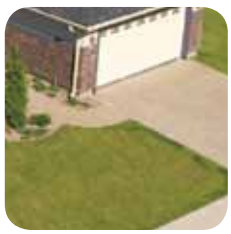
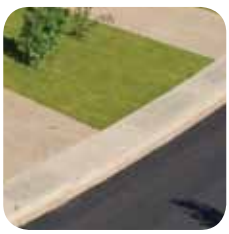
LEADERSHIP · PERFORMANCE · POTENTIAL

Brookfield
Real Estate Services Inc.

ANNUAL REPORT 2010

Profile

Brookfield Real Estate Services Inc is a leading provider of services to Canadian real estate brokers and REALTORS®. The Company generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating nationally under the Royal LePage brand name; in Quebec under the new Via Capitale brand, and in upscale neighbourhoods in and around the Toronto area under the Johnston & Daniel banner.

At January 1, 2011 the Company's network was comprised of 15,555 REALTORS® operating from 658 locations under 343 franchise agreements, with an approximate 23% share of the Canadian residential resale real estate market based on transactional dollar volume. The Company pays monthly dividends and trades on the Toronto Stock Exchange under the symbol "BRE". The Company's website address is **www.brookfieldres.com**

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Brookfield Real Estate Services Inc. converted from an income trust to a corporation at year end 2010. Our strong underlying businesses and core strategy remain unchanged. We believe our new corporate structure will broaden our appeal in capital markets and enhance our ability to achieve consistent, reliable growth while providing shareholders an attractive dividend yield.

Leadership

We are the Canadian real estate services industry's most successful company. Through our leading brands, we have approximately 23% of the country's residential brokerage market by transactional dollar volume.

Performance

Through a combination of continuing growth – both organic and by acquisition – and structured reliability resulting from approximately 68% of revenue being fixed-fee based, the company has achieved solid performance over the years. Well executed strategy and a sensible capital structure have delivered consistent results during volatile economic times.

Potential

While driving continued growth in Canada, the company anticipates expansion opportunities may arise from the company Manager's early success in U.S. expansion. The Board continues to monitor the slowly recovering American market in evaluating this opportunity.

Our Strong Brands

ROYAL LEPAGE

Founded in 1913, Royal LePage has been an industry innovator, and over the years has become one of the largest national real estate company in Canada. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share. Royal LePage is client-focused as reflected in its motto: "Helping you is what we do". It provides its national network with a comprehensive suite of marketing, training and lead generation services.

JOHNSTON & DANIEL

Founded in 1950, Johnston & Daniel is a leading residential real estate boutique firm selling distinctive homes in and around Central Toronto, extending to Caledon, King Township and Muskoka regions. Johnston & Daniel is affiliated with Leading Real Estate Companies of the World™ where it is the premier Canadian representative for the Luxury Portfolio Fine Property Collection.

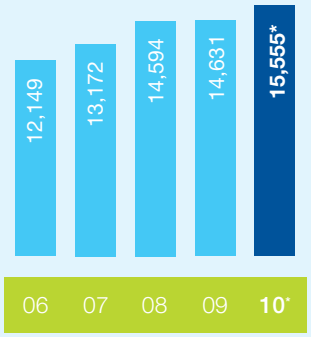
LA CAPITALE NOW VIA CAPITALE

Thanks to a host of innovative products which Via Capitale has introduced to the Quebec market, such as the homebuyer and mortgage protection, the company continues to grow rapidly. Via Capitale's performance has been officially recognized with industry awards and consumer accolades.

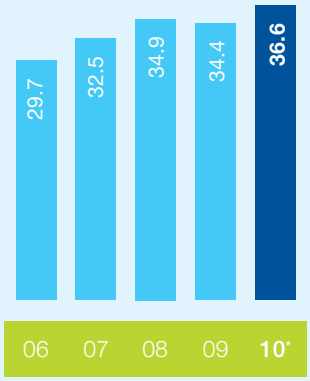
Financial Highlights

FUND GROWTH
(number of REALTORS®)

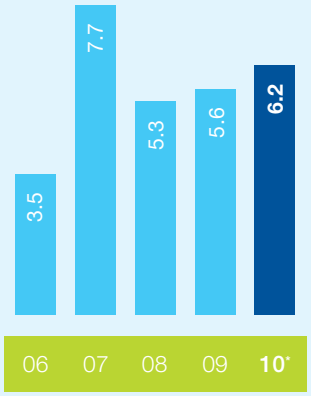
* As at January 1, 2011.



ROYALTIES
($ millions)



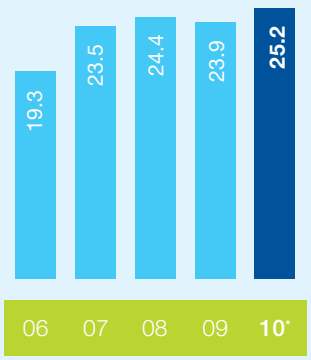
NET EARNINGS
($ millions)



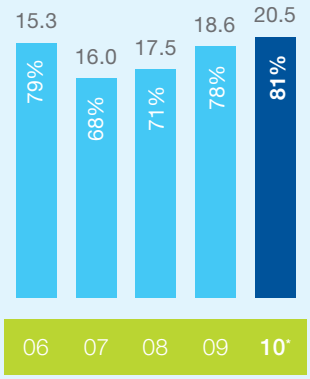
THE YEAR 2010

DISTRIBUTABLE CASH*
($ millions)

* Defined as royalties less administrative expenses, interest expense and management fee.

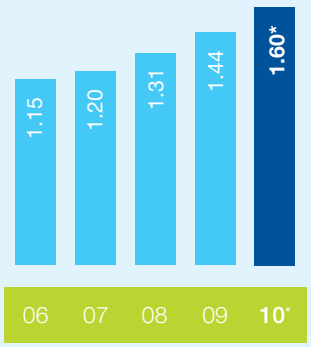


DISTRIBUTIONS DECLARED ($ MILLIONS) AND DISTRIBUTIONS AS % OF DISTRIBUTABLE CASH



SHAREHOLDER DISTRIBUTION
($ per Share)

* Includes $0.20 special distribution



Letter to Shareholders

Happiness at the helm of a real estate company during the past three years is akin to successfully running rapids in a canoe: avoid the sharp rocks and try to enjoy the ride. I'd liken 2010 to frothy water after big waves. Less excitement. And that's a good thing.

Phil Soper, President and Chief Executive

As we look back on 2010, it reveals itself as a year of pleasant surprises. Very low mortgage rates encouraged renewed activity across all regions and consumer segments. As Canada's economic picture grew stronger, house prices in many of Canada's major markets began to appreciate again. With the exception of a few frenetic weeks in the early spring when supply had not yet caught up with renewed buyer interest, we saw stability return to the market with healthy demand closely matched to the number of homes for sale.

I'm pleased to report that through these changing market conditions, Brookfield Real Estate Services performed very well. Royalties, distributable cash and net earnings all improved in 2010 against the previous year's results. I believe it is fair to say that during both recession and post-recession periods, our business – which generates the majority of its revenue from the size of our REALTOR® network, rather than industry transactional volumes – has proven its resiliency.

Much was achieved in 2010. We added new agents to our networks, invested in differentiating technology and developed new training programs. Beyond our existing Canadian-based public company, the Manager made great strides in the U.S. with the fledgling Real Living brand – a source of potential growth for the company. The Board and Brookfield continue to monitor the slowly recovering American market in evaluating this opportunity.

One of the company's most significant milestones from the past year – financial or otherwise – was our conversion to a corporation. With the expiration of our previous structure's tax advanced period, the company's corporate structure, with an attractive dividend yield and the same underlying businesses, should be of significant benefit to our shareholders. Looking ahead, we believe we will see more liquidity in the trading of our shares and improved access to geographically diverse capital markets.

Following the format of last year's shareholder letter, the next few pages will take you through some questions and answers about the company. I hope this will help you to better understand our 2010 performance, and also provide additional insight as to where we are steering the company to meet our ambitious targets.

While the capital structure of the Company has changed, our commitment to industry leadership, sustained performance and exploiting our full potential has not. As one of North America's leading providers of real estate services, we remain focused on growing and strengthening our brands.

I look forward to keeping you informed on our progress as 2011 unfolds.

On behalf of the Board,

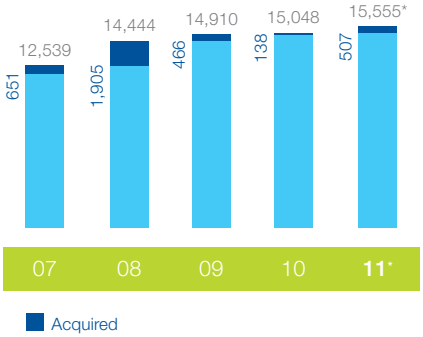
Phil Soper,
President and CEO

Industry Leadership

Phil Soper, President and Chief Executive Officer, provides his insights on the Company's performance, strategy and future outlook.

Our Network

* As at January 1, 2011



15,555 REALTORS® in Canada

What were the main achievements of the Company and its brands in 2010?

a. Overall, I was satisfied by our performance, both through the downturn and post-recession. In 2010, our business structure has once again proved its mettle. The model was designed to smooth revenue through market swings. Sixty eight per cent of revenue is generated by the size of our REALTOR® network, rather than industry transactional volume. Looking back at the past three years and comparing our results to the industry overall, I can safely say it performed as designed.

GROWTH

The Fund ended 2010 with 15,308 REALTORS® up 4.6% from the same period of 2009; 62% of this increase was a result of the acquisition of contracts on January 1, 2010, and the remaining 38% through organic growth.

This increase in REALTOR® growth was significantly ahead of our 2009 net growth in REALTORS®, which was almost flat, and the overall number of Canadian REALTORS®, which increased in 2010 by 3.8% to 101,916 members.

On January 1, 2011, the Fund acquired franchise agreements from the Manager, representing 23 locations serviced by 247 agents operating under the Royal LePage and La Capitale brands. These acquisitions increased the Company's network to 15,555 REALTORS®, up 3.4% from the 15,048 REALTORS® as at January 1, 2010.

TRANSACTIONAL SALES PERFORMANCE

In the 2010 Canadian residential resale market, there was a pull-ahead of transactions into the first half of the year. Many consumers decided to complete their home sale business in advance of a number of financial and regulatory changes, including a widely anticipated interest rate hike (which did not materialize), previously announced tightening of mortgage lending conditions, and the introduction of the harmonized sales tax (HST) in British Columbia and Ontario. After a mid-2010 lull, continued low mortgage rates – combined with gradual economic improvement – contributed to brisk market activity right to year-end. Industry transactional dollar volume as reported by the Canadian Real Estate Association (CREA) data for MLS® listed homes, increased by 1.7% year over year as a result of a 6% increase in the average price of a home, partially offset by a 3.9% decline in the number of homes sold.

TECHNOLOGY

On the applied technology front, we introduced Release 6 of the Royal LePage consumer website in March 2010. This important service delivery platform includes vastly enhanced Search Engine Optimization (SEO) capabilities and a new comprehensive video library and digital content management system. The video content is both public, client-facing and material designed for agent and broker consumption. 'Shareability enhancements' allow our REALTORS® to easily distribute the material within their social networks and post to their own websites.

In recognition of the rapid pace at which intelligent networking technology is evolving, in March 2011, we launched Release 7 of **www.royallepage.ca** which allows consumers to register with the company and create their own secure space to be used to store information useful to their house-hunting journey. The enhanced portal gives them access to a host of features including saved searches, email notifications and categorizing listings in a personal and unique way.

The technology platform for Via Capitale was also completely refreshed in 2010 to include integrated lead generation and management processes and a new broker/agent intranet system. Plans to further enhance the consumer client experience are in place.

Royal LePage.ca is now interactive!

Release 7 of www.royallepage.ca was launched in March 2011. This release allows user to register and login upon return visits, providing access to a host of portal features, including; saved searches, email notifications and categorizing listings in a personal and unique way.

FACEBOOK FEATURES

Consumers who have Facebook profiles can now log into www.royallepage.ca using their Facebook credentials and share content with their friends on Facebook and other social media services, such as Twitter.

Additional features of the new launch include the introduction of unique profile pages for each agent and office in the Royal LePage network. A new version of the My Great Neighbourhood contest will soon launch, encouraging consumer clients to contribute stories, photos and videos. This user-generated content will be overlayed on the neighbourhood maps clients use to search for homes.

Brookfield Real Estate Services Fund has converted to a corporation. What are the benefits to shareholders?

a. The conversion was effective December 31, 2010 in line with the changes to federal legislation regarding the taxation of income trusts. The conversion to a corporation provides a number of benefits including (i) appealing to a broader investor base in Canada and internationally, (ii) increased trading liquidity, (iii) enhanced access to capital markets, (iv) a more flexible structure that will enable the Company to retain more of its cash flow, and (v) removal of restrictions on non-resident ownership.

Anticipating the tax that will be payable by the Company commencing in 2011, the Board reduced the annual dividend rate to $1.10 annually ($0.0917 paid monthly) from the cash distribution rate of $1.40 annually ($0.117 monthly) previously paid by the Fund. Canadian resident investors who maintain their investment in a non-registered account will benefit from dividend tax credits which will enhance the after-tax yield and offset the impact of the reduced payout.

Will your business strategy or objectives change as a corporation?

a. Conversion to a corporate structure does not change our strong underlying business, with its portfolio of long-term royalty contracts, or core business strategy of pursuing growth both organically and through acquisition within the residential real estate services industry. We believe the new corporate structure will enhance our ability to achieve consistent, reliable growth while providing an attractive dividend yield.

Sustained Performance

What is your outlook for the Canadian residential resale market in 2011?

a. Momentum from a strong 2010 finish will carry over into early 2011 as the strengthening economy and employment situation buoy consumer confidence. As in the prior year, potential homebuyers are anticipating record low mortgage rates will ease upwards towards the year's end and may attempt to beat expected interest rate hikes by purchasing homes earlier than they would otherwise.

The further tightening of mortgage rules was announced in mid-January and is coming into force in March and April, 2011. Included is the lowering of the maximum allowed amortization period for new government backed residential mortgages. Coming on the heels of earlier tightening of access to insured mortgage products, implemented in October 2008 and April 2010, this latest round of regulatory amendments stemmed from concerns by the government about increasing personal debt loads. Overall these reasonable changes are minor and should have limited impact on transactional volumes.

We will likely see more price appreciation early in 2011 as homebuyers complete transactions in advance of anticipated higher borrowing costs. We expect 2011 will unfold in a more moderate, but similar fashion to the previous year, when close to 60 per cent of sales volume occurred in the first half of the year. Across Canada, the average price of a home is forecast by Royal LePage to rise 3 per cent over the coming year while the number of transactions is expected to drop 2 per cent.

How do you expect the CREA agreement with the Competition Bureau to affect the industry and the Company?

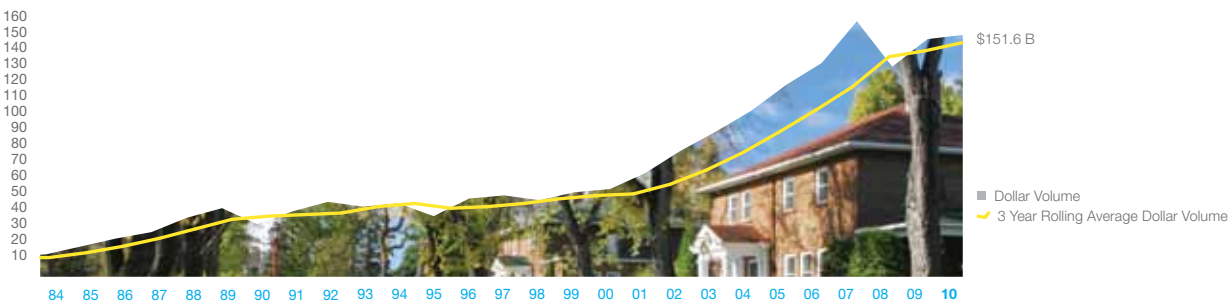
a. While the review process and intense media focus was unsettling for the industry, the resulting consent agreement brought a period of uncertainty to an end. Overall, the agreement was entirely reasonable and should not negatively impact full-service brokerage businesses like those operated within our networks. The most important provisions in the agreement uphold the integrity of the MLS® system. Licensed, insured and regulated practitioners remain the only avenue for direct participation in the privately owned and operated MLS® system. Regulated professional REALTORS® must still comply with a host of provincial and federal regulations designed to protect consumers during real property transactions – often the largest investment a family will make in their lifetimes.

Industry Growth

The Canadian Resale Residential Real Estate Industry is a $150 Billion Industry.

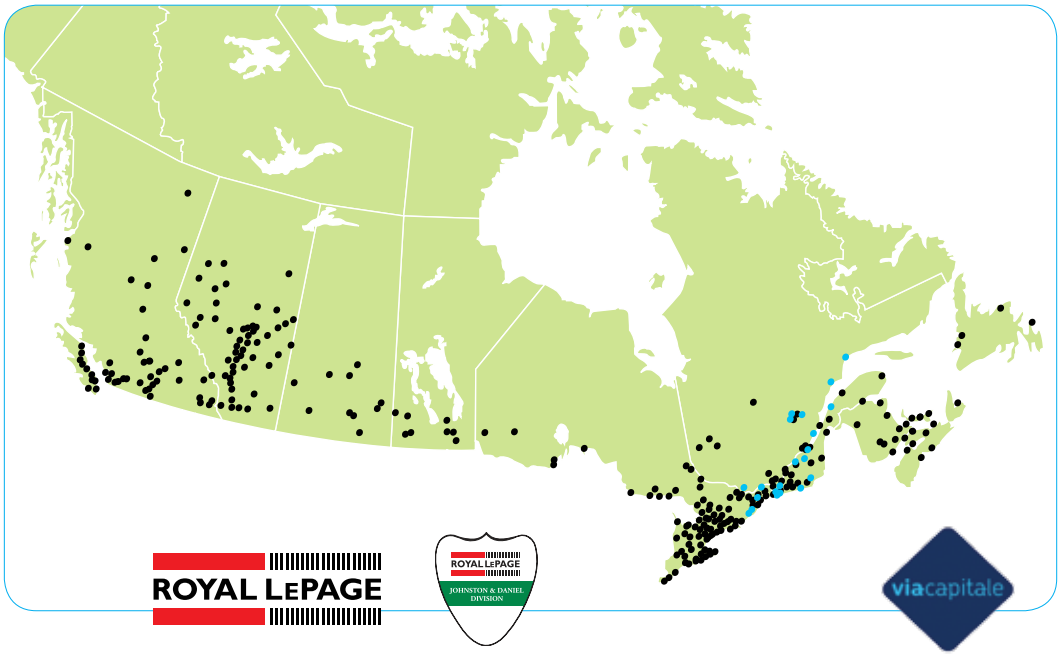
Market Dollar Volume- Canadian Resale Residential Real Estate

(1980 – 2010) (In $ Billions)



Source: CREA

We Cover Canada



Over 14,000 agents and 600 locations

Approximately 1,500 agents and 65 locations

Brookfield Real Estate Services brands operate within the full-service, fully insured segment in the real estate brokerage industry and should be less affected by new entrants who intend to focus on the already crowded low-fee, very narrow service market segment, which could be characterized as the 'do-it-yourself assist' market. There are today and have been for an extended period of time, large numbers of low-fee brokerage firms servicing the low end of the market. Their collective national market share is very low.

