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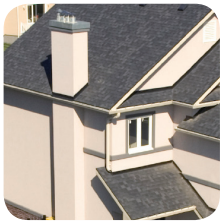









INTERIM REPORT TO SHAREHOLDERS
Q2 2011

Brookfield

Real Estate Services Inc.

PROFILE

The Company is a leading provider of services to residential real estate brokers and their 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 under the Royal LePage, Via Capitale Real Estate Network and Johnston & Daniel brand names. At June 30, 2011, the Company network consisted of 15,361 REALTORS®. The Company network has 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.brookfieldresinc.com.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report 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 achievements 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.

Q2 2011 INTERIM REPORT TO SHAREHOLDERS
FINANCIAL AND OPERATING HIGHLIGHTS
FOR THE THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

Unaudited (In thousands of Canadian dollars)	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Royalties	**$ 9,821**	$ 10,527	**$ 18,016**	$ 18,692
CFFO	**$ 6,826**	$ 7,588	**$ 12,506**	$ 13,287
Dividends	**$ 3,786**	$ 4,498	**$ 7,572**	$ 8,995
Per Share basis				
Royalties	**$ 0.77**	$ 0.82	**$ 1.41**	$ 1.46
CFFO	**$ 0.53**	$ 0.59	**$ 0.98**	$ 1.04
Dividends	**$ 0.28**	$ 0.35	**$ 0.55**	$ 0.70

During the quarter, the Company generated CFFO of $6.8 million as compared to $7.6 million for the same period in 2010. With the timing of the 2010 Market taken into context, and no significant changes in the Company's risk factors, management anticipates that the Company's CFFO per share for 2011 will be ahead of the 2010 $1.97 per share due to an anticipated 2011 Market trajectory at or above 2010 Market levels, our stable agent base and the non-recurrence of the approximate $0.05 per share charge in the fourth quarter of 2010 for the Conversion of the Company to a corporation.

To understand what has transpired in the Markets for the first half of 2011 and how this affects our year-to-date and full-year royalties and CFFO outlook, a review of the 2010 Market activity is required. The year-over-year $0.8 million decrease in our CFFO for the quarter can be attributed to the timing of Market activity and the lag effect of the Company recording its royalties when a home sale transaction closes, which is typically 30 to 45 days after the Market has reported the home sale. In the first half of 2010, the Market was up substantially due to the pull-through of Market activity to the first half of 2010 as a result of the threat of increasing interest rates and restricted credit due to the introduction of government-mandated mortgage lending rules and the imposition of Harmonized Sales Taxes in Ontario and British Columbia. On a rolling twelve-month basis this activity drove June 30, 2010 Market transactional dollar volumes to $167 billion, up 37% over the same period ending June 30, 2009, while for the remainder of 2010, Market activity declined and the year finished at a Market transactional dollar volume of $151.6 billion, 2% ahead of 2009 levels.

On a rolling twelve-month basis the second quarter of 2011 closed out at a Market transactional dollar volume of $155.4 billion, up 2.5% from the twelve months ended December 31, 2010. During the second quarter of 2011, the national Market experienced a quarter over same quarter increase of 7% on an 8% selling price increase, partially offset by a 1% decline in homes sale. With approximately 78% of the quarter over same quarter increase coming through in the month of June, management expects a significant spillover into the third quarter when the Company records the royalties associated with this Market activity as home sale transactions close.

The Company Network

As at June 30, 2011 the Company Network consisted of 15,361 REALTORS®, operating under 392 franchise agreements providing services from 663 locations, with an approximate 23% share of the Market based on 2010 transactional dollar volume. For the six months ended June 30, 2011 the Company Network increased by 53 agents or 0.3% with the increase of 247 agents by way of franchise contracts acquired at the beginning of the year being partially offset by a 106 and 88 decline in Agents in the first and second quarter, respectively. A significant amount of this decrease originated from the Province of Quebec where the introduction of new Real Estate Regulations earlier in 2010 with their associated professional and monetary requirements has reduced the number of new entrants to the industry. Consequently, where franchisees typically have a turnover of lower-producing Agents, this turnover is not being replaced with new entrants. Adding to this decrease in Quebec are REALTORS® who have decided to leave the industry due to higher fees or have opted to operate their own independent brokerage operations as permitted under the new Real Estate Regulations. The decrease in Agents during the quarter occurred primarily in the month of April, commensurate with the month when required payment of association fees become due. Since April the change in agent count appears to have stabilized.

Monthly Cash Dividend

Today, the Company declared a cash dividend of $0.092 per share for the month of August 2011, payable on September 30, 2011, to shareholders of record on August 31, 2011.

CFFO

This overview and accompanying financial statements make reference to cash flow from operations ("CFFO") on a total and per restricted voting share basis. CFFO is defined as net income prior to fair value changes, amortization, interest on Exchangeable units, interest on Trust units, income taxes, items related to other income and interests of Exchangeable unitholders. CFFO is used by the Company to measure the amount of cash generated from operations which is available to the Company's shareholders on a diluted basis where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable unitholders converted Class B LP units into shares of the Company. The Company uses CFFO to assess its operating results, the value of its business and believes that many of its shareholders and analysts also find this measure of value to them. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

Outlook

Price appreciation and housing activity are expected to slow during the second half of 2011, though housing performance in the first half of 2011 will support a national average house price forecast of 7.7% higher than the year ended 2010. Sales volume is forecast to decrease marginally by 2.0% over the same period, as a result of satisfied pent-up demand which emerged post-recession and interest rates which have stayed at historically low levels for an extended period of time and increasingly have become less of a stimulus.

We expect year-over-year prices to appreciate modestly in the third quarter as most housing markets across Canada cooled during the same period in 2010. Similarly, we expect this year's final quarter to display a flat year-over-year price performance when compared to an unusually strong fourth quarter of 2010.

Philip Soper

President and Chief Executive

Kevin Cash

Chief Financial Officer

August 5, 2011

2011

Management's Discussion and Analysis

INTRODUCTION

This section of our interim report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended June 30, 2011 (the "Quarter") and six months ended June 30, 2011 (the "Period"), and has been prepared as at August 4, 2011. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") for interim financial statements and is expressed in Canadian dollars unless otherwise stated. The unaudited IFRS-related disclosures and values in this MD&A have been prepared using the standards and interpretations currently issued and expected to be effective at the end of our first annual IFRS reporting period, which will be December 31, 2011.

The amounts in this MD&A and the accompanying interim financial statements for the three and six months ended June 30, 2010 have been restated to reflect our adoption of IFRS, effective from January 1, 2010. Periods prior to January 1, 2010 have not been restated and are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Please refer to Note 3 of the accompanying interim condensed consolidated financial statements for a summary of the differences between our consolidated financial statements previously prepared under Canadian GAAP and those under IFRS as at June 30, 2011 and January 1, 2010, and for the three months and six months ended June 30, 2011 and 2010.

On December 31, 2010, the Brookfield Real Estate Services Fund (the "Fund") was converted to a corporate structure (the "Conversion") and carried on as Brookfield Real Estate Services Inc. (the "Company"). This 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 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 that are not historical facts are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the 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 2011, they are discussed in further detail in this MD&A.

Management's Discussion and Analysis of Results and Financial Condition

HIGHLIGHTS

($ 000's) except Agents, Sales Representatives, units and per unit amounts	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Royalties	**$ 9,821**	$ 10,527	**$ 18,016**	$ 18,692
Less:				
Administration expenses	**361**	205	**629**	410
Interest expense	**811**	719	**1,539**	1,467
Management fee	**1,823**	2,015	**3,342**	3,528
Cash flow from operations[1]	**$ 6,826**	$ 7,588	**$ 12,506**	$ 13,287
Amortization of intangible assets	**3,461**	3,414	**6,923**	6,828
Other income	**–**	–	**–**	(101)
Interest on Exchangeable units	**1,168**	1,168	**2,336**	2,336
Interest on Trust units	**–**	3,330	**–**	6,659
(Gain) Loss on fair value of Exchangeable units	**(3,761)**	(2,429)	**(1,731)**	1,797
(Gain) Loss on fair value of Trust unit liability	**–**	(6,924)	**–**	5,121
Loss on purchase obligation adjustment	**–**	21	**–**	21
Current income tax expense	**1,178**	–	**2,115**	–
Income tax (recovery)/expense	**(137)**	–	**(277)**	27
Net and comprehensive earnings (loss)	**$ 4,917**	$ 9,008	**$ 3,140**	$ (9,401)
Basic earnings per share	**$ 0.52**	$ –	**$ 0.33**	$ –
Diluted earnings per share	**$ 0.18**	$ –	**$ 0.29**	$ –
Cash flow from operations per share	**$ 0.53**	$ 0.59	**$ 0.98**	$ 1.04
Total assets	**$ 116,682**	$ 127,132	**$ 116,682**	$ 127,132
Total long-term financial liabilities	**$ 52,558**	$ 52,327	**$ 52,558**	$ 52,327
Number of Agents[2] and Sales Representatives[3]	**15,361**	15,295	**15,361**	15,295

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 three and six month periods ended June 30, 2011.

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. We focus on the provision of services to real estate brokers and their agents, who practise predominantly in the residential brokerage segment of the market, in order to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate franchise brands, each of which offers 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] Cash flow from operations ("CFFO") is defined as net income prior to fair value changes, amortization, interest on Exchangeable units, interest on Trust units, income taxes, items related to other income and interests of Exchangeable unitholders. CFFO is used by the Company to measure the amount of cash generated from operations, which is available to the Company's shareholders on a diluted basis, where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable unitholders converted Class B LP units into shares of the Company. The Company uses CFFO to assess its operating results and the value of its business and believes that many of its shareholders and analysts also find this measure of value to them. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

[2] 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.

[3] 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.

Our objective is to provide our stakeholders 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 towards fees that are fixed in nature, which has proven to be effective in moderating the variations in overall industry activity that can occur in the Canadian residential real estate market (the "Market"[4]).

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 (the "Exchangeable units" formerly "non-controlling interest" or "NCI") 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®[5] 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) all impact the Company's performance and are discussed in greater detail throughout this MD&A.

Through the Manager we seek to further increase dividends by increasing our agent count through the acquisition of franchise contracts and attracting and retaining brokers and their agents through the provision of additional fee for service offerings and the provision of services, which increases our Brokers' and their Agents' productivity.

As at June 30, 2011, the network consisted of 15,361 Canadian REALTORS® operating from 663 locations providing services under the Royal LePage, Johnston & Daniel and Via 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 cash flow from operations per share for the twelve months ended December 31, 2010 ($1.85 – 2009, see Cash Flow From Operations), against which the Company distributed $1.60 per share in 2010 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 Via 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 derived as 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 Company Network reached the royalty cap.

In addition to these fees, 24 of the Company'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% – 2010) of the Company's royalties during the Quarter ended June 30, 2011 are derived from the combined fixed fee per REALTOR® per month, 1% variable royalty fee and premium franchise fees. The remaining royalty stream is made up of other fees and services generated from APEC fees, technology fees, web services and other fees.

[4] 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.
[5] REALTOR® is defined as an individual licensed to trade in Real Estate and includes brokers, Agents and Sales Representatives.

Management's Discussion and Analysis of Results and Financial Condition

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 and 2009 and are primarily made up of 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 and ancillary web services and learning services fees and a premium variable fee as described above. 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 variable fee.

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

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

MONTHLY DIVIDENDS

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

A special distribution of $0.20 per unit was declared for unitholders of record on December 30, 2010, and was paid on January 28, 2011. Management and the Board of Directors periodically review the Company's targeted dividends and distributions.

OVERVIEW OF SECOND QUARTER 2011 OPERATING RESULTS

On a rolling twelve-month basis, the Company generated CFFO of $1.91 per share which was 3% less than the $1.97 generated for the twelve months ended December 31, 2010. This decrease was due primarily to lower 2010 third and fourth quarter Market activity resulting from the pull-through of Market activity to the first half of 2010. Management anticipates that the Company's CFFO per share for 2011 will be ahead of the $1.97 CFFO per share achieved in 2010, based on an expected Market trajectory at or above the 2010 levels for the remainder of the year, a stable Agent base, and non-recurrence of charges related to the Conversion in 2010 of approximately $0.05 per share, partially offset by costs expected to be incurred in 2011 for IFRS conversion and simplification of the Company's trust-on-trust corporate structure. An overview of the year-over-year Market activity and the drivers of our Royalties in support of our anticipated increase in CFFO per share follows.

Review of Year-Over-Year Market Activity

To understand what has transpired in the Markets for the first half of 2011, a review of the 2010 Market activity is required. In 2010 the threat of higher interest rates, the introduction of government-mandated mortgage lending rules resulting in tighter access to credit, and the introduction of the Harmonized Sales Taxes in Ontario and British Columbia drove up Market activity in the first and second quarters of 2010. The combination of these factors resulted in a 72% and 5% increase in 2010 quarter over same prior year quarter national Market transactional dollar volume, for the first and second quarter of 2010, respectively. This increase was driven equally by increased selling price and volumes. On a rolling twelve-month basis, as at June 30, 2010, this Market activity drove transactional dollar volumes to $167.0 billion, up 37% over the same period ending June 30, 2009, on 22% home sale and 12% selling price increase. In the third and fourth quarters of 2010, home sale activity levelled off as a result of the pull-through effect of Market activity to the first half of 2010. By the end of 2010, the Market finished up at a transactional dollar volume of $151.6 billion, up 2% over 2009 on a 6% increase in selling price, partially offset by a 4% decrease in the number of homes sold.

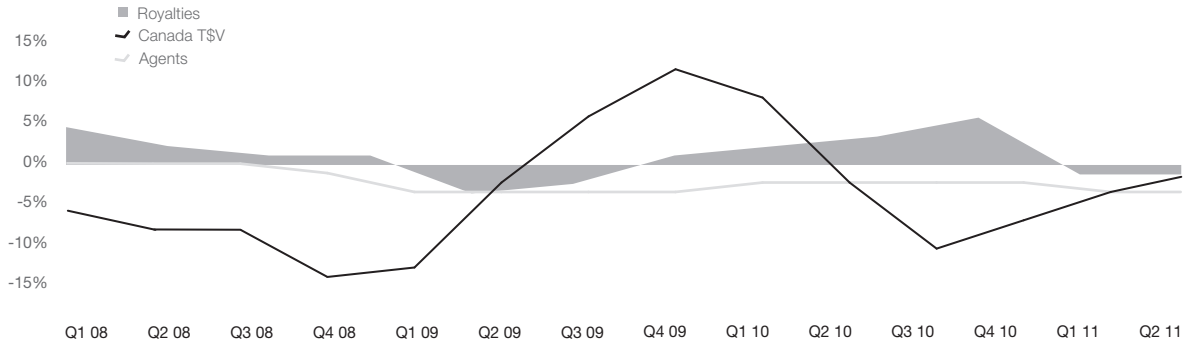
On a rolling twelve-month basis, Market activity for the GTA in the first and second quarters of 2011 was behind the same quarters of 2010 by 8% and 7%, respectively, on an approximate 15% decrease in home sale activity, partially offset by a 5% increase in selling price. As was the case with the national Market, the transactional dollar volume for the GTA for the first two quarters of 2010 was exceptionally high as compared to 2009, with transactional dollar volumes trailing off for the balance of 2010.

On a rolling twelve-month basis, the national Market for the second quarter of 2011 closed out at a transactional dollar volume of $155.4 billion on a 5% increase in selling price, partially offset by a 2% decline in home sale activity, up 3% from the 12 months ended December 31, 2010. It is important to note that the twelve-month period to the end of June 30, 2011 does not include the exceptional results from the first and second quarters of 2010. Accordingly, with no other substantive changes in the Market or factors affecting the Market, with a rolling twelve-month Market transactional dollar volume of $155.4 billion at the end of June 30, 2010, the overall Market by the end of 2011 may track to or above the $151.6 billion of Market activity recorded at the end of 2010.

