

# 2015 Financials

## Management's Discussion and Analysis

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## Introduction

This section of Brookfield Real Estate Services Inc.'s annual report includes management's discussion and analysis ("MD&A") of the financial results and financial condition of the Company for the three months ended and the year ended December 31, 2015, and has been prepared as at March 9, 2016. The three months ended December 31, 2015 shall be referred to in this MD&A as the "Quarter" and the year ended December 31, 2015 shall be referred to in this MD&A as the "Year". The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars unless otherwise stated.

The definitions of terms capitalized in this MD&A are provided in the Glossary of Terms commencing on page 42.

This MD&A is intended to provide the reader with an assessment of the Company's past performance as well as its financial position, performance objectives and future outlook. The information in this section should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015, prepared in accordance with IFRS. Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

# Management's Discussion and Analysis of Results and Financial Condition

## Highlights

(in 000's, Canadian dollars) except REALTOR® count	Three months ended December 31, 2015	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Royalties	\$ 9,539	\$ 8,584	\$ 8,332	\$ 39,859	\$ 37,392	\$ 36,268
Administration expenses	(252)	(339)	(40)	(1,286)	(1,626)	(1,342)
Management fee	(1,734)	(1,431)	(1,586)	(7,229)	(6,469)	(6,677)
Interest expense	(619)	(1,089)	(750)	(2,428)	(3,419)	(3,040)
CFFO	\$ 6,934	\$ 5,725	\$ 5,956	\$ 28,916	\$ 25,878	\$ 25,209
Dividends paid	\$ 2,964	\$ 2,845	\$ 2,618	\$ 11,619	\$ 11,305	\$ 10,471
Interest on Exchangeable Units paid	\$ 1,373	\$ 1,318	\$ 1,168	\$ 5,381	\$ 5,822	\$ 5,272
Net earnings (loss)	\$ (3,001)	\$ 2,449	\$ 569	\$ 1,324	\$ 3,871	\$ 888
Number of REALTORS®				16,794	15,377	15,310

(on a diluted share basis, except dividends paid and interest on Exchangeable Units paid)	Three months ended December 31, 2015	Three months ended December 31, 2014	Three months ended December 31, 2013	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
CFFO	\$ 0.54	\$ 0.45	\$ 0.46	\$ 2.26	\$ 2.02	\$ 1.97
Dividends paid	\$ 0.31	\$ 0.30	\$ 0.28	\$ 1.23	\$ 1.19	\$ 1.10
Interest on Exchangeable Units paid	\$ 0.41	\$ 0.40	\$ 0.35	\$ 1.62	\$ 1.75	\$ 1.58
Net earnings (loss)	\$ (0.32)	\$ 0.26	\$ 0.06	\$ 0.14	\$ 0.41	\$ 0.09

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2015.

- Cash flow from operations ("CFFO") for the Year improved to \$28.9 million or \$2.26 per share on a diluted basis ("Share"), an increase of 12% as compared to \$25.9 million or \$2.02 per Share in 2014 and 15% as compared to \$25.2 million or \$1.97 per Share in 2013.
- CFFO of \$2.26 per Share for the Year represents the highest annual CFFO per Share generated by the Company ever. The improvement in CFFO for the Year was driven by an increase in royalties as a result of an increase in the number of REALTORS® in the Company Network and lower cash operating expenses due to reduced interest costs and lower bad debt expenses as compared to 2014 and 2013.
- The board of directors (the "Board") of the Company increased dividends declared on Restricted Voting Shares twice in 2015, resulting in a dividend payment of \$1.23 per Restricted Voting Share in 2015 as compared to \$1.19 in 2014 and \$1.10 in 2013. BRESI declared monthly dividends subsequent to the end of the Year which amount to \$1.30 per Restricted Voting Share on an annual basis.

## Organization

BRESI is listed on the Toronto Stock Exchange ("TSX") under the symbol "BRE". Through its limited partnership holdings, BRESI owns certain Franchise Agreements and Trademarks of real estate services Brands in Canada.

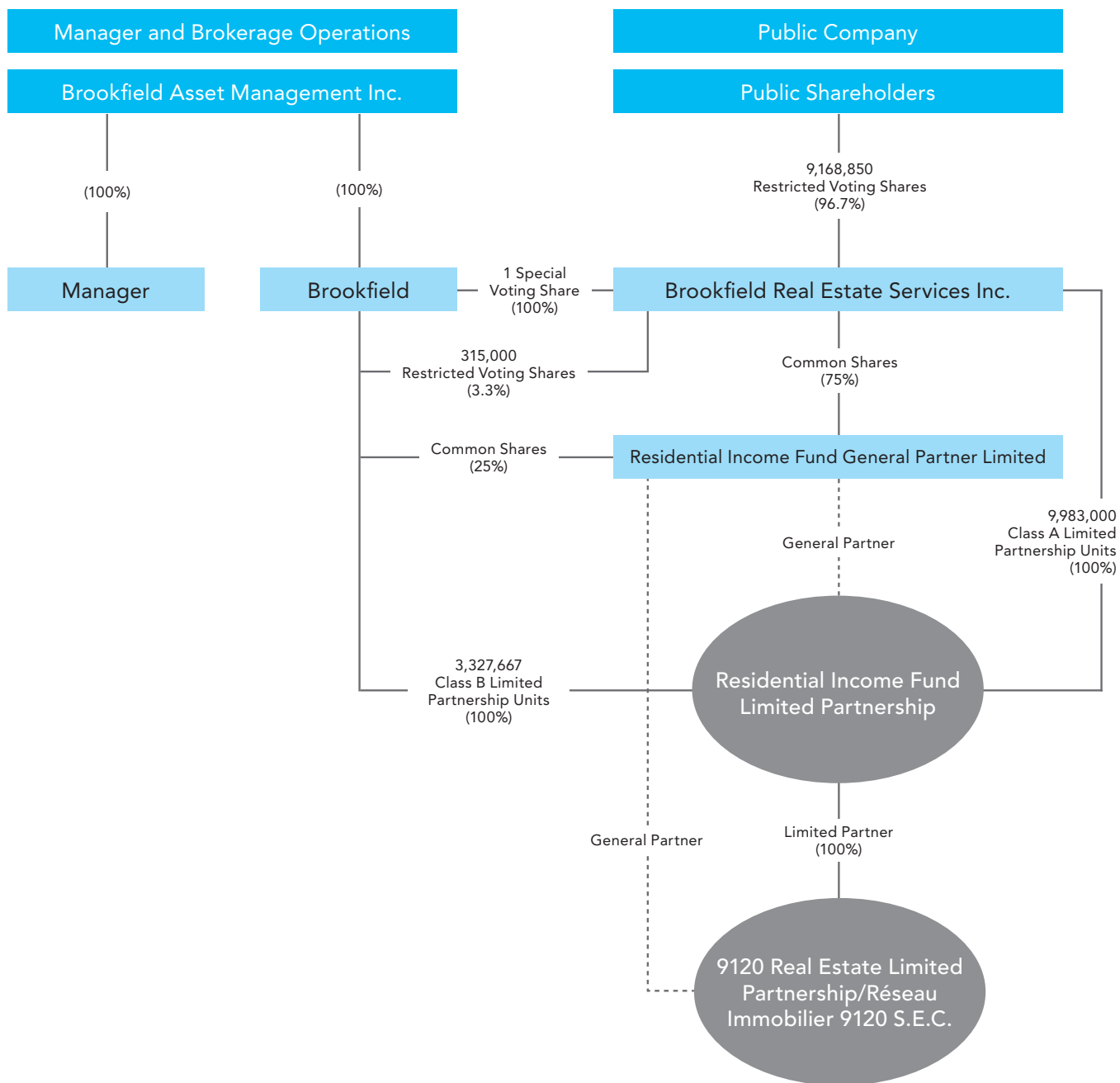
BRESI directly owns a 75% interest in the Partnership which, in turn, owns VCLP. In addition, BRESI directly owns a 75% interest in the General Partner. (Collectively, the Partnership, VCLP and the General Partner represent the Company's "Subsidiaries" and each of them is a "Subsidiary"). The Partnership and VCLP (together the "Operating Subsidiaries") own and operate the assets from which BRESI derives its revenue.

Brookfield owns the remaining 25% interest in the Partnership through its ownership of the Exchangeable Units and the remaining 25% interest in the General Partner through its ownership of 25 common shares in the General Partner. In addition to its ownership of the Exchangeable Units, Brookfield indirectly owns 315,000 Restricted Voting Shares (representing approximately 2.4% of Restricted Voting Shares outstanding on a fully diluted basis) and one special voting share of BRESI. The special voting share entitles Brookfield 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.

# Management's Discussion and Analysis of Results and Financial Condition

The Company receives certain management, administrative and support services from the Manager. BRESI derives 100% of its revenue from royalties it receives under certain Franchise Agreements it purchases from the Manager.

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



# Management's Discussion and Analysis of Results and Financial Condition

## Business Strategy

The Company is a Canadian based real estate services firm that supplies Brokers and Agents with information, tools and services to assist them in providing efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate services Brands, each of which offers a unique value proposition, the Company caters to the diverse service requirements of regional real estate professionals, in virtually all significant population centres across Canada.

BRESI's objective is to provide its stakeholders with an investment vehicle that pays stable and growing dividends. The Company's revenue is driven primarily by royalties derived from long-term Franchise Agreements. These royalties are weighted toward fees that are fixed in nature. The Company believes that this has proven to be effective in moderating the variations in overall industry activity that can occur in the Canadian residential real estate market ("Canadian Market"). The Company is party to the Management Services Agreement which governs the management of the Company and the delivery of services to Brokers and Agents by the Manager.

The number of Agents in the Company Network, the transaction volumes generated in the markets the Company serves, the manner in which the Company structures the contracted revenue streams, and the success in attracting Agents and Brokers to the Brands through the value proposition and the track record of the Company's Brands are all important factors in the Company's financial and operating performance. These factors, including, among others, general economic conditions and government and regulatory activity impact the Company's performance and are discussed in greater detail throughout this MD&A and in the Company's Annual Information Form which is available at [www.sedar.com](http://www.sedar.com).

BRESI seeks to increase its Cash Flow from Operations by increasing the number of REALTORS® in the Company Network through the acquisition of Franchise Agreements and by attracting and retaining Brokers and their Agents through the provision of services and additional fee for service offerings, which increases the productivity of the Brokers and their Agents.

## Structure of Company Royalties

The Company generates revenue from royalties with both fixed and variable components. Approximately 89% (2014 – 89%) of the Company's royalties during the Year were derived from the combined fixed Franchise fee per Agent per month, 1% variable Franchise fee and Premium Franchise Fees. The remaining royalty stream is made up of Franchise fees generated from warranty fees, technology fees and other fees. Approximately 72% of the Company's annual royalties were partly insulated from the fluctuations in the Canadian Market as they were not directly driven by transaction volumes. The Company believes that the combination of a royalty stream based on the number of Agents in the Network, increasing Agent and Broker productivity and an increasing supply of new housing inventory provides the base for strong and stable cash flows. A description of each type of royalty fee follows:

**Fixed Franchise Fees** are paid based on the number of Agents in the Franchise Network. Fixed Franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of \$105 per Agent (\$102 in 2014 and 2015, and \$100 prior to 2014), while fixed fees from Via Capitale Franchisees consist primarily of a monthly fee of approximately \$170 per Agent. On January 1, 2016, the Company increased the Royal LePage fixed fee to \$105 per Agent for approximately 85% of the Franchise Network and the balance of the increase will take effect on January 1, 2017.

**Variable Franchise Fees** are calculated as a percentage of Gross Revenues earned by the Franchisee's Agents. Variable Franchise fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent's Gross Revenues, subject to a cap of \$1,325 per year (\$1,300 per year prior to December 31, 2015). Certain Agents in the Royal LePage Network work as part of a Team. All Agents who are members of a Team pay fixed Franchise fees. However, for the purposes of the \$1,325 variable fee cap, the Gross Revenues of all Team members is aggregated to one cap.

On January 1, 2016, the Company implemented an increase in the cap for the variable Franchise fee to \$1,325 per year for approximately 85% of the Network and the balance of the increase will take effect on January 1, 2017.

The amount of variable Franchise fee paid by an individual Agent can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices. However, variable Franchise fees are subject to a cap of \$1,325 (\$1,300 prior to 2016). For those Agents who reach the cap, the variable Franchise fee is effectively fixed in nature, in that the variable Franchise fee paid by the Agent will not change based on changes in the Canadian Market. In 2015, over 3,100 Agents and Teams exceeded the \$1,300 cap and accounted for approximately 11% of royalties earned from Royal LePage Franchisees. As such, the Company considers 45% of its variable Franchise fees to be fixed in nature.

# Management's Discussion and Analysis of Results and Financial Condition

**Premium Franchise Fees** are paid by 21 of the Company's larger Royal LePage locations in the greater Toronto area. Each of these Franchisees is obligated to pay Premium Franchise Fees until August 2018 ranging from 1% to 5% of the location's Gross Revenue. Of these locations, 12 are operated by the Manager.

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

## Network Royalty Profile

As at December 31, 2015, the Company receives royalties from 16,526 Agents contracted with 347 Broker-Owners operating under 305 Franchise Agreements from 662 locations, providing services under the Royal LePage, Via Capitale and Johnston & Daniel brand names collectively as the Company Network, with an approximate one fifth share of the Canadian Market based on 2015 transactional dollar volume.

