

Interim Condensed Consolidated Balance Sheets

(Unaudited) (In thousands of Canadian dollars)			June 30, 2017	December 31, 2016
	Note			
Assets				
Current assets				
Cash		\$	2,622	\$ 3,102
Accounts receivable	4		5,128	3,900
Current portion of notes receivable	5		44	67
Prepaid expenses			147	147
			7,941	7,216
Non-current assets				
Notes receivable	5		39	57
Deferred income tax asset	8		6,892	6,891
Intangible assets	6, 7		82,168	78,239
		\$	97,040	\$ 92,403
Liabilities and shareholders' deficit				
Current liabilities				
Accounts payable and accrued liabilities		\$	1,131	\$ 893
Purchase obligation	6, 13		1,825	3,559
Current income tax liability	8		234	435
Interest payable to Exchangeable Unitholders	10, 13		476	476
Dividends payable to shareholders			1,027	1,027
			4,693	6,390
Non-current liabilities				
Debt facilities	9		69,648	63,720
Interest rate swap liability	9		644	1,114
Exchangeable Units	10		54,907	52,477
			129,892	123,701
Shareholders' deficit				
Restricted voting shares	11		140,076	140,076
Deficit			(172,928)	(171,374)
			(32,852)	(31,298)
		\$	97,040	\$ 92,403

See accompanying notes to the interim condensed consolidated financial statements.

Approved on behalf of the Board


Simon Dean
Director

Lorraine Bell
Director

Interim Condensed Consolidated Statements of Net and Comprehensive Earnings

(Unaudited) (In thousands of Canadian dollars, except share and per share amounts)		Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
	Note				
Royalties					
Fixed franchise fees		5,739	5,440	11,409	10,825
Variable franchise fees		3,504	2,912	6,082	5,075
Premium franchise fees		1,800	1,463	2,959	2,306
Other revenue		1,085	1,054	2,087	2,060
		12,128	10,869	22,537	20,266
Expenses					
Administration		6	203	543	498
Management fee	3, 13	2,296	2,003	4,140	3,690
Interest expense	9	643	653	1,297	1,318
Impairment and write-off of intangible assets	7	52	34	104	34
Amortization of intangible assets	7	2,059	2,505	4,189	5,110
		5,056	5,398	10,273	10,650
Operating income					
Interest on Exchangeable Units	10, 13	(1,427)	(1,427)	(2,855)	(2,855)
Loss on fair value of Exchangeable Units	10	(1,064)	(1,531)	(2,429)	(1,065)
Gain on interest rate swap	9	420	136	470	24
Loss on fair value of purchase obligation	6	(104)	(248)	(178)	(1,712)
Earnings before income tax					
Current income tax expense		1,498	1,270	2,664	2,306
Deferred income tax expense (recovery)		69	(31)	(1)	(402)
Income tax expense					
	8	1,567	1,239	2,663	1,904
Net and comprehensive earnings					
		\$ 3,330	\$ 1,162	\$ 4,609	\$ 2,104
Basic earnings per share	12	\$ 0.35	\$ 0.12	\$ 0.49	\$ 0.22
Weighted average number of shares outstanding used in computing basic earnings per share		9,483,850	9,483,850	9,483,850	9,483,850
Diluted earnings per share	12	\$ 0.35	\$ 0.12	\$ 0.49	\$ 0.22
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517	12,811,517	12,811,517	12,811,517

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Shareholders' Deficit

(Unaudited)
For the six months ended June 30, 2017
(In thousands of Canadian dollars)

	Common Equity	Deficit	Total Deficit
Balance, December 31, 2016	\$ 140,076	\$ (171,374)	\$ (31,298)
Net earnings	—	4,609	4,609
Dividends declared	—	(6,163)	(6,163)
Balance, June 30, 2017	\$ 140,076	\$ (172,928)	\$ (32,852)

	Common Equity	Deficit	Total Deficit
Balance, December 31, 2015	\$ 140,076	\$ (165,446)	\$ (25,370)
Net earnings	—	2,104	2,104
Dividends declared	—	(6,163)	(6,163)
Balance, June 30, 2016	\$ 140,076	\$ (169,505)	\$ (29,429)