Royalties

The most significant drivers of the Company's royalties are Market activity, the number of Agents in the Company, and competition. The graph below summarizes the percentage change in transactional dollar volume in Canada, the Company's royalties and number of Agents, on a rolling twelve-month quarter over quarter basis since 2007. As noted from the graph, the vend-in of franchise agreements in the first quarter of each year and the organic growth of agents, combined with the fixed fee nature of our royalties mitigates the impact of Market fluctuations. In addition, the lag effect of the Company's policy of recording variable and premium fee royalties when the home sale transaction closes, which occurs after the home sale has been reported by the Market, is quite evident. With a current Market trajectory of at or slightly above twelve-month ended December 31, 2010 levels, the Company's royalties may come in at or slightly above 2010 levels by the end of 2011.

Rolling Twelve-Month % Change From Prior Quarter



T$V – Transactional dollar volume or Market activity as defined above

On a year to date basis, the Company has experienced a net increase of 53 agents, comprised of 247 agents acquired through the acquisition of contracts at the beginning of the year, less a net attrition of 194 Agents, of which 106 occurred in the first quarter and 88 in the second quarter. A substantial portion of the attrition in Agents occurred in our Quebec franchise operations, due to the introduction of new Real Estate Regulations, which resulted in substantially increased educational requirements and higher association costs. Consequently, there were fewer new Agents entering the industry. The introduction of new regulations directly impacted our Quebec based franchisees as the typical turnover of Agents was not replaced by new Agents entering the industry. The majority of the current Quarter attrition in Agents occurred during the month of April, which coincided with the month the association fees were due.

The Company continues to experience a high renewal rate with a 96% franchise renewal rate representing 138 Agents for the first half of 2011. In addition, franchises representing 451 Agents opted to accelerate their renewals during the same period for a year-to-date renewal rate of 99%.

The recent increase in discount brokerage service offerings introduced by competitors may negatively impact the Company's royalties through loss of market share, loss of Agents or reduced commissions. To date, the Company has not experienced a significant impact on its royalties earned from its franchisees as a result of this market development. The Company continues to monitor this Market activity.

RECENT DEVELOPMENTS

Industry Developments

Quebec Agent Count

The total number of REALTORS® in the Province of Quebec had decreased due to the introduction of stricter Real Estate Regulations and associated professional and monetary requirements put in place earlier in 2010. Where franchisees typically have a turnover of lower producing agents coming through their operation at any one time, this turnover is now being replaced with new entrants at a slower rate. Adding to this decrease are REALTORS® who have decided to leave the industry due to higher fees or have opted to operate their own independent brokerage operations as permitted under the new Real Estate Regulations.

Agent count growth in other areas of the country is expected to offset any future Agent count losses in the Quebec market. Longer-term, Quebec REALTORS® reduced count is expected to have a limited impact on the Company's financial performance.

Discount Brokerage Activity and Impact
At present, discount brokerage continues to compete within the low-fee, narrow service segment of the Canadian real estate market. It has not had a substantive impact on the Company's financial performance to date. It is expected that the impact of discount brokerage will be largely contained to this segment as opposed to the full service brokerage businesses like the ones operated within our networks.

Thus far, new low service, low cost entrants have presented little challenge to the full service REALTORS® who service the vast majority of the Canadian residential real estate market. Longer-term, it is anticipated that consumers will continue to look to professionals to guide them through the home buying and selling process.

Internet Data Exchange
In the Canadian residential real estate industry, Royal LePage has been among the strongest proponents of the Internet Data Exchange (IDX) movement, which will give MLS participants the tool they need to display each other's listings on their websites and allow consumers to view all listings available at once regardless of what real estate company owns the listing.

Early in 2011, the Canadian Real Estate Association ("CREA") announced it would support the IDX initiative and is moving ahead developing the technology platform required to enable the transfer of data. We are hopeful that in the near term, the Company will be in a position to take advantage of this market opportunity generated as a result of improved access to information. Subsequently, we believe this will further our ability to attract and grow our agent count as we make investments in the technology necessary to take advantage of this improved model.

Competition Bureau
On May 27, 2011, the Competition Bureau announced that it had filed an application with the Competition Tribunal seeking to prohibit potentially anti-competitive practices by the Toronto Real Estate Board ("TREB") that may be restricting consumer choice and the ability of real estate businesses to introduce innovative real estate brokerage services through the Internet.

TREB is the largest real estate board in Canada, with approximately 31,000 members. It owns and operates the Toronto Multiple Listing Service system (the "Toronto MLS system)", which contains current property listings and historical information about the purchase and sale of residential real estate in Toronto and the surrounding area, including data about previous listing and sale prices, historical prices for comparable properties in the area and the amount of time a property has been on the Market. Some of this information is only accessible to TREB's members and not available on other public websites.

While member Agents can provide detailed MLS listing information not available on public websites to customers verbally, by hand, mail, fax or email, the Competition Bureau contends that TREB is engaging in anti-competitive practices by effectively restricting its member agents from providing the same MLS listing information to customers via public websites or other means such as password-protected websites, also called Virtual Office Websites (VOWs). According to the Bureau, the existence of such services could allow a consumer to search a full inventory of listings containing up-to-date data online.

The Company does not believe that the Competition Bureau's dispute with TREB will have an adverse impact on its business. Our real estate agents and their clients both want to be able to advertise their listed properties in the most effective manner, whether this be on the Realtor.ca website (operated by the MLS system) or some other alternative. Our Agents have legitimate concerns about the privacy and the proprietary nature of their listing information. That said, we encourage openness in our industry where practical and believe that real estate listing websites will continue to expand and flourish, regardless of the outcome of the current dispute between TREB and the Competition Bureau.

Basis of Presentation of the Consolidated Financial Statements
In our first quarter MD&A, we provided disclosure regarding the presentation of our consolidated financial results in accordance with IFRS and the impact of the Conversion to a Corporation. As these changes are no longer a recent development, but continue to impact the basis of presentation of previously reported results, we have included this disclosure later in this MD&A.

KEY PERFORMANCE DRIVERS
The key drivers of the Company's business and dividends payable to 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 Market and REALTOR® population with a review of the Company network growth, diversity and productivity against these variables follows:

Number of REALTORS® in the Company

As at June 30, 2011 the Company Network consisted of 15,361 REALTORS®, operating under 392 franchise agreements, providing services from 663 locations, with an approximate 23% share of the Market based on 2010 transactional dollar volume.

For the six months ended June 30, 2011, the Company Network increased by 53 Agents or 0.3%. This increase was achieved by way of franchise contracts acquired at the beginning of the year representing 247 Agents, partially offset by a loss of 106 and 88 Agents in the first and second quarter, respectively. A significant amount of the loss in Agents originated from the Province of Quebec due to the introduction of new Real Estate Regulations, which resulted in substantially increased educational requirements and higher cost of association. Consequently, there are fewer new Agents entering the industry. The introduction of new regulations directly impacted our Quebec based franchisees as the typical turnover of Agents was not replaced by new Agents entering the industry. Adding to this decrease are REALTORS® who left the industry due to higher association fees or opted to operate their own independent brokerage operations as permitted under the new Real Estate Regulations. The decrease in Agents during the Quarter occurred primarily in the month of April, which coincided with the month the new association fees were due.

During the Quarter, franchise agreements representing 136 Agents were up for renewal with a 96% renewal rate, while other franchisees representing 374 Agents renewed ahead of their contracted renewal dates. On a year-to-date basis, franchise agreements representing 138 Agents were up for renewal with a 96% renewal rate, while other franchisees representing 451 Agents renewed ahead of their contracted renewal dates for a year-to-date renewal rate of 99%.

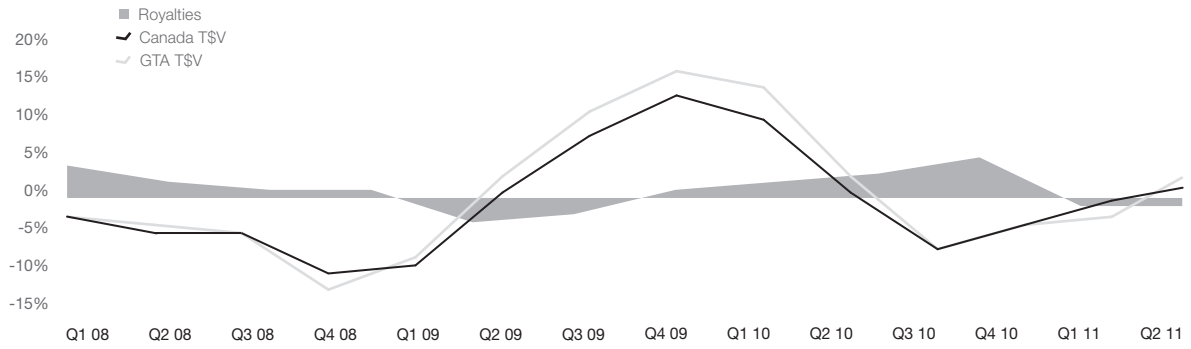
Transaction Volumes

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

During the Quarter the national Market experienced a Quarter over same quarter increase of 7% on an 8% selling price increase, partially offset by a 1% decline in homes sales activity. On a rolling twelve-month Quarter over same quarter basis, the national Market experienced a 7% decline on a 5% selling price increase, offset by a 12% decline in home sale activity. This decline occurred due to reduced activity in the second half of 2010, which resulted from the pull-through effect of Market activity to the first half of 2010, as consumers accelerated home purchases ahead of new government mandated mortgage lending rules, anticipated increase in interest rates and the introduction of the Harmonized Sales Tax (the "HST") in July 2010.

During the Quarter, the GTA Market experienced a Quarter over same quarter increase of 11% on a 9% and 2% increase in selling price and home sale activity, respectively. On a rolling twelve-month Quarter over same quarter basis, the GTA Market experienced a 7% decline on a 7% selling price increase, offset by a 13% decline in home sales due to reduced activity in the second half of 2010 for reasons described above. On a twelve-month rolling basis, 2010 came off a Quarter before the national Market, rebounded slightly in the third quarter and came in line with the national Market by the end of 2010, as summarized in the chart below.

Rolling Twelve-Month % Change From Prior Quarter



Management's Discussion and Analysis of Results and Financial Condition

As at June 30, 2011 and as discussed earlier, on a rolling twelve-month basis, both the national and the GTA Markets are trending ahead of the full year 2010 Market results.

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

From CMHC: sales of existing homes are expected to increase modestly in 2011 to 452,100 units while selling prices have been stronger than expected, the average selling price is expected to moderate throughout the remainder of the year, to close the year at $361,100.

From CREA: with respect to the June 2011 Canadian Market year-to-date activity, sales remain in line with the ten-year average with the National market firmly entrenched in balanced territory with the National average price still being skewed upward by the value of sales in expensive Vancouver neighbourhoods, with price gains in other markets providing additional loft. CREA's full year forecast for 2011 of a 1.3% rise in the average selling price to $343,000 and a 1.6% decline in home sale volumes to 439,900 remains unchanged from its February 2011 release.

From TREB: with respect to the June 2011 GTA Market year-to-date activity, while sales have been strong, we would be on track for a record number of transactions in 2011 if not for the decline in listings so far this year. Tight supply meant more competition among home buyers and an accelerating annual rate of price growth in the second Quarter.

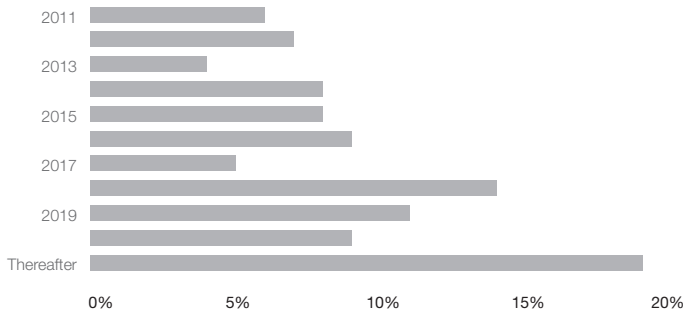
Canada's annual housing starts and the Market's future inventory totalled 185,807 at the end of the Quarter, down 2% from December 31, 2010.

Stability of the Company's Royalty Stream

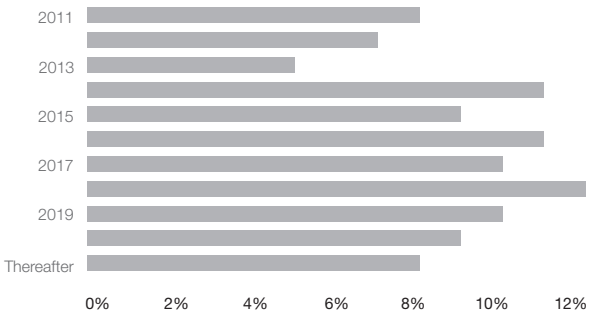
The stability of the Company's Royalty stream is derived from the following factors:

- The fixed nature of the Company Network agreements (see Structure of Company Royalties) is primarily driven by the number of REALTORS® in the Company Network, which results in an approximate 68% fixed and 32% variable royalty stream, partially insulates the Company from fluctuations in the Market.
- The Company's royalties are derived from a diverse network of independently owned and operated franchisees, the majority of which operate with fewer than 50 Agents (71% – 2010, 72% – 2009), 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 overrepresentation in the province of Quebec as a result of the acquisition of the Via Capitale Network and an under-representation in Western Canada. This distribution of REALTORS® mitigates the impact of a single Market on the Company's results.
- The Royal LePage agreements 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 agreement renewal risk. At the time of the initial public offering ("IPO") the Company's Royal LePage franchise agreements were largely subject to five-year renewal terms. Subsequent to the IPO the Company renewal terms for agreement additions are typically ten years in duration. The Company further extended agreements in existence at IPO to ten years as and when opportunities present themselves. The Company's overall agreement renewal profile by year is not overly skewed to any one year and as such, is very manageable. A summary of our agreement renewal profiles as at December 31, 2010 for our combined Royal Le Page and Via Capitale networks is as follows:

% 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 agreements 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 provide an opportunity to renew franchise agreements before they come due and 2011 is no exception. During the Quarter, 10 Royal LePage agreements representing 380 Agents and three Via Capitale franchise agreements comprising 124 Agents were renewed with 250 Agents represented by accelerated agreement renewals. During the Quarter and on a year-to-date basis, two franchisees representing eight Agents left the Company Network.

Company's Growth Opportunities

Our growth objective for 2011 in light of the economy and Market conditions is to modestly increase the year over year Company Network of REALTORS®.

Since the inception of the Company in August 2003 with 9,238 REALTORS® the Company Network has increased by 66% (6,123 REALTORS®) with 66% of this growth coming by way of acquisitions and the remainder 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 franchisees and its 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 Via 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 which 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, which assist franchisees in attracting and retaining REALTORS®, increasing their productivity and reducing administration costs.

THE CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

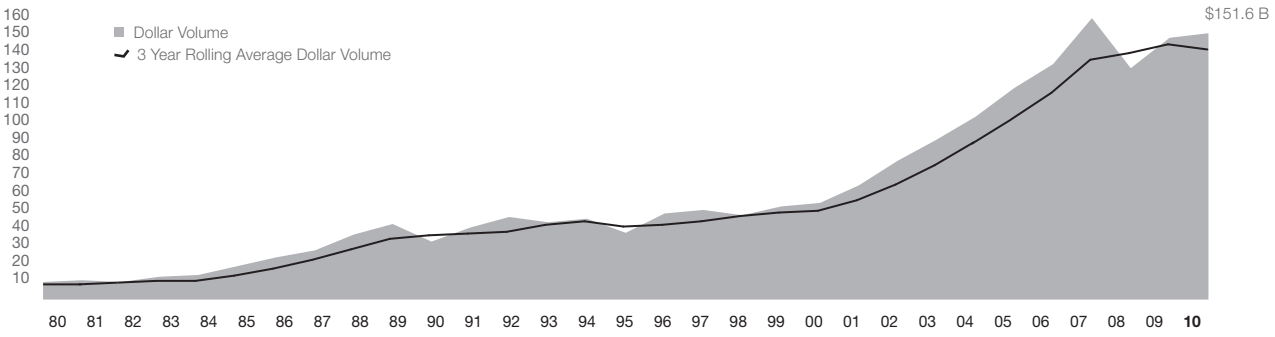
Since 1980, the Market has grown at a compound annual growth rate ("CAGR") of 9.4%. The Canadian Market has been very resilient with three significant downturns occurring in 1990, 1995 and 2008, all of which returned to pre-downturn levels within 24 months. The duration of these Market downturns was 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% when 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 as compared to 46% in 2009, resulting in a year over year decline in the second half of 2010 which when combined with the first half of 2010 saw the overall Market up by 1.7% for the 12-month period ended December 31, 2010 as 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 now 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 which qualify for mortgage insurance have increased down payment requirements.

