Real Estate Services Inc.

Building on Success

ANNUAL REPORT 2013

Profile

Brookfield Real Estate Services Inc. is a leading provider of services to residential real estate franchisees and agents across Canada.

The Company is a leading provider of services to residential real estate brokers and their REALTORS®[1]. The Company 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, Via Capitale Real Estate Network and Johnston & Daniel brand names. At December 31, 2013, the Company network consisted of 15,310 REALTORS®. The Company network has an approximate one fifth share of the Canadian residential resale real estate market based on 2013 transactional dollar volume. The Company generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional dollar volume from the sales commissions of REALTORS®, while fixed fees are based on the number of agents and sales representatives in the network. Approximately 71% of the Company's revenue is based on fees that are fixed in nature; this provides revenue stability and helps insulate the Company's cash flows from market fluctuations. The Company is listed on the TSX and trades under the symbol "BRE". For further information about the Company, please visit www.brookfieldresinc.com.

[1] REALTOR® is a trademark identifying real estate licensees in Canada who are members of the Canadian Real Estate Association.

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Welcome Home

Brookfield Real Estate Services Inc.'s priority is to continue to provide an attractive return on investment to shareholders in the form of a strong and stable dividend. We plan to continue to grow our REALTOR® network both organically and through acquisition, and to give our real estate professionals the technology, marketing and lead-generation tools they need to succeed. We will continue to make strategic and forward-looking investments to ensure and enhance the market leadership position of our brands.

ROYAL LEPAGE

In 2013, Royal LePage celebrated 100 years as one of the leading names in residential real estate. Over the course of the last two decades, Royal LePage has more than tripled its sales force. The Company provides its national network of real estate professionals with a comprehensive and cutting edge suite of marketing, training and lead-generation services.

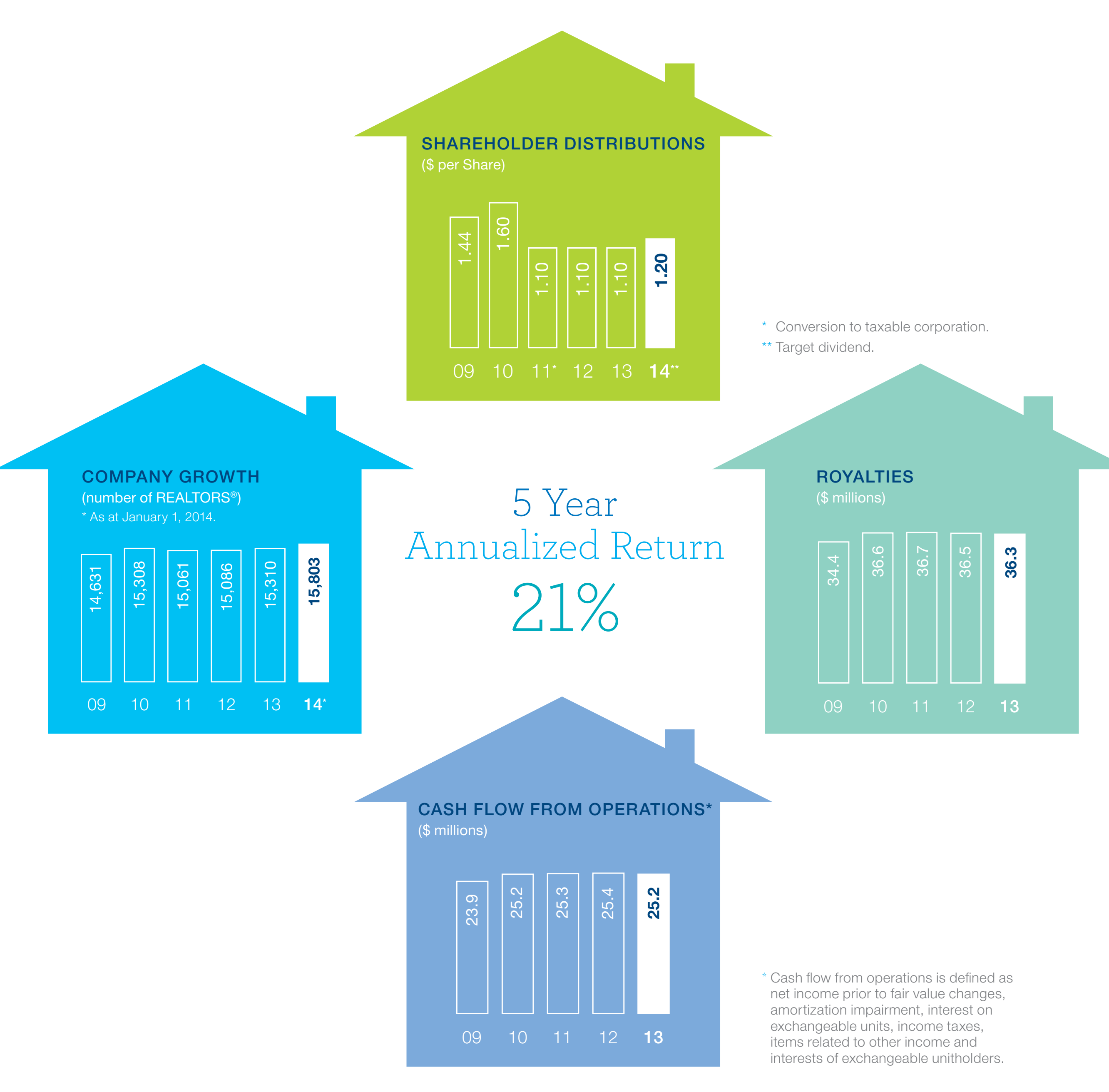
JOHNSTON & DANIEL

Since 1950, Johnston & Daniel has been the leading luxury real estate boutique selling distinguished homes in and around Toronto, Caledon, King Township, and the Muskokas. The Company is affiliated with the Leading Real Estate Companies of the World – a collection of over 500 of the finest global residential real estate firms.

VIA CAPITALE

Spread across cities and towns in Quebec, Via Capitale's network of nearly 1,200 sales representatives have – since the early 1990s – been recognized with industry awards for their commitment to customer satisfaction and for delivering unique marketing programs. Thanks to continuous innovation and distinct products like homebuyer and mortgage protection plans, the Via Capitale brand continues to excel in the Quebec market.

FINANCIAL HIGHLIGHTS



We are pleased with the Company's financial performance in 2013. Cash flow from operations and royalties were essentially flat when compared to 2012 despite a slower than average spring buying season. We are particularly pleased to raise our targeted annual cash dividend by 9.1% to $1.20 per restricted voting share, for 2014, meeting our objective of providing shareholders with an investment vehicle that pays stable and growing dividends.

Letter to Shareholders

The investments we made in our business this year will enable us to maintain our market leadership in the years ahead.

Philip Soper
President and Chief Executive Officer

Over the past eighteen months, the Company once again displayed the fundamental resilience of our business structure. The housing market correction that began mid-year 2012 and ended in the third quarter 2013 was the second down-market that Brookfield Real Estate Services Inc. has successfully navigated in our eleven year history. In the face of double digit declines in home sale volumes, royalties were essentially flat, based as they are on fixed versus variable revenue streams, and the business ended the year with a healthy growth in contracts and agents.

At year end the Company network consisted of 15,310 REALTORS®, an increase of 224 from 2012, and continued to deliver strong and consistently superior financial operating results, generating cash flow from operations of $1.97 per share.

Looking ahead, the 2014 growth funnel expanded significantly on February 6th with the Manager's acquisition of what is now Royal LePage Terrequity, the largest single franchising agreement in company history. Formerly the biggest Canadian Coldwell Banker brokerage, the Toronto based, nearly 400 agent company was attracted to our strong brand, excellent peer network and unrivaled services platform.

Since inception, the company has provided our shareholders with strong returns. Our attractive dividend combined with equity appreciation provided shareholders a 14.5% return in 2013, and a 21% annualized return on investment for the five year period to December 31st. Buoyed by growing revenue, a strong opportunity funnel and a solid market, we have raised our 2014 targeted annual cash dividend by 9.1%, to $1.20 per share.

I am happy to report that during the year the Company entered into a five year Management Services Agreement with Brookfield Real Estate Services Manager Limited, a subsidiary of Brookfield Asset Management Inc., ensuring a continuity of service delivery.

We continue to invest in our operating platform in order to attract and retain the industry's best practitioners, and to improve the productivity of our brokerages. During 2013, we launched new national recruiting initiatives, began to pilot paperless transaction processing technologies, and rolled out new mobile apps for both our agents and consumer clients. The largest single investment was made in partnership with technology giant Google. Part of a multi-year, cross-platform strategy, Google technologies ranging from search and neighbourhood content to mapping and office productivity will change the way our REALTORS® conduct business. Already we have seen consumer website traffic double and have been able to triple the homebuyer leads we return to our salespeople.

The Canadian housing market ended 2013 on a high note, with appreciation in both average home values and unit sales. We believe this momentum will carry through into the all-important spring market and are forecasting 3.7% growth in house prices and a 1.5% increase in sales volume for 2014.

It is an encouraging time for our industry, and an exciting time for our company. We celebrated Royal LePage's 100th anniversary during the past year, much to the joy of thousands that call our firm home. With a continued commitment to technological innovation and to attracting the industry's best and brightest, I am confident that Brookfield Real Estate Services is well positioned to continue to lead the market in 2014 and beyond.

On behalf of the Board,

Philip Soper
President and Chief Executive Officer

People

Attracting and cultivating the industry's best real estate professionals

GROWTH OF NETWORK

Growth remains one of the Company's primary objectives, and this is particularly important when it comes to our agent count. Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network to December 31, 2013 has increased by 65.7% (6,072 REALTORS®), of which 79% has been through acquisitions and 21% through organic growth.

In 2013 our agent count climbed in large part through acquisitions that we made from Brookfield Real Estate Services Manager Limited. On January 1, 2013, the Company acquired 516 REALTORS®, who now operate under the Royal LePage brand across Canada and the Via Capitale brand in the province of Quebec.

TRAINING

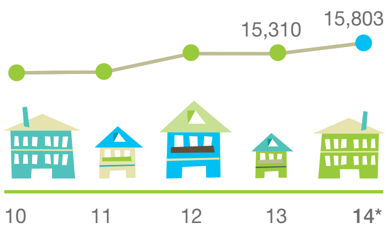
We often talk about recruiting the best real estate professionals to our network. Part of attracting and keeping the best people is offering industry-leading training and workshops. For instance, Via Capitale offers eight training days throughout the year on key topics, including finance, recruitment and marketing, which help improve franchise profitability. These training days are extremely popular, with a 70% participation rate.

Royal LePage is also known for its education programs, including live workshops and best-in-class web-based training that keeps its real estate professionals on the leading edge. They have a team of accredited Learning Consultants who conduct live training twice a year in convenient locations across the country. In addition to these live sessions, Royal LePage has a range of online training programs that allow agents to learn at their own pace and at a time that's convenient for them.

"Providing real estate professionals with access to the industry's most comprehensive training programs, the ability to earn specialized designations, and exclusive programs designed to build their business."

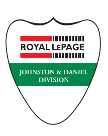
Our Network

Year ended December 31
* As at January 1, 2014.



we support

"Helping our professionals achieve the results they want with market leading brands, a culture of collaboration and innovation, and best-in-class training, technology and marketing tools."



NETWORK PRODUCTIVITY

The productivity of our network is one of the Company's major strengths. The average Company Network REALTOR® generated approximately $2.3 million in transactional dollar volume for the twelve months ended December 31, 2013, which is little changed from 2012. This productivity was 50% greater than the estimated average of $1.5 million for all other Canadian REALTORS®, up from $1.4 million in 2012. Management believes that the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume.

Passion

To us, real estate is as much a passion as it is a business

Royal LePage is the Voice of Canadian Real Estate, publishing reports and surveys, and sharing insights and opinions, making it the most quoted real estate company in Canada.

MARKET INSIGHTS

One area where our brands excel is in creating interesting and engaging research on topics that matter to Canadians. This gives us the ability to read the market and react proactively, and allows us to maintain our leadership in the face of market changes and new technologies.

One such example is the quarterly House Price Survey (HPS), which Royal LePage has been issuing since 1974. The HPS collects and publishes data on home prices in more than 250 neighbourhoods from coast-to-coast – data which is so valuable that it is relied upon by not only by consumers but by financial, academic and governmental organizations. Through a robust public relations strategy, Royal LePage is able to differentiate itself from its peers and hold the enviable position of being the most quoted real estate brand in Canada.

In addition to regular reports, Royal LePage often will commission research on timely topics to reinforce their thought leadership role. In December 2013 the company released a report on the condo markets in Canada's three largest cities – Toronto, Montreal and Vancouver. The report disputed the popular narrative that the condominium sector in major markets was overheating. Rather, the report states that given demographic trends the current market is sustainable. This is just another example of our brands being an authority on Canadian real estate.

COMMERCIAL

Since the 2012 re-launch, our Royal LePage Commercial division has attracted commercial sales professionals looking to align with a recognized brand. Fresh and bold branding materials, a dedicated website, best-in-class tools and services and industry partnerships round out the appeal. This division has over 230 agents across the country, supporting both urban and suburban markets.

we grow

MANAGEMENT SERVICES AGREEMENT

Brookfield Real Estate Services Inc. signed an amended Management Services Agreement (MSA), which provides stability for all stakeholders and will see the company continue its relationship with Brookfield Real Estate Services Manager Limited (the Manager), a subsidiary of Brookfield Asset Management Inc. The agreement provides new growth opportunities for the Company and enhances the value of Canada's premier real estate services brands.

With the new MSA in place, there is a closer alignment of the Manager and Company goals, reduced management fees, a new incentive arrangement emphasizing organic agent growth, and the ability to grow market share while safeguarding the existing return on investment. The initial term of the MSA is five years, with a provision for automatic renewal of successive five year terms.

ART BY VIA CAPITALE

In the challenging Quebec market Via Capitale launched a new program for distinguished homes called Art by Via Capitale. The program was designed to differentiate Via Capitale and give them an advantage in marketing unique and sophisticated properties, whether it's a beautiful condo or house in the city, an exclusive mountainside home or a waterfront property. This program was launched in August and already has over 200 listings.

JOHNSTON & DANIEL

Johnston & Daniel continues to dominate the market for premier real estate in the central core of Toronto through its specialization in fine luxury homes and condos. In 2013, Johnston & Daniel expanded their market coverage to include country estates in areas outside of Toronto, including the King, Caledon and Niagara regions. In addition, they launched the Johnston & Daniel Magazine, a fully interactive digital publication dedicated to luxury real estate.

Art by Via Capitale properties reflect their occupants: they're original and distinctive. They deserve a customized approach in order to find the best buyer.

SOCIAL MEDIA

Social media has changed the way contemporary companies market, build brand awareness and engage with their customers. And, Brookfield Real Estate Services Inc.'s brands are leading the way.