**The Royal LePage Network:** The fees generated from the Royal LePage Network accounted for 93% of the Company's fees for the Year (2014 – 92%). Fees charged to the Royal LePage Network for the Year include:

- a fixed monthly Franchise fee per Agent of \$102;
- a variable Franchise fee equal to 1% of Gross Revenue up to a maximum annual variable Franchise fee of \$1,300 per Agent or Team;
- a premium monthly Franchise fee per applicable location, as described above; and
- a fixed monthly technology fee per Agent of \$20.

Due to the variable Franchise fee capping feature, approximately 70% (2014 – 70%) of the royalties earned from the Royal LePage Network were fixed in nature.

**The Via Capitale Network:** The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 7% of the Company's fees for the Year (2014 – 8%). These fees are primarily made up of a fixed monthly fee per Agent of \$170 (\$2,040 per annum) and other Franchise fees generated from warranties.

Approximately 76% (2014 – 78%) of the royalties earned from the Via Capitale Network were fixed in nature.

The table below summarizes the Franchise fees received by each respective brand;

Year ended December 31, 2015 (in 000's, Canadian dollars)	Royal LePage	Via Capitale	Total
Fixed Franchise Fees	46%	5%	51%
Variable Franchise Fees	23%	–	23%
Premium Franchise Fees	15%	–	15%
Other revenue	9%	2%	11%
<b>Total Brand Percentage</b>	<b>93%</b>	<b>7%</b>	<b>100%</b>

Year ended December 31, 2014 (in 000's, Canadian dollars)	Royal LePage	Via Capitale	Total
Fixed Franchise Fees	45%	6%	51%
Variable Franchise Fees	23%	–	23%
Premium Franchise Fees	15%	–	15%
Other revenue	9%	2%	11%
<b>Total Brand Percentage</b>	<b>92%</b>	<b>8%</b>	<b>100%</b>

# Management's Discussion and Analysis of Results and Financial Condition

## Overview of 2015 Operating Results

Years ended December 31,  
(in 000's, Canadian dollars) except per share amounts;  
Restricted Voting Shares outstanding;  
Exchangeable Units outstanding;  
Number of REALTORS® and number of Agents;

	2015	2014	2013
Royalties	\$ 39,859	\$ 37,392	\$ 36,268
Less:			
Administration expenses	1,286	1,626	1,342
Management fee	7,229	6,469	6,677
Interest expense	2,428	3,419	3,040
Cash flow from operations	\$ 28,916	\$ 25,878	\$ 25,209
Amortization of intangible assets	(9,892)	(10,828)	(12,683)
Impairment of intangible assets	(1,047)	(2,384)	(1,391)
Interest on Exchangeable Units	(5,434)	(5,856)	(4,672)
Gain (loss) on fair value of Exchangeable Units	(5,524)	1,164	(2,429)
Loss on Interest Rate Swap	(1,454)	(482)	–
Gain (loss) on fair value of purchase obligation	(633)	(955)	210
Current income tax expense	(4,469)	(3,657)	(3,958)
Deferred income tax recovery	861	991	602
Net and comprehensive earnings	\$ 1,324	\$ 3,871	\$ 888
Basic earnings per share	\$ 0.14	\$ 0.41	\$ 0.09
Diluted earnings per share	\$ 0.14	\$ 0.41	\$ 0.09
Cash flow from operations per share on a diluted basis	\$ 2.26	\$ 2.02	\$ 1.97
Dividends paid per share	\$ 1.23	\$ 1.19	\$ 1.10
Interest paid per Exchangeable Unit	\$ 1.62	\$ 1.75	\$ 1.58
Restricted Voting Shares outstanding	9,483,850	9,483,850	9,483,850
Exchangeable Units outstanding	3,327,667	3,327,667	3,327,667
Total assets	\$ 98,114	\$ 86,562	\$ 93,433
Total liabilities	\$ 123,484	\$ 101,558	\$ 100,919
Number of REALTORS®	16,794	15,377	15,310
Number of Agents	16,526	15,143	15,068

## VARIATION OF OPERATING RESULTS IN 2015 COMPARED TO 2014

### Royalties:

The strong Canadian Market and a significant increase in the number of Agents in the Company Network contributed to a \$2.5 million increase in royalty revenues in 2015 compared to 2014. The total value of real estate bought and sold in Canada increased by 14% to \$224.2 billion contributing to increased variable Franchise fees and Premium Franchise Fees. The Company's Network of REALTORS® increased by 1,417 REALTORS® in 2015, driven by 1,577 REALTORS® acquired by way of acquisition of Franchise Agreements, partly offset by attrition of 160 REALTORS® in the Year.

# Management's Discussion and Analysis of Results and Financial Condition

## **Net Earnings:**

For the Year, the Company generated net earnings of \$1.3 million or \$0.14 per Share, compared to \$3.9 million or \$0.41 per Share in 2014.

The primary drivers for the decrease in net earnings compared to 2014 were:

- A loss on the determination of the fair value on the Exchangeable Units of \$5.5 million in 2015, compared to a gain of \$1.2 million in 2014;
- An increase in the loss resulting from the revaluation of an Interest Rate Swap of \$1.5 million compared to \$0.5 million in 2014, refer further discussion under *Annual Operating Results – Loss on Interest Rate Swap*;
- Higher income tax expense resulting from higher taxable income; partly offset by
- Increased royalty revenues as discussed above, net of associated increase in management fees;
- Reduced administration expenses, including bad debt expense;
- Lower interest costs, despite increased borrowing levels, as a result of the Company renegotiating its debt facilities late in 2014 to take advantage of lower rates; refer to further discussion under *Debt Facilities*; and
- Lower expenses associated with amortization and impairment of intangible assets of \$2.3 million.

## **Total Assets:**

Total assets increased by \$11.6 million over 2014 primarily as a result of the Company's acquisition of Franchise Agreements totaling \$20.0 million in 2015 as well as higher cash balances at year end. These increases were partly offset by a \$1.0 million reduction in accounts receivable and notes receivable due to better working capital management and amortization and impairment of intangible assets totaling \$10.9 million.

## **Total Liabilities:**

Total liabilities increased by \$21.9 million in 2015 compared to 2014. The main drivers of the increase are as follows:

- An increase in debt facilities of \$11.9 million and current and non-current portion of purchase obligation of \$2.7 million to reflect financing to acquire Franchise Agreements during the Year;
- An increase in the Company's Interest Rate Swap liability, as discussed above,
- An increase in the liability associated with the Exchangeable Units, which is tied to the trading value of the Restricted Voting Shares, refer to further discussion under *Annual Operating Results – Loss on fair value of Exchangeable Units*; and
- An increase in the Company's current income tax liability as a result of higher current income tax expense, as discussed above.

## **Dividends and Distributions:**

Dividends approved by the Board on Restricted Voting Shares increased to \$1.23 per share in 2015, compared to \$1.20 in 2014. During 2015, the Board approved two increases in the monthly dividends declared on Restricted Voting Shares. On June 17, 2015, the Board approved an increase from \$0.10 per share (\$1.20 on an annualized basis) to \$0.1042 (\$1.25 on an annualized basis) effective with the dividend paid on July 31, 2015. On December 7, 2015, the Board approved an additional increase to \$0.1083 per share (\$1.30 on an annualized basis), effective with the dividend paid January 29, 2016.

Interest on Exchangeable Units was lower in 2015 compared to 2014. Generally, the determination of interest on Exchangeable Units is calculated with reference to the dividends paid on the Restricted Voting Shares. However, the interest on Exchangeable Units in 2014 reflects an additional distribution in respect of undistributed proportionate share of the Partnership's 2013 earnings.

## **VARIATION OF OPERATING RESULTS IN 2014 COMPARED TO 2013**

### **Royalties:**

Total royalty revenues increased by \$1.1 million in 2014 compared to 2013. The Canadian Market was strong in 2014 as the total value of real estate bought and sold in Canada increased by 12% to \$196.3 billion compared to \$175.1 billion in 2013. The Company's Network of REALTORS® increased by 67 REALTORS® in 2014 driven by 493 REALTORS® acquired by way of acquisition of Franchise Agreements, partly offset by attrition of 426 REALTORS®.

# Management's Discussion and Analysis of Results and Financial Condition

## Net Earnings:

In 2014, the Company generated net earnings of \$3.9 million or \$0.41 per Share, compared to \$0.9 million or \$0.09 per Share in 2013.

The primary drivers for the increase in net earnings compared to 2013 were:

- A gain on the determination of the fair value on the Exchangeable Units of \$1.2 million in 2014, compared to a loss of \$2.4 million in 2013;
- Increased royalty revenues as discussed above;
- Lower net expenses associated with amortization and impairment of intangible assets of \$0.9 million;
- Lower income tax expense resulting from lower taxable income; partly offset by
- An increase in the loss on the fair value of the purchase obligation associated with acquisition of Franchise Agreements;
- A loss resulting from the revaluation of the Interest Rate Swap of \$0.5 million which was entered into in 2014, and
- Higher interest on Exchangeable Units as a result of a \$0.6 million distribution made in 2014 in respect of undistributed proportionate share of the Partnership's 2013 earnings and an increase to monthly distributions on Exchangeable Units approved by the Board in 2014.

## Total Assets:

Total assets decreased by \$6.9 million over 2013 primarily as the amortization and impairment of intangible assets more than offset the value of the Franchise Agreements purchased during 2014.

## Total Liabilities:

Total liabilities increased by \$0.6 million over 2013 primarily as a result of a \$1.2 million increase in current and non-current portion of the purchase obligation associated with acquisition of Franchise Agreement in 2014, \$0.5 million increase in liability associated with the Interest Rate Swap and \$0.3 million increase in current income tax liability, partly offset by the impact of a decrease in liability associated with Exchangeable Units of \$1.2 million.

## Dividends and Distributions:

Dividends approved by the Board on Restricted Voting Shares increased to \$1.20 per share in 2014, compared to \$1.10 in 2013. During 2013, the Board approved an increase in the monthly dividends declared to shareholders of Restricted Voting Shares effective with the dividend paid February 28, 2014.

Interest on Exchangeable Units was higher in 2014 compared to 2013. The determination of interest on Exchangeable Units is calculated with reference to the dividends paid on the Restricted Voting Shares. In addition, the interest on Exchangeable Units in 2014 reflects a \$0.6 million distribution made in respect of undistributed proportionate share of the Partnership's 2013 earnings.

## Key Performance Drivers

Key performance drivers of the Company's business include:

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

## Stability of the Company's Royalty Stream

The stability of the Company's royalty stream is derived from a number of factors, including the fixed-fee structure of the Company's royalties, the ability to increase Franchise fees under the terms of the Franchise Agreements, the diversity of the Company Network, the geographic distribution of the Company Network, the length and renewal of the Franchise Agreements owned by the Company.

### FIXED-FEE STRUCTURE

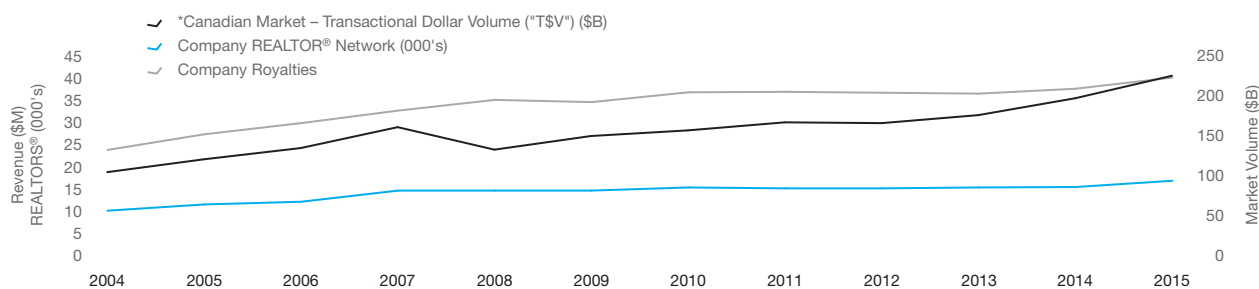
The Company estimates that approximately 72% of its royalties are fixed in nature. In addition to its fixed and other Franchise fees, a substantial portion of the Company's variable Franchise fees are effectively fixed in nature.

# Management's Discussion and Analysis of Results and Financial Condition

The amount of variable Franchise fee paid by an individual Agent can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices across Canada. However, variable Franchise fees are subject to a cap of \$1,325 (\$1,300 prior to 2016). For those Agents or Teams who reach the cap, the variable Franchise fee is effectively fixed in nature, in that the variable Franchise fee paid by the Agent or Team will not change based on changes in the Canadian Market.

The chart below compares the Company's royalties to the Canadian Market and the underlying number of REALTORS® in the Company Network.

## ROYALTIES, MARKET AND REALTOR® TRENDS



\*Source: Canadian Real Estate Association ("CREA")

## INCREASE IN FEES

Under the terms of the Franchise Agreements, the Company is permitted to increase the Franchise fees it charges based on changes in the underlying consumer price index.

On February 11, 2015 the Company announced that the Royal LePage Network monthly fixed Franchise fee of \$102 per Agent will be increased to \$105 per Agent and the maximum variable Franchise fee payable based on 1% of each Agent's or Team's Gross Revenue will increase from \$1,300 annually to \$1,325.