Management's Discussion and Analysis of Results and Financial Condition

Market Dollar Volume – Canadian Residential Real Estate Market
(1980–2010) (in $ billions)

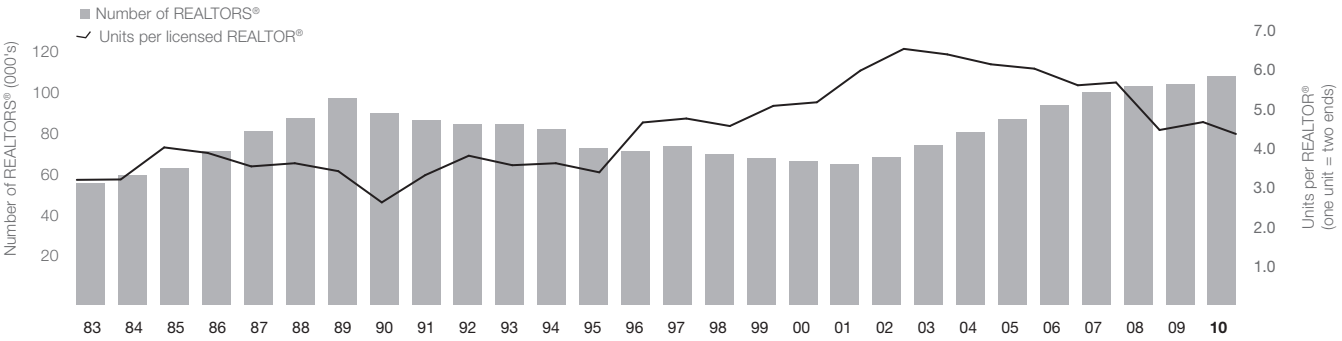


Source: CREA

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® as 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.

Canadian Real Estate REALTORS®
(Year ended December 31)



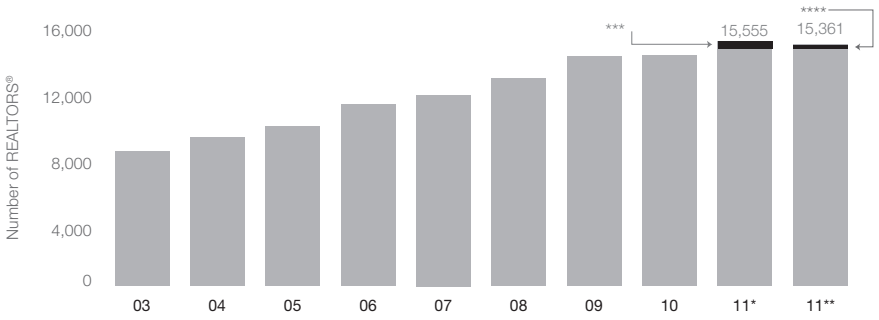
THE COMPANY NETWORK REALTORS® GROWTH

Realtor® Growth

As at June 30, 2011, the Company Network consisted of independently owned and operated franchisees operating under 392 franchise agreements operating from 663 locations serviced by 15,361 REALTORS®.

During the Quarter, the Company Network decreased by 88 REALTORS®, while on a year-to-date basis the Company Network grew by 53 Agents as a result of 247 REALTORS® acquired through the purchase of franchise contracts on January 1, 2011, partially offset by a net organic decrease of 194 REALTORS®. This decrease is primarily attributed to a decline in the number of REALTORS® in the province of Quebec as a result of the introduction of new Real Estate Regulations earlier in 2010 (see Key Performance Drivers – Number of REALTORS® in the Company).

Company Growth



Year ended December 31, except 2011
* As at January 1, 2011
** As at June 30, 2011
*** 247 REALTOR® growth of 1.6% consisting of 188 from the Royal LePage brand and 59 from the Via Capitale brand
**** Decrease of 194 REALTORS®

Summary of Canadian and Company Growth in REALTORS®

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
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)
Opening	**101,916**	**3.8**	**15,308**	**4.6**
2011 Q1	**1,291**	1.3	141	0.9
2011 Q2	**N/A**	–	(88)	(0.6)
Closing	**103,207**	**1.3**	**15,361**	**0.3**

* Source: CREA
N/A: Not available at time of MD&A

Management's Discussion and Analysis of Results and Financial Condition

NETWORK DIVERSITY

The Company Network consists of diverse operations with approximately 71% 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 with a more pronounced presence in the province of Quebec as a result of the acquisition of the Via Capitale franchise network.

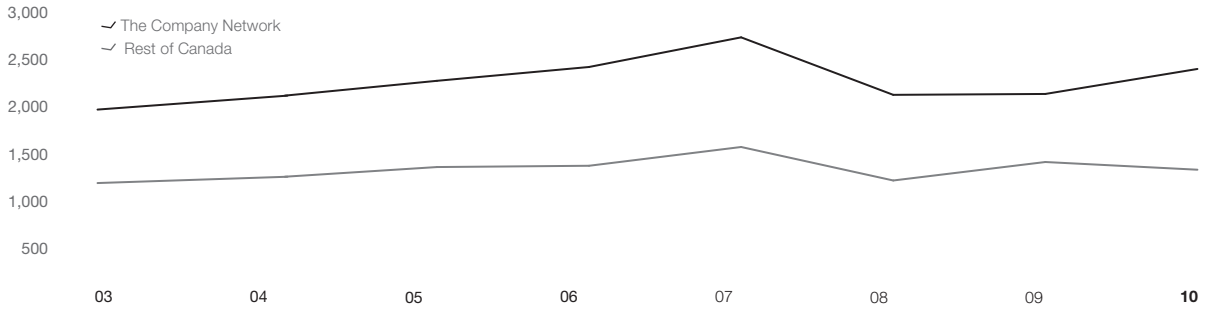
	Canadian[1] REALTOR® Population	Fund[2] Network REALTORS®
Ontario	50%	54%
Prairies	13%	10%
BC	18%	12%
Quebec	15%	20%
Maritimes	3%	3%
Total	100%	100%

Source: CREA
[1] As at March 31, 2011. Source: CREA
[2] As at June 30, 2011

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 year ended December 31, 1994 through 2010 is as follows:

Canadian Residential Real Estate Resale Market
(Average Transactional Dollar Volume per REALTOR®, $ thousands)



Source: CREA and Company Management

OPERATING RESULTS FOR THE QUARTER

($ 000's) except Agents, shares and per share amounts	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Royalties				
Fixed franchise fees	**$ 4,761**	$ 4,695	**$ 9,519**	$ 9,305
Variable franchise fees	**2,560**	2,990	**4,257**	4,773
Premium franchise fees	**1,279**	1,556	**2,057**	2,407
Other fee revenue and services	**1,221**	1,286	**2,183**	2,207
	9,821	10,527	**18,016**	18,692
Less:				
Administration expenses	**361**	205	**629**	410
Management fee	**1,823**	2,015	**3,342**	3,528
Interest expense	**811**	719	**1,539**	1,467
	2,995	2,939	**5,510**	5,405
Cash flow from operations	**6,826**	7,588	**12,506**	13,287
Other (income)/loss	**–**	–	**–**	(101)
Interest on Exchangeable units	**1,168**	1,168	**2,336**	2,336
Interest on Trust units	**–**	3,330	**–**	6,659
(Gain)/loss on fair value of Exchangeable units	**(3,761)**	(2,429)	**(1,731)**	1,797
(Gain)/loss on fair value of Trust unit liability	**–**	(6,924)	**–**	5,121
Loss on purchase obligation adjustment	**–**	21	**–**	21
Amortization of intangible assets	**3,461**	3,414	**6,923**	6,828
Earnings/(loss) before income tax	**5,958**	9,008	**4,978**	(9,374)
Current income tax expense	**(1,178)**	–	**(2,115)**	–
Income tax expense (recovery)	**137**	–	**277**	(27)
Net and comprehensive earnings/(loss)	**$ 4,917**	$ 9,008	**$ 3,140**	$ (9,401)
Basic earnings per share	**$ 0.52**	$ –	**$ 0.33**	$ –
Diluted earnings per share	**$ 0.18**	$ –	**$ 0.29**	$ –
Number of Agents	**14,342**	14,236	**14,342**	14,236
Number of fixed fee paying Sales Representatives	**718**	762	**718**	762

As summarized in the table above, during the Quarter, the Company generated CFFO of $6.8 million as compared to $7.6 million for the same period in 2010 and net and comprehensive earnings before income taxes of $6.0 million for the Quarter, as compared to $9.0 million net and comprehensive earnings for the same period in 2010. The year-over-year royalties for the Quarter decreased by 7% as the increase in fixed franchise fees which follows the increase in the overall number of Agents in the Company Network was offset by lower variable and premium franchise fees as compared to the second quarter of 2010, due to the pull-through of Market activity to the first half of 2010 as previously described. A more detailed discussion of these results is provided below and in the Overview of Second Quarter 2011 Operating Results.

The Company Network as at June 30, 2011, consisted of 15,361 Agents and 1,019 Sales Representatives, 718 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. Primarily 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 Quarter totalled $9.8 million, with a decrease of $0.7 million from the same period in 2010. Fixed, variable and premium franchise fees together represented 88% of royalties for the Quarter (88% – 2010).

Fixed franchise fees for the Quarter increased 1% over the same period in 2010 which was in line with the increase in the underlying Company Network of Agents.

Variable franchise fees for the Quarter decreased by 14% over the same period in 2010 as compared to a 7% increase in the Canadian Market and a 1% increase in the Company Network of Agents. This decrease as compared to the increase in the Market was caused primarily by the spillover of increased 2011 Market activity into the third quarter of 2011 as approximately 78% of the 7% year over year increase in Market Activity for the Quarter occurred in the month of June.

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 Quarter decreased 18% over the same period in 2010, while the GTA Market activity for the same period increased by 11%. The GTA Market experienced a similar fourth quarter of 2010 and June 2011 lag effect as the Canadian Market. However, the decline in third and fourth quarter Market activity experienced by the Canadian Market in 2010 was accelerated in the GTA Market which resulted in a 2011 year-over-year year-to-date May Market decline of 3% being eclipsed by a 33% year-over-year increase in the June Market which brought the 2011 year to date year-over-year GTA Market to a 3% increase and an 11% increase in the Quarter over same prior year quarter results.

Other fees and services included the APEC fee, technology fees, web service and other fees, and revenue accounted for approximately 12% of royalties for the Quarter which remained unchanged for the same period in 2010.

Administration expenses of $0.4 million for the Quarter were up $0.2 million over the same quarter of 2010 due primarily to costs associated with IFRS implementation and Conversion, and the write-down of receivables balances for certain franchisees that are experiencing business challenges.

Management fee expense of $1.8 million for the Quarter decreased by $0.2 million as compared to the same period of 2010 due to reduced royalties as previously discussed. Management fees are determined in accordance with the amended and restated MSA, and are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the Via Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Interest expense consists of interest on the Company's fixed rate $32.7 million private debt placement, variable rate $20.3 million credit facility, and interest on the Company's purchase obligation. During the Quarter, the Company's interest expense totalled $0.8 million, up $0.1 million from the same period in 2010. The increase in interest expense is due primarily to interest payable on the Company's purchase obligation.

Interest on Exchangeable units represents the targeted pre-tax distribution of $1.40 per annum, $0.35 per quarter paid to the Exchangeable unitholders. The declared distribution of $0.35 for the Quarter was unchanged from the comparative period in 2010.

Interest on trust units represents the targeted distribution of $1.40 per annum in 2010 or $0.35 per quarter paid to public unitholders of the Fund. As discussed later in this MD&A (Basis of Presentation of the Consolidated Financial Statements), under IFRS the public unitholders' interest in the Fund is classified as Trust unit liability in 2010 and as a component of shareholders' equity as restricted voting shares effective December 31, 2010 when the public exchanged their Fund units for the restricted voting shares. Consequently the distributions declared payable to the Fund unitholders are classified as interest expense in 2010 and subsequently as dividends in 2011.

Gains (loss) on fair value of Exchangeable units and Trust unit liability represent the change in fair value during the period of the underlying 26% interest of the Exchangeable units in the Company and Trust unit liability held by the public. As the Company's share price decreased in value during the Quarter and the same period in 2010, the Company recorded a gain for the resultant decrease in the fair value of the underlying obligations. As noted earlier, the Conversion on December 31, 2010 re-characterized the public's interest as a component of shareholders' equity, thereby eliminating the Trust unit liability classification in 2011.

Amortization of intangible assets

Intangible assets relate to the values attributed to the franchise agreements and trademarks acquired by the Company since August 7, 2003. Trademarks are amortized on a straight-line basis over the expected useful life.

Current Income Tax

Upon conversion to a corporate structure the Company is subject to tax. Accordingly, there is no comparative current tax in 2010. The expected tax rate for 2011 is 28.25% with anticipated effective cash taxes of 22.5% once the Company's available tax shield and estimated

taxable income for the year is taken into account. As this is the Company's first year as a corporate structure the Company is not required to make instalments. Accordingly, the Company expects to continue to record a current income tax expense and liability with an expected payment of the final tax payments by February 28, 2012.

Up to the close of business on December 31, 2010 the Company was taxed as an Income Trust. Under the Company's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Company shall be claimed to the extent they bring the taxable income of the Trust to nil. To ensure 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 unitholders of record on December 30, 2010, payable January 28, 2011.

The deductions available to the Company are made up of the costs of the offering and intangible assets. The estimated deductions available to the Company as at December 31, 2010 are made up of intangible assets of the Residential Income Fund L.P. and 9120 Real Estate Network, L.P. (the "LP"), acquisitions of franchise agreements subsequent to inception and costs associated with the $53 million debt refinancing.

Deferred Income Tax

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at June 30, 2011 the Company's deferred tax asset was $2.0 million (December 31, 2010 – $1.7 million), and was calculated using an effective tax rate of 25% (2010 – 25%). During the three months ended June 30, 2011, the Company recorded a current income tax expense of $1.2 million (2010 – $nil) and $0.1 million of deferred income tax recovery (2010 – $nil) related to differences in the relative amounts of amortization deducted for tax and accounting purposes each year. The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

YEAR-TO-DATE OPERATING RESULTS

As summarized in the chart on page 13, during the Period, the Company generated net and comprehensive earnings of $3.1 million up $12.5 million from the same period in 2010. The year over year results included a $0.7 million decrease in royalties. A discussion of the operating results highlights for the Period follows:

Royalties for the Period of $18.0 million were down 4% ($0.7 million) over the same period of 2010 due primarily to the following:

Variable franchise fees for the Period were down 11% ($0.5 million) due primarily to the pull-through effect of Market activity to the first half of 2010 as previously discussed.

Premium franchise fees for the Period were down 15% ($0.4 million) due primarily to the pull-through effect of Market activity to the first half of 2010 as previously discussed.

Fixed franchise fees for the Period were up 2% ($0.2 million) over the same period in 2010 in line with the increase in the number of Agents in the Company, and

Other fee revenue and service fees for the Period were down 1% ($0.1 million) over the same period in 2010 due primarily to the pull-through effect of Market activity to the first half of 2010 as previously discussed.

Management fees for the Period of $3.3 million were down 5% over the same period in 2010 and in line with decreased royalties, calculated in accordance with the terms of the MSA.

Administration fees for the Period of $0.6 million were up $0.2 million over the same period in 2010 due primarily to costs associated with the conversion to IFRS and the write-down of receivables for certain franchisees experiencing business challenges..

Interest expense for the Period of $1.5 million was up $0.1 million over the same period in 2010 due to interest associated with the Company's franchise agreement purchase obligations. In 2010, the Company paid its purchase obligations on January 1, 2010.

Interest on Exchangeable units represents the targeted pre-tax distribution of $1.40 per annum, $0.35 per quarter paid to the Exchangeable unitholders. The declared distribution of $0.35 for the Period was unchanged from the comparative period in 2010.

