Management's Responsibility for the Financial Statements

The consolidated financial statements and management's discussion and analysis contained in this annual report are the responsibility of the management of the Company. To fulfill this responsibility, the Company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as Independent Registered Public Accounting Firm is set out on the following page.

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

TORONTO, CANADA, March 30, 2015

Philip Soper
President and Chief Executive Officer

Kevin A. Cash
Senior Vice-President, CFO

Independent Auditor's Report

To the Shareholders of Brookfield Real Estate Services Inc.

We have audited the accompanying consolidated financial statements of Brookfield Real Estate Services Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of earnings and comprehensive earnings, consolidated statements of changes in shareholders' deficit, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Real Estate Services Inc. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

March 30, 2015
Toronto, Canada

Consolidated Balance Sheets

As at December 31, (In thousands of Canadian dollars)	Note	2014	2013
Assets			
Current assets			
Cash		$ 3,052	$ 3,633
Accounts receivable	4	4,758	4,812
Current portion of notes receivable	5	276	509
Income tax receivable		–	148
Prepaid expenses		119	90
		8,205	9,192
Non-current assets			
Notes receivable	5	230	145
Deferred tax asset	8	5,915	4,924
Intangible assets	6, 7	72,212	79,172
		$ 86,562	$ 93,433
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,100	$ 1,384
Purchase obligation – current portion	6	2,150	974
Current income tax liability		308	–
Interest payable to Exchangeable Unitholders		423	389
Dividends payable to shareholders		948	872
		4,929	3,619
Non-current liabilities			
Debt facilities	9	52,760	52,782
Purchase obligation	6	127	94
Interest rate swap liability	9	482	–
Exchangeable Units	10	43,260	44,424
		101,558	100,919
Shareholders' deficit			
Restricted voting shares	11	140,076	140,076
Deficit		(155,072)	(147,562)
		(14,996)	(7,486)
		$ 86,562	$ 93,433

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

Simon Dean
Director

Lorraine Bell
Director

Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	Note	2014	2013
Royalties			
Fixed Franchise fees		$ 19,279	$ 18,941
Variable Franchise fees		8,560	8,116
Premium Franchise Fees		5,576	5,236
Other revenue and services		3,977	3,975
		37,392	36,268
Expenses			
Administration		1,626	1,342
Management fee	3	6,469	6,677
Interest expense		3,419	3,040
Impairment of intangible assets	7	2,384	1,391
Amortization of intangible assets	7	10,828	12,683
		24,726	25,133
Operating income		12,666	11,135
Interest on Exchangeable Units	10	(5,856)	(4,672)
Gain (loss) on fair value of Exchangeable Units	10	1,164	(2,429)
Loss on interest rate swap	9	(482)	–
(Loss) gain on fair value of purchase obligation	6	(955)	210
Earnings before income tax		6,537	4,244
Current income tax expense		(3,657)	(3,958)
Deferred income tax recovery		991	602
Income tax expense	8	(2,666)	(3,356)
Net and comprehensive income		3,871	888
Basic earnings per share	12	$ 0.41	$ 0.09
Weighted average number of shares outstanding used in computing basic earnings per share		9,483,850	9,483,850
Diluted earnings per share	12	$ 0.41	$ 0.09
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517	12,811,517

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Deficit

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2013	$ 140,076	$ (147,562)	$ (7,486)
Net and comprehensive earnings	–	3,871	3,871
Dividends declared	–	(11,381)	(11,381)
Balance, December 31, 2014	**$ 140,076**	**$ (155,072)**	**$ (14,996)**