The increase in royalty fees was implemented to 85% of the Royal LePage Network on January 1, 2016 and to the other 15% on January 1, 2017. The Company estimates this fee increase will result in approximately \$600,000 of incremental Franchise fees when fully implemented.

## GEOGRAPHIC DISTRIBUTION OF THE COMPANY NETWORK

As at December 31, 2015 the Company Network of 16,794 REALTORS® operates through Franchisees, contracted with 347 Broker-Owners, providing services across the country through 662 locations operating under 305 Franchise Agreements. Of the Company's Brokerages, approximately 70% operate with fewer than 50 REALTORS® and represent 19% of the Company Network. The Company's smallest Franchisees have one REALTOR® while the largest has almost 1,900 REALTORS®.

The Company Network of REALTORS® is geographically dispersed across Canada. As compared to the distribution of REALTORS® across Canada, the Company Network is under-represented in British Columbia and Alberta. The Company has a relatively strong presence in Ontario (as a result of a historical base there) and Quebec (due in part to operating under two separate Brands).

As at December 31, 2015	Canadian <sup>1</sup> REALTOR® Population	Company REALTOR® Population
Ontario	56%	61%
British Columbia	18%	11%
Quebec	11%	14%
Alberta	9%	7%
Maritimes	3%	3%
Prairies	3%	4%
Total	100%	100%

<sup>1</sup> Source: CREA

# Management’s Discussion and Analysis of Results and Financial Condition

## FRANCHISE AGREEMENTS

Franchise Agreements are contracts between the Company and Franchisees which govern matters such as use of the Trademarks, rights and obligations of Franchisees and the Company, renewal terms, services to be provided and Franchise fees. Over the term of the Franchise Agreement, the Franchisee may undertake activities which require an amendment to the standard contract such as the opening of a new location. These changes are documented by way of an addendum to the standard contract and form part of the Franchise Agreement.

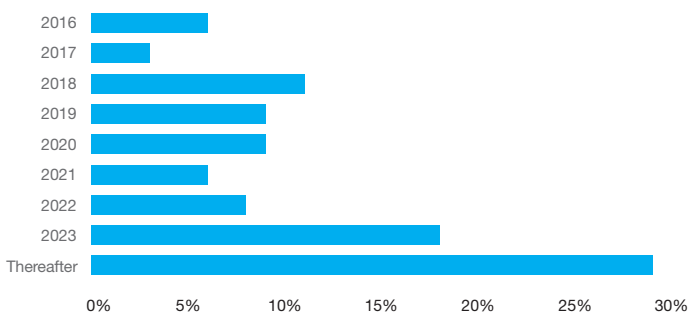
The Royal LePage Franchise Agreements, which are represented by 94% of the Company’s REALTORS®, are for 10 to 20 year terms with a standard renewal term of ten years. These long-duration contracts exceed the industry norm of five years and thereby reduce agreement renewal risk. In addition, the Company regularly attempts to extend contract terms a further ten years in advance of renewal dates when opportunities allow.

The Via Capitale Franchise Agreements, which are represented by 6% of the Company’s REALTORS®, are typically five years in duration with standard renewal terms extending five years.

The Company’s overall agreement renewal profile by year is not biased to any one year. A summary of the Company’s agreement renewal profiles as at December 31, 2015 for the Company Network is shown below.

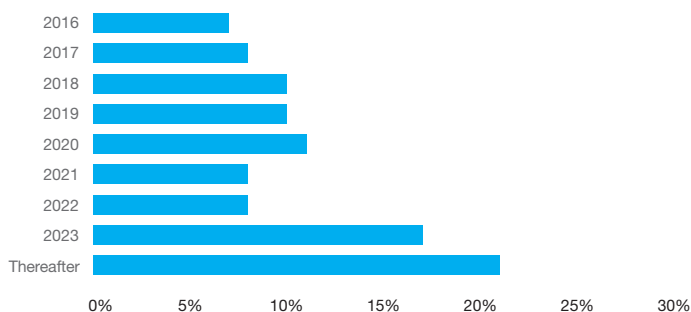
### % OF FRANCHISE AGREEMENTS UP FOR RENEWAL

(by Number of Agents)



### % OF FRANCHISE AGREEMENTS UP FOR RENEWAL

(by Number of Agreements)



## RENEWALS

The Company has historically enjoyed in excess of 95% renewal success of Franchise Agreements as they come due, expressed as a percentage of the underlying number of REALTORS® associated with these agreements. Due to the ongoing success of the Company’s Franchisees, a number of opportunities, such as increasing Franchisee locations, present themselves to renew Franchise Agreements before they come due.

During the Year, 21 Franchise Agreements, representing 1,722 Agents of the Company Network subject to renewal, were renewed and 13 Franchise Agreements, representing 598 Agents of the Network, renewed early.

During the Year, five Franchise Agreements were terminated, of which two were as a result of Franchisees merging operations and one resulted in the attrition of 47 Agents.

# Management's Discussion and Analysis of Results and Financial Condition

## Number of REALTORS® in the Company Network

For the Year, the Company Network of 16,794 REALTORS® increased by 1,417 REALTORS®, compared to a net increase of 67 REALTORS® in 2014. After taking into account the 1,577 REALTORS® added through the acquisition of Franchise Agreements and addenda on January 1, 2015 and July 1, 2015, the Company experienced net attrition of 160 REALTORS®, or less than 1% of the Company Network.

As at December 31,	2003*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Company Network</b>													
Opening REALTOR® Count	9,238	9,454	10,145	11,542	12,149	13,172	14,594	14,631	15,308	15,061	15,086	15,310	<b>15,377</b>
Acquisition		–	558	346	390	1,272	316	417	247	217	516	493	<b>1,577</b>
Recruiting (Attrition)	216	691	839	261	633	150	(279)	260	(494)	(192)	(292)	(426)	<b>(160)</b>
Closing REALTOR® Count	9,454	10,145	11,542	12,149	13,172	14,594	14,631	15,308	15,061	15,086	15,310	15,377	<b>16,794</b>
% Change in the Year	–	7%	14%	5%	8%	11%	0%	5%	-2%	0%	1%	0%	<b>9%</b>
<b>Canadian REALTOR® Population<sup>1</sup></b>													
REALTOR® Membership	71,267	76,752	82,852	88,906	94,506	97,168	98,161	101,916	104,407	106,944	109,032	110,821	<b>114,664</b>
% Change in the Year	–	8%	8%	7%	6%	3%	1%	4%	2%	2%	2%	2%	<b>3%</b>

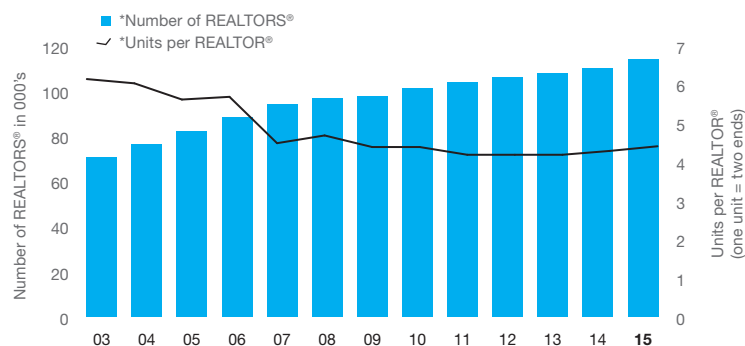
<sup>1</sup> Source: CREA

\* Opening Count as at August 2003

The increase in the number of Canadian REALTORS® has in part been driven by the strong Canadian Markets, increases in discount brokerage offerings, which have attracted new entrants to the industry and an apparent increase in market activity serviced by REALTORS® operating as Teams. This increase in REALTORS® and change in mix has resulted in a modest 2% year-over-year increase in the number of homes sold per REALTOR®.

## CANADIAN REAL ESTATE REALTORS®

(Years ended December 31)



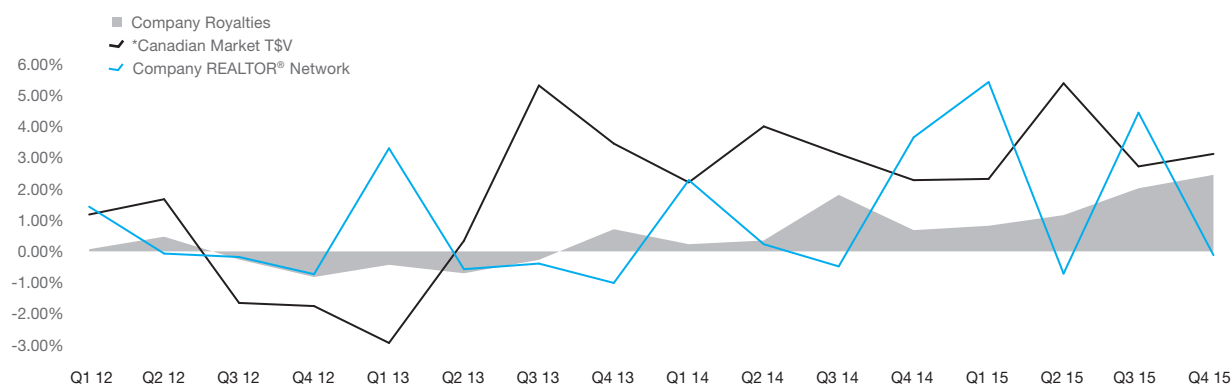
\*Source: CREA

# Management’s Discussion and Analysis of Results and Financial Condition

## Transaction Volumes

The chart below shows the quarter-over-quarter percentage change in transactional dollar volume in Canada as compared to the percentage change in the Company’s royalty revenues and the percentage change in the number of REALTORS® on a rolling twelve-month basis since the fourth quarter of 2011. The number of REALTORS® in the Company Network increases when the Company purchases Franchise Agreements from the Manager. This tends to occur on January 1 of each year. During 2015, an additional purchase of Franchise Agreements was approved July 1. During those quarters where no Franchise Agreements are purchased, REALTOR® growth tends to be zero or slightly negative, indicating periods of net attrition.

### ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



\*Source: CREA

Transactional dollar volume of real estate in Canada has been growing since the second quarter of 2013 as real estate values and volumes have been strong, particularly in the major metropolitan centers of Toronto and Vancouver. Royalty revenues have also continued to grow, albeit at a slower rate than transactional dollar volumes of the Canadian Market due in part, to the fixed nature of the Company’s royalty fees.

For the Year ended December 31, 2015, the Canadian Market closed up 14%, at \$224.2 billion, as compared to 2014, driven by a 9% and 5% increase in price and units sold, respectively. The increase in average selling price of a home was buoyed by robust activity in the greater Toronto and metropolitan Vancouver markets and the low interest rate environment.

During the Quarter, the Canadian Market closed up 16%, at \$48.1 billion, as compared to the same period of 2014, driven by a 10% increase in price and 6.0% increase in units sold.

For the Year ended December 31, 2015, the greater Toronto area (“GTA”) market closed up 20%, at \$63.4 billion, as compared to 2014, driven by a 10% and 9% increase in price and units sold, respectively, for the reasons noted above.

During the Quarter, the GTA market closed up 18%, at \$13.2 billion, as compared to the same period of 2014, driven by an 9% and 8% increase in price and units sold, respectively.

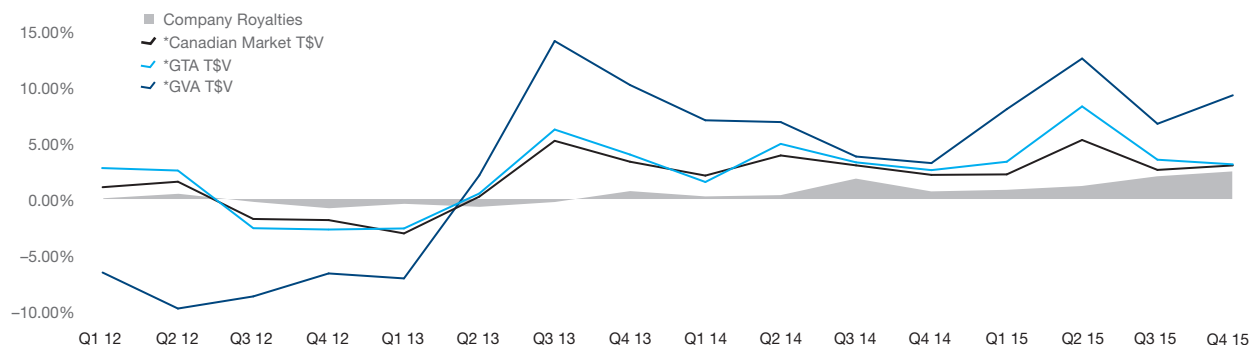
For the Year ended December 31, 2015, the greater Vancouver area (“GVA”) market closed up 42%, at \$39.0 billion, as compared to 2014, driven by an 11% and 28% increase in price and units sold, respectively, for the reasons noted above.

During the Quarter, the GVA market closed up 52%, at \$9.7 billion, as compared to the same period of 2014, driven by a 17% and 30% increase in price and units sold, respectively.

The GTA markets, as presented in the chart below, has had a more pronounced change in market activity when compared to the Canadian Market. This may cause the Premium Franchise Fees received by the Company from this market to differ from the change in the overall Canadian Market.