Interest on Trust units represents the targeted distribution of $1.40 per annum in 2010 or $0.35 per quarter paid to public unitholders of the Fund. As discussed later in this MD&A (Basis of Presentation of the Consolidated Financial Statements), under IFRS the public unitholders' interest in the Fund is classified as Trust unit liability in 2010 and as a component of shareholders' equity as restricted voting shares effective December 31, 2010 when the public exchanged their Fund units for the restricted voting shares. Consequently the distributions declared payable to the Fund unitholders are classified as interest expense in 2010 and subsequently as dividends in 2011.

Gains (loss) on fair value of Exchangeable units and Trust unit liability represent the change in fair value during the Period of the underlying 26% interest of the Exchangeable units in the Company and Trust unit liability held by the public. As the Company's share price decreased in value during the Period and increased during the same period in 2010, the Company recorded a gain for the resultant decrease in the fair value of the underlying obligations. As noted earlier, the Conversion on December 31, 2010 re-characterized the public's interest as a component of shareholders' equity, thereby eliminating the Trust unit liability classification in 2011.

Amortization of Intangible Assets

Intangible assets relate to the values attributed to the franchise agreements 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 Via Capitale trademark. Franchise agreements are amortized over the term of the agreements plus one renewal term.

Current Income Tax

Upon conversion to a corporate structure the Company is subject to tax. Accordingly, there is no comparative current tax in 2010. The expected tax rate for 2011 is 28.25% with anticipated effective cash taxes of 22.5% once the Company's available tax shield and estimated taxable income for the year is taken into account. As this is the Company's first year as a corporate structure the Company is not required to make instalments. Accordingly, the Company expects to continue to record a current income tax expense and liability with an expected payment of the final tax payments by February 28, 2012.

Up to the close of business on December 31, 2010 the Company was taxed as an Income Trust. Under the Company's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Company shall be claimed to the extent they bring the taxable income of the Trust to nil. To ensure 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 unitholders of record on December 30, 2010, payable January 28, 2011.

The deductions available to the Company are made up of the costs of the offering and intangible assets. The estimated deductions available to the Company as at December 31, 2010 are made up of intangible assets of the Residential Income Fund L.P. and 9120 Real Estate Network, L.P. (the "LP"), acquisitions of franchise agreements subsequent to inception and costs associated with the $53 million debt refinancing.

Deferred Income Tax

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at June 30, 2011 the Company's deferred tax asset was $2.0 million (December 31, 2010 – $1.7 million), and was calculated using an effective tax rate of 25% (2010 – 25%). During the Period, the Company recorded a current income tax expense of $2.1 million (2010 – $nil) and $0.3 million of deferred income tax recovery (2010 – $0.1 million) related to differences in the relative amounts of amortization deducted for tax and accounting purposes each year. The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

Cash Flow From Operations

For the twelve months ended June 30, 2011 the Company generated CFFO of $1.91 per restricted voting share, down 3% from the $1.97 CFFO generated for the year ended December 31, 2010. For the Quarter the Company generated CFFO of $0.53 per restricted voting share, a decrease of 10% from the same period in 2010. The $1.91 per share is inclusive of a $0.05 charge per share for the cost of converting the Fund structure to a corporate structure; otherwise, the CFFO per share would have been $1.96 per share. A summary of the Company's CFFO per share is presented in the following chart.

Rolling twelve-month cash flow from operations

Twelve months ended	2011	2010					2009	
($ 000's) except per share amounts	**June 30**	Mar. 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Royalties	**$ 35,954**	$ 36,660	$ 36,630	$ 36,967	$ 37,215	$ 35,527	$ 34,359	$ 33,604
Less:								
Administration expenses	**1,990**	1,834	1,771	978	851	854	866	838
Interest expense	**2,972**	2,880	2,900	2,990	3,087	3,166	3,202	3,186
Management fee	**6,527**	6,719	6,713	6,924	6,975	6,613	6,365	6,217
	24,465	25,227	25,246	26,075	26,302	24,894	23,926	23,363
Cash flow from operations per share	**$ 1.91**	$ 1.97	$ 1.97	$ 2.04	$ 2.05	$ 1.94	$ 1.85	$ 1.80

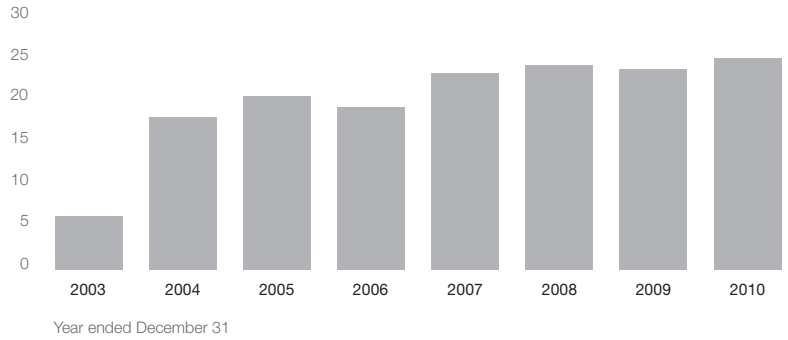
The Company's operations have been a significant source of capital with $174.2 million of CFFO generated since inception, of which $130.8 million has been paid to the public unit/shareholders and Exchangeable unitholders. Of the remaining $43.4 million retained by the Company, $35.2 million has been invested in franchise contracts that earn attractive returns, and $4.1 million has been used to purchase units of the Company from time to time. Also see Supplemental Information – Cash Flow From Operations.

CFFO to restricted voting shareholders represents net and comprehensive earnings, adjusted for interest in Exchangeable units, interest on Trust units, fair value of Exchangeable units and Trust unit liability, other income, amortization of intangible assets, current and deferred income taxes and purchase obligation adjustment.

CFFO does not have a standardized meaning under IFRS and accordingly may not be comparable to similar measures used by other issuers. Management believes that CFFO is a useful supplemental measure of performance as it provides investors with an indication of the amount of pre-tax cash generated from operations and available to restricted voting shareholders, the Exchangeable unitholders and to meet tax cash payments. Investors are cautioned, however, that CFFO 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 CFFO to the comparable IFRS measure in the Company's financial statements.) A summary of the CFFO generated by the Company since its inception in August 2003 is as follows:

CFFO

(in $ millions)



A summary of CFFO generated by the Company for the Quarter and its utilization reconciled to cash flow from operations is as follows:

Cash flow from operations and its utilization

($ 000's)	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Royalties	**$ 9,821**	$ 10,527	**$ 18,016**	$ 18,692
Less:				
Administration expenses	**361**	205	**629**	410
Interest expense	**811**	719	**1,539**	1,467
Management fee	**1,823**	2,015	**3,342**	3,528
Cash flow from operations	**6,826**	7,588	**12,506**	13,287
Less:				
Dividends to shareholders	**2,618**	3,330	**5,236**	6,659
Interest on Exchangeable units	**1,168**	1,168	**2,336**	2,336
Total dividends and interest	**3,786**	4,498	**7,572**	8,995
Cash flow from operations less total dividends and interest	**3,040**	3,090	**4,934**	4,292
Less: Funding of acquisitions	**835**	17	**2,835**	6,436
Net change in the period	**$ 2,205**	$ 3,073	**$ 2,099**	$ (2,144)

Cash flow from operations reconciled to cash flow from operating activities

($ 000's)	**Three months ended June 30, 2011**	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
Cash flow from operating activities	**$ 4,110**	$ 678	**$ 6,762**	$ 1,472
Add (deduct):				
Interest on Exchangeable units	**1,168**	1,168	**2,336**	2,336
Current non-cash income tax expense	**1,178**	–	**2,115**	–
Interest on Trust units		3,330		6,659
Changes in non-cash working capital items	**408**	2,429	**702**	2,900
Interest expense	**(1,979)**	(5,217)	**(3,875)**	(10,462)
Interest paid	**1,941**	5,179	**4,466**	10,361
Loss on purchase obligation adjustment	**–**	21	**–**	21
Cash flow from operations	**$ 6,826**	$ 7,588	**$ 12,506**	$ 13,287

From inception to date the Company has utilized CFFO in excess of distributions/dividends to fund acquisitions and the Exchangeable unit 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 above.

The Company's payment of dividends to shareholders is fully funded by CFFO. The Company has consistently paid out cash in excess of net income to shareholders as a significant portion of the Company's operating expenses is made up of the non-cash amortization of intangible assets consisting of franchise agreements and trademarks. The excess payment 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 lies 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 paid out all of the CFFO to shareholders, as the cash generated in excess of these amounts, as summarized in the table below (see Supplemental Information – Cash Flow From Operations), has been utilized to fund the acquisition

of franchise agreements, pay distributions to the Exchangeable unitholders/servicing of the Trust unit liability, fund the purchase of units under the normal course issuer bid ("NCIB") and meet future tax liabilities. 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 Exchangeable unitholders.

ACQUISITION OF FRANCHISE CONTRACTS

Under the terms of the MSA, the Company is permitted to acquire franchise agreements, approved by independent directors 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 twelve-month period ending on October 31 of the year of acquisition. Via 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.

An initial payment representing 80% of the estimated purchase price is due upon acquisition of the franchise contracts, with the final obligation determined through an audit conducted annually to verify the royalty amounts used in all purchase price calculations. The final purchase obligation for Royal LePage contracts is determined and payable within one year of acquisition while Via Capitale acquisitions are determined and payable two years after acquisition. Any changes to the original estimated obligation are recorded in the Company's statement of earnings and comprehensive earnings

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 during the first quarter of 2011, upon meeting certain terms and conditions of the MSA.

Via Capitale Franchise Agreements

On January 1, 2011, the Company acquired two franchise agreements operating under the Via 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. For a summary of the Company's acquisitions of franchise agreements, see Supplemental Information – Acquisitions.

DEBT FINANCING

On February 18, 2010, the Company completed the refinancing of its long-term debt of $53 million, for a five-year term maturing on February 17, 2015. The refinancing is made up of 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.

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.

The covenants of the long-term debt prescribe that the Company must maintain a ratio of 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 10 of the interim condensed consolidated statement of earnings, 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.

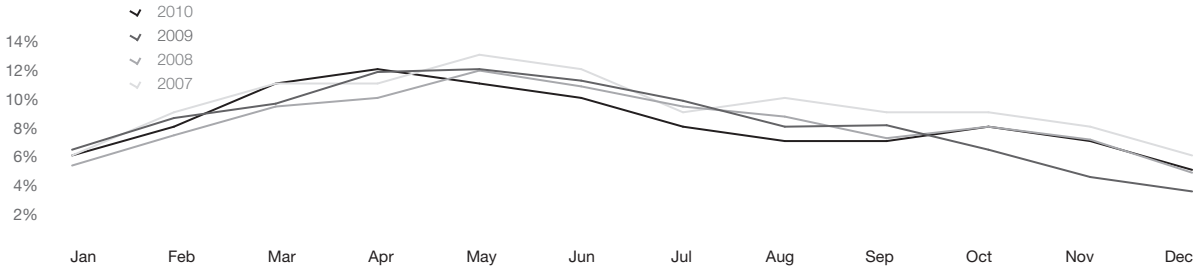
Subsequent to Quarter end the Company successfully negotiated the amendment of the Company's debt covenants to reflect the impact of IFRS. The Company is compliant under these revised covenant calculators.

SUMMARY OF QUARTERLY RESULTS

Three months ended ($ 000's) except Agents, unit and per unit amounts	IFRS 2011 June 30	2010 March 31	2010 Dec. 31	2010 Sept. 30	2010 June 30	2010 March 31	Canadian GAAP 2009 Dec. 31	2009 Sept. 30
Royalties								
Fixed franchise fees	**$ 4,761**	$ 4,758	$ 4,710	$ 4,700	$ 4,695	$ 4,610	$ 4,471	$ 4,459
Variable franchise fees	**2,560**	1,697	1,269	2,203	2,990	1,783	1,631	2,738
Premium franchise fees	**1,279**	778	1,126	1,692	1,556	851	1,341	1,674
Other fee revenue and services	**1,221**	962	1,053	1,185	1,286	921	1,052	1,157
	9,821	8,195	8,158	9,780	10,527	8,165	8,495	10,028
Less:								
Administration expenses	**361**	268	1,045	316	205	205	252	189
Management fee	**1,823**	1,519	1,349	1,836	2,015	1,513	1,560	1,887
Interest expense	**811**	728	720	713	719	748	810	810
Cash flow from operations	**6,826**	5,680	5,044	6,915	7,588	5,699	5,873	7,142
Interest on Exchangeable units	**1,168**	1,168	1,833	1,168	1,168	1,168	–	–
Interest on Trust units	**–**	–	5,226	3,327	3,330	3,329	–	–
(Gain)/loss on fair value of Exchangeable units	**(3,761)**	2,030	5,724	2,895	(2,429)	4,226	–	–
(Gain)/loss on fair value of Trust unit liability	**–**	–	16,312	8,251	(6,924)	12,045	–	–
(Gain)/loss on purchase obligation adjustment	**–**	–	590	–	21	–	–	–
Other (income)/loss	**–**	–	–	–	–	(101)	(100)	(99)
Amortization of intangible assets	**3,461**	3,462	3,414	3,414	3,414	3,414	4,491	4,198
Non-controlling interest	**–**	–	–	–	–	–	599	827
Earnings (loss) before income taxes	**5,958**	(980)	(28,055)	(12,140)	9,008	(18,382)	883	2,216
Current income tax expense	**1,178**	937						
Future income tax (recovery)/expense	**(137)**	(140)	1,528	–	–	27	(628)	(16)
Net and comprehensive earnings/(loss)	**$ $4,917**	$ (1,777)	$ (29,583)	$ (12,140)	$ 9,008	$ (18,409)	$ 1,511	$ 2,232
Basic earnings/(loss) per unit	**$ $0.52**	$ (0.19)	$ –	$ –	$ –	$ –	$ 0.16	$ 0.23
Cash flow from operations per share	**$ $0.53**	$ 0.44	$ 0.39	$ 0.54	$ 0.59	$ 0.44	$ –	$ –
Number of Agents	**14,342**	14,425	14,255	14,270	14,236	14,199	13,620	13,569
Number of fixed fee paying Sales Representatives	**718**	724	752	748	762	771	707	699

The Company's royalty revenues are typically affected by the seasonality of the 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% – 2010 (17% – 2009) of our Royal LePage Agents who have capped out under the 1%/$1,300 per annum variable fee.

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 half 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 which resulted in a decline in third and fourth 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, with increases to the Quarter due to interest associated with the Company's franchise agreement purchase obligations, and an increase in administrative costs in the fourth quarter of 2010 as a result of recording $0.7 million of operating costs associated with the conversion of the Fund to a corporate structure.

A key performance indicator management utilizes to monitor Company performance is the rolling twelve-month CFFO per restricted vote share. As previously discussed, the rolling twelve-month CFFO per restricted voting share for the twelve months ended June 30, 2011 is $1.91. The $1.91 is net of an approximate $0.05 per unit charge for operating costs associated with the conversion of the Fund to a corporate structure, which were recorded during the fourth quarter of 2010; otherwise, the CFFO per unit would have been $1.96 per unit.

LIQUIDITY

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 and payment of dividends and interest.

During the Quarter, the Company utilized cash flow generated from operating activities for the Quarter of $4.1 million to meet $1.6 million of acquisition obligations and $2.6 million of dividend and distribution requirements. A summary of the Company's working capital position is as follows:

Working Capital

($ 000's)	As at June 30, 2011	As at March 31, 2011	As at December 31, 2010	Change in quarter	Change in year
Current assets					
Cash and cash equivalents	**$ 1,469**	$ 1,573	$ 5,672	$ (104)	$ (4,203)
Accounts receivable and other	**5,139**	3,982	3,158	1,157	1,981
Prepaid expenses	**234**	270	267	(36)	(33)
	$ 6,842	$ 5,825	$ 9,097	$ 1,017	$ (2,255)
Current liabilities					
Accounts payable and accrued liabilities	**$ 1,041**	$ 1,506	$ 1,910	$ (465)	$ (869)
Purchase obligation – current portion	**3,236**	4,832	3,282	(1,596)	46
Dividends payable to shareholders	**873**	873	3,006	–	(2,133)
Interest payable to Exchangeable unitholders	**389**	389	1,055	–	(666)
Current income tax liability	**2,115**	937	–	1,178	2,115
	7,654	8,537	9,253	(883)	(1,599)
Net working capital	**$ (812)**	$ (2,712)	$ (156)	$ 1,900	$ (656)

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, dividend and Exchangeable units requirements and financing for the acquisition of franchise contracts. In addition, during 2011 the Company's cash flow will benefit from the deferral of tax payments during its first year as a Corporation as the related tax payment is not due until two months after year-end.