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited) (In thousands of Canadian dollars)		Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
	Note				
Cash provided by (used for):					
Operating activities					
Net earnings for the period		\$ 3,330	\$ 1,162	\$ 4,609	\$ 2,104
Adjusted for					
Loss on fair value of Exchangeable Units	10	1,064	1,531	2,429	1,065
Loss on fair value of purchase obligation	6	104	248	178	1,712
Gain on interest rate swap	9	(420)	(136)	(470)	(24)
Interest expense		2,039	2,023	4,070	4,055
Interest paid		(2,020)	(2,004)	(4,040)	(4,026)
Current income tax expense	8	1,498	1,270	2,664	2,306
Income taxes paid		(1,304)	(1,265)	(2,865)	(2,874)
Deferred income tax expense (recovery)	8	69	(31)	(1)	(402)
Impairment and write-off of intangible assets	7	52	34	104	34
Amortization of intangible assets	7	2,059	2,505	4,189	5,110
Changes in non-cash working capital		70	(332)	(917)	(721)
		6,541	5,005	9,950	8,339
Investing activity					
Purchase of intangible assets	6	(2,561)	(2,721)	(10,137)	(8,034)
Interest expense on purchase obligation	6, 13	31	57	82	118
Interest paid on purchase obligation		(112)	(56)	(112)	(95)
		(2,642)	(2,720)	(10,167)	(8,011)
Financing activity					
Borrowings under debt facilities	9	–	–	7,400	6,000
Repayment under debt facilities	9	(1,500)	–	(1,500)	(2,000)
Dividends paid to shareholders		(3,082)	(3,082)	(6,163)	(6,163)
		(4,582)	(3,082)	(263)	(2,163)
Increase / (decrease) in cash during the period		(683)	(797)	(480)	(1,835)
Cash, beginning of the period		3,305	4,607	3,102	5,645
Cash, end of the period		\$ 2,622	\$ 3,810	\$ 2,622	\$ 3,810

See accompanying notes to the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization

Brookfield Real Estate Services Inc. ("BRESI" and, together with its Subsidiaries the "Company"), is incorporated under the *Ontario Business Corporations Act*. BRESI is listed on the Toronto Stock Exchange ("TSX") under the symbol "BRE". Through its ownership interest in Residential Income Fund L.P. (the "Partnership"), BRESI owns certain Franchise Agreements ("Franchise Agreements") and Trademark Rights ("Trademarks") of residential real estate brands in Canada.

BRESI directly owns a 75% interest in the Partnership which, in turn, owns 9120 Real Estate Network, L.P. ("VCLP"). In addition, BRESI directly owns a 75% interest in the general partner of the Partnership, Residential Income Fund General Partner Limited ("RIFGP") (Collectively, the Partnership, VCLP and RIFGP 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 the Company derives its revenue.

Brookfield BBP (Canada) Holdings L.P. ("BBP"), a subsidiary of Brookfield Business Partners L.P., owns the remaining 25% interest in the Partnership through its ownership of exchangeable units of the Partnership (the "Exchangeable Units") and the remaining 25% interest in RIFGP through its ownership of 25 common shares in RIFGP. In addition to its ownership of the Exchangeable Units, BBP indirectly owns 315,000 restricted voting shares and one special voting share of BRESI. The special voting share entitles BBP 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.

Prior to June 1, 2016 all of BBP's interests in BRESI were owned by Brookfield Private Equity Direct Investments Holdings L.P., a wholly-owned subsidiary of Brookfield Asset Management Inc.

The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. ("BRESML", and together with its subsidiaries, the "Manager"), an indirect wholly owned subsidiary of BBP. The Company is party to a Management Services Agreement ("MSA") with the Manager. The MSA governs the relationship between the Manager and the Company including the management services provided by the Manager and the acquisition of Franchise Agreements by the Company. The Company derives 100% of its revenue from royalties it receives under the Franchise Agreements.

2. Significant Accounting Policies

BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board using the accounting policies described herein and the accounting policies used to prepare the Annual Financial Statements of the Company as of and for the year ended December 31, 2016.

These interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on August 10, 2017 and should be read in conjunction with the audited Annual Financial Statements of the Company for the year ended December 31, 2016.

These interim condensed consolidated financial statements have been prepared on a going concern basis and include the accounts of the Company.

The Company's significant accounting policies are as follows:

INTANGIBLE ASSETS

Intangible assets, consisting of Franchise Agreements and Trademarks, are accounted for using the cost method. Intangible assets are recorded at initial cost less accumulated amortization and accumulated impairment losses.