# Management's Discussion and Analysis of Results and Financial Condition

## ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



\*Source: CREA

## Company's Growth Opportunities

Growth in the Company's royalties is achieved through;

- increasing the number of REALTORS® in the Company Network through organic growth;
- acquiring Franchise Agreements from the Manager;
- increasing the productivity of Agents;
- expanding the range of products and services supporting Franchisees and their REALTORS®; and
- increasing the adoption of these products and services.

The products and services offered by the Company are supported by ongoing training programs for Brokers and Agents, which assist in leveraging the Company's competitive advantages to attract and retain potential recruits.

## PRODUCTS AND SERVICES

In 2015, the Manager, on behalf of the Company, continued to develop new tools, programs and services to support the profitable growth of its Franchisees. Programs and services that were launched in 2015 included recruiting-oriented coaching and accountability programs, new online lead generation services to help recruit agents as well as a series of new videos and e-marketing campaigns to support recruiting activities. In addition to growth services, the Company launched a benchmarking program to help Brokers assess their profitability levels relative to their peers. The success of any Brokerage is dependent upon the satisfaction and success of its Agents which Brokers can measure using the Company's program to help Brokers understand Agent satisfaction to support Agent retention efforts. The Manager continues to develop, launch and support new tools, programs and services to grow the profitability of the Company Network.

## GROWTH IN NUMBER OF REALTORS®

The Company strives to increase the number of REALTORS® in the Company Network through the continued momentum of converting competitive offerings to the Company's Brands and development of programs to increase Agent growth.

Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network has increased by 82% (7,556 REALTORS®), of which 84% has been through acquisitions and 16% through growth. This represents a cumulative annual growth rate of 5% in the Company Network.

Growth through acquisition is achieved by purchasing Franchise Agreements acquired by the Manager.

On January 1, 2015, the Company purchased Franchise Agreements representing 40 real estate operations, serviced by an estimated 858 Agents operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements was \$10.2 million, with an estimated annual royalty stream of \$1.5 million.

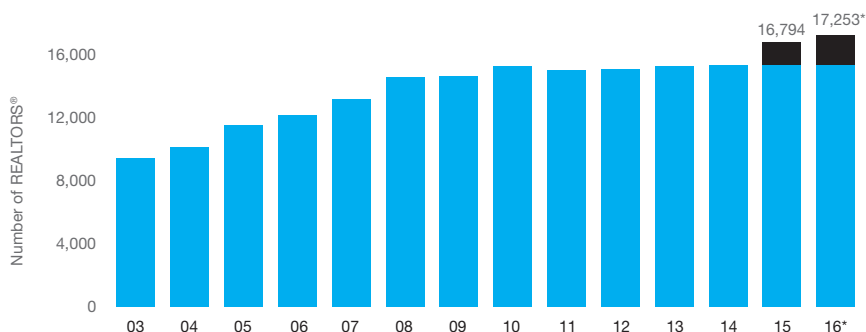
On July 1, 2015, the Company purchased Franchise Agreements representing 12 real estate operations, serviced by an estimated 719 Agents operating under the Royal LePage Brand. The estimated purchase price of these agreements was \$9.8 million, with an estimated annual royalty stream of \$1.4 million.

# Management's Discussion and Analysis of Results and Financial Condition

Subsequent to the Year, on January 1, 2016 the Company purchased Franchise Agreements representing 33 real estate operations, serviced by an estimated 459 REALTORS® operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements is \$6.6 million, with an estimated annual royalty stream of \$1.0 million.

A summary of Company Network growth since inception is summarized in the chart below.

## COMPANY GROWTH



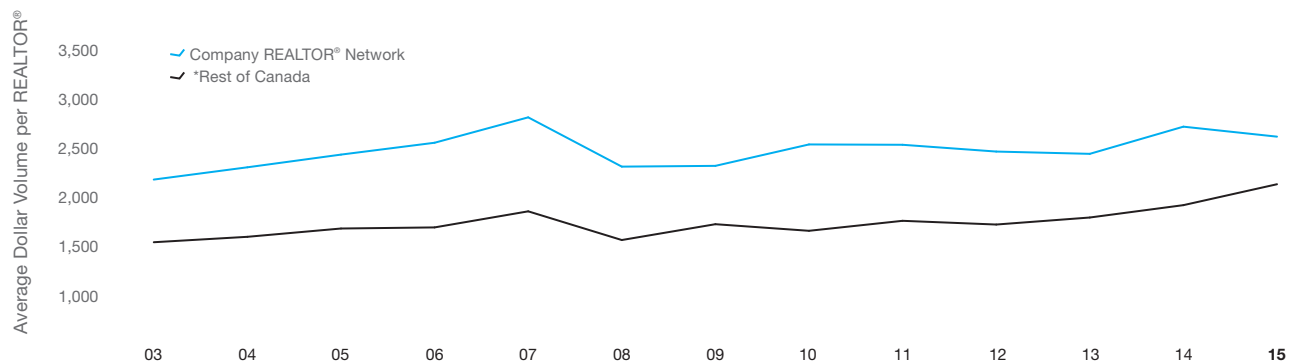
Year ended December 31, except 2016  
\* As at January 1, 2016

## REALTOR® Productivity

For the Year, the average Company REALTOR® generated approximately \$2.5 million in transactional dollar volume, compared to an estimated \$1.9 million in transactional dollar volume generated by an average Canadian REALTOR® outside the Company Network. Management believes that the higher productivity of the Company's Network of REALTORS® makes the Company less prone to a loss of REALTORS® during a period of reduced transactional dollar volume. The average transactional dollar volume per REALTOR® for the years ended December 31, 2003 through 2015 is summarized in the chart below.

## CANADIAN RESIDENTIAL REAL ESTATE MARKET REALTOR® PRODUCTIVITY

(Average T\$V per REALTOR®, in '000 of Canadian dollars)



\*Source: CREA

# Management's Discussion and Analysis of Results and Financial Condition

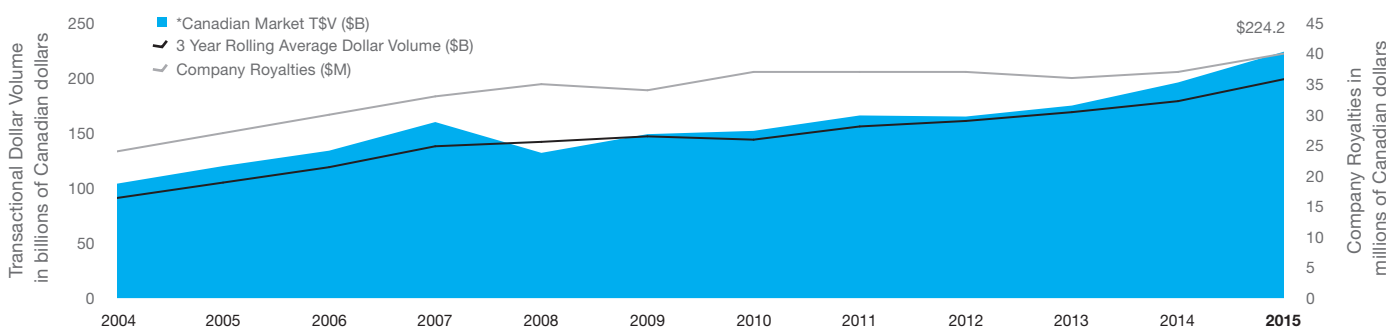
## The Canadian Residential Real Estate Market

Since 2004, the Canadian Market has grown at a compounded annual growth rate ("CAGR") of 7% compared to our royalty revenues, which have grown at a rate of 5%.

Over the last three years the Canadian Market has been relatively stable with a CAGR of 13% driven by a 5% increase in units and a 8% increase in selling price due in part to a combination of a low interest rate environment and government-mandated mortgage tightening rules. The Canadian Market has demonstrated resilience after a downturn as it tends to return to pre-downturn levels within 24 months. For example after the most recent downturn in 2008 the Canadian Market returned to pre-downturn levels within 16 months after the decrease of 19%.

### MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL REAL ESTATE MARKET

(2004–2015)

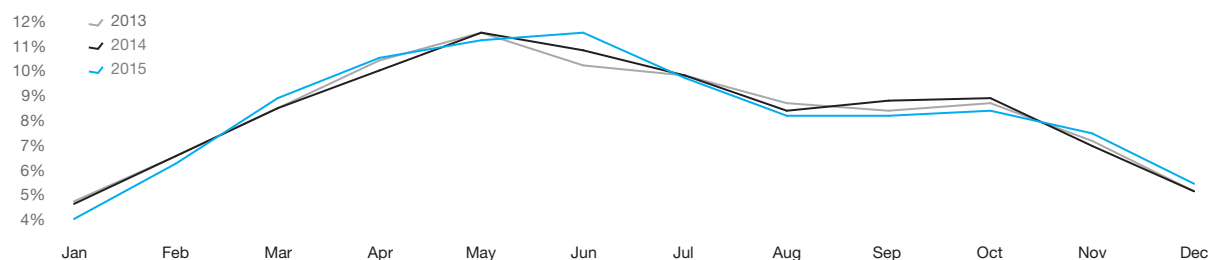


\*Source: CREA

The Company's royalty revenues are affected by the seasonality of the Canadian Market, which typically sees stronger transaction dollar volumes in the second and third quarters of each year, as summarized in the chart below. The impact of the seasonality of the Canadian Market is somewhat mitigated by the fixed-fee nature of the Company's royalties, the acquisition of Franchise Agreements at the beginning of the year and in the latter part of the year by the Royal LePage Agents and Teams who have capped with respect to variable Franchise fees.

### CANADIAN RESIDENTIAL REAL ESTATE MARKET

(\*% Canadian Market T\$V by month)



\*Source: CREA

## Canadian Market Outlook

A summary of key commentary on the Canadian Market, as reported by the Canada Mortgage and Housing Corporation ("CMHC"), Canadian Real Estate Association ("CREA"), the Toronto Real Estate Board ("TREB") and the Bank of Canada ("BoC") follows:

From CMHC<sup>1</sup>: While the prolonged decline in oil prices triggered two consecutive quarters of real GDP contraction in 2015, employment gains and low interest rates have supported housing activity. Looking ahead, there is considerable uncertainty due to the various risks to the outlook.

On an annual basis, housing starts are expected to range from 153,000 units to 203,000 units in 2016 and from 149,000 units to 199,000 units in 2017.

# Management's Discussion and Analysis of Results and Financial Condition

Multiple Listing Service® (MLS®) sales are expected to range from 425,000 units to 534,000 units in 2016 and from 416,000 units to 536,000 units in 2017. The average MLS® price for Canada is expected to be between \$420,000 and \$466,000 in 2016 and between \$424,000 and \$475,000 in 2017. Reflecting the risks to the outlook, the average MLS® price growth is expected to range from (-4.0) per cent to 6.5 per cent in 2016, widening to a range of (-4.3) per cent to 7.1 per cent in 2017. The slower rate of price growth projected for 2016 and 2017 compared to what was observed in 2014 (6.7 per cent) and what is expected in 2015 is due in part to the expectation that the composition of MLS® sales will see a reduction in more expensive resale units and an increase in moderately priced resale units. In addition, a projected slowdown in demand from rising mortgage rates is also expected to contribute to a decline in the rate of price growth.

From CREA<sup>2</sup>: In 2016, national sales are forecast to reach 498,600, down 1.1 per cent from 2015 as activity in B.C. and Ontario moderates and housing market conditions soften in Alberta.

Sales declines there will offset activity gains in Quebec and Atlantic provinces, where strengthening economic prospects should translate into a slow and steady improvement in sales amid the continuation of affordable prices due to an elevated supply of listings. The exception is in Newfoundland and Labrador, where economic and demographic challenges are expected to persist in 2016.

The national average price is forecast to edge higher by 1.4 per cent to \$448,700 in 2016. Price gains in 2016 are forecast to be strongest in Ontario (+2.9 per cent) due to an ongoing shortage of listings for single family homes coupled with strong demand for them in and around the GTA. British Columbia and Manitoba are forecast to see average price gains of about two per cent in 2016, followed by Nova Scotia and Prince Edward Island in the 1.5 per cent range, and by Quebec and New Brunswick with increases of less than one per cent. By contrast, Alberta, Saskatchewan and Newfoundland and Labrador are forecast to see average home prices decline by 2.5 per cent, 1.2 per cent and one per cent respectively in 2016.

From TREB<sup>3</sup>: Home ownership demand will remain strong in 2016, with TREB MLS® home sales amounting to between 96,500 and 105,000, depending on the direction of borrowing costs and the availability of listings. A relatively strong GTA economy will keep the unemployment rate low and result in moderate income growth. Even if borrowing costs increase alongside stricter lending guidelines, pent-up demand carried over from 2015, especially for lowrise home types, will ensure that many willing buyers remain in the marketplace. We will continue to experience seller's market conditions in 2016, but despite the tight market, price growth will be mitigated to a certain degree by the lending preapproval process and federal lending guidelines. The average selling price will range between \$655,000 and \$665,000

From the BoC<sup>4</sup>: The target for the overnight lending rate is maintained at 0.5 per cent. Inflation in Canada is evolving broadly as expected. Total CPI inflation remains near the bottom of the Bank's target range as the disinflationary effects of economic slack and low consumer energy prices are only partially offset by the inflationary impact of the lower Canadian dollar on the prices of imported goods. As all of these factors dissipate, the Bank expects inflation will rise to about 2 per cent by early 2017. Measures of core inflation should remain close to 2 per cent. Prices for oil and other commodities have declined further and this represents a setback for the Canadian economy. GDP growth likely stalled in the fourth quarter of 2015, pulled down by temporary softness in the U.S. economy, weaker business investment and several other temporary factors. The Bank now expects the economy's return to above-potential growth to be delayed until the second quarter of 2016. The protracted process of reorientation towards non-resource activity is underway, helped by stronger U.S. demand, the lower Canadian dollar, and accommodative monetary and financial conditions. National employment remains resilient despite job losses in the resource sector and household spending continues to expand.