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 operations, 16 operate under three franchise agreements under the $100/1% option to August 2023 with an additional Premium franchise fee ranging from 1% to 5% of the location's gross commission income to August 2018. The remaining location, which was opened during the third Quarter of 2009, was included in the Company's acquisition of franchise contracts 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 Exchangeable unitholders. 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 Royal LePage agreements and 30% in respect of cash otherwise distributable from Via Capitale franchise agreements.

On January 1 of each year, the Company may, upon the Board of Directors' approval and criteria detailed in the MSA, purchase Royal LePage franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company and are paid 80% 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 Directors' approval and criteria established by the Board of Directors, purchase Via 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. Modification of the MSA relating to the Via 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 Via 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 Via Capitale franchise agreements, instead of 20%. The increase in the management fee resulted in a direct and proportional decrease in the purchase price paid by the Partnership, as the purchase price is calculated based on royalties earned from the Via Capitale franchise agreements net of the management fee.

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

	Three months ended June 30, 2011	Three months ended June 30, 2010	**Six months ended June 30, 2011**	Six months ended June 30, 2010
a) Royalties				
Fixed, variable and other franchise fees	**$ 673**	$ 723	**$ 1,303**	$ 1,368
Premium franchise fees	**$ 668**	$ 1,330	**$ 1,336**	$ 2,063
b) Expenses				
Management fees	**$ 1,823**	$ 2,015	**$ 3,342**	$ 3,528
Insurance and other	**$ 27**	$ 27	**$ 54**	$ 84
Interest on purchase obligations	**$ 75**	$ –	**$ 89**	$ –
c) Interest paid				
Interest paid to Exchangeable unitholders	**$ 1,168**	$ 1,168	**$ 3,002**	$ 2,469

As at	**June 30, 2011**	March 31, 2011	December 31, 2010
d) Accounts receivable			
Franchise fees receivable and other	**$ 1,435**	$ 1,018	$ 908
e) Accounts payable and accrued liabilities			
Management fees	**$ 746**	$ 535	$ 489
Interest on purchase obligations	**$ 89**	$ 14	$ –
Sales tax payable on 2011 purchase obligation	**$ –**	$ 458	$ 489
f) Interest expense payable to Exchangeable unitholders	**$ 389**	$ 389	$ 1,055
g) Purchase obligation payable	**$ 3,442**	$ 5,038	$ 3,563

Effective January 1, 2011, the Company acquired 21 Royal LePage franchise agreements and two Via 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 in the first quarter (see Franchise Acquisition Agreements for further information). 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.

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Conversion to IFRS

During the first quarter of 2011, the basis of presentation of the Company's financial statements was changed from reporting under Canadian GAAP to IFRS. Under IFRS, January 1, 2010 is considered the transition date at which point the Company is to recognize the cumulative impact on previous periods of preparing our financial statements as if they had always been reported under IFRS. Under the IFRS reporting requirements the Company's interim condensed consolidated financial statements as at June 30, 2011 and all comparative information are prepared and presented on an IFRS basis. In addition a comparative condensed consolidated balance sheet as at January 1, 2010 has been prepared and presented to capture the cumulative impact of IFRS on pre-2010 periods.

Impact of IFRS on the Conversion to a Corporate Structure

During 2010 the Company operated as an Income Trust. Within the Income Trust structure the Company's partnerships acquires the franchise agreements, trademarks and other associated assets, receives the royalties from these agreements and distributes the net cash generated to the Fund's unitholders through the Fund structure and directly to the NCI through its interest in the partnership. Under the Income Trust arrangement, the Company is obligated to distribute its partnership earnings (the "Payment Obligation") to Trust unitholders and the NCI in order to minimize the income tax effect of not making such a distribution. Under these arrangements there are two key considerations: (i) the language in the relevant agreements provided no discretion for the trustees/partners to avoid distributions; and (ii) the Company prior to the Conversion was an open-ended trust and as such the Trust Units were "puttable" to the Company and as such the Class B LP units were exchangeable into a "puttable" instrument thereby creating a contractual obligation of the Trust (collectively the "Payment Option"). Under IFRS the Payment Obligation results in the characterization of the Trust unitholders' and the NCI's respective interests as a debt obligation. The fair value of the debt obligation is determined at each reporting date at the underlying closing unit/share price with the resultant change in value being recorded through the condensed consolidated statement of earnings, while distributions/dividends declared are reported as interest expense.

With the Conversion of the Fund to a corporate structure at the end of 2010 the Fund's unitholders exchanged their Fund units for restricted voting shares of the Company, which do not have a Payment Obligation, while the NCI retained its interests at the partnership level. Consequently as a result of these arrangements, under IFRS in the comparative 2010 period, up to the Conversion, the unitholders' and the NCI's respective interests are presented as a debt obligation with the commensurate impact on the condensed consolidated balance sheet and statement of earnings described above, while in 2011 the restricted voting interests are presented within shareholders' equity and dividends declared as a reduction of shareholders' equity.

Impact of Conversion to IFRS

When the Fund converted to a corporate structure on December 31, 2010, the cumulative impact of IFRS on the Company's condensed consolidated financial statements was a $32.9 million reduction in shareholders' equity resulting in shareholders' equity of $11.1 million. The largest driver of this result is the characterization of the NCI as debt with the resultant valuation of the debt at the underlying share price of the NCI's interests and the recording of the changes in the debt valuation in the condensed consolidated statement of earnings and the NCI's distributions as interest expense.

Provided in the table below is a summary of the cumulative impact of the conversion to IFRS on the Company's shareholders' equity as at January 1, 2010 and for the twelve months ended December 31, 2010. A summary level discussion of these adjustments is presented below while a more detailed analysis and discussion can be found later in this MD&A and in Note 3 of our unaudited interim condensed consolidated financial statements for 2011.

Continuity of shareholders' equity

($ millions)	As at December 31, 2010	As at January 1, 2010	Difference
Balance under CGAAP	$ 35.0	$ 44.0	$ 9.0
Adjustments:			
Trust unit liability	–	(110.4)	110.4
NCI	(34.8)	(21.6)	(13.2)
Intangible assets	7.1	4.9	2.2
Deferred taxes	3.8	5.3	(1.5)
Balance Under IFRS	**$ 11.1**	**$ (77.8)**	**$ 88.9**

Conversion to IFRS – Cumulative Impact on Shareholders' Equity

As summarized in the table above the cumulative impact of the change to IFRS as at January 1, 2010 was a $121.8 million (December 31, 2010 – $32.9 million) decrease in shareholders' equity with $110.4 million of the decrease being attributed to classification of Trust units under shareholders' equity to a Trust unit liability and revaluation of this liability to fair value. On December 31, 2010, as previously discussed, the Trust unit liability no longer exists as a result of the exchange of the underlying Fund units for restricted voting shares of the Company. However, as the comparative 2010 financial statements for the current 2011 reporting year are prepared on an IFRS basis, the $110.4 million decrease in equity attributed to the Trust unit liability will continue to be reported throughout the comparative period of 2010. The remaining $11.4 million cumulative charge to opening retained earnings is made up of:

- $21.6 million reduction in the NCI due to the fair value of Exchangeable units as at January 1, 2010. The 3,327,667 convertible Class B LP units were fair valued at $11.64 per unit; partially offset by a
  - i) $4.9 million net increase on intangible assets attributed to a $16.9 million reduction in amortization of intangibles partially offset by an impairment charge of $5.6 million and changes in purchase obligations recognized through gains or losses in earnings of $6.4 million; and a
  - ii) $5.3 million increase in future income tax assets as a result of the elimination of the tax accounting for certain GAAP book to tax differences under IFRS.

The $4.9 million cumulative CGAAP to IFRS increase in intangible assets as at January 1, 2010 is made up of the following:

- $4.5 million reduction in the gross book value of intangible assets as a result of the elimination of the gross-up of intangible assets for the income tax impact of the acquisition of the Via Capitale assets in 2008;
- $3.4 million impairment charge to intangible assets as a result of the different basis used to determine impairment under IFRS (see Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings);
- $2.3 million reduction in intangible assets as the Company took the opportunity with the changeover to IFRS to write off balances associated with terminated contracts from inception to December 31, 2009 which on an annual basis were considered immaterial; and
- $2.5 million reduction in the gross book value of intangible assets due to the elimination of deposit accounting for the Company's acquisition of franchise contracts, which gives rise to the following differences:
  - i) the acquisition of franchise contracts is recorded at their estimated fair value at the time of purchase, whereas under CGAAP the intangible asset is recognized as the purchase obligation is effectively "earned" (see Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings); and
  - ii) subsequent changes in the estimated purchase obligation are recorded in the Company's condensed consolidated statement of earnings whereas under CGAAP these changes are recorded against the intangible asset.

The reductions of intangible assets noted above were offset by a cumulative $17.6 million decrease in amortization as a result of the combination of the reduction of the intangible assets created by the adjustments noted above and a change in the amortization period of franchise agreements to reflect an estimated useful life, which includes the agreement term plus one renewal period.

Conversion to IFRS – Ongoing Impact on the Condensed Consolidated Statement of Earnings

From a condensed consolidated statement of earnings perspective, IFRS as compared to CGAAP has resulted in the following six differences of note, which are expected to continue in the future under IFRS:

1) Amortization expense has decreased as a result of a number of IFRS transition adjustments, which have reduced the net book value of intangibles and the associated amortization (see 5 and 6 below);

2) Interest costs have increased under IFRS as distributions paid to Exchangeable unitholders are classified as interest expense;

3) Under IFRS the Exchangeable unitholders' proportionate share of net income is no longer recorded due to its classification as a debt obligation;

4) Under IFRS the Exchangeable units are valued at the closing price of the Company's shares at each reporting date, with the change in value between reporting periods being recorded through the condensed consolidated statement of earnings;

5) Under IFRS the Company's franchise contracts are reviewed for impairment by comparing the net book value (the "NBV") of the contracts against the estimated discounted cash flows (the "DCF") of the franchise fees to be generated by these contracts over the remaining contract term on a contract by contract basis. Where the franchise contract DCF is less than its net book value the difference is recognized as an impairment loss through the condensed consolidated statement of earnings. Under CGAAP the undiscounted value of the estimated franchise fees was compared to the respective NBV on a contract by contract basis and then only in cases where the NBV exceeded the undiscounted value was the DCF valuation undertaken; and lastly

6) Under IFRS subsequent adjustments to the purchase price of franchise contracts as a result of the "earn-out" provisions of the purchase agreement are recorded through the interim condensed consolidated statement of earnings whereas under CGAAP, such adjustments were recorded as changes to intangible assets.

On a quarterly basis the mark-to-market adjustment of the Exchangeable unitholders noted in 3) above and the recording of franchise contract obligations noted in 6) above are expected to add volatility to the Company's condensed consolidated statement of earnings while the requirement to assess impairment of the Company's intangible assets on a DCF basis is expected to be assessed each reporting period.

It is also important to note that under IFRS impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the conditions causing the impairment reversing themselves. In this event, the carrying value of the intangible asset or cash-generating unit is increased to its revised recoverable amount limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

IFRS and Performance Monitoring

Since the inception of the Company as a Fund one of the key performance indicators ("KPI") utilized by management to assess the Company's performance was the rolling twelve-month distributable cash per unit. This KPI represents the net cash generated from the Company's operations which is available to distribute to its unitholders, and to service its capital structure and franchise contract acquisition obligations. With the Conversion effective December 31, 2010 and the changeover to IFRS effective January 1, 2011 the comparable distributable cash KPI is CFFO which is derived as net income or loss with the add-back of income taxes, adjustments to franchise contract purchase price obligations, amortization of intangible assets, the fair value and interest charges attributable to Exchangeable units and intangible asset impairment charges.

Change to a Corporation

As previously announced and approved by the Company's shareholders, effective December 31, 2010 the Fund was converted to a corporate structure through the introduction of the Company which owns the previous Fund structure. Shareholders exchanged their units in the Fund for restricted voting shares of the Company. The changes of note as a result of becoming a corporation are the recording of payments to shareholders as dividends instead of distributions; the recording of a current tax liability for taxes due at the Company level and the declaration of the Exchangeable unitholders' distributions at the pre-tax level of $1.40 per unit per annum versus $1.10 per unit for public shareholders.

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 between franchise agreements 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.

In assessing the fair value of franchise agreements upon acquisition, impairment of intangible assets, and measurement of deferred taxes, management estimates future cash flows by relying on external information and observable conditions where possible, supplemented by internal analysis.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation, interest payable to Exchangeable unitholders, 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.

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 consists of 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.

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 June 30, 2011. 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 were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive and the Chief Financial Officer. Based on the evaluations, they conclude that the ICFR is adequate and effective to provide such assurance as at June 30, 2011.

OUTSTANDING RESTRICTED VOTING SHARES

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. These restricted voting shares and special voting shares remain unchanged at June 30, 2011.

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, which represent the proportionate voting rights of Exchangeable units in the Company and are redeemable by the holder at $0.01 per share, and are not entitled to dividends declared by the Company. No additional restricted voting shares were issued during the Quarter.

COMPANY STRUCTURE

The Company is governed by a Board of Directors (the "Board") and consists 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 Exchangeable units 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.

CHANGE IN ACCOUNTING POLICIES

Accounting Changes – Future

The International Accounting Standards Board ("IASB") has issued the following new accounting standards:

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 is the first phase of the IASB's three-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 is applied prospectively, with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9.

IFRS 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 is a new and comprehensive Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 12.

IFRS 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 provides new guidance on fair value measurement and disclosure requirements for IFRS. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 13.

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 at www.brookfieldresinc.com under Investor Relations/Financial Reports. Additional discussion regarding these risks as appropriate is provided in this MD&A.

MARKET OUTLOOK

Price appreciation and housing activity are expected to slow during the second half of 2011, though housing performance in the first half of 2011 will support a national average house price forecast of 7.7% higher than the year ended 2010. Sales volume is forecast to decrease marginally by 2.0% over the same period, as a result of satisfied pent-up demand which emerged post-recession and interest rates which have stayed at historically low levels for an extended period of time and increasingly have become less of a stimulus.

We expect year-over-year prices to appreciate modestly in the third quarter as most housing markets across Canada cooled during the same period in 2010. Similarly, we expect this year's final quarter to display a flat year-over-year price performance when compared to an unusually strong fourth quarter of 2010.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report 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 achievements 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.