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

The Company acquires Franchise Agreements periodically based on the terms of the MSA and recognizes the purchase on the date of acquisition (an "Acquisition Date") at cost. The calculation of the purchase price is prescribed in the MSA with reference to a) the estimated cash flows to be earned during the twelve-month period (the "Determination Period") prior to the determination date (the "Determination Date") net of management fees paid to the Manager, b) the yield on the Company's shares prior to the start of the Determination Period; and c) income taxes. Under the terms of the MSA, 80% of the estimated purchase price is payable to the Manager on the Acquisition Date, and the remainder is deferred until after the final purchase price is determined on the Determination Date. The deferred 20% of the estimated purchase price represents the outstanding purchase obligation liability. The purchase obligation liability is updated each reporting period to reflect revisions to the estimated cash flows expected to be earned for each Franchise Agreement during the Determination Period. Subsequent changes to the value of the estimated purchase price and purchase obligation prior to the Determination Date are considered an earn-out provision representing a derivative instrument and are recognized as a fair value change in the interim condensed consolidated statements of net and comprehensive earnings in the period they arise.

The Company reviews intangible assets each reporting period to determine whether indicators of impairment exist on individual Franchise Agreements and Trademarks. When reviewing indicators for impairment of Franchise Agreements, the Company considers certain factors including, royalties earned, term to maturity, historical REALTOR® count, collectability of receivables and underlying market conditions. Where indicators of impairment exist, the Company recognizes impairment charges if the carrying amount of a Franchise Agreement (or cash-generating unit) exceeds its recoverable amount (recoverable amount is determined as the higher of a) estimated fair value less costs of disposal and b) value-in-use).

If the carrying value of the intangible asset exceeds the recoverable amount, the intangible asset is written down to the recoverable amount and an impairment loss is charged to income in the period. When an intangible asset has been previously written down to its recoverable amount as a result of recording an impairment loss and the conditions causing such an impairment loss have become more favourable, the previously recorded impairment loss may be reversed. Where an impairment loss is reversed, the carrying value of the intangible asset is increased to its revised recoverable amount (the lesser of the revised estimate of its recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously). Impairment reversals are recognized as income in the period of reversal.

Franchise Agreements subject to early termination or non-renewal, are written off in the period of termination or when non-renewal becomes reasonably assured.

REVENUE RECOGNITION

Franchise fees are generally based on a fixed dollar amount per REALTOR® ("fixed franchise fee") plus a percentage of a REALTOR®'s gross revenue ("variable franchise fees") to a specified maximum. A REALTOR®'s gross revenue is the gross commission income earned in respect of the closed and finalized residential real estate transaction. Fixed franchise fees are recognized as income as earned, and when the collection of fixed franchise fee from the brokerage is reasonably assured. Variable franchise fees are recognized as income at the time a residential real estate transaction is closed and finalized by the REALTOR® and or a lease is signed by the vendor or lessor, and when collection of variable franchise fees from the brokerage are reasonably assured.

Premium franchise fees are calculated as a percentage of a REALTOR®'s gross commission income (ranging from 1% to 5%) for a select number of franchise locations. These fees are recognized as income at the time a residential real estate transaction is closed and finalized or a lease is signed by the vendor or lessor, and collection of premium franchise fees from the brokerage is reasonably assured.

Other revenue is generally recognized when the services have been provided, the amount is determinable and the collection of other revenue from the brokerage is reasonably assured.

EXCHANGEABLE UNITS

Exchangeable Units represent the future distribution obligation of the Company in respect of Class B LP units of the Partnership, and are convertible, on a one-for-one basis, subject to adjustment, into restricted voting shares of BRESI. These financial instruments are classified as a financial liability as the holder can "put" these instruments to the Company as well as by virtue of the Partnership agreement, whereby the Partnership is required to distribute all of its income to the partners. The Company records any changes in the fair value of the Exchangeable Units through income in the period the change occurs. The fair value of these financial liabilities is based on the market price of the Company's restricted voting shares and the number of Exchangeable Units outstanding at the reporting date.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

EARNINGS PER SHARE

Earnings per share is based on the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated to reflect the dilutive effect, if any, of the Exchangeable Unitholders exercising their right to exchange Class B LP units of the Partnership into restricted voting shares of BRESI.

PURCHASE OBLIGATION

The Company's purchase obligation arises from the purchase of Franchise Agreements as discussed above under *Intangible Assets*. The earn-out provisions of the purchase obligation represent a derivative instrument embedded in a non-financial contract which is not closely related to the host contract. Purchase obligations are recorded in the consolidated balance sheet at fair value with changes in the fair value recognized in consolidated statements of net and comprehensive earnings in the period they arise.

