Cash Flows

(unaudited)
(in thousands of dollars)

	Three months ended Sept. 30 2004	Nine months ended Sept. 30 2004	55 days ended Sept. 30 2003 (Note 1)
Cash provided by (used for):			
Operating activities			
Net earnings for the period	**$ 1,638**	**$ 2,914**	$ 967
Items not affecting cash			
Non-controlling interest	**572**	**1,043**	322
Amortization of intangible assets	**3,419**	**10,257**	1,402
	5,629	**14,214**	2,691
Changes in non-cash working capital	**(376)**	**(901)**	(1,760)
	5,253	**13,313**	931
Investing activities			
Purchase of intangible assets (Note 3)	**—**	**(120)**	(121,140)
Financing activities			
Distributions paid to unitholders	**(2,746)**	**(8,239)**	
Distributions paid to non-controlling interest	**(915)**	**(2,746)**	
Initial public offering of units			99,830
Issue costs paid			(8,326)
Proceeds from term loan	**—**	**—**	30,600
	(3,661)	**(10,985)**	122,104
Increase in cash and cash equivalents during the period	**1,592**	**2,208**	1,895
Cash and cash equivalents, beginning of period	**2,055**	**1,439**	—
Cash and cash equivalents, end of period	**$ 3,647**	**$ 3,647**	$ 1,895
Supplementary Cash Flow Information			
Cash paid for interest	**$ 296**	**$ 808**	$ 244

See accompanying notes to the interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements

September 30, 2004
(unaudited)
(in thousands of dollars)

1. ORGANIZATION

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

These consolidated financial statements include the accounts of Royal LePage Franchise Services Fund, its wholly-owned subsidiary RL RES Holding Trust and its 75% owned subsidiaries Residential Income Fund General Partner Limited ("RIFGP") and Residential Income Fund L.P. (the "Partnership"). RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. ("the non-controlling interest") owns the remaining 25% interest in the Partnership and RIFGP.

2. SIGNIFICANT ACCOUNTING POLICIES

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

3. ASSET ACQUISITION

a) On January 1, 2004, the Partnership acquired three franchise agreements from Centract Residential Property Services for $146 and incurred related legal costs of $4 of which $120 was paid in cash and $30 remains outstanding. This transaction has been recorded at the exchange amount agreed to between the parties.

b) On August 7, 2003, the Partnership acquired franchise agreements, relationships and trademark rights from the non-controlling interest for $154,517, of which $121,240 was paid in cash and $33,277 was satisfied by the issuance of 25 common shares in RIFGP and 3,327,667 Class B subordinated limited partnership units of the Partnership ("Subordinated LP Units"), which reflects an effective 25% interest in the Partnership. An equivalent amount of Special Fund Units, which represent voting rights in the Fund, also accompanied the Subordinated LP Units. The Fund indirectly holds the remaining 75% interest in the Partnership through Class A limited partnership units of the Partnership ("Ordinary LP Units").

The net assets acquired by the Partnership are as follows:

Assets acquired	
Franchise agreements	$ 115,346
Relationships and trademarks	39,071
	154,417
Non-controlling interest	(33,277)
Cash consideration paid	$ 121,140

4. RELATED PARTY TRANSACTIONS

During the three and nine month periods ended September 30, 2004, and the 55 days ended September 30, 2003, the Fund had the following transactions with parties related to the non-controlling interest. These transactions have been recorded at the exchange amount agreed to between the parties:

	Three months ended September 30 2004	**Nine months ended September 30 2004**	55 days ended September 30 2003
a) Royalties			
Fixed franchise fees	**$ 246**	**$ 728**	$ 147
Variable franchise fees	**$ 195**	**$ 510**	$ 85
Premium franchise fees	**$ 1,242**	**$ 2,501**	$ 603
Other fees and services	**$ 49**	**$ 146**	$ 30
b) Expenses			
Management fees	**$ 911**	**$ 2,742**	$ 595
Insurance and other	**$ 21**	**$ 67**	$ 14
c) Distributions			
Distributions paid to non-controlling interest	**$ 915**	**$ 2,746**	$ —