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2012	$ 140,076	$ (137,979)	$ 2,097
Net and comprehensive earnings	–	888	888
Dividends declared	–	(10,471)	(10,471)
Balance, December 31, 2013	$ 140,076	$ (147,562)	$ (7,486)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In thousands of Canadian dollars)	Note	2014	2013
Cash provided by (used for):			
Operating activities			
Net and comprehensive earnings for the year		$ 3,871	$ 888
Adjusted for:			
(Gain) loss on fair value of Exchangeable Units	10	(1,164)	2,429
Loss (gain) on fair value of purchase obligation	6	955	(210)
Loss on interest rate swap	9	482	–
Interest expense		9,275	7,712
Interest paid		(8,865)	(8,022)
Current income tax expense	8	3,657	3,958
Income taxes paid		(3,201)	(4,046)
Deferred income tax recovery	8	(991)	(602)
Impairment of intangible assets	7	2,384	1,391
Amortization of intangible assets	7	10,828	12,683
Changes in non-cash working capital		(127)	(1,216)
		17,104	14,965
Investing activity			
Purchase of intangible assets	6	(5,998)	(5,854)
Interest paid on purchase obligation		(134)	(110)
		(6,132)	(5,964)
Financing activity			
Proceeds from term facility, net of financing costs	9	52,752	–
Repayment of private debt placement and term facility	9	(53,000)	–
Dividends paid to shareholders		(11,305)	(10,471)
		(11,553)	(10,471)
Decrease in cash during the year		(581)	(1,470)
Cash, beginning of the year		3,633	5,103
Cash, end of the year		$ 3,052	$ 3,633

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2014 and 2013
(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization

Brookfield Real Estate Services Inc. (the "Company"), is incorporated under the *Ontario Business Corporations Act*. The Company's registered office is located at 39 Wynford Drive, Toronto, Canada, M3C 3K5, and is listed on the Toronto Stock Exchange ("TSX") under the symbol "BRE". Through its limited partnership holdings, the Company owns certain Franchise Agreements and trademark rights of residential real estate brands in Canada.

The Company directly holds a 75% common share interest in Residential Income Fund General Partner Limited ("RIFGP") and its subsidiaries, Residential Income Fund L.P. (the "Partnership") and 9120 Real Estate Network, L.P. ("VCLP"), a wholly-owned subsidiary of the Partnership, both of which own and operate the assets from which the Company derives its sole source of revenue.

Brookfield Private Equity Direct Investments Holdings LP ("BPEDIH"), a wholly-owned subsidiary of Brookfield Asset Management ("BAM") operating in Canada, owns the remaining 25% common share interest in RIFGP. The shares were previously owned by another wholly-owned subsidiary of BAM, Brookfield Holdings Canada Inc. ("BHCI") until October 2013, when BHCI transferred all of its interest in the Partnership and RIFGP to BPEDIH. The transfer did not have any impact on the net assets, financial position or results of operations of the Company.

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on March 10, 2015.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a going concern basis and include the accounts of the Company, its 75% owned subsidiaries RIFGP, VCLP, and the Partnership. RIFGP is the managing general partner of the Partnership. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. ("BRESML"), a party related to BPEDIH via common control.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. The financial results of controlled subsidiaries are consolidated with the results of the Company from the date that control is acquired through to the date that control ceases. For the purpose of consolidating the financial results of the Company, control of an entity is deemed to exist when an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company's significant accounting policies are as follows:

CASH

Cash, consisting of cash on hand, is used to fund dividends 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 uncollectable amounts.

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 Agreement ("MSA") dated January 1, 2014, are expensed as incurred.

Franchise Agreements are amortized over the term of the agreements plus one renewal period using the straight-line 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 Agreement(s) 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 the common ownership of Franchise Agreements 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 as 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 the 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 collectability is reasonably assured. Fixed Franchise fees are recognized as income as earned, and collectability 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 collectability is reasonably assured.

Other revenue and services are generally recognized as income when the related services have been provided, the amount is determinable and the collectability is reasonably assured.

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, and are convertible, on a one-for-one basis, subject to adjustment, 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 market price of the Company's restricted voting shares 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 interest expense. Gains and losses on financial assets and liabilities classified as FVTPL are included in net earnings in the period in which they arise.

The Company made the following classifications:

Financial Statement Item	Classification	Measurement
Cash	Loans and receivables	Amortized Cost
Accounts receivable	Loans and receivables	Amortized Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized Cost
Purchase obligation	FVTPL	Fair Value
Interest payable to Exchangeable Unitholders	Other financial liabilities	Amortized Cost
Long-term debt	Other financial liabilities	Amortized Cost
Interest rate swap liability	FVTPL	Fair Value
Exchangeable Units	FVTPL	Fair Value
Dividends payable to shareholders	Other financial liabilities	Amortized Cost

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.