FUTURE CHANGES IN ACCOUNTING STANDARDS REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. The standard will supersede IAS 18 – Revenue, IAS 11 – Construction Contracts and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to substantially all contracts with customers, except for, among others, leases, financial instruments and insurance contracts. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

Management is in the process of assessing the impact of adopting IFRS 15, if any.

FINANCIAL INSTRUMENTS

IFRS 9, *Financial Instruments* ("IFRS 9"), establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statement for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard will supersede IAS 39 – Financial Instruments: Recognition and Measurement. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. Management is in the process of assessing the impact of adopting IFRS 9, if any.

3. Management Services Agreement

The MSA has an initial five-year term expiring on December 31, 2018 and a provision for the automatic renewal of successive five year terms.

The MSA, among other things, prescribes the conditions under which the Company purchases Franchise Agreements from the Manager and the formula for calculating the purchase price. The purchase price for existing brands is based on the average annual royalties earned over a twelve-month period, with 80% of the purchase price payable upon acquisition and the remaining balance to be paid at a later date, subject to adjustment, if any, to the actual royalties earned over a twelve month period. Further, an incentive fee is to be paid to the Manager for net REALTOR® growth, with the fee being calculated on similar terms. The MSA also provides the Manager with the ability to sell other Canadian branded franchises to the Company based on a predetermined formula and payment structure.

Under the MSA, the Manager provides certain management, administrative and support services to the Company and in return is paid a monthly fee equal to 20% of the distributable cash of the Company.

For the three and six months ended June 30, 2017, the Company incurred management fees of \$2,296 and \$4,140 three and six months ended (June 30, 2016 – \$2,003 and \$3,690) for these services.

4. Accounts Receivable

Accounts receivable represent royalties due from the Company's franchise network pursuant to Franchise Agreements and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at June 30, 2017, the Company had accounts receivable of \$5,128 (December 31, 2016 – \$3,900) net of an allowance for doubtful accounts of \$867 (December 31, 2016 – \$765). For the three months ended June 30, 2017, administrative expenses include a net reversal of bad debt expense of \$162 as a result of collections on accounts receivable which had been previously identified as doubtful (three months ended June 30, 2016 – bad debt expense reversal of \$16). For the six months ended June 30, 2017, administration expenses included \$108 of bad debt expense (six months ended June 30, 2016 – \$75).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

Management conducts an analysis to determine the allowance for doubtful accounts by assessing the collectability of receivables under each individual Franchise Agreement. This assessment takes into consideration certain factors including the aging of outstanding fees, franchisee operating performance, historical payment patterns, current collection efforts and the Company's security interests, if any.

The table below summarizes the aging of accounts receivable as at June 30, 2017 and December 31, 2016.

As at,	June 30, 2017	December 31, 2016
Current	\$ 4,370	\$ 3,206
30 Days	388	441
60 Days	171	251
90+ Days	1,066	767
Subtotal	\$ 5,995	\$ 4,665
Allowance for Doubtful Accounts	(867)	(765)
Accounts Receivable	\$ 5,128	\$ 3,900

The Company recognizes royalty revenues in income to the extent that collection is reasonably assured at the time the royalty revenue is earned. During the three and six months ended June 30, 2017, the Company identified \$63 and \$92 (three and six months ended June 30, 2016 – \$83 and \$191) of royalty revenues that were not recognized as income as collection was not reasonably assured at the time the revenue was earned. As at June 30, 2017 the Company had a cumulative amount of \$643 of royalty income that was not recognized as collectability was not reasonably assured at the time the revenue was earned (December 31, 2016 – \$551).

5. Notes Receivable

The Company has certain franchisees with which it has entered into a signed formalized payment plan in respect of franchise fees due to the Company which were in arrears. Amounts under these payment plans which are due greater than one year from the financial statement date have been classified as non-current. The terms stipulated in the payment plan require the franchisees to repay the total outstanding balance in monthly payments plus interest based on a spread above prime interest rate ("Prime"). As at June 30, 2017, the Company had notes receivable of \$83, of which \$44 was due within 12 months and \$39 was considered non-current (December 31, 2016 – \$67 current and \$57 non-current).

Scheduled contractual receipts under the terms of the notes receivable are as follows:

As at	June 30, 2017	December 31, 2016
Current portion	\$ 44	\$ 67
Receivable in 13-24 months	39	45
Receivable in 25-36 months	–	12
Notes Receivable	\$ 83	\$ 124

6. Asset Acquisitions

On January 1, 2017, (an "Acquisition Date") the Company acquired 51 Franchise Agreements under the Royal LePage brand and four Franchise Agreements under the Via Capitale brand from the Manager for an estimated purchase price of \$8,222. A payment of \$6,576 (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 6, 2017. The remainder is to be paid after the final purchase price is determined on October 31, 2017, (a "Determination Date").

