

# Q1 2017 Interim Report to Shareholders



**Brookfield**  
Real Estate Services Inc.

# Profile

Brookfield Real Estate Services Inc. (the “Company” or “we”) through its relationship with Brookfield Real Estate Services Manager Limited (the “Manager”), is a leading provider of services to residential real estate brokers and REALTORS<sup>®1</sup> across Canada. The Company generates cash flow from fixed and variable fees that are received from real estate brokers and REALTORS<sup>®</sup> operating under the Royal LePage, Via Capitale and Johnston & Daniel brands. Approximately 72 per cent of the Company’s revenue is based on fees that are fixed in nature; this provides revenue stability and helps insulate cash flows from market fluctuation. Revenue streams are protected through long-term franchise agreements, with royalties predominantly driven by fixed fees based on the number of REALTORS<sup>®</sup> in the Company’s network. As at March 31, 2017, the Company network consisted of 18,077 REALTORS<sup>®</sup>.

The Company network has an approximate one fifth share of the Canadian residential real estate market based on 2016 transactional dollar volume. The Company is listed on the TSX and trades under the symbol “BRE”. For further information about the Company, please visit [www.brookfieldresinc.com](http://www.brookfieldresinc.com).

<sup>1</sup>REALTORS<sup>®</sup> is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association.

# Q1 2017

## Management's Discussion and Analysis

Highlights	2	Debt Facilities	21
Organization	2	Liquidity	22
Business Strategy	4	Cash and Capital Resources	23
Structure of Company Royalties	4	Commitments	24
Network Royalty Profile	5	Off-Balance Sheet Arrangements	24
Overview of First Quarter 2017 Operating Results	6	Transactions with Related Parties	24
Key Performance Drivers	7	Critical Accounting Estimates and Assumptions	25
Stability of the Company's Royalty Stream	8	Financial Instruments	26
Number of REALTORS® in the Company Network	10	Disclosure Controls and Internal Controls over Financial Reporting	26
Transactional Dollar Volumes	11	Outstanding Restricted Voting Shares	27
Company's Growth Opportunities	12	Risk Factors	27
REALTOR® Productivity	13	Forward-Looking Statements	27
The Canadian Residential Real Estate Market	13	Supplemental Information	28
Canadian Market Outlook	15	Glossary of Terms	32
First Quarter Operating Results	17	Interim Condensed Consolidated Financial Statements	34
Summary of Quarterly Results and Cash Flow from Operations	19		

## Introduction

This section of Brookfield Real Estate Services Inc.'s ("the Company") interim report includes management's discussion and analysis ("MD&A") of the financial results and financial condition of the Company for the three months ended March 31, 2017, and has been prepared as at May 8, 2017. The three months ended March 31, 2017, shall be referred to in this MD&A as the "Quarter". The comparative period of the three months ended March 31, 2016, shall be referred to in this MD&A as the "Prior Year Quarter". 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 32.

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 unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017 and the Company's audited financial statements for the year ended December 31, 2016, 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).

This MD&A makes reference to Cash Flow from Operations, or "CFFO", which does not have any standardized meaning under IFRS. Please see Cash Flow from Operating Activities reconciled to Cash Flow from Operations for a reconciliation of CFFO to cash flow from operating activities in the interim condensed consolidated statements of cash flows and further information about CFFO.

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

## Highlights

(Unaudited)  
(in 000's) except REALTOR® count  
For three months ended March 31,

	2017	2016
Royalties	\$ 10,409	\$ 9,397
Administration expenses	(537)	(295)
Management fee	(1,844)	(1,687)
Interest expense	(654)	(665)
CFFO	\$ 7,374	\$ 6,750
Dividends paid	\$ 3,081	\$ 3,081
Interest on Exchangeable Units paid	\$ 1,428	\$ 1,428
Net earnings and comprehensive income	\$ 1,279	\$ 942
Number of REALTORS®	18,077	17,320

	2017	2016
CFFO per Share	\$ 0.58	\$ 0.53
CFFO per Share, rolling twelve-month period ended March 31,	\$ 2.47	\$ 2.31
Dividends paid per Restricted Voting Share	\$ 0.32	\$ 0.32
Interest paid on Exchangeable Units paid per Exchangeable Unit	\$ 0.43	\$ 0.43
Net earnings and comprehensive income per Share	\$ 0.13	\$ 0.10

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the Quarter and the audited consolidated financial statements of the Company for the year ended December 31, 2016.

- Cash Flow from Operations ("CFFO") for the Quarter improved to \$7.4 million or \$0.58 per share on a diluted basis ("Share"), an increase of 9% as compared to \$6.8 million or \$0.53 per Share for the Prior Year Quarter.
- CFFO for the rolling twelve-month period ended March 31, 2017 was \$2.47 per Share as compared to \$2.31 per Share for the rolling twelve-month period ended March 31, 2016. The improvement in CFFO was driven by an increase in royalties of \$1.0 million as a result of an increase in the number of REALTORS® in the Company Network offsetting the \$0.4 million increase in expenses, mainly as a result of an increase in cash operating expenses due to higher bad debt expenses as compared to the rolling twelve-month period ended March 31, 2016.
- The board of directors of BRESI (the "Board") declared a cash dividend of \$0.1083 per Restricted Voting Share payable on June 30, 2017, to shareholders of record on May 31, 2017. This represents a targeted annual dividend of \$1.30 per Restricted Voting Share.

## Organization

BRESI's Restricted Voting Shares are 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. The Partnership and VCLP own and operate the assets from which BRESI derives its revenue.

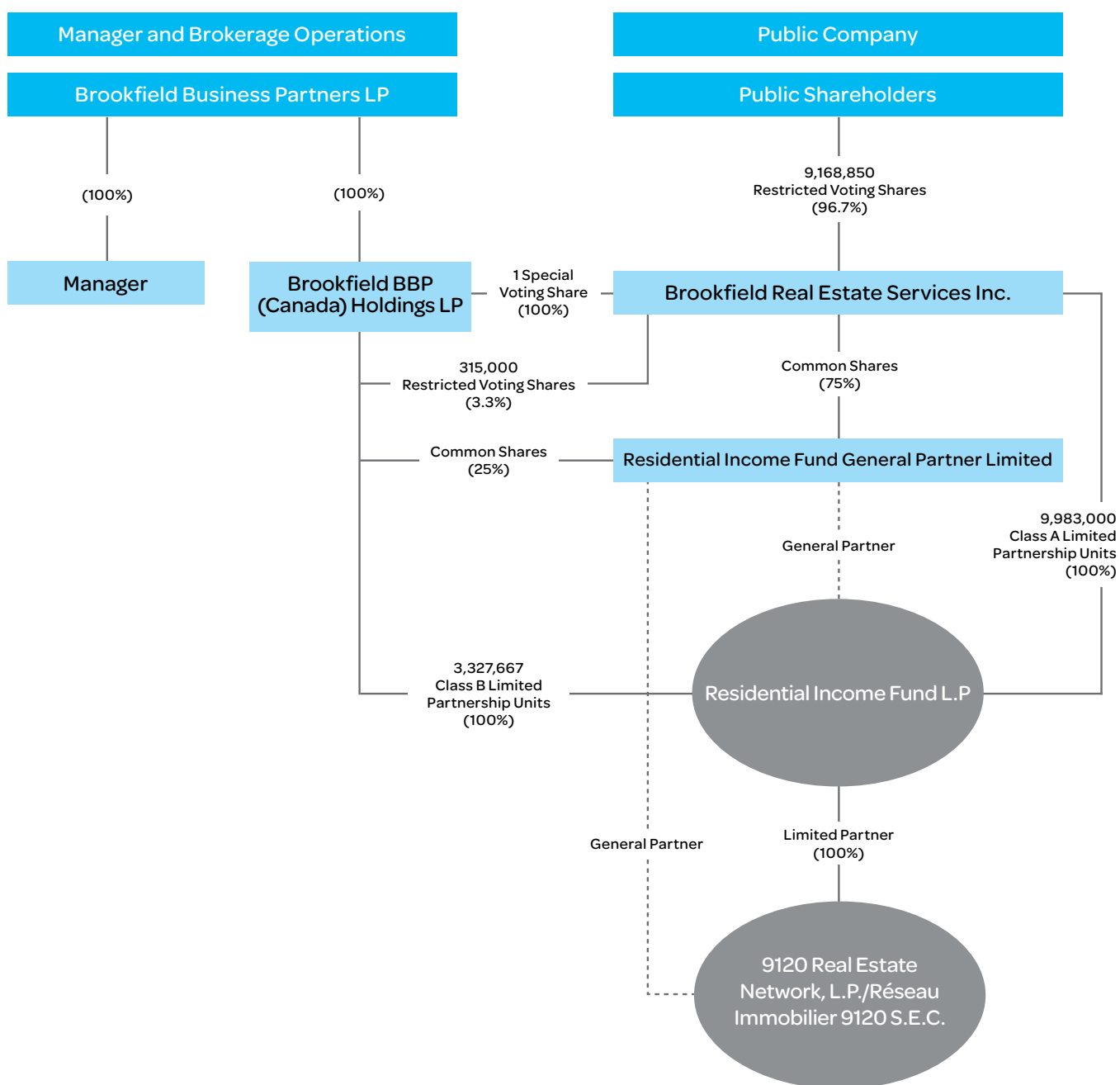
Brookfield BBP (Canada) Holdings L.P ("BBP"), a subsidiary of Brookfield Business Partners L.P, owns the remaining 25% interest in the Partnership through its ownership of exchangeable units of the Partnership (the "Exchangeable Units") and the remaining 25% interest in the General Partner through its ownership of 25 common shares in the General Partner. 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.

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

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

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 REALTORS® 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 REALTORS® by the Manager.

The number of REALTORS® 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, the success in attracting REALTORS® to the Brands through their value propositions 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 2016 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 REALTORS® through the provision of services and additional fee for service offerings, which increases the productivity of the REALTORS®.

## Structure of Company Royalties

### ROYALTY FEES

The Company generates revenue from royalties with both fixed and variable components. Approximately 90% of the Company's royalties during the Quarter (Prior Year Quarter – 89%) were derived from the combined fixed franchise fee per REALTOR® 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 REALTORS® in the Network, increasing REALTOR® productivity and steady growth in the Canadian Market 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 REALTORS® in the Franchise Network. Fixed franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of \$105 per REALTOR®, while fixed fees from Via Capitale Franchisees consist primarily of a monthly fee of approximately \$170 per REALTOR®.

On January 1, 2016, the Company increased the Royal LePage fixed fee from \$102 to \$105 per REALTOR® for approximately 85% of the Franchise Network, with the increase taking effect for the balance of the Franchise Network on January 1, 2017.

During the Quarter, the Company announced an increase in the Royal LePage fixed fee to \$108 per REALTOR® with the increase taking effect on January 1, 2018.

**Variable Franchise Fees** are calculated as a percentage of Gross Revenues earned by the Franchisee's REALTORS®. Variable franchise fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the REALTORS® and are derived as 1% of each REALTOR®'s Gross Revenues, subject to a cap of \$1,325 per year. Certain REALTORS® in the Royal LePage Network work as part of a Team. All REALTORS® 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 are aggregated to one cap.

On January 1, 2016, the Company implemented an increase in the cap for the variable franchise fee from \$1,300 to \$1,325 per year for approximately 85% of the Franchise Network with the increase taking effect for the balance of the Franchise Network on January 1, 2017.

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

During the Quarter, the Company announced an increase in the cap for the variable franchise fee to \$1,350 per year, with the increase taking effect on January 1, 2018.

The amount of variable franchise fee paid by an individual REALTOR® 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. For those REALTORS® or Teams who reach the cap, the variable franchise fee is effectively fixed in nature, in that the variable franchise fee paid by the REALTOR® will not change based on changes in the Canadian Market. In 2016, approximately 2,400 REALTORS® and 1,200 Teams (representing more than 3,000 REALTORS®) exceeded the \$1,325 cap and accounted for approximately 12% of the Gross Revenue earned from Royal LePage Franchisees.

**Premium Franchise Fees** are paid by 21 of the Company's larger Royal LePage locations in the Greater Toronto Area (the "GTA"). 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, 11 are operated by the Manager.

Premium Franchise Fees represented 11% of royalties in the Quarter (Prior Year Quarter – 9%). The Company does not expect the obligation of those locations paying Premium Franchise Fees to continue beyond August 2018.

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

## Network Royalty Profile

As at March 31, 2017, the Company received royalties from 18,077 REALTORS® contracted with 345 Broker-Owners operating under 302 Franchise Agreements from 675 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 2016 transactional dollar volume.

### The Royal LePage Network:

The fees generated from the Royal LePage Network accounted for 96% of the Company's fees for the Quarter (Prior Year Quarter – 94%). Fees charged to the Royal LePage Network for the Quarter include:

- a fixed monthly franchise fee per REALTOR® of \$105;
- a variable franchise fee equal to 1% of Gross Revenue up to a maximum annual variable franchise fee of \$1,325 per REALTOR® or Team;
- a premium monthly franchise fee per applicable location, as described above; and
- a fixed monthly technology fee per REALTOR® of \$20.

### The Via Capitale Network:

The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 4% of the Company's fees for the Quarter (Prior Year Quarter – 6%). These fees are primarily made up of a fixed monthly fee per REALTOR® of \$170 (\$2,040 per year) and other fees for warranties and other ancillary services.

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

## Overview of First Quarter 2017 Operating Results

(Unaudited)  
(in 000's) except per Share amounts;  
Restricted Voting Shares outstanding;  
Exchangeable Units outstanding;  
Number of REALTORS®  
For three months ended March 31,

	2017	2016
Royalties	\$ 10,409	\$ 9,397
Less:		
Administration expenses	537	295
Management fee	1,844	1,687
Interest expense	654	665
Cash Flow from Operations	\$ 7,374	\$ 6,750
Impairment of intangible assets	(52)	-
Amortization of intangible assets	(2,130)	(2,605)
Interest on Exchangeable Units	(1,428)	(1,428)
Gain / (loss) on fair value of Exchangeable Units	(1,365)	466
Gain / (loss) on interest rate swap	50	(112)
Loss on fair value of purchase obligation	(74)	(1,464)
Current income tax expense	(1,166)	(1,036)
Deferred income tax recovery	70	371
Net earnings and comprehensive income	\$ 1,279	\$ 942
Basic earnings per Restricted Voting Share	\$ 0.13	\$ 0.10
Diluted earnings per Share	\$ 0.13	\$ 0.10
Cash Flow from Operations per Share	\$ 0.58	\$ 0.53
Dividends paid per Restricted Voting Share	\$ 0.32	\$ 0.32
Interest paid per Exchangeable Unit	\$ 0.43	\$ 0.43
Restricted Voting Shares outstanding	9,483,850	9,483,850
Exchangeable Units outstanding	3,327,667	3,327,667
Number of REALTORS®	18,077	17,320

(Unaudited)  
(in 000's)  
As at

	March 31, 2017	December 31, 2016
Total assets	\$ 99,589	\$ 92,403
Total liabilities	\$ 132,689	\$ 123,701

## VARIATION OF OPERATING RESULTS FOR THE QUARTER COMPARED TO PRIOR YEAR QUARTER

### Royalties:

The strong Canadian Market, combined with a significant increase in the number of REALTORS® in the Company Network, contributed to a \$1.0 million increase in royalty revenues for the Quarter compared to the Prior Year Quarter. The total value of real estate bought and sold in Canada increased by 7% to \$60.9 billion for the Quarter compared to the Prior Year Quarter, contributing to increased variable franchise fees and Premium Franchise Fees. The Company's Network of REALTORS® increased by 497 REALTORS® in the Quarter, driven by 568 REALTORS® acquired by way of acquisition of Franchise Agreements, partly offset by net attrition of 71 REALTORS®.



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

## Net Earnings:

For the Quarter, the Company generated net earnings of \$1.3 million or \$0.13 per Share, compared to net earnings of \$0.9 million or \$0.10 per Share for the Prior Year Quarter.

The primary drivers of the increase in net earnings compared to the Prior Year Quarter were:

- A \$1.0 million increase in royalty revenues as discussed above, net of the associated increase in management fees;
- A \$0.4 million decrease in amortization and impairment of intangible assets;
- A \$1.4 million decrease in the loss on the fair value of the purchase obligation, (see to further discussion under *First Quarter Operating Results – Loss on fair value of purchase obligation*); partly offset by,
- A loss on the determination of the fair value on the Exchangeable Units of \$1.4 million in the Quarter, compared to a gain of \$0.5 million during the Prior Year Quarter;
- A \$0.2 million increase in operating expenses mainly as a result of an increase in bad debt expense associated with certain Franchise Agreements.
- A \$0.1 million gain on the Company's interest rate swap compared to a loss of \$0.1 in the Prior Year Quarter; and
- A \$0.4 million increase in income tax expense driven by an increase in taxable income.

## Total Assets:

Total assets increased by \$7.2 million during the Quarter, primarily as a result of the increase in the carrying value of intangible assets of \$6.0 million, (driven by the Company's acquisition of Franchise Agreements totaling \$8.2 million on January 1, 2017 partly offset by amortization and impairment charges of \$2.2 million) and an increase in accounts receivable of \$0.9 million driven by an increase in royalties compared to the fourth quarter of 2016.

## Total Liabilities:

Total liabilities increased by \$9.0 million since December 31, 2016. The main drivers of the increase are as follows:

- An increase in debt facilities of \$7.4 million to reflect financing to acquire Franchise Agreements during the Quarter.
- An increase of \$1.3 million in the liability associated with the Exchangeable Units, which is tied to the trading value of the Restricted Voting Shares (see further discussion under *First Quarter Operating Results – Loss on fair value of Exchangeable Units*);
- A \$0.7 million increase in purchase obligation as a result of the acquisition of Franchise Agreements on January 1, 2017; partly offset by,
- A \$0.4 million decrease in the Company's current income tax liability.

## 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.

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

## 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 geographic distribution of the Company Network, and the length and renewal of the Franchise Agreements owned by the Company.

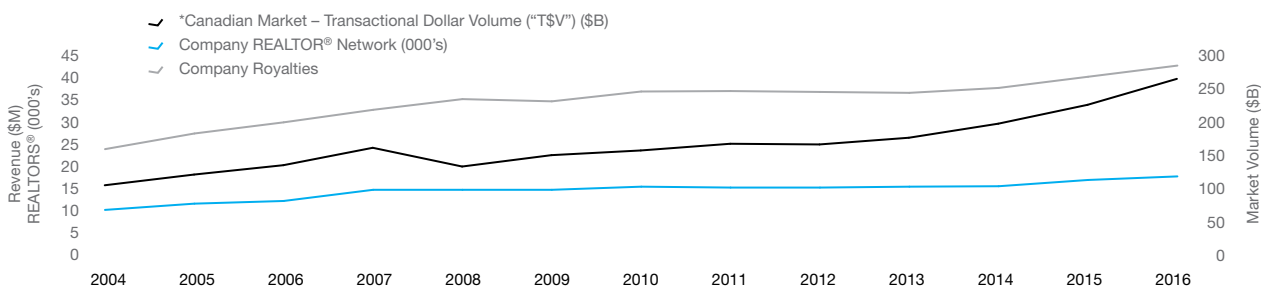
### FIXED – FEE STRUCTURE

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.

The amount of variable franchise fee paid by an individual REALTOR® 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 per REALTOR® or Team of REALTORS®. For those REALTORS® or Teams who reach the cap, the variable franchise fee is effectively fixed in nature, in that the variable franchise fee paid by the REALTOR® 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.

During 2015, the Company announced that the Royal LePage Network monthly fixed franchise fee of \$102 per REALTOR® would increase to \$105 per REALTOR® and the maximum variable franchise fee payable based on 1% of each REALTOR®'s or Team's Gross Revenue would 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.

During the Quarter, the Company announced that the Royal LePage Network monthly fixed franchise fee of \$105 per REALTOR® would increase to \$108 per REALTOR® and the maximum variable franchise fee payable based on 1% of each REALTOR®'s or Team's Gross Revenue would increase from \$1,325 annually to \$1,350. The Company estimates this fee increase could result in approximately \$0.7 million in incremental franchise fee revenues commencing in 2018.

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

## GEOGRAPHIC DISTRIBUTION OF THE COMPANY NETWORK

As at March 31, 2017, the Company Network of 18,077 REALTORS® operated through 302 Franchisee Agreements, contracted with 345 Broker-Owners, providing services across the country through 675 locations. Of the Brokerages in the Company Network, approximately 66% operate with fewer than 50 REALTORS® and represent 15% of the REALTORS® in the Company Network. The Company's smallest Franchisees have one REALTOR® while the largest has approximately 1,900 REALTORS®.

The Company Network 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 March 31, 2017	Canadian <sup>1</sup> REALTOR® Population	Company REALTOR® Population
Ontario	57%	61%
British Columbia	18%	13%
Quebec	11%	13%
Alberta	9%	6%
Maritimes	2%	3%
Prairies	3%	4%
Total	100%	100%

<sup>1</sup>Source: CREA as at December 31, 2016

## 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.

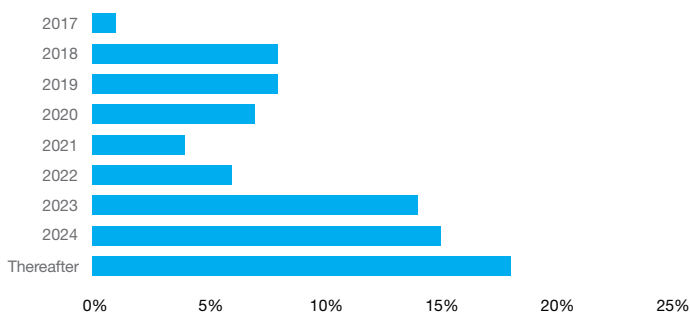
The Royal LePage Franchise Agreements, which represent 96% of the Company's REALTORS®, are for 10 to 20 year terms with a standard renewal term of ten years. These long-duration contracts exceed the industry standard of five years and thereby reduce agreement renewal risk. In addition, the Company regularly attempts to extend contract terms a further ten years in advance of renewal dates when opportunities allow.

The Via Capitale Franchise Agreements, which represent 4% of the Company's REALTORS®, are typically five years in duration with standard renewal terms extending five years.

A summary of the Company's agreement renewal profiles as at March 31, 2017 for the Company Network is shown below.

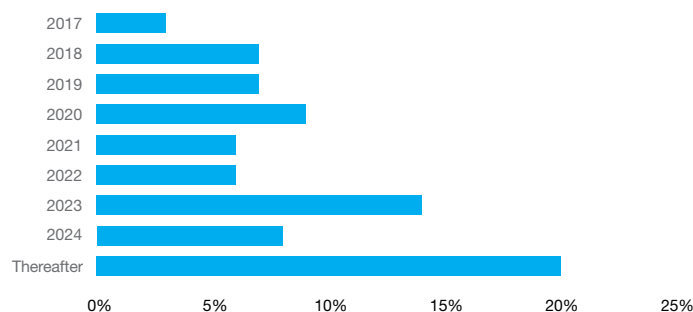
### % OF FRANCHISE AGREEMENTS UP FOR RENEWAL

(by Number of REALTORS®)



### % OF FRANCHISE AGREEMENTS UP FOR RENEWAL

(by Number of Agreements)



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

## RENEWALS

The Company has historically been able to achieve renewal success in more than 95% 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 Quarter, eleven Franchise Agreements, representing 310 REALTORS® in the Company Network extended their term or renewed and two Franchise Agreements, representing 145 REALTORS® in the Company Network renewed early.

During the Quarter, two Franchise Agreements were terminated, of which one was as a result of Franchisees merging operations and one resulted in the loss of 8 REALTORS®.

## Number of REALTORS® in the Company Network

For the Quarter, the Company Network of 18,077 REALTORS® increased by 497 REALTORS®, compared to a net increase of 526 REALTORS® during the Prior Year Quarter. After taking into account the 568 REALTORS® added through the acquisition of Franchise Agreements on January 1, 2017, the Company experienced net attrition of 71 REALTORS® or less than 1% of the Company Network compared to net recruitment growth of 67 REALTORS® in the Prior Year Quarter.

As at December 31,	2003 <sup>2</sup> – 2009	2010	2011	2012	2013	2014	2015	2016	2017 <sup>3</sup>
<b>Company Network</b>									
Opening REALTOR® Count	9,238	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580
Acquisition	2,882	417	247	217	516	493	1,577	459	568
Net Recruiting Growth (Attrition)	2,511	260	(494)	(192)	(292)	(426)	(160)	327	(71)
Closing REALTOR® Count	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580	18,077
% Change in the period	58%	5%	(2%)	0%	1%	0%	9%	5%	3%
<b>Canadian REALTOR® Population<sup>1</sup></b>									
CREA REALTOR®									
Membership	98,161	101,916	104,407	106,944	109,032	110,821	114,664	121,212	–
% Change in the period	38%	4%	2%	2%	2%	2%	3%	6%	–

<sup>1</sup>Source: CREA, CREA Membership data as of March 31, 2017 not available as of MDA date.

<sup>2</sup>Opening Count as at August 2003

<sup>3</sup>As at March 31, 2017

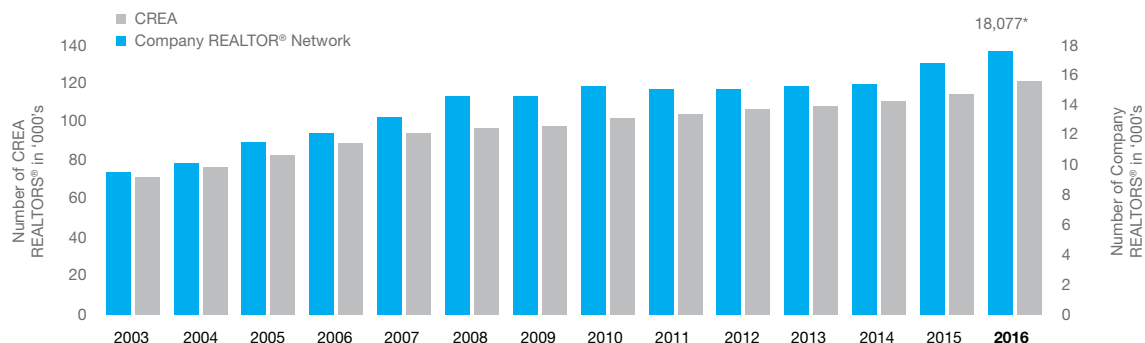
The increase in the number of Canadian REALTORS® since 2003 has in part been driven by strong Canadian Markets, increases in discount brokerage offerings which have attracted new entrants to the industry, and an apparent increase in market activity serviced by REALTORS® operating as Teams. Since 2003, the Company's Network has grown at a 5% compound annual growth rate ("CAGR"), outperforming the 4% growth in the industry, despite the addition of competitive offerings over the same time period.

The number of REALTORS® in the Company network increases when the Company purchases Franchise Agreements from the Manager. This generally occurs on January 1 of each year, unless additional purchases are approved by the Board of Directors of the Company. During those quarters where no Franchise Agreements are purchased, REALTOR® growth tends to be more modest, and can be negative, indicating periods of net attrition.

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

## CANADIAN REAL ESTATE REALTORS®

(Years ended December 31)

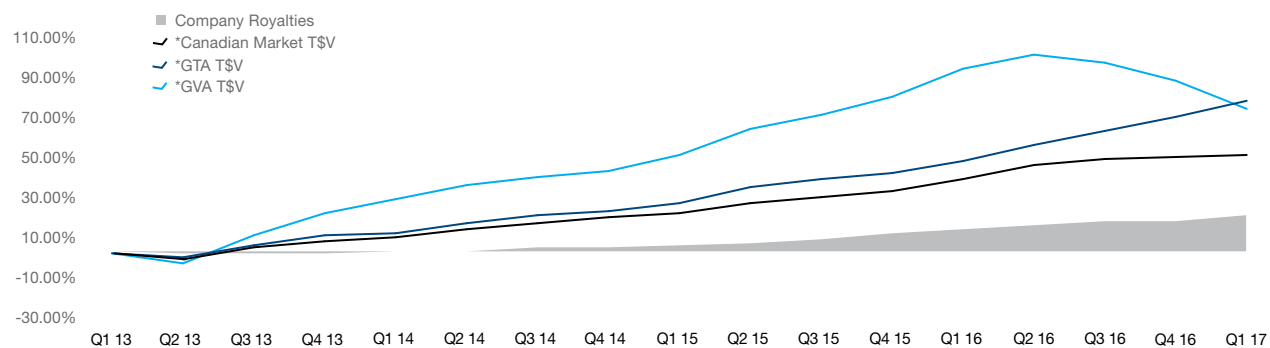


\* As at March 31, 2017

## Transactional Dollar Volumes

The chart below shows the cumulative growth in the Canadian Market and select urban markets as compared to the growth in the Company's royalty revenues since the first quarter of 2013.

### 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.

During the Quarter, the Canadian Market closed up 7%, at \$60.9 billion, as compared to the Prior Year Quarter, driven by a 5% increase in price and 2% increase in units sold. The increase in average selling price of a home was buoyed by low interest rates and robust activity in the GTA.

For the rolling twelve-month period ended March 31, 2017, the Canadian Market closed up 12%, at \$267 billion, as compared to the rolling twelve-month period ended March 31, 2016, driven by an 8% increase in price and 4% increase in units sold.

During the Quarter, the greater Toronto area ("GTA") market closed up 45%, at \$22 billion, as compared to the Prior Year Quarter, driven by a 29% increase in price and a 12% increase in units sold.

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

For the rolling twelve-month period ended March 31, 2017, the GTA market closed up 34%, at \$89.5 billion, as compared to the rolling twelve-month period ended March 31, 2016, driven by a 20% increase in price and an 11% increase in units sold.

During the Quarter, the greater Vancouver area ("GVA") market encountered the largest loss with an approximately 37% decrease in number of units sold and 12% decrease in price in comparison to the Prior Year Quarter.

For the rolling twelve-month period ended March 31, 2017, the GVA market suffered a 21% decrease in number of units sold and 2% increase in price in comparison to the Prior Year Quarter due in part to the impact of recently-introduced government policies designed to moderate the significant increase in selling prices in the market in 2015 and 2016.

## Company's Growth Opportunities

Growth in the Company's royalties is achieved through:

- Increasing the number of REALTORS® in the Company Network through recruitment growth;
- Acquiring Franchise Agreements from the Manager;
- Increasing the productivity of REALTORS®;
- Expanding the range of products and services supporting Franchisees and their REALTORS®; and
- Increasing the adoption of the Company's products and services.

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

## GROWTH IN NUMBER OF REALTORS®

The Company strives to increase the number of REALTORS® in the Company Network through the continued momentum of converting competing brokerages and REALTORS® to the Company's Brands and developing programs to increase REALTOR® growth. This is generally achieved through acquisition of Franchise Agreements from the Manager.

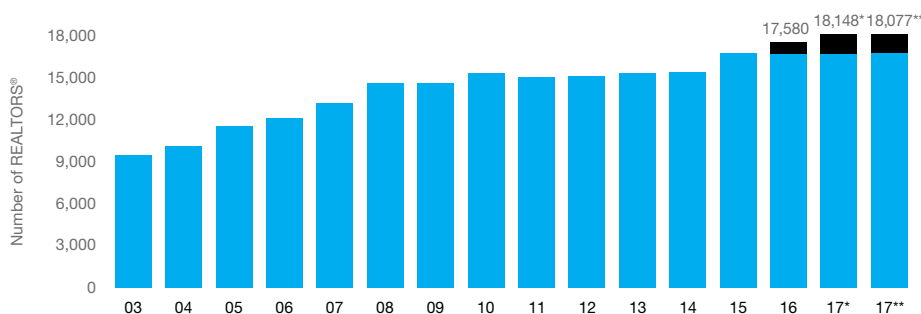
Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network has increased by 96% (8,839 REALTORS®), of which 83% has been through acquisitions and 17% through net recruitment growth. This represents a CAGR of 5% in the Company Network.

On January 1, 2017, the Company acquired 55 Franchise Agreements comprised of 568 REALTORS® operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements was \$8.2 million, with an estimated annual royalty stream of \$1.2 million.

On January 1, 2016, the Company acquired 33 Franchise Agreements comprised of 459 REALTORS® operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements was \$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 2017

\*As at January 1, 2017

\*\* As at March, 31 2017

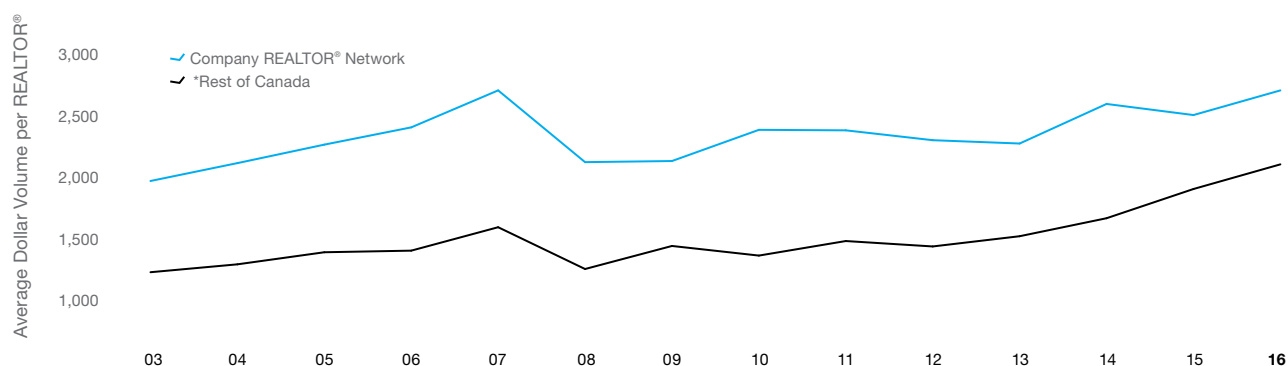
# Management's Discussion and Analysis of Results and Financial Condition

## REALTOR® Productivity

The average Company Network REALTOR® generated approximately \$2.7 million in transactional dollar volume for the twelve months ended December 31, 2016, compared to an estimated \$2.1 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 2016, 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

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

## PRODUCTS AND SERVICES

The Manager, on behalf of the Company, has continued to develop new tools to assist REALTORS® in managing their businesses and has invested in recruitment and retention programs to help Franchisees efficiently attract and retain the best talent in the real estate industry. In the first quarter of 2017, our Royal LePage brand launched Smart Studio, a new marketing and customer relationship management (CRM) tool for use by REALTORS® and brokers. The platform uses automation to improve REALTOR® productivity and provides everything needed to market REALTORS® and their listings. It also rolled out its 2017 national marketing campaign, "Canada's Real Estate Company", providing brokers and REALTORS® across the country with a full suite of marketing tools designed to drive brand awareness and preference. And, a number of new broker-focused features were added to its intranet, including dynamic distribution lists, brokerage-level calendaring and an expert directory, helping brokers easily find relevant speakers for their office meetings and events.

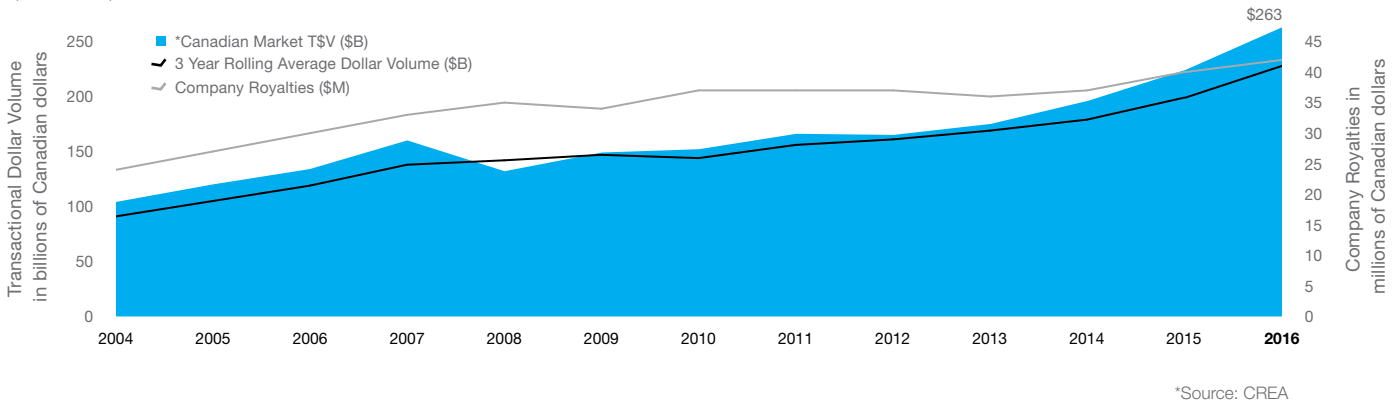
## The Canadian Residential Real Estate Market

Since 2004, the Canadian Market has grown at a CAGR of 8% compared to our royalty revenues, which have grown at a rate of 5%.

Over the last three years, the Canadian Market has grown at rates well above historical averages with a CAGR of 16% driven by a 10% increase in units and a 6% increase in selling price. A low interest rate environment, government policies to encourage immigration and constrained inventories over the three-year period have contributed to the more robust activity, despite government-mandated mortgage tightening rules, new public policy tax initiatives and increased down payment requirements.

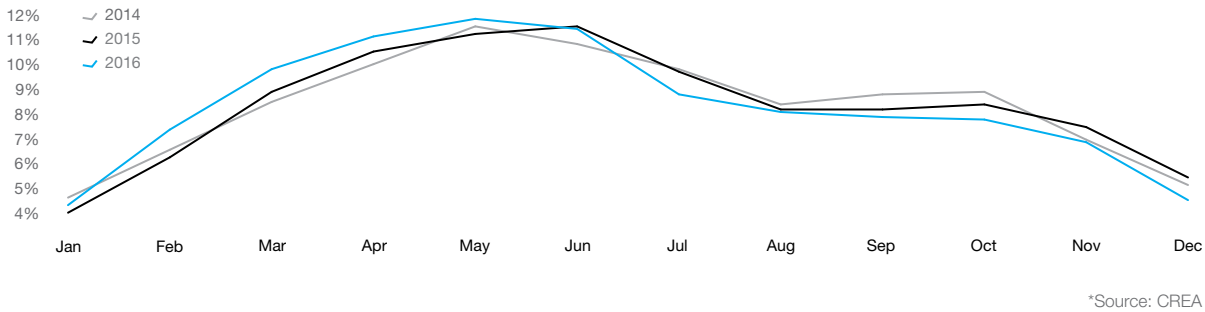
# Management's Discussion and Analysis of Results and Financial Condition

## MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL REAL ESTATE MARKET (2004–2016)



The Company's royalty revenues are affected by the seasonality of the Canadian Market, which typically sees stronger transactional 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 and the acquisition of Franchise Agreements at the beginning of the Year. In the latter part of the year, variable franchise fees can be negatively impacted by the Royal LePage REALTORS® and Teams who have capped with respect to variable franchise fees.

## CANADIAN RESIDENTIAL REAL ESTATE MARKET (% Canadian Market T\$V by month) (\*% Canadian Market T\$V by month)





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

## Canadian Market Outlook

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

**From CREA<sup>1</sup>:** Canadian housing market trends continue to display considerable regional divergence. In British Columbia, activity in the Lower Mainland has cooled markedly from all-time highs recorded early last year; however, sales and price pressures elsewhere in the province remain historically strong.

Nationally, sales activity is forecast to decline by 3% to 518,700 units in 2017. In line with CREA's previous forecast, the upward revision to the sales forecast for Ontario offsets a downward revision to British Columbia's.

British Columbia is forecast to see the largest decline in sales in 2017 (-17.5%), followed by Prince Edward Island (-10.8%). Activity in both provinces is retreating from all-time highs reached last year. Newfoundland & Labrador is also forecast to see a decline in sales in 2017 (-8.4%), continuing a softening trend that stretches back nearly a decade.

Alberta is forecast to have the largest increase in activity in 2017 (+5%) that still leaves it nearly 10% below the 10-year average. Elsewhere, sales activity is forecast to be little changed from 2016 to 2017. Ontario sales are forecast to rise by less than 1% in 2017, as strong demand runs up against an increasingly acute supply shortage.

The national average price is forecast to rise by 4.8% to \$513,500 in 2017, with significant regional variations. The average price is expected to retreat by more than 5% in British Columbia as well as Newfoundland and Labrador, by 2.8% in Saskatchewan while rising by more than 15% in Ontario.

**From CMHC<sup>2</sup>:** Housing starts are trending higher at 211,342 units in March 2017, compared to 205,521 units in February 2017. March housing starts were at their highest level since September 2007, pushing the trend in housing starts upward for a third consecutive month.

Vancouver housing starts trended lower for the fourth consecutive month but, remained above the five-year average. Actual housing starts reached the highest level on record for March since 1972, driven by new apartment construction. Starts activity in the Vancouver Census Metropolitan Area (CMA) is also picking up again after an unusually cold winter.

In Toronto, the total starts trend moved higher in March, supported by all housing types. While apartment starts registered the strongest trend increase in March, single-detached home construction has been trending higher since the end of last summer. Demand for new housing is growing as supply in the rental and resale markets is short, reflected by low rental apartment vacancy rates and declining active listings.

The pace of residential construction in the Québec area has slowed down since the beginning of the year. This decline has been mainly due to a decrease in activity in the purpose-built rental housing segment. It should be mentioned that starts of this type reached historically high levels in 2015 and 2016. Consequently, given the significant number of rental apartments currently under construction and the recent increase in the vacancy rate in the area, a downward adjustment was expected.

**From TREB<sup>3</sup>:** Greater Toronto Area REALTORS® reported 12,077 residential sales through TREB's MLS® System in March 2017. This result represented a 17.7 per cent increase compared to the 10,260 sales reported in March 2016.

For the TREB market area as a whole, annual sales growth was strongest for condominium apartments and detached houses. Strong competition between buyers continued to cause high levels of price growth in all major market segments. The MLS® Home Price Index (HPI) Composite Benchmark Price was up by 28.6 per cent year-over-year. For the TREB market area as a whole, the average selling price was up by 33.2 per cent, with similar annual rates of growth in the low-rise and condominium apartment segments.

<sup>1</sup> Source: CREA Quarterly Forecast, published March 15, 2017

<sup>2</sup> Source: CMHC News Release, published April 10, 2017

<sup>3</sup> Source: TREB Market Watch, Tight Market Conditions Continue in March, published April 5, 2017

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

**From the BoC<sup>4</sup>:** Global economic growth is strengthening and becoming more broadly-based than the Bank had expected in its January Monetary Policy Report (MPR), although there is still considerable uncertainty about the outlook. In the United States, some temporary factors weighed on economic activity in the first quarter but the drivers of growth remain solid. The US is close to full employment, unlike many other advanced economies, including Canada, where material slack remains. Global financial conditions remain accommodative. The Bank expects global GDP growth to increase from 3 1/4 per cent this year to about 3 1/2 per cent in 2018 and 2019.

In Canada, recent data indicate that economic growth has been faster than was expected in the January MPR. Growth was temporarily boosted by a resumption of spending in the oil and gas sector and the effects of the Canada Child Benefit on consumer spending. Residential investment has also been stronger than expected. Employment data have been robust, although gains in hours worked are still soft. Meanwhile, export growth has been uneven in the face of ongoing competitiveness challenges. Further, despite a recent uptick in sentiment, business investment remains well below what could be expected at this stage in the recovery. Accordingly, while the recent rebound in GDP is encouraging, it is too early to conclude that the economy is on a sustainable growth path.

During the rest of this year and into 2018 and 2019, growth in Canada is expected to moderate but remain above potential. At the same time, its composition is expected to broaden as the pace of household spending, especially residential investment, slows while the contributions from exports and business investment increase. The Bank now projects real GDP growth of 2 1/2 per cent in 2017 and just below 2 per cent in 2018 and 2019. Meanwhile, the Bank has revised down its projection of potential growth, reflecting persistently weak investment. With this combination of a higher profile for economic activity and a lower profile for potential, the output gap is projected to close in the first half of 2018, a bit sooner than the Bank anticipated in January.

CPI inflation is now at the 2 per cent target, largely because of the transitory effects of higher oil prices and carbon pricing measures in two provinces, as well as other temporary factors. The Bank's three measures of core inflation, on the other hand, have been drifting down in recent quarters and wage growth remains subdued, consistent with material excess capacity in the economy. CPI inflation is expected to dip in the months ahead, as the temporary factors unwind, and then return to 2 per cent later in the projection horizon as the output gap closes.

## COMPANY MARKET OUTLOOK

Canada's residential real estate market saw substantial price growth in the first quarter of 2017. While the majority of housing markets in Canada posted modest gains, price appreciation across much of Ontario significantly outpaced the rest of the country and propped up the national average.

For the first time in several years, real estate markets in Vancouver and Toronto are headed in opposite directions. During the first quarter, home price appreciation in Greater Vancouver was noticeably lower than the historic highs witnessed in 2016, driven by eroding affordability and regulatory intervention.

While the number of homes trading hands in Greater Vancouver has decreased markedly when compared to the same time last year, sales activity has grown in each month of the quarter, providing an indication that the market may have bottomed out and could be starting to recover.

As price appreciation slowed in the Lower Mainland of British Columbia this quarter, the Greater Toronto Area claimed the title of Canada's hottest housing market. A lack of inventory coupled with robust demand fueled by a strong economy, immigration, high household formation and continued low interest rates, has resulted in significant home price appreciation throughout the GTA. These market characteristics have begun to spill out into areas well outside of the municipality's borders, resulting in significant home price appreciation in the 'Golden Horseshoe', and as far away as Windsor and London in southwestern Ontario."

The government of Ontario recently announced that it may be considering a number of possible initiatives that would be directed at improving the affordability of housing in Ontario. Until additional detail on these initiatives is available or until specific legislation or regulations are passed, it is unknown what impact these initiatives could have on the housing market in the province.

<sup>4</sup> Source: BoC press release published April 12, 2017

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

## First Quarter Operating Results

(Unaudited)

(in 000's) except per Share amounts  
and number of REALTORS®;

For three months ended March 31,

	2017	2016
Royalties		
Fixed franchise fees	\$ 5,670	\$ 5,385
Variable franchise fees	2,578	2,163
Premium franchise fees	1,159	843
Other revenue	1,002	1,006
	<b>10,409</b>	9,397
Less:		
Administration	537	295
Management fee	1,844	1,687
Interest expense	654	665
	<b>3,035</b>	2,647
Cash Flow from Operations	<b>7,374</b>	6,750
Impairment of intangible assets	(52)	–
Amortization of intangible assets	(2,130)	(2,605)
Interest on Exchangeable units	(1,428)	(1,428)
Gain / (loss) on fair value of Exchangeable Units	(1,365)	466
Gain / (loss) on interest rate swap	50	(112)
Loss on fair value of purchase obligation	(74)	(1,464)
Earnings before income taxes	<b>2,375</b>	1,607
Current income tax expense	<b>1,166</b>	1,036
Deferred income tax recovery	(70)	(371)
Net earnings and comprehensive income	<b>\$ 1,279</b>	\$ 942
Basic earnings per Share	<b>\$ 0.13</b>	\$ 0.10
Diluted earnings per Share	<b>\$ 0.13</b>	\$ 0.10
Cash flow from operations per share on a diluted basis	<b>\$ 0.58</b>	\$ 0.53
Number of REALTORS®	<b>18,077</b>	17,320

During the Quarter, the Company generated net earnings of \$1.3 million and CFFO of \$7.4 million, as compared to net earnings of \$0.9 million and CFFO of \$6.8 million for the Prior Year Quarter.

**Royalties** for the Quarter totaled \$10.4 million, compared to \$9.4 million for the Prior Year Quarter. Fixed, variable and premium franchise fees together represented 90% of royalties for the Quarter (Prior Year Quarter – 89%). Royalties increased due primarily to the larger REALTOR® base and a strong Canadian Market, particularly in the GTA.

**Fixed franchise fees** for the Quarter increased by 5% as compared to the Prior Year Quarter, due to the increase in the REALTOR® base resulting from the acquisition of Franchise Agreements on January 1, 2017 representing 568 REALTORS®.

**Variable franchise fees** for the Quarter increased by 19%, which relates to the increase in the REALTOR® base and an increase in transactional dollar value of the Canadian Market driven by the strong GTA market, mainly as a result of significant home price appreciation throughout the GTA compared to the Prior Year Quarter.

**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 Quarter have increased by 38%, compared to the Prior Year Quarter consistent with the increase in the segments of the underlying GTA market serviced by those locations.

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

**Other revenue** includes home warranty fees, technology fees and other fees, and accounted for approximately 10% of total royalties in the Quarter (Prior Year Quarter – 11%). Other fees decreased by 4% in the Quarter as compared to the Prior Year Quarter due to lower margin earned on warranty programs offered to the Via Capitale Network partly offset by higher technology fees earned from Franchise Agreements acquired on January 1, 2017.

**Administration expenses** of \$0.5 million for the Quarter were higher than for the Prior Year Quarter primarily due to higher bad debt expense.

**Management fee expense** of \$1.8 million for the Quarter, calculated in accordance with the MSA, increased by 9% in the Quarter as compared to the Prior Year Quarter, due to the increase in royalties.

**Interest expense** was consistent with the Prior Year Quarter.

**Amortization of Intangible Assets** for the Quarter totaled \$2.1 million, a decrease of 18% compared to the Prior Year Quarter as a result of certain Franchise Agreements being fully amortized.

**Impairment of Intangible Assets** for the Quarter totaled \$0.1 million attributable to a write off due to the non-renewal of a Franchise Agreement with Royal LePage representing eight REALTORS®.

**Interest on Exchangeable Units** represents the distributions to Exchangeable Unitholders. For the Quarter, total distributions amounted to \$0.43 per Exchangeable Unit (Prior Year Quarter – \$0.43). Distributions to Exchangeable Unitholders are determined with reference to dividends paid on Restricted Voting Shares.

**Loss on fair value of Exchangeable Units** represents the change in the fair value of the Exchangeable Units. The Exchangeable Units are valued based on the value of the Company's Restricted Voting Shares. At March 31, 2017, the Company's Restricted Voting Shares were valued at \$16.18 per share compared to \$15.77 at December 31, 2016, resulting in a loss of \$1.4 million. This loss represents an increase in obligation associated with the conversion features of the Exchangeable Units. For the Prior Year Quarter, the price of the Company's Restricted Voting Shares decreased from \$14.66 at December 31, 2015 to \$14.52 at March 31, 2016, resulting in a gain of \$0.5 million.

**Gain on interest rate swap** of \$0.1 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%.

**Loss on fair value of purchase obligation** of \$0.1 million represents an increase in the liability to the Manager related to Franchise Agreements purchased on January 1, 2017. The increase in the liability is as a result of certain of those Franchise Agreements generating higher cash flows than those estimated on the date the Franchise Agreements were acquired.

**Income Tax Expense** The effective income tax rate paid by the Company for the Quarter was 46.2% (Prior Year Quarter –41.4%). The Company's effective income tax rate in the interim condensed consolidated statement of earnings and comprehensive earnings is significantly different than the Company's enacted income tax rate of 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 income but excluded from the determination of taxable income. Items included in determining net earnings that are not included in determining taxable income include, among other things, non-deductible amortization of intangible assets, 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

(Unaudited)

(in 000's) except per Share amounts and number of REALTORS®;

For three months ended,	2017			2016			2015		
	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	
Royalties									
Fixed franchise fees	\$ 5,670	\$ 5,470	\$ 5,456	\$ 5,440	\$ 5,385	\$ 5,311	\$ 5,109	\$ 5,025	
Variable franchise fees	2,578	1,484	3,670	2,912	2,163	1,606	3,115	2,716	
Premium franchise fees	1,159	1,639	2,417	1,463	843	1,431	2,270	1,362	
Other revenue	1,002	1,009	1,024	1,054	1,006	1,191	1,071	1,198	
	<b>10,409</b>	9,602	12,567	10,869	9,397	9,539	11,565	10,301	
Less:									
Administration	537	308	252	203	295	252	348	334	
Management fee	1,844	1,734	2,331	2,003	1,687	1,734	2,115	1,876	
Interest expense	654	627	662	653	665	619	640	589	
Cash Flow from Operations	<b>7,374</b>	6,933	9,322	8,010	6,750	6,934	8,462	7,502	
Impairment of intangible assets	(52)	–	(77)	(34)	–	(697)	(135)	(169)	
Amortization of intangible assets	(2,130)	(2,155)	(2,318)	(2,505)	(2,605)	(2,502)	(2,524)	(2,401)	
Interest on Exchangeable units	(1,428)	(1,428)	(1,428)	(1,427)	(1,428)	(1,408)	(1,372)	(1,336)	
Gain / (loss) on fair value of Exchangeable Units	(1,365)	2,762	(5,391)	(1,531)	466	(4,027)	5,258	(2,928)	
Gain / (loss) on interest rate swap	50	621	177	136	(112)	84	(257)	280	
Gain / (loss) on fair value of purchase obligation	(74)	(167)	311	(248)	(1,464)	(454)	(481)	319	
Earnings (loss) before income taxes	<b>2,375</b>	6,566	596	2,401	1,607	(2,070)	8,951	1,267	
Current income tax expense	1,166	1,063	1,524	1,270	1,036	1,136	1,309	1,130	
Deferred income tax expense (recovery)	(70)	176	110	(31)	(371)	(205)	(169)	97	
Net earnings and comprehensive income (loss)	<b>\$ 1,279</b>	\$ 5,327	\$ (1,038)	\$ 1,162	\$ 942	\$ (3,001)	\$ 7,811	\$ 40	
Basic earnings (loss) per Share	<b>\$ 0.13</b>	\$ 0.56	\$ (0.11)	\$ 0.12	\$ 0.10	\$ (0.32)	\$ 0.82	\$ –	
Diluted earnings (loss) per Share	<b>\$ 0.13</b>	\$ 0.31	\$ (0.11)	\$ 0.12	\$ 0.10	\$ (0.32)	\$ 0.31	\$ –	
Cash Flow from Operations per share on a diluted basis	<b>\$ 0.58</b>	\$ 0.54	\$ 0.73	\$ 0.63	\$ 0.53	\$ 0.54	\$ 0.66	\$0.59	
Number of REALTORS®	<b>18,077</b>	17,580	17,538	17,405	17,320	16,794	16,826	16,105	

For the twelve months ended March 31, 2017, the Company generated CFFO of \$2.47 per Share, as compared to \$2.31 per Share generated during the twelve months ended March 31, 2016. A summary of the Company's CFFO generated over the last eight quarters on a rolling twelve 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

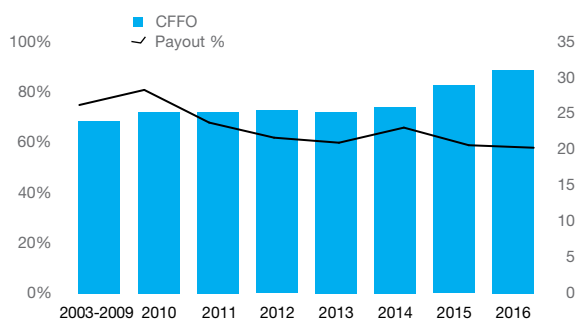
(Unaudited) For twelve months ended,	2017			2016			2015		
(in 000's) except per Share amounts	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	
Royalties	\$ 43,447	\$ 42,436	\$ 42,372	\$ 41,370	\$ 40,802	\$ 39,859	\$ 38,904	\$ 38,134	
Less:									
Administration	1,300	1,058	1,002	1,098	1,229	1,286	1,373	1,627	
Management fee	7,912	7,754	7,755	7,539	7,412	7,229	6,926	6,694	
Interest expense	2,596	2,606	2,599	2,577	2,513	2,428	2,898	3,035	
	<b>31,639</b>	31,018	31,016	30,156	29,648	28,916	27,707	26,778	
Cash Flow from Operations per Share	\$ 2.47	\$ 2.42	\$ 2.42	\$ 2.35	\$ 2.31	\$ 2.26	\$ 2.16	\$ 2.09	

The Company's operations have generated significant cash flows with \$330.4 million of CFFO generated since inception, of which \$228.2 million has been distributed to shareholders and Exchangeable Unitholders. Of the remaining \$102.2 million retained by the Company, \$87.6 million has been invested in Franchise Agreements, \$4.1 million was used to purchase shares 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 table below presents a reconciliation of Cash Flow from Operating activities, as presented in the consolidated statements of cash flows, to cash flows from operations, a measure used by the management of the Company to assess performance.

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

(Unaudited) (\$ 000's)		2017			2016			2015		
For three months ended,	Mar. 31	Dec. 31	Sept.30	June 30.	Mar.31	Dec.31	Sept.30	June 30.		
Cash Flow from Operating activities	\$ 3,409	\$ 4,732	\$ 7,077	\$ 5,005	\$ 3,334	\$ 5,426	\$ 7,148	\$ 3,693		
Add (deduct):										
Interest on Exchangeable Units	1,428	1,427	1,428	1,427	1,428	1,408	1,372	1,336		
Income taxes paid	1,561	1,122	1,102	1,265	1,609	970	921	1,938		
Changes in non-cash working capital items	987	(338)	(275)	332	389	(892)	(997)	558		
Interest expense	(2,031)	(2,032)	(2,043)	(2,023)	(2,032)	(1,868)	(2,012)	(1,925)		
Interest paid	2,020	2,022	2,033	2,004	2,022	1,890	2,030	1,902		
<b>FFO</b>	<b>\$ 7,374</b>	<b>\$ 6,933</b>	<b>\$ 9,322</b>	<b>\$ 8,010</b>	<b>\$ 6,750</b>	<b>\$ 6,934</b>	<b>\$ 8,462</b>	<b>\$ 7,502</b>		

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

FFO does not have a standardized meaning under IFRS and, accordingly, may not be comparable to similar measures used by other issuers. Management believes that FFO 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 FFO should not be interpreted 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 FFO 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

As at March 31, 2017 the Company's \$78.0 million financing comprised the following three arrangements, maturing February 17, 2020:

- A \$53.0 million term facility (the "Term Facility"). The Term Facility bears interest at a variable 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 million acquisition facility (the "Acquisition Facility") to support acquisitions pursued by the Company, bearing interest at a variable rate of BAs +1.70% or Prime + 0.5%. A standby fee of 0.15% applies on undrawn amounts under this facility; and
- A \$5.0 million revolving operating facility (the "Operating Facility") to meet the Company's day-to-day operating requirements, bearing interest at a variable 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 5:1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5:1 as defined under the loan agreement. 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 March 31, 2017, 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 CFFO 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 REALTORS® 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.

For the Quarter, the Company funded the purchase of Franchise Agreements primarily through \$7.4 million in borrowings under its available debt facilities. The Company generated sufficient CFFO during the Quarter (after payment of dividends, distributions and its operating obligations) to pay \$1.0 million to settle the purchase obligation outstanding for the Franchise Agreements acquired on July 1, 2015, under the Royal LePage brand. The remaining \$2.6 million of the purchase obligation balance associated with acquisitions of Franchise Agreements prior to 2017 will be repaid from operating cash flows during the second and third quarters. 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 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, working capital increased by \$0.8 million from \$0.8 million as at December 31, 2016, to \$1.6 million as at March 31, 2017. The increase in working capital resulted primarily from:

- A \$0.2 million increase in cash; and
- A \$0.9 million increase in accounts receivable and current portion of notes receivable as a result of seasonally higher revenues earned from an increased number of REALTORS® in the Company Network; and
- A \$0.4 million decrease in accounts payables and current income tax liability due to timing of payments for operating expenses and income taxes; partly offset by
- A \$0.7 million increase in the purchase obligation, as a result of the acquisition of Franchise Agreements effective January 1, 2017.



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

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

(Unaudited) (\$ 000's) As at	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	June 30, 2015	Change in Quarter	Change in Year
<b>Current assets</b>										
Cash	\$ 3,305	\$ 3,102	\$ 4,799	\$ 3,810	\$ 4,607	\$ 5,645	\$ 5,154	\$ 2,875	203	\$ (1,302)
Accounts receivable and current portion of notes receivable	4,849	3,967	4,692	4,773	4,521	4,043	5,011	5,903	882	328
Prepaid expenses	141	147	142	167	172	202	126	164	(6)	(31)
	<b>\$ 8,295</b>	<b>\$ 7,216</b>	<b>\$ 9,633</b>	<b>\$ 8,750</b>	<b>\$ 9,300</b>	<b>\$ 9,890</b>	<b>\$ 10,291</b>	<b>\$ 8,942</b>	<b>1,079</b>	<b>\$ (1,005)</b>
<b>Current liabilities</b>										
Accounts payable and accrued liabilities	\$ 827	\$ 893	\$ 1,247	\$ 1,112	\$ 1,203	\$ 1,181	\$ 1,240	\$ 1,213	(66)	\$ (376)
Purchase obligation	4,279	3,559	4,787	5,098	7,571	2,824	2,371	1,887	720	(3,292)
Current income tax liability	40	435	494	72	67	640	474	86	(395)	(27)
Interest payable to Exchangeable Unitholders	476	476	476	476	476	476	441	441	-	-
Dividends payable to Restricted Voting shareholders	1,027	1,027	1,027	1,027	1,027	1,027	988	988	-	-
	<b>6,649</b>	<b>6,390</b>	<b>8,031</b>	<b>7,785</b>	<b>10,344</b>	<b>6,148</b>	<b>5,514</b>	<b>4,615</b>	<b>259</b>	<b>(3,695)</b>
Net working capital (deficit)	<b>\$ 1,646</b>	<b>\$ 826</b>	<b>\$ 1,602</b>	<b>\$ 965</b>	<b>(1,044)</b>	<b>\$ 3,742</b>	<b>\$ 4,777</b>	<b>\$ 1,452</b>	<b>820</b>	<b>\$ 2,690</b>

## Cash and Capital Resources

A summary of cash and capital resources available to the Company as at March 31, 2017 and December 31, 2016 is presented below:

(Unaudited) (in 000's) As at	March 31, 2017	December 31, 2016
Cash	\$ 3,305	\$ 3,102
Term Facility		
Acquisition Facility	1,700	9,100
Operating Facility	5,000	5,000
Net borrowing capacity	\$ 6,700	\$ 14,100
Balance at the end of the period	\$ 10,005	\$ 17,202

As at March 31, 2017, \$18.3 million of the Acquisition Facility has been drawn by the Company, leaving \$1.7 million available under the debt facilities. This represents a decrease of \$7.4 million in net borrowing capacity as a result of the Company borrowing \$7.4 million on the Acquisition Facility on January 1, 2017 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, to acquire Franchise Agreements and to repay amounts owing under the debt facilities.

# 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.

As at March 31, 2017	2017	2018	2019	2020	Beyond 2020	Total
Accounts payable and accrued liabilities	\$ 827	\$ –	\$ –	\$ –	\$ –	\$ 827
Purchase obligation	4,279	–	–	–	–	4,279
Interest payable to Exchangeable Unitholders	476	–	–	–	–	476
Dividends payable to shareholders	1,027	–	–	–	–	1,027
Interest on long-term debt	1,765	2,353	2,353	392	–	6,863
Interest rate swap liability	–	–	1,064	–	–	1,064
Debt facilities	–	–	–	–	71,300	71,300
Exchangeable Units	–	–	–	–	53,842	53,842
<b>Total</b>	<b>\$ 8,374</b>	<b>\$ 2,353</b>	<b>\$ 3,417</b>	<b>\$ 392</b>	<b>\$ 125,142</b>	<b>\$ 139,678</b>

On January 1, 2017, the Company acquired 51 Franchise Agreements under the Royal LePage brand and four Franchise Agreements under the Via Capitale brand representing a total of 568 REALTORS® from the Manager for an estimated purchase price of \$8.2 million. A payment of \$6.6 million (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").

During the first quarter, the Company finalized the purchase price with respect to all acquisitions of Franchise Agreements prior to 2017. In March, the Company paid \$1.0 million to the Manager related to those acquisitions. The remaining \$2.6 million will be repaid from operating cash flows during the second and third quarters.

## 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 BBP, primarily through its ownership of the Exchangeable Units of the Partnership and Restricted Voting Shares. The Exchangeable Units were issued by the Company at its inception to affiliates of BBP as consideration for certain assets purchased from those affiliates. 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 23 corporately owned Royal LePage residential Brokerage locations. These locations are serviced by 1917 REALTORS® with 1296 REALTORS® operating out of 14 locations in the GTA market and 621 REALTORS® operating from 9 locations in the GVA market. All of these Franchise Agreements associated with the Brokerages have been purchased by the Company.

All of the 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 GVA operations are up for renewal between 2023-2024. Included in the GTA based Franchise Agreement is an obligation to pay Premium Franchise Fees ranging from 1% to 5% of gross revenues for 11 of the 14 locations until August 2018. Including amounts received from the corporately owned brokerage premium franchise fees represented 11% of royalties in the quarter (Prior Year Quarter – 9%). The Company does not expect the premium fee revenues to continue beyond 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% of the distributable cash flow of the Company. The Manager can earn an additional fee for net organic recruitment growth, which closely aligns the Manager and the Company's goals with growing the underlying network of REALTORS®. The MSA also provides the manager with the ability to sell other branded Canadian franchisees that it may acquire to the Company based on a 6a pre-determined formula.

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

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, among other things, the average annual royalties earned over a specified one-year period, with 80% of the purchase price payable upon acquisition and the remaining balance to be paid at a later date, subject to adjustment.

On January 1 of each year (or such other time as the Board may deem appropriate), the Company may, subject to approval by the Board and meeting certain criteria detailed in the MSA, purchase Royal LePage and Via Capitale Franchise Agreements entered into 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 issuance of Exchangeable Units 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 interim condensed consolidated financial statements.

On January 1, 2017, the Company acquired 51 Franchise Agreements under the Royal LePage brand and four Franchise Agreements under the Via Capitale brand representing a total of 568 REALTORS® from the Manager for an estimated purchase price of \$8.2 million. A payment of \$6.6 million (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 4, 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, the Company acquired 33 Franchise Agreements for \$6.6 million comprising 459 REALTORS® generating approximately \$1.0 million in annual royalties. A payment of \$5.3 million, approximating 80% of the estimated purchase price, plus applicable taxes was paid on January 8, 2016 through a draw on the Company's Acquisition Facility. 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 remaining obligation for the six Franchise Agreements acquired under the Via Capitale Brand is to be paid in 2017.

### 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 bad debt expense (which is included in the Company's administration costs), and the amortization of intangible assets.

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

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's interim condensed 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, measuring deferred income taxes, measuring the fair value of purchase obligations and Exchangeable Units and measuring 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 interim condensed consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, and cash flow forecasts, which are judgements and are uncertain. The interrelated nature of these factors prevents management from quantifying the overall impact of these movements on the Company's interim condensed consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

### 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 impact on the amounts in the financial statements.

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

## Accounting for Franchise Agreements

The critical judgment made in accounting for the acquisition of Franchise Agreements is determining whether the acquisition is considered the acquisition of assets or a business. In applying the guidance in IFRS 3, Business Combinations ("IFRS 3"), the Company must evaluate whether the acquisition includes both inputs and processes and, as well, whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company has 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 purchase obligation 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 changes in the estimated royalty expected to be earned under the Franchise Agreement and the actual royalty earned during the determination period. The Company records any change in the fair value of this financial liability in the interim condensed 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 individual Franchise Agreements and Trademarks. When reviewing indicators of impairment for 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 exceeds its recoverable amount or if 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 of Restricted Voting Shares, 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 and notes 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 rates on these facilities are based on Prime or Banker Acceptance interest rates. As at March 31, 2017, the Company has drawn \$18.3 million on the Acquisition Facility, and nil on the Operating Facility.

## Disclosure Controls and Internal Controls over Financial Reporting

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 March 31, 2017. 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 interim condensed consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR was 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 March 31, 2017. The design of ICFR is undertaken in accordance with the 2013 COSO framework.

## Outstanding Restricted Voting Shares

BRESI is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. As of May 8, 2017 BRESI 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 BRESI, and holders of BRESI's Restricted Voting Shares are entitled to dividends declared and distributed by BRESI.

The Special Voting Share is owned by BBP 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" within the meaning of applicable securities legislation. Words such as "outlook", "believe(s)", "further", "growth", "will", "forecast", "objective", "continue", "determine", "ongoing", "foreseeable", "maintain", "seeks", "strive", "momentum", "expects", "anticipates", "increase", "near-term", "signs", "experiencing", "uncertainty", "extended", "commencing", "future", "may", "generally", "tends", "estimates", "estimated", "typically", "are", "can", "forecasted", "continuing", "expected", "projects", "projected", "cautioned", "could", "expect", 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, but are not limited to: a change in general economic conditions (including interest rates, consumer confidence, commodity prices, real estate legislation and regulations 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 acquire, renew and/or extend Franchise Agreements, the ability to increase fees, 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, conversion of Exchangeable Units into Restricted Voting Shares, 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). Forward-looking information is based on various material factors or assumptions, which are based on information currently available to management. Material factors or assumptions that were applied in drawing conclusions or making estimates set out in the forward-looking statements include, but are not limited to: anticipated economic conditions, anticipated impact of government policies, anticipated financial performance, anticipated market conditions, business prospects, the successful execution of the Company's business strategies, regulatory developments and the ability to obtain financing on acceptable terms. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A and 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 – Dividends Declared History

(per Restricted Voting Share\*)

Month Declared	2010	2011	2012	2013	2014	2015	2016	2017
January	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	<b>\$ 0.1083</b>
February	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	<b>\$ 0.1083</b>
March	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	<b>\$ 0.1083</b>
April	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	
May	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	
June	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
July	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
August	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
September	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
October	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
November	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	
December	\$ 0.3170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1083	\$ 0.1083	
	\$ 1.6036	\$ 1.1040	\$ 1.1040	\$ 1.1040	\$ 1.2000	\$ 1.2335	\$ 1.2996	<b>\$ 0.3249</b>

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

## Supplemental Information – Share Performance

(in Canadian dollars)  
except shares outstanding  
and average daily volume  
For three months ended,

	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Mar.31, 2017
Trading price range of units (TSX: "BRE")								
Close	\$ 15.03	\$ 13.45	\$ 14.66	\$ 14.52	\$ 14.98	\$ 16.60	\$ 15.77	<b>\$ 16.18</b>
High	\$ 15.25	\$ 15.25	\$ 15.08	\$ 15.00	\$ 15.70	\$ 16.98	\$ 16.72	<b>\$ 16.60</b>
Low	\$ 13.82	\$ 13.25	\$ 13.26	\$ 13.21	\$ 14.30	\$ 14.92	\$ 14.90	<b>\$ 15.68</b>
Average daily volume	13,070	5,318	4,304	5,319	7,030	9,733	7,623	<b>10,954</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 (\$000's)	\$ 192,557	\$ 172,315	\$ 187,817	\$ 186,023	\$ 191,917	\$ 212,671	\$ 202,076	<b>\$ 207,290</b>

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

## Supplemental Information – Canadian Residential Real Estate Market

For Three months ended	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 74,202	\$ 58,668	\$ 48,130	\$ 56,860	\$ 90,569	\$ 65,643	\$ 49,891	<b>\$ 60,948</b>
Average selling price	\$ 451,666	\$ 433,884	\$ 454,644	\$ 498,261	\$ 506,921	\$ 470,259	\$ 480,891	<b>\$ 522,528</b>
Number of units sold	164,285	135,216	105,863	114,117	178,664	139,590	103,747	<b>116,641</b>
Number of REALTORS® at period end <sup>2</sup>	112,498	113,499	114,664	115,835	117,839	119,514	121,212	<b>–</b>
Housing starts	48,355	52,738	46,906	35,602	49,222	49,573	46,250	<b>40,811</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 22,457	\$ 15,984	\$ 13,238	\$ 15,277	\$ 28,032	\$ 21,403	\$ 17,990	<b>\$ 22,088</b>
Average selling price	\$ 641,610	\$ 612,930	\$ 626,384	\$ 675,406	\$ 746,505	\$ 725,771	\$ 747,559	<b>\$ 873,774</b>
Number of units sold	35,001	26,078	21,134	22,619	37,551	29,490	24,065	<b>25,279</b>
Housing starts	10,987	12,500	10,564	9,412	10,069	9,614	13,192	<b>10,395</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 11,678	\$ 9,524	\$ 9,721	\$ 13,280	\$ 15,150	\$ 7,446	\$ 5,708	<b>\$ 7,416</b>
Average selling price	\$ 909,289	\$ 874,403	\$ 950,988	\$1,094,897	\$1,058,700	\$ 912,612	\$ 908,628	<b>\$ 969,893</b>
Number of units sold	12,843	10,892	10,222	12,129	14,310	8,159	6,282	<b>7,646</b>
Housing starts	5,655	5,298	5,627	7,081	7,759	7,358	5,716	<b>5,269</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 4,246	\$ 2,640	\$ 2,780	\$ 3,523	\$ 4,413	\$ 2,918	\$ 2,224	<b>\$ 3,887</b>
Average selling price	\$ 337,815	\$ 345,053	\$ 346,288	\$ 332,327	\$ 346,743	\$ 360,648	\$ 360,778	<b>\$ 347,306</b>
Number of units sold	12,569	7,651	8,028	10,601	12,727	8,091	6,091	<b>11,191</b>
Housing starts	4,526	6,588	5,482	2,791	4,719	5,748	4,576	<b>4,703</b>

<sup>1</sup> (in millions Canadian dollars)

<sup>2</sup> CREA Membership data as of March 31, 2017 not available as of MDA date.

Source: CREA, CMHC, TREB

For Twelve months ended	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	Mar. 31, 2017
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 211,704	\$ 217,459	\$ 224,233	\$ 237,860	\$ 254,227	\$ 261,202	\$ 262,963	<b>\$ 267,051</b>
Average selling price	\$ 426,533	\$ 434,610	\$ 442,856	\$ 457,880	\$ 476,205	\$ 485,295	\$ 490,495	<b>\$ 495,786</b>
Number of units sold	496,337	500,354	506,334	519,481	533,860	538,234	536,118	<b>538,642</b>
Housing starts	173,043	178,128	181,598	183,601	184,468	181,303	180,647	<b>185,856</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 59,233	\$ 61,381	\$ 63,352	\$ 66,956	\$ 72,531	\$ 77,950	\$ 82,702	<b>\$ 89,513</b>
Average selling price	\$ 598,313	\$ 612,408	\$ 622,037	\$ 638,698	\$ 675,448	\$ 703,558	\$ 727,210	<b>\$ 769,112</b>
Number of units sold	99,000	100,229	101,846	104,832	107,382	110,794	113,725	<b>116,385</b>
Housing starts	37,122	43,001	42,287	43,463	42,545	39,659	42,287	<b>40,010</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 33,343	\$ 35,618	\$ 38,951	\$ 44,203	\$ 47,675	\$ 45,597	\$ 41,584	<b>\$ 35,720</b>
Average selling price	\$ 859,799	\$ 873,504	\$ 902,793	\$ 959,142	\$1,002,566	\$1,017,336	\$1,017,221	<b>\$ 981,394</b>
Number of units sold	38,780	40,776	43,145	46,086	47,553	44,820	40,880	<b>36,397</b>
Housing starts	20,040	19,807	20,863	23,661	25,765	27,825	27,914	<b>26,102</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 12,402	\$ 12,609	\$ 12,824	\$ 13,189	\$ 13,356	\$ 13,634	\$ 13,078	<b>\$ 13,442</b>
Average selling price	\$ 335,443	\$ 338,097	\$ 338,052	\$ 339,494	\$ 342,400	\$ 345,628	\$ 348,654	<b>\$ 352,801</b>
Number of units sold	36,972	37,294	37,935	38,849	39,007	39,447	37,510	<b>38,100</b>
Housing starts	16,573	18,906	18,744	19,387	19,580	18,740	17,834	<b>19,746</b>

<sup>1</sup> (in millions Canadian dollars)

Source: CREA, CMHC, TREB

# 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

(Unaudited) (\$ 000's)			IFRS			Canadian GAAP
	Total	Three months ended Mar. 31, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Jan. 1, 2010 to Dec. 31, 2014	Aug.7, 2003 to Dec. 31, 2009
Royalties	\$ 467,363	\$ 10,409	\$ 42,436	\$ 39,859	\$ 183,529	\$ 191,130
Less:						
Administration	15,040	537	1,058	1,286	7,767	4,392
Management fee	85,049	1,844	7,754	7,229	33,378	34,844
Interest Expense	36,482	654	2,606	2,428	15,362	15,432
Cash Flow from Operations	330,792	7,374	31,018	28,916	127,022	136,462
Less:						
Dividends to Restricted Voting shareholders	163,960	3,081	12,325	11,619	60,064	76,871
Interest to Exchangeable Unitholders	64,209	1,428	5,710	5,434	25,809	25,827
Total distributions	228,169	4,510	18,035	17,053	85,873	102,698
Cash Flow from Operations less total dividends	102,623	2,864	12,983	11,863	41,149	33,764
Less: Funding of acquisitions	87,593	7,576	9,429	18,150	27,294	25,144
Less: Purchase of units under NCIB	4,096	–	–	–	–	4,096
Cash Flow from Operations less funding of acquisitions	\$ 10,934	\$ (4,712)	\$ 3,554	\$ (6,287)	\$ 13,855	\$ 4,524
Taxes, working capital and net borrowings	(7,629)	4,915	(6,097)	8,880	(17,645)	2,318
Change in period	\$ 3,305	\$ 203	\$ (2,543)	\$ 2,593	\$ (3,790)	\$ 6,842
Cash balance, beginning of Period	–	\$ 3,102	\$ 5,645	\$ 3,052	\$ 6,842	–
Cash balance, end of Period	\$ 3,305	\$ 3,305	\$ 3,102	\$ 5,645	\$ 3,052	\$ 6,842
Distributions payment rate <sup>1</sup>	69%	61%	58%	59%	68%	75%

<sup>1</sup> This represents the total distributions paid as a percentage of Cash Flow from Operations.

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

(Unaudited) (\$ 000's)			IFRS			Canadian GAAP
	Total	Three months ended Mar.31, 2017	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Jan. 1, 2010 to Dec. 31, 2014	Aug.7, 2003 to Dec. 31, 2009
Cash Flow from Operating activities	\$ 250,225	\$ 3,409	\$ 20,148	\$ 20,433	\$ 69,446	\$ 136,789
Add (deduct):						
Changes in non-cash working capital items	2,381	987	111	(1,045)	1,560	768
Interest on Exchangeable Units	38,381	1,428	5,710	5,434	25,809	–
Income taxes paid	26,072	1,561	5,098	4,137	15,276	–
Interest on Trust units	15,212	–	–	–	15,212	–
Non-cash interest expense	(1,479)	(11)	(49)	(43)	(281)	(1,095)
Cash Flow from Operations	\$ 330,792	\$ 7,374	\$ 31,018	\$ 28,916	\$ 127,022	\$ 136,462



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

## Supplemental Information – Selected Operating Information

As at	June 30, 2015	Sept. 30, 2015	Dec. 31, 2015	Mar. 31, 2016	June 30, 2016	Sept. 30, 2016	Dec. 31, 2016	<b>Mar. 31, 2017</b>
Number of REALTORS®	16,105	16,826	16,794	17,320	17,405	17,538	17,580	<b>18,077</b>
Number of locations	660	670	662	670	670	668	667	<b>675</b>
Number of franchise agreements	301	322	305	308	303	302	297	<b>302</b>

## Supplemental Information – Acquisitions

Year acquired by the Company (\$ millions, Canadian dollars) except number of REALTORS®	2017	2016	2015	2014	2013	2012	2011	2010
Estimate purchase price								
Royal LePage	\$ 7.7	\$ 6.0	\$ 19.3	\$ 6.1	\$ 6.0	\$ 1.9	\$ 2.5	\$ 4.2
Via Capitale	0.5	0.6	0.7	0.2	0.7	1.0	1.0	1.0
	\$ 8.2	\$ 6.6	\$ 20.0	\$ 6.3	\$ 6.7	\$ 2.9	\$ 3.5	\$ 5.2
Actual purchase price								
Royal LePage	(a), (b)	\$ 6.2	\$ 21.3	\$ 7.1	\$ 5.8	\$ 1.9	\$ 2.5	\$ 4.2
Via Capitale	(a), (b)	0.6	0.6	0.1	0.9	0.8	0.8	1.1
	(a)	\$ 6.8	\$ 21.9	\$ 7.2	\$ 6.7	\$ 2.7	\$ 3.3	\$ 5.3
Acquired REALTORS®								
Royal LePage	542	419	1,530	484	462	145	188	343
Via Capitale	26	40	47	9	54	72	59	74
	568	459	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 of incremental cash flows earned.

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

## GLOSSARY OF TERMS

**"BBP"** means Brookfield BBP (Canada) Holdings LP, a limited partnership governed by the laws of Ontario and a subsidiary of Brookfield Business Partners LP, together with its affiliates but excluding the Manager and the subsidiaries of the Manager.

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

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

**"Broker"** means a REALTOR® who is licensed with the relevant regulatory body to manage a Brokerage.

**"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 & Daniel or Via Capitale brands and are licensed with the relevant regulatory body to manage a Brokerage.

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

**"Cash Flow from Operations"** or **"CFFO"** means operating income (adjusted to reflect interest expense paid) 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 Restricted Voting Shares. 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 useful. 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 at the inception of the Company to an affiliate of BBP in partial consideration for the Partnership's acquisition of the assets of the Partnership from that affiliate. 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.

**"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 and addendums thereto pursuant to which Brokerage offices offer residential brokerage services to their REALTORS®, including use of 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 BRESI.

**"Gross Revenue"** means, in respect of a Franchisee, the gross commission income (net of payments to cooperating Brokerages) earned in respect of the closings of residential resale real estate transactions through REALTORS® associated with such Franchisee.

**"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 changes 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 January 1, 2014 between the Company and the Manager, together with any amendments thereto, 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 and an indirectly, wholly-owned subsidiary of BBP, together with its subsidiaries. The Manager provides management and administrative services to the Company, including management of the assets of the Company.

**"Network"** means the collection of Brokerages which operate under one of the Brands controlled by the Company.

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

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

**"REALTOR®"** and **"REALTORS®"** are the exclusive designation for a member/members of The Canadian Real Estate Association and are defined as an individual/group of individuals licensed to trade in real estate.

**"Restricted Voting Share(s)"** 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 & Daniel Brands.

**"Special Voting Share"** means the share of BRESI issued to the holder of the Exchangeable Units to represent voting rights in BRESI proportionate to the number of votes the Exchangeable Unitholders would obtain if they converted their Exchangeable Units to Restricted Voting Shares.

**"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 a group of REALTORS® who work together and market themselves as part of a team rather than as individual REALTORS®.

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

**"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 BRESI.

## Interim Condensed Consolidated Balance Sheets

(Unaudited) (In thousands of Canadian dollars)	Note	March 31, 2017	December 31, 2016
<b>Assets</b>			
Current assets			
Cash		\$ 3,305	\$ 3,102
Accounts receivable	4	4,799	3,900
Current portion of notes receivable	5	50	67
Prepaid expenses		141	147
		<b>8,295</b>	7,216
Non-current assets			
Notes receivable	5	54	57
Deferred income tax asset	8	6,961	6,891
Intangible assets	6, 7	84,279	78,239
		<b>\$ 99,589</b>	\$ 92,403
<b>Liabilities and shareholders' deficit</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 827	\$ 893
Purchase obligation	6, 13	4,279	3,559
Current income tax liability	8	40	435
Interest payable to Exchangeable Unitholders	10,13	476	476
Dividends payable to shareholders		1,027	1,027
		<b>6,649</b>	6,390
Non-current liabilities			
Debt facilities	9	71,134	63,720
Interest rate swap liability	9	1,064	1,114
Exchangeable Units	10	53,842	52,477
		<b>132,689</b>	123,701
Shareholders' deficit			
Restricted voting shares	11	140,076	140,076
Deficit		(173,176)	(171,374)
		<b>(33,100)</b>	(31,298)
		<b>\$ 99,589</b>	\$ 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 Earnings and Comprehensive Income

(Unaudited)  
For the three months ended March 31,  
(In thousands of Canadian dollars, except share and per share amounts)

	Note	2017	2016
<b>Royalties</b>			
Fixed franchise fees		\$ 5,670	\$ 5,385
Variable franchise fees		2,578	2,163
Premium franchise fees		1,159	843
Other revenue		1,002	1,006
		<b>10,409</b>	9,397
<b>Expenses</b>			
Administration		537	295
Management fee	3, 13	1,844	1,687
Interest expense	9	654	665
Impairment and write-off of intangible assets	7	52	–
Amortization of intangible assets	7	2,130	2,605
		<b>5,217</b>	5,252
<b>Operating income</b>			
Interest on Exchangeable Units	10, 13	(1,428)	(1,428)
Gain / (loss) on fair value of Exchangeable Units	10	(1,365)	466
Gain / (loss) on interest rate swap	9	50	(112)
Loss on fair value of purchase obligation	6	(74)	(1,464)
		<b>2,375</b>	1,607
<b>Earnings before income tax</b>			
Current income tax expense		1,166	1,036
Deferred income tax recovery		(70)	(371)
		<b>1,096</b>	665
<b>Income tax expense</b>			
	8	<b>1,096</b>	665
<b>Net Earnings and Comprehensive Income</b>			
		<b>\$ 1,279</b>	\$ 942
Basic earnings per share	12	<b>\$ 0.13</b>	\$ 0.10
Weighted average number of shares outstanding used in computing basic earnings per share		<b>9,483,850</b>	9,483,850
Diluted earnings per share	12	<b>\$ 0.13</b>	\$ 0.10
Weighted average number of shares outstanding used in computing diluted earnings per share		<b>12,811,517</b>	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 three months ended March 31,  
(In thousands of Canadian dollars)

	Common Equity	Deficit	Total Deficit
Balance, December 31, 2016	\$ 140,076	\$ (171,374)	\$ (31,298)
Net earnings	–	1,279	1,279
Dividends declared	–	(3,081)	(3,081)
<b>Balance, March 31, 2017</b>	<b>\$ 140,076</b>	<b>\$ (173,176)</b>	<b>\$ (33,100)</b>

(In thousands of Canadian dollars)

	Common Equity	Deficit	Total Deficit
Balance, December 31, 2015	\$ 140,076	\$ (165,446)	\$ (25,370)
Net earnings	–	942	942
Dividends declared	–	(3,081)	(3,081)
Balance, March 31, 2016	\$ 140,076	\$ (167,585)	\$ (27,509)

See accompanying notes to the interim condensed consolidated financial statements.

## Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the three months ended March 31,  
(In thousands of Canadian dollars)

	Note	2017	2016
<b>Cash provided by (used for):</b>			
<b>Operating activities</b>			
Net earnings for the period		\$ 1,279	\$ 942
Adjusted for			
Gain / (loss) on fair value of Exchangeable Units	10	1,365	(466)
Loss on fair value of purchase obligation	6	74	1,464
Gain / (loss) on interest rate swap	9	(50)	112
Interest expense		2,031	2,032
Interest paid		(2,020)	(2,022)
Current income tax expense	8	1,166	1,036
Income taxes paid		(1,561)	(1,609)
Deferred income tax recovery	8	(70)	(371)
Impairment and write-off of intangible assets	7	52	-
Amortization of intangible assets	7	2,130	2,605
Changes in non-cash working capital		(987)	(389)
		<b>3,409</b>	<b>3,334</b>
<b>Investing activity</b>			
Purchase of intangible assets	6	(7,576)	(5,313)
Interest expense on purchase obligation	6,13	51	61
Interest paid on purchase obligation		-	(39)
		<b>(7,525)</b>	<b>(5,291)</b>
<b>Financing activity</b>			
Borrowings under debt facilities	9	7,400	6,000
Repayment under debt facilities	9	-	(2,000)
Dividends paid to shareholders		(3,081)	(3,081)
		<b>4,319</b>	<b>919</b>
<b>Increase / (decrease) in cash during the period</b>		<b>203</b>	<b>(1,038)</b>
<b>Cash, beginning of the period</b>		<b>3,102</b>	<b>5,645</b>
<b>Cash, end of the period</b>		<b>\$ 3,305</b>	<b>\$ 4,607</b>

See accompanying notes to the interim condensed consolidated financial statements.

# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 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 May 8, 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 financial results of the Subsidiaries are consolidated with the results of BRESI from the date that control is acquired through to the date that control ceases. Control of an investee is deemed to exist when BRESI has the power to direct relevant activities of the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee.

The Company’s significant accounting policies are as follows:

### 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 months ended March 31, 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 earnings 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 of 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 months ended March 31, 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 earnings and comprehensive earnings in the period they arise.

## 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 months ended March 31, 2017, the Company incurred management fees of \$1,844 (2016 – \$1,687) 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 March 31, 2017, the Company had accounts receivable of \$4,799 (December 31, 2016 – \$3,900) net of an allowance for doubtful accounts of \$1,029 (December 31, 2016 – \$765). During the three months ended March 31, 2017, administration expenses included \$270 of net bad debt expense (2016 – \$91).

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 March 31, 2017 and December 31, 2016.

As at,	March 31, 2017	December 31, 2016
Current	\$ 3,878	\$ 3,206
30 Days	530	441
60 Days	339	251
90+ Days	1,081	767
Subtotal	\$ 5,828	\$ 4,665
Allowance for Doubtful Accounts	(1,029)	(765)
Accounts Receivable	\$ 4,799	\$ 3,900

## Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

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 months ended March 31, 2017, the Company identified \$29 (2016 – \$108) of royalty revenues that were not recognized as income as collection was not reasonably assured at the time the revenue was earned. As at March 31, 2017, the Company had a cumulative amount of \$580 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 March 31, 2017, the Company had notes receivable of \$104, of which \$50 was due within 12 months and \$54 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	March 31, 2017	December 31, 2016
Current portion	\$ 50	\$ 67
Receivable in 13-24 months	46	45
Receivable in 25-36 months	8	12
Notes Receivable	<b>\$ 104</b>	\$ 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 is to be paid within 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%.

For the three months ended March 31, 2017, the Company recorded a loss of \$74 on the fair value of purchase obligation (2016 – \$1,464).

For the three months ended March 31, 2017, the Company incurred \$51 of interest expense related to outstanding purchase obligation liability (2016 – \$61).

# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

The purchase obligation by brand consists of the following:

As at	Royal LePage	Via Capitale	March 31, 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	39	35	74	1,568
Payments made during the period	(7,195)	(381)	(7,576)	(9,429)
Purchase obligation at end of period	\$ 4,064	\$ 215	\$ 4,279	\$ 3,559
Purchase obligation	4,064	215	4,279	3,559
Purchase obligation at end of period	\$ 4,064	\$ 215	\$ 4,279	\$ 3,559

## 7. Intangible Assets

As at March 31, 2017, there was one Franchise Agreement identified with a carrying amount in excess of their recoverable amount, as such for the three months ended March 31, 2017 there was a \$14 impairment charge recognized (2016 – nil).

As at March 31, 2017, there was one Franchise Agreement that was subject to early termination or non-renewal, as such for the three months ended March 31, 2017 there was a \$38 write-off of Franchise Agreement carrying value (2016 – nil).

For the three months ended March 31, 2017, the Company recorded \$2,130 (2016 – \$2,605) intangible asset amortization expense.

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

	Franchise Agreements	Trademarks	Total
<b>Cost</b>			
At December 31, 2016	\$ 220,409	\$ 5,427	\$ 225,836
Purchases	8,222	–	8,222
Impairment	(14)	–	(14)
Amounts written-off	(100)	–	(100)
<b>At March 31, 2017</b>	<b>\$ 228,517</b>	<b>\$ 5,427</b>	<b>\$ 233,944</b>
<b>Accumulated amortization</b>			
At December 31, 2016	\$ (145,131)	\$ (2,466)	\$ (147,597)
Amortization expense	(2,084)	(46)	(2,130)
Amounts written-off	62	–	62
<b>At March 31, 2017</b>	<b>\$ (147,153)</b>	<b>\$ (2,512)</b>	<b>\$ (149,665)</b>
<b>Carrying value</b>			
At December 31, 2016	\$ 75,278	\$ 2,961	\$ 78,239
<b>At March 31, 2017</b>	<b>\$ 81,364</b>	<b>\$ 2,915</b>	<b>\$ 84,279</b>

# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 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:

For the three months ended March 31,	2017	2016
Earnings before income tax for the period:	\$ 2,375	\$ 1,607
Expected income tax expense at statutory rate of 26.5% (2016 – 26.5%)	630	426
Increase (decrease) in income tax expense due to the following:		
Non-deductible amortization	133	249
Non-deductible loss (gain) on fair value of Exchangeable Units	362	(123)
Non-deductible interest on Exchangeable Units	378	378
Non-deductible impairment and write-off on intangible assets	4	–
Non-deductible adjustments to purchase obligation	–	97
Income allocated to Exchangeable Unitholders	(411)	(362)
<b>Total income tax expense</b>	<b>\$ 1,096</b>	<b>\$ 665</b>

The major components of income tax expense include the following:

For the three months ended March 31,	2017	2016
Current income tax expense	\$ 1,166	\$ 1,036
Deferred income tax recovery	(70)	(371)
<b>Total income tax expense</b>	<b>\$ 1,096</b>	<b>\$ 665</b>

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	March 31, 2017	December 31, 2016
Term facility	\$ 53,000	\$ 53,000
Acquisition facility	18,300	10,900
	<b>\$ 71,300</b>	<b>\$ 63,900</b>
Financing fees	(166)	(180)
<b>Debt facilities</b>	<b>\$ 71,134</b>	<b>\$ 63,720</b>

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.

## Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

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 three months ended March 31, 2017, the Company borrowed \$7,400 to finance the purchase of Franchise Agreements (Prior Year Quarter – \$6,000). During the three months ended March 31, 2017, the Company did not make any repayments (Prior Year Quarter – \$2,000). As of March 31, 2017, \$1,700 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 March 31, 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 March 31, 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 earnings 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 March 31, 2017 the Company determined that the fair value of the interest rate swap represents a liability of \$1,064 (December 31, 2016 – \$1,114). For the three months ended March 31, 2017, the Company recognized a fair value gain of \$50 (2016 loss of \$112).

### 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 March 31, 2017, the Company used the closing market price of the Company's shares of \$16.18 (December 31, 2016 – \$15.77). During the three months ended March 31, 2017, the Company recorded a loss of \$1,365 related to the fair value of the Exchangeable Units (2016 – a gain of \$466).

The Exchangeable Unitholders are entitled to cash distributions from the Partnership in respect of their economic interest in the Partnership as and when declared by the Board of Directors of RIFGP. Such distributions are made on a before tax basis and are directly taxable in the hands of the Exchangeable Unitholders. For the three months ended March 31, 2017 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of \$1,428 (2016 – \$1,428).

# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 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 months ended March 31, 2017 or the twelve months ended December 31, 2016.

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

The following table summarizes the outstanding shares of the Company:

As at	March 31, 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:

For the three months ended March 31,

(In thousands of Canadian dollars, except share and per share amounts)

	2017	2016
<b>Net earnings available to restricted voting shareholders – basic</b>	<b>\$ 1,279</b>	\$ 942
Interest on Exchangeable Units	1,428	1,428
Loss / (gain) on fair value of Exchangeable Units	1,365	(466)
<b>Net earnings available to restricted voting shareholders – diluted</b>	<b>\$ 4,072</b>	\$ 1,904
Weighted average number of shares outstanding used in computing basic earnings per share	9,483,850	9,483,850
Total outstanding Exchangeable Units	3,327,667	3,327,667
Weighted average number of shares outstanding used in computing diluted earnings per share	12,811,517	12,811,517
<b>Basic earnings per share</b>	<b>\$ 0.13</b>	\$ 0.10
<b>Diluted earnings per share</b>	<b>\$ 0.13</b>	\$ 0.10
Dividends declared	\$ 3,081	\$ 3,081
Restricted voting shares	9,483,850	9,483,850
<b>Dividends per restricted voting share</b>	<b>\$ 0.32</b>	\$ 0.32

## Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 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 months ended March 31, 2017 and March 31, 2016. These transactions have been recorded at the exchange amount as agreed between the parties.

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

For the three months ended March 31,	2017	2016
a) Royalties		
Fixed, variable and other franchise fees	\$ 1,047	\$ 1,033
Premium franchise fees	\$ 991	\$ 735
b) Expenses		
Management fees	\$ 1,844	\$ 1,687
Insurance premiums and other	\$ 6	\$ 19
Interest on purchase obligations	\$ 51	\$ 61
c) Interest		
Interest to Exchangeable Unitholders	\$ 1,428	\$ 1,428

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

As at	March 31, 2017	December 31, 2016
d) Accounts receivable		
Franchise fees receivable and other	\$ 679	\$ 804
e) Accounts payable and accrued liabilities		
Management fees	\$ 666	\$ 628
Interest on purchase obligations	\$ 51	\$ 63
f) Interest payable to Exchangeable Unitholders	\$ 476	\$ 476
g) Purchase obligation	\$ 4,279	\$ 3,559

The members of the Company's board of directors are compensated for their services. During the three months ended March 31, 2017, the Company incurred \$59 (2016 – \$50) in directors' fees. These directors' fees are included in administration expense.

### 14. Financial Instruments

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

#### A) CREDIT RISK

Credit risk arises from the possibility that the franchisees may 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 March 31, 2017, the Company has an allowance for doubtful accounts of \$1,029 (December 31, 2016 – \$765). In addition, as at March 31, 2017 the Company had a cumulative amount of \$580 royalty income that was not recognized as collectability was not reasonably assured at the time the revenue was earned (December 31, 2016 – \$551).

## Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

### 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 \$18,300 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:

As at March 31, 2017	2017	2018	2019	2020	Beyond 2020	Total
Accounts payable and accrued liabilities	\$ 827	\$ -	\$ -	\$ -	\$ -	\$ 827
Purchase obligation	4,279	-	-	-	-	4,279
Interest payable to Exchangeable Unitholders	476	-	-	-	-	476
Dividends payable to shareholders	1,027	-	-	-	-	1,027
Interest on long-term debt	1,765	2,353	2,353	392	-	6,863
Interest rate swap liability	-	-	1,064	-	-	1,064
Debt facilities	-	-	-	-	71,300	71,300
Exchangeable Units	-	-	-	-	53,842	53,842
<b>Total</b>	<b>\$ 8,374</b>	<b>\$ 2,353</b>	<b>\$ 3,417</b>	<b>\$ 392</b>	<b>\$ 125,142</b>	<b>\$ 139,678</b>

### 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 \$18,300 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 \$183.

### 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 \$71,300 approximate their carrying value of \$71,134 as a result of their floating rate terms.



# Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three months ended March 31, 2017 and 2016

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

## E) FAIR VALUE HIERARCHY

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

As at March 31, 2017	Level 1	Level 2	Level 3	Total
Financial asset or liability:				
Purchase obligation	\$ –	\$ –	\$ 4,279	\$ 4,279
Interest rate swap liability	–	1,064	–	1,064
Exchangeable Units	53,842	–	–	53,842
<b>Total</b>	<b>\$ 53,842</b>	<b>\$ 1,064</b>	<b>\$ 4,279</b>	<b>\$ 59,185</b>
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
<b>Total</b>	<b>\$ 52,477</b>	<b>\$ 1,114</b>	<b>\$ 3,559</b>	<b>\$ 57,150</b>

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.

## 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 March 31, 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 months ended March 31, 2017, 96% (2016 – 93%) are generated from the network of franchisees operating under the Royal LePage and Johnston and Daniel brands and 4% (2016 – 7%) are generated from the network of franchisees operating under the Via Capitale brand.

# **Brookfield**

Real Estate Services Inc.

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