What progress was made in developing expansion opportunities outside of Canada?

a. As previously reported, Brookfield, as company Manager, made two strategic acquisitions south of the border. In late 2008, Brookfield acquired GMAC Home Services, a real estate franchising, brokerage and relocation company. This provided a strong U.S. base from which to grow. In late 2009, the Manager acquired a young, high growth real estate franchise company from Columbus, OH called Real Living. This provided the new American brand and much needed technology. During 2010, the Manager focused on securing new long-term franchise contracts and the rebranding of GMAC Real Estate brokerages to Real Living.

On December 1, Real Living launched a new business technology platform comprising a company Intranet, an integrated marketing centre, a lead management platform and a new consumer-facing website **www.realliving.com**. The platform offers home buyers and sellers more search options while providing the latest in mapping technology and rich community information, improving their overall home search experience. Today, Real Living's network is comprised of approximately 10,000 agents operating from 400 offices in 35 states.

The U.S. economy and particularly its housing market continue to recover, albeit at a much slower pace than Canada's. We are confident that in the long term, the American housing market will provide excellent potential for substantial growth.

Meaningful Potential

What are your priorities for 2011?

a. Since going public as a Fund in 2003, we have provided an attractive return to investors through cash distributions, which have been increased several times, and through unit appreciation.

Now, as a corporation, our priority is to continue to provide an attractive investment return to shareholders and capitalize on the benefits that our new structure offers to maximize performance. We plan to continue to grow our network both organically and through acquisition, and to enhance and evolve our services to support the productivity and career goals of our REALTOR® network and the leadership position of our brands.

We are committed to the long-term growth and success of our REALTOR® network and are well positioned to maintain leadership in our traditional markets, with exciting growth opportunities in new international markets.

From a Network perspective, we will continue our efforts to:

1) Empower our franchisees across Canada to succeed in the changing market – concentrating on responding to our network's needs by providing enhanced training; new tools to enable them to run their businesses profitably; and technology platforms to enable innovative marketing tactics and continued growth. Through advanced training programs, performance management, educational conferences and workshops, we help brokers and agents grow their business.

For example, in 2010, Royal LePage developed a training curriculum that leveraged emerging industry trends and best practices around social media. On-demand video tutorials were also launched on a variety of topics that provided a means to better leverage the resources we put at their disposal to remain a step ahead of the competition.

In 2010, Royal LePage launched an online Canadian version of the National Association of Realtors' Senior's Real Estate Specialist® (SRES®) designation, and a proprietary Social Marketer designation to introduce new users to social media and offer current users tactics to generate new business.

To assist franchisees in their efforts to grow their business, we launched a new system called The Profit Navigator, which provides brokers with a multitude of resources to measure and monitor their financial fitness. This tool offers field management a better way to understand and optimize their business operations. Summary statements provide high level financial reports; but the real power of this tool lies in its ability to compare key financial statistics and performance ratios with REALTrends 500 data, a database of the most successful real estate brokerages in the U.S. Our new Company Valuator program further assists brokers in determining the approximate value of their business should they be looking to sell or merge their companies.

Royal LePage was the first company to launch the Buffini & Company Recruiting Boot Camp™ training and coaching program in the spring 2010 and achieved remarkable results. Following on Royal LePage's above average success with other Buffini programs geared toward REALTORS®, this was the first program specifically designed to help brokers recruit and retain the best talent in the industry. Royal LePage brokers and managers recruited an average of seven salespeople during the 90 day program, a full 40% better than the average recorded with all other industry participants. Once a prospect is identified, brokers can leverage the Personal Orientation Profile™, a candidate assessment tool that helps brokers determine an applicant's potential for success. A 2010 benchmarking study within the Royal LePage sales force helped to fine tune the assessment model to yield ever more predictive results that reflect the uniqueness of the Royal LePage culture.

ClientClick, our Royal LePage distributed website product, launched a redesigned web builder in 2010. The new web builder helps brokers and agents set up their business websites with a minimum of time and effort. These search engine optimized, resource rich sites offer a variety of

Training & Service

Royal LePage brokers and managers achieved remarkable results through the Buffini & Company coaching program. They recruited an average of seven salespeople during the 90 day program, a full 40% better than the average recorded with all other industry participants.

VIA CAPITALE IS MAKING HISTORY WITH A SIGNIFICANT TECHNOLOGICAL INNOVATION

In addition to a visual revamping – which challenges the traditional style of its competitors – Via Capitale has made it possible for its agents to add Quick Response (QR) codes to their lawn signs, giving consumers access to a wealth of real-time data with their smartphones.

This QR code is a direct link to Via Capitale information online. QR codes enable Smartphone users to instantly access fact sheets of properties for sale by holding their device in front of the code appearing on a lawn sign. By using their camera phone, house hunters can see photos of the inside of the house, as well as information related to the surrounding neighbourhood.

attractive and professional templates, stock images and content unique to Royal LePage, with the exclusive advantage of integrating a realtor's MLS, and Carriage Trade listings automatically.

2) Continue to plan for organic growth of our flagship Royal LePage brand, leveraging the roll out of Release 7 of **www.royallepage.ca** to further extend the capabilities and effectiveness of the network.

3) Capitalize on the 20th Anniversary of La Capitale and recent rebranding to Via Capitale to create excitement about the new visual identity and corporate strategy to gain market share and extend our reach beyond Francophone Quebecers. Previously, the La Capitale marks were used under license. The new marks are owned by the company. The amended name transcends languages and will position ourselves well for growth within the Anglophone Quebec marketplace.

4) Enhance the measurement of client satisfaction through the introduction of new processes that allow us to track, evaluate and then deliver continuous improvements in the services we deliver.

5) Look to further enhance our lead in Canada's largest real estate market, the City of Toronto, leveraging the strength of our high-end boutique brand, Johnston & Daniel. J&D's senior management team was refreshed in recent years which has helped recruit some of the city's strongest agents and has put this storied brand on a strong growth trajectory.

How is the Company continuing to evolve our social media strategy?

a. From technology to corporate social responsibility initiatives, we are actively creating new relationships with our broad-based social media presence. As we move forward, we will design and develop our mobile technology and other delivery platforms and continue to explore ways to interact with our vast and geographically dispersed agent network.

Social media channels allow us to promote new programs, events, and initiatives within the company; provide educational resources and tools and raise awareness for the Royal LePage Shelter Foundation.

Via Capitale, Royal LePage, and the Shelter Foundation have cultivated many new brand ambassadors through these exciting programs. Through their online presence, these people are taking our key messages to market through leading social media tools, including Twitter, Facebook and LinkedIn. In addition, our training and conferences are increasingly focused on encouraging the use of social media and innovation in the space. 2010 saw a much higher level of skilful engagement in creating and maintaining meaningful business conversations, within the business, the industry, and with our consumer clients.

As the adoption of social media technologies continues to increase at explosive rates, so too will the critical significance of our productive presence in these rapidly evolving business channels.

Philip Soper
President and Chief Executive

Financials

Management's Discussion and Analysis

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INTRODUCTION

This section of our annual report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended December 31, 2010 (the "Quarter"), and year ended December 31, 2010, and has been prepared as at March 11, 2011. On December 31, 2010, the Brookfield Real Estate Services Fund (the "Fund") was converted to a corporate structure and carried on as Brookfield Real Estate Services Inc. (the "Company"); see Recent Developments. The MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future prospects. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2010, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Fund and our Company, including our annual information form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the Company that may affect an investment in the Company's shares. A summary of these risks is outlined in the Company's annual information form, which is filed on SEDAR at www.sedar.com. To the extent that these risks have changed during 2010, they are discussed in further detail in this MD&A.

HIGHLIGHTS

Years ended December 31, ($ 000's) except Agents, Sales Representatives and per share amounts	2010	2009	2008	2007	2006
Royalties	**$ 36,630**	$ 34,359	$ 34,883	$ 32,491	$ 29,659
Less:					
Administration expenses	**1,771**	866	817	725	645
Interest expense	**2,900**	3,202	3,174	2,419	2,401
Management fee	**6,713**	6,365	6,455	5,869	7,285
Distributable cash[1]	**$ 25,246**	$ 23,926	$ 24,437	$ 23,478	$ 19,328
Amortization of intangible assets	**16,471**	16,997	16,886	14,804	14,559
Other (income) loss	**(101)**	(264)	365	–	–
Income tax expense (recovery)	**60**	(551)	(48)	(1,819)	–
Non-controlling interest	**2,654**	$ 2,165	1,964	2,775	1,319
Net and comprehensive earnings attributable to shareholders[2]	**$ 6,162**	$ 5,579	$ 5,270	$ 7,718	$ 3,450
Basic and diluted earnings per share attributable to shareholders[2]	**$ 0.65**	$ 0.58	$ 0.53	$ 0.77	$ 0.35
Dividends[2]	**$ 20,549**	$ 18,633	$ 17,452	$ 15,972	$ 15,303
Cash distributions declared per share[2]	**$ 1.60**	$ 1.44	$ 1.31	$ 1.20	$ 1.15
Cash distributions declared per 3,327,667 Special Fund shares[2]	**$ 1.60**	$ 1.44	$ 1.31	$ 1.20	$ 1.15
Total assets	**$ 113,322**	$ 124,949	$ 139,273	$ 129,450	$ 134,289
Total long-term financial liabilities	**$ 52,558**	$ 54,877	$ 55,160	$ 37,617	$ 38,000
Number of Agents[3] and Sales Representatives[4]	**15,308**	14,631	14,594	13,172	12,149
Payout[5]	**81%**	78%	71%	68%	79%

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the attached consolidated financial statements for the year ended December 31, 2010.

BUSINESS STRATEGY

We are a long-established, Canadian-based real estate services firm, originally structured as an Income Trust and subsequently converted to a corporate structure on December 31, 2010 (the "Conversion Date" – see Recent Developments). We focus on the provision of services to real estate brokers and their Agents who practise predominantly in the residential brokerage segment of the Canadian residential real estate market ("Market")[6] 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 differing value propositions, we cater to the diverse service requirements of regional real estate professionals, in virtually all significant population centres, right across Canada.

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

[2] All references to "shares" refer collectively to the Company's common shares on and subsequent to the Conversion Date and to the Fund's units prior to the Conversion Date. Similarly, all references to "shareholders" refer collectively to holders of the Company's shares on and subsequent to the Conversion Date and to holders of the Fund's units prior to the Conversion Date. All references to "dividends" refer collectively to dividends declared by the Company on and subsequent to the Conversion Date and to distributions declared by the Fund prior to the Conversion Date.

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

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

[5] Payout represents distributions as a percentage of distributable cash.

[6] The Market is defined as the dollar value of residential resale units sold ("transactional dollar volume") over a 12-month period in a particular geographic area.

Management's Discussion and Analysis of Results and Financial Condition

Our objective is to provide our shareholders with an investment vehicle that pays stable and growing dividends. Our revenue is driven primarily by royalties derived from long-term franchise contracts. These royalties are weighted toward fees that are fixed in nature; this has proven effective in moderating the significant swings in overall industry activity that can occur in the Market.

We manage our operating costs and associated risks by delivering our services and management of the Company through an Amended and Restated Management Services Agreement ("MSA"), which is provided by Brookfield Real Estate Services Manager Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"). The senior management team of the Manager developed and managed the Royal LePage network prior to the inception of the Company, and BAM, through a wholly owned subsidiary, holds an approximate 26% interest in the Company. As a result of this arrangement, the underlying costs of the Company are not complex as they are limited to management fees paid under the MSA, public operating costs and carrying costs associated with our debt.

The number of REALTORS®[7] and transaction volumes generated in the markets we serve, the manner in which we structure our contracted revenue streams and our success in attracting agents and brokers to our brands through our value proposition and track record are all key drivers of the Company's performance. These drivers, in combination with other uncontrollable risk factors, including the economy at large, government and regulatory activity (see Recent Developments and Overview of 2010 Operating Results), all impact the Company's performance and are discussed in greater detail throughout this MD&A.

Through the Manager, we seek to further increase stakeholder distributions by augmenting our agent count through the acquisition of franchise contracts and by attracting and retaining brokers and their agents through the provision of additional fee-for-service offerings and the provision of services, which increase the productivity levels of our brokers and their agents.

As at December 31, 2010, the network was comprised of 15,308 Canadian REALTORS® operating from 658 locations providing services under the Royal LePage, Johnston & Daniel and La Capitale brand names (collectively the "Company Network"). The associated franchise contract stream (see Structure of Company Royalties) was approximately 68% fixed and 32% variable in 2010, which after operating costs delivered $1.97 of distributable cash per share ($1.85 – 2009, see Distributable Cash), against which the Company distributed $1.60 per share to shareholders, up from $1.44 per share in 2009.

STRUCTURE OF COMPANY ROYALTIES

Royalty Fees

The Company generates royalties with both fixed and variable fee components. During 2010, approximately 68% of the annual royalties were partially insulated from market fluctuations as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS® in the network, increasing Agent and broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

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

Variable royalty fees are primarily driven by the volume of business transacted by our Agents. Variable franchise fees from Royal LePage franchisees are driven by the transactional dollar volume transacted by the Agents and are calculated at 1% of each Agent's gross commission income, subject to a cap of $1,300 per year. In 2010, 18% (17% – 2009) of the Agents in the network reached the royalty cap.

In addition to these fees, 24 of the Fund's larger Royal LePage locations situated in the Greater Toronto Area ("GTA") pay a premium franchise fee ranging from 1% to 5% of the location's gross revenue. Of these locations, 16 are operated by the Manager and are contractually obligated to pay the premium franchise fee to August 2018.

Approximately 88% (88% – 2009) of the Company's royalties during the Quarter and year ended December 31, 2010, respectively, are derived from the combined fixed fee per REALTOR® per month, 1% variable fee and premium franchise fees. The remaining royalty stream includes other fees and services generated from a self-insured program called "APEC", under which participating La Capitale Agents provide a warranty on such items as appliances, plumbing and electrical and heating systems; technology fees; web services; and other fees.

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

Network Royalty Profile

The Royal LePage Network: The fees generated from the Royal LePage Network accounted for 91% of the Company's fees in 2010 (91% – 2009) and primarily include a fixed monthly fee per Agent of $100 plus a $20 technology fee per participating franchisee (representing 95% of Agents in 2010, 92% in 2009); a variable fee equal to 1% of the fees generated by the Agent, capped at $1,300 per Agent; ancillary web services and learning services fees; and a premium franchise fee, as described earlier. Under this structure, exclusive of ancillary fees, an Agent earning in excess of the $1,300 per annum fees cap will contribute $2,740 per annum to the Company. In 2010, 18% (2009 – 17%) of the Royal LePage Agents capped on the $1,300 franchise fee.

Due to the variable fee-capping feature, approximately 68% (69% – 2009) of the Royal LePage Network fees were fixed in nature.

The La Capitale Network: The fees generated from the La Capitale Network, which services the Quebec market, accounted for 9% of the Company's fees in 2010 (9% – 2009). These fees primarily include a fixed monthly fee per Agent of $170 ($2,040 per annum) and fees generated from APEC fees. In 2010, approximately 76% (76% – 2009) of La Capitale's royalties were fixed in nature.

Monthly Distributions and Dividends

The targeted annual cash dividend payable to public shareholders for 2011 is $1.10 per share, to be paid monthly (see Recent Developments).

As noted below, a special distribution of $0.20 per unit was declared to unitholders of record on December 30, 2010, paid on January 28, 2011. Management and the Board of Directors (the "Board") periodically review the Company's targeted distribution.

RECENT DEVELOPMENTS

Conversion to a Corporate Structure

On December 31, 2010, as a result of approvals received at a Special Meeting of Unitholders and Special Voting Unitholders held on December 10, 2010, the Fund converted (the "Conversion") to a corporate structure in order to align it with Trust tax legislation under which Income Trusts such as the Fund became taxable entities effective January 1, 2011. The Conversion was undertaken by introducing Brookfield Real Estate Services Inc. (the "Company"), an Ontario corporation, which exchanged its common shares with Fund unitholders for their units in the Fund. Brookfield Asset Management Inc. ("BAM") elected to continue to hold its 26% interest in the Fund at the partnership level and, accordingly, was issued units of the underlying partnership and special voting shares of the Company in order to retain its pre-existing interests and align them with the new Company structure. The Company was then listed on the Toronto Stock Exchange ("TSX") and trades under the "BRE" identifier.

The Conversion as described above was relatively straightforward as the Company was imposed on the existing Fund structure, and the related agreements were amended to reflect this change. As part of the Conversion, the other change of consequence was to the formula under which the Company acquires contracts from the Manager. This formula was amended to effectively reduce the amount paid by the Company's effective net cash taxes.

In 2011, it is the intention of the Board and the Manager to collapse the underlying Fund structure such that the Company will hold its interests directly in the Fund. This change in structure will reduce the Company's administrative burden and related costs. This change will also cause a number of material agreements to terminate or be recast. Accordingly, the Board and the Manager will be focusing their efforts on ensuring that the appropriate arrangements are entered into.

Mortgage Rules

During the Quarter, Canada's Finance Minister announced the following changes to Canada's mortgage rules, which are to take effect in 2011:

- The Government will no longer insure mortgages with amortization periods greater than 30 years.
- The maximum amount a homeowner is permitted to withdraw when refinancing a mortgage will be lowered to 85% from 90% of the value of the home.
- The Government will no longer provide insurance against personal lines of credit.

This tightening of mortgage and lending standards may increase home sales in the first quarter of 2011 as buyers seek to purchase homes in advance of these rules coming into effect.

Management's Discussion and Analysis of Results and Financial Condition

Special Distribution

With effect for unitholders of record on December 30, 2010, the Board declared a Special Distribution in the amount of $0.20 per unit, in addition to the targeted distribution of $1.40 per annum ($0.1167 per month). As the Company continued to experience strong results during the Quarter, the Special Distribution was declared to ensure that the Company distributed all of its taxable income to unitholders, thereby ensuring that the Company would not be subject to punitively higher taxes on any undistributed taxable income.

2011 Dividend Target

The Board declared an annual dividend target of $1.10 per common share for 2011, payable monthly. Upon review of the Company's performance in 2010 and net payout ratio, the target was effectively calculated as the 2010 targeted distribution of $1.40 per share less the estimated 2011 effective cash tax rate of 22.5%.

OVERVIEW OF 2010 OPERATING RESULTS

With a modest year-over-year 1.7% increase in the Canadian Market, the Company closed out 2010 with distributable cash per share of $1.97, up 6.5% from $1.85 per share in 2009. The distributable cash includes a $0.05 charge per share for conversion costs related to the Conversion from an Income Trust to a corporate structure; otherwise, distributable cash would have been $2.02 per share, which represents a 9.2% increase in year-over-year distributable cash. Driving this result was a:

- 4.6% (677) REALTORS® increase year-over-year, with 62% (417 REALTORS®) of the increase coming through the acquisition of contracts at the beginning of 2010 and the balance through organic growth. This is in direct contrast to 2009, when the Company's growth was limited to 37 REALTORS®; with the beginning-of-year acquisition of contracts representing 316 REALTORS® being partially offset by a 279-agent decrease;
- 20% increase in year-over-year premium fees, which are driven by the GTA Market, pushed by pent-up demand in the fourth quarter of 2009 and the first quarter of 2010 as the market pulled out of a recessionary trough and consumers sought to complete home purchases ahead of the government's mandated mortgage lending rules, anticipated higher interest costs and misconceptions about the impact of HST on the home sale transaction;
- 9% decrease in interest costs as a result of refinancing of the Company's debt in February of 2010; and a
- 1.7% year-over-year increase in the Canadian Market, represented by a 6% increase in the average selling price of a home to $339,030, partially offset by a 3.9% decrease in home sales to 447,010 units.