On January 1, 2016, (an "Acquisition Date") the Company acquired 27 Franchise Agreements under the Royal LePage brand and six Franchise Agreements under the Via Capitale brand from the Manager for an estimated purchase price of \$6,642. A payment of \$5,314 (approximating 80% of the estimated purchase price) plus applicable taxes, was paid on January 8, 2016. The remainder of the purchase price related to the 27 Franchise Agreements acquired under the Royal LePage brand was paid on December 28, 2016, while the remainder owing for the six Franchise Agreements acquired under the Via Capitale brand was paid on May 31, 2017.

The unpaid balance due as of an Acquisition Date is subject to interest at the rate prescribed in the MSA of Prime plus 1%.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

For the three and six months ended June 30, 2017, the Company recorded a loss of \$104 and \$178 on the fair value of purchase obligation (three and six months ended June 30, 2016 – a loss of \$248 and \$1,712).

For the three and six months ended June 30, 2017, the Company incurred \$31 and \$82 of interest expense related to outstanding purchase obligation liability (three and six months ended June 30, 2016 – \$57 and \$118).

The purchase obligation by brand consists of the following:

As at	Royal LePage	Via Capitale	June 30, 2017	December 31, 2016
Purchase obligation at beginning of the period	\$ 3,474	\$ 85	\$ 3,559	\$ 4,778
Current period's purchases	7,746	476	8,222	6,642
Adjustment to purchase obligation in the period	121	60	181	1,568
Payments made during the period	(9,671)	(466)	(10,137)	(9,429)
Purchase obligation at end of period	\$ 1,670	\$ 155	\$ 1,825	\$ 3,559

7. Intangible Assets

As at June 30, 2017, there were two Franchise Agreements identified with a carrying amount in excess of their recoverable amount.

The Company recognized impairment charges for the three and six months ended June 30, 2017 of \$52 and \$66 (three and six months ended June 30, 2016 – nil).

For the three and six months ended June 30, 2017, the Company identified one Franchise Agreement that was subject to early termination or non-renewal. The Company recognized a write off in the first quarter of 2017 of \$38 (three and six months ended June 30, 2016 – \$nil and \$34 related one Franchise Agreement).

For the three and six months ended June 30, 2017, the Company recorded \$2,059 and \$4,189 (three and six months ended June 30, 2016 – \$2,505 and \$5,110) of amortization expense for intangible assets.

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

	Franchise Agreements	Trademarks	Total
Cost			
At December 31, 2016	\$ 220,409	\$ 5,427	225,836
Purchases	8,222	–	8,222
Impairment	(66)	–	(66)
Amounts written-off	(100)	–	(100)
At June 30, 2017	\$ 228,465	\$ 5,427	\$ 233,892
Accumulated amortization			
At December 31, 2016	\$ (145,131)	\$ (2,466)	\$ (147,597)
Amortization expense	(4,097)	(92)	(4,189)
Amounts written-off	62	–	62
At June 30, 2017	\$ (149,166)	\$ (2,558)	\$ (151,724)
Carrying value			
At December 31, 2016	\$ 75,278	\$ 2,961	\$ 78,239
At June 30, 2017	\$ 79,299	\$ 2,869	\$ 82,168

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

8. Income Taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either deferred income tax assets or liabilities. Deferred income taxes are computed using substantively enacted tax rates applicable to the years in which the temporary differences are expected to reverse.

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Earnings before income tax for the period:	\$ 4,897	\$ 2,401	\$ 7,272	\$ 4,008
Expected income tax expense at statutory rate of 26.5% (2016 – 26.5%)	1,298	636	1,928	1,062
Increase (decrease) in income tax expense due to the following:				
Non-deductible amortization	165	264	298	513
Non-deductible loss on fair value of Exchangeable Units	282	406	644	282
Non-deductible interest on Exchangeable Units	378	378	756	757
Non-deductible impairment and write-off on intangible assets	2	(2)	6	(2)
Non-deductible adjustments to purchase obligation	–	16	–	113
Income allocated to Exchangeable Unitholders	(535)	(450)	(946)	(812)
Recognition of deferred tax assets and other	(23)	(9)	(23)	(9)
Total income tax expense	\$ 1,567	\$ 1,239	\$ 2,663	\$ 1,904

The major components of income tax expense include the following:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Current income tax expense	\$ 1,498	\$ 1,270	\$ 2,664	\$ 2,306
Deferred income tax expense (recovery)	69	(31)	(1)	(402)
Total income tax expense	\$ 1,567	\$ 1,239	\$ 2,663	\$ 1,904

Deferred income tax assets arise substantially from temporary differences between the income tax values of intangible assets and the interest rate swap liability as compared to their respective carrying values.