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

	Sept. 30 2004	Dec. 31 2003
d) Accounts receivable		
Franchise fees receivable and other	**$ 513**	$ 375
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 915**	$ 915
Management fees	**$ 301**	$ 663
Due to non-controlling interest	**$ 30**	$ 100

Supplemental Information
Net Earnings and Distributable Cash by Period[3]

($ 000's except per unit amounts)	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	**Three months ended March 31 2004**	**Three months ended June 30 2004**	**Three months ended Sept. 30 2004**
	(reported)	(reported)	**(reported)**	**(reported)**	**(reported)**
Royalties	$ 3,600	$ 5,202	**$ 4,855**	**$ 6,397**	**$ 6,952**
Less:					
Administration expenses	70	161	**86**	**93**	**119**
Management fees	595	955	**881**	**950**	**911**
Interest expense	244	376	**361**	**296**	**293**
Amortization of intangible assets	1,402	2,350	**3,420**	**3,418**	**3,419**
Earnings before undernoted	1,289	1,360	**107**	**1,640**	**2,210**
Non-controlling interest	(322)	(380)	**(44)**	**(427)**	**(572)**
Net earnings for the period	967	980	**63**	**1,213**	**1,638**
Add:					
Amortization of intangible assets	1,402	2,350	**3,420**	**3,418**	**3,419**
Non-controlling interest	322	380	**44**	**427**	**572**
Distributable cash	2,691	3,710	**3,527**	**5,058**	**5,629**
Add (less) change in:					
Working capital and other reserves	(309)	108	**260**	**(1,398)**	**(1,968)**
Reserves for acquisition	—	(156)	**(127)**	**—**	**—**
Distributable cash after reserves	$ 2,382	$ 3,662	**$ 3,660**	**$ 3,660**	**$ 3,661**
Distributable cash available to:					
Public unitholders	$ 1,786	$ 2,747	**$ 2,745**	**$ 2,748**	**$ 2,746**
Non-controlling interest	596	915	**915**	**916**	**915**
	$ 2,382	$ 3,662	**$ 3,660**	**$ 3,664**	**$ 3,661**
Distributions to public unitholders	$ 1,787	$ 2,747	**$ 2,745**	**$ 2,748**	**$ 2,746**
Per unit (9,983,000 units):					
Basic and diluted earnings	$ 0.10	$ 0.10	**$ 0.00**	**$ 0.13**	**$ 0.16**
Basic and diluted distributable cash	0.18	0.28	**0.26**	**0.38**	**0.42**
Basic and diluted distributions	$ 0.18	$ 0.28	**$ 0.28**	**$ 0.28**	**$ 0.28**

[3] Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles ("GAAP") and accordingly may not be comparable to similar measures used by other issuers. Distributable cash per unit has been calculated on a basis with that prescribed by GAAP for calculating earnings per unit.

Supplemental Information
Selected Financial and Operating Information[1]

	Three months ended March 31 2003	Three months ended June 30 2003	Three months ended Sept. 30 2003	Three months ended Dec. 31 2003	**Three months ended March 31 2004**	**Three months ended June 30 2004**	**Three months ended Sept. 30 2004**
	(pro forma)	(pro forma)	(pro forma)	(reported)	**(reported)**	**(reported)**	**(reported)**
Revenue ($ 000's)							
Fixed franchise fees	$2,305	$2,418	$2,479	$2,465	**$2,522**	**$2,718**	**$2,691**
Variable franchise fees	1,066	1,709	1,901	1,169	**1,179**	**2,008**	**2,041**
Premium franchise fees	515	917	1,287	930	**541**	**932**	**1,489**
Other fees and services	427	515	588	638	**613**	**739**	**731**
	$4,313	$5,559	$6,255	$5,202	**$4,855**	**$6,397**	**$6,952**
% Revenue by region							
British Columbia	14	13	12	13	**15**	**14**	**12**
Prairies	12	11	11	11	**12**	**11**	**11**
Ontario	58	60	63	62	**58**	**60**	**64**
Quebec	11	11	9	9	**11**	**11**	**9**
Maritimes	5	5	5	5	**4**	**4**	**4**
	100	100	100	100	**100**	**100**	**100**
Change in the period:							
Number of agents & sales representatives	367	292	142	108	**279**	**189**	**210**
Number of agents	366	292	142	101	**225**	**163**	**175**
Number of locations	3	3	(1)	(12)	**6**	**9**	**—**
Number of franchisees	2	1	—	(1)	**4**	**(2)**	**—**
At end of period:							
Number of agents & sales representatives	8,912	9,204	9,346	9,454	**9,733**	**9,922**	**10,132**
Number of agents	8,219	8,511	8,653	8,754	**8,979**	**9,142**	**9,317**
Number of locations	519	522	521	509	**515**	**524**	**524**
Number of franchisees	226	227	227	226	**230**	**228**	**228**