Risk Factors

During 2010, a number of external risk factors came to bear on the Company's activities and results; these included the Government's mandated mortgage rules, HST and taxation of Income Trusts, the settlement with the Competition Bureau as to the use of the Multiple Listing Services ("MLS®") system, mortgage interest rate outlooks, refinancing of the Company's $53 million fixed-rate debt obligations, changes in Quebec real estate legislation and the implementation of International Financial Reporting Standards ("IFRS"). The fixed-fee nature of the Company's royalty stream and the Company Network's and the Manager's reaction to these factors have contributed to the Company's favourable year-over-year results. A review of the changes in the Company's key external risk factors during 2010 and their impact on the Company are discussed below, followed by a review of the Company's key performance drivers.

Government – Mortgage Lending Rules

In 2010, the Market was impacted by two announcements by the Government concerning the tightening of mortgage and lending rules, which were designed to help protect consumers from becoming over-leveraged and reducing the exposure of loan losses to the financial system. These rule changes are as follows:

- The Government will no longer insure mortgages with amortization periods greater than 30 years.
- The maximum amount a homeowner is permitted to withdraw when refinancing a mortgage will be lowered to 85% from 95% of the value of the home.
- The Government will no longer provide insurance against personal lines of credit.
- Borrowers are required to qualify for a five-year fixed-rate mortgage, irrespective of the type of mortgage they choose, including a lower variable rate. Prior to the announcement, lenders could use the three-year fixed rate when qualifying a mortgage.
- To qualify for mortgage insurance, the required down payment on a non-owner-occupied property purchased for investment purposes increased to 20% from 5%.

The intent of these rules is that the Government and the Canada Mortgage and Housing Corporation ("CMHC") will continue to insure against high-ratio mortgages provided that a mortgage is used to finance the purchase of a principal residence and provided that a mortgage is steadily paid down until the risk of default is substantially mitigated. These rules commenced in the second quarter of 2010 and are expected to commence in the second quarter of 2011. Management believes these rule changes pushed demand into the first quarter of 2010 and anticipate a similar impact in 2011 as home buyers seek to purchase their homes ahead of these changes.

Government – Regulatory

On October 24, 2010, the Canadian Competition Bureau (the "Bureau") and the Canadian Real Estate Association ("CREA") reached a negotiated settlement (the "Agreement") in response to allegations that CREA had imposed rules related to the MLS® that limited consumer choice and prevented innovation in the Market for residential real estate brokerage services to home owners in Canada. The MLS® trademarks are owned, licensed and maintained by CREA. The majority of residential resale home listings in Canada are captured by the MLS®. There are 101 real estate boards (the "Boards") across the country that capture residential real estate listing information (the "Listing") from their member brokers and agents (the "Members"), who are licensed REALTORS®, on their local MLS® system. This information is then used by the Members to assist in the matching of home buyers and sellers. Much of the content of these Listings is uploaded onto CREA's REALTOR.ca website, which is accessible to the public.

From a practical standpoint, these rules protect the integrity of the information posted on the MLS® system and enhance the seller's rights, such as allowing a seller to limit the selling-REALTORS®'s involvement in the posting of their Listing, allowing a seller to contract for other services around the selling transaction from other suppliers as required, allowing a seller to negotiate what compensation they will pay a buyer agent and possibly creating a new buyer agent–buyer compensation arrangement in the event that the seller compensation is inadequate. The impact of this Agreement on the real estate industry and the Company is still unknown at this time and will develop over the coming months as value propositions focused on new seller listings or listings with limited service offerings, combined with new buyer agent–seller relationships and buyer agent–buyer dynamics, are solidified. The potential impact may be reduced commissions earned by real estate agents, resulting in the attrition of real estate agents within the industry. As a result, the Company's fixed, variable and premium fees may be reduced due to lower agent head counts.

The Company's brands currently compete in the full-service Market segment, where we strive to provide the best value proposition to our franchisees and their Agents, allowing them to offer superior services to consumers during one of the most important transactions in their lifetime. We take comfort in the quality of our service offerings and the strengths of our Network. While the low-priced Market segment has been a long-standing competitor in the Canadian Market, we remain vigilant in assessing the potential impact of the Agreement and reacting accordingly.

Regulatory – Quebec Real Estate Regulations

Under Quebec's new *Real Estate Brokerages Act*, which came into effect on May 1, 2010, all brokers in the province of Quebec (formerly called agents) were required to pay significantly increased licence fees commencing in September 2010. In addition, the Act introduced a more rigorous educational requirement for prospective REALTORS® in the province, which resulted in the doubling of the time and financial investment required to become a REALTOR®. One may have expected these changes to result in increased organic growth for the Industry and the Company in the early part of 2010 as prospective REALTORS® sought to complete their educational requirements before September 2010, with a subsequent reduction in REALTORS® as the higher fees and more rigorous educational requirements came into effect. In 2010, this may have indeed been the case as the number of agents in Quebec increased by 6.2% to the end of September and then increased by 1.0% to the end of the year, for a net increase of 7.2%. During this period, the Company experienced an increase of 1.8%, followed by a decline of 0.3%, for a net change of 1.5% in the number of Agents; this was lower than the growth experienced by the overall Quebec market, due in part to an increased number of REALTORS® in Quebec who opted to operate independently of a brokerage, as permitted under the new legislation.

Government – Taxation of Income Trusts

The tax legislation that taxes Income Trusts as corporations effective January 1, 2011, has been well documented and discussed by the Company since its announcement on October 31, 2006. Effective December 31, 2010, the Fund converted to a corporation structure and reduced the stated annual dividend target from $1.40 per share to an after-tax cash target of $1.10 per share. The cost of the Conversion, which included associated legal, tax, regulatory, reporting and audit costs, was approximately $0.05 per share.

Government – HST

On July 1, 2010, the province of British Columbia and Ontario implemented a harmonized sales tax ("HST") under which home sale commissions, which were not previously subject to provincial sales tax, became subject to the combined provincial tax and Goods and

Services Tax. Whereas the HST also applied to the selling price of a new home subject to certain limits, it did not apply to the selling price of a resale home, which is the Market primarily serviced by the Company's Network of Agents. The introduction of the HST on the commission of a resale home could have the effect of reducing the amount of commission a seller may be willing to pay to compensate for the HST and ultimately the variable fees earned by the Company. At this time, it would appear that the HST has had a negligible impact on the commission a seller may be willing to pay on the sale of their home. The announcement of the HST, coupled with the confusion over the application of the HST to the selling price of a resale home, would appear to have contributed to increased year-over-year Market activity in the first half of 2010.

Mortgage Interest Rates

At the end of 2009, the leading Bank of Canada overnight lending rate stood at 0.25% and, through three quarter-percentage-point increases in 2010, rose to a low 1%. During the same period, conventional five- and three-year mortgage rates remained relatively low and decreased from 5.49% and 4.25% at the end of 2009 to 5.19% and 4.15%, respectively. In 2010, the early withdrawal by the Bank of Canada of its conditional commitment to keep interest rates on hold until the second half of 2010 undoubtedly pushed home buyers to seize the opportunity presented by low interest rates. The combination of these factors, the continued economic recovery, job and income growth and increased consumer confidence provide for supportive ongoing Market activity that is serving to keep home purchases within the reach of consumers in the near term, even with a moderate increase in mortgage rates.

Debt Refinancing

In February 2010, the Company's private debt placement and term facility of $53 million matured. Based on the strength of the Company's operating results, the debt was successfully refinanced with a combination of a $32.7 million fixed-rate private debt placement and a $20.3 million variable-rate debt with a five-year term, maturing on February 17, 2015. The Company has enjoyed reduced debt servicing costs as a result of the lower variable interest rates and continues to monitor the costs of swapping from variable to fixed rates.

Rebranding of La Capitale to Via Capitale

As previously reported, the Company does not own the La Capitale trademarks, and the rights to use these trademarks expire on October 27, 2012. We are pleased to report that the Company, in a consultative process with La Capitale's franchisees and brokers, had addressed this issue with the successful launch of La Capitale as Via Capitale on March 7, 2011.

Regulatory – IFRS

Effective January 1, 2011, the Company is required to report under IFRS. These standards result in a number of reporting and disclosure changes but, aside from the increased accounting effort and audit costs associated with the changeover to IFRS, do not impact the Company's cash flow. The most significant IFRS requirements and their effect on the company are summarized in the Impact of Adoption of IFRS on the Transitional Balance Sheet.

KEY PERFORMANCE DRIVERS

The key drivers of the Company's business and cash distributions/dividends to unitholders/shareholders are:

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

A summary of our performance against these drivers and a discussion of the underlying Canadian Market and REALTOR® population, with the review of the Company Network growth, diversity and productivity against these variables, follows.

Number of REALTORS® in the Company

As at December 31, 2010, the Company Network of REALTORS® had increased by 4.6% over 2009 to 15,308 REALTORS®, operating under 367 franchise agreements and providing services from 658 locations, with an approximate 23% share of the Canadian Market based on 2010 transactional dollar volume.

With the addition of 247 REALTORS® operating under 23 franchise agreements acquired by the Company on January 1, 2011, the Company began 2011 with 15,555 REALTORS®, a 3.4% (507 REALTORS®) increase over January 1, 2010.

Transaction Volumes

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

During 2010, the Canadian Market increased year over year by a modest 1.7% on a 6% increase in selling price, partially offset by a 3.9% decline in units sold. The Market was characterized by a heavier weighting of volumes to the first quarter, as the Market continued to recover from the recessionary trough and consumers sought to complete home purchases ahead of the government's mandated mortgage lending rules, anticipated higher interest costs and misconceptions about the impact of HST on the home sale transaction. This activity was followed by a lull in the summer, followed by increased activity as a result of more balanced market conditions, resulting in more moderate home price appreciation.

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

The Canadian Market for 2010 totalled $151.5 billion, up 1.7%, as described above, with 57% of the transactional dollar volumes being pulled through the first two quarters of the year as compared to 46% for the same period in 2009. During the Quarter, the Canadian Market totalled $30.9 billion, a 14.3% year-over-year decline on a 15.7% decline in units, partially offset by a 1.6% increase in selling price.

The GTA Market for 2010 totalled $37.2 billion, up 7.7% on a 9.1% increase in selling price and 1.3% decline in units sold, with 60% of the transactional dollar volumes being pulled through the first two quarters of the year as compared to 45% for the same period in 2009. During the Quarter, the GTA Market totalled $6.9 billion, a 20.9% year-over-year decline on a 24.1% decline in units, partially offset by a 4.2% increase in selling price. The year-over-year change in the Market for the year and Quarter, although more pronounced than the overall Canadian Market, is largely attributable to the factors affecting the Canadian Market, as discussed above.

Canada's annual housing starts, the Markets' future inventory, totalled 189,930, up 27.4% from 149,081 in 2009.

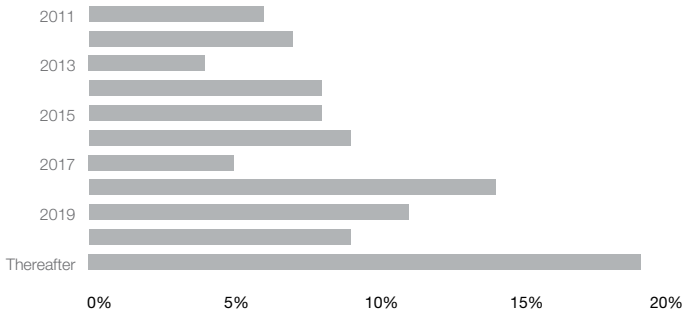
Stability of the Company's Royalty Stream

The stability of the Company's royalty stream is derived from the following factors:

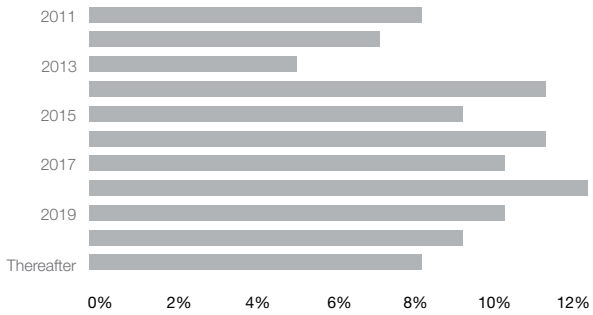
- The fixed nature of the Company Network contracts (see Structure of Company Royalties), which is primarily driven by the number of REALTORS® in the Company Network, results in an approximate 68% fixed, 32% variable royalty stream, which insulates the Company from fluctuations in the Market.
- The royalties are derived from a diverse network of independently owned and operated franchisees, the majority of which (71% – 2010, 72% – 2009) operate with fewer than 50 Agents, thereby mitigating the impact of any one franchisee's results.
- The geographic distribution of the Company's Network of REALTORS® is similar to the distribution of the overall Canadian REALTORS® population, with over representation in the Province of Quebec as a result of the acquisition of the La Capitale Network and underrepresentation in Western Canada. This distribution of REALTORS® mitigates the impact of a single Market on the Company's cash flows.
- The Royal LePage contracts, which comprise 91% of the Company's REALTORS®, are 10 to 20 years in duration, significantly exceeding the industry norm of five years and thereby reducing its contract renewal risk. As more and more of these contracts move into five-year renewals, we will expect the number of average life of contracts to decline. The Company's overall contract renewal profile by year is not overly skewed to any one year and therefore is very manageable. A summary of contract renewal profiles of our combined Royal LePage and Via Capitale networks are as follows:

Management's Discussion and Analysis of Results and Financial Condition

% of Franchise Agreements up for Renewal
(by Number of Agents)



% of Franchise Agreements up for Renewal
(by Number of Contracts)



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

In 2010, 58 Royal LePage and La Capitale franchisee contacts comprising 1,673 agents were renewed, and two contracts representing 131 agents were terminated.

During the Quarter, 21 Royal LePage and La Capitale franchisee contacts comprising 612 agents were renewed.

Company Growth Opportunities

Our growth objective for 2010, in light of the economy and Market conditions, was to modestly increase the year-over-year Company Network of REALTORS®. This objective has been achieved by a year-over-year increase of 4.6% (677 REALTORS®) to 15,308 REALTORS® as at December 31, 2010, and a 3.4% (507 REALTORS®) year-over-year increase to 15,555 REALTORS® as at January 1, 2011, after taking into account the January 1 contract acquisitions.

During the Quarter, the Company Network of REALTORS® decreased by five locations, due to office consolidation, without agent loss, and by 14 REALTORS®, due in part to an increase in REALTORS® operating independently under the new Quebec real estate legislation.

Since the inception of the Company as a Fund in August 2003 with 9,238 REALTORS®, the Company Network has increased by 66% (6,070 REALTORS®), with 63% of this growth coming by way of acquisitions and the remainder through organic growth. In 2010, the increase of 677 REALTORS® followed this trend, with 62% of the growth coming by way of acquisition and the balance through organic growth.

Growth through acquisition is achieved through the purchase of franchise agreements acquired by the Manager's dedicated network development team.

Growth in overall royalties is achieved by increasing the number of REALTORS® in the Company, increasing the productivity of Agents, expanding the range of products and services supporting the franchisees and Agents, increasing adoption of these products and services and providing sales and marketing programs to the Company Network. These services are supported by ongoing training programs for franchisees and REALTORS® that assist in leveraging the Company's competitive advantages to attract and retain potential recruits.

On January 1, 2011, franchise agreements representing 23 locations serviced by an estimated 247 Agents operating under the Royal LePage and La Capitale brands were purchased by the Company. The estimated purchase price of these agreements is $3.5 million, with an estimated annual royalty stream of $0.5 million.

The average Company Network REALTOR® generated $2.38 million in transactional dollar volume in 2010; this was 74% greater than all other Canadian REALTORS® and up 5.8% from 2009 (see REALTOR® Productivity).

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

THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

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

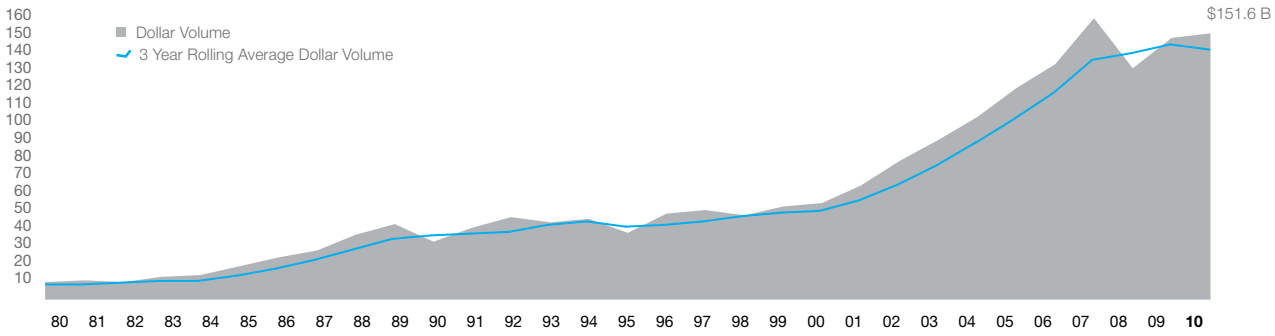
During the most recent downturn, the Market declined 19% during the 16-month period February 2008 through May 2009, with the most significant decline occurring during the fourth quarter of 2008, when the Market decreased 40% compared to the fourth quarter of 2007. The Market improvement in 2009 began with the rate of decline moderating steadily from January to May, followed by four months of increasing market growth and subsequently ending the year with very strong growth of 90% in the Quarter over the same period in 2008. The strong Market continued into the first half of 2010 due in part to consumers seeking to close home sales ahead of government-mandated changes to mortgage rules, anticipated increases in mortgage rates and the implementation of the HST on July 1, 2010. These Market factors pulled 57% of the 2010 Market activity into the first half of 2010, compared to 46% in 2009, resulting in a year-over-year decline in the second half of 2010, which, combined with the first half of 2010, saw the overall Market rise by 1.7% for the 12 months ended December 31, 2010, compared to the same period in 2009.

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

Market activity since 1980 is provided in the chart below.

Market Dollar Volume – Canadian Resale Residential Real Estate

(1980–2010) (in $ billions)



Source: CREA

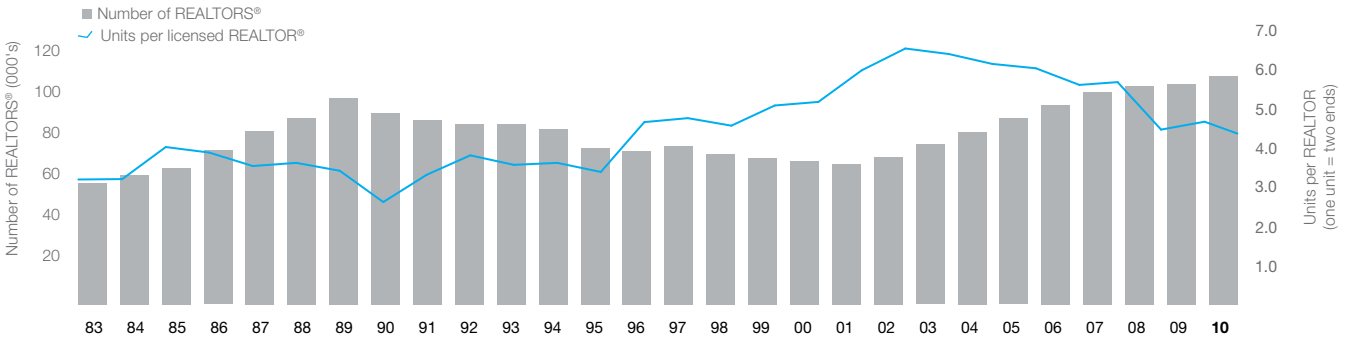
THE CANADIAN REAL ESTATE REALTOR® POPULATION

The number of REALTORS® in the Company Network is a key driver of the Company's results. For the year ended December 31, 2010, the Canadian real estate REALTOR® membership grew by 3.8% to 101,916 members, with an average of 4.4 units sold per REALTOR®, compared to 1.0%, 98,161 and 4.7 units sold per REALTOR®, respectively, in 2009. The number of REALTORS® in the Company Network grew by 4.6% over the same period (0.3% – 2009). The Canadian REALTOR® population and the average number of units sold per REALTOR® are summarized in the chart below.