9. Debt Facilities

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

As at	June 30, 2017	December 31, 2016
Term facility	\$ 53,000	\$ 53,000
Acquisition facility	16,800	10,900
	\$ 69,800	\$ 63,900
Financing fees	(152)	(180)
Debt facilities	\$ 69,648	\$ 63,720

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

The Company has \$78,000 in financing available under a borrowing agreement with a Canadian Chartered Bank. The debt facilities under this agreement are comprised of the following, which mature February 17, 2020 ("Maturity"):

A \$53,000 non-revolving term variable rate facility (the "Term Facility"). Repayment of principal outstanding is due on Maturity.

A \$20,000 revolving acquisition facility (the "Acquisition Facility") is available to support acquisitions pursued by the Company. A standby fee of 0.15% applies on undrawn amounts under the Acquisition Facility. Repayment of principal outstanding is due on Maturity. During the six months ended June 30, 2017, the Company borrowed \$7,400 to finance the purchase of Franchise Agreements (June 30, 2016 – \$6,000). Additionally, during the six months ended June 30, 2017, the Company made repayments of \$1,500 (June 30, 2016 – 2,000). As of June 30, 2017, \$3,200 is available to the Company to support acquisitions.

A \$5,000 revolving operating facility (the "Operating Facility") to meet the Company's day-to-day operating requirements. No amounts have been drawn on this facility at June 30, 2017.

Borrowings under each of these arrangements bear interest at a variable rate of Banker's Acceptances (BAs) +1.70% or Prime + 0.5%, at the option of the Company.

The Company's ability to borrow under these arrangements is subject to certain covenants. Under these covenants, the Company must maintain a ratio of Consolidated EBITDA to Interest Expense on Senior Indebtedness 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 impairment and amortization of intangible assets. Senior Indebtedness is defined as borrowings on the Company's debt facilities. At June 30, 2017 and December 31, 2016, the Company complied with all covenants under the debt facilities.

In October, 2014 the Company entered into a five year interest rate swap agreement to swap the variable interest obligation on the Term Facility to a fixed rate obligation of 3.64%. The interest rate swap is a financial instrument and is disclosed at its fair value with any change in that fair value record as a gain or loss in the Company's interim condensed consolidated statements of net and comprehensive earnings. The fair value is determined using a discounted cash flow model using observable yield curves and applicable credit spreads at a credit adjusted rate. At June 30, 2017 the Company determined that the fair value of the interest rate swap represents a liability of \$644 (December 31, 2016 – \$1,114). For the three and six months ended June 30, 2017, the Company recognized a fair value gain of \$420 and \$470 (three and six months ended June 30, 2016 – \$136 and \$24).

10. Exchangeable Units

The Exchangeable Units are exchangeable on a one-for-one basis for restricted voting shares of the Company at the option of the holder.

The Company measures the Exchangeable Units at their fair value using the closing price of the Company's restricted voting shares listed on the TSX. At June 30, 2017, the Company used the closing market price of the Company's shares of \$16.50 (December 31, 2016 – \$15.77). During the three and six months ended June 30, 2017, the Company recorded a loss of \$1,064 and \$2,429 related to the fair value of the Exchangeable Units (three and six months ended June 30, 2016 – \$1,531 and \$1,064).

The Exchangeable Unitholders are entitled to cash distributions from the Partnership in respect of their economic interest in the Partnership and when declared by the Board of Directors of RIFGP. Such distributions are made on a before tax basis and are directly taxable in the hands of the Exchangeable Unitholders. For the three and six months ended June 30, 2017 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of \$1,427 and \$2,855 (three and six months ended June 30, 2016 – \$1,427 and \$2,855).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

11. Share Capital

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

Each restricted voting share represents a proportionate voting right in the Company, and holders of the Company's restricted voting shares are entitled to dividends declared and distributed by the Company.

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

No additional restricted voting shares were issued during the three and six months ended June 30, 2017 or the twelve months ended December 31, 2016.

No preferred shares were issued or outstanding as at June 30, 2017 or December 31, 2016.