PURCHASE OBLIGATION

The Company's purchase obligation arises 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 net earnings.

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 impairment of intangible assets, determining the useful life of intangible assets, assessing the recoverability of accounts receivable, measurement of deferred taxes, measurement of the fair values of purchase obligation (receivable) and Exchangeable Units 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 the Company believes 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.

Notes to the Consolidated Financial Statements

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments that have been made in applying the Company's accounting policies and that have the most significant effect on the amounts in the financial statements:

ACCOUNTING FOR FRANCHISE AGREEMENTS

The critical judgment made in accounting for the acquisition of Franchise Agreements is determining whether 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 whether the acquisition includes both inputs and processes and, as well, 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" are acquired in respect of the Franchise Agreements. In addition, the Company must 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 obligation as a financial liability at fair value through profit or loss.

IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

Under IAS 36, *Impairment of Assets*, the Company needs to ensure that the intangible assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value-in-use). The critical judgment made in impairment charges for intangible asset is determining whether there is any indication that a particular Franchise Agreement is potentially impaired. Management has identified a number of items that are important to the operating profitability of Franchisees and use them to assist in determining impairment indicators. These factors include aging of receivables, agent count, known financial difficulties, health concerns, non-compliance with contractual obligation and the underlying market conditions.

ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Company adopted the following new standards in preparing these consolidated financial statements:

IMPAIRMENT OF ASSETS

IAS 36, *Impairment of Assets* ("IAS 36") was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard has not had any significant impact on the Company's results of operations and financial position. Additional disclosure requirements have been taken into consideration when preparing the financial statements.

FINANCIAL INSTRUMENTS – PRESENTATION

The IASB amended IAS 32 *Financial Instruments: Presentation* ("IAS 32"), clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments to IAS 32 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The adoption of this standard has not had significant impact on the Company's results of operations, financial position or disclosures.

AMENDMENTS TO IFRS 3, BUSINESS COMBINATIONS (CONTINGENT CONSIDERATION)

In the second quarter of 2014, the IASB issued Amendments to IFRS 3, *Business Combinations*. The amendments clarify the guidance in respect of the initial classification requirements and subsequent measurement of contingent consideration. This will result in the need to measure the contingent consideration at fair value at each reporting date, irrespective of whether it is a financial instrument or a non-financial asset or liability. Changes in fair value will need to be recognized in profit and loss. These amendments are effective for transactions with acquisition dates on or after July 1, 2014. These amendments had no impact on the Company's consolidated financial statements.

FUTURE ACCOUNTING AND REPORTING CHANGES

REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB published its new revenue standard, IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2017. Management is in the process of assessing the impact of adopting IFRS 15, if any.

AMENDMENTS TO IFRS 9, FINANCIAL INSTRUMENTS

On July 24, 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* ("IFRS 9"), which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This final Standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity's business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. This Standard introduces an amended hedging model which aligns hedge accounting more closely with an entity's risk management activities and also includes a new financial asset impairment model which is based on expected losses rather than incurred losses. This new Standard supersedes all prior versions of IFRS 9 and is mandatorily effective for annual periods beginning on or after January 1, 2018, with early application permitted. Management is in the process of assessing the impact of this new standard.

3. Management Services Agreement

On January 1, 2011, the Company entered into the Amended and Restated Management Services Agreement ("MSA") with BRESML. The MSA had been in effect since 2003, had an initial term of 10 years and an automatic renewal for successive 10-year periods subject to approval of the Company and BRESML.

Under the MSA, BRESML provided certain management, administrative and support services to the Company and its subsidiaries and in return paid a monthly fee equal to 20% and 30% of the distributable cash of the Partnership and VCLP, respectively.

The MSA also prescribed the conditions under which the Company purchases Franchise Agreements from BRESML and the formula for calculating the purchase price.

On June 28, 2013 the Company entered into a new Management Services Agreement ('New MSA") with BRESML. The New MSA was effective January 1, 2014 with an initial five year term and a provision for the automatic renewal of successive five year terms.