Management's Discussion and Analysis of Results and Financial Condition

Canadian Real Estate REALTORS®

(Year ended December 31)



THE COMPANY NETWORK

REALTOR® Growth

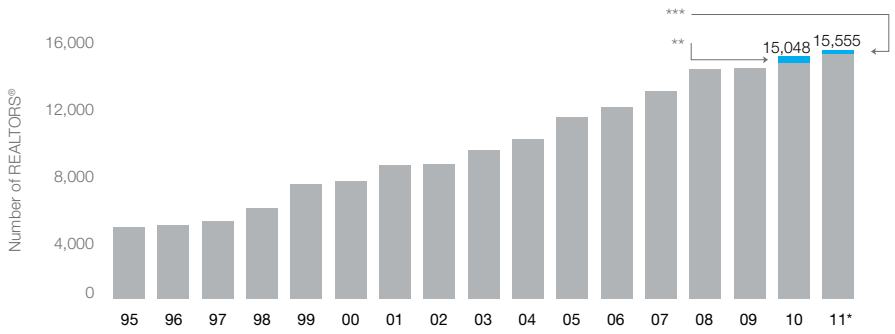
As at December 31, 2010, the Company Network was comprised of 15,308 Realtors®, operating from 658 locations under 367 agreements with independently owned and operated franchises.

During the Quarter, the Company Network declined by 14 REALTORS®, compared to the net organic increase of 274 REALTORS® experienced during the first three quarters of 2010, for an annual net organic increase of 260 REALTORS®, or 1.8%, from December 31, 2009. With the addition of 247 REALTORS® from the 23 franchise agreements acquired by the Company on January 1, 2011, the Company commenced 2011 with a net increase of 507 REALTORS®, up 3.4% from January 1, 2010.

During 2010, CREA experienced a 3.8% growth in the number of REALTORS® in Canada, following growth of 1.0% in 2009. The Company, by comparison, saw its membership increase by 4.6% during the same period.

A summary of Company Network growth is as follows:

Company Growth



Year ended December 31, except 2011
* As at January 1, 2011.
** 417 REALTOR® growth of 2.9% consisting of 343 from Royal LePage brand and 74 from the La Capitale brand.
*** 247 REALTOR® growth of 1.6% consisting of 188 from the Royal LePage brand and 59 from the La Capitale brand.

A summary of Canadian and Company growth in REALTORS® during 2009 and 2010 follows.

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**97,168**	**2.8**	**14,594**	**10.8**
2009 Q1	(815)	(0.8)	98	0.7
2009 Q2	445	0.5	(74)	(0.5)
2009 Q3	503	0.5	(51)	(0.3)
2009 Q4	860	0.9	64	0.4
Opening	**98,161**	**1.0**	**14,631**	**0.3**
2010 Q1	1,658	1.7	639	4.3
2010 Q2	1,249	1.3	25	0.2
2010 Q3	538	0.5	27	0.2
2010 Q4	310	0.3	(14)	(0.1)
Closing	**101,916**	**3.8**	**15,308**	**4.6**

* Source: CREA

Network Diversity

The Company Network was comprised of diverse operations, with approximately 71% (72% – 2009) of the Company's franchisees operating with fewer than 50 REALTORS® as at December 31, 2010. As summarized in the table below, the Company Network of REALTORS® is geographically diverse, with REALTORS® spread throughout Canada and with a more pronounced presence in the province of Quebec as a result of the acquisition of the La Capitale franchise network.

	Canadian REALTOR® Population	Fund Network REALTORS®
Ontario	51%	54%
Prairies	13%	10%
BC	18%	12%
Quebec	15%	21%
Maritimes	3%	3%
Total	100%	100%

Source: CREA

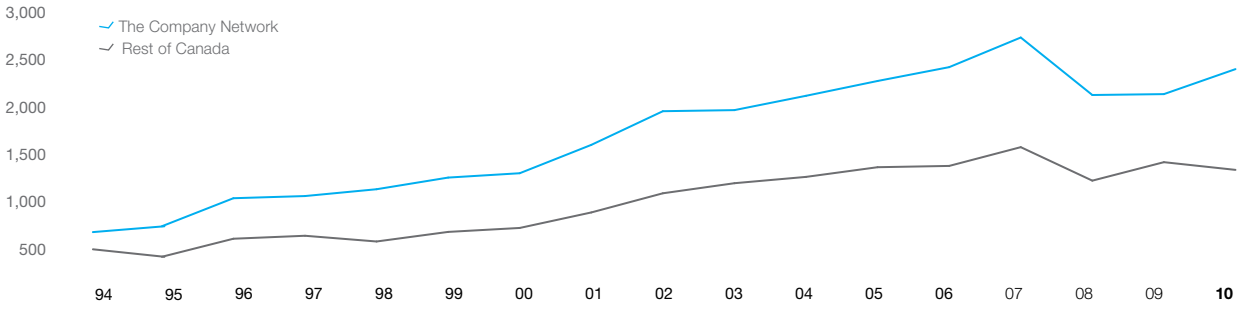
REALTOR® Productivity

The average Company Network REALTOR® generated approximately $2.38 million in transactional dollar volume in 2010, up 5.8% from $2.25 million in 2009. This productivity was 74% greater than the estimated average of $1.36 million for all other Canadian REALTORS®, down 3.5% from 2009. Management believes the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume. A summary of average transactional dollar volume per REALTOR® for the years ended December 31, 1994 through 2010, is as follows:

Management's Discussion and Analysis of Results and Financial Condition

Canadian Residential Real Estate Resale Market

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



Source: CREA and Company Management

OPERATING RESULTS

Years ended December 31, ($ 000's) except Agents, share and per share amounts	2010	2009
Royalties		
Fixed franchise fees	**$ 18,715**	$ 17,842
Variable franchise fees	**8,245**	7,875
Premium franchise fees	**5,225**	4,355
Other revenue and services	**4,445**	4,287
	36,630	34,359
Less:		
Administration expenses	**1,771**	866
Interest expense	**2,900**	3,202
Management fee	**6,713**	6,365
Earnings before undernoted	**25,246**	23,926
Amortization of intangible assets	**16,471**	16,997
Other income	**(101)**	(264)
Income tax expense (recovery)	**60**	(551)
Net and comprehensive earnings before non-controlling interest	**8,816**	7,744
Non-controlling interest	**2,654**	2,165
Net and comprehensive earnings to shareholders	**$ 6,162**	$ 5,579
Basic and diluted earnings per share to shareholders	**$ 0.65**	$ 0.58
Number of Agents	**14,255**	13,620
Number of fixed-fee-paying Sales Representatives	**752**	707

As summarized in the table above, during the year ended December 31, 2010, the Company generated net and comprehensive earnings before income taxes of $8.8 million, up $1.1 million from 2009. The year-over-year results included a $2.3 million (6.6%) increase in royalties, primarily attributed to a 4.6% increase in the underlying number of REALTORS® and a $0.9 million (20%) increase in premium royalty fees, which are derived from the GTA Market. A more detailed discussion of these results is provided below and in the Overview of 2010 Operating Results.

The Company Network as at December 31, 2010, comprised 14,255 Agents and 1,053 Sales Representatives, 752 of whom operate under the $100 per month fixed-fee plan and 301 of whom are primarily brokers and managers who do not pay fees. Almost all of our franchisees operate under the per-Agent combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option") or the approximate $170-per-month flat fee.

Royalties for the year ended December 31, 2010, totalled $36.6 million, up 6.6% from the same period in 2009. The Company generates royalties from both fixed and variable fee components, as described earlier in Structure of Company Royalties. Fixed, variable and premium franchise fees together represented 88% of royalties for the year ended December 31, 2010 (88% – 2009).

Fixed franchise fees for the year ended December 31, 2010, increased 4.9% over 2009; this was in line with the increase in the underlying Company Network of Agents.

Variable franchise fees for the year ended December 31, 2010, increased by 4.7% over the same period in 2009, compared to a 1.7% increase in the Canadian Market, due primarily to the increase in the number of Agents in the Company Network.

The change in variable fees is further mitigated by Agents who attained the royalty cap of $1,300 per annum as an increase in the Market does not increase fees earned from these Agents once they have reached the cap. In 2010, 18% (17% – 2009) of the Agents in the Company Network reached the royalty cap.

Premium franchise fees are derived from the 24 franchise locations servicing the GTA Market that pay premium fees, ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the year ended December 31, 2010, increased 20% over the same period in 2009, while the GTA Market activity for the same period decreased by 7.7%. These favourable results relative to the GTA Market can be attributed to the pull-through of exceptional fourth-quarter Market activity in 2009 and 2010 owing to the lag effect of the delay between the reporting of a home sale and later closing of the sale, which results in a timing difference between the change in Market activity and the corresponding change in the Company's premium fees.

In addition, the percentage change in year-over-year premium fees is not entirely comparable to the overall GTA Market change as the change in the Market experienced by the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA Market activity.

Other fees and services comprised APEC fees, technology fees, web services and other fees and revenue, accounting for approximately 12% of Fund royalties for the year ended December 31, 2010; this was in line with the same period in 2009.

Administration expenses of $1.8 million for the year ended December 31, 2010, were up $0.9 million from 2009, due primarily to costs associated with the Conversion of the Fund to a corporate structure (see Recent Developments).

Interest expense is composed primarily of interest on the Company's fixed rate $32.7 million private debt placement and variable rate $20.3 million credit facility. During the year ended December 31, 2010, the Company's interest expense totalled $2.9 million, a decrease of 9.4% – $0.3 million due to lower costs associated with the variable rate debt.

Management fee expense

Management fees of $6.7 million for the year ended December 31, 2010, were up 5.5% from the same period in 2009. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as distributable cash in the MSA) from the La Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Amortization of intangible assets

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

Other income

Other income represents the change in the fair value of the Company's interest rate swap. The interest rate swap increased in value, with rising variable rates charged on the Company's credit facility. As the Company held the swap to maturity (February 17, 2010), the net effect of the revaluation over the term of the swap was nil.

Income tax

In accordance with new tax legislation, during the year ended December 31, 2010, the Company recorded an income tax recovery of $0.1 million arising from temporary tax differences, expected to reverse after January 1, 2011, at the tax rate of 28.25%, applicable to the Company in 2011, 26.25% in 2012, 25.5% in 2013 and 25% thereafter (see Taxation).

Management's Discussion and Analysis of Results and Financial Condition

DISTRIBUTABLE CASH

For the year ended December 31, 2010, the Company generated distributable cash of $25.2 million, up $1.3 million (5.4%) from the same period in 2009. As previously described, this increase was largely attributable to an increase in the underlying number of Agents in the Company Network, a modest increase in the Market and reduced debt servicing costs, partially offset by $0.7 million in costs associated with converting the Fund to a corporate structure.

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

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

Distributable cash and its utilization since Fund inception ($ 000's)		**Year ended Dec. 31, 2010**		Year ended Dec. 31, 2009
Royalties	**$**	**36,630**	$	34,359
Less:				
Administration expenses		**1,771**		866
Interest expense		**2,900**		3,202
Non-cash interest expense				
Management fee		**6,713**		6,365
Distributable cash		**25,246**		23,926
Less:				
Distributions to public shareholders		**15,212**		13,828
Distributions to non-controlling interest		**5,337**		4,805
Total distributions		**20,549**		18,633
Distributable cash less total distributions		**4,697**		5,293
Less Funding of acquisitions		**7,291**		4,827
Less Purchase of units under NCIB		**–**		3,805
Net change in the period	**$**	**(2,594)**	$	(3,339)
Cumulative change since IPO[1]	**$**	**1,930**	$	4,524
Distribution percentage payout[2]		**81%**		78%

[1] IPO: Initial Public Offering.
[2] This represents the total distributions paid as a percentage of distributable cash.

Distributable cash reconciled to cash flows from operating activities ($ 000's)		**Year ended Dec. 31, 2010**		Year ended Dec. 31, 2009
Cash flows from operating activities	**$**	**24,621**	$	25,710
Add (deduct):				
Changes in non-cash working capital items		**804**		(1,440)
Non-cash interest expense		**(179)**		(344)
Distributable cash	**$**	**25,246**	$	23,926

From inception to December 31, 2010, the Company has utilized distributable cash in excess of distributions to fund acquisitions and the normal course issuer bid ("NCIB") obligations.

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

Ended December 31,	Three months		Year ended	
($ 000's)	**2010**	2009	**2010**	2009
Cash flows from operating activities	**$ 5,635**	$ 7,436	**$ 24,621**	$ 25,710
Net income for the period	**304**	1,511	**6,162**	5,579
Actual cash distributions paid	**3,328**	3,327	**13,695**	13,487
Excess of cash flows from operating activities over cash distributions paid	**2,307**	4,109	**10,926**	12,223
Shortfall of net income over cash distributions paid	**(3,024)**	(1,816)	**(7,533)**	(7,908)

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

ACQUISITIONS AND DEPOSIT ON ACQUISITIONS

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

For Royal LePage acquisitions, the purchase price is based on the actual royalties generated under the agreements during the 12-month period ending on October 31 of the year of acquisition.

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

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

The initial payment made at the time of acquisition, representing 80% of the estimated purchase price, is recorded as a deposit on acquisition. During the 12 months following the initial payment, at each quarter-end, the purchase price obligation is recalculated based on the actual royalties generated from these agreements, and the resultant amount is transferred from the deposit on acquisition to intangible assets. The increase in intangible assets is amortized in accordance with the Company's intangible assets policy. When the accumulated purchase price obligation. for the acquisition exceeds the initial deposit, the excess is recorded as a purchase obligation, with the corresponding amount being recorded as intangible assets and amortization, as previously described.

For La Capitale acquisitions, changes to the purchase price obligation calculated at the end of the two subsequent years are recorded as changes to intangible assets and amortized accordingly. A summary of the Company's acquisition of franchise agreements for 2010 and 2011 are summarized in the following table. (Also see Supplemental Information – Acquisitions.)

Date acquired by the Company, January 1, ($ millions unless stated otherwise)	2011	2010
Purchase price		
Estimated	3.48	5.24
Actual (a) (d)	(a)	5.70
Payments		
Initial	2.78	4.20
Final (b) (c) (d)	(a)	0.00
Estimated		
Annual royalty stream	0.55	0.89
Number of REALTORS®	247	417
Number of locations	8	17
Number of agreements	23	21
Actual		
Annual royalty stream (b)	(d)	0.95
Number of REALTORS®	(d)	417
Number of locations	8	17
Number of agreements	23	21

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

Royal LePage Franchise Agreements

On January 1, 2011, the Company acquired 21 new Royal LePage franchise agreements serviced by 188 REALTORS®, with an estimated annual royalty stream of $0.4 million. The agreements for these six locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $2.5 million, with $2.0 million (80% deposit) due on closing and the balance to be paid in cash or shares during the first quarter of 2011, upon meeting certain terms and conditions of the MSA.

La Capitale Franchise Agreements

On January 1, 2011, the Company acquired two franchise agreements operating under the La Capitale brand in the province of Quebec from the Company Manager for an estimated purchase price of $1.0 million. These agreements are represented by 59 REALTORS® operating from two locations, with an estimated annual royalty stream of $0.2 million. As outlined in the Company's MSA, 80% of the estimated acquisition price ($0.80 million) is due in January 2011. Under terms negotiated with the Board, the balance of the purchase price is to be paid in annual instalments over the next three years, subject to adjustments, as previously described.

DEBT FINANCING

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

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

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

On February 18, 2010, the Company completed the refinancing of its debt obligations of $53 million, for a five-year term maturing on February 17, 2015. The refinancing includes a $32.7 million private debt placement with a number of Canadian institutional investors with fixed interest of 5.809% and a $20.3 million term facility with a Canadian financial institution with interest available at a floating rate at prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months.

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

There are no substantive changes to the covenants associated with the refinanced debt facilities or the renewed operating credit facility.

SUMMARY OF QUARTERLY RESULTS

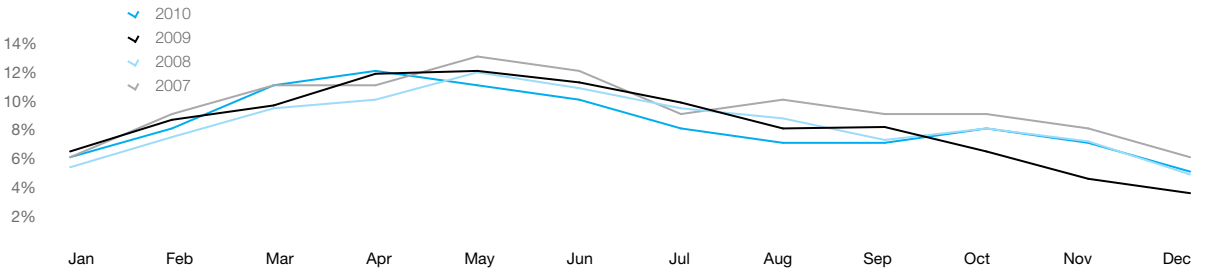
Three months ended	2010				2009			
($ 000's) except Agents, share and per share amounts	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**	Dec. 31	Sept. 30	June 30	March 31
Royalties								
Fixed franchise fees	**$ 4,710**	**$ 4,700**	**$ 4,695**	**$ 4,610**	$ 4,471	$ 4,459	$ 4,445	$ 4,467
Variable franchise fees	**1,269**	**2,203**	**2,990**	**1,783**	1,631	2,738	2,312	1,194
Premium franchise fees	**1,126**	**1,692**	**1,556**	**851**	1,341	1,674	920	420
Other fee revenue and services	**1,053**	**1,185**	**1,286**	**921**	1,052	1,157	1,162	916
	8,158	**9,780**	**10,527**	**8,165**	8,495	10,028	8,839	6,997
Less:								
Administration expenses	**1,045**	**316**	**205**	**205**	252	189	208	217
Interest expense	**720**	**713**	**719**	**748**	810	810	798	784
Management fee	**1,349**	**1,836**	**2,015**	**1,513**	1,560	1,887	1,653	1,265
Earnings before undernoted	**5,044**	**6,915**	**7,588**	**5,699**	5,873	7,142	6,180	4,731
Amortization of intangible assets	**4,273**	**4,105**	**4,061**	**4,032**	4,491	4,198	4,167	4,141
Other (income) loss	**–**	**–**	**–**	**(101)**	(100)	(99)	(72)	7
Future income tax expense (recovery)	**37**	**12**	**(16)**	**27**	(628)	(16)	42	51
Net and comprehensive earnings before non-controlling interest	**734**	**2,798**	**3,543**	**1,741**	2,110	3,059	2,043	532
Non-controlling interest	**430**	**776**	**959**	**489**	599	827	565	174
Net and comprehensive earnings	**$ 304**	**$ 2,022**	**$ 2,584**	**$ 1,252**	$ 1,511	$ 2,232	$ 1,478	$ 358
Basic and diluted earnings per share	**$ 0.03**	**$ 0.21**	**$ 0.27**	**$ 0.13**	$ 0.16	$ 0.23	$ 0.15	$ 0.04
Number of Agents	**14,255**	**14,270**	**14,236**	**14,199**	13,620	13,569	13,615	13,696
Number of fixed-fee-paying Sales Representatives	**752**	**748**	**762**	**771**	707	699	697	699

The Company's royalty revenues are typically affected by the seasonality of the Canadian Market, which typically has stronger second and third quarters, as summarized in the chart below. The seasonality of the Market (see chart below) is in turn mitigated throughout the year by the significant impact of the fixed fee nature of the Company's royalties, at the beginning of the year by the acquisition of franchise contracts and in the later portion of the year by the 18% (17% – 2009) of our Royal LePage Agents who have capped out under the 1%/$1,300 per annum variable fee.