The following table summarizes the outstanding shares of the Company:

As at	June 30, 2017	December 31, 2016
Restricted voting shares	9,483,850	9,483,850
Special voting share	1	1

12. Earnings Per Share

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

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
(In thousands of Canadian dollars, except share and per share amounts)				
Net earnings available to				
restricted voting shareholders – basic	\$ 3,330	\$ 1,162	\$ 4,609	\$ 2,104
Interest on Exchangeable Units	1,427	1,427	2,855	2,855
Loss on fair value of Exchangeable Units	1,064	1,531	2,429	1,065
Net earnings available to				
restricted voting shareholders – diluted	\$ 5,821	\$ 4,120	\$ 9,893	\$ 6,024
Weighted average number of shares outstanding used				
in computing basic earnings per share	9,483,850	9,483,850	9,483,850	9,483,850
Total outstanding Exchangeable Units	3,327,667	3,327,667	3,327,667	3,327,667
Weighted average number of shares outstanding used				
in computing diluted earnings per share	12,811,517	12,811,517	12,811,517	12,811,517
Basic earnings per share	\$ 0.35	\$ 0.12	\$ 0.49	\$ 0.22
Diluted earnings per share	\$ 0.35	\$ 0.12	\$ 0.49	\$ 0.22
Dividends declared	\$ 3,082	\$ 3,082	\$ 6,163	\$ 6,163
Restricted voting shares	9,483,850	9,483,850	9,483,850	9,483,850
Dividends per restricted voting share	\$ 0.32	\$ 0.32	\$ 0.65	\$ 0.65

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

13. Related Party Transactions

In addition to transactions disclosed elsewhere in the interim condensed consolidated financial statements, the Company had the following transactions with parties related to the Manager or the Exchangeable Unitholders during the three and six months ended June 30, 2017 and the three and six months ended June 30, 2016. These transactions have been recorded at the exchange amount as agreed between the parties.

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
a) Royalties				
Fixed, variable and other franchise fees	\$ 1,032	\$ 1,052	\$ 2,079	\$ 2,085
Premium franchise fees	\$ 1,539	\$ 1,213	\$ 2,530	\$ 1,948
b) Expenses				
Management fees	\$ 2,296	\$ 2,003	\$ 4,140	\$ 3,690
Insurance premiums and other	\$ (4)	\$ 19	\$ 1	\$ 38
Interest on purchase obligations	\$ 31	\$ 57	\$ 82	\$ 118
c) Interest				
Interest to Exchangeable Unitholders	\$ 1,427	\$ 1,427	\$ 2,855	\$ 2,855

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

As at	June 30, 2017	December 31, 2016
d) Accounts receivable		
Franchise fees receivable and other	\$ 1,145	\$ 804
e) Accounts payable and accrued liabilities		
Management fees	\$ 997	\$ 628
Interest on purchase obligations	\$ 33	\$ 63
f) Interest payable to Exchangeable Unitholders	\$ 476	\$ 476
g) Purchase obligation	\$ 1,825	\$ 3,559

The members of the Company's board of directors are compensated for their services. During the three and six months ended June 30, 2017, the Company incurred \$72 and \$131 (three and six months ended June 30, 2016 – \$82 and \$132) in directors' fees. These directors' fees are included in administration expense.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

14. Financial Instruments

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

A) CREDIT RISK

Credit risk arises from the possibility that the franchisees may not pay amounts owing to the Company. The Company's credit risk is limited to the recorded amount of accounts receivable and notes receivable. The Manager reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis. As at June 30, 2017, the Company has an allowance for doubtful accounts of \$867 (December 31, 2016 – \$765). In addition, as at June 30, 2017 the Company had a cumulative amount of \$643 Royalty income that was not recognized as collectability was not reasonably assured at the time the revenue was earned (December 31, 2016 – \$551).

B) LIQUIDITY RISK

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs, including paying dividends to shareholders of restricted voting shares and interest to Exchangeable Unitholders. The Company manages liquidity risk by maintaining conservative debt levels compared with those required by the covenants associated with the debt facilities. Also, the Company has a \$20,000 Acquisition Facility (of which \$16,800 is drawn) and a \$5,000 unutilized Operating Facility (see Note 9-Debt Facilities).