The Bank projects Canada's economy will grow by about 1 1/2 per cent in 2016 and 2 1/2 per cent in 2017. The complex nature of the ongoing structural adjustment makes the outlook for demand and potential output highly uncertain. The Bank's current base case projection shows the output gap closing later than was anticipated in October, around the end of 2017. However, the Bank has not yet incorporated the positive impact of fiscal measures expected in the next federal budget.

## COMPANY MARKET OUTLOOK

In 2016, the Company expects the price of residential real estate in Canada to be influenced by macro-economic factors including interest rates, the Canadian dollar, unemployment, and global commodity prices. Economic consensus indicates that the Bank of Canada is likely going to keep its overnight rate steady through the first half of the year extending the prolonged period of exceptionally low borrowing rates. Though the Federal Government has recently increased the minimum down payment required to purchase higher value homes, the Company expects this change to have a marginal impact on the overall market. Combined with continued low interest rates, the Company believes the country's housing market is in a solid position to weather the impact of low commodity prices and a choppy economy.

<sup>1</sup> Source: CMHC Housing Market Outlook – Fourth Quarter 2015

<sup>2</sup> Source: CREA Updates Resale Housing Forecast, published December 15, 2015

<sup>3</sup> Source: TREB Market Year in Review & Outlook Report, published January, 2016

<sup>4</sup> Source: BOC press release published January 20, 2016

# Management's Discussion and Analysis of Results and Financial Condition

## Annual Operating Results

Years ended December 31,  
(in 000's, Canadian dollars) except per share amounts;  
Number of REALTORS® and number of Agents;

	2015	2014
Royalties		
Fixed Franchise fees	\$ 20,376	\$ 19,279
Variable Franchise fees	9,196	8,560
Premium Franchise fees	5,892	5,576
Other revenue	4,395	3,977
	<b>39,859</b>	37,392
Less:		
Administration	1,286	1,626
Management fee	7,229	6,469
Interest expense	2,428	3,419
	<b>10,943</b>	11,514
Cash flow from operations	<b>28,916</b>	25,878
Amortization of intangible assets	9,892	10,828
Impairment of intangible assets	1,047	2,384
Interest on Exchangeable Units	5,434	5,856
Loss (gain) on fair value of Exchangeable Units	5,524	(1,164)
Loss on Interest Rate Swap	1,454	482
Loss on fair value of purchase obligation	633	955
Earnings before income taxes	4,932	6,537
Current income tax expense	4,469	3,657
Deferred income tax recovery	(861)	(991)
Net and comprehensive earnings	\$ 1,324	\$ 3,871
Basic earnings per share	\$ 0.14	\$ 0.41
Diluted earnings per share	\$ 0.14	\$ 0.41
Number of REALTORS®	16,794	15,377
Number of Agents	16,526	15,143

During the Year, the Company generated net earnings of \$1.3 million and CFFO of \$28.9 million, as compared to net earnings of \$3.9 million and CFFO of \$25.9 million in 2014.

**Royalties** for the Year totaled \$39.9 million, compared to \$37.4 million for the same period in 2014. Fixed, variable and Premium Franchise Fees together represented 89% of royalties (2014 – 89%). Royalties increased due primarily to the larger Agent base and a strong Canadian Market, particularly in Toronto and Vancouver.

**Fixed Franchise fees** for the Year increased by 6% as compared to the same period of 2014, due to the increase in the Agent base resulting from the acquisition of Franchise Agreements and addenda representing 1,577 Agents during the Year, partly offset by attrition.

**Variable Franchise fees** for the Year increased by 7%, which relates to the increase in transaction dollar value of the Canadian Market driven by robust Toronto and Vancouver markets.

# Management's Discussion and Analysis of Results and Financial Condition

**Premium Franchise fees** are derived from the 21 Franchise locations servicing the GTA market, which pay Premium Franchise Fees ranging from 1% to 5% of the location's Gross Revenue. Premium Franchise Fees for the Year have increased by 6%, which follows the increase in the underlying GTA market activity.

**Other revenues** include home warranty fees, technology fees and other fees, which accounted for approximately 11% of total royalties for the Year. Other fees increased 11% in the Year as compared to 2014 due to higher warranty fees earned and technology fees earned from Franchise Agreements and addenda acquired in 2015.

**Administration expenses** of \$1.3 million for the Year were lower than 2014 primarily due to lower bad debt expense.

**Management fee expense** of \$7.2 million for the Year, calculated in accordance with the MSA, was up by \$0.8 million compared to 2014, due primarily to the increase in royalties.

**Interest expense** decreased by \$1.0 million as compared to 2014, despite an increase in total borrowings, due primarily to the refinancing of the Company's debt arrangements in the fourth quarter of 2014. The effective interest rate on the Company's debt facilities for the Year was 3.7%, compared to 6.1% during 2014. The Company's debt facilities are more fully described under *Debt Facilities*.

**Amortization of Intangible Assets** for the Year totaled \$9.9 million, a decrease of 8.6% from 2014. Certain Franchise Agreements have been fully amortized while a number of others had been previously written down due to impairment.

**Impairment of Intangible Assets** for the Year totaled \$1.0 million. Lower impairment charges were reflective of the fact that there were fewer underperforming Franchise Agreements in 2015 as compared to 2014.

**Interest on Exchangeable Units** represents the distributions to Exchangeable Unitholders. Total distributions amounted to \$1.62 per Exchangeable Unit compared to \$1.75 per Exchangeable Unit in 2014. The distributions to Exchangeable Unitholders were higher in 2014 due to an additional distribution in respect of undistributed proportionate share of the Partnership's 2013 earnings approved by the Board.

**Loss on fair value of Exchangeable Units** represents the change in fair value during the Year of the Exchangeable Units. The Exchangeable Units are valued based on a \$13.00 price for the Company's Restricted Voting Shares at the beginning of the year compared to \$14.66 at December 31, 2015 resulting in a loss of \$5.5 million as a result of the higher obligation associated with the conversion features of the Exchangeable Units. In 2014, the price of the Company's Restricted Voting Shares decreased from \$13.35 at the start of the year resulting in a gain of \$1.2 million.

**Loss on Interest Rate Swap** of \$1.5 million is a non-cash item which represents the change in fair value of the Interest Rate Swap entered into on October 27, 2014 by the Company. The Interest Rate Swap fixes the annual interest rate on the Company's Term Facility at 3.64%.

**Income Tax Expense** The effective income tax rate paid by the Company for the Year was 73.2% (2014 – 40.8%). The Company's effective income tax rate in the statement of earnings and comprehensive earnings is significantly different than the Company's enacted income tax rate of 26.5% (2014 – 26.5%). The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items deducted from net earnings that are not deductible in determining taxable income include, among other things, interest on Exchangeable Units and fair valuation adjustments on Exchangeable Units.

# Management's Discussion and Analysis of Results and Financial Condition

## Fourth Quarter Operating Results

Three months ended December 31,  
(in 000's, Canadian dollars) except per share amounts;  
Number of REALTORS® and number of Agents;

	2015	2014
Royalties		
Fixed franchise fees	\$ 5,311	\$ 4,814
Variable franchise fees	1,606	1,457
Premium franchise fees	1,431	1,364
Other revenues	1,191	949
	<b>9,539</b>	8,584
Less:		
Administration	252	339
Management fee	1,734	1,431
Interest expense	619	1,089
Cash flow from operations	6,934	5,725
Interest on Exchangeable Units	1,408	1,318
Loss (gain) on fair value of Exchangeable Units	4,027	(2,928)
Loss (gain) on Interest Rate Swap	(84)	482
Loss on fair value of purchase obligation	454	260
Amortization of intangible assets	2,502	2,510
Impairment of intangible assets	697	1,096
Earnings (loss) before income taxes	(2,070)	2,987
Current income tax expense	1,136	836
Deferred income tax recovery	(205)	(298)
Net and comprehensive earnings (loss)	\$ (3,001)	\$ 2,449
Basic earnings (loss) per share	\$ (0.32)	\$ 0.26
Diluted earnings (loss) per share	\$ (0.32)	\$ 0.26
Cash flow from operations per share on a diluted basis	\$ 0.54	\$ 0.45
Number of REALTORS®	16,794	15,377
Number of Agents	16,526	15,143

For the Quarter, the Company generated a net loss of \$3.0 million and CFFO of \$6.9 million, compared to net earnings of \$2.5 million and CFFO of \$5.7 million for the same period in 2014.

**Royalties** for the Quarter totaled \$9.5 million, compared to \$8.6 million for the same period in 2014. Fixed, variable and Premium Franchise Fees together represented 88% of royalties (2014 – 89%). Royalties increased due primarily to the larger Agent base.

**Fixed Franchise fees** for the Quarter increased by 10% as compared to the same period of 2014, due to the increase in the Agent base resulting from the acquisition of Franchise Agreements representing 1,577 Agents during the year, net of attrition of 160 Agents.

**Variable Franchise fees** for the Quarter increased by 10%, which follows the increase in Agent count and the increase in transaction dollar value of the Canadian Market driven by robust Toronto and Vancouver markets.

**Premium Franchise fees** are derived from 21 Franchise locations servicing the GTA market, which pay Premium Franchise Fees ranging from 1% to 5% of the location's Gross Revenue. Premium Franchise Fees for the Quarter have increased by 5%, which follows the increase in the underlying market activity.

**Other revenues** include home warranty fees, technology fees and other fees, which accounted for approximately 12% of total royalties for the Quarter. Other fees increased 26% in the Quarter over the same period due to late penalty fees charged on Franchisee fees in arrears and higher technology fees earned from Franchise Agreements acquired in 2015.

# Management's Discussion and Analysis of Results and Financial Condition

**Administration expenses** of \$0.3 million for the Quarter were down \$0.1 million compared to 2014, primarily as a result of lower bad debt expenses.

**Management fee expense** of \$1.7 million for the Quarter, calculated in accordance with the MSA, was up by \$0.3 million compared to the same period in 2014, due to the increases in royalties discussed above.

**Interest expense** decreased by \$0.5 million in the Quarter over the same period in 2014, despite an increase in total borrowings, due to the refinancing of the Company's debt arrangements in the fourth quarter of 2014. The effective interest rate on the Company's debt facilities for the Quarter was 3.5%, compared to 4.5% during the fourth quarter of 2014. The Company's debt facilities are more fully described under *Debt Facilities*.

**Amortization of Intangible Assets** Intangible assets relate to the Franchise Agreements and Trademarks acquired by the Company. Franchise Agreements and Trademarks are amortized on a straight-line basis over their expected useful life. Amortization during the Quarter totaled \$2.5 million, consistent with the fourth quarter of 2014.

**Impairment of Intangible Assets** for the Quarter totaled \$0.7 million. Lower impairment charges compared to the fourth quarter of 2014 were reflective of the fact that there were fewer underperforming Franchise Agreements in 2015 as compared to 2014.

**Interest on Exchangeable Units** represents the distributions to Exchangeable Unitholders. Total distributions amounted to \$0.41 per Exchangeable Unit in the Quarter compared to \$0.40 in the fourth quarter of 2014. This increase is consistent with the increase in dividends paid to holders of Restricted Voting Shares.

**Loss on fair value of Exchangeable Units** represents the change in fair value during the Quarter of the Exchangeable Units. As the price of the Company's Restricted Voting Shares increased from \$13.45 at the beginning of the Quarter to \$14.66 at December 31, 2015 the Company recorded a loss of \$4.0 million as a result of the higher obligation associated with the conversion features of the Exchangeable Units. In the fourth quarter of 2014, the Exchangeable Units were valued based on a price of the Company's Restricted Voting Shares of \$13.00 compared to \$13.88 at the start of the quarter, resulting in a gain of \$2.9 million.

**Gain on Interest Rate Swap** of \$0.1 million is a non-cash item which represents the change in fair value of the five year Interest Rate Swap entered into on October 27, 2014 by the Company. The Interest Rate Swap fixes the annual interest rate on the Company's Term Facility at 3.64%.

**Income Tax Expense** The effective income tax rate of the Company for the Quarter was -45.0% (2014 – 18.0%). The Company's effective income tax rate is the statement of earnings and comprehensive earnings is materially different than the Company's enacted income tax rate of 26.5% (2014 – 26.5%). The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items deducted from net earnings that are not deductible in determining taxable income include, among other things, interest on Exchangeable Units and fair valuation adjustments on Exchangeable Units.