Management's Discussion and Analysis of Results and Financial Condition

Canadian Residential Resale Real Estate Market

(% transactional dollar volume by month)



Source: CREA and Company Management

In the past, the combination of these factors and our steadily growing Agent count has resulted in royalties that demonstrated quarter-over-same-quarter growth. In 2010, despite the 6.6% increase in year-over-year royalties, this trend did not occur on a quarter-over-quarter basis due to the pull-through of volumes to the first quarter of 2010 as a result of pulling out of the recessionary trough during the second half of 2009 and consumers who sought to complete home purchases ahead of government-mandated mortgage lending rules, anticipated higher interest costs and misconceptions about the impact of the HST on the home sale transaction. This pull-through resulted in 57% of the Company's royalties being recognized in first half of 2010, as compared to 46% for the same period in 2009; this resulted in a decline in third- and fourth-quarter year-over-year variable and premium franchise fees.

The other items of note on a quarter-over-quarter basis were the reduction of interest expense as a result of refinancing the Company debt in the first quarter of 2010 and an increase in administrative costs in the Quarter as a result of the recording of $0.7 million of operating costs associated with the Conversion of the Fund to a corporate structure.

A key performance indicator that management utilizes to monitor Company performance is rolling 12-month distributable cash per share. As noted in the table below, rolling 12-month distributable cash per unit increased from $1.85 at the end of 2009 to $1.97 per share at the end of 2010. The $1.97 is net of an approximate $0.05 per-share charge for operating costs associated with the Conversion of the Fund to a corporate structure, which were recorded during the Quarter. In addition, as noted above, the pull-through of volumes to the first half of 2010 resulted in negative to flat quarter-over-quarter growth in distributable cash in the second half of 2010.

Rolling twelve-month distributable cash

Twelve months ended	2010				2009			
($ 000's) except per-unit amounts	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**	Dec. 31	Sept. 30	June 30	March 31
Royalties	**$ 36,630**	**$ 36,967**	**$ 37,215**	**$ 35,527**	$ 34,359	$ 33,604	$ 33,223	$ 33,788
Less:								
Administration expenses	**1,771**	**978**	**851**	**854**	866	838	837	844
Interest expense	**2,900**	**2,990**	**3,087**	**3,166**	3,202	3,186	3,179	3,147
Management fee	**6,713**	**6,924**	**6,975**	**6,613**	6,365	6,217	6,135	6,247
	25,246	**26,075**	**26,302**	**24,894**	23,926	23,363	23,072	23,550
Distributable cash per share	**$ 1.97**	**$ 2.04**	**$ 2.05**	**$ 1.94**	$ 1.85	$ 1.80	$ 1.76	$ 1.78

Rolling twelve-month distributable cash
Reconciled to cash flows from operating activities

Twelve months ended	2010				2009			
($ 000's) except per-unit amounts	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**	Dec. 31	Sept. 30	June 30	March 31
Cash flows from operating activities	**$ 24,621**	**$ 26,420**	**$ 26,297**	**$ 26,491**	$ 25,710	$ 23,850	$ 22,996	$ 23,928
Add (deduct):								
Changes in non-cash working capital items	**804**	**(117)**	**283**	**(1,272)**	(1,440)	(149)	414	(56)
Non-cash interest expense	**(179)**	**(228)**	**(278)**	**(325)**	(344)	(338)	(338)	(322)
	25,246	**26,075**	**26,302**	**24,894**	23,926	23,363	23,072	23,550
Distributable cash per share	**$ 1.97**	**$ 2.04**	**$ 2.05**	**$ 1.94**	$ 1.85	$ 1.80	$ 1.76	$1.78

FOURTH-QUARTER REVIEW

As summarized in the first table provided in the Summary of Quarterly Results, during the Quarter, the Company generated net and comprehensive earnings before tax ("NCEBT") of $0.8 million, down $1.3 million from the same period in 2009 due primarily to a $0.3 million decrease in royalties and $0.7 million in costs related to the Conversion of the Company to a corporate structure, partially offset by reduced interest costs and management fees. A more detailed discussion of these results is provided below.

The Fund Network

During the Quarter, the Company experienced a net decrease of 14 REALTORS®, and royalties of $8.2 million declined 4.0% from the same period in 2009. Both the overall Canadian Market and the GTA Market declined during this period, with the overall Canadian Market declining by 14.3% on a 1.6% increase in selling price, offset by a 24.1% decrease in units sold, compared to the same period in 2009. This decline was due in part to the pull-forward of demand to the latter half of 2009 and first six months of 2010, as described earlier. The decrease in Market activity for the Quarter translated into a more modest decrease in the Company's royalties due to the fixed nature of the Company's royalties.

Combined, fixed franchise fees, variable franchise fees and premium franchise fees represented 87% of royalties for the Quarter, compared to 88% for the same period in 2009.

Fixed franchise fees for the Quarter were up 5.3% compared to the same period in 2009 due to the increase in the underlying Company Network of Agents.

Variable franchise fees for the Quarter decreased 22.2% from the same period in 2009, while the related Market activity decreased by 14.3%. The decrease in Market activity for the Quarter was outpaced by the decrease in the Company's variable fees, due in part to the lag in the earning of variable fees, previously described, as lower year-over-year third-quarter results were pulled into the fourth quarter. In addition, since the capping of the 1% variable fee generated by Agents at $1,300 per annum typically occurs in the latter half of the year, the cumulative effect of Agents with sales above the capped level will cause the Market change to have a more pronounced impact on variable franchise fees in a declining Market.

Premium franchise fees for the Quarter declined by 16%, as compared to the same period in 2009, which was in line with the approximate 20% Market decline experienced in the Quarter and third quarter of 2010, compared to the same period in 2009.

Other fees and services are comprised of APEC fees, technology fees, web services and other fees and revenue, accounting for approximately 13% (12% – 2009) of the Company's royalties for the Quarter, which was at the same level for the same period in 2009.

Administration expenses for the Quarter were up $0.8 million due primarily to costs related to the Conversion of the Company to a corporate structure.

Interest expense for the Quarter of $0.7 million was down by $0.1 million – 11% less than for the same period in 2009 – due to the lower interest costs associated with the Company's $20.3 million variable rate debt.

Management fee expense of $1.3 million for the Quarter was in line with the Company's royalties. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as distributable cash in the MSA) from the La Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Amortization of intangible assets of $4.3 million decreased $0.2 million, compared with the same period in 2009, as the additional amortization associated with the franchise agreements acquired on January 1, 2010, was more than offset by the reduction in amortization resulting from the franchise agreements purchased at the inception of the Fund, which are now fully amortized.

Other Income

Other income, which represents the change in the fair value of the Company's interest rate swap was nil for the Quarter as the swap was terminated upon the refinancing of the Company's debt in February.

Income tax expense of $0.1 million was recorded in the Quarter.

Distributable cash for the Quarter totalled $5.0 million, down $0.9 million, or 14.7%, from the same period in 2009 due primarily to costs associated with the Conversion of the Company to a corporate structure.

LIQUIDITY

The Company utilized cash flow generated from operating activities for the Quarter and year ended December 31, 2010, of $5.6 million and $24.6 million, respectively, to meet acquisition, debt refinancing and distribution requirements. A summary of the Company's working capital position is as follows:

Working Capital

($ 000's)	As at December 31, 2010	As at September 30, 2010	As at June 30, 2010	As at March 31, 2010	As at December 31, 2009
Current assets					
Cash and cash equivalents	**$ 5,672**	$ 4,552	$ 1,063	$ 402	$ 6,842
Accounts receivable and other	**3,158**	3,424	4,702	3,553	3,267
Deposit on acquisition	**–**	–	455	2,220	–
	$ 8,830	$ 7,976	$ 6,220	$ 6,175	$ 10,109
Current liabilities					
Accounts payable and accrued liabilities	**$ 3,001**	$ 1,746	$ 1,993	$ 3,273	$ 3,079
Purchase obligation	**3,282**	2,700	1,815	1,815	2,219
Distribution payable to unitholders	**3,006**	1,110	1,110	1,110	1,489
Financial derivative	**–**	–	–	–	101
	9,289	5,556	4,918	6,198	6,888
Net working capital	**$ (459)**	$ 2,420	$ 1,302	$ (23)	$ 3,221

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

At the end of the Quarter, the Company's net negative working capital of $0.4 million decreased by $2.9 million from September 30, 2010, as $5.6 million of cash flow generated from operations was offset by a combination of $4.5 million in distributions paid during the Quarter in line with the targeted rate of $1.40 per annum, a $2.6 million increase in distributions payable resulting from the declaration of a special distribution of $0.20 per unit and a $0.6 million increase in franchise contract purchase obligations and increased accruals associated with the Conversion of the Fund to a corporate structure.

At the end of December 31, 2010, the Company's net negative working capital of $0.4 million decreased by $3.6 million from December 31, 2009, as $24.6 million of cash flow generated from operations was offset by a combination of $18.5 million in distributions paid during the year in line with the targeted rate of $1.40 per annum and the $0.04 special distribution per unit declared at the end of 2009, a $2.1 million

increase in distributions payable resulting from the declaration of a special distribution of $0.20 per unit at the end of 2010, a $6.4 million increase in franchise contract purchase obligations, $0.9 million in costs associated with the refinancing of the Company's debt and increased accruals associated with the Conversion of the Fund to a corporation, net of reduced year-over-year management fee accruals as the Company brought these fees current during 2010.

CAPITAL RESOURCES

The existing capital resources that the Company can draw upon consist of a $2 million operating line, which is undrawn at the date of this MD&A.

Other capital resources include funds generated from operations, debt servicing, distribution requirements, financing for the acquisition of franchise agreements and excess debt capacity available within the Company's current debt covenant requirements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

BAM operates 17 corporately owned residential resale real estate brokerage locations in the GTA serviced by over 1,000 Agents. Of these locations, 16 operate under three franchise agreements under the $100/1% option to August 2023, with an additional premium franchise fee ranging from 1% to 5% of a location's gross commission income to August 2018. The remaining location, which was opened during the third quarter of 2009, was included in the Company's acquisition on January 1, 2010.

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

On January 1 of each year, the Company may, upon the Board of Directors' approval and subject to criteria detailed in the MSA, purchase Royal LePage franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company; 80% of which is paid on acquisition and the remaining 20% a year later, when the actual franchise fees are audited and the acquisition calculations are adjusted accordingly.

On January 1 of each year, the Company may, upon the Independent Trustees' approval and subject to criteria established by the Board of Directors, purchase La Capitale franchises acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or shares of the Company. Modifications to the MSA relating to the La Capitale acquisition costs and management fees are as follows:

(a) The discount factor of 7.5%, which is applied to the royalties upon which the purchase price is based, was increased to 10%, thereby reducing the purchase price.
(b) The final purchase price is to be calculated based on the average annual royalties earned from the La Capitale franchise agreements over three years (instead of one year).
(c) The Partnership will pay a management fee equal to 30% of net royalties (defined as distributable cash in the MSA), received from the La Capitale franchise agreements, instead of 20%. The increase in the management fee will result in a direct and proportional decrease in the purchase price paid by the Partnership, as the purchase price is calculated based on royalties earned from the La Capitale franchise agreements net of the management fee.

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

Years ended December 31,	2010	2009
a) Royalties		
Fixed, variable and other franchise fees	**$ 2,587**	$ 2,351
Premium franchise fees	**$ 4,461**	$ 3,700
b) Expenses		
Management fees	**$ 6,713**	$ 6,365
Insurance and other	**$ 109**	$ 109
c) Distributions		
Distribution paid to non-controlling interest	**$ 4,805**	$ 4,673

As at December 31,	2010	2009
d) Accounts receivable		
Franchise fees receivable and other	**$ 908**	$ 585
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 1,055**	$ 521
Management fees	**$ 489**	$ 1,656
f) Purchase obligation payable	**$ 3,563**	$ 4,143

Effective January 1, 2011, the Company acquired 21 Royal LePage franchise agreements and two La Capitale franchise agreements for an estimated purchase price of $2.5 million and $1.0 million, respectively, with 80% ($2.8 million) of the purchase price due during the first quarter. The Company expects to utilize cash generated from operations later in 2011 to satisfy these obligations. In the interim, the Company accrues interest on the obligation at a rate of prime.

CRITICAL ACCOUNTING ESTIMATES

Substantially all of the Company's activities are based on cash transactions, with revenue and expenditures based on contracted terms. The operating activities not based on contractual terms include the Company's administration costs; allocation of the intangible assets among franchise agreements, relationships and trademarks; and their related amortization periods. The Company's administration costs of approximately $0.9 million per annum relate to the Company's public reporting, regulatory and insurance costs.

The allocation of the Company's intangible assets among their various classifications is subject to management estimates. The Company's intangible assets are continuously monitored 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 Company but would have no direct cash flow implications.

FINANCIAL INSTRUMENTS

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

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

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

On April 4, 2008, the Company completed a $15 million term facility with a Canadian financial institution and, with effect from April 7, 2008, entered into an interest rate swap agreement that fixed the variable portion of the term facility's interest at 3.29%, for a total effective annual

interest rate of 4.29% over the term of the facility. The interest rate swap is a financial derivative valued separately from the term facility. The Company values the swap agreement at its market value. Changes in the value of the swap agreement are recorded as other income or loss. The term facility and related swap expired on February 17, 2010.

On February 18, 2010, the Partnership completed the refinancing of its long-term debt of $53 million for a five-year term maturing on February 17, 2015. The refinancing iincludes a $32.7 million private debt placement with a number of Canadian institutional investors with fixed interest of 5.809% and a $20.3 million term facility with a Canadian financial institution with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months.

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

Disclosure Controls and Procedures (DC&P)

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 – Certification of Disclosures in Issuers' Annual and Interim Filings, was performed under the supervision of the President and Chief Executive and the Chief Financial Officer. They conclude that these disclosure controls and procedures were adequate and effective as at December 31, 2010. The Company's management can therefore provide reasonable assurance that it receives material information relating to the company in a timely manner so that it can provide investors with complete and reliable information.

Internal Control over Financial Reporting (ICFR)

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements have been prepared in accordance with GAAP. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and the Chief Executive and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2010.

OUTSTANDING SHARES/UNITS

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

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

During 2008, 163,720 units were purchased at an average price of $7.51 per unit. During 2009, a further 335,430 units at an average price of $8.54 per unit were acquired. The Company has purchased the maximum amount permitted under the NCIB. Units purchased were cancelled at the end of each month.

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

As at December 31, 2010, 9,483,850 in restricted voting shares were issued in exchange for 9,483,850 trust units outstanding. The restricted voting shares were issued to replace the trust units outstanding prior to the Conversion. Each restricted voting share represents a proportionate voting right in the Company, and holders of the Company's restricted voting shares are entitled to dividends declared and distributed by the Company.

In addition to the above shares, the Company has 3,327,667 Class B LP Units of the Partnership; this reflects an effective 26% interest of non-controlling interests in the Partnership. Prior to the Conversion, an equivalent number of Special Fund Units, which represent voting rights in the Fund, also accompanied the Class B LP Units. Pursuant to the Conversion, the Special Fund Units were redeemed and one Special Voting Share was issued by the Company. The Special Voting Share entitles the holder to a number of votes at any meeting of the Restricted Voting Shareholders 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.

Management's Discussion and Analysis of Results and Financial Condition

COMPANY STRUCTURE

The Company is governed by a Board of Directors (the "Board") and is comprised of a Corporation on a Trust on Trust (Holding Trust) structure that controls a general partner and Limited Partnership ("LP"). The Trust on Trust structure is a holdover from the Company's initial Income Trust structure (see Recent Developments), and it is the Board's and management's intention to simplify the Trust structure in 2011.

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

TAXATION

Up to the close of business on December 31, 2010, the Company was taxed as an Income Trust. Under the Company Amended and Restated Declaration of Trust, the maximum tax deductions available to the Company shall be claimed to the extent that they bring the taxable income of the Trust to nil. To ensure that all taxable income of the Company was distributed and therefore not subject to tax within the Fund structure, the Board declared a special dividend of $0.20 per unit to shareholders of record on December 30, 2010, paid on January 28, 2011.

The deductions available to the Company include the costs of the offering and intangible assets. The estimated deductions available to the Company as at December 31, 2010, include intangible assets of the LP, acquisitions of franchise agreements subsequent to inception and costs associated with the $53 million debt refinancing. A summary of these deductions is provided in the table below.

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("SIFT rules") that changed the income tax rules applicable to publicly traded trusts, rendering income trusts taxable in 2011. The SIFT rules were substantively enacted on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules. Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

The enactment of the SIFT rules led to the Fund recognizing future income taxes in respect of temporary tax expected to reverse after December 31, 2010. These temporary differences arose from differences between the tax basis and the carrying amount of the Fund's intangible assets. These differences arose primarily due to the Company's acquisition of certain intangible assets on a tax-deferred basis (meaning that the tax basis of the assets was lower than cost recorded for accounting), but are also affected by relative amounts of amortization deducted for tax and accounting purposes each year.

Due to the SIFT rules, at the close of business on December 31, 2010, the Fund was converted to a taxable corporation structure (see Recent Developments), and, accordingly, income taxes payable will reduce net earnings and will affect distributable cash by an equal amount.

Management of the Company reviews the value of the Company's future income tax assets and liabilities on a quarterly basis and records adjustments, as necessary, to reflect the realizable amounts of the Company's future income tax assets and liabilities. A summary of the tax pools available to the Company for the reduction of taxable income in the future and the past taxation of the Company's distributions is provided in the following table:

Company Tax Pools

Future deduction basis	Remaining Balance December 31, 2010	Estimated Addition for 2011	Estimated Deduction for 2011	Estimated Balance December 31, 2011
7% of Balance	$ 74.3	$ 3.5	$ 5.4[1]	$ 71.5
Five-year straight-line	0.8	–	0.2	0.6
	$ 75.1	$ 3.5	$ 5.6	$ 72.1

[1] This estimated deduction for 2011 is calculated as 7% of the sum of the remaining balance as of December 31, 2010, and 75% of the estimated addition for 2011.

For the year ended December 31, 2010, the Company's distributions were approximately 97% (100% – 2009) taxable with 3% (0% – 2009) return of capital. A summary of the related calculations is provided in the table below.