Under the New MSA, management fees have been standardized to 20% across all brands and the accretion factor was standardized to 7.5%. The final purchase price for existing brands is based on the average annual royalties earned over one year, with 80% of the purchase price payable upon acquisition and the remaining balance to be paid one year later subject to adjustment, if any, for the audit of the actual annual royalties earned. The New MSA also provides BRESML with the ability to sell other Canadian branded Franchises to the Company based on a predetermined formula and payment structure. Further, an incentive fee is to be paid to BRESML for net organic growth, with the fee being calculated in accordance with the formula noted above based on the average annual royalty fees per agent. All other provisions under the New MSA remain substantially unchanged from the previous MSA.

For the twelve months ended December, 2014, the Company incurred management fees of $6,469 (2013 – $6,677) for these services.

4. Accounts Receivable

Accounts receivable are related to fees due from the Company's Franchise network and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at December 31, 2014 the Company had accounts receivable of $4,758 (December 31, 2013 – $4,812) net of $810 (December 31, 2013 – $330) allowance for doubtful accounts. During the year ended December 31, 2014, $684 of net bad debt expense was included in administration expense (December 31, 2013 – $51). Management conducts an analysis to determine the allowance for doubtful accounts by assessing the collectability of receivables on a Franchisee by Franchisee basis. This assessment takes into consideration factors such as the aging of outstanding fees, Franchisee operating performance, historical payment patterns, current collection efforts and the Company's security interests.

The table below summarizes the aging of accounts receivable. Management considers amounts owed for longer than 90 days as overdue.

	90+ Days	60 Days	30 Days	Current	Total
Accounts receivable	$ 884	$ 222	$ 453	$ 3,199	$ 4,758

5. Notes Receivable

The Company has certain Franchisees with which it has entered into a payment plan in respect of Franchise fees currently due to the Company, which are in arrears. Generally, these payment plans extend more than one year from the financial statement date as at December 31, 2014 and as a result have been classified as non-current. The terms stipulated in the payment plan agreement require the Franchisees to repay the total outstanding balance in equal monthly payments based on a spread above prime rate. As at December 31, 2014, the Company had notes receivable of $506, of which $276 was due within 12 months and $230 was considered non-current (December 31, 2013 – $509 current and $145 non-current). These current amounts were presented as part of accounts receivable in the prior year consolidated balance sheet.

6. Asset Acquisitions

The Company's purchase of Franchise Agreements on January 1, 2014 is the final year in which it is governed by terms set out in the MSA. Future purchases beginning on January 1, 2015 will be governed by the terms set out in the New MSA.

On January 1, 2014, the Partnership acquired 45 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $6,059. A payment of $4,847, equal to 80% of the estimated purchase price, was due on January 1, 2014 and the remainder is to be paid when the final purchase price is determined on October 31, 2014, the determination date. Until the determination date, the estimated price is revised over the determination period, the one-year period starting November 1st of the year immediately preceding the purchase date through to October 31st of the following year, based on the annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price during the determination period are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA at the rate of prime plus 1%.

On January 1, 2014, VCLP acquired one new Via Capitale Franchise Agreement from BRESML at an estimated purchase price of $193. A payment of $155, equal to 80% of the estimated purchase price, was due on January 1, 2014 and the remainder is to be paid over the next three years when the final purchase price is determined on October 31, 2016, the determination date. Until the determination date, the estimated price is revised over the determination period, a three-year period starting November 1, 2013 to October 31, 2016, based on the annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price during the determination period are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as a gain or loss on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2014 is subject to interest at the rate prescribed in the MSA at the rate of prime plus 1%.

During the determination period, the Company records changes in the purchase obligation to reflect the fair value of outstanding purchase obligation. Actual cash flows generated from the Franchise Agreements during the determination period(s) are used to estimate and forecast the annual royalty fees to be earned during the determination period. The estimated yield expected to be generated from the royalty streams is determined by dividing the per share amount distributed in cash by the Company in the 52 week period ending the day preceding the purchase date by the current market price per share of the Company. Each reporting period until the determination date the estimated royalty stream is updated with actual cash flows generated for each Franchise Agreement for which an outstanding purchase obligation exists. The estimated yield is updated to reflect actual royalty fees generated and is used to calculate the fair value of outstanding purchase obligation.