# Management's Discussion and Analysis of Results and Financial Condition

## Summary of Quarterly Results and Cash Flow from Operations

	2015				2014			
	Dec. 31	Sept. 30	June. 30	March 31	Dec. 31	Sept. 30	June 30	March 31
(in 000's, Canadian dollars) except per share amounts; number of REALTORS® and number of Agents;								
Royalties								
Fixed Franchise fees	\$ 5,311	\$ 5,109	\$ 5,025	\$ 4,931	\$ 4,814	\$ 4,813	\$ 4,913	\$ 4,739
Variable Franchise fees	1,606	3,115	2,716	1,759	1,457	2,793	2,582	1,728
Premium Franchise fees	1,431	2,270	1,362	829	1,364	2,153	1,268	791
Other revenues	1,191	1,071	1,198	935	949	1,036	1,102	890
	<b>9,539</b>	11,565	10,301	8,454	8,584	10,795	9,865	8,148
Less:								
Administration	252	348	334	352	339	602	431	254
Management fee	1,734	2,115	1,876	1,504	1,431	1,883	1,730	1,425
Interest expense	619	640	589	580	1,089	777	782	771
Cash flow from operations	<b>6,934</b>	8,462	7,502	6,018	5,725	7,533	6,922	5,698
Interest on Exchangeable Units	1,408	1,372	1,336	1,318	1,318	1,318	1,950	1,270
Loss (gain) on fair value of Exchangeable Units	4,027	(5,258)	2,928	3,827	(2,928)	(399)	(2,629)	4,792
Loss (gain) on Interest Rate Swap	(84)	257	(280)	1,561	482	-	-	-
Loss (gain) on fair value of purchase obligation	454	481	(319)	17	260	218	(420)	897
Amortization of intangible assets	2,502	2,524	2,401	2,465	2,510	2,633	2,743	2,942
Impairment of intangible assets	697	135	169	46	1,096	538	681	69
Earnings (loss) before income taxes	<b>(2,070)</b>	8,951	1,267	(3,216)	2,987	3,225	4,597	(4,272)
Current income tax expense	1,136	1,309	1,130	894	836	1,198	794	829
Deferred income tax expense (recovery)	(205)	(169)	97	(584)	(298)	(190)	(210)	(293)
Net and comprehensive earnings (loss)	<b>\$ (3,001)</b>	\$ 7,811	\$ 40	\$ (3,526)	\$ 2,449	\$ 2,217	\$ 4,013	\$ (4,808)
Basic earnings (loss) per share	<b>\$ (0.32)</b>	\$ 0.82	\$ -	\$ (0.37)	\$ 0.26	\$ 0.23	\$ 0.42	\$ (0.51)
Diluted earnings (loss) per share	<b>\$ (0.32)</b>	\$ 0.31	\$ -	\$ (0.37)	\$ 0.26	\$ 0.23	\$ 0.26	\$ (0.51)
Cash flow from operations per share on a diluted basis	<b>\$ 0.54</b>	\$ 0.66	\$ 0.59	\$ 0.47	\$ 0.45	\$ 0.59	\$ 0.54	\$ 0.44
Number of REALTORS®	<b>16,794</b>	16,826	16,105	16,206	15,377	15,593	15,697	15,685
Number of Agents	<b>16,526</b>	16,554	15,850	15,963	15,143	15,362	15,462	15,437

On a rolling 12 months basis, at December 31, 2015, the Company generated CFFO of \$2.26 per Share, as compared to \$2.02 CFFO generated during the same period of 2014. A summary of the Company's CFFO generated over the last eight quarters on a rolling 12 months basis is presented in the table below.

# Management's Discussion and Analysis of Results and Financial Condition

## ROLLING TWELVE-MONTH CASH FLOW FROM OPERATIONS

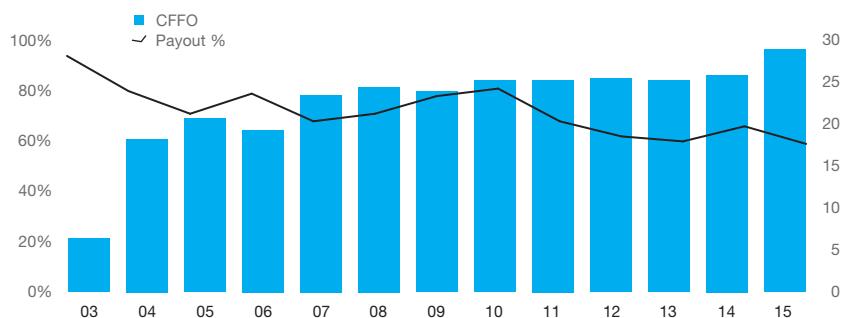
Twelve months ended	2015				2014			
(in 000's, Canadian dollars) except per share amounts	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Royalties	\$ 39,859	\$ 38,904	\$ 38,134	\$ 37,698	\$ 37,392	\$ 37,140	\$ 36,478	\$ 36,352
Less:								
Administration	1,286	1,373	1,627	1,724	1,626	1,327	1,118	1,325
Management fee	7,229	6,926	6,694	6,548	6,469	6,624	6,609	6,620
Interest expense	2,428	2,898	3,035	3,228	3,419	3,080	3,067	3,092
	28,916	27,707	26,778	26,198	25,878	26,109	25,684	25,315
Cash flow from operations per share on a diluted basis	\$ 2.26	\$ 2.16	\$ 2.09	\$ 2.04	\$ 2.02	\$ 2.04	\$ 2.00	\$ 1.98

The Company's operations have generated significant cash flows with \$292.4 million of CFFO generated since inception, of which \$205.6 million has been distributed to shareholders of Restricted Voting Shares and Exchangeable Unitholders. Of the remaining \$86.8 million retained by the Company, \$70.6 million has been invested in Franchise Agreements, \$4.1 million was used to purchase units of the Company in 2008 and 2009 and the balance was used to pay income taxes and fund net working capital requirements.

The chart below presents a summary of the CFFO generated by the Company since inception and the percentage payout of these amounts to shareholders and the Exchangeable Unitholders of the Company in the form of dividends to shareholders and interest to the Exchangeable Unitholders.

## CASH FLOW FROM OPERATIONS

(Years ended December 31, in \$ millions)



# Management's Discussion and Analysis of Results and Financial Condition

The tables below presents a reconciliation of cash flow from operations, a measure used by the management of the Company to assess performance, to cash flow from operating activities as presented in the consolidated statements of cash flows.

## CASH FLOW FROM OPERATIONS RECONCILED TO CASH FLOW FROM OPERATING ACTIVITIES

Years ended December 31,  
(in 000's, Canadian dollars)

	2015	2014
Cash flow from operating activities	\$ 20,433	\$ 16,957
Add (deduct):		
Interest on Exchangeable Units	5,434	5,856
Income taxes paid	4,137	3,201
Changes in non-cash working capital items	(1,045)	127
Interest expense	(7,862)	(9,275)
Interest expense on purchase obligation	159	147
Interest paid	7,660	8,865
<b>CFFO</b>	<b>\$ 28,916</b>	<b>\$ 25,878</b>

CFFO represents operating income before deducting amortization and impairment of intangible assets.

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 shareholders of Restricted Voting Shares and Exchangeable Unitholders, and to meet cash tax payments. Investors are cautioned, however, that CFFO should not be construed as an alternative to using net earnings (as a measure of profitability) or cash provided by operating activities (as a measure for cash flows) to evaluate the Company's financial performance.

The Company has paid out, in the past, and could pay out, in any given period, cash in excess of net income to shareholders as a significant portion of the Company's operating expenses is made up of non-cash amortization of intangible assets and other non-cash charges to net earnings. Management does not view the payment of cash in excess of net income as an economic return of capital as these intangible assets and other non-cash charges are not expected to require a further cash outlay in the future. The value of intangible assets is dependent upon the Company's ability to retain and renew the underlying Franchise Agreements and to 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 has been used to fund the acquisition of Franchise Agreements, pay distributions to the Exchangeable Unitholders, fund the purchase of shares under normal course issuer bids and pay liabilities as they come due. It is management's expectation, at the discretion of the Board, that for the foreseeable future, cash distributions to shareholders in the form of dividends will continue, and the remaining cash flow will be used to fund acquisitions and pay distributions to the Exchangeable Unitholders.

## Debt Facilities

On June 18, 2015 the Company signed an amending agreement with a Canadian Chartered Bank to increase the Company's debt facilities to provide an incremental \$10.0 million in available financing. As at December 31, 2015 the Company's \$78.0 million financing comprised of the following three arrangements, maturing February 17, 2020.

- A \$53.0 million term facility (the "Term Facility"). The Term 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%. The swap contract matures on October 28, 2019.
- A \$20.0 acquisition facility (the "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.
- A \$5.0 million revolving operating facility (the "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%.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1. Consolidated EBITDA is defined as operating income before deducting amortization and impairment of intangible assets. Senior Indebtedness is defined as borrowings on the Company's debt facilities. Senior Interest Expense is defined as interest on Senior Indebtedness. As at December 31, 2015 the Company is compliant with these covenants.

# Management's Discussion and Analysis of Results and Financial Condition

## Liquidity

Cash Flow from Operations is the largest source of liquidity for the Company. CFFO is derived substantially from royalties received under Franchise Agreements. Given that Franchisees are contractually obligated to pay royalties for up to ten years under the Franchise Agreements and given the high degree of success the Company has had in renewing its Franchise Agreements in the past when they come due, the Company believes that the existing portfolio of Franchise Agreements, will generate sufficient cash flow, along with its non-cash working capital and capital resources, for the Company to meet its operating commitments.

The Company's ability to grow its Cash Flow from Operations is dependent upon the ability of the Manager to increase the size of the Network, which it can do by, a) supporting Franchisees in their efforts to recruit Agents to their Brokerages, b) assisting Franchisees to acquire Brokerages from outside the Network and, c) entering into new Franchise Agreements which can then be purchased by the Company under the terms of the MSA. Under the terms of the MSA the Company purchases new Franchise Agreements subject to a) the Franchise Agreements meeting specific criteria as outlined in the MSA, and b) the Company having sufficient liquidity to complete any purchase of Franchise Agreements. The Company has entered into the Acquisition Facility specifically to provide capital resources to purchase Franchise Agreements from the Manager. The Company meets regularly with the Manager during the year to determine the Manager's progress in entering into new Franchise Agreements.

In 2015, the Company funded the purchase of Franchise Agreements primarily through \$16.9 million in borrowings under its available debt facilities. Offsetting this, the Company generated sufficient CFFO during the year (after payment of dividends, distributions and its operating obligations) to repay \$5.0 million of those borrowings. The Company anticipates using its debt facilities to fund the purchase of Franchise Agreements in the future with repayments of any borrowings to be funded through CFFO.

## WORKING CAPITAL

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.

Overall non-cash working capital decreased by \$2.1 million from \$0.2 million as at December 31, 2014 to negative non-cash working capital of \$1.9 million as at December 31, 2015. The decrease in non-cash working capital resulted from:

- A \$1.0 million decrease in accounts receivable and current portion of notes receivable as a result of improved collection effort as compared to 2014;
- A \$0.7 million increase in the current portion of purchase obligation, resulting from an increase in amounts owing for Franchisee Agreements for which the Company has not yet fully paid;
- A \$0.1 million increase in current income tax liability; and
- A \$0.2 million increase in accounts payables due to timing of payments for operating expenses.

# Management's Discussion and Analysis of Results and Financial Condition

A summary of the Company's non-cash working capital is presented below:

As at (in 000's, Canadian dollars)	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31 2014	Sept. 30 2014	June 30 2014	Change in quarter	Change in year
<b>Current assets</b>									
Accounts receivable and current portion of notes receivable	\$ 4,043	\$ 5,011	\$ 5,903	\$ 5,345	\$ 5,034	\$ 5,371	\$ 7,358	\$ (968)	\$ (991)
Income tax receivable	-	-	-	-	-	-	332	-	-
Prepaid expenses	202	126	164	179	119	142	62	76	83
	\$ 4,245	\$ 5,137	\$ 6,067	\$ 5,524	\$ 5,153	\$ 5,513	\$ 7,752	\$ (892)	\$ (908)
<b>Current liabilities</b>									
Accounts payable and accrued liabilities	\$ 1,181	\$ 1,240	\$ 1,213	\$ 1,231	\$ 1,100	\$ 1,120	\$ 1,752	\$ (59)	\$ 81
Debt facilities	-	-	-	-	-	52,925	52,877	-	-
Current portion of Purchase obligation	2,824	2,371	1,887	4,404	2,150	1,882	4,180	453	674
Current income tax liability	640	474	86	894	308	375	-	166	332
Interest payable to Exchangeable Unitholders	476	441	441	423	423	423	423	35	53
Dividends payable to shareholders	1,027	988	988	948	948	948	948	39	79
	6,148	5,514	4,615	7,900	4,929	57,673	60,180	634	1,219
Net working capital	\$ (1,903)	\$ (377)	\$ 1,452	\$ (2,376)	\$ 224	\$ (52,160)	\$ (52,428)	\$ (1,526)	\$ (2,127)

## Capital Resources

A summary of capital resources available to the Company as at December 31, 2015 and December 31, 2014 is presented below.

As at December 31, (in 000's, Canadian dollars)	2015	2014
Cash and cash equivalents	\$ 5,645	\$ 3,052
Term Facility	-	-
Acquisition Facility	8,100	10,000
Operating Facility	5,000	5,000
Net borrowing capacity	\$ 13,100	\$ 15,000
Capital resources	\$ 18,745	\$ 18,052

As at December 31, 2015, \$11.9 million of the Acquisition Facility has been drawn by the Company, leaving \$13.1 million available under the debt facilities. On January 1, 2016, the Company borrowed \$6.0 million on the Acquisition Facility to fund the acquisition of certain Franchise Agreements from the Manager.

In addition to the capital resources included in the table above, the Company generates substantial CFFO which can be used to fund dividend payments and interest on Exchangeable Units as well as the acquisition of Franchise Agreements.

# Management's Discussion and Analysis of Results and Financial Condition

## Commitments

The estimated contractual liabilities and their dates of maturity are summarized in the chart below.

	2016	2017	2018	2019	Beyond 2019	Total
Accounts payable and accrued liabilities	\$ 1,181	\$ –	\$ –	\$ –	\$ –	\$ 1,181
Purchase obligation	2,824	1,954	–	–	–	4,778
Interest payable to Exchangeable Unitholders	476	–	–	–	–	476
Dividends payable to shareholders	1,027	–	–	–	–	1,027
Interest on Debt facilities	2,427	2,427	2,427	2,427	288	9,996
Interest rate swap liability	–	–	–	1,936	–	1,936
Term facility	–	–	–	–	53,000	53,000
Acquisition facility	–	–	–	–	11,900	11,900
Exchangeable Units	–	–	–	–	48,784	48,784
<b>Total</b>	<b>\$ 7,935</b>	<b>\$ 4,381</b>	<b>\$ 2,427</b>	<b>\$ 4,363</b>	<b>\$ 113,972</b>	<b>\$ 133,078</b>

As at December 31, 2015, the Board had approved the acquisition of 33 Franchise Agreements for \$6.6 million from the Manager. A payment of \$5.3 million, approximating 80% of the estimated purchase price plus HST was paid on January 8, 2016 through a draw on the Company's Acquisition Facility. The remaining obligation is to be paid in 2017 when the final purchase price is determined in accordance with the terms of the MSA.

## 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 71.6% by the public and 28.4% by Brookfield, primarily through its ownership of the Exchangeable Units of the Partnership and Restricted Voting Shares. Brookfield primarily 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 Trademarks and Franchise Agreements related to the business of its Royal LePage residential real estate brokerage Franchise operations.

The Manager operates 24 corporately owned Royal LePage residential Brokerage locations. These locations are serviced by 1,898 REALTORS® with 1,286 REALTORS® operating out of 14 locations situated in the GTA market and 612 REALTORS® operating from 10 locations situated in the Vancouver mainland market. All of these Franchise Agreements associated with the Brokerages have been purchased by the Company.

All of these corporately owned operations operate under Franchise Agreements with the standard fixed and variable Franchise fees. The GTA based locations are up for renewal in 2023, while the Vancouver mainland based operations are up for renewal between 2023 – 2024. Included in the GTA based Franchise Agreement is an additional Premium Franchise Fee ranging from 1% to 5% for 11 of the 14 location's gross commission income to August 2018.

The management of the Company is provided by the Manager under the terms of the MSA. The Manager is a company controlled by the Exchangeable Unitholders. The 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 MSA, the Manager provides certain management, administrative and support services to the Company and its subsidiaries and in return is paid a monthly fee equal to 20 percent of the distributable cash flow of the Company. The Manager can earn an additional fee for organic growth, which closely aligns the Manager and the Company's goals with growing the underlying network of Agents. The MSA also provides the Manager with the ability to sell other branded Canadian Franchises that it may acquire to the Company, based on a pre-determined formula.

The MSA prescribes the conditions under which the Company purchases Franchise Agreements from the Manager and the formula for calculating the purchase price. 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 at a later date, subject to adjustment.

# Management's Discussion and Analysis of Results and Financial Condition

On January 1 of each year, (or such other time as the Board may deem appropriate), the Company may, upon approval by the Board and criteria detailed in the MSA, purchase Royal LePage and Via Capitale Franchises acquired by the Manager prior to 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, at the option of the Company.

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 can be found in Note 13 of the consolidated financial statements.

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

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

On July 1, 2015, the Company acquired 12 Franchise Agreements for \$9.8 million comprising 719 REALTORS® generating approximately \$1.4 million in annual royalties. A payment of \$8.8 million, approximating 80% of the estimated purchase and applicable taxes was paid on July 3, 2015 through a draw on the Company's Acquisition Facility. The remaining obligation is to be paid in 2016 when the final purchase price is determined in accordance with the MSA.

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

## Critical Accounting Estimates and Assumptions

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, and the amortization period of intangible assets. The Company's administration costs of approximately \$1.3 million per annum relate to the Company's public reporting, regulatory and insurance costs.

The Company's intangible assets are regularly monitored for indication of impairment in the carrying value of these assets.

The preparation of financial statements requires management to select appropriate accounting policies and to make judgements, 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 and related 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 prepared in a manner consistent with prior periods, and management is not aware of any trends, commitments, events or uncertainties that 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.

# Management's Discussion and Analysis of Results and Financial Condition

## 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 judgement 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 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 revenue. The Company records any change in the fair value of this financial liability in the consolidated statement of earnings and comprehensive earnings.

### Impairment of intangible assets

Under IAS 36, Impairment of Assets, the Company ensures that the carrying value of intangible assets are not more than their recoverable amount (i.e. the higher of; a) fair value less costs of disposal, and b) value-in-use). The Company regularly reviews intangible assets to determine whether indicators of impairment exist on an individual Franchise Agreement and Trademarks. When reviewing indicators for impairment of Franchise Agreements, the Company considers certain factors including, royalties earned, term to maturity, historical Agent count, collectability of receivables from the brokerage and underlying market conditions. Where indicators of impairment exist, the Company recognizes impairment charges if the carrying amount of a Franchise Agreement exceeds its recoverable amount or when the recovery of the carrying amount is no longer reasonably assured.

## Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities, purchase obligation, current income tax liability, interest payable to Exchangeable Unitholders, dividends payable to shareholders, debt facilities, Interest Rate Swap liability and Exchangeable Unit liability.

The Company is exposed to credit risk with respect to accounts and notes 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 amounts receivable on an ongoing basis.

On October 27, 2014 the Company entered into an Interest Rate Swap arrangement to fix the interest rate on the Company's \$53.0 million Term Facility at 3.64% to October 28, 2019. The Company's Term Facility matures on February 17, 2020.

The Company is exposed to the risk of interest rate fluctuations on its \$20.0 million Acquisition Facility and \$ 5.0 million Operating Facility as the interest rate on these facilities are based on prime and Banker Acceptance rates. As at December 31, 2015 the Company has drawn \$11.9 million on the Acquisition Facility, and the \$5.0 million operating facility has remained undrawn.

## Disclosure Controls and Internal Controls over Financial Reporting

As a publicly traded entity, the Company takes all necessary steps to ensure that material information regarding the Company's 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 Officer 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 Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at December 31, 2015. 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.

# Management's Discussion and Analysis of Results and Financial Condition

## INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management has designed ICFR to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's 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 Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2015. The design of ICFR is undertaken in accordance with the 1992 COSO framework.

## 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 of December 31, the Company has issued 9,483,850 Restricted Voting Shares, no 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 is owned by Brookfield and represents the proportionate voting rights of Exchangeable Unitholders in the Company. The Special Voting Share is not eligible to receive dividends and can be redeemed at \$0.01 per share.

## Risk Factors

Risks related to the residential real estate brokerage industry and the business of the Company are outlined in the Company's Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.brookfieldresinc.com](http://www.brookfieldresinc.com) under Investor Centre/Other Disclosure Reports. Additional discussion regarding these risks as appropriate is provided in this MD&A.

## Forward-Looking Statements

This MD&A contains forward-looking information and other "forward-looking statements". Words such as "subsequent to", "believe(s)", "will", "seeks", "ongoing", "continue", "outlook", "strive", "momentum", "expects", "likely", "further", "forecast", "remain", "foreseeable", "determine", "grow", "increase" and other expressions that are predictions of or could indicate future events and trends and that 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 that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those indicated in the forward looking statements include: a change in general economic conditions (including interest rates, consumer confidence, commodity prices and other general economic factors or indicators), the level of residential real estate transactions, the availability of attractive investment opportunities, the average rate of commissions charged, competition from other real estate brokers or from discount and/or Internet-based real estate alternatives, the closing of existing real estate brokerage offices, other developments in the residential real estate brokerage industry or the Company that reduce the number of REALTORS® in the Company's Network or royalty revenue from the Company's Network, availability to generate sufficient cash flows in the future to pay dividends to shareholders of Restricted Voting Shares and interest to Exchangeable Unitholders, ability to renew and/or extend Franchise Agreements, the ability to maintain brand equity through the use of Trademarks, the methods used by shareholders or analysts to evaluate the value of the Company and its publicly traded securities, the availability of equity and debt financing, a change in tax law or regulations, and other risks detailed in the Company's annual information form, which is filed with securities commissions and posted on SEDAR at [www.sedar.com](http://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 – Distributions/Dividend History

(in Canadian dollars, per Restricted Voting Share\*)

Month	2008	2009	2010	2011	2012	2013	2014	2015
January	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1000</b>
February	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1000</b>
March	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1000</b>
April	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1000</b>
May	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1000</b>
June	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
July	\$ 0.1040	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
August	\$ 0.1170	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
September	\$ 0.1170	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
October	\$ 0.1170	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
November	\$ 0.1170	\$ 0.1170	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1042</b>
December	\$ 0.1170	\$ 0.1570	\$ 0.3170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	<b>\$ 0.1083</b>
	\$ 1.3126	\$ 1.4436	\$ 1.6036	\$ 1.1040	\$ 1.1040	\$ 1.1040	\$ 1.2000	<b>\$ 1.2335</b>

\* Amounts declared prior to 2011 represent distributions declared to income trust unitholders prior to the Company's re-organization to a corporate structure on December 31, 2010.

## Supplemental Information – Share Performance

Three months ended (in Canadian dollars) except shares outstanding and average daily volume	Mar. 31 2014	June 30 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
Trading price range of units (TSX: "BRE")								
Close	\$ 14.79	\$ 14.00	\$ 13.88	\$ 13.00	\$ 14.15	\$ 15.03	\$ 13.45	<b>\$ 14.66</b>
High	\$ 14.99	\$ 14.95	\$ 14.26	\$ 14.08	\$ 14.68	\$ 15.25	\$ 15.25	<b>\$ 15.05</b>
Low	\$ 13.25	\$ 13.95	\$ 13.65	\$ 12.90	\$ 14.02	\$ 13.82	\$ 13.25	<b>\$ 13.26</b>
Average daily volume	5,964	7,735	13,254	14,139	20,818	13,070	5,318	<b>4,304</b>
Number of Restricted Voting Shares outstanding at period end	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	<b>9,483,850</b>
Market capitalization	\$ 189,482	\$ 179,361	\$ 177,824	\$ 166,550	\$ 181,283	\$ 192,557	\$ 172,315	<b>\$ 187,817</b>

# Management's Discussion and Analysis of Results and Financial Condition

## Supplemental Information – Canadian Residential Real Estate Market

Three months ended	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 38,682	\$ 63,396	\$ 52,913	\$ 41,356	\$ 43,233	\$ 74,203	\$ 58,667	<b>\$ 48,130</b>
Average selling price	\$ 399,921	\$ 413,394	\$ 403,306	\$ 414,040	\$ 428,178	\$ 451,672	\$ 433,877	<b>\$ 454,644</b>
Number of units sold	96,725	153,355	131,199	99,883	100,970	164,285	135,216	<b>105,863</b>
Number of REALTORS® at period end	108,706	109,378	109,965	110,821	111,424	112,498	113,499	<b>114,664</b>
Housing starts	32,042	48,784	47,653	43,436	33,599	48,355	52,738	<b>46,906</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 9,854	\$ 17,884	\$ 13,836	\$ 11,267	\$ 11,674	\$ 22,457	\$ 15,983	<b>\$ 13,239</b>
Average selling price	\$ 549,061	\$ 577,555	\$ 556,803	\$ 577,292	\$ 594,586	\$ 641,610	\$ 612,892	<b>\$ 626,431</b>
Number of units sold	17,947	30,965	24,849	19,517	19,633	35,001	26,078	<b>21,134</b>
Housing starts	7,090	8,558	6,621	11,278	8,236	10,987	12,500	<b>10,564</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 5,804	\$ 7,939	\$ 7,249	\$ 6,388	\$ 8,029	\$ 11,678	\$ 9,524	<b>\$ 9,720</b>
Average selling price	\$ 820,860	\$ 804,082	\$ 814,883	\$ 813,498	\$ 873,803	\$ 909,250	\$ 874,403	<b>\$ 950,890</b>
Number of units sold	7,071	9,873	8,896	7,853	9,188	12,843	10,892	<b>10,222</b>
Housing starts	4,373	4,737	5,531	4,571	4,283	5,655	5,298	<b>5,627</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 3,044	\$ 3,719	\$ 2,433	\$ 2,631	\$ 3,168	\$ 4,275	\$ 2,662	<b>\$ 2,720</b>
Average selling price	\$ 315,452	\$ 326,248	\$ 331,914	\$ 347,432	\$ 326,177	\$ 338,199	\$ 345,849	<b>\$ 344,828</b>
Number of units sold	9,649	11,399	7,329	7,573	9,711	12,639	7,697	<b>7,888</b>
Housing starts	3,385	5,388	4,255	5,644	2,148	4,526	6,588	<b>5,482</b>