($ millions)	2003	2004	2005	2006	2007	2008	2009	2010
Fund net earnings	2.0	3.3	4.8	3.5	7.7	5.3	5.6	**6.1**
Add:								
Non-controlling interest	0.7	1.2	1.7	1.3	2.8	2.0	2.2	**2.7**
Amortization	3.8	13.7	14.2	14.6	14.8	16.9	17.0	**16.5**
Income tax	–	–	–	–	(1.8)	–	(0.6)	**0.06**
Rounding and other	(0.1)	–	–	–	0.1	0.5	0.3	**0.4**
Taxable earnings	6.4	18.2	20.7	19.4	23.6	24.7	24.5	**25.7**
Less:								
Tax deduction	3.4	8.0	8.2	8.1	8.1	7.2	5.9	**5.8**
Taxable income	3.0	10.2	12.5	11.3	15.5	17.5	18.6	**19.9**
Distributions	(6.0)	(14.6)	(14.6)	(15.3)	(16.0)	(17.5)	(18.6)	**(20.6)**
Return of capital	(3.0)	(4.4)	(2.1)	(4.0)	(0.5)	–	–	**(0.7)**
Return of capital	50%	30%	14%	26%	3%	0%	0%	**3%**
Taxable	50%	70%	86%	74%	97%	100%	100%	**97%**
Distributions								
Unitholders	4.5	11.0	11.0	11.5	12.0	13.1	13.8	**15.3**
Non-controlling interest	1.5	3.6	3.6	3.8	4.0	4.4	4.8	**5.3**
	6.0	14.6	14.6	15.3	16.0	17.5	18.6	**20.6**

CHANGE IN ACCOUNTING POLICIES

Accounting Changes – Future

The Canadian Institute of Chartered Accountants has issued the following new accounting standards:

International Financial Reporting Standards

The Accounting Standards Board of Canada ("ACSB") converged Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") on January 1, 2011, with the adoption of IFRS. The ACSB announced on February 13, 2008, that IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. At this time, in addition to new disclosure and presentation requirements, management has determined that the most significant changes to the financial statements as a result of the adoption of IFRS are accounting for purchases of franchise agreements with contingent consideration, the presentation and classification of the Company's equity and the requirement to test each of the Company's contracts for impairment on a discounted cash basis.

Impact of Adoption of IFRS on the Transitional Balance Sheet

The following paragraphs quantify and describe the expected impact of significant differences between the Company's December 31, 2009, balance sheet under GAAP and its January 1, 2010, opening balance sheet under IFRS. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of the Company's first annual IFRS reporting period on December 31, 2011. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified; as a result, the impact of the Company's conversion to IFRS may be different than its current expectation. The amounts have not been audited, and are subject to review by the Company's external auditor.

First-Time Adoption of IFRS ("IFRS 1")

The Company's intangible assets consist primarily of franchise agreements and relationships acquired from the Company's Manager. Franchise agreements and relationships are measured at cost and are amortized over the term of the franchise agreement on a contract-

by-contract basis under Canadian GAAP. The Company expects to measure its intangible assets on the same historical cost basis used for Canadian GAAP upon adoption of IFRS.

Under Canadian GAAP, the initial test for impairment of intangible assets is a comparison of the net book value of each intangible asset against the estimated future undiscounted cash flows (the "EFUCF") arising from that intangible asset, which if negative is then compared to the estimated future discounted cash flows (the "EFDCF"), with the difference being recorded as an impairment charge. Under IFRS, the net book value of each intangible asset is compared to the EFDCF arising from the intangible asset, and, where the net book value exceeds the EFDCF, the difference is recorded as an impairment charge. Practically speaking, other than isolated cases and terminated contracts, we do not anticipate impairment charges resulting from declining royalty revenue in the foreseeable future as the number of REALTORS® in the Company has grown organically by 27% since the inception of the Company, and, when acquiring franchise agreements, the Company has an immediate 7.5 to 10% accretion factor attributed to the revenue generated from the contracts.

Since the inception of the Company as a Fund in August 2003, the Company has terminated a number of contracts. As the remaining net book value of these contracts was not material to any one year under audit, they were not written off. Concurrent with the conversion to IFRS, the Company expects to reduce intangible assets and opening retained earnings by $1.2 million, which relates to the remaining net book value of terminated contracts that have accumulated since inception.

Non-Controlling Interest Classification

On December 31, 2010, the Fund completed a transaction (the "Conversion") by way of a plan of arrangement with Trilon Bancorp Inc. (the "non-controlling interest"), which resulted in the Fund converting from a publicly traded Income Trust to a publicly traded Company and the unitholders of the Fund becoming shareholders of the Company.

Under the Fund structure, Class B LP Units classified as non-controlling interest under Canadian GAAP will continue to be presented as liabilities under IFRS, due to several factors including the redemption feature of the Trust units into which the Class B LP Units are exchangeable.

Under the Corporate structure, the Company's non-controlling interests under IFRS are anticipated to be presented separately within shareholders' equity. At the date of the Conversion, this would result in an increase in shareholders' equity and a reduction in long-term liabilities of $17,061, respectively.

Trust Unit Classification

As a result of certain features of the Fund's Trust Units, including their redemption feature back to the Fund, and certain terms included in the Trust Indenture whereby distributions have been assessed to be mandatorily distributable, the Fund's Trust Units will be presented as a liability on the balance sheet for the period prior to December 31, 2010, the date the Fund converted to a Corporation. This will result in an increase to liabilities and a corresponding decrease to unitholders' equity of $88 million as at January 1, 2010.

Future Income Tax Liability

Under Canadian GAAP, future income taxes are calculated from temporary differences that are differences between the tax basis of an asset or liability and its carrying amount on the balance sheet. Under the current Canadian *Income Tax Act*, "eligible capital expenditures" are deductible for tax purposes to the extent of 75% of the cost incurred; Section 3465 – Income taxes addresses this specific situation and specifies that for these assets, at any point in time, the tax basis represents the balance in the cumulative eligible capital pool plus 25% of the carrying amount.

Under IFRS, the definition of temporary differences is generally consistent with Canadian GAAP; however, IFRS does not provide specific guidance in relation to the determination of the tax basis of eligible capital expenditures such as the one described above. As such, the tax basis of these assets, without taking into consideration the 25% adjustment of the carrying amount, as allowed under Canadian GAAP, should be compared with the carrying amount on the balance sheet to determine the temporary difference relating to these assets.

Upon the adoption of IFRS, the Company anticipates that the existing future tax liability will be substantially de-recognized pursuant to the "initial recognition exception" in IAS 12 for assets acquired outside of a business combination and which affected neither accounting profit nor taxable profit at the time of acquisition. A portion of the future income tax to be de-recognized will be adjusted through opening retained earnings with an offsetting reduction to the carrying value of intangible assets. Adjustments to the future income tax liability will not have an immediate cash flow impact, but, all else being equal, the consequence of the initial recognition exception applying will be to increase the effective tax rate in subsequent years.

RISK FACTORS

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

MARKET OUTLOOK

We anticipate that the average price of a home across Canada will increase by 3% over the coming year, while the number of transactions is expected to drop by 2%, with sales activity skewed to the first half of the year. The low cost of borrowing stimulated the housing market in 2010, and this trend is predicted to continue in the first half of 2011 as consumers anticipate an increase in mortgage interest rates in the later half of 2011. In addition to this market stimulus, further sales activity may be pushed into the first quarter of 2011 as home buyers attempt to close their home purchases ahead of the recently announced government-mandated mortgage tightening rules.

CREA revised its 2011 forecast on February 8, 2011, for home sales activity on the MLS® systems of Canadian real estate Boards and associations. National sales activity is expected to reach 439,900 units in 2011, representing an annual decline of 1.6%. In 2012, CREA forecasts that national sales activity will rebound by 3% to 453,300 units.

Even though interest rates are widely expected to rise later this year, they will still be within short reach of current levels and remain supportive for housing market activity. Strengthening economic fundamentals will keep the housing market in balance, and this will keep home prices stable.

FORWARD-LOOKING STATEMENTS

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

SUPPLEMENTAL INFORMATION – Net Earnings and Distributable Cash by Period

Three months ended ($ 000's except per unit amounts, unaudited)	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Royalties	$ 6,997	$ 8,839	$ 10,028	$ 8,495	$ 8,165	$ 10,527	$ 9,780	**$ 8,158**
Less:								
Administration expenses	217	208	189	252	205	205	316	**1,045**
Management fee	1,265	1,653	1,887	1,560	1,513	2,015	1,836	**1,349**
Interest expense	784	798	810	810	748	719	713	**720**
Other (income) loss	7	(72)	(99)	(100)	(101)	–	–	**–**
Amortization of intangible assets	4,141	4,167	4,198	4,491	4,032	4,061	4,105	**4,273**
Earnings before undernoted	583	2,085	3,043	1,482	1,768	3,527	2,810	**771**
Future income tax recovery (expense)	(51)	(42)	16	628	(27)	16	(12)	**(37)**
Non-controlling interest	(174)	(565)	(827)	(599)	(489)	(959)	(776)	**(430)**
Net and comprehensive earnings for the period	358	1,478	2,232	1,511	1,252	2,584	2,022	**304**
Add:								
Amortization of intangible assets	4,141	4,167	4,198	4,491	4,032	4,061	4,105	**4,273**
Non-cash other (income) loss	7	(72)	(99)	(100)	(101)	–	–	**–**
Future income tax (recovery) expense	51	42	(16)	(628)	27	(16)	12	**37**
Non-controlling interest	174	565	827	599	489	959	776	**430**
Distributable cash	4,731	6,180	7,142	5,873	5,699	7,588	6,915	**5,044**
Less change in:								
Unutilized cash	(140)	(1,624)	(2,625)	(904)	(1,202)	(3,090)	(2,418)	**2,013**
Cash required for distributions	$ 4,591	$ 4,556	$ 4,517	$ 4,969	$ 4,497	$ 4,498	$ 4,497	**$ 7,057**
Distributable cash available to:								
Public unitholders	$ 3,423	$ 3,388	$ 3,349	$ 3,668	$ 3,329	$ 3,330	$ 3,329	**$ 5,224**
Non-controlling interest	1,168	1,168	1,168	1,301	1,168	1,168	1,168	**1,833**
	$ 4,591	$ 4,556	$ 4,517	$ 4,969	$ 4,497	$ 4,498	$ 4,497	**$ 7,057**
Distributions to public unitholders	$ 3,423	$ 3,388	$ 3,349	$ 3,668	$ 3,329	$ 3,330	$ 3,329	**$ 5,224**
Per unit (9,983,000 units less retired):								
Basic and diluted earnings	$ 0.04	$ 0.15	$ 0.23	$ 0.16	$ 0.13	$ 0.27	$ 0.21	**$ 0.03**
Basic and diluted distributable cash before working capital and other reserves	$ 0.36	$ 0.48	$ 0.56	$ 0.46	$ 0.44	$ 0.59	$ 0.54	**$ 0.39**
Basic and diluted distributions	$ 0.35	$ 0.35	$ 0.35	$ 0.39	$ 0.35	$ 0.35	$ 0.35	**$ 0.55**

SUPPLEMENTAL INFORMATION – Selected Financial and Operating Information

Three months ended ($000's, unaudited)	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Revenue								
Fixed franchise fees	$ 4,467	$ 4,445	$ 4,459	$ 4,471	$ 4,610	$ 4,695	$ 4,700	**$ 4,710**
Variable franchise fees	1,194	2,312	2,738	1,631	1,783	2,990	2,203	**1,269**
Premium franchise fees	420	920	1,674	1,341	851	1,556	1,692	**1,126**
Other fee revenue and services	916	1,162	1,157	1,052	921	1,286	1,185	**1,053**
	$ 6,997	$ 8,839	$ 10,028	$ 8,495	$ 8,165	$ 10,527	$ 9,780	**$ 8,158**
% Revenue by region								
British Columbia	13	12	12	12	12	11	11	**11**
Prairies	10	9	9	9	10	9	9	**9**
Ontario	53	54	56	56	56	57	58	**57**
Quebec	21	22	20	20	19	20	19	**20**
Maritimes	3	3	3	3	3	3	3	**3**
	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Number of REALTORS®	98	(74)	(51)	64	639	25	27	**(14)**
Number of Agents	96	(81)	(46)	51	579	37	34	**(15)**
Number of fixed-fee-paying Sales Representatives	0	(2)	2	8	64	(9)	(14)	**4**
Number of locations	17	(5)	(3)	(5)	18	1	(3)	**(5)**
Number of franchise agreements	15	(3)	1	(2)	20	(1)	(1)	**0**
At end of period								
Number of REALTORS®	14,692	14,618	14,567	14,631	15,270	15,295	15,322	**15,308**
Number of Agents	13,696	13,615	13,569	13,620	14,199	14,236	14,270	**14,255**
Number of fixed-fee-paying Sales Representatives	699	697	699	707	771	762	748	**752**
Number of locations	660	655	652	647	665	666	663	**658**
Number of franchise agreements	353	350	351	349	369	368	367	**367**

Distribution Tax Allocation

For the year ended December 31, (Unaudited)	2003[1]	2004	2005	2006	2007	2008	2009	**2010**
	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	**(actual)**
Other taxable income	50%	70%	86%	74%	97%	100%	100%	**97%**
Return of capital	50%	30%	14%	26%	3%	0%	0%	**3%**
Total distributions of the period	100%	100%	100%	100%	100%	100%	100%	**100%**

[1] Inception (August 7) to December 31, 2003.

SUPPLEMENTAL INFORMATION – Fund Unit Performance

Three months ended	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Trading price range of units (TSX: "BRE")								
High	$ 9.62	$ 8.40	$ 12.17	$ 12.00	$ 13.45	$ 13.90	$ 13.40	**$ 15.50**
Low	$ 7.00	$ 7.50	$ 8.20	$ 11.15	$ 12.31	$ 11.99	$ 11.67	**$ 12.72**
Close	$ 7.77	$ 8.34	$ 11.55	$ 11.64	$ 12.91	$ 12.18	$ 13.05	**$ 14.77**
Average daily volume	5,230	20,924	19,167	14,434	24,796	11,022	7,186	**13,564**
Number of units outstanding at period end	9,650,880	9,650,880	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	**9,483,850**
Net enterprise value at period end (thousands)								
Market capitalization	$ 100,843	$ 108,241	$ 147,973	$ 149,126	$ 165,397	$ 156,044	$ 167,190	**$ 189,226**
Long-term debt	51,697	52,776	52,864	52,953	52,197	52,218	52,256	**52,277**
Less:								
Cash on hand	155	1,962	3,902	6,842	402	1,063	4,552	**5,672**
	$ 152,385	$ 159,055	$ 196,935	$ 195,237	$ 217,192	$ 207,199	$ 214,894	**$ 235,831**

Distribution History

	Distributions Declared per Unit							
Month	2003	2004	2005	2006	2007	2008	2009	**2010**
January		$ 0.0917	$ 0.0917	$ 0.0958	$ 0.1000	$ 0.1040	$ 0.1170	**$ 0.1170**
February		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
March		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
April		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
May		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
June		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
July		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	**0.1170**
August		0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	**0.1170**
September	$ 0.1789[1]	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	**0.1170**
October	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	**0.1170**
November	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	**0.1170**
December	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1570	**0.3170**
	$ 0.45	$ 1.10	$ 1.10	$ 1.15	$ 1.20	$ 1.31	$ 1.44	**$ 1.60[2]**

[1] Based on a 55-day period.

[2] A special distribution of $0.20 per unit was declared for unitholders of record on December 30, 2010, and paid on January 28, 2011.

SUPPLEMENTAL INFORMATION – Condensed Balanced Sheet

As at ($ 000's, unaudited)	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Cash and cash equivalents	$ 155	$ 1,962	$ 3,902	$ 6,842	$ 402	$ 1,063	$ 4,552	**$ 5,672**
Accounts receivable	3,428	4,148	3,584	3,267	3,300	4,476	3,222	**3,158**
Prepaid expenses	102	45	23	–	253	226	202	**267**
Deposit on acquisition	1,572	699	–	–	2,220	455	–	**–**
Intangible assets	123,717	120,423	117,167	114,840	112,784	110,509	107,832	**104,225**
	$ 128,974	$ 127,277	$ 124,676	$ 124,949	$ 118,959	$ 116,729	$ 115,808	**$ 113,322**
Accounts payable and accrued liabilities	$ 1,979	$ 1,768	$ 1,813	$ 3,079	$ 3,273	$ 1,993	$ 1,746	**$ 2,965**
Purchase obligations – short-term	1,615	1,593	1,676	2,219	1,815	1,815	2,700	**3,282**
Distributions payable to unitholders	1,129	1,128	1,108	1,489	1,110	1,110	1,110	**3,006**
Long-term debt (current portion)	51,697	52,776	52,864	52,953	–	–	–	**–**
Long-term debt	–	–	–	–	52,197	52,218	52,256	**52,277**
Purchase obligations – long-term	1,580	1,580	1,739	1,924	109	109	197	**281**
Financial derivatives	372	300	201	101	–	–	–	**–**
Future income tax liability	1,244	1,286	1,270	2,079	2,106	2,090	2,102	**2,139**
Non-controlling interest	18,707	18,104	17,763	17,061	16,382	16,173	15,781	**14,378**
Unitholders'/shareholders' equity	50,651	48,742	46,241	44,044	41,967	41,221	39,916	**34,994**
	$ 128,974	$ 127,277	$ 124,675	$ 124,949	$ 118,959	$ 116,729	$ 115,808	**$ 113,322**

SUPPLEMENTAL INFORMATION – Condensed Cash Flow by Period

Three months ended ($ 000's, unaudited)	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Cash provided by (used for):								
Operating activities								
Net earnings for the period	$ 358	$ 1,478	$ 2,232	$ 1,511	$ 1,252	$ 2,584	$ 2,022	**$ 304**
Add (deduct):								
Non-controlling interest	174	565	827	599	489	959	776	**430**
Future income tax (recovery) expense	51	42	(16)	(628)	27	(16)	12	**37**
Non-cash interest expense	82	85	88	89	63	38	38	**40**
Non-cash other (income) loss	7	(72)	(99)	(100)	(101)	–	–	**–**
Amortization of intangible assets	4,141	4,167	4,198	4,491	4,032	4,061	4,105	**4,273**
Changes in non-cash working capital	209	(874)	631	1,474	41	(2,429)	1,033	**551**
	5,022	5,391	7,861	7,436	5,803	5,197	7,986	**5,635**
Investing activities								
Deposit on acquisition	(1,572)	–	–	–	(2,220)	–	–	**–**
Payment of purchase price obligation	(3,051)	–	–	–	(2,219)	–	–	**–**
Purchase of intangible assets	(1,176)	(22)	–	–	(1,976)	(21)	–	**–**
	(5,799)	(22)	–	–	(6,415)	(21)	–	**–**
Financing activities								
Repurchase of fund units	(2,401)	–	(1,404)	–	–	–	–	**–**
Proceeds from term facility	–	994	–	–	19,986	(6)	–	**(8)**
Repayment of term facility	–	–	–	–	(15,000)	–	–	**–**
Proceeds from long-term debt	–	–	–	–	32,195	(11)	–	**(11)**
Repayment of term loan	–	–	–	–	(38,000)	–	–	**–**
Distributions paid to unitholders	(3,423)	(3,388)	(3,349)	(3,327)	(3,708)	(3,330)	(3,329)	**(3,328)**
Distributions paid to non-controlling interest	(1,168)	(1,168)	(1,168)	(1,169)	(1,301)	(1,168)	(1,168)	**(1,168)**
	(6,992)	(3,562)	(5,921)	(4,496)	(5,828)	(4,515)	(4,497)	**(4,515)**
Increase (decrease) in cash and cash equivalents during the period	(7,769)	1,807	1,940	2,940	(6,440)	661	3,489	**1,120**
Cash and cash equivalents, beginning of period	7,924	155	1,962	3,902	6,842	402	1,063	**4,552**
Cash and cash equivalents, end of period	$ 155	$ 1,962	$ 3,902	$ 6,842	$ 402	$ 1,063	$ 4,552	**$ 5,672**