For the year ended December 31, 2014, a loss of $955 on the fair value of purchase obligation was recorded (December 31, 2013 – gain of $210).

For the year ended December 31, 2014, the Company incurred $147 of interest expense related to outstanding purchase obligation payments (December 31, 2013 – $110).

On January 1, 2013, the Partnership acquired 37 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $6,019. A payment of $4,815, equal to 80% of the estimated purchase price, was paid from cash on hand in 2013 and the remainder was paid by January 31, 2014.

On January 1, 2013, VCLP acquired seven new Via Capitale Franchise Agreements from BRESML and a subsidiary of BRESML at an estimated purchase price of $720. A payment of $576, equal to 80% of the estimated purchase price was paid from cash on hand in 2013 and the remainder to be paid by January 31, 2016.

The additions to intangible assets during the years ended December 31, 2014 and 2013 are summarized as follows:

Years ended December 31,	Royal LePage	Via Capitale	2014	2013
Franchise Agreements	$ 6,059	$ 193	$ 6,252	$ 6,739

The purchase obligation consists of the following:

Years ended December 31,	Royal LePage	Via Capitale	2014	2013
Purchase obligation at beginning of year	$ 985	$ 83	$ 1,068	$ 393
Current year's purchase obligation	6,059	193	6,252	6,739
Price adjustment on current year purchases	990	(35)	955	(210)
Payment on current year purchases	(4,847)	(155)	(5,002)	(5,391)
Payment of obligations on prior years' purchases	(985)	(11)	(996)	(463)
Purchase obligation at end of year	$ 2,202	$ 75	$ 2,277	$ 1,068
Current portion of purchase obligation	$ 2,202	(52)	$ 2,150	$ 974
Long-term portion of purchase obligation	–	127	127	94
Purchase obligation at end of year	$ 2,202	$ 75	$ 2,277	$ 1,068

Notes to the Consolidated Financial Statements

7. Intangible Assets

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

	Franchise Agreements	Trademarks	Total
Cost			
At January 1, 2013	$ 194,750	$ 5,427	$ 200,177
Purchases	6,739	–	6,739
Impairment	(292)	–	(292)
Amounts written-off	(2,988)	–	(2,988)
At December 31, 2013	$ 198,209	$ 5,427	$ 203,636
Purchases	6,252	–	6,252
Impairment	(836)	–	(836)
Amounts written-off	(6,043)	–	(6,043)
At December 31, 2014	**$ 197,582**	**$ 5,427**	**$ 203,009**
Accumulated amortization			
At January 1, 2013	$ 111,933	$ 1,737	$ 113,670
Amortization expense	12,498	185	12,683
Amounts written-off	(1,889)	–	(1,889)
At December 31, 2013	$ 122,542	$ 1,922	$ 124,464
Amortization expense	10,644	184	10,828
Amounts written-off	(4,495)	–	(4,495)
At December 31, 2014	**$128,691**	**$2,106**	**$130,797**
Carrying value			
At January 1, 2013	$ 82,817	$ 3,690	$ 86,507
At December 31, 2013	$ 75,667	$ 3,505	$ 79,172
At December 31, 2014	**$ 68,891**	**$ 3,321**	**$ 72,212**

For the year ended December 31, 2014, the Company recognized impairment charges and write-offs of $2,384 (December 31, 2013 – $1,391). Impairment charges relate to Franchisees where the carrying amount on the Franchise Agreement exceeds the recoverable amount (higher of fair value less costs of disposal and the value-in-use) or when the recovery of the capitalized value is no longer reasonably assured. Write-offs relate to the early termination, expiry and non-renewal of Franchise Agreements in the Royal LePage and Via Capitale networks. For the year ended December 31, 2014, the Company recorded $10,828 (December 31, 2013 – $12,683) intangible asset amortization expenses.