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION – Net Earnings and Cash Flow From Operations

	Canadian GAAP		IFRS					
Three months ended ($ 000's except per unit amounts, unaudited)	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	**June 30, 2011**
Royalties	$ 10,028	$ 8,495	$ 8,165	$ 10,527	$ 9,780	$ 8,158	$ 8,195	**$ 9,821**
Less:								
Administration expenses	189	252	205	205	316	1,045	268	**361**
Management fee	1,887	1,560	1,513	2,015	1,836	1,349	1,519	**1,823**
Interest expense	810	810	748	719	713	720	728	**811**
Cash flow from operations	7,142	5,873	5,699	7,588	6,915	5,044	5,680	**6,826**
Interest on Exchangeable units	–	–	1,168	1,168	1,168	1,833	1,168	**1,168**
Interest on Trust units	–	–	3,329	3,330	3,327	5,226	–	**–**
(Gain)/Loss on fair value of Exchangeable units	–	–	4,226	(2,429)	2,895	5,724	2,030	**(3,761)**
(Gain)/Loss on fair value of Trust units	–	–	12,045	(6,924)	8,251	16,312	–	**–**
(Gain)/Loss on purchase obligation adjustment	–	–	–	21	–	590	–	**–**
Other (income)/loss	(99)	(100)	(101)	–	–	–	–	**–**
Amortization of intangible assets	4,198	4,491	3,414	3,414	3,414	3,414	3,462	**3,461**
Non-controlling interest	827	599	–	–	–	–	–	**–**
Earnings/(Loss) before taxes	2,216	883	(18,382)	9,008	(12,140)	(28,055)	(980)	**5,958**
Current income tax expense	–	–	–	–	–	–	(937)	**(1,178)**
Future income tax recovery/(expense)	16	628	(27)	–	–	(1,528)	140	**137**
Net and comprehensive earnings/(loss) for the period	2,232	1,511	(18,409)	9,008	(12,140)	(29,583)	(1,777)	**4,917**
Add:								
Amortization of intangible assets	4,198	4,491	3,414	3,414	3,414	3,414	3,462	**3,461**
Non-cash interest expense	–	–	–	–	–	–	–	**–**
Non-cash other (income)/loss	(99)	(100)	(101)	–	–	–	–	**–**
Current income tax expense	–	–	–	–	–	–	937	**1,178**
Future income tax (recovery)/expense	(16)	(628)	27	–	–	1,528	(140)	**(137)**
Non-controlling interest	827	599	–	–	–	–	–	–
Interest on Exchangeable units	–	–	1,168	1,168	1,168	1,833	1,168	**1,168**
Interest on Trust units	–	–	3,329	3,330	3,327	5,226	–	**–**
(Gain)/Loss on fair value of Exchangeable units	–	–	4,226	(2,429)	2,895	5,724	2,030	**(3,761)**
(Gain)/Loss on fair value of Trust unit liability	–	–	12,045	(6,924)	8,251	16,312	–	**–**
(Gain)/Loss on purchase obligation adjustment	–	–	–	21	–	590	–	**–**
Cash flow from operations	7,142	5,873	5,699	7,588	6,915	5,044	5,680	**6,826**
Less change in:								
Unutilized cash	(2,625)	(904)	(1,202)	(3,090)	(2,418)	2,013	(1,894)	**(3,040)**
Reserves for acquisition	–	–	–	–	–	–	–	**–**
Cash required for dividends	$ 4,517	$ 4,969	$ 4,497	$ 4,498	$ 4,497	$ 7,057	$ 3,786	**$ 3,786**
Cash flow from operations available to:								
Public shareholders	$ 3,349	$ 3,668	$ 3,329	$ 3,330	$ 3,329	$ 5,224	$ 2,618	**$ 2,618**
Non-controlling interest	1,168	1,301	1,168	1,168	1,168	1,833	1,168	**1,168**
	$ 4,517	$ 4,969	$ 4,497	$ 4,498	$ 4,497	$ 7,057	$ 3,786	**$ 3,786**

SUPPLEMENTAL INFORMATION – Selected Financial and Operating Information

Three months ended ($000's, unaudited)	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	**June 30, 2011**
Revenue									
Fixed franchise fees	$ 4,445	$ 4,459	$ 4,471	$ 4,610	$ 4,695	$ 4,700	$ 4,710	$ 4,758	**$ 4,761**
Variable franchise fees	2,312	2,738	1,631	1,783	2,990	2,203	1,269	1,697	**2,560**
Premium franchise fees	920	1,674	1,341	851	1,556	1,692	1,126	778	**1,279**
Other fee revenue and services	1,162	1,157	1,052	921	1,286	1,185	1,053	962	**1,221**
	$ 8,839	$ 10,028	$ 8,495	$ 8,165	$ 10,527	$ 9,780	$ 8,158	$ 8,195	**$ 9,821**
% Revenue by region									
British Columbia	12	12	12	12	11	11	11	11	**11**
Prairies	9	9	9	10	9	9	9	9	**9**
Ontario	54	56	56	56	57	58	57	57	**57**
Quebec	22	20	20	19	20	19	20	20	**20**
Maritimes	3	3	3	3	3	3	3	3	**3**
	100	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	March 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 2011, 2011	**June 30, 2011**
Number of REALTORS®	(74)	(51)	64	639	25	27	(14)	141	**(88)**
Number of Agents	(81)	(46)	51	579	37	34	(15)	170	**(83)**
Number of fixed-fee-paying Sales Representatives	(2)	2	8	64	(9)	(14)	4	(28)	**(6)**
Number of locations	(5)	(3)	(5)	18	1	(3)	(5)	7	**(2)**
Number of franchise agreements	(3)	1	(2)	20	(1)	(1)	0	27	**(2)**
At end of period									
Number of REALTORS®	14,618	14,567	14,631	15,270	15,295	15,322	15,308	15,449	**15,361**
Number of Agents	13,615	13,569	13,620	14,199	14,236	14,270	14,255	14,425	**14,342**
Number of fixed-fee-paying Sales Representatives	697	699	707	771	762	748	752	724	**718**
Number of locations	655	652	647	665	666	663	658	665	**663**
Number of franchise agreements	350	351	349	369	368	367	367	394	**392**

SUPPLEMENTAL INFORMATION – Share and Exchangeable Unit Performance

Three months ended	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	**June 30, 2011**
Trading price range of units/shares (TSX: "BRE")									
High	$ 8.40	$ 12.17	$ 12.00	$ 13.45	$ 13.90	$ 13.40	$ 15.50	$ 16.49	**$ 15.67**
Low	$ 7.50	$ 8.20	$ 11.15	$ 12.31	$ 11.99	$ 11.67	$ 12.72	$ 14.40	**$ 12.85**
Close	$ 8.34	$ 11.55	$ 11.64	$ 12.91	$ 12.18	$ 13.05	$ 14.77	$ 15.38	**$ 14.25**
Average daily volume	20,924	19,167	14,434	24,796	11,022	7,186	13,564	12,816	**8,748**
Number of units/shares outstanding at period ended	9,650,880	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	**9,483,850**
Net enterprise value at period ended (thousands)									
Market capitalization	$ 108,241	$147,973	$149,126	$165,397	$156,044	$167,190	$189,226	$197,041	**$182,564**
Long-term debt	52,776	52,864	52,953	52,197	52,218	52,256	52,277	52,314	**52,352**
Less:									
Cash on hand	1,962	3,902	6,842	402	1,063	4,552	5,672	1,573	**1,469**
	$ 159,055	$196,935	$195,237	$217,192	$207,199	$214,894	$235,831	$247,782	**$233,447**

Distributions/Dividends History

	Dividends Declared per Unit/Share								
Month	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
January		$ 0.0917	$ 0.0917	$ 0.0958	$ 0.1000	$ 0.1040	$ 0.1170	$ 0.1170	**$ 0.0920**
February		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
March		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
April		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
May		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
June		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
July		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	**0.0920**
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]	**$ 0.64**

[1] Based on a 55-day period.

[2] A special distribution of $0.20 per unit was declared for unitholders of record on December 31, 2010 and paid on January 28, 2011.

SUPPLEMENTAL INFORMATION – Canadian Residential Real Estate Market

Three months ended	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	**June 30, 2011**
Canada										
Transactional dollar volume[1]	$ 21,748	$ 46,938	$ 44,281	$ 36,023	$ 37,356	$ 49,352	$ 33,962	$ 30,857	$ 37,690	**$ 52,893**
Average selling price	$ 284,681	$ 318,675	$ 327,769	$ 338,940	$ 336,498	$ 345,015	$ 328,925	$ 344,347	$ 363,090	**$ 374,159**
Number of units sold	$ 76,396	$ 147,291	$ 135,098	$ 106,281	$ 111,013	$ 143,042	$ 103,252	$ 89,611	$ 103,804	**$ 141,366**
Number of REALTORS® at period ended	96,353	96,798	97,301	98,161	99,819	101,068	101,606	101,916	103,207	**N/A**
Housing starts	23,772	35,798	42,934	46,577	35,014	55,287	52,671	46,958	33,553	**52,625**
Greater Toronto Area										
Transactional dollar volume[1]	$ 4,639	$ 11,343	$ 10,395	$ 8,981	$ 9,721	$ 12,666	$ 8,021	$ 7,724	$ 8,926	**$ 4,068**
Average selling price	$ 357,817	$ 395,964	$ 396,693	$ 418,777	$ 428,043	$ 439,802	$ 419,619	$ 439,113	$ 449,286	**$ 479,830**
Number of units sold	12,957	28,647	26,205	21,446	22,711	28,799	19,115	17,589	19,867	**29,319**
Housing starts	5,904	5,639	6,712	7,694	5,669	7,962	7,845	7,719	8,374	**11,245**

Twelve months ended	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	**June 30, 2011**
Canada										
Transactional dollar volume[1]	$ 120,785	$ 121,644	$ 131,929	$ 148,990	$ 164,597	$ 167,011	$ 156,692	$ 151,527	$ 151,861	**$ 155,403**
Average selling price	$ 299,306	$ 299,944	$ 309,786	$ 320,364	$ 329,404	$ 337,101	$ 337,999	$ 339,048	$ 345,368	**$ 354,774**
Number of units sold	403,551	405,555	425,871	465,066	499,683	495,434	463,588	446,918	439,709	**438,033**
Housing starts	191,218	164,929	149,571	149,081	160,323	179,812	189,549	189,930	188,469	**185,807**
Seasonally adjusted housing starts	131,200	129,700	155,000	178,400	195,600	199,800	190,700	179,600	174,600	**195,100**
Greater Toronto Area										
Transactional dollar volume[1]	$ 26,441	$ 27,351	$ 30,467	$ 35,359	$ 40,441	$ 41,764	$ 39,389	$ 38,132	$ 37,336	**$ 38,739**
Average selling price	$ 375,603	$ 375,292	$ 384,819	$ 396,154	$ 408,457	$ 421,169	$ 427,814	$ 432,264	$ 437,348	**$ 451,027**
Number of units sold	70,395	72,878	79,173	89,255	99,009	99,161	92,071	88,214	85,370	**85,890**
Housing starts	39,171	33,126	28,102	25,949	25,714	28,037	29,170	29,195	31,900	**35,183**

Source: (Conference Board of Canada, CMHC)
[1] ($ million)
N/A: Not Available

SUPPLEMENTAL INFORMATION – Cash Flow From Operations

Cash flow from operations and its utilization since Fund inception ($ 000's)	Total	IFRS Six months ended June 30, 2011	IFRS Year ended Dec. 31, 2010	Canadian GAAP 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	**$ 245,776**	$ 18,016	$ 36,630	$ 34,359	$ 34,883	$ 32,491	$ 29,659	$ 27,196	$ 23,740	$ 8,802
Less:										
Administration expenses	**6,792**	629	1,771	866	817	725	645	595	513	231
Interest expense	**19,871**	1,539	2,900	3,202	3,174	2,419	2,401	2,289	1,327	620
Non-cash Interest expense	**–**									
Management fee	**44,899**	3,342	6,713	6,365	6,455	5,869	7,285	3,660	3,660	1,550
Cash flow from operations	**174,214**	12,506	25,246	23,926	24,437	23,478	19,328	20,652	18,240	6,401
Less:										
Dividends to shareholders	**97,319**	5,236	15,212	13,828	13,083	11,980	11,477	10,985	10,985	4,533
Interest on Exchangeable units	**33,500**	2,336	5,337	4,805	4,369	3,992	3,826	3,662	3,662	1,511
Total dividends and interest	**130,819**	7,572	20,549	18,633	17,452	15,972	15,303	14,647	14,647	6,044
Cash flow from operations less total dividends	**43,395**	4,934	4,697	5,293	6,985	7,506	4,025	6,005	3,593	357
Less Funding of acquisitions	**35,249**	2,835	7,270	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	**$ 4,050**	$ 2,099	$ (2,573)	$ (3,339)	$ 1,130	$ 1,173	$ (3,861)	$ 5,591	$ 3,473	$ 357
Cumulative change	**$ 4,050**	$ 4,050	$ 1,951	$ 4,524	$ 7,863	$ 6,733	$ 5,560	$ 9,421	$ 3,830	$ 357
Dividends percentage payout[1]	**74%**	61%	81%	78%	71%	68%	79%	71%	80%	94%

[1] This represents the total dividends paid as a percentage of cash flow from operations.

Cash flow from operations Reconciled to cash flow from operating activities ($ 000's)	Total	IFRS Six months ended June 30, 2011	IFRS Year ended Dec. 31, 2010	Canadian GAAP 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 flow from operating activities	**$ 149,651**	$ $6,762	$ 6,100	$ 25,710	$ 24,174	$ 22,871	$ 20,199	$ 20,607	$ 17,772	$ 5,456
Add (deduct):										
Changes in non-cash working capital items	**246**	702	(1,224)	(1,440)	546	769	(703)	183	468	945
Interest on Exchangeable units	**7,673**	2,336	5,337				–	–	–	–
Current non-cash income tax expense	**2,115**	2,115								
Interest on Trust units	**15,212**	–	15,212							
Non-cash interest expense	**(683)**	591	(179)	(344)	(283)	(162)	(168)	(138)	–	–
Cash flow from operations	**$ 174,214**	$ 12,506	$ 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 agreements	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 agreements	23	21	21	60	22	16

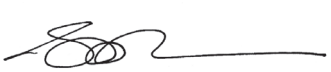
(a) To be determined at the end of the year in accordance with the MSA and appropriate purchase agreement.
(b) Audited.
(c) Purchase price obligation as at December 31.
(d) Purchase price obligation and actual values for Via Capitale are calculated over three years.

Interim Condensed Consolidated Balance Sheets

Unaudited In thousands of Canadian dollars	Note	June 30, 2011	December 31, 2010	January 1, 2010
			(Note 3)	(Note 3)
Assets				
Current assets				
Cash		$ 1,469	$ 5,672	$ 6,842
Accounts receivable	5	5,139	3,158	3,267
Prepaid expenses		234	267	–
		6,842	9,097	10,109
Non-current assets				
Deferred tax asset	8	1,975	1,698	3,253
Intangible assets	6, 7	107,865	111,313	119,724
		$ 116,682	$ 122,108	$ 133,086
Liabilities and shareholders' equity (deficit)				
Current liabilities				
Accounts payable and accrued liabilities		$ 1,041	$ 1,910	$ 2,557
Purchase obligation – current portion	6	3,236	3,282	2,219
Current income tax liability	8	2,115	–	–
Interest payable to Exchangeable unitholders		389	1,055	522
Dividends payable to shareholders		873	3,006	1,489
Financial derivative		–	–	101
		7,654	9,253	6,888
Non-current liabilities				
Long-term debt	10	52,352	52,277	52,953
Purchase obligation	6	206	281	1,924
Exchangeable units	11	47,419	49,150	38,734
Trust unit liability		–	–	110,392
		107,631	110,961	210,891
Shareholders' equity (deficit)				
Restricted voting shares	12	140,076	140,076	–
Deficit		(131,025)	(128,929)	(77,805)
		9,051	11,147	(77,805)
		$ 116,682	$ 122,108	$ 133,086

See accompanying notes to the interim condensed consolidated financial statements.