SUPPLEMENTAL INFORMATION – Canadian Real Estate Market

Three months ended	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Canada								
Transactional dollar volume[1]	$ 21,748	$ 46,938	$ 44,281	$ 36,025	$ 37,356	$ 49,354	$ 33,974	**$ 30,865**
Average selling price	$ 284,681	$ 318,675	$ 327,769	$ 338,843	$ 336,380	$ 345,001	$ 328,878	**$ 344,339**
Number of units sold	$ 76,396	$ 147,291	$ 135,098	$ 106,285	111,015	143,056	103,303	**89,636**
Number of REALTORS® at period end	96,353	96,798	97,301	98,161	99,819	101,068	N/A	**N/A**
Housing starts	23,772	35,798	42,934	46,577	35,014	55,287	49,522	**46,958**
Greater Toronto Area								
Transactional dollar volume[1]	$ 4,589	$ 11,120	$ 10,097	$ 8,722	$ 9,594	$ 12,671	$ 8,018	**$ 6,897**
Average selling price	$ 357,817	$ 395,520	$ 395,974	$ 417,878	$ 427,948	$ 439,804	$ 419,654	**$ 435,513**
Number of units sold	12,824	28,115	25,498	20,872	22,418	28,810	19,106	**15,836**
Housing starts	5,904	5,639	6,712	7,694	5,669	7,962	7,845	**7,719**

Twelve months ended	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	**Dec. 31, 2010**
Canada								
Transactional dollar volume[1]	$ 120,785	$ 121,644	$ 131,929	$ 148,993	$ 164,600	$ 216,419	$ 156,710	**$ 151,550**
Average selling price	$ 299,306	$ 299,944	$ 309,786	$ 320,333	$ 388,276	$ 338,846	$ 337,985	**$ 339,030**
Number of units sold	403,551	405,555	425,871	465,070	499,689	638,693	463,659	**447,010**
Housing starts	191,218	164,929	149,571	149,081	160,323	179,812	186,400	**189,930**
Seasonally adjusted housing starts	131,200	129,700	155,000	178,400	192,900	199,500	188,400	**179,000**
Greater Toronto Area								
Transactional dollar volume[1]	$ 26,229	$ 26,916	$ 29,734	$ 34,527	$ 44,121	$ 53,754	$ 39,004	**$ 37,179**
Average selling price	$ 375,480	$ 374,843	$ 384,189	$ 395,460	$ 402,098	$ 425,240	$ 427,651	**$ 431,463**
Number of units sold	69,855	71,806	77,394	87,309	109,727	126,408	91,206	**86,170**
Housing starts	39,171	33,126	28,102	25,949	24,714	28,037	29,170	**29,195**

Source: CMHC, CREA and TREB

[1] ($ million).

SUPPLEMENTAL INFORMATION – Distributable Cash

Distributable cash and its utilization since Fund inception ($ 000's)	**Total**	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
Royalties	**$227,760**	$ 36,630	$34,359	$ 34,883	$ 32,491	$ 29,659	$ 27,196	$ 23,740	$ 8,802
Less:									
Administration expenses	**6,163**	1,771	866	817	725	645	595	513	231
Interest expense	**18,332**	2,900	3,202	3,174	2,419	2,401	2,289	1,327	620
Management fee	**41,557**	6,713	6,365	6,455	5,869	7,285	3,660	3,660	1,550
Distributable cash	**161,708**	25,246	23,926	24,437	23,478	19,328	20,652	18,240	6,401
Less:									
Distributions to public unitholders	**92,083**	15,212	13,828	13,083	11,980	11,477	10,985	10,985	4,533
Distributions to non-controlling interest	**31,164**	5,337	4,805	4,369	3,992	3,826	3,662	3,662	1,511
Total distributions	**123,247**	20,549	18,633	17,452	15,972	15,303	14,647	14,647	6,044
Distributable cash less total distributions	**38,461**	4,697	5,293	6,985	7,506	4,025	6,005	3,593	357
Less funding of acquisitions	**32,435**	7,291	4,827	5,564	6,333	7,886	414	120	–
Less purchase of units under NCIB	**4,096**	–	3,805	291	–	–	–	–	–
Net change in the period	**$ 1,930**	$ (2,594)	$ (3,339)	$ 1,130	$ 1,173	$ (3,861)	$ 5,591	$ 3,473	$ 357
Cumulative change		$ 1,930	$ 4,524	$ 7,863	$ 6,733	$ 5,560	$ 9,421	$ 3,830	$ 357
Distribution percentage payout[1]	**76%**	81%	78%	71%	68%	79%	71%	80%	94%

[1] This represents the total distributions paid as a percentage of distributable cash.

Distributable cash reconciled to cash flow from operating activities ($ 000's)	**Total**	Year ended Dec. 31, 2010	Year ended Dec. 31, 2009	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
Cash flows from operating activities	**$161,410**	$ 24,621	$ 25,710	$ 24,174	$ 22,871	$ 20,199	$ 20,607	$ 17,772	$ 5,456
Add (deduct):									
Changes in non-cash working capital items	**1,572**	804	(1,440)	546	769	(703)	183	468	945
Non-cash interest expense	**(1,274)**	(179)	(344)	(283)	(162)	(168)	(138)	–	–
Distributable cash	**$161,708**	$ 25,246	$ 23,926	$ 24,437	$ 23,478	$ 19,328	$ 20,652	$ 18,240	$ 6,401

SUPPLEMENTAL INFORMATION – Acquisitions

Date acquired by the Fund, January 1, ($ millions unless stated otherwise)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
Purchase price						
Estimated	3.48	5.24	3.44	21.14	7.18	6.22
Actual (a) (d)	(a)	5.70	3.31	23.50	8.04	5.55
Payments						
Initial	2.78	4.20	2.75	16.91	5.74	4.98
Final (b) (c) (d)	(a)	0.00	0.35	4.54	2.30	0.57
Estimated						
Annual royalty stream	0.55	0.89	0.70	2.99	0.82	0.74
Number of REALTORS®	247	417	316	1,272	390	346
Number of locations	8	17	25	60	22	21
Number of contracts	23	21	21	60	22	16
Actual						
Annual royalty stream (b)	(d)	0.95	0.66	3.32	0.92	0.66
Number of REALTORS®	(d)	417	316	1,502	534	345
Number of locations	8	17	25	60	22	21
Number of contracts	23	21	21	60	22	16

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

Management's Responsibility for the Financial Statements

The accompanying financial statements and other financial information have been prepared by the Company's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These financial statements have been prepared in conformity with Canadian generally accepted accounting principles, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this annual report is consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche, LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 48 through 60 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the Committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

TORONTO, CANADA, March 11, 2011

Philip Soper
President and Chief Executive

Kevin A. Cash
Senior Vice-President, CFO

Independent Auditor's Report

To the Shareholders of Brookfield Real Estate Services Inc.

We have audited the accompanying consolidated financial statements of Brookfield Real Estate Services Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of earnings and comprehensive earnings, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

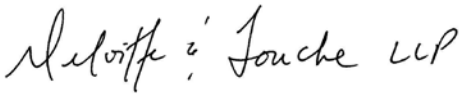
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

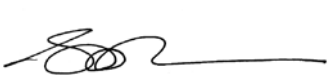
Toronto, Canada
March 14, 2011

Consolidated Balance Sheets

As at December 31, (in thousands of dollars)	2010	2009
Assets		
Current assets		
Cash	**$ 5,672**	$ 6,842
Accounts receivable (note 4)	**3,158**	3,267
Prepaid expenses	**267**	–
	9,097	10,109
Intangible assets (note 6)	**104,225**	114,840
	$ 113,322	$ 124,949
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,965**	$ 3,079
Purchase obligation – current portion (note 5)	**3,282**	2,219
Dividends payable to shareholders	**3,006**	1,489
Financial derivative (note 9)	**–**	101
	9,253	6,888
Long-term debt (note 9)	**52,277**	52,953
Purchase obligation (note 5)	**281**	1,924
Future income tax liability (note 7)	**2,139**	2,079
Non-controlling interest (note 10)	**14,378**	17,061
	78,328	80,905
Shareholders' equity (note 1)	**34,994**	44,044
	$ 113,322	$ 124,949

See accompanying notes to the consolidated financial statements.

On behalf of the board



Simon Dean
Director

Lorraine Bell
Director

Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31 (in thousands of dollars, except share and per-share amounts)	2010	2009
Royalties		
Fixed franchise fees	**$ 18,715**	$ 17,842
Variable franchise fees	**8,245**	7,875
Premium franchise fees	**5,225**	4,355
Other revenue and services	**4,445**	4,287
	36,630	34,359
Expenses		
Administration (note 4)	**1,771**	866
Management fee (note 3)	**6,713**	6,365
Interest expense	**2,900**	3,202
Other income (note 9)	**(101)**	(264)
Amortization of intangible assets (note 6)	**16,471**	16,997
	27,754	27,166
Earnings before income tax and non-controlling interest	**8,876**	7,193
Non-controlling interest (note 10)	**(2,654)**	(2,165)
Future income tax (expense) recovery (note 7)	**(60)**	551
Net and comprehensive earnings	**6,162**	5,579
Basic and diluted earnings per share	**$ 0.65**	$ 0.58
Weighted average number of shares outstanding used in computing basic and diluted earnings per share (note 12)[1]	**9,483,850**	9,594,500

[1] Comparative amounts presented are trust units – see note 1.
See accompanying notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(in thousands of dollars)	Common Equity	Contributed Surplus	Deficit	Equity
Balance, January 1, 2010	$ 87,947	$ 895	$ (44,798)	$ 44,044
Net earnings for the year	–	–	6,162	6,162
Dividends declared	–	–	(15,212)	(15,212)
Balance, December 31, 2010	**$ 87,947**	**$ 895**	**$ (53,848)**	**$ 34,994**

(in thousands of dollars)	Unitholders' Equity	Contributed Surplus	Deficit	Equity
Balance, January 1, 2009	$ 91,301	$ 404	$ (36,549)	$ 55,156
Issuer repurchases (note 11)	(3,354)	491	–	(2,863)
Net earnings for the year	–	–	5,579	5,579
Distributions declared	–	–	(13,828)	(13,828)
Balance, December 31, 2009	$ 87,947	$ 895	$ (44,798)	$ 44,044

There is no accumulated other comprehensive income or loss to the Company.
See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 (in thousands of dollars)	2010	2009
Cash provided by (used for):		
Operating activities		
Net earnings for the year	**$ 6,162**	$ 5,579
Items not affecting cash		
Non-controlling interest	**2,654**	2,165
Future income tax expense (recovery)	**60**	(551)
Non-cash interest expense (note 9)	**179**	344
Change in value of derivative	**(101)**	(264)
Amortization of intangible assets	**16,471**	16,997
Changes in non-cash working capital (note 14)	**(804)**	1,440
	24,621	25,710
Investing activities		
Purchase of intangible assets (note 5)	**(4,217)**	(2,770)
Payment of purchase price obligation (note 5)	**(2,219)**	(3,051)
	(6,436)	(5,821)
Financing activities		
Repurchase of shares (note 11)	**–**	(3,805)
Proceeds from term facility (note 9)	**19,972**	994
Repayment of term facility (note 9)	**(15,000)**	–
Proceeds of private debt placement (note 9)	**32,173**	–
Repayment of private debt placement (note 9)	**(38,000)**	–
Distributions paid to shareholders	**(13,695)**	(13,487)
Distributions paid to non-controlling interest	**(4,805)**	(4,673)
	(19,355)	(20,971)
Decrease in cash during the year	**(1,170)**	(1,082)
Cash, beginning of year	**6,842**	7,924
Cash, end of year	**$ 5,672**	$ 6,842
Supplemental cash flow information		
Interest paid	**$ 3,014**	$ 2,858

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009 (in thousands of dollars)

1. ORGANIZATION

Brookfield Real Estate Services Inc. (the "Company"), formerly Brookfield Real Estate Services Fund (the "Fund"), is incorporated under the *Ontario Business Corporations Act*. Through its limited partnership holdings, the Company owns certain franchise agreements, relationships and trademark rights of residential real estate brands in Canada.

On December 31, 2010 (the "Conversion Date"), the Fund completed a transaction (the "Conversion") by way of a plan of arrangement with Trilon Bancorp Inc. (the "non-controlling interest"), which resulted in the Fund converting from a publicly traded, limited purpose trust to a publicly traded corporation and the unitholders of the Fund becoming shareholders of the Company. The Conversion did not result in any changes to the underlying business operations of the Fund.

Effective on the closing of the Conversion Date, the Company now directly owns the Fund and its subsidiaries, which own and operate the businesses of Residential Income Fund L.P. and 9120 Real Estate Network, L.P., which own the assets from which the Company derives its sole source of revenue. The management and trustees of the Fund are now the management and directors of the Company.

Pursuant to the Conversion, unitholders of the Fund received one restricted voting share of the Company for each trust unit held on the effective date. The Company has 9,483,850 restricted voting shares issued and outstanding. The shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "BRE". All references to "shares" refer collectively to the Company's common shares on and subsequent to the Conversion Date and to the Fund's units prior to the Conversion Date. Similarly, all references to "shareholders" refer collectively to holders of the Company's restricted voting shares on and subsequent to the Conversion Date and to holders of the Fund's trust units prior to the Conversion Date. All references to "dividends" refer collectively to dividends declared by the Company on and subsequent to the Conversion Date and to distributions declared by the Fund prior to the Conversion Date.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiary RL RES Holding Trust ("RLHT") and its 74% owned subsidiaries; Residential Income Fund General Partner Limited ("RIFGP"); Residential Income Fund L.P. (the "Partnership"); 9120 Real Estate Network, L.P. ("LCLP"), a wholly owned subsidiary of the Partnership; and 4541219 Canada Inc., the "General Partner of LCLP". RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. owns the remaining 26% interest in the Partnership and RIFGP. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Ltd. ("BRESL"), a party related to the non-controlling interest via common control. Royal LePage Real Estate Services Limited ("RES"), a wholly owned subsidiary of BRESL, pays royalties to the Company under a franchise agreement.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), applied on a basis consistent with the prior year. The Conversion has been accounted for as a continuity of interests, with no changes in carrying values. The Company's significant accounting policies are as follows:

Revenue recognition

Franchise fees are generally based on a percentage of an agent's gross revenue ("Variable Franchise Fees") to a specified maximum plus a dollar amount per agent ("Fixed Franchise Fees"). Gross revenue is the gross commission income (net of outside broker payments) paid in respect of the closings of residential resale real estate transactions. Variable Franchise Fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor. Fixed Franchise Fees are recognized as income as earned.

Premium franchise fees are calculated as a percentage ranging from 1% to 5% of an agent's gross commission income for a select number of franchise locations. These fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor.

Other revenue and services are generally recognized as income when the related services have been provided. Any prepayment for future service is recorded as deferred revenue. Deferred revenue as at December 31, 2010, was $115 (2009 – $111).

Intangible assets

Intangible assets, consisting of franchise agreements, relationships and trademark rights, are recorded at cost less accumulated amortization. The franchise agreements are being amortized over the term of the agreements using the effective rate method.

Relationships are amortized over one renewal period, at the commencement of that period, using the effective rate method. The trademarks are amortized on a straight-line basis over the term of the agreement plus one renewal period, if applicable. The Company reviews the carrying value of the intangible assets for impairment annually and whenever events or circumstances indicate that the carrying value exceeds the undiscounted cash flows expected from the life of the franchise agreements, relationships and trademarks. If impairment is determined to exist, the intangible assets are written down to their fair value.

Earnings per share

The earnings per share are based on the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated to reflect the dilutive effect, if any, of the non-controlling interest exercising its right to exchange its Class B limited partnership units ("Class B LP Units") of the Partnership into shares of the Company.

Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured at fair value, except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Transaction costs for financial liabilities are applied against these liabilities and amortized using the effective interest method, the resulting amortization being recorded as financial expenses. Gains and losses on held-for-trading financial instruments are included in net income in the period in which they arise.

The Company made the following classifications:

Cash or cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Purchase obligation	Other financial liabilities
Dividends payable to shareholders	Other financial liabilities
Long-term debt	Other financial liabilities

The Company previously utilized a derivative financial instrument to manage its interest rate risk. Derivative financial instruments are classified as held-for-trading and are carried at estimated fair values. Gains or losses arising from changes in fair value are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as other income or loss in the period the change occurs.

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

- Level 1 – inputs that are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique that are not based on observable market data in determining fair values of the instruments.

The Company did not have any financial instruments at December 31, 2010, that would result in Other Comprehensive Earnings to the Company.

Income taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either future income tax assets or liabilities. Future income taxes are computed using substantively enacted tax rates applicable to the years in which the differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, they will more likely than not be realized.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of the carrying value of intangible assets, determination of the future tax balances, useful lives for amortization of intangible assets and provisions for contingencies. Actual results could differ from those estimates.

Future accounting and reporting changes

International financial reporting standards

The Accounting Standards Board of Canada ("ACSB") converged Canadian GAAP for publicly accountable enterprises with International Financial Reporting Standards ("IFRS") on January 1, 2011, with the adoption of IFRS. The ACSB announced on February 13, 2008, that IFRS will be required in 2011 for publicly accountable, profit-oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements.

3. MANAGEMENT SERVICES AGREEMENT

On January 1, 2008, the Company entered into an Amended and Restated Management Services Agreement ("MSA") with BRESL, a party related to the non-controlling interest via common control. This agreement replaced the original Management Services Agreement, which commenced on August 7, 2003, with an initial term of 10 years and automatic renewal for successive 10-year periods subject to approval of the Company and BRESL. The termination date and renewal periods of the MSA remain consistent with the original agreement. Under the MSA, BRESL is to provide certain management, administrative and support services to the Company and its subsidiaries and in return is paid a monthly fee equal to 20% and 30% of the distributable cash of the Partnership and LCLP, respectively. For the year ended December 31, 2010, BRESL earned $6,713 for these services (2009 – $6,365). The MSA also prescribes the conditions under which the Company purchases contracts from BRESL and the formula for calculating the purchase price.

4. ACCOUNTS RECEIVABLE

Accounts receivable are related to fees due from the Company's franchise network and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at December 31, 2010, the Company had accounts receivable of $3,158 (2009 – $3,267) net of $48 (2009 – nil) allowance for doubtful accounts. During 2010, $48 (2009 – nil) of bad debt expense related to the provision for doubtful accounts was included in Administration expenses.

The table below summarizes the amount of accounts receivable that are overdue and that have not been provided for:

	90+ Days	60 Days	30 Days	Total
Accounts receivable	$ 136	$ 116	$ 249	$ 501

5. ASSET ACQUISITIONS

The Company's purchases of franchise agreements are governed by terms set out in the MSA.

On January 1, 2010, the Partnership acquired 18 new Royal LePage franchise agreements from BRESL at a purchase price of $4,597 and $26 of related legal and other acquisition costs.

On January 1, 2010, LCLP acquired three La Capitale franchise agreements from BRESL at an estimated purchase price of $1,072. The estimated price is to be revised at the end of each of the next two years based on the average annual royalty stream earned over the three-year period from November 1, 2009, to October 31, 2012.