Management determined the recoverable amount using a value-in-use amount. The discount rate used was the pre-tax rate, which reflects current market assessment of the risks specific to the asset. In calculating the discounted future cash flow for each Franchisee, management performed a net present value of annuity calculation using forecasted cash flow based on agent count, historical data, market condition, company factors, the pre-tax discount rate and the life of the agreements plus one renewal term as the assumptions.

8. Income Taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either 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:

Years ended December 31,	2014	2013
Earnings before income taxes for the year:	$ 6,537	$ 4,244
Expected income tax expense at statutory rate of 26.5% (2013 – 26.5%)	1,732	1,124
Increase (decrease) in income tax expense (recovery) due to the following:		
Non-deductible amortization	1,254	1,487
Non-deductible (gain) loss on fair value of Exchangeable Units	(309)	644
Non-deductible interest on Exchangeable Units	1,552	1,238
Non-deductible impairment and write-off on intangible assets	158	127
Non-deductible purchase obligation	63	(14)
Non-deductible loss on interest rate swap	128	–
Income allocated to Exchangeable Unitholders	(1,523)	(1,392)
True up from provision to tax return	(270)	139
Recognition of deferred tax assets	(119)	–
Other	–	3
Total income tax expense	$ 2,666	$ 3,356

The major components of income tax expense include the following:

Year ended December 31,	2014	2013
Current tax expense	$ 3,657	$ 3,958
Deferred tax recovery	(991)	(602)
Total income tax expense	$ 2,666	$ 3,356

Deferred income taxes arise from temporary differences in the recognition of income and expense for financial and tax purposes. The significant components of the Company's deferred tax assets are as follows:

As at December 31,	2014	2013
Intangible assets	$ 5,915	$ 4,938
Financing costs	–	(14)
Total deferred tax asset	$ 5,915	$ 4,924

Notes to the Consolidated Financial Statements

9. Debt Facilities

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

As at December 31,		**2014**		2013
Term facility, net of financing costs	**$**	**52,760**	$	20,217
Acquisition facility		**–**		–
Operating facility		**–**		–
Private debt placement		**–**		32,565
	$	**52,760**	$	52,782

The Company announced on October 27, 2014 the closing of a five-year $68 million financing comprising the following three arrangements:

- A $53 million non-revolving term variable rate facility, replacing the current $53 million debt facility which was to mature on February 17, 2015. The new facility bears a variable interest rate of Banker's Acceptances (BAs) +1.70% or Prime + 0.5%, which the Company has swapped to a fixed rate of 3.64%, payable monthly. Repayment of principal outstanding is due on maturity;
- A $10 million non-revolving acquisition facility to support acquisitions pursued by the Company, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%. A standby fee of 0.15% applies on undrawn amounts under this facility. No amounts have been drawn on this facility at December 31, 2014; and
- A $5 million revolving operating facility to meet the Company's day-to-day operating requirements, bearing a variable interest rate of BAs +1.70% or Prime + 0.5%. No amounts have been drawn on this facility at December 31, 2014.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 (unchanged from the previous financing) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1 (up from 2.25 to 1). Consolidated EBITDA is defined as earnings (loss) before tax, interest, interest on Exchangeable Unit, gain (loss) on fair value of Exchangeable Unit and gain (loss) on purchase obligation adjustment.

As part of retiring the $32.7 million private debt placement before the February 15, 2015 maturity date, the Company, in accordance with the underlying debt arrangements, incurred an additional $0.4 million of early retirement interest and financing charges.

On October 27, 2014 the Company entered into a five year interest swap agreement to swap the variable interest obligation on the $53 million term debt to a fixed rate of 3.64%. The swap is a financial instrument and is fair valued and classified as FVTPL. The fair value is determined using a discounted cash flow model using observable yield curves and applicable credit spread at a credit adjusted rate. At December 31, 2014 the Company determined that the interest rate swap was in a loss position and recorded a liability and loss of $482.