ROYAL LePAGE CANADA
- Facebook – **9,224 Likes**
- Twitter – **11,600 Followers**

JOHNSTON & DANIEL
- Facebook – **197 Likes**
- Twitter – **1,592 Followers**

VIA CAPITALE
- Facebook – **2,818 Likes**
- Twitter – **1,070 Followers**

CONNECTING YOU WITH THE SOCIAL CONSUMER

85%

of fans of brands on Facebook recommend brands to others, compared to 60% of average users.
(Source: Syncapse)

Approximately 46%

of online users count on social media when making a purchase decision.
(Source: Nielsen)

Innovation

Investing to bolster our network and fortify our brands

GOOGLE

In 2013 our Royal LePage brand revolutionized their technology infrastructure through a partnership with Google. In the first half of the year Royal LePage launched a totally revamped website that relies heavily on a number of Google tools, allowing them to create an online experience unlike anything previously seen in Canadian real estate. The website enables Canadians to explore their real estate dreams as never before, providing quick and efficient delivery of more listings, fresh neighbourhood insights, and extensive property details.

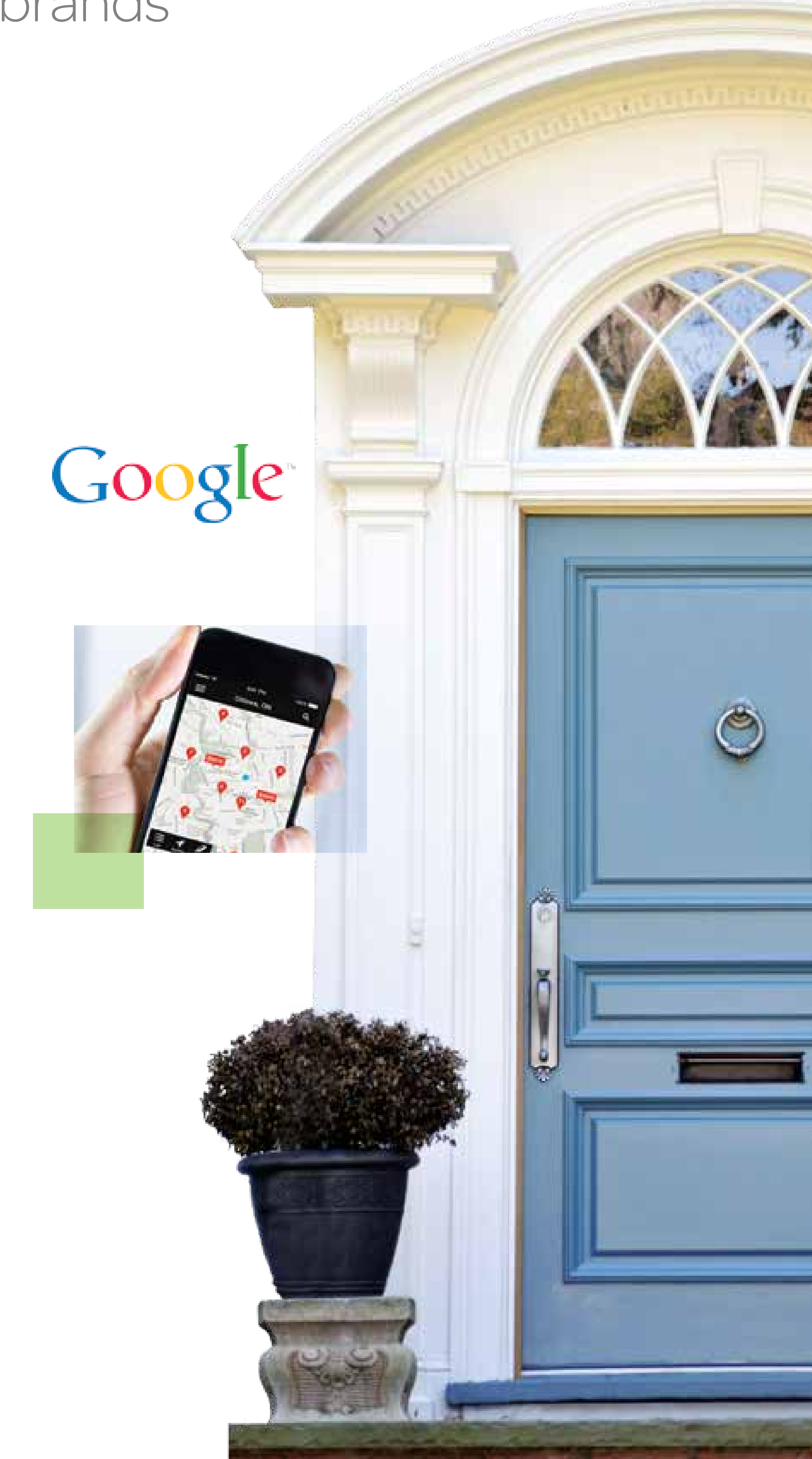
Recently, the Royal LePage network has “Gone Google” and migrated to Google’s Enterprise platform, which allows agents to provide the best experience to their clients and work in a more creative, collaborative and productive way. They recognize the changes that technology is driving in the residential real estate field, and how mobility is so critical to brokers and agents for their work.

iPHONE APP

Royal LePage launched the Royal LePage iPhone App for Canadian house hunters. The new app’s innovative Draw-and-Search feature allows consumers to easily zero in on a specific geographic area of interest on a map, by simply drawing the area of choice with their finger. Upon doing so, property listings within the selected region will pop up on the screen. This is the very first in Canada, and enables the company to make the home buying search easier and more personalized for consumers.

WEBSITE RE-LAUNCHES

Our Via Capitale brand also revamped their website this year. The new website provides agents with higher visibility on their page and is more responsive and user-friendly for mobile phones and tablets. There has been a 60% year-over-year increase in traffic with an average of over 400,000 unique visitors per month. Additionally, the Company is receiving over 100 leads every month.



"Providing our agents with the technology that helps them maximize personal and listings exposure as well as the tools that help them do their work more easily and efficiently."

SHARED LISTINGS

Royal LePage was the first real estate company to adopt the Canadian Real Estate Association's Data Distribution Facility (DDF), which facilitates the sharing of co-operating brokers' property listings. Since launch in April of this year the listing inventory on royallepage.ca has increased by two-and-a-half times. And with all the additional unique visitors coming to the site, the number of courtesy and DDF leads for agents has roughly tripled.

GOING PAPERLESS

One of the largest nuisances real estate professionals have to deal with is the never-ending piles of paper that they print, file and store. Going paperless can help position the network as a progressive, green organization that leverages the latest technology. This past fall, Royal LePage initiated a pilot program with service provider Faltour to test a paperless system to be rolled out throughout the network.

we adapt

Community

Giving Back

Across Canada, many of our brokers, agents, staff and friends organize fundraising events in support of their local community or the Royal LePage Shelter Foundation.

Helping women and children escape violence and rebuild their lives

royal lepage
shelter foundation

ROYAL LePAGE SHELTER FOUNDATION

Because we are committed to strengthening the communities where we live and work, Royal LePage is the only Canadian real estate company with its own charitable foundation. The Royal LePage Shelter Foundation is Canada's largest public foundation dedicated exclusively to funding women's shelters and violence prevention programs. Agents donate a portion of their commissions and Royal LePage offices across Canada hold local fundraising events. In addition brokers, agents and staff volunteer and provide in-kind goods to benefit the women and children residing in their local shelters.

Since 1998, the Foundation has raised over $17 million dollars, and because Royal LePage covers 100% of the administrative costs, all of these funds go directly to helping women and children escape domestic violence.

we care

100 DAYS FOR SHELTER

This year Royal LePage organized 100 Days for Shelter, in honour of the Company's 100th year anniversary. Over the 100 days offices across the country hosted special fundraising events, volunteer projects and other activities to benefit 200 women's shelters across Canada supported by the Royal LePage Shelter Foundation.

2013 Financials

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Introduction

This section of Brookfield Real Estate Services Inc.'s (the "Company") annual report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended December 31, 2013 (the "Quarter") and year ended December 31, 2013 (the "Year") and has been prepared as at March 24, 2014. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards 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 41.

This MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future outlook. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2013, prepared in accordance with IFRS. Additional information relating to our Company, including our Annual Information Form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

Management's Discussion and Analysis of Results and Financial Condition

Highlights

Years ended December 31,
($ 000's) except Agents, Sales Representatives
and per share amounts

		2013		2012
Royalties	$	**36,268**	$	36,519
Less:				
Administration		**1,342**		1,361
Management fee		**6,677**		6,772
Interest expense		**3,040**		2,961
Cash flow from operations	$	**25,209**	$	25,425
Amortization of intangible assets		**(12,683)**		(13,104)
Impairment of intangible assets		**(1,391)**		(1,470)
Interest on Exchangeable Units		**(4,672)**		(5,272)
Loss on fair value of Exchangeable Units		**(2,429)**		(100)
Gain on fair value of purchase obligation		**210**		355
Current income tax expense		**(3,958)**		(3,786)
Deferred income tax recovery		**602**		924
Net and comprehensive earnings	$	**888**	$	2,972
Basic earnings per share	$	**0.09**	$	0.31
Diluted earnings per share	$	**0.09**	$	0.31
Cash flow from operations per share	$	**1.97**	$	1.98
Cash dividends declared per share	$	**1.10**	$	1.10
Total assets	$	**93,433**	$	100,426
Total financial liabilities	$	**100,919**	$	98,329
Number of Agents and Sales Representatives		**15,310**		15,086

The table above sets out selected historical information and other data for the Company, which should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2013.

As at December 31, 2013, the Company consisted of 15,310 Canadian REALTORS® operating under 307 Franchise Agreements and from 627 locations, providing services under the Royal LePage, Johnston & Daniel and Via Capitale brand names (collectively the Company Network), with approximately one-fifth share of the Canadian residential resale real estate Market based on 2013 transactional dollar volume. The associated franchise fee stream (see Structure of Company Royalties) was approximately 71% fixed and 29% variable in 2013, which after operating costs delivered $1.97 of CFFO per share for the twelve months ended December 31, 2013 ($1.98 – 2012, see Supplemental Information – Cash Flow From Operations), against which the Company distributed $1.10 per share in 2013 to shareholders, consistent with 2012.

Business Strategy

We are a long-established, Canadian-based real estate services firm, originally structured as an Income Trust and subsequently converted to a corporate structure on December 31, 2010. We focus on providing services to real estate Brokers and their Agents, who practise predominantly in the residential brokerage segment of the market, in order to assist them with the profitable, efficient and effective delivery of real estate sales services in the communities they serve. Through a portfolio of highly regarded real estate Franchise brands, each of which offers a differing value proposition, we cater to the diverse service requirements of regional real estate professionals, in virtually all significant population centres, across Canada.

Our objective is to provide our stakeholders with an investment vehicle that pays stable and growing dividends. Our revenue is driven primarily by royalties derived from long-term Franchise Agreements. These royalties are weighted toward fees that are fixed in nature; this has proven to be effective in moderating the variations in overall industry activity that can occur in the Canadian residential resale real estate Market. We manage our operating costs and associated risks by delivering our services and management of the Company through an Amended and Restated Management Services Agreement ("MSA"), which is provided by Brookfield Real Estate Services Manager Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM").

The senior management team of the Manager developed and managed the Royal LePage Network before the inception of the Company, and BAM, through a wholly owned subsidiary, holds an approximate 28.4% interest in the Company. As a result of this arrangement, the underlying costs of the Company are not complex as they are limited to management fees paid under the MSA, public company operating costs and carrying costs associated with our debt.

The number of REALTORS® and transaction volumes generated in the markets we serve, the manner in which we structure our contracted revenue streams and our success in attracting Agents and Brokers to our brands through our value proposition and track record are all key drivers of the Company's performance. These drivers, in combination with other uncontrollable risk factors, including the economy at large, government and regulatory activity (see Recent Developments), all impact the Company's performance and are discussed in greater detail throughout this MD&A.

Through the Manager, we seek to further increase dividends by increasing our Agent count through the acquisition of Franchise Agreements and by attracting and retaining Brokers and their Agents through the provision of additional fee for service offerings and the provision of services, which increases our Brokers' and their Agents' productivity.

Structure of Company Royalties

ROYALTY FEES

The Company generates royalties with both fixed and variable fee components. Approximately 89% (89% – 2012) of the Company's royalties during the Year were derived from the combined fixed fee per REALTOR® per month, 1% variable royalty fee and Premium Franchise Fees. The remaining royalty stream is made up of other fees and services generated from warranty fees ("APEC"), technology fees and other fees. Approximately 71% of the Company's annual royalties were partially insulated from market fluctuations as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS® representing the Network, increasing Agent and Broker productivity and an increasing supply of new housing inventory provides the base for a strong and stable cash flow. A summary of these fees is as follows:

Fixed royalty fees are based on the number of Agents and fee-paying Sales Representatives, collectively "selling-REALTORS®", in the Company Network. Fixed franchise fees from Royal LePage Franchisees consist of a monthly fixed fee of $102 ($100 prior to December 31, 2013) per selling-REALTOR®, a technology fee and other fees, while those from Via Capitale Franchisees consist primarily of a monthly fee of approximately $170 per selling-REALTOR®.

Variable royalty fees are primarily driven by the volume of business transacted by our Agents. Variable franchise fees from Royal LePage Franchisees are driven by the transactional dollar volume transacted by the Agents and are derived as 1% of each Agent's Gross Revenues, subject to a cap of $1,300 per year.

In addition to these fees, 23 of the Company's larger Royal LePage locations situated in the Greater Toronto Area ("GTA") pay a **Premium Franchise Fee** ranging from 1% to 5% of the location's Agents' Gross Revenues. Of these locations, 17 are operated by the Manager and are contractually obligated to pay the Premium Franchise Fee to August 2018.

NETWORK ROYALTY PROFILE

The Royal LePage Network: The fees generated from the Royal LePage Network accounted for 92% of the Company's fees in 2013 (91% – 2012) and are primarily made up of a fixed monthly fee per Agent of $100 plus a $20 technology fee per participating Franchisee (representing 97% of Agents in 2013, 97% in 2012); a variable fee equal to 1% of the fees generated by the Agent, capped at $1,300 per Agent; learning services fees; and a Premium Franchise Fee, as described above.

Commencing January 1, 2014, the monthly fixed fee will increase by 2% to $102 per month for approximately 85% of the Royal LePage Network, with an expected increase to 100% over time, as permitted under the Franchise Agreements. Under this structure, exclusive of ancillary fees, an Agent earning in excess of the $1,300 per annum fee cap will contribute $2,764 per annum to the Company.

Due to the variable fee-capping feature, approximately 70% (71% – 2012) of the Royal LePage Network fees were fixed in nature.

The Via Capitale Network: The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 8% of the Company's fees in 2013 (9% – 2012). These fees are primarily made up of a fixed monthly fee per Agent of $170 ($2,040 per annum) and fees generated from APEC. In 2013, approximately 78% (78% – 2012) of Via Capitale's royalties were fixed in nature.

Management's Discussion and Analysis of Results and Financial Condition

Monthly Dividends

The targeted annual cash dividend payable to public shareholders for 2014 is $1.20 per share, to be paid monthly. This represents a $0.10 per share, or 9.1%, increase from 2013. Management and the Board of Directors periodically review the Company's targeted dividends and distributions.