Until the final purchase price is determined, the purchase price obligation is recalculated at each period-end based on the actual royalties earned. Correspondingly, the deposit on acquisition is reduced by the calculated amount and transferred to intangible assets. The intangible assets are then amortized in accordance with the Company's policy on a prospective basis. The recalculated purchase price obligation in excess of the deposit on acquisition is recorded as a purchase obligation and the corresponding amount added to the intangible assets and amortized as described above.

On January 1, 2009, the Partnership acquired 18 new Royal LePage franchise agreements from BRESL at a purchase price of $2,264 and $24 of related legal and other acquisition costs.

On January 1, 2009, LCLP acquired three new La Capitale franchise agreements from BRESL for an estimated purchase price of $1,050 and $2 of related costs. The estimated price is to be revised at the end of 2011 based on the average annual royalty stream earned over the three-year period from November 1, 2008, to October 31, 2011. The Partnership used cash on hand to acquire these agreements.

The acquisitions during 2010 are summarized as follows:

	Royal LePage	LCLP	Adjustments to Prior Year Purchase Price	2010 Total	2009 Total
Franchise agreements	$ 3,486	$ 610	$ 81	$ 4,177	$ 2,456
Relationships and trademarks	1,137	462	80	1,679	1,401
	4,623	1,072	161	5,856	3,857
Future income tax liability	–	–	–	–	(104)
	$ 4,623	$ 1,072	$ 161	$ 5,856	$ 3,753

The considerations paid, including transaction costs, are funded by the following:

	Royal LePage	LCLP	Adjustments to Prior Year Purchase Price	2010 Total	2009 Total
Cash on hand	$ 3,385	$ 832	$ –	$ 4,217	$ 2,770
Purchase obligations, current	1,238	80	148	1,466	637
Purchase obligations, long-term	–	160	13	173	346
	$ 4,623	$ 1,072	$ 161	$ 5,856	$ 3,753

The purchase obligations consist of the following:

	Royal LePage	LCLP	2010 Total	2009 Total
Purchase obligations, current	$ 1,238	$ 2,044	$ 3,282	$ 2,219
Purchase obligations, long-term	–	281	281	1,924
	$ 1,238	$ 2,325	$ 3,563	$ 4,143

6. INTANGIBLE ASSETS

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

	December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 154,474	$ 106,136	$ 48,338
Relationships and trademarks	61,047	5,160	55,887
	$ 215,521	$ 111,296	$ 104,225

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 150,297	$ 91,844	$ 58,453
Relationships and trademarks	59,368	2,981	56,387
	$ 209,665	$ 94,825	$ 114,840

The additions to intangible assets during the years ended December 31, 2010 and 2009, are summarized as follows:

	Royal LePage	**LCLP**	**Year ended Dec. 31, 2010**	Year ended Dec. 31, 2009
Franchise agreements	**$ 3,486**	**$ 691**	**$ 4,177**	$ 2,456
Relationships and trademarks	**1,137**	**542**	**1,679**	1,401
	$ 4,623	**$ 1,233**	**$ 5,856**	$ 3,857

Amortization for the year ended December 31, 2010, was $16,471 (2009 – $16,997).

7. FUTURE INCOME TAXES

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("SIFT rules") that will change the income tax rules applicable to publicly traded trusts, rendering income trusts taxable in 2011. The SIFT rules were substantively enacted on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules. Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders, and, accordingly, no provisions for income taxes were recorded by the Fund.

As a result of the Conversion, as described in note 1, the Company became a taxable Canadian corporation liable for income taxes as of December 31, 2010.

The enactment of the SIFT rules led to the Company recognizing future income taxes in respect of temporary tax expected to reverse after December 31, 2010. These temporary differences arose from differences between the tax basis and the carrying amount of the Company's intangible assets. These differences arose primarily due to the Company's acquisition of certain intangible assets on a tax-deferred basis (meaning that the tax basis of the assets was lower than cost recorded for accounting), but are also affected by relative amounts of amortization deducted for tax and accounting purposes each year.

A reconciliation of income taxes at Canadian statutory rates with reported income taxes is as follows:

For the year ended December 31	**2010**	2009
Expected income tax expense at a statutory tax rate of 31% (2009 – 33%)	**$ 2,732**	$ 2,374
Effect of current year's income allocated to non-controlling interest	**(831)**	(714)
Effect of current year's income being distributed to shareholders	**(1,901)**	(1,660)
Future income tax recovery due to tax rate reductions and rescheduling of temporary differences	**60**	(551)
Future income tax expense (recovery)	**$ 60**	$ (551)
Future income tax liability due to purchase price adjustment	**$ –**	$ 104
Change to future income tax liability	**$ 60**	$ (447)

The tax effect of the estimated temporary differences as at December 31, 2010 that give rise to the future tax liability is as follows:

	2010	2009
Future tax liability – Intangible assets	**$ 2,139**	$ 2,079

8. OPERATING CREDIT FACILITY

On February 18, 2010, the Partnership renewed the credit facility (the "Revolver") of up to $2,000 from a Canadian financial institution. This Revolver may be used to provide working capital to the Partnership from time to time. The Revolver is subject to annual renewal, with outstanding principal under the Revolver subject to interest at the lender's prime rate plus 2.5% to 3% or the Banker's Acceptance rate plus 3.5% to 4%, based on the ratio of total debt to Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") of the Partnership as defined in the credit agreement.

On April 19, 2010, the Company drew $1,700 on its Revolver in the form of a 30-day Banker's Acceptance, which yielded $1,694 in cash, net of $6 interest paid in advance. The Revolver was repaid on May 21, 2010. The cash was utilized to pay outstanding management fees and associated taxes and interest. As at December 31, 2010, the Revolver had not been drawn upon.

9. LONG-TERM DEBT

The Company's long-term debt is made up of the following debt facilities:

As at December 31	2010	2009
Private debt placement	**$ 32,254**	$ 37,795
Term facility	**20,023**	14,978
	$ 52,277	$ 52,953

On February 18, 2010, the Partnership completed the refinancing of its $53,000 debt obligations with a five-year term maturing on February 17, 2015. The refinancing included a $32,700 private debt placement with a number of Canadian institutional investors with fixed interest of 5.809% and a $20,300 term facility provided by a Canadian financial institution with interest available in the form of a floating rate at prime plus 1.5% payable quarterly or at Banker's Acceptance rates plus 3% with terms of up to six months.

The Company incurred $855 in issue costs associated with the new debt obligations, resulting in net proceeds of $52,145. These proceeds and cash on hand were utilized to repay the previous private placement of $38,000 and term facility of $15,000, which matured on February 17, 2010.

The private placement and term facility had fair values of $34,003 and $20,300, respectively, at December 31, 2010 (2009 – $37,950 and $15,000).

During the year ended December 31, 2010, $179 of amortization of the issue costs was recorded as interest expense (2009 – $344).

The swap agreement relating to the prior term facility, which expired on February 17, 2010, was valued at its market value; this was a liability of $101 as at December 31, 2009. Upon maturity of the swap agreement on February 17, 2010, this liability was reversed, and $101 of other income was recorded.

10. NON-CONTROLLING INTEREST

The non-controlling interest owns 25 common shares in RIFGP and 3,327,667 Class B LP Units of the Partnership; this reflects an effective 26% interest in the Partnership. Prior to the Conversion, an equivalent number of Special Fund Units, which represent voting rights in the Fund, also accompanied the Class B LP Units. Pursuant to the Conversion, the Special Fund Units were redeemed, and one Special Voting Share was issued by the Company. The Special Voting Share entitles the holder to a number of votes at any meeting of the Restricted Voting Shareholders 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. The Company indirectly holds the remaining 74% interest in the Partnership through Class A limited partnership units of the Partnership ("Ordinary LP Units"). The non-controlling interest is entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Class B LP Units for Restricted Voting Shares of the Company.

A summary of the non-controlling interest is as follows:

	2010	2009
Non-controlling interest, beginning of year	**$ 17,061**	$ 19,701
Share of earnings for the year	**2,654**	2,165
Distributions during the year	**(5,337)**	(4,805)
Non-controlling interest, end of year	**$ 14,378**	$ 17,061

11. SHARE CAPITAL

The Company is authorized to issue an unlimited number of restricted voting shares, an unlimited number of preferred shares and one special voting share. As at December 31, 2010, 9,483,850 restricted voting shares were issued in exchange for 9,483,850 trust units outstanding, and one special voting share was issued in exchange for all Special Fund Units outstanding prior to the Conversion.

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

The special voting share was issued to replace all of the special Fund units outstanding prior to the Conversion; they represent the proportionate voting rights of the non-controlling interest in the Company, are redeemable by the holder at $0.01 per share and are not entitled to dividends declared by the Company.

No preferred shares were issued or outstanding as at December 31, 2010.

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

The Company financed these purchases with a special distribution from the Partnership. Units purchased were cancelled at the end of each month.

During the year ended December 31, 2009, the Company purchased and cancelled 335,430 units at a total cost of $2,863. The repurchased units had an issued value of $3,354, resulting in a contributed surplus of $491.

A summary of the activity for the year ended December 31, 2010, with the comparative 2009 information, is presented in the table below.

	2010		2009	
	Voting Shares	**Amount**	Units	Amount
Beginning of year			9,819,280	$ 91,301
Restricted voting shares	**9,483,850**	**$ 87,947**	–	–
Special voting share	**1**	**–**	–	–
NCIB purchases	**–**	**–**	(335,430)	(3,354)
End of year	**9,483,851**	**$ 87,947**	9,483,850	$ 87,947

12. EARNINGS PER SHARE

The Class B LP Units referred to in note 10 were not included in the diluted per-unit calculations as the effect would have been anti-dilutive.

13. RELATED PARTY TRANSACTIONS

Unless disclosed elsewhere, the Company had the following transactions with parties related to the non-controlling interest during the years ended December 31, 2010 and 2009. These transactions have been recorded at the exchange amount agreed to among the parties.

	2010	2009
a) Royalties		
Fixed, variable and other franchise fees	$ 2,587	$ 2,351
Premium franchise fees	$ 4,461	$ 3,700
b) Expenses		
Management fees	$ 6,713	$ 6,365
Insurance and other	$ 109	$ 109
c) Distributions		
Distributions paid to non-controlling interest	$ 4,805	$ 4,673

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

	2010	2009
d) Accounts receivable		
Franchise fees receivable and other	$ 908	$ 585
e) Accounts payable and accrued liabilities		
Dividends payable to non-controlling interest	$ 1,055	$ 521
Management fees	$ 489	$ 1,656
f) Purchase obligation payable	$ 3,563	$ 4,143

14. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Changes in non-cash working capital		
Accounts receivable	$ 109	$ (43)
Prepaid expenses	(267)	145
Accounts payable and accrued liabilities	(646)	1,338
	$ (804)	$ 1,440

15. FINANCIAL INSTRUMENTS

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

a) Credit risk

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

b) Liquidity risk

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs, including paying ongoing future dividends to shareholders and the non-controlling interest. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the long-term debt. Also, the Company has $2,000 of unutilized credit under the Revolver, as described in note 8.

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

	2011	2012	2013	Beyond 2013	Total
Accounts payable and accrued liabilities	$ 2,965	$ –	$ –	$ –	$ 2,965
Purchase obligations	3,282	201	80	–	3,563
Dividends payable to shareholders	3,006	–	–	–	3,006
Private debt placement	–	–	–	32,700	32,700
Term facility	–	–	–	20,300	20,300
Total	$ 9,253	$ 201	$ 80	$ 53,000	$ 62,534

c) Interest rate risk

The Company is exposed to the risk of interest rate fluctuations on its Revolver and term facilities as the interest rates on these facilities are tied to prime and Banker's Acceptance rates. Management has elected to continue with a floating rate position on these facilities and monitors this position on an ongoing basis. The Company's $32,700 private debt placement is fixed and, accordingly, is not at risk of interest rate fluctuations. An increase of 1% in the Company's effective interest rate on its variable rate debt would result in an interest expense increase of approximately $203.

d) Fair value

The fair value of the Company's financial instruments, which consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation and dividends payable to shareholders, are estimated by management to approximate their carrying values due to their short term nature. Similarly, the Company's floating rate debt has a fair value that approximates its face value. The Company determines the fair value of the fixed-rate debt through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium. The fair value of the Company's long-term debt is disclosed in note 9.

e) Fair value hierarchy

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2010 and 2009, classified using the fair value hierarchy described in note 2:

				As at December 31, 2010
	Level 1	**Level 2**	**Level 3**	**Total**
Financial asset or liability				
Cash	$ –	$ 5,672	$ –	$ 5,672
Total	**$ –**	**$ 5,672**	**$ –**	**$ 5,672**

				As at December 31, 2009
	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Cash	$ –	$ 6,842	$ –	$ 6,842
Financial derivative	–	(101)	–	(101)
Total	$ –	$ 6,741	$ –	$ 6,741

16. MANAGEMENT OF CAPITAL

The Company's capital is made up of its cash on hand, long-term debt, shareholders' equity and non-controlling interest.

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

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

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

Senior Indebtedness is defined as the Company's long-term debt, disclosed under note 9, which is made up of $32,700 in private debt placement and $20,300 in term facilities. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

The Company is compliant with all financial covenants. There were no changes in the Company's approach to capital management during the year.

17. SUBSEQUENT EVENTS

Acquisitions

Royal LePage franchise agreements

On January 1, 2011, the Partnership acquired 21 new Royal LePage franchise agreements from BRESL. The estimated purchase price of $2,524 is based on an estimated annual royalty stream of $378. A deposit of $2,019, equal to 80% of the estimated purchase price, is to be paid from cash on hand in 2011, and the remainder is to be paid a year later, when the final purchase price is determined, in accordance with the terms set out in the MSA.

La Capitale franchise agreements

On January 1, 2011, LCLP acquired two new La Capitale franchise agreements from BRESL. The estimated purchase price of $951 is based on an estimated annual royalty stream of $167. A deposit of $761, equal to 80% of the estimated purchase price, is to be paid from cash on hand in 2011. The estimated price is to be revised over a three-year period from November 1, 2010, to October 31, 2013, based on the average annual royalty stream earned.

Board of Directors

The Company is governed by a Board of five Directors, four of whom are independent of the company or its manager. The Board oversees the business and affairs of the company.

The independent Directors also monitor the performance of the Manager, Brookfield Real Estate Services Manager Limited, a subsidiary of Brookfield Asset Management Inc., on behalf of the company and ensure compliance with the terms of the Management Services Agreement.

The Directors have adopted formal terms of reference regarding their responsibilities and all matters of governance. They have agreed to formal distribution and disclosure policies, which are reviewed on an ongoing basis. The Company has two standing committees: the Audit Committee and Governance Committee. Special Committees are formed as required to address business needs, such as the review of major acquisitions.

George Myhal, CA, I.E.
Director and Chairman
Senior Managing Partner,
Brookfield Asset Management Inc.

Lorraine Bell, CA [1, 2]
Director and Chair of the Audit Committee
Self-employed Consultant
Over 25 years experience in the financial sector

Simon Dean [1, 2]
Director
Self-employed Consultant
Previously CEO of the Manager and its predecessor (ret.2005)

Allen Karp, LLB [1, 2]
Director and Chair of the Governance Committee
Previously Partner, Goodman and Carr LLP,
Previously Chairman and CEO, Cineplex Odeon Corporation

Gail Kilgour, ICD.D [1, 2]
Director
Vice-Chair, Ontario Realty Corporation
Over 25 years experience in the financial services industry

[1] Member of the Audit Committee
[2] Member of the Governance Committee

Audit Committee

The Audit Committee is comprised of four independent, financially literate Directors. They meet on a quarterly basis and oversee financial accounting and reporting, internal control, risk management and insurance, external/internal audit and publicly disclosed financial information.

The Audit Committee reviews and reports to the Board of Directors on interim financial statements, audited annual financial statements, public disclosure documents containing audited or unaudited financial information, and the effectiveness of management policies and practices concerning financial reporting and control.

The Audit Committee is also responsible for retaining the external auditor. It receives an annual report from the auditor on the independence of the auditors. The committee also reviews any relationship between the auditor, the Company and the Company Manager – or any other relationships that may adversely affect the auditor's independence.

Governance Committee

The Governance Committee is responsible for ensuring that the Company adheres to principles of good governance. Made up of four independent Directors, the Committee provides direction on the size and composition of the Board, Director nominations, Director orientation and effectiveness, and Director compensation, in accordance with the governance policy adopted by the board. On an annual basis, the Governance Committee evaluates the effectiveness of the Board and its committees.

Management Team

THE COMPANY

Philip Soper
President and Chief Executive

Kevin Cash
Chief Financial Officer

Max Cohen
Secretary & General Counsel

THE COMPANY MANAGER

Philip Soper
President and Chief Executive

Kevin Cash
Chief Financial Officer

Nicolas Ayotte
President, Via Capitale

Carolyn Cheng
Senior Vice President, Strategic Business Services

Lisa da Rocha
Vice President, Lead Generation Services

Spencer Enright
Chief Operating Officer

Alnoor Jiwani
Chief Information Officer

Yvonne Ratigan
Vice President, Network Service

Gino Romanese
Senior Vice President, Brokerage

Sandra Webb
Senior Vice President, Marketing & Communications

Helping Our Community

A home should be a place of safety, security and comfort. Sadly, for thousands of Canadian women and children, this is not the case. Through our network of more than 600 offices and approximately 14,000 agents, the Royal LePage Shelter Foundation helps local shelters provide safe haven and new beginnings for more than 30,000 women and children every year. Last year, we donated nearly $1.8 million which was raised through commission donations and fundraising events across the country.

royal lepage
shelter foundation

ABOUT THE FOUNDATION:

- Royal LePage is the only major Canadian real estate company with its own charity;
- The foundation is the largest public foundation in Canada dedicated exclusively to supporting women's and children's shelters and violence prevention and education;
- Many Royal LePage offices across Canada partner with a local shelter providing much-needed financial support and essential goods and services. Funds raised by the local Royal LePage offices remain in their local community;
- Royal LePage (The Manager) pays all the administrative costs of the charity so that 100% of funds raised go directly towards the cause;
- In addition to helping women's shelters, the Foundation works hard to prevent domestic violence. With national partners such as the Canadian Women's Foundation, grants are provided to local and provincial agencies that help women gain independence and economic self-sufficiency;
- The Royal LePage Shelter Foundation is also a major financial contributor to the Fourth R, a curriculum-based education program teaching grade 8 and 9 students about healthy relationships and dating violence.

Shareholder Information

We regularly provide shareholders with information about the Company through our annual report, quarterly reports, and news releases. Information is available online at **www.brookfieldres.com.** On the site you will find summary information about the Company including annual and quarterly reports, press releases, webcasts, slide presentations, and cash distribution information.

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AUDITORS

Deloitte & Touche LLP

CORPORATE COUNSEL

Goodmans LLP

TSX SYMBOL: BRE

Shares are eligible investments for DPSPs, RRSPs, RRIFs and RESPs

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, May 3, 2011 at 10:00 a.m. at the Hockey Hall of Fame, located at Brookfield Place, 30 Yonge Street, Toronto

PLEASE DIRECT INQUIRIES TO:

Tammy Gilmer
Director, Global Communications & Public Relations
tgilmer@brookfieldres.com

LEADERSHIP
PERFORMANCE
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www.brookfieldres.com

Brookfield Real Estate Services Inc.

Brookfield