10. Exchangeable Units

BPEDIH owns 315,000 restricted voting shares of the Company, 25 common shares in RIFGP, 3,327,667 Exchangeable Units of the Partnership and one special voting share of the Company, which accompanies the Exchangeable Units; this reflects an effective 28.4% interest in the Partnership. 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 71.6% interest in the Partnership through Class A limited partnership units of the Partnership. 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.

The Company measures the Exchangeable Units at their fair value using the closing price of the Company's actively traded shares listed on the TSX, as of the last date of market trading for the period. As at December 31, 2014, the closing market price of the Company's shares was $13.00 (December 31, 2013 – $13.35). During the year ended December 31, 2014, the Company recorded a gain of $1,164 related to the fair value of the Exchangeable Units (December 31, 2013 – loss of $2,429).

The Exchangeable Unitholders are entitled to cash distributions from the Partnership in respect of their economic interest in the Partnership as and when declared by the Board of Directors of RIFGP. Such distributions are made on a before tax basis and are directly taxable in the hands of the Exchangeable Unitholders. Distributions are also made from the Partnership to the Company. These distributions are subject to taxation at the Company level and as such reduce the amount of cash available for dividends to the restricted voting shareholders. During 2014 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of $5,856 (2013 – $4,672).

11. Share Capital

The Company is authorized to issue an unlimited number of restricted voting shares, an unlimited number of preferred shares and one special voting share.

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 represents the proportionate voting rights of the Exchangeable Unitholders of the Partnership. The special voting share is redeemable by the holder at $0.01 per share, and the holder is not entitled to dividends declared by the Company.

No additional restricted voting shares were issued during 2014.

No preferred shares were issued or outstanding as at December 31, 2014.

The following table summarizes the outstanding shares of the Company:

As at December 31,	**2014**	2013
Restricted voting shares	**9,483,850**	9,483,850
Special voting share	**1**	1

12. Earnings Per Share

Basic and diluted earnings per share has been determined as follows:

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	**2014**	2013
Net earnings available to restricted voting shareholders – basic	**$ 3,871**	$ 888
Interest on Exchangeable Units	**5,856**	4,672
(Gain) loss on fair value of Exchangeable Units	**(1,164)**	2,429
Net earnings available to restricted voting shareholders – diluted	**$ 8,563**	$ 7,989
Weighted average number of shares outstanding used in computing basic loss per share	**9,483,850**	9,483,850
Total outstanding Exchangeable Units	**3,327,667**	3,327,667
Weighted average number of shares outstanding used in computing diluted loss per share	**12,811,517**	12,811,517
Basic earnings per share	**$ 0.41**	$ 0.09
Diluted earning per share	**$ 0.41**	$ 0.09
Dividends declared	**$ 11,381**	$ 10,471
Restricted voting shares	**9,483,850**	9,483,850
Dividends per restricted voting share	**$ 1.20**	$ 1.10

Notes to the Consolidated Financial Statements

13. Related Party Transactions

Unless disclosed elsewhere, the Company had the following transactions with parties related to the Exchangeable Unitholders for the years ended December 31, 2014 and 2013. These transactions have been recorded at the exchange amount agreed to between the parties.

Years ended December 31,		2014		2013
a) Royalties				
Fixed, variable and other Franchise fees	$	3,150	$	2,632
Premium Franchise Fees	$	4,781	$	4,494
b) Expenses				
Management fees	$	6,469	$	6,677
Insurance and other	$	88	$	105
Interest on purchase obligations	$	147	$	110
c) Interest paid				
Interest paid to Exchangeable Unitholders	$	5,822	$	4,672

Insurance expense, as disclosed above, was incurred through an affiliate of BRESML and the Exchangeable Unitholder.

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

As at December 31,		2014		2013
d) Accounts receivable				
Franchise fees receivable	$	696	$	631
e) Accounts payable and accrued liabilities				
Management fees	$	582	$	580
Interest on purchase obligations	$	20	$	7
Administrative shared service liability and other	$	205	$	220
f) Interest payable to Exchangeable Unitholders	$	423	$	389
g) Purchase obligation payable	$	2,277	$	1,068

As at December 31, 2014, BRESML provided $900 in funding, in the form of a line of credit for certain Franchisee operations.