<sup>1</sup> (in millions Canadian dollars)  
Source: CREA, CMHC

Twelve months ended	Mar. 31, 2014	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014	Mar. 31, 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 179,003	\$ 186,170	\$ 191,979	\$ 196,347	\$ 200,898	\$ 211,705	\$ 217,459	<b>\$ 224,233</b>
Average selling price	\$ 388,773	\$ 397,879	\$ 403,420	\$ 408,068	\$ 413,875	\$ 426,535	\$ 434,609	<b>\$ 442,856</b>
Number of units sold	460,431	467,905	475,880	481,162	485,407	496,337	500,354	<b>506,334</b>
Housing starts	168,699	173,457	174,211	171,915	173,472	173,043	178,128	<b>181,598</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 47,381	\$ 49,766	\$ 51,453	\$ 52,841	\$ 54,661	\$ 59,234	\$ 61,381	<b>\$ 63,353</b>
Average selling price	\$ 532,407	\$ 547,451	\$ 557,877	\$ 566,489	\$ 575,597	\$ 598,323	\$ 612,408	<b>\$ 622,047</b>
Number of units sold	88,994	90,905	92,230	93,278	94,964	99,000	100,229	<b>101,846</b>
Housing starts	33,942	33,917	32,305	33,547	34,693	37,122	43,001	<b>42,287</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	23,841	25,504	26,500	27,381	29,605	33,344	35,618	<b>\$ 38,951</b>
Average selling price	\$ 781,999	\$ 794,774	\$ 805,031	\$ 812,650	\$ 826,719	\$ 859,814	\$ 873,514	<b>\$ 902,793</b>
Number of units sold	30,487	32,089	32,918	33,693	35,810	38,780	40,776	<b>\$ 43,145</b>
Housing starts	19,089	19,134	19,395	19,212	19,122	20,040	19,807	<b>20,863</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 11,745	\$ 11,574	\$ 11,620	\$ 11,826	\$ 11,950	\$ 12,506	\$ 12,735	<b>\$ 12,825</b>
Average selling price	\$ 322,345	\$ 323,868	\$ 325,323	\$ 328,968	\$ 331,837	\$ 335,705	\$ 338,519	<b>\$ 338,078</b>
Number of units sold	36,437	35,738	35,719	35,950	36,012	37,252	37,620	<b>\$ 37,935</b>
Housing starts	16,320	17,388	17,591	18,672	17,435	16,573	18,906	<b>18,744</b>

<sup>1</sup> (in millions Canadian dollars)  
Source: CREA, CMHC

# Management's Discussion and Analysis of Results and Financial Condition

## Supplemental Information – Cash Flow from Operations

### CASH FLOW FROM OPERATIONS AND ITS UTILIZATION SINCE COMPANY INCEPTION

			IFRS					Canadian GAAP
(in 000's, Canadian dollars)	Total	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Aug. 7, 2003 to Dec. 31, 2009
Royalties	\$ 414,518	\$ 39,859	\$ 37,392	\$ 36,268	\$ 36,519	\$ 36,720	\$ 36,630	\$ 191,130
Less:								
Administration	13,445	1,286	1,626	1,342	1,361	1,667	1,771	4,392
Interest expense	38,023	7,229	3,419	3,040	2,961	3,042	2,900	15,432
Management fee	70,650	2,428	6,469	6,677	6,772	6,747	6,713	34,844
Cash flow from operations	292,400	28,916	25,878	25,209	25,425	25,264	25,246	136,462
Less:								
Dividends to shareholders	148,554	11,619	11,305	10,471	10,471	12,605	15,212	76,871
Interest to Exchangeable Unitholders	57,070	5,434	5,856	4,672	5,272	4,672	5,337	25,827
Total equity distributions	205,624	17,053	17,161	15,143	15,743	17,277	20,549	102,698
Cash flow from operations less total dividends	86,776	11,863	8,717	10,066	9,682	7,987	4,697	33,764
Less: Funding of acquisitions	70,588	18,150	5,998	5,854	2,965	6,062	6,415	25,144
Less: Purchase of units under NCIB	4,096	–	–	–	–	–	–	4,096
Net change in the Period	\$ 12,092	\$ (6,287)	\$ 2,719	\$ 4,212	\$ 6,717	\$ 1,925	\$ (1,718)	\$ 4,524
Taxes and working capital	(6,447)	8,880	(3,300)	(5,682)	(7,207)	(2,004)	548	2,318
Change in period	\$ 5,645	\$ 2,593	\$ (581)	\$ (1,470)	\$ (490)	\$ (79)	\$ (1,170)	\$ 6,842
Cash balance, beginning of Period	–	\$ 3,052	\$ 3,633	\$ 5,103	\$ 5,593	\$ 5,672	\$ 6,842	–
Cash balance, end of Period	\$ 5,645	\$ 5,645	\$ 3,052	\$ 3,633	\$ 5,103	\$ 5,593	\$ 5,672	\$ 6,842
Equity distributions pay out ratio <sup>1</sup>	70%	59%	66%	60%	62%	68%	81%	75%

<sup>1</sup> This represents the total equity distributions as a percentage of cash flow from operations.

### CASH FLOW FROM OPERATIONS RECONCILED TO CASH FLOW FROM OPERATING ACTIVITIES

			IFRS					Canadian GAAP
(in 000's, Canadian dollars)	Total	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Aug. 7, 2003 to Dec. 31, 2009
Cash flow from operating activities	\$ 226,668	\$ 20,433	\$ 16,957	\$ 14,855	\$ 12,946	\$ 18,588	\$ 6,100	\$ 136,789
Add (deduct):								
Changes in non-cash working capital items	1,283	(1,045)	127	1,216	(49)	1,490	(1,224)	768
Interest on Exchangeable Units	31,243	5,434	5,856	4,672	5,272	4,672	5,337	–
Income taxes paid	19,413	4,137	3,201	4,046	8,029	–	–	–
Interest on Trust units	15,212	–	–	–	–	–	15,212	–
Non-cash interest expense	(1,419)	(43)	(263)	420	(773)	514	(179)	(1,095)
Cash flow from operations	\$ 292,400	\$ 28,916	\$ 25,878	\$ 25,209	\$ 25,425	\$ 25,264	\$ 25,246	\$ 136,462

# Management's Discussion and Analysis of Results and Financial Condition

## Supplemental Information – Selected Financial and Operating Information

As at	Mar. 31 2014	June 30 2014	Sept. 30 2014	Dec. 31, 2014	Mar. 31 2015	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015
Number of REALTORS®	15,685	15,697	15,593	15,377	16,206	16,105	16,826	<b>16,794</b>
Number of Agents	15,437	15,462	15,362	15,143	15,963	15,850	16,554	<b>16,526</b>
Number of locations	646	636	634	637	668	660	670	<b>662</b>
Number of Franchise Agreements	313	308	306	302	312	301	322	<b>305</b>

## Supplemental Information – Acquisitions

**Year acquired by the Company**  
(in millions, Canadian dollars) except  
number of REALTORS®

	2015	2014	2013	2012	2011	2010
Estimate purchase price						
Royal LePage	\$ 19.3	\$ 6.1	\$ 6.0	\$ 1.9	\$ 2.5	\$ 4.2
Via Capitale	0.7	0.2	0.7	1.0	1.0	1.0
	\$ 20.0	\$ 6.3	\$ 6.7	\$ 2.9	\$ 3.5	\$ 5.2
Actual purchase price						
Royal LePage	(a), (b)	\$ 7.1	\$ 5.8	\$ 1.9	\$ 2.5	\$ 4.2
Via Capitale	(a), (b)	(a), (c)	(b),(c)	(b),(c)	0.8	1.1
	(a)	\$ 7.1	\$ 5.8	\$ 1.9	\$ 3.3	\$ 5.3
Acquired REALTORS®						
Royal LePage	1,530	484	462	145	188	343
Via Capitale	47	9	54	72	59	74
	1,577	493	516	217	247	417

(a) Actual purchase price to be determined at the end of the purchase price determination period in accordance with the MSA and applicable asset purchase agreement

(b) Actual purchase price determined is subject to audit

(c) Actual purchase price for Via Capitale is determined over a three year period for acquisitions made prior to January 1, 2015

# Management's Discussion and Analysis of Results and Financial Condition

## Glossary of Terms

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

**"Agent(s) Gross Revenues"** or **"Gross Revenue"** means, in respect of a Franchisee, the gross commission income (net of outside Broker payments) paid in respect of the closings of residential resale real estate transactions through Agents associated with such Franchisee.

**"Brands"** means the real estate services brands owned or controlled by BRESI namely, Royal LePage, Johnston and Daniel and Via Capitale

**"BRESI"** means Brookfield Real Estate Services Inc., a corporation incorporated under the laws of the Province of Ontario.

**"Broker"** means an individual licensed with the relevant regulatory body to manage a real estate brokerage company.

**"Broker-Owner"** means the individual or a controlling group of individuals who have entered into Franchise Agreements to provide services under the Royal LePage, Johnston and Daniel or Via Capitale brands and are licensed with the relevant regulatory body to manage a real estate brokerage office.

**"Brokerage"** means a real estate brokerage company, usually owned or controlled by a Broker, which may operate one or more offices or divisions.

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

**"Cash Flow from Operations"** or **"CFFO"** means operating income before deducting amortization and impairment of intangible assets. 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.

**"Company"** means BRESI, together with its subsidiaries.

**"Company Network"** means collectively the Royal LePage Network and the Via Capitale Network.

**"Exchangeable Units"** means the 3,327,667 Class B LP Units the Partnership issued to TBI (a predecessor of Brookfield Holdings) in partial consideration for the Partnership's acquisition of the Partnership Assets from TBI. The Class B LP Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Class A LP Units. The Class B LP Units are indirectly exchangeable, on a one-for-one basis, subject to adjustment, for Restricted Voting Shares of the Company.

**"Franchise"** means a residential real estate Brokerage Franchise operated pursuant to a Franchise Agreement with the Manager's comprehensive systems consisting of proprietary technological, marketing, promotional, communication and support systems.

**"Franchise Agreements"** means the Franchise Agreements pursuant to which brokerage offices offer residential brokerage services using the Trademarks.

**"Franchisees"** means Brokerages which pay Franchise fees under the Franchise Agreements.

**"Franchise Network"** means the Royal LePage Network and the Via Capitale Network.

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

**"International Financial Reporting Standards"** or **"IFRS"** means a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). IFRS is a global framework that provides general guidance for the preparation of financial statements and its disclosure to the public to convey measurable and comparable financial information.

# Management's Discussion and Analysis of Results and Financial Condition

**"Interest Rate Swap"** means the financial arrangement entered into with a Canadian Chartered Bank on October 27, 2014 to fix the interest rate on the Company's \$53.0 million Term Facility at 3.64% to October 28, 2019. The fluctuation of the fair value of the Interest Rate Swap is primarily driven by the change in the expected variable interest rate yield curve from the expected variable interest rate yield curve at the inception of the financial arrangement.

**"Management Services Agreement"** or **"MSA"** means the third amended and restated management services agreement, made effective June 28, 2013 between the Company and the Manager, pursuant to which, among other things, the Manager provides management and administrative services to the Company, including management of the assets of the Company.

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

**"Network"** means the collection of Brokerages which operate under one of the Brands owned by BRESI.

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

**"Premium Franchise Fees"** means Franchise fees that are collected on certain Franchise locations to reflect the premier locations (principally the Greater Toronto Area) in which such Franchises operate. The premium fee is payable in addition to the basic fixed fee and the basic variable fee as an uncapped amount ranging from 1% to 5% (based on location, with an average of 3%) of the Agents' Gross Revenue.

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

**"Restricted Voting Shares"** means the restricted voting shares in the capital of BRESI.

**"Royal LePage"** means a nationally recognized real estate Brand controlled by the Company.

**"Royal LePage Network"** means the network of Franchisees operating under the Royal LePage and Johnston and Daniel Brands.

**"Special Voting Shares"** means the share of the Company issued to represent voting rights in the Company that accompany securities convertible into or exchangeable for Restricted Voting Shares, including the Subordinated LP Units and Ordinary LP Units held by Brookfield Holdings or an affiliated entity of Brookfield Holdings or the Manager or an affiliated entity of the Manager.

**"System for Electronic Document Analysis and Retrieval"** or **"SEDAR"** means a Canadian mandatory document filing and retrieval system for all Canadian public companies where documents such as prospectuses, financial statements and material change reports are filed and are accessible by the public to further the goal of transparency and full disclosure.

**"Team"** means as a group of Agents who work together and market themselves as part of a team rather than as individual Agents.

**"Trademarks"** means the trade-mark rights related to BRESI's business.

**"TSX"** means the Toronto Stock Exchange.

**"Unitholders"** means the holders of Units and a "Unitholder" means any one of them.

**"Via Capitale"** means a real estate Brand controlled by the Company which operates primarily in the province of Quebec.

**"Via Capitale Network"** means the network of Franchisees operating under the Via Capitale Brand.

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