Approved on behalf of the board



Simon Dean
Director

Lorraine Bell
Director

Interim Condensed Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

Unaudited In thousands of Canadian dollars	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Royalties					
Fixed franchise fees		$ 4,761	$ 4,695	$ 9,519	$ 9,305
Variable franchise fees		2,560	2,990	4,257	4,773
Premium franchise fees		1,279	1,556	2,057	2,407
Other revenue and services		1,221	1,286	2,183	2,207
		9,821	10,527	18,016	18,692
Expenses					
Administration		361	205	629	410
Management fee	4	1,823	2,015	3,342	3,528
Interest expense		811	719	1,539	1,467
Amortization of intangible assets		3,461	3,414	6,923	6,828
		6,456	6,353	12,433	12,223
Operating income before the undernoted		3,365	4,174	5,583	6,459
Interest on Exchangeable units		(1,168)	(1,168)	(2,336)	(2,336)
Interest on Trust units		–	(3,330)	–	(6,659)
Gain (loss) on fair value of Exchangeable units	11	3,761	2,429	1,731	(1,797)
Loss on purchase obligation adjustment		–	(21)	–	(21)
Gain (loss) on fair value of Trust unit liability		–	6,924	–	(5,121)
Other income		–	–	–	101
Earnings (loss) before income tax		5,958	9,008	4,978	(9,374)
Current income tax expense	8	(1,178)	–	(2,115)	–
Deferred income tax recovery (expense)	8	137	–	277	(27)
Total income tax expense		(1,041)	–	(1,838)	(27)
Net and comprehensive earnings (loss)		$ 4,917	$ 9,008	$ 3,140	$ (9,401)
Basic earnings per share		$ 0.52		$ 0.33	
Weighted average number of shares outstanding used in computing basic earnings per share		9,483,850		9,483,850	
Diluted earnings per share		$ 0.18		$ 0.29	
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517		12,811,517	

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited In thousands of Canadian dollars	Note		Common Equity		Deficit		Total Equity
Balance, December 31, 2010	3	$	140,076	$	(128,929)	$	11,147
Net earnings			–		3,140		3,140
Dividends declared			–		(5,236)		(5,236)
Balance, June 30, 2011		**$**	**140,076**	**$**	**(131,025)**	**$**	**9,051**

Unaudited In thousands of Canadian dollars	Note		Unitholders' Equity		Deficit		Total Equity
Balance, January 1, 2010	3	$	–	$	(77,805)	$	(77,805)
Net loss			–		(9,401)		(9,401)
Balance, June 30, 2010	3	$	–	$	(87,206)	$	(87,206)

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited In thousands of Canadian dollars	Note	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Cash provided by (used for):					
Operating activities					
Net earnings (loss) for the period		$ 4,917	$ 9,008	$ 3,140	$ (9,401)
Items not affecting cash					
Fair value (gain) loss on Exchangeable units	11	(3,761)	(2,429)	(1,731)	1,797
Fair value (gain) loss on Trust unit liability		–	(6,924)	–	5,121
Interest expense		1,979	5,217	3,875	10,462
Interest paid		(1,941)	(5,179)	(4,466)	(10,361)
Deferred income tax (recovery) expense	8	(137)	–	(277)	27
Change in value of financial derivative		–	–	–	(101)
Amortization of intangible assets		3,461	3,414	6,923	6,828
Changes in non-cash working capital		(408)	(2,429)	(702)	(2,900)
		4,110	678	6,762	1,472
Investing activities					
Purchase of intangible assets	6, 7	(761)	–	(761)	(4,196)
Payment of purchase price obligation	6	(835)	–	(2,835)	(2,219)
		(1,596)	–	(3,596)	(6,415)
Financing activities					
Proceeds from term facility	10	–	(6)	–	19,980
Repayment of term facility	10	–	–	–	(15,000)
Proceeds of private debt placement	10	–	(11)	–	32,184
Repayment of long-term debt	10	–	–	–	(38,000)
Dividends paid to shareholders		(2,618)	–	(7,369)	–
		(2,618)	(17)	(7,369)	(836)
Increase (decrease) in cash during the period		(104)	661	(4,203)	(5,779)
Cash, beginning of period		1,573	402	5,672	6,842
Cash, end of period		$ 1,469	$ 1,063	$ 1,469	$ 1,063

See accompanying notes to the interim condensed consolidated financial statements.

1. ORGANIZATION

Brookfield Real Estate Services Inc. (the "Company"), formerly Brookfield Real Estate Services Fund (the "Fund"), is incorporated under the Ontario Business Corporation Act. Brookfield Real Estate Services Inc.'s registered office is located at 39 Wynford Drive, Toronto, Canada, M3C 3K5 and is listed on the Toronto Stock Exchange ("TSX"). Through its limited partnership holdings, the Company owns certain franchise agreements 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. ("Trilon") 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, 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 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.

Seasonality

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements for the year ending December 31, 2011. The Company is a first-time adopter of International Financial Reporting Standards ("IFRS") and has followed the requirements of IFRS 1 – *First-time Adoption of IFRS* ("IFRS 1") in its initial application of IFRS as disclosed more fully in Note 3 to these interim financial statements. IFRS requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The Company will make this statement when it issues its 2011 annual financial statements.

The policies set out below were consistently applied to all the periods presented unless otherwise required under IFRS 1 and as described in Note 3.

These consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on August 4, 2011.

Basis of presentation

These consolidated financial statements have been prepared on a going-concern basis and 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. ("VCLP"), a wholly owned subsidiary of the Partnership, and 4541219 Canada Inc., the "General Partner of VCLP". RIFGP is the managing general partner of the Partnership. Trilon owns the remaining 26% interest in the Partnership and RIFGP. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. ("BRESML"), a party related to Trilon via common control. Royal LePage Real Estate Services Limited ("RES"), a wholly owned subsidiary of BRESML, pays royalties to the Company under a franchise agreement.

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:

Cash
Cash consisting of cash on hand, is used to fund dividend distributions to shareholders, the purchase of franchise agreements, and other operating requirements.

Accounts receivable
Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectibility.

Intangible assets
Intangible assets, consisting of franchise agreements and trademark rights, are accounted for using the cost method. Intangible assets are recorded at initial cost less accumulated amortization and accumulated impairment losses. Subsequent adjustments to the purchase price of intangible assets based on future earn-out provisions governed by the terms set out in the Amended and Restated Master Services Agreements ("MSA") dated January 1, 2011 are expensed as incurred.

Franchise agreements are amortized over the term of the agreements plus one renewal period using the effective rate method on an agreement-by-agreement basis. Trademarks are amortized on a straight-line basis over the expected useful life.

The Company acquires intangible assets annually and capitalizes the estimated purchase price on the purchase date. The initial purchase price for franchise agreements is based on the expected discounted cash flows generated over their respective terms. At each balance sheet date, the Company assesses whether there are any indicators that intangible assets are impaired. If indicators of impairment exist, the recoverable amount of the intangible asset or cash-generating unit is estimated. The Company considers a franchise agreement to be a cash-generating unit. The recoverable amount of the cash-generating unit is the greater of its fair value less costs to sell and its value-in-use. Fair value is determined to be the amount for which the intangible asset can be sold in an arm's length transaction whereas value-in-use is determined by estimating the present value of the future cash flows expected to be derived from the continued use of the intangible asset or cash-generating unit. If the carrying value of the intangible asset or cash-generating unit exceeds the recoverable amount, the intangible asset or cash-generating unit is written down to the recoverable amount and an impairment loss is recognized and charged to income in the period. Impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the conditions causing the impairment reversing themselves. In this event, the carrying value of the intangible asset or cash-generating unit is increased to its revised recoverable amount limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

Income taxes
Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities, except to the extent that there was a temporary difference present on the initial recognition of an asset or liability outside of a business combination. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized directly in equity.

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, and collectibility is reasonably assured. Fixed Franchise Fees are recognized as income earned and collectibility is reasonably assured.

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 and collectibility is reasonably assured.

Other revenue and services are generally recognized as income when the related services have been provided and collectibility is reasonably assured. Any prepayment for future service is recorded as deferred revenue.

Exchangeable units

Exchangeable units represent the future distribution obligation of the Company in respect of Class B LP units of the Partnership, a wholly owned subsidiary of the Company, which are convertible into restricted voting shares of the Company. These financial instruments are classified as a financial liability as a result of their "puttable" feature as well as by virtue of the Partnership Agreement whereby the Partnership is required to distribute all of its income to the partners. The Company has designated these financial liabilities as fair value through profit or loss. The fair value of these financial liabilities is based on the price of the Company's Trust units and the number of Exchangeable units outstanding at the reporting date.

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 Exchangeable unitholders exercising their right to exchange Class B LP Units of the Partnership into restricted voting shares of the Company.

Financial instruments

All financial instruments are classified into one of the following five categories: fair value through profit or loss ("FVTPL"); 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 financial assets and liabilities classified as FVTPL are included in net income in the period in which they arise.

The Company made the following classifications:

Cash or cash equivalents	FVTPL
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Purchase obligation	FVTPL
Interest expense payable	Other financial liabilities
Long-term debt	Other financial liabilities
Exchangeable units	FVTPL
Trust unit liability	FVTPL

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 June 30, 2011 that would result in Other Comprehensive Earnings to the Company.

Purchase obligations

The Company's purchase obligations arise from the purchase of franchise agreements, for which the purchase price is based on future earn-out provisions governed by the MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract which is not closely related to the host contract. Such instruments are recorded in the consolidated balance sheet at fair value. Changes in the fair value of derivative instruments, including embedded derivatives, are recognized in other income (loss).

Critical accounting estimates and assumptions

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the fair value of franchise agreements upon acquisition and assessment of impairment of intangible

assets, measurement of deferred taxes, and fair values used for disclosure purposes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

Critical judgment in applying accounting policies

The following is the critical judgment that has been made in applying the Company's accounting policies and that has the most significant effect on the amounts in the financial statements:

Accounting for the purchase of franchise agreements

The critical judgment made in accounting for the acquisition of franchise agreements is determining if the acquisition is considered the acquisition of assets or a business. In applying the guidance in IFRS 3, *Business Combinations* ("IFRS 3"), the Company must evaluate if the acquisition includes both inputs and processes as well as whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company evaluated the criteria included in IFRS 3 and determined that the acquisition of franchise agreements is an acquisition of assets as no "processes" were acquired in respect of the franchise agreements. In addition, the Company must also apply judgment with respect to the accounting for the "earn-out" provisions as set out in the MSA, in connection with the purchase of franchise agreements. The Company has determined that a portion of the purchase obligation is an embedded derivative instrument in a non-financial host contract whereby the value changes in response to an underlying contract, which is the actual earned franchise revenues. The Company has elected to designate the entire purchase contracts as a financial liability at fair value through profit or loss.

Future accounting and reporting changes:

IFRS 9 - Financial Instruments ("IFRS 9")

IFRS 9 is the first phase of the IASB's three-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. It is applicable to financial assets and requires classification and measurement in either the amortized cost or the fair value category. IFRS 9 is applied prospectively with transitional arrangements depending on the date of application. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company has not fully assessed the impact of adopting IFRS 9.

IFRS 10 – Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The Standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 10.

IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 12.

IFRS 13 – Fair Value Measurement ("IFRS 13")

IFRS 13 provides new guidance on fair value measurement and disclosure requirements for IFRS. The Standard is not applicable until annual periods beginning on or after January 1, 2013, but is available for early adoption. The Company is in the process of assessing the impact of adopting IFRS 13.

3. TRANSITION TO IFRS

The Company adopted IFRS on January 1, 2011 with a date of transition effective January 1, 2010. Prior to the adoption of IFRS the Company prepared its consolidated financial statements in accordance with Canadian GAAP. The first annual financial statements issued by the Company that will comply with IFRS will be those issued for the year ending December 31, 2011. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual consolidated financial statements. The Company's

transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2 and in accordance with the requirements of IFRS 1, which is applicable upon first-time adoption of IFRS. IFRS 1 requires that the same policies be applied for all periods presented and that those policies be based on IFRS effective at the end of the first IFRS year-end or December 31, 2011 for the Company. The Company will ultimately prepare its opening balance sheet by applying existing IFRS with an effective date of December 31, 2011. Accordingly, it is possible that the opening balance sheet and consolidated financial statements for 2010 and 2011 may differ from the information presented in these interim financial statements.

Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company considered the optional exemptions from full retrospective application of IFRS. There were no optional exemptions elected by the Company.

Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exception applied from full retrospective application of IFRS is described below.

Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Reconciliation of equity as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date:

	Note	Common Equity	Contributed Surplus	Deficit	Shareholders' Equity
As reported under CGAAP – December 31, 2009		$ 87,947	$ 895	$ (44,798)	$ 44,044
Differences increasing (decreasing) reported amounts:					
Classification of Trust units	(i), (v)	(87,947)	(895)	–	(88,842)
Fair value of Trust units	(i)	–	–	(21,550)	(21,550)
Fair value of Exchangeable units	(i)	–	–	(21,673)	(21,673)
Impairment of intangible assets	(ii)	–	–	(5,655)	(5,655)
Amortization of intangible assets	(vi)	–	–	16,930	16,930
Intangible assets – prior to January 1, 2010	(iii)	–	–	(6,391)	(6,391)
Deferred taxes	(iv)	–	–	5,332	5,332
As reported under IFRS – January 1, 2010		**$ –**	**$ –**	**$ (77,805)**	**$ (77,805)**

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

	Note	Common Equity	Contributed Surplus	Deficit	Shareholders' Equity
As reported under CGAAP – December 31, 2010		$ 87,947	$ 895	$ (53,848)	$ 34,994
Differences increasing (decreasing) reported amounts:					
Measurement of Trust units	(i)	52,129	(895)	–	51,234
Fair value of Trust units	(i)	–	–	(51,234)	(51,234)
Distributions to Trust unitholders classified as interest expense	(i)	–	–	(15,212)	(15,212)
Reclassification of distributions to Trust unitholders to expense	(i)	–	–	15,212	15,212
Fair value of Exchangeable units	(i)	–	–	(32,089)	(32,089)
Earnings attributable to Exchangeable unitholders	(i)	–	–	2,654	2,654
Distributions to Exchangeable unitholders classified as interest expense	(i)	–	–	(5,337)	(5,337)
Impairment of intangible assets	(ii)	–	–	((5,655)	(5,655)
Amortization of intangible assets	(vi)	–	–	19,745	19,745
Intangible assets – prior to January 1, 2010	(iii)	–	–	(6,391)	(6,391)
Intangible assets – 2010 purchase	(iii)	–	–	(611)	(611)
Deferred taxes	(iv)	–	–	3,837	3,837
As reported under IFRS – December 31, 2010		**$ 140,076**	**$ –**	**$ (128,929)**	**$ 11,147**

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at June 30, 2010:

	Note	Common Equity	Contributed Surplus	Deficit	Shareholders' Equity
As reported under CGAAP – June 30, 2010		$ 87,947	$ 895	$ (47,621)	$ 41,221
Differences increasing (decreasing) reported amounts:					
Classification of Trust units	(i)	(87,947)	(895)	–	(88,842)
Fair value of Trust units	(i)	–	–	(26,671)	(26,671)
Distributions to Trust unitholders classified as interest expense	(i)	–	–	(6,660)	(6,660)
Reclassification of distributions to Trust unitholders to expense	(i)	–	–	6,660	6,660
Fair value of Exchangeable units	(i)	–	–	(23,470)	(23,470)
Earnings attributable to Exchangeable units	(i)	–	–	1,448	1,448
Distributions to Exchangeable units classified as interest expense	(i)	–	–	(2,336)	(2,336)
Impairment of intangible assets	(ii)	–	–	(5,655)	(5,655)
Amortization of intangible assets	(vi)	–	–	18,195	18,195
Intangible assets – prior to January 1, 2010	(iii)	–	–	(6,391)	(6,391)
Intangible assets – 2010 purchase	(iii)	–	–	(21)	(21)
Deferred taxes	(iv)	–	–	5,316	5,316
As reported under IFRS – June 30, 2010		**$ –**	**$ –**	**$ (87,206)**	**$ (87,206)**

(i) Classification and measurement of Trust units and Exchangeable units prior to conversion

For periods presented prior to the Conversion, Trust Units of the Fund and the Class B LP units of the Partnership ("Exchangeable units") should be presented as a liability under IFRS in accordance with guidance in IAS 32, *Financial Instruments: Presentation*. The classification is primarily as a result of the mandatory distribution features in the Fund's Declaration of Trust and the "puttable" nature of the Trust units for which the Exchangeable units are exchangeable. Both the Trust and Exchangeable units are recorded at fair value whereby any changes in the fair value is recognized in earnings during the period. Distributions made to both Trust unitholders and holders of Exchangeable units are recorded as interest expense. Under Canadian GAAP, Trust units were classified as an equity instrument measured at cost and the Exchangeable units were presented as non-controlling interest and measured at the pro-rata share of net assets not owned by the Company of such consolidated subsidiaries.

(ii) Impairment of intangible assets

Under IFRS, the Company must calculate potential impairment by estimating the present value of the future cash flows expected to be derived from the continued use of the intangible asset whereas Canadian GAAP calculated potential impairment using similar cash flows but on an undiscounted basis. This change in accounting policy resulted in the recognition of an impairment of $3,398 upon transition. In addition, the Company has recognized an impairment loss of $2,257, which is the correction of the Canadian GAAP balance.

Impairment charges recognized upon transition resulted in a reduction to amortization expense.

(iii) Intangible assets

Adjustments have been made to the carrying value of intangible assets to reflect that under IFRS, following the date of acquisition, changes to the purchase obligation are recognized as a gain or loss in earnings versus as adjustments to the carrying value of the intangible assets. This is consistent with accounting for the purchase obligation as an embedded derivative in a non-financial host contract whereby the entire purchase contract is classified as fair value through profit or loss.