Overview of 2013 Operating Results

For the Year, the Canadian Market, as defined by Market transactional dollar volume, closed up 6.1%, at $175.1 billion, compared to the same period of 2012, driven by an increase of 5.1% and 0.9% in price and units sold, respectively.

The Company ended 2013 by generating CFFO of $25.2 million (2012 – $25.4 million), or $1.97 per Restricted Voting Share, down 0.8%, or $0.2 million, from $1.98 per Restricted Voting Share for the same period of 2012. This $0.2 million decrease resulted primarily from a reduction in year-over-year variable and Premium Franchise Fees of 2.5% and 3.8%, respectively. Variable franchise fees declined due primarily to the higher percentage of our Agents who operate as individuals or in teams who are subject to the $1,300 cap. Premium Franchise Fees, which range from 1% to 5% of the Franchise locations, have declined primarily as a result of fluctuations in the individual markets served by locations that pay these fees.

The Company Network experienced a net increase of 224 Agents for the Year, compared to a net increase of 25 Agents in 2012. This increase consisted of a net organic attrition of 292 Agents for the Year, compared to 192 for the same period in 2012, offset by the acquisition of Franchise Agreements represented by 516 Agents at the beginning of the Year (217 Agents – 2012).

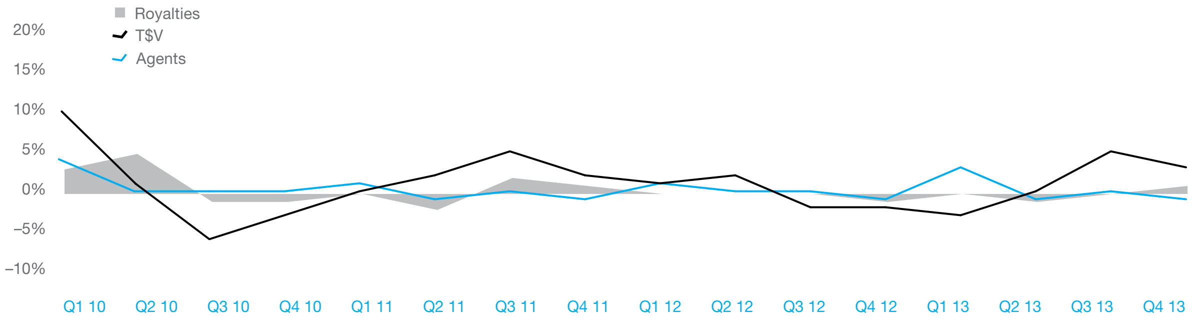
Despite the modest increase in Agents, the Company Network remains strong, with its Agents generating an average transactional dollar volume of $2.3 million per annum, which is approximately 50% more productive than the rest of the Canadian REALTOR® population and is unchanged from 2012.

The Company's renewal of Franchise Agreements remains strong, with Franchise Agreements representing 2,694 Agents renewing, of which 1,215 were subject to renewal during the Year for a 96% renewal rate, and 1,479 were renewed ahead of their contracted renewal dates.

ROYALTIES

The most significant drivers of the Company's royalties are Market activity, the number of Agents in the Company Network and competition. The chart below summarizes the percentage change in transactional dollar volume in Canada, the Company's royalties and the number of Agents on a rolling twelve-month quarter-over-quarter basis since 2010. As noted from the chart, the vend-in of Franchise Agreements in the first quarter of each year and the organic change in the number of Agents, combined with the fixed-fee nature of our royalties, mitigate the impact of Market fluctuations. In addition, the "lag effect" of the Company's policy of recording variable and Premium Franchise Fee royalties when a home sale transaction closes, which occurs after the home sale has been reported by the Market, is quite evident.

ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



Recent Developments

QUEBEC REAL ESTATE BOARDS – CREA MEMBERSHIP

While the largest Quebec real estate boards previously gave a formal six months' notice to the Canadian Real Estate Association ("CREA") that they intended to withdraw from the association, an agreement was reached in February 2014 whereby the Montreal and Quebec City boards returned to the national association as CREA members. Quebec boards now have a revised relationship with the national organization and will remain part of the Canada-wide MLS and continue to leverage the REALTORS® trademark.

Management Reporting Metric Changes

During the Quarter, Franchise Agreements was redefined, the reported number of locations from which our REALTORS® provide services was adjusted, and we restated our 2012 Agent productivity statistics as the result of an error in our 2012 Market share data. A discussion of these changes is provided below.

FRANCHISE AGREEMENTS

Franchise Agreements are defined as the agreements pursuant to which brokerage offices offer residential brokerage services. These Franchise Agreements consist of a standard contract that governs matters such as use of Trademarks, initial and renewal terms, services to be provided and fees. Over the term of the standard contract, the Franchisee may undertake activities that 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 standard contract.

In the past, these addendums have been reported by the Company as separate Franchise Agreements. However, effective December 31, 2013, the Company has redefined a Franchise Agreement as being inclusive of the addendums to the original Franchise Agreement. This change in reporting was undertaken as the addendums form part of the standard contract, and the standard contract is what governs the contractual arrangements with our Franchise Broker/owners. As at December 31, 2013, the Company owns 307 Franchise Agreements.

LOCATIONS

The reported number of locations from which REALTORS® provide services under Franchise Agreements owned by the Company as at December 31, 2013 decreased in the Quarter by 42 to 627. This decrease resulted primarily from a detailed validation of all previously reported locations, which was undertaken as part of the relaunch of the Royal LePage consumer website earlier in the year and the redefinition of Franchise Agreements in the Quarter. As a result of this validation, it was confirmed that over time, our Royal LePage Broker/owners have consolidated a number of their locations in response to market and competitive opportunities. In addition, our Via Capitale Broker/owners have also consolidated a number of their locations for similar reasons. The Company does not charge ongoing fees for the number of locations operated by a Broker/owner.

MARKET SHARE AND AGENT PRODUCTIVITY

In 2013, the Company Network accounted for approximately one-fifth of the Canadian Market, relatively unchanged from 2012.

The Company obtains its overall Market share by aggregating transactional dollar volume directly from our Broker/owners and comparing this to the overall Canadian Market. In the process of aggregating our 2013 transactional dollar volume, it was determined that there was an error in the 2012 transactional dollar volume reported by the Company in 2012. As a result, we have restated our Agent productivity statistics (see REALTOR® Productivity) for 2012. With an average transactional dollar volume of just over $2.3 million per Company Agent for 2013 and unchanged from 2012, our Agents in 2013 were approximately 50% more productive than the rest of Canada.

Key Performance Drivers

The key drivers of the Company's business and dividends payable to shareholders are:

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

A summary of our performance against these drivers and a discussion of the underlying Market follows.

Management's Discussion and Analysis of Results and Financial Condition

Stability of the Company's Royalty Stream

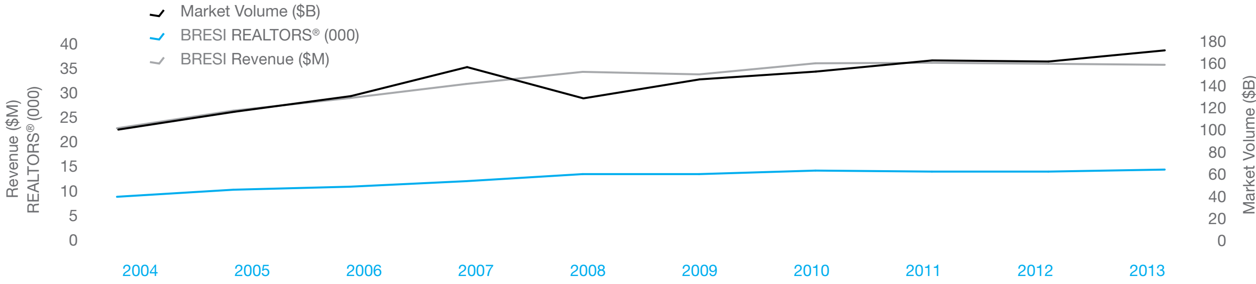
The stability of the Company's royalty stream is derived from a number of factors, including the fixed-fee structure of the Company's royalties, the diversity of the Company Network, the geographic distribution of the Company Network, the length of the Company's Franchise Agreements and the renewal of Franchise Agreements. A discussion of these factors follows.

FIXED-FEE STRUCTURE

The fixed nature of the fees generated under the Company Network Franchise Agreements (see Structure of Company Royalties) results in an approximate 71% fixed and 29% variable royalty stream, which partially insulates the Company from fluctuations in the Market.

The fixed nature of the fee structure is quite evident, as can be seen in the chart below, which compares the Company's royalties to the Market and underlying Company Network.

REVENUE, MARKET AND REALTOR® TRENDS



Note: In 2008, the Company acquired Via Capitale Franchise Agreements represented by 1,492 Agents operating from 68 locations.

NETWORK DIVERSITY AND GEOGRAPHIC DISTRIBUTION

As at December 31, 2013, the Company Network of 15,310 REALTORS® operates through 275 Broker/owners providing services across the country through 627 locations operating under 307 Franchise Agreements.

With diverse Market requirements, our Broker/owners' operations are as diverse, varying in size and scope, with 22% of the Company Network of Agents represented by 71% of our Broker/owners who operate with less than 50 REALTORS® and 78% of the Company Network of Agents represented by 29% of our Broker/owners who operate with 50 or more REALTORS®.

As noted in the chart below, the Company Network of REALTORS® is geographically dispersed across Canada. As compared to the distribution of REALTORS® across Canada, the Company Network is very strong in Ontario, over-represented in the province of Quebec as a result of the acquisition of the Via Capitale Network in 2007, under-represented in the western provinces and on par in the Maritimes.

	Canadian[1] REALTOR® Population	Company[1] Network REALTORS®
Ontario	54%	59%
Prairies	13%	10%
BC	17%	10%
Quebec	13%	18%
Maritimes	3%	3%
Total	100%	100%

Source: CREA

[1] As at December 31, 2013.

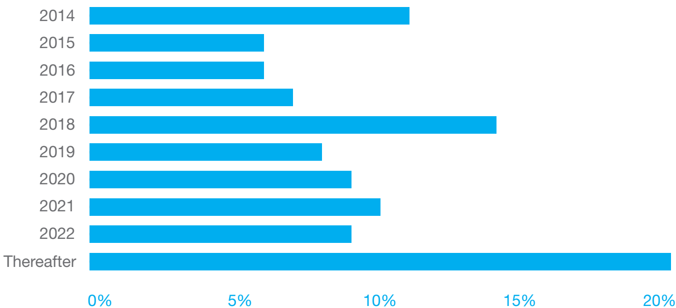
FRANCHISE AGREEMENT TERMS

The Royal LePage Franchise Agreements, which are represented by 93% of the Company's REALTORS®, are 10 to 20 years in duration, significantly exceeding the industry norm of five years and thereby reducing agreement renewal risk. At the time of the initial public offering ("IPO"), the Company's Royal LePage Franchise Agreements were largely subject to five-year renewal terms. Since the IPO, the Company's standard renewal terms for agreement additions are typically 10 years in duration. The Company further extends agreements in existence at IPO to 10 years as and when opportunities present themselves. The Company's overall agreement renewal profile by year is not overly skewed to any one year and, as such, is very manageable. A summary of our agreement renewal profiles as at December 31, 2013 for our combined Royal LePage and Via Capitale networks is shown below.

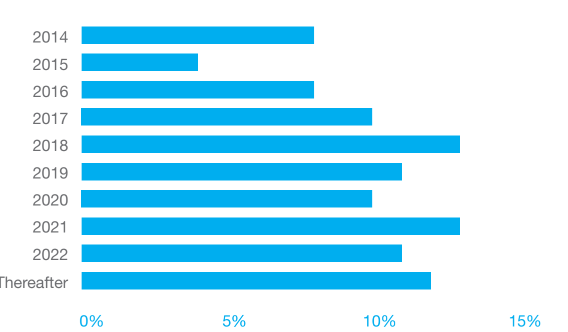
The Via Capitale Franchise Agreements, which are represented by 7% of the Company's REALTORS®, are typically five years in duration. During 2013, one Franchise Agreement representing 42 REALTORS® was up for renewal, and the Broker/owner decided not to renew.

A summary of our agreement renewal profiles as at December 31, 2013 for our combined Royal LePage and Via Capitale networks is shown below.

% OF FRANCHISE AGREEMENTS UP FOR RENEWAL
(by Number of Agents)



% OF FRANCHISE AGREEMENTS UPFOR RENEWAL
(by Number of Agreements)



RENEWALS

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

For the twelve months ended December 31, 2013, 2,694 Agents represented by 29 Franchise Agreements renewed, 1,215 were subject to renewal and have renewed as at the date of this MD&A for a 96% renewal rate and 1,479 renewed ahead of their contracted terms.

For the Quarter, 664 Agents represented by nine Franchise Agreements renewed, 480 of which were subject to renewal and have renewed as at the date of this MD&A and 184 of which renewed ahead of their contracted terms.

For the twelve months ended December 31, 2013, 74 Agents represented by six Franchise Agreements were terminated, of which 42 Agents related to one Via Capitale Franchise that did not renew during the first quarter and the balance to five Royal LePage Franchise Agreements. During the Quarter, 15 Agents represented by two Franchise Agreements were terminated.

Number of REALTORS® in the Company

For the Year, the Company Network of 15,310 REALTORS® increased by 224, compared to a net increase of 25 REALTORS® during the same period in 2012. The net increase of 224 REALTORS® consisted of the acquisition of contracts on January 1, 2013 representing 516 Agents less a net decrease of 292 Agents, of which 74 were attributable to six Franchisees whose contracts were terminated and the balance to net agent attrition.

As noted in the table below, the number of REALTORS® in Canada during 2013 increased by 2.0% to 109,032, while the Company Network increased by 1.5% during the same period. The increase in the number of Canadian REALTORS® has in part been driven by increases in discount brokerage offerings, which have attracted new entrants to the industry and are resulting in a lower number of homes sold per REALTOR®. This is summarized in the table and chart below, which show 2013 and 2012 closing out at 4.2 units per REALTOR®, down from 4.4 in 2011 and 4.5 in 2010.

Management's Discussion and Analysis of Results and Financial Condition

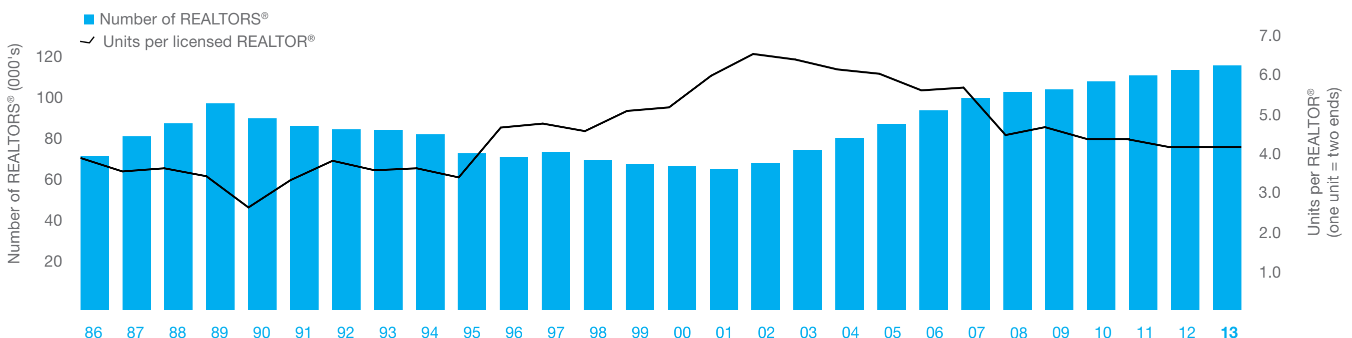
SUMMARY OF CANADIAN AND COMPANY GROWTH IN REALTORS®

	Canada*		The Company Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**104,407**		**15,061**	
2012 Q1	1,242	1.2	189	1.3
2012 Q2	386	0.4	(1)	–
2012 Q3	367	0.4	(11)	–
2012 Q4	542	0.5	(152)	(1.0)
Opening	**106,944**	**2.4**	**15,086**	**0.3**
2013 Q1	133	0.1	472	3.1
2013 Q2	735	0.7	(59)	(0.4)
2013 Q3	384	0.4	(48)	(0.3)
2013 Q4	836	0.8	(141)	(0.9)
Closing	**109,032**	**2.0**	**15,310**	**1.5**

* Source: CREA
N/A: Not available at time of MD&A.

CANADIAN REAL ESTATE REALTORS®

(Year ended December 31)



Transaction Volumes

For the Year, the Canadian Market closed up 6.1%, at $175.1 billion, as compared to the same period of 2012, driven by a 5.1% and 0.9% increase in price and units sold, respectively. The increase in average selling price of a home was primarily due to reduced housing starts and the ongoing low interest rate environment, which is expected to continue for the foreseeable future.

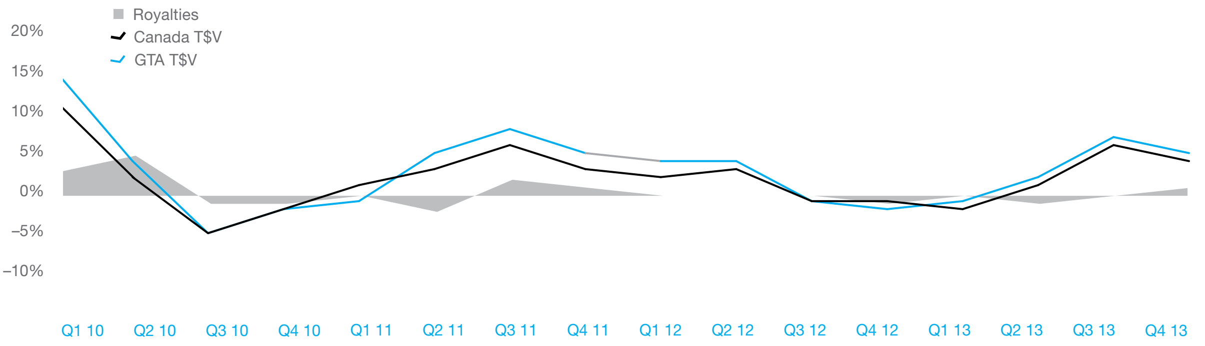
During the Quarter, the Canadian Market closed up 18.7%, at $37.0 billion, as compared to the same period of 2012, driven by a 9.3% and 8.6% increase in price and units sold, respectively. This increase in Market activity occurred as home sales have recovered after a period of reduced activity driven in part by a tightening of mortgage-lending restrictions introduced in July of 2012, which pushed comparative Market activity into the first half of 2012, as evidenced by the 48% of Market activity that occurred in the second half of 2013 as compared to 42% for the same period in 2012.

For the Year, the GTA Market closed up 8.6%, at $46.6 billion, as compared to the same period of 2012, driven by a 5.2% and 3.2% increase in price and units sold, respectively, for the reasons noted above.

During the Quarter, the GTA Market closed up 22.7%, at $9.9 billion, as compared to the same period of 2012, driven by an 8.0% and 13.6% increase in price and units sold, respectively. The effects noted above were more profound for the GTA as market activity coming through the second half of 2013 was 47% as compared to 37% during the same period in 2012.

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

ROLLING TWELVE-MONTH % CHANGE FROM PRIOR QUARTER



A summary of the key Market and related activity, as reported by the Canada Mortgage and Housing Corporation ("CMHC"), CREA and the Toronto Real Estate Board ("TREB"), follows:

From CMHC[1]: Existing home sales are expected to stay relatively unchanged in 2013 and then rise in the first half of 2014 before moderating in the second half of 2014. On an annual basis, sales through the Multiple Listing Service® (MLS®) are expected to reach 456,700 units in 2013, before seeing an increase to 468,200 units in 2014.

From CREA[2]: Although monthly sales volatility has increased in recent years, particularly surrounding changes to mortgage rules, national activity on an annual basis has remained remarkably stable. For the sixth consecutive year, annual sales in 2013 will remain within short reach of 450,000 units. In 2014, national activity is forecast to climb to 475,000 units (+3.7%). Most of the increase reflects the weak start to 2013, which is not expected to recur in early 2014.

From TREB[3]: GTA home sales activity for the year 2013 amounted to 88,946 units, with an average price of $524,092; this activity has increased by 3.2% and 5.2%, respectively, compared to the same period in 2012. Sales and price have recovered after a period of low activities impacted by the tighter mortgage-lending restrictions initiated in the second half of 2012.

Company's Growth Opportunities

Growth in the Company's royalties is achieved by increasing the number of REALTORS® in the Company Network through organic growth and acquiring Franchise Agreements from the Manager, increasing the productivity of Agents, expanding the range of products and services supporting Franchisees and their Agents and increasing the adoption of these products and services. These services are supported by ongoing training programs for Franchisees and REALTORS®, which assist in leveraging the Company's competitive advantages to attract and retain potential recruits.

GROWTH IN NUMBER OF REALTORS®

Our growth objective for 2014 in light of the economy and Market conditions is to modestly increase the year-over-year Company Network of REALTORS®.

Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network to December 31, 2013 has increased by 65.7% (6,072 REALTORS®), of which 79% has been through acquisitions and 21% through organic growth.

[1] Source: CMHC Housing Market Outlook – Fourth Quarter 2013.
[2] Source: CREA Updates Resale Housing Quarterly Forecast, published December 16, 2013.
[3] Source: TREB Market Watch data for 2013.

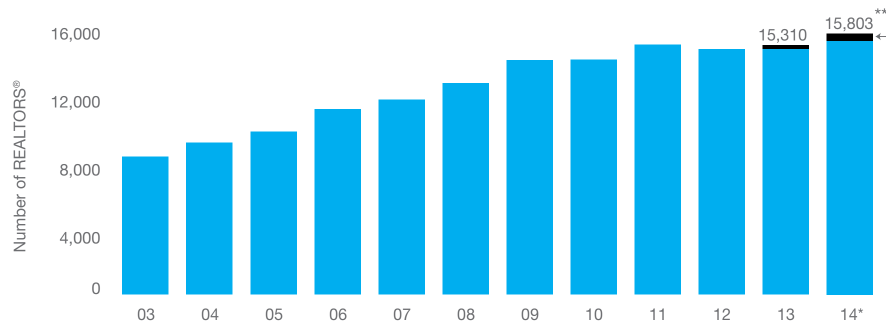
Management's Discussion and Analysis of Results and Financial Condition

Growth through acquisition is achieved by purchasing Franchise Agreements acquired by the Manager's dedicated Network development team.

On January 1, 2014, the Company purchased Franchise Agreements representing 20 locations, serviced by an estimated 493 Agents operating under the Royal LePage and Via Capitale brands. The estimated purchase price of these agreements is $6.3 million, with an estimated annual royalty stream of $1 million. (See Transactions with Related Parties.)

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

COMPANY GROWTH



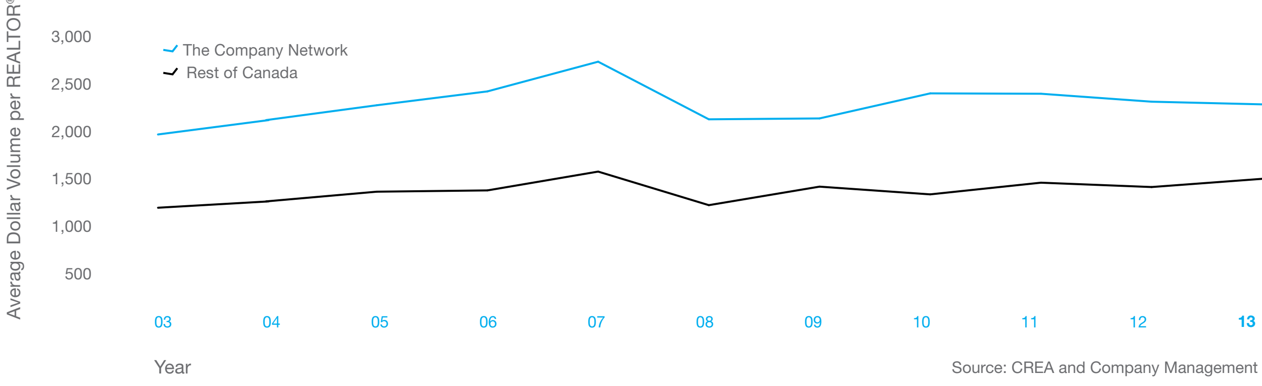
Year ended December 31, except 2014
* As at January 1, 2014
** 493 REALTOR® growth of 3.2% consisting of 484 from the Royal LePage brand and 9 from the Via Capitale brand

REALTOR® Productivity

The average Company Network REALTOR® generated approximately $2.3 million in transactional dollar volume for the twelve months ended December 31, 2013, which is little changed from 2012. This productivity was 50% greater than the estimated average of $1.5 million for all other Canadian REALTORS®, up from $1.4 million in 2012. Management believes that the higher productivity of Company Network REALTORS® makes the Company less prone than the industry at large to a loss of REALTORS® during a period of reduced transactional dollar volume. A summary of average transactional dollar volume per REALTOR® for the years ended December 31, 2003 through 2013 is shown below.

CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET REALTOR® PRODUCTIVITY

(Average Transactional Dollar Volume per REALTOR®, $ thousands)



Source: CREA and Company Management

PRODUCTS AND SERVICES

The Manager recently relaunched the Company's consumer website to capitalize on the referral, Franchisee and REALTOR® attraction and retention opportunities represented by displaying the listings of all participating REALTORS® on the Company's consumer website.

The Manager continues to develop, introduce and support new tools, services and programs to assist Franchisees in attracting and retaining REALTORS®, increasing their productivity and reducing administration costs.

The Canadian Residential Resale Real Estate Market

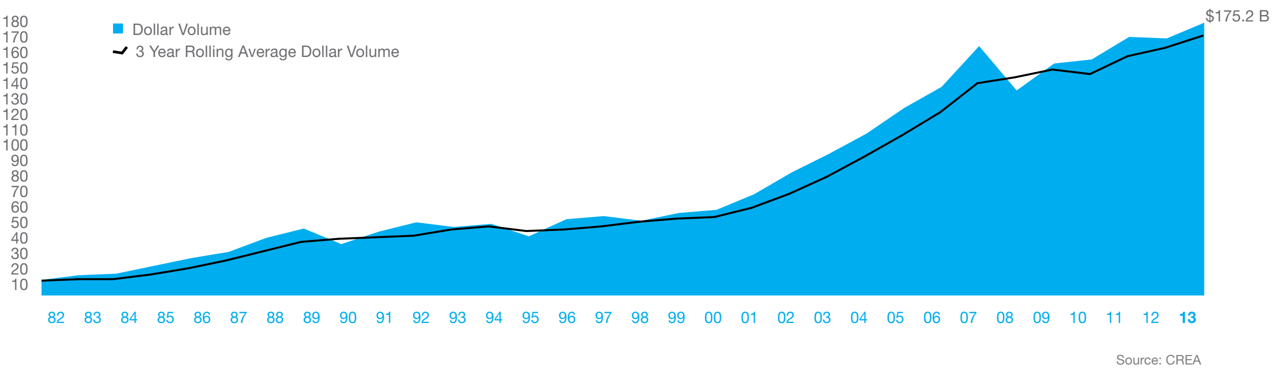
Since 1980, the Market has grown at a compound annual growth rate ("CAGR") of 9.7%. Over the last three years, the Market has been relatively stable, with a CAGR of 5% driven by a 1% increase in units and a 4% increase in selling price due in part to a combination of a low interest rate environment and tightened government-mandated mortgage rules. Over the last 25 years, there have been three significant downturns; in each case, the Market demonstrated its resilience by returning to pre-downturn levels within 24 months. These downturns occurred in 1990, 1995 and 2008, with durations of 13, 14 and 16 months and decreases of 26%, 21% and 19%, respectively.

During the most recent downturn, the Market declined 19% during the 16-month period of February 2008 through May 2009, with the most significant downturn occurring in the fourth quarter of 2008, when the Market declined by 40% as compared to the same quarter in 2007. The Market began to gain momentum in early 2009 and in the first half of 2010 due, in part, to consumers seeking to close home sales ahead of government-mandated changes to mortgage rules, anticipated increases in mortgage rates and the introduction of the HST on July 1, 2010. The latter half of 2010 levelled off due in part to the pull-forward of demand as discussed above and set the stage for the relatively stable growth the Market has experienced since the end of 2010.

During the 1990 downturn, interest rates were relatively high and there was significant speculation in the form of building multiple home ownerships. Since that time, lenders have required builders to pre-sell a significant portion of their developments before advancing funds, and under new mortgage-lending rules, a number of Market controls have been put in place – for example, non-owner-occupied property purchases that qualify for mortgage insurance have increased down payment requirements and minimum debt service tests regardless of the fixed or variable nature of the underlying mortgage for those home purchasers who qualify for mortgage insurance.

MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

(1982–2013) (in $ billions)

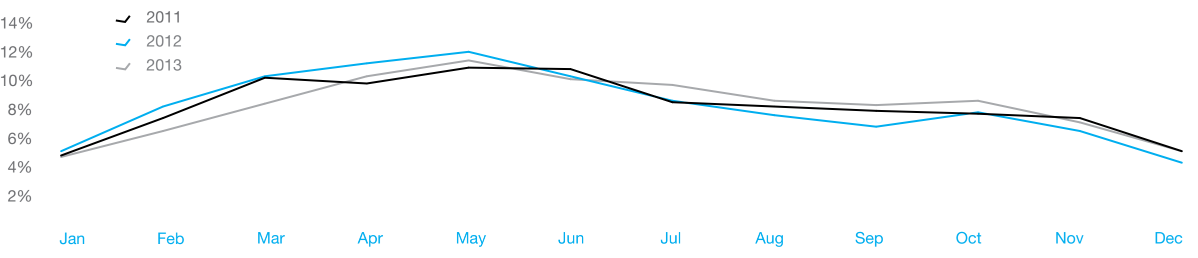


Source: CREA

The Company's royalty revenues are affected by the seasonality of the Market, which typically has stronger second and third quarters, as summarized in the chart below. The seasonality of the Market is in turn mitigated throughout the year by the fixed-fee nature of the Company's royalties, the acquisition of Franchise Agreements at the beginning of the year and in the latter part of the year by the Royal LePage Agents who have capped out under the 1%/$1,300 per annum variable fee.

CANADIAN RESIDENTIAL RESALE REAL ESTATE MARKET

(% transactional dollar volume by month)



Source: CREA and Company Management

Operating Results

Years ended December 31, ($ 000's) except Agents, Sales Representatives and per share amounts		2013		2012
Royalties				
Fixed franchise fees	$	**18,941**	$	18,763
Variable franchise fees		**8,116**		8,326
Premium Franchise Fees		**5,236**		5,441
Other revenue and services		**3,975**		3,989
		36,268		36,519
Less:				
Administration		**1,342**		1,361
Management fee		**6,677**		6,772
Interest expense		**3,040**		2,961
		11,059		11,094
Cash flow from operations		**25,209**		25,425
Amortization of intangible assets		**12,683**		13,104
Impairment of intangible assets		**1,391**		1,470
Interest on Exchangeable Units		**4,672**		5,272
Loss on fair value of Exchangeable Units		**2,429**		100
Gain on fair value of purchase obligation		**(210)**		(355)
Earnings before income tax		**4,244**		5,834
Current income tax expense		**(3,958)**		(3,786)
Deferred income tax recovery		**602**		924
Net and comprehensive earnings	$	**888**	$	2,972
Basic earnings per share	$	**0.09**	$	0.31
Diluted earnings per share	$	**0.09**	$	0.31
Number of Agents		**14,322**		14,141
Number of fixed-fee-paying Sales Representatives		**746**		701

As summarized in the table above, during the Year, the Company generated net and comprehensive earnings before income taxes of $4.2 million and CFFO of $25.2 million, compared to net and comprehensive earnings before income taxes of $5.8 million and CFFO of $25.4 million for the same period in 2012.

The Company Network as at December 31, 2013 consisted of 14,322 Agents and 988 Sales Representatives, 746 of whom operated under the $100 per month fixed-fee plan and 242 of whom are primarily Brokers and managers who do not pay fees. Primarily all of our Franchisees operated under the per Agent combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option") or the approximate $170 per month flat fee.

Royalties for the Year totalled $36.3 million, compared to $36.5 million for the same period in 2012. Fixed, variable and Premium Franchise Fees together represented 89% of royalties (89% – 2012). Royalties decreased slightly due to the lower variable and Premium Franchise Fees.

Fixed franchise fees for the Year increased by 1.0% over the same period in 2012, due primarily to acquisition of Franchise Agreements representing 516 Agents at the beginning of the Year as compared to acquisition of Franchise Agreements representing 217 Agents at the beginning of 2012.

Variable franchise fees for the Year decreased by 2.5% as compared to the same period of 2012 due primarily to the higher percentage of our Agents who are becoming subject to the $1,300 cap.

Premium Franchise Fees are derived from the 23 Franchise locations servicing the GTA Market, which pay Premium Franchise Fees ranging from 1% to 5% of the location's Agents' Gross Revenues. Premium Franchise Fees for the Year decreased by 3.8% over the same period in 2012, due primarily to fluctuations in the individual markets served by locations that pay these fees and the lower gross commission income earned by locations paying the higher premium fee.

Other fees and services include home warranty fees, technology fees and other fees, which accounted for approximately 9% of total royalties for the Year. Other fees were flat compared to the same period in 2012.

Administration expenses of $1.3 million for the Year were at the same level as 2012 as reduced year-over-year bad debt expense was offset by increased costs associated with the assessment and negotiation of the Company's New MSA.

Management fee expense of $6.7 million for the Year, calculated in accordance with the MSA, decreased by 1.4% compared to the same period in 2012 due primarily to a combination of the 0.7% decrease in year-over-year revenue and the mix of underlying Royal LePage and Via Capitale royalty fees, which attract a management fee of 20% and 30%, respectively.

Interest expense consists of interest on the Company's fixed-rate, $32.7 million private debt placement; a variable-rate, $20.3 million credit facility; and interest on the Company's purchase obligation. During the Year, the Company's interest expense totalled $3.0 million, little changed from the same period in 2012, as the Company continues to maintain its floating interest rate position.

AMORTIZATION OF INTANGIBLE ASSETS

Intangible assets relate to the values attributed to the Franchise Agreements and Trademarks acquired by the Company since August 7, 2003. Franchise Agreements and trademarks are amortized on a straight-line basis over their expected useful life. Amortization during the Year totalled $12.7 million, a decrease by 3.2% from 2012 as older Franchise Agreements expire.

IMPAIRMENT OF INTANGIBLE ASSETS

During the Year, an impairment of $1.4 million was recorded to write down the carrying value of the terminated or impaired contracts. Terminated Franchisees are no longer with the Network, and impaired contracts represent Franchisees that have experienced ongoing cash flow difficulties or collectibility issues.

Interest on Exchangeable Units represents the targeted pre-tax distribution of $1.10 per annum, $0.28 per quarter paid to the Exchangeable Unitholders.

Loss on fair value of Exchangeable Units represents the change in fair value during the period of the underlying interest of the Exchangeable Units in the Company. As the Company's share price increased in value during the Year, the Company recorded a loss of $2.4 million, for the resulting increase in the fair value of the underlying Exchangeable Unit obligations.

CURRENT INCOME TAX

In calculating current income taxes, earnings before income tax for the year is adjusted for the add-back of non-deductible items, which consist primarily of interest and fair value adjustments applicable to the Company's Exchangeable Units, amortization and intangible impairments; the deduction for income allocated to the Exchangeable Unitholders, who hold their ownership at the partnership level of the Company's structure; and changes in tax rates or filing positions.

The effective tax rate for the Year is 26.5% (2012 – 26.5%), which, after adjusting for the items noted earlier and the utilization of tax shields primarily attributable to the Company's Franchise Agreements, resulted in an overall tax provision of $3.4 million, consisting of a $4.0 million current income tax expense (2012 – $3.8 million) and a $0.6 million deferred income tax recovery (2012 – $0.9 million).

Throughout 2013, the Company made regular tax instalment payments totalling $4.0 million in respect of the final 2013 income tax expense; this has resulted in an income tax receivable balance of $0.1 million as at December 31, 2013.

DEFERRED INCOME TAX

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax basis, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at December 31, 2013, the Company's deferred tax asset was $4.9 million (December 31, 2012 – $4.3 million) and was calculated using an effective tax rate of 26.5% (2012 – 26.5%). During the Year, the Company recorded a $0.6 million deferred income tax recovery (2012 – $0.9 million). The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

A summary of the tax pools available to the Company is as follows:

COMPANY TAX POOLS

($ millions) Future Deduction Basis		Balance December 31, 2013		Estimated Addition for 2014		Estimated Deduction for 2014		Estimated Balance December 31, 2014
7% of Balance	$	68.5	$	6.3	$	5.1[1]	$	69.7
Five-Year Straight-Line		0.2		–		0.2		–
	$	68.7	$	6.3	$	5.3	$	69.7

[1] This estimated deduction for 2014 is calculated as 7% of the sum of the remaining balance as of December 31, 2013 and 75% of the estimated addition for 2014.

CASH FLOW FROM OPERATIONS

During the Year, the Company generated CFFO of $1.97 per Restricted Voting Share, as compared to $1.98 CFFO generated during the same period of 2012 (see Overview of 2013 Operating Results). A summary of the Company's CFFO generated over the last eight quarters is presented in the table below.

ROLLING TWELVE-MONTH CASH FLOW FROM OPERATIONS

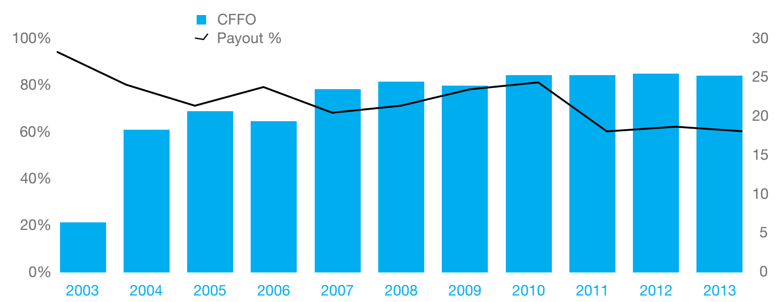
Twelve months ended		2013								2012						
($ 000's) except per share amounts		**Dec. 31**		Sept. 30		June 30		March 31		Dec. 31		Sept. 30		June 30		March 31
Royalties	**$**	**36,268**	$	36,014	$	36,110	$	36,363	$	36,519	$	36,821	$	36,916	$	36,745
Less:																
Administration		**1,342**		1,786		1,912		1,180		1,361		1,645		1,396		1,851
Interest expense		**3,040**		3,014		2,987		2,955		2,961		2,974		3,003		3,039
Management fee		**6,677**		6,553		6,564		6,772		6,772		6,774		6,836		6,710
		25,209		24,661		24,647		25,456		25,425		25,428		25,681		25,145
Cash flow from operations per share	**$**	**1.97**	$	1.92	$	1.92	$	1.99	$	1.98	$	1.98	$	2.00	$	1.96

The Company's operations have been a significant source of capital, with $237.6 million of CFFO generated since inception, of which $171.4 million has been paid to the public shareholders and Exchangeable Unitholders. Of the remaining $66.2 million retained by the Company, $46.4 million has been invested in Franchise Agreements that earn attractive returns, and $4.1 million was used to purchase Units of the Company in 2008 and 2009. Also see Supplemental Information – Cash Flow From Operations.

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)



The tables below present a summary of the main elements of the Company's performance, which assist in assessing the sustainability of the Company's cash distributions from CFFO reconciled to operating activities, as presented in the Consolidated Statements of Cash Flows. See Supplemental Information – Cash Flow From Operations for CFFO from inception to date, reconciled to operating activities, as presented in the Consolidated Statements of Cash Flows.

CASH FLOW FROM OPERATIONS AND ITS UTILIZATION

Years ended December 31, ($ 000's)	2013	2012
Royalties	$ 36,268	$ 36,519
Less:		
Administration	1,342	1,361
Management fee	6,677	6,772
Interest expense	3,040	2,961
Cash flow from operations	25,209	25,425
Less:		
Dividends to shareholders	10,471	10,471
Interest on Exchangeable Units	4,672	5,272
Total dividends and interest	15,143	15,743
Cash flow from operations less total dividends	10,066	9,682
Less: funding of acquisitions	5,854	2,965
Net change in the period	$ 4,212	$ 6,717

CASH FLOW FROM OPERATIONS RECONCILED TO CASH FLOW FROM OPERATING ACTIVITIES

Years ended December 31, ($ 000's)	2013	2012
Cash flow from operating activities	$ 14,855	$ 12,946
Add (deduct):		
Interest on Exchangeable Units	4,672	5,272
Income taxes paid	4,046	8,029
Changes in non-cash working capital items	1,216	(49)
Interest expense	(7,712)	(8,233)
Interest paid	8,132	7,460
Cash flow from operations	$ 25,209	$ 25,425

CFFO to Restricted Voting Shareholders represents net and comprehensive earnings adjusted for interest on Exchangeable Units, fair value of Exchangeable Units, other income, amortization of intangible assets, current and deferred income taxes and purchase obligation adjustment.

CFFO does not have a standardized meaning under IFRS and, accordingly, may not be comparable to similar measures used by other issuers. Management believes that CFFO is a useful supplemental measure of performance as it provides investors with an indication of the amount of pre-tax cash generated from operations and available to Restricted Voting Shareholders and Exchangeable Unitholders and to meet tax cash payments. Investors are cautioned, however, that CFFO should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the table under Supplemental Information – Cash Flow From Operations for a reconciliation of CFFO.)

The Company's payment of dividends to shareholders is fully funded by CFFO. The Company has consistently paid out cash in excess of net income to shareholders as a significant portion of the Company's operating expenses is made up of the non-cash amortization of intangible assets, consisting of Franchise Agreements and Trademarks. Management does not view the excess payment as an economic return of capital as these intangible assets are not expected to require a further cash outlay in the future; rather, the value of these assets to the Company lies in part with management's ability to retain and renew the underlying Franchise Agreements and to ensure the ongoing integrity of its Trademarks. The Company has not paid out all of the CFFO to shareholders as the cash generated in excess of these amounts (see Supplemental Information – Cash Flow From Operations) has been used to fund the acquisition of Franchise Agreements, pay distributions to the Exchangeable Unitholders, fund the purchase of Units under the normal course issuer bid ("NCIB") and meet future tax liabilities. It is management's expectation, at the discretion of the Board of Directors, 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 Financing

The Company's long-term debt comprises a $32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a $20.3 million term facility with a Canadian financial institution, with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3%, with terms of up to six months.

The Company has a $2 million operating line provided by a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force.

The covenants of the long-term debt prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.25 to 1. Consolidated EBITDA is defined as earnings (loss) before tax, interest, interest on Exchangeable Units, gain (loss) on fair value of Exchangeable Units and gain (loss) on purchase obligation adjustment. As at December 31, 2012, the Company is compliant with its financial covenants.

Senior Indebtedness is defined as the Company's long-term debt, disclosed under Note 10 of the Consolidated Financial Statements, and consists of a $32,700 private debt placement and a $20,300 term facility. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

The Company's $53 million of long-term debt is due in February 2015. Management is currently commencing activities to refinance these obligations.

Fourth-Quarter Review

SUMMARY OF QUARTERLY RESULTS

Three months ended	2013				2012			
($ 000's) except Agents, Sales Representatives and per share amounts	**Dec. 31**	**Sept. 30**	**June 30**	**March 31**	Dec. 31	Sept. 30	June 30	March 31
Royalties								
Fixed franchise fees	**$ 4,719**	$ 4,725	$ 4,726	$ 4,771	$ 4,644	$ 4,684	$ 4,716	$ 4,719
Variable franchise fees	**1,399**	2,469	2,594	1,654	1,238	2,506	2,768	1,814
Premium Franchise Fees	**1,285**	1,913	1,314	724	1,193	1,972	1,455	821
Other revenue and services	**929**	1,026	1,105	915	1,003	1,067	1,053	866
	8,332	10,133	9,739	8,064	8,078	10,229	9,992	8,220
Less:								
Administration	**40**	393	638	271	484	519	(94)	452
Management fee	**1,586**	1,868	1,741	1,482	1,462	1,879	1,949	1,482
Interest expense	**750**	764	807	719	724	737	775	725
Cash flow from operations	**5,956**	7,108	6,553	5,592	5,408	7,094	7,362	5,561
Interest on Exchangeable Units	**1,168**	1,168	1,168	1,168	1,768	1,168	1,168	1,168
(Gain) loss on fair value of Exchangeable Units	**(499)**	4,325	(2,096)	699	(1,297)	3,494	(5,624)	3,527
Loss (gain) on fair value of purchase obligation	**343**	(203)	(138)	(212)	(331)	(24)	–	–
Amortization of intangible assets	**2,882**	3,211	3,259	3,331	3,124	3,315	3,315	3,350
Impairment of intangible assets	**909**	94	–	388	785	685	–	–
Earnings (loss) before income taxes	**1,153**	(1,487)	4,360	218	1,359	(1,544)	8,503	(2,484)
Current income tax expense	**887**	1,134	1,096	841	774	1,147	1,028	837
Deferred income tax recovery	**(303)**	(109)	(110)	(80)	(176)	(235)	(372)	(141)
Net and comprehensive earnings (loss)	**$ 569**	$ (2,512)	$ 3,374	$ (543)	$ 761	$ (2,456)	$ 7,847	$ (3,180)
Basic earnings (loss) per share	**$ 0.06**	$ (0.26)	$ 0.36	$ (0.06)	$ 0.08	$ (0.26)	$ 0.83	$ (0.33)
Diluted earnings (loss) per share	**$ 0.06**	$ (0.26)	$ 0.19	$ (0.06)	$ 0.10	$ (0.26)	$ 0.26	$ (0.33)
Cash flow from operations per share (on a diluted basis)	**$ 0.46**	$ 0.55	$ 0.51	$ 0.44	$ 0.42	$ 0.55	$ 0.57	$ 0.44
Number of Agents	**14,322**	14,468	14,525	14,608	14,141	14,245	14,270	14,280
Number of fixed-fee-paying Sales Representatives	**746**	735	727	703	701	685	686	675

As summarized in the table above, during the Quarter, the Company generated CFFO of $6.0 million, up 10.1% from the same period in 2012.

During the Quarter, the Canadian Market closed up 18.7%, at $37.0 billion, compared to the same period of 2012, driven by a 9.3% and 8.6% increase in price and units sold, respectively. At the same time, the GTA Market closed up 22.7%, at $9.9 billion, compared to the same period of 2012, driven by an 8.0% and 13.6% increase in price and units sold, respectively.

This translated into royalties of $8.3 million for the Quarter, which were up $0.2 million, or 3.1%, from the same period in 2012. The increase was driven primarily by a 13.0% increase in variable royalty fees and 7.7% increase in Premium Franchise Fees, resulting from the increase in Canadian Market activity for the Quarter as the Market recovered from lowered sales activities that started in the second half of 2012 due primarily to the introduction of tighter mortgage-lending rules.

Management's Discussion and Analysis of Results and Financial Condition

THE COMPANY NETWORK

During the Quarter, the Company Network of 15,310 REALTORS® decreased by 141, compared to a net loss of 152 REALTORS® during the same period in 2012.

Fixed franchise fees for the Quarter increased by 1.6% compared to the same period in 2012, due primarily to the addition of Agents to the Network as a result of the Franchise Agreements acquired on January 1, 2013, partially offset by Agent attrition experienced throughout the Year.

Variable franchise fees for the Quarter increased by $0.2 million, or 13.0%, resulting from the increase in Canadian Market activity noted above.

Premium Franchise Fees for the Quarter increased by $0.1 million, or 7.7%, also resulting from the increase in GTA Market activity noted above.

Other fees and services consist of APEC fees, technology fees and other fees and revenue, accounting for approximately 11% (12% – 2012) of the Company's royalties for the Quarter, were down slightly from the same period in 2012 due primarily to reduced activity in the Quebec market, resulting in decreased APEC file activity and associated revenue.

Administration expenses for the Quarter were down $0.5 million as compared to the same period in 2012 due primarily to reduced bad debt expense, non-occurrence of expenditures associated with the assessment and negotiation of the Company's new MSA and the reversal of related expense estimates recorded earlier in the Year.

Management fee expense of $1.6 million for the Quarter was in line with the Company's royalties. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as distributable cash in the MSA) from the Via Capitale Franchise Agreements and 20% of the balance of royalties less administration and interest costs for the Royal LePage Franchise Agreements.

Interest expense for the Quarter of $0.7 million was consistent with the same period in 2012.

Amortization of intangible assets of $2.9 million was down $0.2 million from the same period in 2012 as older Franchise Agreements expire.

IMPAIRMENT OF INTANGIBLE ASSETS

During the Quarter, the Company recorded an impairment charge of $0.9 million related to three Franchisees ($0.8 million) that have experienced ongoing cash flow difficulties or collectibility issues and the remainder to Franchise Agreements that have been terminated.

Interest on Exchangeable Units represents the targeted pre-tax distribution of $1.10 per annum, $0.28 per quarter paid to the Exchangeable Unitholders.

(Gain) loss on fair value of Exchangeable Units represents the change in fair value during the period of the underlying interest of the Exchangeable Unitholders in the Company. The Company's share price decreased by $0.15 – 1.1% during the Quarter, and as a result, the Company recorded a gain of $0.5 million and a corresponding decrease in the fair value of the underlying obligations.

CURRENT INCOME TAX

The statutory tax rate for the Company for 2013 was 26.5%. The Company recorded a current income tax expense and liability, and made tax payments. During the Quarter, the Company recorded a current income tax expense of $0.9 million (2012 – $0.8 million), reflecting a 26.5% tax rate on the Company's proportion of taxable income.

DEFERRED INCOME TAX

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of intangible assets and their tax bases, and they are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. As at December 31, 2013, the Company's deferred tax asset was $4.9 million (December 31, 2012 – $4.3 million) and was calculated using an effective tax rate of 26.5% (2012 – 26.5%). During the Quarter, the Company recorded a $0.3 million deferred income tax recovery (2012 – $0.2 million). The Company is subject to a variety of Canadian federal and provincial tax laws and regulations. Changes to these laws or regulations may affect our tax asset, current tax liability, return on investments and business operations.

Management reviews the value of the Company's deferred income tax assets and liabilities on a quarterly basis and records adjustments, as necessary, to reflect the realizable amounts of the Company's deferred income tax assets and liabilities.

Liquidity

Changes in the Company's net working capital are primarily driven by cash flow generated from operations, the recording of obligations arising from the purchase of Franchise Agreements and the settlement of these obligations and payment of dividends and interest.

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

	2014	2015	2016	Beyond 2016	Total
Accounts payable and accrued liabilities	$ 1,385	$ –	$ –	$ –	$ 1,385
Purchase obligation	974	23	23	48	1,068
Interest payable to Exchangeable Unitholders	389	–	–	–	389
Dividends payable to shareholders	872	–	–	–	872
Interest on long-term debt	3,042	761	–	–	3,803
Private debt placement	–	32,700	–	–	32,700
Term facility	–	20,300	–	–	20,300
Exchangeable Units	–	–	–	44,424	44,424
Total	$ 6,662	$ 53,784	$ 23	$ 44,472	$ 104,941

During the Year, the Company used cash flow generated from operating activities of $14.9 million to meet $5.9 million of acquisition obligations and $10.5 million of dividend requirements. Subsequent to the year-end, $2.5 million of cash on hand was used to meet Franchise purchase obligations arising on the acquisition of Franchise Agreements on January 1, 2014.

Net working capital as at December 31, 2013 of $5.6 million decreased by $0.2 million as compared to December 31, 2012. For the twelve months ended December 31, 2013, CFFO was relatively unchanged at $25.2 million and as such did not influence the Company's year-over-year net working capital to a great degree. The primary drivers of the decrease in year-over-year net working capital was a $4 million reduction in year-over-year income tax payments, a $2.8 million increase in Franchise Agreement acquisition payments partially offset by a $0.7 million increase in the current portion of the related purchase obligations, an increase in accounts receivable and a $0.6 million decrease in interest payable to the Exchangeable Unitholders. A more detailed discussion of these items follows below.

- Income taxes paid: Year-over-year income taxes paid were lower by $4.0 million in 2013 as the Company became a taxable corporation at the beginning of 2012; consequently, in 2013, the Company paid income tax instalments for 2013 and 100% of the income taxes payable in respect of 2012 as instalment payments were not required during the first year of operation as a taxable corporation.
- Franchise Agreement acquisitions: The acquisition of Franchise Agreements at the beginning of 2013 for proceeds of $6.7 million as compared to $2.9 million in 2012 resulted in the payment of higher year-over-year Franchise Agreement obligations of $5.8 million in 2013 versus $3.0 million in 2012. As at December 31, 2013, the current portion of the related Franchise Agreement obligations was $1.0 million, up from $0.3 million at the end of 2012.
- Accounts receivable: An increase in year-over-year accounts receivable balances of $1.1 million was driven by higher Quarter-over-same-quarter sales activity, increased aging associated with certain Franchise operations that experienced cash flow challenges and a $0.3 million increase in non-trade receivable balances related primarily to commodity taxes.
- Interest payable to the Exchangeable Unitholders: Included in the interest payable to the Exchangeable Unitholders at the end of 2012 was $0.6 million in respect of the true-up of their economic interests in the Company to the end of 2012.

Management's Discussion and Analysis of Results and Financial Condition

A summary of the Company's working capital position is shown below.

WORKING CAPITAL

Year ended ($ 000's)	Dec. 31, 2013	Sept. 30, 2013	June 30, 2013	March 31, 2013	Dec. 31, 2012	Change in Quarter	Change in Year
Current assets							
Cash and cash equivalents	$ 3,633	$ 2,939	$ 2,317	$ 460	$ 5,103	$ 694	$ (1,470)
Accounts receivable	5,321	4,440	5,545	5,539	4,247	881	1,074
Income tax receivable	148	274	400	423	60	(126)	88
Prepaid expenses	90	36	60	90	117	54	(27)
	$ 9,192	$ 7,689	$ 8,322	$ 6,512	$ 9,527	$ 1,503	$ (335)
Current liabilities							
Accounts payable and accrued liabilities	$ 1,384	$ 1,292	$ 1,324	$ 1,262	$ 1,408	$ 92	$ (24)
Purchase obligation – current portion	974	652	3,523	3,661	463	322	511
Current income tax liability	–	–	–	–	–	–	–
Interest payable to Exchangeable Unitholders	389	389	389	389	989	–	(600)
Dividends payable to shareholders	872	872	872	872	872	–	–
	3,619	3,205	6,108	6,184	3,732	414	(113)
Net working capital	$ 5,573	$ 4,484	$ 2,214	$ 328	$ 5,795	$ 1,089	$ (222)

Capital Resources

The existing capital resources that the Company can draw upon consist of a $2 million operating line, which was not drawn upon during the Year. Other capital resources include funds generated from operations, debt servicing, dividend and Exchangeable Unit requirements and financing for the acquisition of Franchise Agreements.

The Company's $53 million of long-term debt is due in February 2015. Management is currently commencing activities to refinance this obligation.

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 BAM. BAM primarily derived its ownership interest in the Company through the sale of its interest in certain assets to the Company at its inception. These assets included Trademarks and Franchise Agreements related to the business of its Royal LePage residential resale real estate brokerage Franchise operations.

BAM operates 17 corporately owned residential resale real estate brokerage locations in the GTA, serviced by over 1,300 Agents. Of these operations, 16 operate under Franchise Agreements with the standard $100/1% option to August 2023, with an additional Premium Franchise Fee ranging from 1% to 5% of the location's gross commission income to August 2018. The remaining location, which was opened during the third quarter of 2009, was included in the Company's acquisition of Franchise Agreements on January 1, 2010.

During the Quarter, BAM acquired an existing independent Royal LePage residential resale real estate operation located on the British Columbia mainland, serviced by 187 Agents operating from five locations. As part of this acquisition, BAM entered into the standard $102/1% option Franchise Agreement with an initial term to November 2023.

The management of the Company and its underlying structure has been provided by the current Manager under an MSA since the Company's inception as an Income Trust in 2003. The Manager is a company controlled by the Exchangeable Unitholders. On June 28, 2013, the Company entered into a new MSA. The new MSA is effective January 1, 2014, with an initial five-year term and a provision for the automatic renewal of successive five-year terms. Under the new MSA: (1) the management fee has been standardized to 20% across all brands, as compared to 20% for Royal LePage and 30% for Via Capitale under the existing MSA; (2) the Manager can earn a new incentive fee for organic growth, which closely aligns the Manager's and the Company's goals with growing the underlying network of Agents, with the fee being calculated in accordance with the formula for incremental Franchise based on the average annual royalty fees per Agent; (3) the Manager has the ability to sell other branded Canadian Franchises to the Company; and (4) the following three changes were made to the manner in which amounts paid to the Manager for incremental Franchise contracts are determined: (i) the discount factor was standardized to 7.5%, (ii) the final purchase price is based on the average annual royalties earned over two years and (iii) the 20% holdback on the initial purchase price for the incremental Franchise contracts is paid over two years. All other terms of the new MSA remain substantially unchanged from the previous MSA. The differences from the previous MSA in respect of the three changes made to the incremental Franchise contract calculation noted above are as follows: (1) the Via Capitale discount factor was 10%, (2) the final purchase price for the contracts was based on the average annual royalties earned over one year for Royal LePage and three years for Via Capitale and (3) the 20% holdback on the initial purchase price for Royal LePage incremental Franchise contracts was paid after the end of the first year.

On January 1 of each year, the Company may, upon approval by the Independent Directors of the board and criteria detailed in the MSA, purchase Royal LePage Franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or shares of the Company, at the option of the Company; 80% is paid on acquisition and the remaining 20% a year later, when the actual franchise fees are determined, and the acquisition calculations adjusted accordingly. Effective January 1, 2014, the time to pay the remaining 20% balance will be extended to two years under the terms of the new MSA.

On January 1 of each year, the Company may, upon approval by the Independent Directors and criteria established by the Board of Directors, purchase Via Capitale Franchises acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or shares of the Company at the option of the Company; 80% is paid on acquisition and the remaining 20% over the following three years, when the actual franchise fees are determined, and the acquisition calculations are adjusted accordingly. Effective January 2014, the time to pay the remaining 20% balance will be reduced to two years under the terms of the new MSA.

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 14 of the Consolidated Financial Statements.

On January 1, 2013, the Partnership acquired 37 new Royal LePage Franchise Agreements from the Manager at an estimated purchase price of $6,019. A payment of $4,815, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid a year later, when the final purchase price is determined. Any subsequent changes to the value of the estimated purchase price are recognized in the Consolidated Statements of Earnings and Comprehensive Earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA.

On January 1, 2013, VCLP acquired seven new Via Capitale Franchise Agreements from the Manager and a subsidiary of the Manager at an estimated purchase price of $720. A payment of $576, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid over the next three years. Until the final purchase price is determined, the estimated price is to be revised over a three-year period from November 1, 2012 to October 31, 2015, based on the average annual royalty stream earned. Any subsequent changes to the value of the estimated purchase obligation are recognized in the Consolidated Statements of Earnings and Comprehensive Earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA.

Critical Accounting Estimates and Assumptions

Substantially all of the Company's activities are based on cash transactions, with revenue and expenditures based on contracted terms. The operating activities not based on contractual terms include the Company's administration costs and the amortization period of intangible assets. The Company's administration costs of approximately $1.1 million per annum relate to the Company's public reporting, regulatory and insurance costs.

The Company's intangible assets are continuously monitored for indication of impairment in the carrying value of these assets. A change in the carrying value would affect the net earnings of the Company but would have no direct cash flow implications.

In assessing the fair value of Franchise Agreements upon acquisition, impairment of intangible assets and measurement of deferred taxes, management estimates future cash flows by relying on external information and observable conditions where possible, supplemented by internal analysis.

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the impairment of intangible assets, determining the useful life of intangible assets, assessing the recoverability of accounts receivable, measurement of deferred taxes, measurement of the fair values of purchase obligation (receivable) and Exchangeable Units and fair values used for disclosure purposes.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods, and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

ACCOUNTING FOR FRANCHISE AGREEMENTS

The critical judgment made in accounting for the acquisition of Franchise Agreements is determining whether the acquisition is considered the acquisition of assets or a business. In applying the guidance in IFRS 3 *Business Combinations* ("IFRS 3"), the Company must evaluate whether the acquisition includes both inputs and processes and, as well, whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company evaluated the criteria included in IFRS 3 and determined that the acquisition of Franchise Agreements is an acquisition of assets as no "processes" are acquired in respect of the Franchise Agreements. In addition, the Company must apply judgment with respect to the accounting for the earn-out provisions as set out in the MSA in connection with the purchase of Franchise Agreements. The Company has determined that a portion of the purchase obligation is an embedded derivative instrument in a non-financial host contract, whereby the value changes in response to an underlying contract, which is the actual earned Franchise revenues. The Company has elected to designate the entire purchase obligation as a financial liability at fair value through profit or loss.

IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

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

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation/receivable, current income tax liability, interest payable to Exchangeable Unitholders, dividends payable to shareholders, a $32.7 million private debt placement, a $20.3 million term facility, Exchangeable Unit liability and a $2 million operating credit facility.

The Company is exposed to credit risk with respect to accounts receivable to the extent that any Franchisees are unable to pay their fees. The Company's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all Franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

The Company's debt consists of a $32.7 million private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a $20.3 million term facility with a Canadian financial institution, with interest available at a floating rate of prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3%, with terms of up to six months.

Disclosure Controls and Internal Controls

As a public entity, we take every step necessary to ensure that material information regarding our reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures as well as internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at December 31, 2013. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management has designed ICFR to provide reasonable assurance that our financial reporting is reliable and that our consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR were evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2013.

Outstanding Restricted Voting Shares

The Company is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. Effective December 31, 2010, 9,483,850 Restricted Voting Shares were issued in exchange for 9,483,850 Partnership Units outstanding, and one Special Voting Share was issued in exchange for all special Trust Units outstanding before the Company's Conversion from an Income Trust. These Restricted Voting Shares and Special Voting Share remain unchanged at December 31, 2013.

The Restricted Voting Shares were issued to replace the Fund Units outstanding before the Conversion. 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 was issued to replace all of the special fund units outstanding prior to the Conversion. Special Partnership Units represent the proportionate voting rights of Exchangeable Unitholders in the Company. The holders can redeem them at $0.01 per share; they are not entitled to dividends declared by the Company. No additional Restricted Voting Shares were issued during the Year.

Management's Discussion and Analysis of Results and Financial Condition

Company Structure

The Company is governed by a Board of Directors (the "Board") and consists of a corporation General Partner and Limited Partnership ("LP") structure.

Substantially all Company activity is transacted through the LP, which in turn flows distributions to public shareholders through the Corporation and to the Exchangeable Unitholders through the LP structure. Through this structure, public shareholders hold a 71.6% interest in the economics of the Company's underlying assets, and the remaining non-controlling interests are held by the subsidiaries of BAM.

Risk Factors

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

Market Outlook

At the mid-point of 2013, Canada's housing market emerged from a 12-month-long cyclical correction that saw sales volumes slow markedly. The second half of the year saw sales volumes surge as buyers returned to the market. Looking ahead, we expect the momentum we witnessed at year-end to continue into and throughout 2014. There remains significant pent-up demand from home buyers who deferred their purchase in 2013, which should help drive an active spring buying season. We expect a seller's market to prevail in the first half of 2014, followed by a balanced market for the remainder of the year.

Forward-Looking Statements

This MD&A and other content of this Financial Review report contain 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 Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set out in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; 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 resale real estate brokerage industry or the Company that reduce the number of and/or royalty revenue from the Company'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 Company's Annual Information Form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Supplemental Information – Net Earnings and Cash Flow From Operations for the Period

Three months ended ($ 000's, unaudited)	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Royalties	$ 8,220	$ 9,992	$ 10,229	$ 8,078	$ 8,064	$ 9,739	$ 10,133	**$ 8,332**
Less:								
Administration	452	(94)	519	484	271	638	393	**40**
Management fee	1,482	1,949	1,879	1,462	1,482	1,741	1,868	**1,586**
Interest expense	725	775	737	724	719	807	764	**750**
Cash flow from operations	5,561	7,362	7,094	5,408	5,592	6,553	7,108	**5,956**
Interest on Exchangeable Units	1,168	1,168	1,168	1,768	1,168	1,168	1,168	**1,168**
(Gain) loss on fair value of Exchangeable Units	3,527	(5,624)	3,494	(1,297)	699	(2,096)	4,325	**(499)**
Loss (gain) on fair value of purchase obligation	–	–	(24)	(331)	(212)	(138)	(203)	**343**
Amortization of intangible assets	3,350	3,315	3,315	3,124	3,331	3,259	3,211	**2,882**
Impairment of intangible assets	–	–	685	785	388	–	94	**909**
Earnings (loss) before taxes	(2,484)	8,503	(1,544)	1,359	218	4,360	(1,487)	**1,153**
Current income tax expense	(837)	(1,028)	(1,147)	(774)	(841)	(1,096)	(1,134)	**(887)**
Deferred income tax recovery	141	372	235	176	80	110	109	**303**
Net and comprehensive earnings (loss) for the period	(3,180)	7,847	(2,456)	761	(543)	3,374	(2,512)	**569**
Add:								
Amortization of intangible assets	3,350	3,315	3,315	3,124	3,331	3,259	3,211	**2,882**
Impairment of intangible assets	–	–	685	785	388	–	94	**909**
Current income tax expense	837	1,028	1,147	774	841	1,096	1,134	**887**
Deferred income tax recovery	(141)	(372)	(235)	(176)	(80)	(110)	(109)	**(303)**
Interest on Exchangeable Units	1,168	1,168	1,168	1,768	1,168	1,168	1,168	**1,168**
(Gain) loss on fair value of Exchangeable Units	3,527	(5,624)	3,494	(1,297)	699	(2,096)	4,325	**(499)**
Loss (gain) on fair value of purchase obligation	–	–	(24)	(331)	(212)	(138)	(203)	**343**
Cash flow from operations	5,561	7,362	7,094	5,408	5,592	6,553	7,108	**5,956**
Less change in:								
Unutilized cash	(1,775)	(3,576)	(3,308)	(1,622)	(1,806)	(2,767)	(3,322)	**(2,170)**
Cash required for dividends	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	**$ 3,786**
Cash flow from operations available to:								
Public shareholders	$ 2,618	$ 2,618	$ 2,618	$ 2,618	$ 2,618	$ 2,618	$ 2,618	**$ 2,618**
Non-controlling interest	1,168	1,168	1,168	1,168	1,168	1,168	1,168	**1,168**
	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	$ 3,786	**$ 3,786**

Supplemental Information – Selected Financial and Operating Information

Three months ended ($000's, unaudited)	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Revenue								
Fixed franchise fees	$ 4,719	$ 4,716	$ 4,684	$ 4,644	$ 4,771	$ 4,726	$ 4,725	**$ 4,719**
Variable franchise fees	1,814	2,768	2,506	1,238	1,654	2,594	2,469	**1,399**
Premium Franchise Fees	821	1,455	1,972	1,193	724	1,314	1,913	**1,285**
Other fee revenue and services	866	1,053	1,067	1,003	915	1,105	1,026	**929**
	$ 8,220	$ 9,992	$ 10,229	$ 8,078	$ 8,064	$ 9,739	$ 10,133	**$ 8,332**
% Revenue by region								
British Columbia	10	10	10	9	10	10	11	**10**
Prairies	9	10	9	9	10	10	10	**10**
Ontario	59	59	60	61	59	60	59	**59**
Quebec	19	18	18	18	18	17	17	**18**
Maritimes	3	3	3	3	3	3	3	**3**
	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Number of REALTORS®	189	(1)	(11)	(152)	472	(59)	(48)	**(141)**
Number of Agents	201	(10)	(25)	(104)	467	(83)	(57)	**(146)**
Number of fixed-fee-paying Sales Representatives	(7)	11	(1)	16	2	24	8	**11**
Number of locations	14	(6)	–	(6)	23	(6)	(4)	**(42)**
At end of period								
Number of REALTORS®	15,250	15,249	15,238	15,086	15,558	15,499	15,451	**15,310**
Number of Agents	14,280	14,270	14,245	14,141	14,608	14,525	14,468	**14,322**
Number of fixed-fee-paying Sales Representatives	675	686	685	701	703	727	735	**746**
Number of locations	668	662	662	656	679	673	669	**627**
Number of Franchise Agreements								**307**

Supplemental Information – Distributions/Dividends History

	Dividends Declared per Share										
Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
January		$ 0.0917	$ 0.0917	$ 0.0958	$ 0.1000	$ 0.1040	$ 0.1170	$ 0.1170	$ 0.0920	$ 0.0920	**$ 0.0920**
February		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
March		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
April		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
May		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
June		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
July		0.0917	0.0917	0.0958	0.1000	0.1040	0.1170	0.1170	0.0920	0.0920	**0.0920**
August		0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	**0.0920**
September	$ 0.1789[1]	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	**0.0920**
October	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	**0.0920**
November	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1170	0.1170	0.0920	0.0920	**0.0920**
December	0.0917	0.0917	0.0917	0.0958	0.1000	0.1170	0.1570	0.3170	0.0920	0.0920	**0.0920**
	$ 0.45	$ 1.10	$ 1.10	$ 1.15	$ 1.20	$ 1.31	$ 1.44	$ 1.60	$ 1.10	$ 1.10	**$ 1.10**

[1] Based on a 55-day period.

Supplemental Information – Share and Exchangeable Unit Performance

Three months ended	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Trading price range of Units (TSX: "BRE")								
High	$ 14.25	$ 13.90	$ 13.80	$ 13.07	$ 13.30	$ 13.10	$ 13.92	**$ 14.03**
Low	$ 12.35	$ 11.46	$ 11.82	$ 11.71	$ 12.52	$ 12.02	$ 12.40	**$ 13.10**
Close	$ 13.65	$ 11.96	$ 13.01	$ 12.62	$ 12.83	$ 12.20	$ 13.50	**$ 13.35**
Average daily volume	9,003	6,744	11,879	13,377	17,596	11,156	8,939	**9,441**
Number of Units 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	**9,483,850**
Net enterprise value at Period end (thousands)								
Market capitalization	$ 174,877	$ 153,226	$ 166,678	$ 161,681	$ 164,372	$ 156,301	$ 172,955	**$ 171,034**
Long-term debt	52,475	52,517	52,559	52,602	52,645	52,691	52,736	**52,782**
Less:								
Cash on hand	1,152	1,282	3,814	5,103	460	2,317	2,939	**3,633**
	$ 226,200	$ 204,461	$ 215,423	$ 209,180	$ 216,557	$ 206,675	$ 222,752	**$ 220,183**

Supplemental Information – Canadian Residential Resale Real Estate Market

Three months ended	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Canada								
Transactional dollar volume[1]	$ 39,652	$ 55,681	$ 38,573	$ 31,155	$ 34,808	$ 56,229	$ 47,104	**$ 36,988**
Average selling price	$ 365,803	$ 373,718	$ 352,942	$ 357,766	$ 369,460	$ 385,444	$ 382,262	**$ 390,988**
Number of units sold	108,397	148,992	109,290	87,082	94,187	145,881	123,224	**94,601**
Number of REALTORS® at Period end	105,649	106,035	106,321	106,944	107,077	107,812	108,196	**109,032**
Housing starts	39,902	62,025	60,338	52,562	33,477	44,026	46,899	**45,732**
Greater Toronto Area	21.79%	32.69%	20.36%	17.27%	19.50%	33.25%	26.06%	**21.19%**
Transactional dollar volume[1]	$ 10,159	$ 15,240	$ 9,491	$ 8,050	$ 9,089	$ 15,499	$ 12,149	**$ 9,879**
Average selling price	$ 492,462	$ 512,872	$ 485,101	$ 495,293	$ 507,787	$ 533,455	$ 516,451	**$ 534,896**
Number of units sold	20,629	29,715	19,565	16,253	17,899	29,054	23,524	**18,469**
Housing starts	10,682	12,736	13,199	13,200	6,695	8,583	8,233	**10,036**

Twelve months ended	March 31, 2012	June 30, 2012	Sept. 30, 2012	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013	**Dec. 31, 2013**
Canada								
Transactional dollar volume[1]	$ 168,013	$ 170,814	$ 167,999	$ 165,061	$ 160,217	$ 160,765	$ 169,296	**$ 175,129**
Average selling price	$ 363,715	$ 363,714	$ 363,605	$ 363,762	$ 364,502	$ 368,355	$ 375,901	**$ 382,466**
Number of units sold	461,935	469,639	462,037	453,761	439,551	436,440	450,374	**457,893**
Housing starts	200,299	209,699	214,422	214,827	208,402	190,403	176,964	**170,134**
Seasonally adjusted housing starts	205,500	229,000	222,900	197,976	175,191	199,586	193,637	**189,672**
Greater Toronto Area								
Transactional dollar volume[1]	$ 44,025	$ 45,197	$ 44,081	$ 42,940	$ 41,870	$ 42,129	$ 44,787	**$ 46,616**
Average selling price	$ 475,838	$ 486,422	$ 493,291	$ 498,364	$ 501,844	$ 508,981	$ 516,394	**$ 524,092**
Number of units sold	92,522	92,918	89,361	86,162	83,432	82,771	86,730	**88,946**
Housing starts	42,053	43,544	46,596	49,817	45,830	41,677	36,711	**33,547**

Source: CREA
[1] ($ millions).

Supplemental Information – Cash Flow From Operations

Cash flow from operations and its utilization since Company inception ($ 000's)	Total	Year ended Dec. 31, 2013	IFRS Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Canadian GAAP Aug. 7, 2003 to Dec. 31, 2009
Royalties	$ 337,267	$ 36,268	$ 36,519	$ 36,720	$ 36,630	$ 191,130
Less:						
Administration	10,533	1,342	1,361	1,667	1,771	4,392
Interest expense	27,375	3,040	2,961	3,042	2,900	15,432
Management fee	61,753	6,677	6,772	6,747	6,713	34,844
Cash flow from operations	237,606	25,209	25,425	25,264	25,246	136,462
Less:						
Dividends to shareholders	125,630	10,471	10,471	12,605	15,212	76,871
Interest/dividends to Exchangeable Unitholders/non-controlling interest	45,780	4,672	5,272	4,672	5,337	25,827
Total dividends	171,410	15,143	15,743	17,277	20,549	102,698
Cash flow from operations less total dividends	66,196	10,066	9,682	7,987	4,697	33,764
Less: Funding of acquisitions	46,440	5,854	2,965	6,062	6,415	25,144
Less: Purchase of Units under NCIB	4,096	–	–	–	–	4,096
Net change in the Period	$ 15,660	$ 4,212	$ 6,717	$ 1,925	$ (1,718)	$ 4,524
Cumulative change	$ 15,660	$ 15,660	$ 11,448	$ 4,731	$ 2,806	$ 12,386
Dividends percentage payout[1]	72%	60%	62%	68%	81%	75%

[1] This represents the total dividends paid as a percentage of cash flow from operations.