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

	2017	2018	2019	2020	Beyond 2020	Total
Accounts payable and accrued liabilities	\$ 1,131	\$ –	\$ –	\$ –	\$ –	\$ 1,131
Purchase obligation	1,825	–	–	–	–	1,825
Interest payable to Exchangeable Unitholders	476	–	–	–	–	476
Dividends payable to shareholders	1,027	–	–	–	–	1,027
Interest on long-term debt	1,152	2,443	2,443	407	–	6,445
Interest rate swap liability	–	–	644	–	–	644
Debt facilities	–	–	–	–	69,800	69,800
Exchangeable Units	–	–	–	–	54,907	54,907
Total	\$ 5,611	\$ 2,443	\$ 3,087	\$ 407	\$ 124,707	\$ 136,255

C) INTEREST RATE RISK

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

As described in Note 9, the Company has entered into a five-year interest rate swap to fix the interest on the Company's \$53,000 Term Facility at 3.64% until October 28, 2019.

The Company has drawn \$16,800 on its \$20,000 Acquisition Facility. The Acquisition Facility bears variable interest at a rate of BAs + 1.70% or Prime + 0.5%. Management has elected to pay interest at variable interest rates on the Acquisition Facility and monitors this position on an ongoing basis. An increase of 1% in the Company's effective interest rate on its variable rate Acquisition Facility would result in an increase in its annual interest expense of approximately \$168.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

D) FAIR VALUE

The fair value of certain of the Company's financial instruments, including cash, accounts receivable, notes receivable, accounts payable and accrued liabilities, interest payable to Exchangeable Unitholders and dividends payable to holders of restricted voting shares, are estimated by management to approximate their carrying values due to their short-term nature. The fair value of the Company's outstanding borrowings of \$69,800 approximate their carrying value of \$69,648 as a result of their floating rate terms.

E) FAIR VALUE HIERARCHY

The following table summarizes the financial instruments measured at fair value in the interim condensed consolidated balance sheets as at June 30, 2017 and December 31, 2016, classified using the fair value hierarchy:

As at June 30, 2017	Level 1	Level 2	Level 3	Total
Financial asset or liability:				
Purchase obligation	\$ —	\$ —	\$ 1,825	\$ 1,825
Interest rate swap liability	—	644	—	644
Exchangeable Units	54,907	—	—	54,907
Total	\$54,907	\$ 644	\$ 1,825	\$ 57,376
As at December 31, 2016	Level 1	Level 2	Level 3	Total
Financial asset or liability:				
Purchase obligation	\$ —	\$ —	\$ 3,559	\$ 3,559
Interest rate swap liability	—	1,114	—	1,114
Exchangeable Units	52,477	—	—	52,477
Total	\$ 52,477	\$ 1,114	\$ 3,559	\$ 57,150

See Note 6 for disclosures related to Level 3 fair values, Note 9 for disclosures related to Level 2 fair values and Note 10 for disclosures related to the Level 1 fair values. There were no transfers between fair value hierarchy levels during the period. The Level 3 fair values are calculated in accordance with the terms prescribed by the MSA as discussed in Note 2 under *Intangible Assets and Purchase Obligation*. The fair value of the purchase obligation is sensitive to the changes in the estimated cash flows to be earned during the Determination Period. All other inputs are observable and do not change after the Acquisition Date. A change in the estimated cash flows during the Determination Period causes a change in the fair value of the purchase obligation, determined in accordance with the formula for calculating the purchase price prescribed by the MSA.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2017 and 2016

(Expressed in thousands of Canadian dollars, unless stated otherwise)

15. Management of Capital

The Company's capital is made up of its cash on hand, debt facilities, Exchangeable Units and shareholders' deficit.

The Company's objectives in managing its capital include; a) maintaining a capital structure that provides financing options to the Company while remaining compliant with the covenants associated with the debt facilities; b) maintaining financial flexibility to preserve its ability to meet financial obligations, including debt servicing and dividends to shareholders; and c) deploying capital to provide an appropriate investment return to its shareholders.

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

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

Senior Indebtedness is defined as borrowings under the Company's debt facilities, as disclosed in Note 9 as at June 30, 2017 and December 31, 2016. The Company is compliant with all financial covenants. There were no changes in the Company's approach to capital management during the period.

16. Segmented Information

The Company has only one business segment which is providing information and services to REALTORS® and real estate brokers in Canada through a portfolio of highly regarded real estate services brands. The economic characteristics are consistent across the Company's brands as they each provide services, similar in nature, in the Canadian residential real estate market. Of the Company's royalty revenues for the three and six months ended June 30, 2017, 95% and 96% respectively (three and six months ended June 30, 2016 – 94% and 93% respectively) are generated from the network of franchisees operating under the Royal LePage and Johnston and Daniel brands and 5% and 4% respectively (three and six months ended June 30, 2016 – 6% and 7% respectively) are generated from the network of franchisees operating under the Via Capitale brand.