The Company is governed by an independent Board of Directors, who is required to participate in scheduled and special Board and committee meetings. During the year ended December 31, 2014, $204 (December 31, 2013 – $383) of director fee compensation was included in administration expense.

14. 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 and notes receivable. Management reviews the financial position of all Franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis. As at December 31, 2014, the Company has an allowance for doubtful accounts of $810 (December 31, 2013 – $330).

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 debt facilities. Also, the Company has a $10,000 acquisition line of which $8,000 was drawn subsequent to year end (see Note 18) and a $5,000 unutilized operating facility, as described in Note 9.

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

	2015	2016	2017	Beyond 2017	Total
Accounts payable and accrued liabilities	$ 1,100	$ –	$ –	$ –	$ 1,100
Purchase obligation	2,150	107	20	–	2,277
Interest payable to Exchangeable Unitholders	423	–	–	–	423
Dividends payable to shareholders	948	–	–	–	948
Interest on long-term debt	1,929	1,929	1,929	4,100	9,887
Long term debt	–	–	–	53,000	53,000
Exchangeable Units	–	–	–	43,260	43,260
Total	$ 6,550	$ 2,036	$ 1,949	$ 100,360	$ 110,895

C) INTEREST RATE RISK

The Company is exposed to the risk of interest rate fluctuations on its Debt facilities as the interest rates on these facilities are tied to the prime and Banker's Acceptance rates.

As described in Note 9, on October 27, 2014 the Company entered into a five year interest rate swap to fix the interest on the Company's $53 million term debt at 3.64% to the October 28, 2019 maturity date of the swap. The Company's $53 million term debt has a maturity date of February 17, 2020.

D) FAIR VALUE

The fair value of the Company's financial instruments, comprising cash, accounts receivable, notes 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. The fair value of the Company's $53 million Term facility approximates its carrying value of $52.8 million as a result of its floating rate terms.

E) FAIR VALUE HIERARCHY

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2014 and December 31, 2013, classified using the fair value hierarchy:

As at December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset or liability:				
Purchase obligation, net	$ –	$ –	$ 2,277	$ 2,277
Interest rate swap liability	–	482	–	482
Exchangeable Units	43,260	–	–	43,260
Total	**$ 43,260**	**$ 482**	**$ 2,277**	**$ 46,019**

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Financial asset or liability:				
Purchase obligation, net	$ –	$ –	$ 1,068	$ 1,068
Exchangeable Units	44,424	–	–	44,424
Total	$ 44,424	$ –	$ 1,068	$ 45,492

See Note 6 for a reconciliation of the Level 3 fair values, Note 9 for disclosure related to Level 2 fair values and Note 10 for disclosures related to the Level 1 fair values. There were no transfers between fair value hierarchy levels during the year. The Level 3 fair values are calculated according to a predetermined formula specified in the MSA based on cash flow estimated from newly acquired Franchise Agreements during their determination period. As such, the fair value is sensitive to the cash flow amounts and all other inputs are observable.

15. Management of Capital

The Company's capital is made up of its cash on hand, debt facilities, 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 debt facilities; maintain financial flexibility to preserve its ability to meet financial obligations, including debt servicing and dividends to shareholders; and deploy capital to provide an appropriate investment return to its shareholders.

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

The covenants of the debt facilities prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.50 to 1.

Senior Indebtedness is defined as the Company's debt facilities, disclosed under Note 9, which is made up of a $53 million term facility, a $10 million acquisition facility and a $5 million operating facility. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

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

16. Segmented Information

The Company has only one business segment which is the ownership and generation of residential brokerage Franchise Agreements.

17. Comparative Balances

Certain comparative balances have been reclassified to conform to the 2014 financial statement presentation.

18. Subsequent Events

On January 1, 2015 the Company through the Partnership and VCLP acquired Franchise Agreements and addendums for $10.2 million that represented 40 real estate operations comprising 848 agents generating approximately $1.5 million in annual royalties. Under terms of the MSA, 80% of the purchase price and applicable taxes were due on January 1, 2015. The Company satisfied this obligation through cash on hand and a drawdown of $8 million on the Company's $10 million acquisition line. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA.