



## For Immediate Release

### Brookfield Real Estate Services Fund Announces Second Quarter Results and Monthly Cash Distribution

#### ***Royalties decline 6%, however Distributable Cash per unit declines only 4%; residential real estate market improving***

**Toronto, ON – August 7, 2009** – Brookfield Real Estate Services Fund (the “Fund”) (TSX – BRE.UN), today announced that royalties for the quarter ended June 30, 2009 were \$8.8 million, 6.0% lower than royalties of \$9.4 million in the second quarter of 2008. Distributable cash<sup>1</sup> declined 7.2% to \$6.2 million, from \$6.7 million in the second quarter of 2008 while distributable cash per unit declined 4.0% or \$0.02 per unit to \$0.48 per unit resulting from a lower number of outstanding units due to the success of our normal course issuer bid program (NCIB). Net earnings were \$1.5 million (\$0.15 per unit) compared with \$2.0 million (\$0.20 per unit) in the second quarter of 2008.

The year-over-year decrease in royalties for the Quarter was contrary to a 1.7% increase in transactional dollar volume in the Canadian residential real estate market overall, as the Fund recognizes variable fees when homes sales close, which typically is 45 to 60 days after the sales date used for Canadian market data. The improvement in the market for the quarter primarily occurred in the month of June which experienced a transactional dollar volume increase of 22.1% and 30.0% for Canadian and Greater Toronto Area markets, respectively. This improved market activity is expected to materialize as variable and premium fees in the third quarter.

The reduction in distributable cash results from the lower royalties which were partially offset by a reduction in management fees.

“The health of the Canadian residential real estate market improved considerably during the second quarter, with unit sales and average selling prices increasing slightly compared with a year ago and significantly when compared to the very poor market conditions of the previous six months. Improved affordability, driven by flat or lower home prices and inexpensive mortgage financing, has been the principle catalyst driving the increased transaction volumes. While we do not expect home prices to rise rapidly as they did earlier in the decade, we anticipate the improved market conditions represent a sustainable change and a positive development for our business,” said Phil Soper, President and Chief Executive.

“The past year has been a very difficult one for those in the real estate business. We are pleased that the Fund’s structure, which was conceived to mitigate the effects of cyclical market downturns through the high proportion (69%) of royalties which are fixed in nature, met that objective. Further, our business strategy which emphasizes REALTOR®<sup>2</sup> network growth and productivity-enhancing services which are tailored to current market conditions has helped us weather the recessionary storm.”

### Financial and Operating Highlights

#### For the three months ended June 30, 2009 and 2008

|                    | Q2 2009            |                   | Q2 2008            |                   |
|--------------------|--------------------|-------------------|--------------------|-------------------|
|                    | <u>(thousands)</u> | <u>(per unit)</u> | <u>(thousands)</u> | <u>(per unit)</u> |
| Royalties          | \$ 8,839           | \$ 0.68           | \$ 9,404           | \$ 0.71           |
| Distributable cash | \$ 6,180           | \$ 0.48           | \$ 6,658           | \$ 0.50           |
| Net earnings       | \$ 1,478           | \$ 0.15           | \$ 1,978           | \$ 0.20           |
| Distributions      | \$ 4,556           | \$ 0.35           | \$ 4,150           | \$ 0.31           |

<sup>1</sup> Defined as royalties less administrative expenses, interest expense and management fee. Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash for distribution to unitholders. Investors are cautioned that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows.

<sup>2</sup> REALTOR® is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association.

## **Six Month Results**

For the six months ended June 30, 2009, royalties were \$15.8 million, 9.5% lower than the same period a year ago, reflecting a reduction in variable, premium and other fees and services that are transaction based which more than offset the 1.5% increase in fixed franchise fees. Distributable cash decreased 11.1% to \$10.9 million (\$0.84 per unit) resulting from the lower royalties which were partially offset by a reduction in management fees. Net earnings were \$1.8 million (\$0.19 per unit), 43.6% lower than a year ago, reflecting the same factors noted above as well as an increase in amortization of intangible assets and tax expense, partially offset by a decrease in non-controlling interest.

## **Fund Growth**

During the second quarter of 2009, the Fund experienced an organic net loss of 74 REALTORS® resulting in a net organic loss of 292 REALTORS® during the six months ended June 30, 2009. With the addition of 316 REALTORS® from the 21 franchise agreements acquired by the Fund on January 1, 2009, the Fund has a total increase of 24 REALTORS®, up 0.2% from December 31, 2008. At June 30, 2009, the Fund Network was comprised of 350 independently owned and operated franchises operating from 655 locations serviced by 14,618 REALTORS® with an approximate 22% share of the Canadian residential real estate market based on transactional dollar volume.

From November 1, 2008 through August 7, 2009, franchise contracts representing 12 locations serviced by an estimated 260 REALTORS® were added to the network. The Fund Manager, Brookfield Real Estate Services Limited, anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2010. In addition, consistent with the Fund's historical approach to acquisitions, after evaluation, the La Capitale agreements purchased by the Manager and still retained by the Manager for further development, may be presented to the Fund's Trustees for acquisition in January of 2010.

## **Monthly Cash Distribution**

The Brookfield Real Estate Services Fund today declared a cash distribution of \$0.117 per unit for the month of August 2009, payable September 30, 2009, to unitholders of record on August 31, 2009.

## **Outlook**

"If general economic conditions continue to show modest improvement, as we expect they will, 2009 will be characterized as a period of moderate housing market correction after several years of above average price growth. While transactional dollar volumes are expected to drop in the fall as the peak spring-summer market draws to a close, we forecast a healthy level of activity for the second half of 2009 as compared to a very weak second half of 2008. We anticipate improved markets will have a positive impact on transaction dollar volume to the benefit of the Fund. On a full-year basis, we expect house prices to remain flat or appreciate slightly in much of eastern and central Canada, while we project greater than national average price declines for the western cities that saw the greatest price inflation earlier in the decade, including Edmonton, Calgary and Vancouver. Based on a recent survey by Royal LePage, the national average house price is forecast to decline marginally by 2.0% and unit sales are projected to fall slightly, by 1.0% for the full-year 2009," said Mr. Soper.

"We take a long-term view of residential real estate resale markets which have experienced compound annual growth of 9% since 1980. Management is pleased with the progress that our North American growth initiatives have shown in a difficult environment. We believe the steps we are taking today will position the Fund for both market share growth and the economic benefits of greater scale when overall growth resumes."

## **NCIB**

On October 3, 2008, the Toronto Stock Exchange approved the Fund's notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 units outstanding as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008 to October 6, 2009. During July 2009, 167,030 units were purchased at an average price of \$8.40 which are in addition to the 168,400 units at an average price of \$8.67 per unit that were acquired during the three months ended March 31, 2009. The Fund now has purchased the maximum amount permitted under the NCIB.

## **Fund Structure**

The Fund generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional-dollar volume from agent sales commissions, while fixed franchise fees are based on the number of agents and sales representatives in the network. Approximately 69% of the Fund's revenue is based on fees that are fixed in nature from a large number of long-term franchisee contracts, which provide revenue stability and help insulate the Fund from market fluctuations.

## **Q2 Conference Call**

A conference call for investors, analysts and media to review the second quarter results will be held on Friday, August 7, 2009, at 10:00 a.m. (Eastern Time). To participate in the conference call, please dial toll free 1-800-319-4610 approximately five minutes before the call. For those unable to participate in the conference call, it will be available by webcast, and a replay will also be posted online following the conference call at [www.brookfieldres.com](http://www.brookfieldres.com) under "News & Events".

## **About the Brookfield Real Estate Services Fund**

The Fund is a leading provider of services to residential real estate REALTORS®. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating under the Royal LePage, La Capitale Real Estate Network and Johnston & Daniel brand names. At June 30, 2009, the Fund Network was comprised of 14,618 REALTORS®. The Fund Network has an approximate 22% share of the Canadian residential resale real estate market based on transactional dollar volume. The Fund is a TSX listed income trust, which pays monthly distributions and trades under the symbol "BRE.UN". The Fund's website address is [www.brookfieldres.com](http://www.brookfieldres.com)

## **Forward-Looking Statements**

This quarterly news release contains forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Fund 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 set forward in the forward-looking statements include a change in general economic conditions, interest rates, consumer confidence, the level of residential resale transactions, the average rate of commissions charged, competition from other traditional real estate brokers or from discount and/or internet-based real estate alternatives, the availability of acquisition opportunities and/or the closing of existing real estate offices, other developments in the residential real estate brokerage industry or the Fund that reduce the number of and/or royalty revenue from the Fund's REALTORS®, our ability to maintain brand equity through the use of trademarks, the availability of equity and debt financing, a change in tax provisions, and other risks detailed in the Fund's annual information form which is filed with securities commissions and posted on SEDAR at [www.sedar.com](http://www.sedar.com). The Fund 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.

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## Interim Consolidated Balance Sheets

| As at<br>(in thousands of dollars)             | June 30,<br>2009  | December 31,<br>2008 |
|--|-------------------|----------------------|
|  | (unaudited)       |                      |
| <b>Assets</b>                                  |                   |                      |
| Current assets                                 |                   |                      |
| Cash   | \$ 1,962          | \$ 7,924             |
| Accounts receivable                            | 4,148             | 3,224                |
| Prepaid expenses                               | 45                | 145                  |
| Deposit on acquisition (note 4)                | 699               | –                    |
|  | <b>6,854</b>      | 11,293               |
| Intangible assets (note 5)                     | <b>120,423</b>    | 126,647              |
|  | <b>\$ 127,277</b> | <b>\$ 137,940</b>    |
| <b>Liabilities and Unitholders' Equity</b>     |                   |                      |
| Current liabilities                            |                   |                      |
| Accounts payable and accrued liabilities       | \$ 1,768          | \$ 2,551             |
| Purchase obligation – current portion (note 4) | 1,593             | 3,031                |
| Distribution payable to unitholders            | 1,128             | 1,148                |
| Long-term debt – current portion (note 7)      | 52,776            | –                    |
| Financial derivative (note 7)                  | 300               | –                    |
|  | <b>57,565</b>     | 6,730                |
| Long-term debt (note 7)                        | –                 | 51,615               |
| Purchase obligation (note 4)                   | 1,580             | 3,180                |
| Financial derivative (note 7)                  | –                 | 365                  |
| Future income tax liability (note 3)           | 1,286             | 1,193                |
| Non-controlling interest                       | 18,104            | 19,701               |
|  | <b>78,535</b>     | 82,784               |
| Unitholders' equity                            | <b>48,742</b>     | 55,156               |
|  | <b>\$ 127,277</b> | <b>\$ 137,940</b>    |

See accompanying notes to the interim consolidated financial statements.

## Interim Consolidated Statements of Earnings and Comprehensive Earnings

| (unaudited)<br>(in thousands of dollars, except unit and per unit amounts) | Three months<br>ended<br>June 30, 2009 | Three months<br>ended<br>June 30, 2008 | Six months<br>ended<br>June 30, 2009 | Six months<br>ended<br>June 30, 2008 |
|--|--|--|--------------------------------------|--------------------------------------|
| <b>Royalties</b>   |  |  |                                      |                                      |
| Fixed franchise fees   | \$ 4,445                               | \$ 4,440                               | \$ 8,912                             | \$ 8,776                             |
| Variable franchise fees  | 2,312                                  | 2,628                                  | 3,506                                | 4,549                                |
| Premium franchise fees   | 920                                    | 1,106                                  | 1,340                                | 1,999                                |
| Other fee revenue and services   | 1,162                                  | 1,230                                  | 2,078                                | 2,172                                |
|  | <b>8,839</b>                           | 9,404                                  | <b>15,836</b>                        | 17,496                               |
| <b>Expenses</b>  |  |  |                                      |                                      |
| Administration   | 208                                    | 215                                    | 425                                  | 405                                  |
| Management fee   | 1,653                                  | 1,765                                  | 2,918                                | 3,238                                |
| Interest expense   | 798                                    | 766                                    | 1,582                                | 1,577                                |
| Other income (note 7)  | (72)                                   | (62)                                   | (65)                                 | (62)                                 |
| Amortization of intangible assets (note 5)                                 | 4,167                                  | 4,035                                  | 8,308                                | 7,931                                |
|  | <b>6,754</b>                           | 6,719                                  | <b>13,168</b>                        | 13,089                               |
| <b>Earnings before undernoted</b>  | <b>2,085</b>                           | 2,685                                  | <b>2,668</b>                         | 4,407                                |
| Income taxes (note 3)  | (42)                                   | 11                                     | (93)                                 | 46                                   |
| <b>Earnings before non-controlling interest</b>                            | <b>2,043</b>                           | 2,696                                  | <b>2,575</b>                         | 4,453                                |
| Non-controlling interest   | (565)                                  | (718)                                  | (739)                                | (1,194)                              |
| <b>Net earnings and comprehensive earnings</b>                             | <b>\$ 1,478</b>                        | \$ 1,978                               | <b>\$ 1,836</b>                      | \$ 3,259                             |
| <b>Basic and diluted earnings per unit</b>                                 |  |  |                                      |                                      |
| (9,688,245 weighted average units)   |  |  |                                      |                                      |
| (2008 – 9,983,000 units) (note 9)  | \$ 0.15                                | \$ 0.20                                | \$ 0.19                              | \$ 0.33                              |

See accompanying notes to the interim consolidated financial statements.

## Interim Consolidated Statements of Unitholders' Equity

| (unaudited)<br>(in thousands of dollars) | Unitholders'<br>Contribution | Contributed<br>Surplus | Net<br>Earnings  | Distributions      | Deficit            | Total            |
|--|------------------------------|------------------------|------------------|--------------------|--------------------|------------------|
| <b>Balance, January 1, 2008</b>          | \$ 92,938                    | \$ —                   | \$ 21,224        | \$ (49,960)        | \$ (28,736)        | \$ 64,202        |
| Changes during the period:               |                              |                        |                  |                    |                    |                  |
| Net earnings                             | —                            | —                      | 3,259            | —                  | 3,259              | 3,259            |
| Unit distributions                       | —                            | —                      | —                | (6,229)            | (6,229)            | (6,229)          |
| <b>Balance, June 30, 2008</b>            | \$ 92,938                    | \$ —                   | \$ 24,483        | \$ (56,189)        | \$ (31,706)        | \$ 61,232        |
| <b>Balance, January 1, 2009</b>          | \$ 91,301                    | \$ 404                 | \$ 26,494        | \$ (63,043)        | \$ (36,549)        | \$ 55,156        |
| Changes during the period:               |                              |                        |                  |                    |                    |                  |
| Issuer repurchases (note 8)              | (1,684)                      | 225                    | —                | —                  | —                  | (1,459)          |
| Net earnings                             | —                            | —                      | 1,836            | —                  | 1,836              | 1,836            |
| Unit distributions                       | —                            | —                      | —                | (6,791)            | (6,791)            | (6,791)          |
| <b>Balance, June 30, 2009</b>            | <b>\$ 89,617</b>             | <b>\$ 629</b>          | <b>\$ 28,330</b> | <b>\$ (69,834)</b> | <b>\$ (41,504)</b> | <b>\$ 48,742</b> |

See accompanying notes to the interim consolidated financial statements.

The Fund has no accumulated other comprehensive income at June 30, 2009 (June 30, 2008 – \$Nil).

## Interim Consolidated Statements of Cash Flows

| (unaudited)<br>(in thousands of dollars)             | Three months<br>ended<br>June 30, 2009 | Three months<br>ended<br>June 30, 2008 | Six months<br>ended<br>June 30, 2009 | Six months<br>ended<br>June 30, 2008 |
|--|--|--|--------------------------------------|--------------------------------------|
| <b>Cash provided by (used for):</b>                  |  |  |                                      |                                      |
| <b>Operating activities</b>                          |  |  |                                      |                                      |
| Net earnings for the period                          | \$ 1,478                               | \$ 1,978                               | \$ 1,836                             | \$ 3,259                             |
| Items not affecting cash                             |  |  |                                      |                                      |
| Non-controlling interest                             | 565                                    | 718                                    | 739                                  | 1,194                                |
| Future income tax                                    | 42                                     | (11)                                   | 93                                   | (46)                                 |
| Non-cash interest expense                            | 85                                     | 69                                     | 167                                  | 112                                  |
| Change in value of derivative                        | (72)                                   | (62)                                   | (65)                                 | (62)                                 |
| Amortization of intangible assets                    | 4,167                                  | 4,035                                  | 8,308                                | 7,931                                |
|  | <b>6,265</b>                           | <b>6,727</b>                           | <b>11,078</b>                        | <b>12,388</b>                        |
| Changes in non-cash working capital                  | <b>(874)</b>                           | <b>(403)</b>                           | <b>(665)</b>                         | <b>(796)</b>                         |
|  | <b>5,391</b>                           | <b>6,324</b>                           | <b>10,413</b>                        | <b>11,592</b>                        |
| <b>Investing activities</b>                          |  |  |                                      |                                      |
| Deposit on acquisitions (note 4)                     | –                                      | (12,965)                               | (2,748)                              | (16,914)                             |
| Purchase of intangible assets (note 4)               | (22)                                   | (49)                                   | (22)                                 | (69)                                 |
| Payment of purchase price obligation (note 4)        | –                                      | –                                      | (3,051)                              | (2,295)                              |
|  | <b>(22)</b>                            | <b>(13,014)</b>                        | <b>(5,821)</b>                       | <b>(19,278)</b>                      |
| <b>Financing activities</b>                          |  |  |                                      |                                      |
| Repurchase of Fund units (note 8)                    | –                                      | –                                      | (2,401)                              | –                                    |
| Proceeds from Term Facility (note 7)                 | 994                                    | 13,782                                 | 994                                  | 13,782                               |
| Distributions paid to unitholders                    | (3,388)                                | (3,114)                                | (6,811)                              | (6,229)                              |
| Distributions paid to non-controlling interest       | (1,168)                                | (1,036)                                | (2,336)                              | (2,076)                              |
|  | <b>(3,562)</b>                         | <b>9,632</b>                           | <b>(10,554)</b>                      | <b>5,477</b>                         |
| <b>Increase (decrease) in cash during the period</b> | <b>1,807</b>                           | <b>2,942</b>                           | <b>(5,962)</b>                       | <b>(2,209)</b>                       |
| <b>Cash, beginning of period</b>                     | <b>155</b>                             | <b>2,365</b>                           | <b>7,924</b>                         | <b>7,516</b>                         |
| <b>Cash, end of period</b>                           | <b>\$ 1,962</b>                        | <b>\$ 5,307</b>                        | <b>\$ 1,962</b>                      | <b>\$ 5,307</b>                      |
| <b>Supplementary Cash Flow Information</b>           |  |  |                                      |                                      |
| Interest paid  | \$ 698                                 | \$ 827                                 | \$ 1,351                             | \$ 1,595                             |

See accompanying notes to the interim consolidated financial statements.

# Notes to the Interim Consolidated Financial Statements

June 30, 2009 and 2008 (unaudited) (in thousands of dollars)

## 1. Organization

Brookfield Real Estate Services Fund (the "Fund") is a limited purpose trust established under the laws of the Province of Ontario and pursuant to an Amended and Restated Declaration of Trust. On August 7, 2003, the Fund raised \$99,830 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the proceeds of a term loan were utilized to acquire franchise agreements, relationships and trademark rights.

These consolidated financial statements include the accounts of Brookfield Real Estate Services Fund, its wholly-owned subsidiary RL RES Holding Trust ("RLHT"), and its 75% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP"), Residential Income Fund L.P. (the "Partnership"), 9120 Real Estate Network, L.P. ("LCLP"), a wholly owned subsidiary of the Partnership, and 9188-5517 Quebec Inc., the "General Partner of LCLP". RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. (the "non-controlling interest") owns the remaining 25% interest in the Partnership and RIFGP. The Fund receives certain management, administrative and support services from Brookfield Real Estate Services Ltd. ("BRESL"), a party related to the non-controlling interest via common control.

### Seasonality

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

## 2. Summary of Accounting Policies

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements except as noted below. They do not include all the information and disclosure required by GAAP for annual audited financial statements, and should be read in conjunction with the December 31, 2008 annual consolidated financial statements.

On January 1, 2009, the Fund adopted CICA Handbook Section 3064 – Goodwill and Intangible Assets. Section 3064 replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. Section 3064 established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Fund has evaluated this standard and determined that there is no impact to the consolidated financial statements.

During the quarter, the CICA issued Emerging Issue Committee Abstract 173 ("EIC 173") *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC 173 requires that a company take into account its own credit risk and the credit risk of its counterparties in determining the fair value of financial assets and liabilities. EIC 173 must be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The Fund has evaluated this standard and determined there is no impact to the consolidated financial statements.

## 3. Future Income Taxes

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011. This trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

Due to the enactment of trust legislation, while the Fund is expected to not be liable for current taxes until January 1, 2011, beginning June 12, 2007, the Fund recognized future income taxes arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rates of 30.5% applicable to the Fund in 2011 and 29% applicable after January 1, 2012.

The Fund had a future income tax asset of \$1,867 at December 31, 2008. During the six months ended June 30, 2009, the Fund recorded an additional non-cash future tax asset of \$60. The resulting total future income tax asset was \$1,927 at June 30, 2009.



The assets of LCLP acquired by the Partnership as described in Note 4 were obtained on a tax-deferred basis with the related tax value attributed to the partnership units of LCLP held by the Partnership. Accordingly, the individual franchise agreements and trademarks of the partnership at the time of acquisition by the Fund did not have a tax basis. The temporary difference between the carrying value of these agreements and zero tax basis resulted in a future income tax liability. Under GAAP the Fund is required to adjust the carrying value of the acquired assets by an amount equal to the income tax liability.

The Fund had future income tax liabilities of \$3,060 at December 31, 2008. During the six months ended June 30, 2009, the Fund recorded an additional income tax liability of \$153, in response to a 1% increase in the corporate taxation rate enacted on March 12, 2009. The total income tax liability at June 30, 2009 was \$3,213. When the future income tax liabilities are net against the future income tax assets described above, the results are a net future income tax liability of \$1,286 and \$1,193 at June 30, 2009 and December 31, 2008, respectively.

In 2011, when the Fund becomes a taxable entity, income taxes payable may reduce net earnings and may affect distributable cash by an equal amount.

#### **4. Asset Acquisitions**

On January 1, 2009, the Partnership acquired 18 new Royal LePage franchise agreements from BRESL. The estimated purchase price of \$2,532 is based on an estimated annual royalty stream of \$481 and has been calculated in accordance with a formula set out in the Amended and Restated Management Services Agreement (the "MSA"). A deposit of \$2,025, equal to 80% of the estimated purchase price, was paid from cash on hand on January 2, 2009 and the remainder is to be paid a year later, when the final purchase price is determined in accordance with the terms set out in the MSA. The Partnership used cash reserves to acquire these agreements.

On January 1, 2009, LCLP acquired three new La Capitale franchise agreements from BRESL. The estimated purchase price of \$903 is based on an estimated annual royalty stream of \$201 and has been calculated in accordance with a formula set out in the MSA. A deposit of \$723, equal to 80% of the estimated purchase price, was paid from cash on hand on January 6, 2009. The estimated price is to be revised at the end of each of the next three years based on the average annual royalty stream earned over the three-year period from November 1, 2008 to October 31, 2011. The Partnership used cash reserves to acquire these agreements.

During the first year, each quarter the purchase price obligation is recalculated based on the actual royalties received. Correspondingly, the deposit on acquisition is reduced by the calculated amount and transferred to intangible assets. The intangible assets are then amortized in accordance with the Fund's policy on a prospective basis. The recalculated purchase price obligation in excess of the deposit on acquisition is recorded as a purchase obligation and the corresponding amount added to the intangible assets and amortized as described above. For La Capitale acquisitions, at the end each of the subsequent two years, the purchase obligation is recalculated based on the average annual royalties received.

During the three and six months ended June 30, 2009, \$873 and \$2,049 respectively were transferred from deposit on acquisition to intangible assets.

On January 1, 2008, the Partnership acquired 16 new Royal LePage franchise agreements from BRESL at a purchase price of \$3,984 and \$303 of related legal and other acquisition costs, in accordance with the terms set out in the MSA.

On January 1, 2008, the Partnership acquired 100% of the partnership units of LCLP, which holds franchise agreements operating under the La Capitale brand in Quebec and associated trademarks, and 100% of the shares of the General Partner of LCLP for an estimated purchase price of \$18,907, including \$151 of related legal and other acquisition costs, from Trilon Bancorp Inc., the parent company of BRESL. The estimated purchase price is calculated in accordance with the terms of the Fund's MSA and the Unit and Share Purchase Agreement negotiated by the Fund's Trustees and is based on an estimated annual royalty stream of \$2,718. The estimated price is to be revised at the end of each of the next two years based on the average annual royalty stream earned over the three-year period from November 1, 2007 to October 31, 2010.

The purchase obligations consist of the following:

|  | June 30, 2009 |          |            | December 31, 2008 |
|--|---------------|----------|------------|-------------------|
|  | Royal LePage  | LCLP     | Total      | Total             |
| Obligation at beginning of period                      | \$ 1,319      | \$ 4,892 | \$ 6,211   | \$ 2,295          |
| Payment of current obligations                         | (1,319)       | (1,732)  | (3,051)    | (2,295)           |
|  | –             | 3,160    | 3,160      | –                 |
| Legal and other acquisition costs for the current year | 24            | 11       | 35         | 454               |
| Payment of acquisition costs                           | (22)          | –        | (22)       | (69)              |
| Purchase obligation at the end of the period           | \$ 2          | \$ 3,171 | \$ 3,173   | \$ 385            |
| 80% deposit paid on current year's additions           | \$ (2,025)    | \$ (723) | \$ (2,748) | \$ (16,914)       |
| Earned asset value during the period                   | 1,377         | 672      | 2,049      | 22,740            |
| Deposit on acquisition at the end of the period        | \$ (648)      | \$ (51)  | \$ (699)   | \$ 5,826          |
| Net purchase obligation (deposit on acquisition)       | \$ (646)      | \$ 3,120 | \$ 2,474   | \$ 6,211          |
| Deposit on acquisition                                 | \$ (648)      | \$ (51)  | \$ (699)   | \$ –              |
| Purchase obligation, short-term                        | 2             | 1,591    | 1,593      | 3,031             |
| Purchase obligation, long-term                         | –             | 1,580    | 1,580      | 3,180             |
| Net purchase obligation (deposit on acquisition)       | \$ (646)      | \$ 3,120 | \$ 2,474   | \$ 6,211          |

## 5. Intangible Assets

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

|                              | June 30, 2009     |                          |                |
|------------------------------|-------------------|--------------------------|----------------|
|                              | Cost              | Accumulated Amortization | Net Book Value |
| Franchise agreements         | \$ 148,548        | \$ 83,878                | \$ 64,670      |
| Relationships and trademarks | 58,011            | 2,258                    | 55,753         |
|                              | \$ 206,559        | \$ 86,136                | \$ 120,423     |
|                              | December 31, 2008 |                          |                |
|                              | Cost              | Accumulated Amortization | Net Book Value |
| Franchise agreements         | \$ 147,176        | \$ 76,279                | \$ 70,897      |
| Relationships and trademarks | 57,299            | 1,549                    | 55,750         |
|                              | \$ 204,475        | \$ 77,828                | \$ 126,647     |

The additions to intangible assets during the six months ended June 30, 2009 and 2008 are summarized as follows:

|                              | Royal LePage | LCLP   | Six months ended June 30, 2009 | Six months ended June 30, 2008 |
|------------------------------|--------------|--------|--------------------------------|--------------------------------|
| Franchise agreements         | \$ 1,068     | \$ 304 | \$ 1,372                       | \$ 6,906                       |
| Relationships and trademarks | 333          | 379    | 712                            | 6,063                          |
|                              | \$ 1,401     | \$ 683 | \$ 2,084                       | \$ 12,969                      |

## 6. Operating Credit Facility

On February 16, 2005, the Partnership obtained a credit facility (the “revolver”) of up to \$2,000 from a Canadian financial institution. This revolver may be used to provide working capital to the Partnership from time to time. The revolver is subject to annual renewal with outstanding principal under the revolver subject to interest at the lender’s prime rate plus 1% to 1.5% or the Bankers’ Acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. As at June 30, 2009, the operating credit facility had not been drawn upon.

The operating credit facility expires February 17, 2010.

## 7. Long-Term Debt

A summary of the Fund’s long term debt is comprised of the following debt facilities, both of which mature on February 17, 2010:

| As at                  | June 30,<br>2009 | December 31,<br>2008 |
|------------------------|------------------|----------------------|
| Private debt placement | \$ 37,882        | \$ 37,791            |
| Term Facility          | 14,894           | 13,824               |
|                        | \$ 52,776        | \$ 51,615            |

### a) Private Placement

On February 18, 2005, the Partnership completed the issuance of a \$38,000 private debt placement, net of \$822 in issue costs (the “private placement”) provided by Canadian institutional investors. The private placement is for a five-year term with interest fixed at 5.882%, and interest only payable quarterly in arrears.

The private placement had a fair value of \$37,846 at June 30, 2009 (2008 – \$37,406).

During the three and six months ended June 30, 2009, \$46 and \$91, respectively of amortization of the issue costs was recorded as interest expense (2008 – \$43 and \$86).

### b) Term Facility

On April 4, 2008, in connection with the LCLP acquisition, the Partnership completed a \$15,000 Term Facility with a single Canadian financial institution from which the Fund drew down \$14,000 on closing. Interest on the Term Facility is available in the form of floating prime rate payable quarterly, or a Bankers’ Acceptance rates plus 1% with terms of up to six months. The Fund paid \$285 in issue costs for the Term Facility.

On April 7, 2008, the Partnership entered into an interest rate swap agreement, which fixed the variable portion of the term facility’s interest at 3.29%, which when added to the 1% stamp fee, results in an annual interest rate of 4.29%, excluding legal and associated costs, over the term of the facility. The Term Facility and interest rate swap mature on February 17, 2010.

On April 2, 2009 the Fund drew down the remaining \$1,000 of the Term Facility at the floating prime rate.

During the three and six months ended June 30, 2009, \$39 and \$76, respectively of amortization of issue costs was recorded as interest expense (2008 – \$26 and \$26).

The interest rate swap is a financial derivative valued separately from the Term Facility. The Fund values the swap agreement at its market value, which as at June 30, 2009 was in an unrealized loss position of \$300. Changes in the value of the swap agreement are recorded as other income or loss. During the three and six months ended June 30, 2009, \$72 and \$65, respectively was recorded as other income (2008 – \$62 and \$62).

The Term Facility had a fair value of \$15,000 on June 30, 2009.

## 8. Fund Units

On October 3, 2008, the Toronto Stock Exchange (“TSX”) approved the Fund’s notice of intention to make a normal course issuer bid (“NCIB”) for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases are made at market prices in accordance with the rules and policies of the TSX. Daily purchases are effected through the facilities of the TSX and limited to 3,800 units, other than block purchase exceptions.

The Fund believes that the purchase by the Fund of a portion of its outstanding units may from time to time be an appropriate use of available resources and in the best interests of the Fund and its unitholders.

The Fund finances these purchases with a special distribution from the Partnership. Units purchased are cancelled at the end of each month.

During the first quarter of 2009, the Fund purchased and cancelled 168,400 units at a total cost of \$1,459. The repurchased units had an issued value of \$1,684, resulting in a contributed surplus of \$225. During the three months ended June 30, 2009, the Fund did not repurchase any outstanding units. On January 8, 2009, the Fund paid the \$942 NCIB settlement payable at December 31, 2008.

| Fund Units          | June 30, 2009 |           | June 30, 2008 |           |
|---------------------|---------------|-----------|---------------|-----------|
|                     | Units         | Amount    | Units         | Amount    |
| Beginning of period | 9,819,280     | \$ 91,301 | 9,983,000     | \$ 92,938 |
| NCIB purchases      | (168,400)     | (1,684)   | —             | —         |
| End of period       | 9,650,880     | \$ 89,617 | 9,983,000     | \$ 92,938 |

## 9. Earnings per Unit

The Special Fund Units were not included in the diluted per unit calculations as the effect would have been anti-dilutive.

## 10. Related Party Transactions

Unless disclosed elsewhere, the Fund had the following transactions with parties related to the non-controlling interest during the three and six months ended June 30, 2009 and 2008. These transactions have been recorded at the exchange amount agreed to between the parties.

|  | Three months ended<br>June 30, 2009 | Three months ended<br>June 30, 2008 | Six months ended<br>June 30, 2009 | Six months ended<br>June 30, 2008 |
|--|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| a) Royalties                                   |                                     |                                     |                                   |                                   |
| Fixed, variable and other franchise fees       | \$ 584                              | \$ 603                              | \$ 1,104                          | \$ 1,209                          |
| Premium franchise fees                         | \$ 768                              | \$ 945                              | \$ 1,126                          | \$ 1,719                          |
| b) Expenses                                    |                                     |                                     |                                   |                                   |
| Management fees                                | \$ 1,653                            | \$ 1,765                            | \$ 2,918                          | \$ 3,238                          |
| Insurance and other                            | \$ 27                               | \$ 25                               | \$ 54                             | \$ 50                             |
| Interest on purchase obligation                | \$ —                                | \$ 210                              | \$ —                              | \$ 210                            |
| c) Distributions                               |                                     |                                     |                                   |                                   |
| Distributions paid to non-controlling interest | \$ 1,168                            | \$ 1,036                            | \$ 2,336                          | \$ 2,076                          |

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

| As at   | June 30,<br>2009 | December 31,<br>2008 |
|---|------------------|----------------------|
| d) Accounts receivable                            |                  |                      |
| Franchise fees receivable and other               | \$ 633           | \$ 394               |
| e) Accounts payable and accrued liabilities       |                  |                      |
| Distributions payable to non-controlling interest | \$ 389           | \$ 389               |
| Management fees                                   | \$ 619           | \$ 417               |
| NCIB settlement payable                           | \$ —             | \$ 942               |
| f) Purchase obligation payable                    | \$ 3,173         | \$ 6,211             |

## 11. Financial Instruments

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

### a) Credit Risk

Credit risk arises from the possibility that the franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Fund's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

### b) Liquidity Risk

The Fund is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs including paying ongoing future distributions to unitholders. There is a risk that the lenders will not refinance maturing debts on terms and conditions acceptable to the Fund or on any terms at all. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the long-term debt. Also, the Fund has \$2,000 unutilized credit under the Operating Credit Facility described in note 6.

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

|  | 2009            | 2010             | 2011            | Total            |
|--|-----------------|------------------|-----------------|------------------|
| Accounts payable and accrued liabilities | \$ 1,768        | \$ –             | \$ –            | \$ 1,768         |
| Purchase obligations                     | 13              | 1,580            | 1,580           | 3,173            |
| Distributions payable to unitholders     | 1,128           | –                | –               | 1,128            |
| Private debt placement                   | –               | 38,000           | –               | 38,000           |
| Term Facility                            | –               | 15,000           | –               | 15,000           |
| <b>Total</b>                             | <b>\$ 2,909</b> | <b>\$ 54,580</b> | <b>\$ 1,580</b> | <b>\$ 59,069</b> |

### c) Interest Rate Risk

The Fund has chosen to mitigate the interest rate associated with the Term Facility by entering into an interest rate swap agreement to effectively fix the interest rate associated with the Term Facility.

### d) Fair Value

The fair value of the Fund's financial instruments, which consist of cash, accounts receivable, deposits on acquisitions, accounts payable and accrued liabilities, purchase obligation and distributions payable to unitholders are estimated by management to approximate their carrying values due to their short-term nature. Similarly, the Fund's floating rate debt has a fair value that approximates its face values. The Fund determines the fair value of the fixed rate debt through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium. The fair values of the Fund's long-term debt and derivative liability are disclosed in note 7.

## **12. Management of Capital**

The Fund's capital is comprised of its cash reserves, long-term debt, unitholders' equity and non-controlling interest.

The Fund's objectives when managing capital are to maintain a capital structure that provides financing options to the Fund while remaining compliant with the covenants associated with the long-term debt; maintain financial flexibility to preserve its ability to meet financial obligations, including debt servicing and distributions to unitholders; and deploy capital to provide an appropriate investment return to its unitholders.

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

The covenants of the long-term debt prescribe that the Fund must maintain a ratio of Adjusted Earnings Before Income Taxes, Depreciation and Amortization ("Adjusted EBITDA") to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Adjusted EBITDA at a maximum 2.25 to 1. The Fund is compliant with all financial covenants.

There were no changes in the Fund's approach to capital management during the period.

## **13. Subsequent Event**

During the month of July 2009, the Fund purchased and cancelled 167,030 units at a total cost of \$1,403. As at July 31, 2009, the Fund has purchased and cancelled the maximum allowable units under the NCIB described in note 8.

## Supplemental Information – Selected Financial and Operating Information

| Three months ended<br>(\$000's, unaudited) | Sept. 30,<br>2007 | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2008 | Dec. 31,<br>2008 | March 31,<br>2009 | June 30,<br>2009 |
|--|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| <b>Revenue</b>                             |                   |                  |                   |                  |                   |                  |                   |                  |
| Fixed franchise fees                       | \$ 3,749          | \$ 3,788         | \$ 4,336          | \$ 4,440         | \$ 4,431          | \$ 4,491         | \$ 4,467          | \$ 4,445         |
| Variable franchise fees                    | 2,661             | 1,315            | 1,921             | 2,628            | 2,499             | 1,243            | 1,194             | 2,312            |
| Premium franchise fees                     | 1,899             | 1,348            | 893               | 1,106            | 1,514             | 937              | 420               | 920              |
| Other fee revenue and services             | 986               | 997              | 942               | 1,230            | 1,203             | 1,069            | 916               | 1,162            |
|  | \$ 9,295          | \$ 7,448         | \$ 8,092          | \$ 9,404         | \$ 9,647          | \$ 7,740         | \$ 6,997          | \$ 8,839         |

### % Revenue by region

|                  |     |     |     |     |     |     |     |     |
|------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| British Columbia | 13  | 13  | 14  | 13  | 11  | 11  | 13  | 12  |
| Prairies         | 9   | 9   | 10  | 10  | 9   | 10  | 10  | 9   |
| Ontario          | 63  | 63  | 55  | 54  | 59  | 53  | 53  | 54  |
| Quebec           | 11  | 11  | 18  | 20  | 18  | 22  | 21  | 22  |
| Maritimes        | 4   | 4   | 3   | 3   | 3   | 4   | 3   | 3   |
|                  | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

| Three months ended                                  | Sept. 30,<br>2007 | Dec. 31,<br>2007 | March 31,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2008 | Dec. 31,<br>2008 | March 31,<br>2009 | June 30,<br>2009 |
|---|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| <b>Changes during the period</b>                    |                   |                  |                   |                  |                   |                  |                   |                  |
| Number of REALTORS                                  | 125               | 87               | 1,418             | 181              | (5)               | (172)            | 98                | (74)             |
| Number of Agents                                    | 79                | 84               | 1,350             | 164              | 17                | (132)            | 96                | (81)             |
| Number of fixed fee paying<br>Sales Representatives | 43                | 19               | (7)               | 12               | (11)              | (30)             | –                 | (2)              |
| Number of locations                                 | –                 | (3)              | 55                | (2)              | –                 | (1)              | 17                | (5)              |
| Number of franchise agreements                      | –                 | (4)              | 54                | (1)              | –                 | –                | 15                | (3)              |

### At end of period

|   |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Number of REALTORS                                  | 13,085 | 13,172 | 14,590 | 14,771 | 14,766 | 14,594 | 14,692 | 14,618 |
| Number of Agents                                    | 12,117 | 12,201 | 13,551 | 13,715 | 13,732 | 13,600 | 13,696 | 13,615 |
| Number of fixed fee paying<br>Sales Representatives | 716    | 735    | 728    | 740    | 729    | 699    | 699    | 697    |
| Number of locations                                 | 594    | 591    | 646    | 644    | 644    | 643    | 660    | 655    |
| Number of franchise agreements                      | 289    | 285    | 339    | 338    | 338    | 338    | 353    | 350    |