[1]The pro forma information sets forth unaudited information and has been prepared on a quarterly and year-to-date basis as if the Fund was in operation since January 1, 2003. The pro forma results have been adjusted to the number of agents, sales representatives, locations and fees that would have been recognized had the corporately-owned locations of Royal LePage Residential Brokerage Services been franchised on January 1, 2003.

Supplemental Information
Fund Unit Performance

	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	**Three months ended March 31 2004**	**Three months ended June 30 2004**	**Three months ended Sept. 30 2004**
Trading price range of units (TSX: "RSF.UN")					
High	$ 10.64	$ 10.92	**$ 12.10**	**$ 11.90**	**$ 12.25**
Low	$ 9.90	$ 10.03	**$ 10.80**	**$ 9.85**	**$ 10.60**
Close	$ 10.26	$ 10.85	**$ 11.70**	**$ 11.00**	**$ 11.95**
Average daily volume	105,176	18,112	**28,016**	**10,914**	**5,369**
Number of units outstanding at period end	9,983,000	9,983,000	**9,983,000**	**9,983,000**	**9,983,000**
Enterprise value at period end (thousands)	$ 167,167	$ 175,021	**$186,335**	**$ 177,017**	**$189,662**

Supplemental Information
Condensed Balance Sheet

($ 000's, unaudited)	As at Sept. 30 2003	As at Dec. 31 2003	**As at March 31 2004**	**At at June 30 2004**	**As at Sept. 30 2004**
Cash and cash equivalents	$ 1,895	$ 1,439	**$ 1,205**	**$ 2,055**	**$ 3,647**
Accounts receivable	2,063	1,970	**2,214**	**2,899**	**2,382**
Prepaid expenses	179	241	**104**	**66**	**41**
Intangible assets	153,015	150,765	**147,491**	**144,077**	**140,658**
	$ 157,152	$ 154,415	**$ 151,014**	**$ 149,097**	**$ 146,728**
Accounts payable and accrued liabilities	$ 1,078	$ 2,378	**$ 2,530**	**$ 2,637**	**$ 1,719**
Offering costs	964	—	**—**	**—**	**—**
Distributions payable to unitholders	1,786	915	**915**	**915**	**915**
Term loan	30,600	30,600	**30,600**	**30,600**	**30,600**
Non-controlling interest	30,680	30,170	**29,299**	**28,810**	**28,467**
Unitholders' equity	92,044	90,352	**87,670**	**86,135**	**85,027**
	$ 157,152	$ 154,415	**$ 151,014**	**$ 149,097**	**$ 146,728**

Supplemental Information
Condensed Cash Flow by Period

($ 000's, unaudited)	55 days ended Sept. 30 2003	Three months ended Dec. 31 2003	**Three months ended March 31 2004**	**Three months ended June 30 2004**	**Three months ended Sept. 30 2004**
Cash provided by (used for):					
Operating activities					
Net earnings for the period	$ 967	$ 980	**$ 63**	**$ 1,213**	**$ 1,638**
Add (Deduct)					
Non-controlling interest	322	380	**44**	**427**	**572**
Amortization of intangible assets	1,402	2,350	**3,420**	**3,418**	**3,419**
Changes in non-cash working capital	(1,760)	815	**15**	**(540)**	**(376)**
	931	4,525	**3,542**	**4,518**	**5,253**
Investing activities					
Purchase of intangible assets	(121,140)	(100)	**(116)**	**(4)**	**—**
Financing activities					
Initial public offering of units	99,830	—	**—**	**—**	**—**
Issue costs paid	(8,326)	(667)	**—**	**—**	**—**
Proceeds from term loan	30,600	—	**—**	**—**	**—**
Distributions paid to unitholders	—	(3,618)	**(2,745)**	**(2,748)**	**(2,746)**
Distributions paid to non-controlling interest	—	(596)	**(915)**	**(916)**	**(915)**
	122,104	(4,881)	**(3,660)**	**(3,664)**	**(3,661)**
Increase (decrease) in cash and cash equivalents during the period	1,895	(456)	**(234)**	**850**	**1,592**
Cash and cash equivalents, beginning of period	—	1,895	**1,439**	**1,205**	**2,055**
Cash and cash equivalents, end of period	$ 1,895	$ 1,439	**$ 1,205**	**$ 2,055**	**$ 3,647**