(iv) Deferred taxes

This adjustment reflects the application of guidance in IAS 12, *Income Taxes*, whereby deferred tax assets or liabilities for taxable temporary differences that arise from transactions which are not business combinations are not recognized, as well as the deferred tax impacts as a result of other IFRS Conversion adjustments.

(v) Classification of restricted voting shares post Conversion

Upon Conversion to a Corporation, restricted voting shares were issued in exchange for the Trust units outstanding. These restricted voting shares do not contain a mandatory dividend feature, and as such are classified as common equity, in accordance with guidance in IAS 32: *Financial Instruments: Presentation*. The assigned value of the outstanding restricted voting shares is equivalent to the last publicly traded price of the Trust units on December 31, 2010. Dividends declared to common shareholders will be recorded as a reduction to shareholders' equity.

(vi) Amortization of intangible assets

This adjustment reflects the impact on amortization expense as a result of changes to the carrying value of intangible assets as a result of other adjustments disclosed herein as well as a change in the amortization period of intangible assets to reflect an estimated useful life which includes the agreement term plus one renewal period.

Reconciliation of net income as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010, the three and six months ended June 30, 2010:

	Note	Three months ended June 30, 2010	Six months ended June 30, 2010	Year ended December 31, 2010
Net income as reported under Canadian GAAP		$ 2,584	$ 3,836	$ 6,162
Earnings attributable Exchangeable units	(i)	959	1,448	2,654
Interest on Exchangeable units	(ii)	(1,168)	(2,336)	(5,337)
Revaluation of Exchangeable units to fair value	(iii)	2,429	(1,797)	(10,416)
Amortization of intangible assets	(iv)	647	1,265	2,815
Intangible assets	(v)	(21)	(21)	(611)
Deferred income taxes	(vi)	(16)	(16)	(1,495)
Interest on Trust units	(vii)	(3,330)	(6,659)	(15,212)
Revaluation of Trust units to fair value	(viii)	6,924	(5,121)	(29,684)
Net loss as reported under IFRS		**$ 9,008**	**$ (9,401)**	**$ (51,124)**

(i) Earnings attributable to Exchangeable unitholders

Non-controlling interest in income of subsidiaries is included in the determination of net income reported by an entity under Canadian GAAP. Under IFRS, net income attributable to the Exchangeable unitholders is added back in determining net income as reported under IFRS.

(ii) Interest on Exchangeable units

Interest on Exchangeable units represents distributions to Exchangeable unitholders, which are not included in the determination of net income under Canadian GAAP. Under IFRS, distributions to non-controlling interests is accounted for as interest expense as the ownership of non-controlling interests in the net assets of the underlying consolidated subsidiaries contains a mandatory distribution feature, and as such is accounted for as a debt instrument.

(iii) Revaluation of Exchangeable units to fair value

Under Canadian GAAP, Exchangeable units were measured at the pro-rata share of net assets not owned by the Company of such consolidated subsidiaries. Under IFRS, the ownership of Exchangeable units in the net assets of the underlying consolidated subsidiaries contains a mandatory distribution feature, and is accounted for as a debt instrument, which is carried at fair value. Each Exchangeable unit has a fair value equal to the traded value of the Company's common shares. Changes in the fair value of the Company's Exchangeable units are accounted for as other gains or losses.

(iv) Amortization to intangible assets

This adjustment reflects the impact on amortization expense as a result of changes to the carrying value of intangible assets as disclosed in Note (v) below.

(v) Intangible assets

Subsequent adjustments to the purchase price of intangible assets as a result of the earn-out provisions as governed by terms of the MSA are expensed or recovered as applicable in accordance with IFRS guidance. Under Canadian GAAP these adjustments were added to the carrying value of the intangible assets.

(vi) Deferred income taxes

The change related to deferred taxes reflects the change in temporary differences resulting from the effect of the IFRS adjustments described herein.

(vii) Interest on Trust units
Interest on Trust units represents distributions to Trust unitholders, which are not included in the determination of net income under Canadian GAAP. Under IFRS, distributions to Trust unitholders, prior to the Conversion, are accounted for as interest expense as a result of the liability classification of the Trust units as disclosed.

(viii) Revaluation of Trust units to fair value
Under Canadian GAAP, Trust units were presented as part of unitholder's equity. Under IFRS, Trust units, prior to the Conversion, are presented as Trust unit liability and measured at fair value as disclosed above. Changes in the fair value of the Trust unit liability are accounted for as other gains or losses.

Changes to the cash flow statement
There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

4. MANAGEMENT SERVICES AGREEMENT
On January 1, 2008, the Company entered into the MSA with BRESML, a party related to the Exchangeable unitholders via common control. This agreement replaced the Management Services Agreement as previously amended, 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 BRESML. The termination date and renewal periods of the MSA remain consistent with the original agreement. Under the MSA, BRESML 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 VCLP, respectively. For the three and six months ended June 30, 2011, the Company paid $1,823 and $3,342, respectively, for these services (three and six months ended June 30, 2010 – $2,015 and $3,528, respectively). The MSA also prescribes the conditions under which the Company purchases contracts from BRESML and the formula for calculating the purchase price.

5. 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 June 30, 2011 the Company had accounts receivable of $5,139 (December 31, 2010 – $3,158) net of $126 (December 31, 2010 – $48) allowance for doubtful accounts. During the three and six months ended June 30, 2011, $68 and $78, respectively, of bad debt expense related to the provision for doubtful accounts was included in Administration expense (three and six months ended June 30, 2010 – $nil and $nil, respectively).

The table below summarizes the amount of accounts receivable that are overdue:

	90+ Days	60 Days	30 Days	Total
Accounts receivable	$ 548	$ 221	$ 798	$ 1,567

6. ASSET ACQUISITIONS
The Fund's purchase of franchise agreements is governed by terms set out in the MSA.

On January 1, 2011, the Partnership acquired 21 new Royal LePage franchise agreements from BRESML at an estimated purchase price of $2,524. A payment of $2,019, equal to 80% of the estimated purchase price, was due on January 1, 2011 and the remainder is to be paid a year later, when the final purchase price is determined. Any subsequent changes to the value of the estimated purchase price 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. The unpaid balance due as of January 1, 2011 is subject to interest at the rate prescribed in the MSA.

On January 1, 2011, VCLP acquired two new Via Capitale (formerly known as La Capitale) franchise agreements from BRESML at an estimated purchase price of $951. A payment of $761, equal to 80% of the estimated purchase price, was due on January 1, 2011 and the remainder is to be paid over the next three years. Until the final purchase price is determined, the purchase price obligation is recalculated at each period end based on the actual royalties received. Any subsequent changes to the value of the estimated purchase obligation 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. The unpaid balance due as of January 1, 2011 is subject to interest at the rate prescribed in the MSA.

For the three and six months ended June 30, 2011 the company incurred $75 and $89, respectively, of interest expense related to outstanding purchase obligation payments, payable on January 1, 2011 (three and six months ended June 30, 2010 – $nil and $nil, respectively).

On January 1, 2010, the Partnership acquired 18 new Royal LePage franchise agreements from BRESML at an estimated purchase price of $4,205. A payment of $3,364, equal to 80% of the estimated purchase price, was paid from cash on hand on January 4, 2010 and the remainder is to be paid a year later, when the final purchase price is determined.

On January 1, 2010, VCLP acquired three Via Capitale franchise agreements from BRESML for an estimated purchase price of $1,040. A payment of $832, equal to 80% of the estimated purchase price, was paid from cash on hand on January 4, 2010.

The additions to intangible assets during the six months ended June 30, 2011 and 2010 are summarized as follows:

	Royal LePage	VCLP	June 30, 2011	Six months ended June 30, 2010
Franchise agreements	$ 2,524	$ 951	$ 3,475	$ 5,245

The purchase obligations consist of the following:

	Royal LePage	VCLP	June 30, 2011	December 31, 2010
Purchase obligation at beginning of year	$ 1,238	$ 2,325	$ 3,563	$ 4,143
Current year purchases	2,524	951	3,475	5,245
Price adjustment on current year purchases	–	–	–	429
Price adjustment on prior years' purchases	–	–	–	161
80% purchase price payment on current year purchases	–	(761)	(761)	(4,196)
Payment of obligations on prior years' purchases	(791)	(2,044)	(2,835)	(2,219)
Purchase obligation at end of period	$ 2,971	$ 471	$ 3,442	$ 3,563
Current portion of purchase obligation	$ 2,971	$ 265	$ 3,236	$ 3,282
Long-term portion of purchase obligation	–	206	206	281
Purchase obligation at end of period	$ 2,971	$ 471	$ 3,442	$ 3,563

7. INTANGIBLE ASSETS

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

	As at June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 197,252	$ 93,477	$ 103,775
Trademarks	5,859	1,769	4,090
	$ 203,111	$ 95,246	$ 107,865

	As at December 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 193,777	$ 86,687	$ 107,090
Trademarks	5,859	1,636	4,223
	$ 199,636	$ 88,323	$ 111,313

	As at January 1, 2010		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 188,531	73,303	115,228
Trademarks	5,859	1,363	4,496
	$ 194,390	74,666	119,724

8. INCOME TAXES

In prior years, the Company was organized as an income trust such that it could distribute its taxable income to unitholders and not be subject to entity level taxation. On October 31, 2006, the Minister of Finance announced proposed tax legislation (the "SIFT rules") that changed the income tax rules applicable to publicly traded trusts rendering income trusts taxable commencing in 2011. As a result of the SIFT rules becoming applicable, the Company reorganized itself on December 31, 2010, as further described in Note 1, such that it is to be subject to corporate income taxes in 2011 and subsequent years.

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 deferred income tax assets or liabilities, except to the extent a temporary difference was present on the initial recognition of the asset outside of a business combination. Deferred income taxes are computed using substantively enacted tax rates applicable to the years in which the temporary differences are expected to reverse.

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

Income tax expense (recovery) is calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Earnings (loss) before income taxes for the period:	**$ 5,958**	$ 9,008	**$ 4,978**	$ (9,374)
Expected income tax expense (recovery) at statutory rate of 28.25% (2010 – 31%)	**1,683**	2,792	**1,406**	(2,906)
Increase (decrease) in income tax expense (recovery) due to the following:				
Non-deductible amortization	**462**	496	**909**	992
Non-deductible (gain) loss on fair value of Trust and Exchangeable units	**(1,062)**	(2,899)	**(489)**	2,145
Non-deductible interest	**330**	1,394	**660**	2,788
Income allocated to Trust and Exchangeable unitholders	**(393)**	(1,767)	**(705)**	(3,003)
Effect of rescheduling temporary differences	**21**	(16)	**57**	11
Total	**$ 1,041**	$ –	**$ 1,838**	$ 27

The major components of income tax expense (benefit) include the following:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
Current tax expense	**$ 1,178**	$ –	**$ 2,115**	$ –
Deferred tax (recovery) expense	**(137)**	–	**(277)**	27
	$ 1,041	$ –	**$ 1,838**	$ 27

9. OPERATING CREDIT FACILITY

The Partnership has a credit facility (the "Revolver") of up to $2,000 from a Canadian financial institution. This Revolver may be used to provide working capital to the Partnership from time to time. The Revolver is subject to annual renewal with outstanding principal under the Revolver subject to interest at the lender's prime rate plus 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 amended credit agreement. The Company is compliant with its financial covenants.

As at June 30, 2011, the Revolver had not been drawn upon.

10. LONG-TERM DEBT

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

As at	June 30, 2011	December 31, 2010	January 1, 2010
Private debt placement	$ 32,300	$ 32,254	$ 37,975
Term facility	20,052	20,023	14,978
	$ 52,352	$ 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 $34,430 and $20,300, respectively at June 30, 2011 (December 31, 2010 – $34,003 and $20,300).

During the three and six months ended June 30, 2011, $38 and $75, respectively, of amortization of the issue costs was recorded as interest expense (three and six months ended June 30, 2010 – $38 and $101, respectively).

11. EXCHANGEABLE UNITS

Trilon owns 25 common shares in RIFGP and 3,327,667 Exchangeable 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 Exchangeable 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 Exchangeable 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 Exchangeable unitholders are entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Exchangeable units for Restricted Voting Shares of the Company.

During the three and six months ended June 30, 2011 the Company recorded gains of $3,761 and $1,731, respectively, related to the fair value of the Exchangeable units (three and six months ended June 30, 2010 – gain of $2,429 and loss of $1,797, respectively).

12. 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, and represents the proportionate voting rights of the Exchangeable unitholders in the Company. The Special Voting Share is redeemable by the holder at $0.01 per share, and is not entitled to dividends declared by the Company.

No additional restricted voting shares were issued during the six months ended June 30, 2011.

No preferred shares were issued or outstanding as at June 30, 2011.

13. EARNINGS PER SHARE

The Exchangeable units referred to in Note 11 were included in the diluted earnings per share calculations, which resulted in $0.18 and $0.29 earnings per share for the three and six months ended June 30, 2011.

14. RELATED PARTY TRANSACTIONS

Unless disclosed elsewhere, the Company had the following transactions with parties related to the Exchangeable unitholders during the three and six months ended June 30, 2011 and 2010. These transactions have been recorded at the exchange amount agreed to between the parties.

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
a) Royalties				
Fixed, variable and other franchise fees	**$ 673**	$ 723	**$ 1,303**	$ 1,368
Premium franchise fees	**$ 668**	$ 1,330	**$ 1,336**	$ 2,062
b) Expenses				
Management fees	**$ 1,823**	$ 2,015	**$ 3,342**	$ 3,528
Insurance and other	**$ 27**	$ 27	**$ 54**	$ 54
Interest on purchase obligations	**$ 75**	$ –	**$ 89**	$ –
c) Interest paid				
Interest paid to Exchangeable unitholders	**$ 1,168**	$ 1,168	**$ 3,002**	$ 2,469

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

As at	**June 30, 2011**	December 31, 2010
d) Accounts receivable		
Franchise fees receivable and other	**$ 1,435**	$ 908
e) Accounts payable and accrued liabilities		
Management fees	**$ 746**	$ 489
Interest on purchase obligation	**$ 89**	$ –
Sales tax payable on 2011 purchase obligations	**$ –**	$ 489
f) Interest payable to Exchangeable unitholders	**$ 389**	$ 1,055
g) Purchase obligation payable	**$ 3,442**	$ 3,563

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 the 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 interest to Exchangeable unitholders. 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 unutilized credit under the Revolver as described in Note 9.

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

	2012	2013	2014	Beyond 2014	Total
Accounts payable and accrued liabilities	$ 1,041	$ –	$ –	$ –	$ 1,041
Purchase obligations	3,236	143	63	–	3,442
Current income tax liability	2,115	–	–	–	2,115
Interest payable to Exchangeable unitholders	389	–	–	–	389
Dividends payable to shareholders	873	–	–	–	873
Private debt placement	–	–	–	32,700	32,700
Term facility	–	–	–	20,300	20,300
Exchangeable units				47,419	47,419
Total	$ 7,654	$ 143	$ 63	$ 100,419	$ 108,279

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 the 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 does not have cash flow 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, interest payable to Exchangeable unitholders 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 10.

e) Fair value hierarchy

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at June 30, 2011 and December 31, 2010, classified using the fair value hierarchy described in Note 2:

				As at June 30, 2011
	Level 1	**Level 2**	**Level 3**	**Total**
Financial asset or liability				
Cash	$ –	$ 1,469	$ –	$ 1,469
Purchase obligations	–	–	3,442	3,422
Exchangeable units	47,419	–	–	47,419
Total	**$ 47,419**	**$ 1,469**	**$ 3,442**	**$ 52,330**

				As at December 31, 2010
	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Cash	$ –	$ 5,672	$ –	$ 5,672
Purchase obligations	–	–	3,563	3,563
Exchangeable units	49,150	–	–	49,150
Total	$ 49,150	$ 5,672	$ 3,563	$ 58,385

16. MANAGEMENT OF CAPITAL

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

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 its 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 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 10, 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.

There were no changes in the Company's approach to capital management during the year.

17. SUBSEQUENT EVENTS

Subsequent to the period ended June 30, 2011, the Company amended the definition of Adjusted EBITDA and Senior Interest Expense on its credit agreements with its lenders to reflect certain changes as a result of IFRS.

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