Supplemental Information
Canadian Real Estate Market

	Three months ended March 31 2003	Three months ended June 30 2003	Three months ended Sept. 30 2003	Three months ended Dec. 31 2003	**Three months ended March 31 2004**	**Three months ended June 30 2004**	**Three months ended Sept. 30 2004**
Canada							
Transaction dollar volume ($ millions)	$ 19,108	$ 26,012	$ 24,677	$ 20,209	**$ 23,698**	**$ 33,187**	**$ 25,873**
Average selling price	$199,159	$205,148	$209,535	$215,967	**$220,179**	**$229,403**	**$223,646**
Number of units sold	95,945	126,798	117,772	93,573	**107,631**	**144,665**	**115,689**
Number of agents at period end	67,976	69,330	70,098	71,267	**72,887**	**74,430**	**N/A**
Housing starts	38,270	59,150	62,771	58,235	**39,382**	**67,378**	**65,754**
Greater Toronto Area							
Transaction dollar volume ($ millions)	$ 4,995	$ 6,905	$ 6,220	$ 5,162	**$ 5,927**	**$ 8,872**	**$ 6,457**
Average selling price	$287,849	$295,510	$290,871	$298,919	**$305,653**	**$321,034**	**$312,545**
Number of units sold	17,354	23,365	21,384	17,268	**19,392**	**27,636**	**20,660**
Housing starts	9,743	11,300	12,323	12,109	**6,831**	**12,651**	**12,380**

	Twelve months ended March 31 2003	Twelve months ended June 30 2003	Twelve months ended Sept. 30 2003	Twelve months ended Dec. 31 2003	**Twelve months ended March 31 2004**	**Twelve months ended June 30 2004**	**Twelve months ended Sept. 30 2004**
Canada							
Transaction dollar volume ($ millions)	$ 78,536	$ 80,462	$ 86,424	$ 90,007	**$ 94,596**	**$ 101,771**	**$ 103,035**
Average selling price	$192,616	$197,204	$202,819	$207,347	**$212,207**	**$219,503**	**$223,020**
Number of units sold	407,736	408,017	426,113	434,088	**445,774**	**463,641**	**461,999**
Housing starts	207,164	207,154	214,195	218,426	**219,538**	**227,766**	**230,749**
Greater Toronto Area							
Transaction dollar volume ($ millions)	$ 20,391	$ 20,939	$ 22,493	$ 23,282	**$ 24,214**	**$ 26,181**	**$ 26,418**
Average selling price	$280,185	$285,696	$289,540	$293,327	**$297,431**	**$305,568**	**$310,964**
Number of units sold	72,776	73,291	77,684	79,371	**81,409**	**85,680**	**84,956**
Housing starts	43,876	44,237	44,578	45,475	**42,563**	**43,914**	**43,971**

N/A – Not available

Unitholder Inquiries

The Royal LePage Franchise Services Fund welcomes inquiries from unitholders, analysts, media representatives and other interested parties. Questions relating to investor relations or media inquiries can be directed to:

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Communications

We endeavour to keep our unitholders informed of our progress through a comprehensive annual report, quarterly interim reports and periodic press releases. The Royal LePage Franchise Services Fund maintains a web site that provides summary information on the company and ready access to our public reports, press releases, statutory filings, units and distribution information. Directors and management meet with the company's unitholders at the Annual Meeting and are available to respond to questions at any time.

We maintain an investor relations program to respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and financial advisors to ensure that accurate information is available to investors to discuss the company's financial results. We also endeavour to ensure that the media are kept informed of our developments as they occur.

Interim Report to Unitholders Q3 2004 TSX-RSF.un

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