Cash flow from operations reconciled to cash flow from operating activities ($ 000's)	Total	Year ended Dec. 31, 2013	IFRS Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010	Canadian GAAP Aug. 7, 2003 to Dec. 31, 2009
Cash flow from operating activities	$ 189,278	$ 14,855	$ 12,946	$ 18,588	$ 6,100	$ 136,789
Add (deduct):						
Changes in non-cash working capital items	2,201	1,216	(49)	1,490	(1,224)	768
Interest on Exchangeable Units	19,953	4,672	5,272	4,672	5,337	–
Income taxes paid	12,075	4,046	8,029	–	–	–
Interest on Trust Units	15,212	–	–	–	15,212	–
Non-cash interest expense	(1,113)	420	(773)	514	(179)	(1,095)
Cash flow from operations	$ 237,606	$ 25,209	$ 25,425	$ 25,264	$ 25,246	$ 136,462

Supplemental Information – Acquisitions

Date acquired by the Company, January 1, ($ millions unless stated otherwise)	2014	2013	2012	2011	2010
Purchase price					
Estimated	6.25	6.74	2.88	3.48	5.24
Actual (a) (d)	(a)	6.60	2.70	3.34	5.70
Payments					
Initial	5.00	5.40	2.30	2.78	4.20
Final (b) (c) (d)	(a)	1.20	0.40	0.56	1.50
Estimated					
Annual royalty stream	0.95	1.05	0.49	0.55	0.89
Number of REALTORS®	493	516	217	247	417
Number of locations	20	27	12	8	17
Number of agreements	46	44	25	23	21
Actual					
Annual royalty stream (b)	(d)	0.98	0.45	0.52	0.95
Number of REALTORS®	(d)	487	217	231	417
Number of locations	20	27	12	8	17
Number of agreements	46	44	25	23	21

(a) To be determined at the end of the year in accordance with the MSA and appropriate purchase agreement.
(b) Audited.
(c) Purchase price obligation as at December 31.
(d) Purchase price obligation and actual values for Via Capitale are calculated over three years.

Glossary of Terms

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

"Agents' Gross Revenues" is defined as, in respect of a Franchisee, the gross commission income (net of outside Broker payments) paid in respect of the closings of residential resale real estate transactions through Agents associated with such Franchisee.

"Broker" is defined as an individual licensed with the relevant regulatory body to manage a real estate brokerage office.

"Brookfield Asset Management" or **"BAM"** means Brookfield Asset Management Inc., a corporation incorporated under the laws of Ontario.

"Brookfield Holdings" or **"BHCI"** is defined as Brookfield Holdings Canada Inc., a subsidiary of Brookfield Asset Management, resulting from the amalgamation on January 1, 2012 of Brascan Asset Management Holdings and Trilon Bancorp Inc. and operating under the name Brookfield Holdings Canada Inc. effective January 10, 2012.

"Brookfield Private Equity Direct Investments Holdings LP" or **"BPEDIH LP"** is a wholly owned subsidiary of Brookfield Asset Management operating in Canada.

"Canada Mortgage and Housing Corporation" or **"CMHC"** is Canada's national housing agency, established as a government-owned corporation. CMHC is Canada's premier provider of mortgage loan insurance, mortgage-backed securities, housing policy and programs and housing research.

"Canadian Real Estate Association" or **"CREA"** is the national association that represents the real estate industry on federal public policy matters and provides member services and education.

"Cash Flow from Operations" or **"CFFO"** is defined as net income before fair value changes, amortization, interest on Exchangeable Units, income taxes, items related to other income and interests of Exchangeable Unitholders. CFFO is used by the Company to measure the amount of cash generated from operations, which is available to the Company's shareholders on a diluted basis, where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable Unitholders converted Class B LP Units into shares of the Company. The Company uses CFFO to assess its operating results and the value of its business and believes that many of its shareholders and analysts also find this measure of value to them. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

"Class A LP Units" is defined as the Class A ordinary limited Partnership Units of the Partnership.

"Class B LP Units" is defined as the Class B subordinated limited Partnership Units of the Partnership, all of which are held by Brookfield Holdings or an affiliate of Brookfield Holdings.

"Company" is defined as Brookfield Real Estate Services Inc., a corporation incorporated under the laws of the Province of Ontario.

"Company Network" is defined as the collective network of Franchisees providing services under the Royal LePage, Johnston & Daniel and Via Capitale brand names.

"Conversion" represents the Company's change from an Income Trust to a corporate structure on December 31, 2010.

"EBITDA" stands for Earnings Before Interest, Tax, Depreciation and Amortization. It is a useful indicator of the Company's profitability and a key metric used to assess compliance with the debt covenants.

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

"Franchise" is defined as a residential real estate brokerage Franchise operated pursuant to a Franchise Agreement, with the Manager's comprehensive systems consisting of proprietary technological, marketing, promotional, communications and support systems.

"Franchise Agreements" are defined as the agreements pursuant to which brokerage offices offer residential brokerage services. These Franchise Agreements consist of a standard contract that governs matters such as use of Trademarks, initial and renewal terms, services to be provided and fees. Over the term of the standard contract, the Franchisee may undertake activities that 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 standard contract.

"Franchisees" is defined as the Franchisees operating under the Franchise Agreements.

"Franchise Network" is defined as the Royal LePage Network, Johnston & Daniel Network and Via Capitale Network.

"General Partner" is defined as 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.

"Independent Director" is defined as a Director who is "unrelated" (as such term is defined in the TSX Company Manual as it exists as of the date hereof) to each of the Company, the Partnership, the Manager and each of its affiliated entities.

"International Accounting Standards" or **"IAS"** is an older set of standards for providing guidance on the preparation and disclosure of financial statements. Since 2001, a new set of standards known as the International Financial Reporting Standards (IFRS) has been issued to supplement and update IAS in an effort to globalize the standards.

"International Accounting Standards Board" or **"IASB"** is an independent, not-for-profit organization responsible for developing International Financial Reporting Standards and promoting the use and application of these standards.

"International Financial Reporting Standards" or **"IFRS"** is 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 Services Agreement" is defined as the second Amended and Restated Management Services Agreement, made effective December 31, 2012, among the Partnership, the Company, the General Partner, Via Capitale L.P. and the Manager, pursuant to which, among other things, the Manager provides management and administrative services to the Partnership, the Company, the General Partner and Via Capitale L.P., including management of the Partnership Assets on behalf of the Partnership and Via Capitale L.P.

"Manager" is defined as Brookfield Real Estate Services Manager Limited, a corporation incorporated under the laws of the Province of Ontario to provide management and administrative services to the Company, the General Partner and the Partnership.

"Market" is defined as the dollar value of residential resale units sold (transactional dollar volume) over a twelve-month period in a particular geographical area.

"MLS®" or **"Multiple Listing Service®"** is a registered trademark of the Canadian Real Estate Association and refers to the real estate database service operated by local real estate boards under which properties may be listed, purchased or sold.

"Partnership" is defined as Residential Income Fund L.P., a limited partnership established under the laws of the Province of Ontario.

"Partnership Agreement" is defined as the second amended and restated limited Partnership Agreement dated the 31st day of December, 2012, between the General Partner and the Company, pursuant to which the Partnership is governed, and may be amended from time to time.

"Partnership Assets" is defined as, collectively, Trademarks, all rights under the Franchise Agreements (other than the Franchise Agreements in respect of Incremental Franchises) and all rights to receive the Royalties.

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

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

"Residential Income Fund L.P." or **"RIFLP"** is a limited partnership established under the laws of the Province of Ontario.

"Restricted Voting Shares" is defined as the Restricted Voting Shares in the capital of the Company.

"Revolver" is an operating loan in the principal amount of $2 million provided by CIBC, which is used by the Partnership for working capital purposes and to normalize distributions to holders of Class B LP Units and Class A LP Units, having regard to seasonality inherent within the Business.

"Royal LePage" is defined as, collectively, the Business as conducted by the Manager under the name Royal LePage, as a franchisor and as the Manager of the Partnership, the General Partner and the Company.

"Royal LePage Network" is defined as, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more Trademarks (but excluding Franchises granted by the Manager that have not become Incremental Franchises).

"Sales Representative" is defined as an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with an Agent.

"Shareholders' Agreement" is defined as the Shareholders' Agreement between TBI (a predecessor of Brookfield Holdings) and the General Partner governing the administration and affairs of the General Partner, dated August 7, 2003.

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

"System for Electronic Document Analysis and Retrieval" or **"SEDAR"** is 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.

"TBI" is defined as Trilon Bancorp Inc., a predecessor to Brookfield Holdings.

"Toronto Real Estate Board" or **"TREB"** is Canada's largest not-for-profit real estate board. TREB serves more than 36,000 licensed real estate Brokers and Salespersons in and about the Greater Toronto Area. The organization offers its members services that range from professional development and arbitration services to releasing a variety of residential and commercial market-related reports.

"Trademarks" is defined as the Trademark rights related to the Business held by or licensed to Brookfield Holdings, the Manager or Via Capitale including, without limitation, the Royal LePage Trademarks and the Via Capitale Trademarks.

"TSX" is defined as the Toronto Stock Exchange.

"Unitholders" is defined as the holders of Units, and a "Unitholder" means any one of them.

"Units" is defined as the Units of the Fund, other than special fund units, each representing an equal undivided beneficial interest in the Fund.

"Via Capitale" is defined as, collectively, the Business as conducted by the Manager and the Via Capitale Manager.

"Via Capitale L.P." or **"VCLP"** is defined as 9120 Real Estate Network, L.P./Réseau Immobilier 9120 S.E.C., a limited partnership established under the laws of the Province of Quebec.

"Via Capitale Manager" is defined as 9120-5583 Quebec Inc., a wholly owned subsidiary of the Manager, incorporated under the laws of the Province of Quebec, doing business under the name of Réseau Immobilier La Capitale/La Capitale Real Estate Network.

"Via Capitale Network" is defined as, collectively, the network of Franchisees licensed under Franchise Agreements to carry on residential property brokerage operations using one or more of the Via Capitale Trademarks (but excluding Franchises owned by the Manager or the Via Capitale Manager).

Management's Responsibility for the Financial Statements

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

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

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

TORONTO, CANADA, March 24, 2014

Philip Soper
President and Chief Executive Officer

Kevin A. Cash
Senior Vice-President, CFO

Independent Auditor's Report

To the Shareholders of Brookfield Real Estate Services Inc.

We have audited the accompanying consolidated financial statements of Brookfield Real Estate Services Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of earnings and comprehensive earnings, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Real Estate Services Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

March 24, 2014
Toronto, Canada

Consolidated Balance Sheets

As at December 31, (In thousands of Canadian dollars)	Note	2013	2012
Assets			
Current assets			
Cash		$ 3,633	$ 5,103
Accounts receivable	4	5,321	4,247
Income tax receivable		148	60
Prepaid expenses		90	117
		9,192	9,527
Non-current assets			
Notes receivable	5	145	–
Deferred tax asset	8	4,924	4,322
Purchase receivable	6	–	70
Intangible assets	6, 7	79,172	86,507
		$ 93,433	$ 100,426
Liabilities and shareholders' (deficit) equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,384	$ 1,408
Purchase obligation – current portion	6	974	463
Interest payable to Exchangeable Unitholders		389	989
Dividends payable to shareholders		872	872
		3,619	3,732
Non-current liabilities			
Long-term debt	10	52,782	52,602
Purchase obligation	6	94	–
Exchangeable Units	11	44,424	41,995
		100,919	98,329
Shareholders' (deficit) equity			
Restricted Voting Shares	12	140,076	140,076
Deficit		(147,562)	(137,979)
		(7,486)	2,097
		$ 93,433	$ 100,426

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

Simon Dean
Director

Lorraine Bell
Director

Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	Note	2013	2012
Royalties			
Fixed franchise fees		$ 18,941	$ 18,763
Variable franchise fees		8,116	8,326
Premium Franchise Fees		5,236	5,441
Other revenue and services		3,975	3,989
		36,268	36,519
Expenses			
Administration		1,342	1,361
Management fee	14	6,677	6,772
Interest expense		3,040	2,961
Impairment of intangible assets	7	1,391	1,470
Amortization of intangible assets	7	12,683	13,104
		25,133	25,668
Operating income		11,135	10,851
Interest on Exchangeable Units		(4,672)	(5,272)
Loss on fair value of Exchangeable Units	11	(2,429)	(100)
Gain on fair value of purchase obligation	6	210	355
Earnings before income tax		4,244	5,834
Current income tax expense		(3,958)	(3,786)
Deferred income tax recovery		602	924
Income tax expense	8	(3,356)	(2,862)
Net and comprehensive earnings		888	2,972
Basic earnings per share	13	$ 0.09	$ 0.31
Weighted average number of shares outstanding used in computing basic earnings per share		9,483,850	9,483,850
Diluted earnings per share	13	$ 0.09	$ 0.31
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517	12,811,517

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' (Deficit) Equity

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

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, January 1, 2012	$ 140,076	$ (130,480)	$ 9,596
Net earnings	–	2,972	2,972
Dividends declared	–	(10,471)	(10,471)
Balance, December 31, 2012	$ 140,076	$ (137,979)	$ 2,097

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In thousands of Canadian dollars)	Note	2013	2012
Cash provided by (used for):			
Operating activities			
Net earnings for the year		$ 888	$ 2,972
Items not affecting cash			
Loss on fair value of Exchangeable Units	11	2,429	100
Gain on fair value of purchase obligation		(210)	(355)
Interest expense		7,712	8,233
Interest paid		(8,132)	(7,460)
Current income tax expense		3,958	3,786
Income taxes paid		(4,046)	(8,029)
Deferred income tax recovery		(602)	(924)
Impairment of intangible assets		1,391	1,470
Amortization of intangible assets		12,683	13,104
Changes in non-cash working capital		(1,216)	49
		14,855	12,946
Investing activity			
Purchase of intangible assets	6	(5,854)	(2,965)
Financing activity			
Dividends paid to shareholders		(10,471)	(10,471)
Decrease in cash during the year		(1,470)	(490)
Cash, beginning of the year		5,103	5,593
Cash, end of the year		$ 3,633	$ 5,103

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2013 and 2012
(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization

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

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

Brookfield Private Equity Direct Investments Holdings L.P. ("BPEDIH"), a wholly owned subsidiary of Brookfield Asset Management ("BAM") operating in Canada, owns the remaining 25% common share interest in RIFGP. The shares were previously owned by another wholly owned subsidiary of BAM, Brookfield Holdings Canada Inc. (a corporation resulting from the amalgamation of Trilon Bancorp Inc. and Brascan Asset Management Holdings effective January 10, 2012) ("BHCI"), until October 2013, when BHCI transferred all of its interest in the Partnership and RIFGP to BPEDIH. The transfer did not have any impact on the net assets, financial position or results of operations of the Company.

On December 31, 2012, the Company executed a series of transactions (the "Restructure") to effectively collapse and dissolve the Company's wholly owned subsidiaries Brookfield Real Estate Services Fund (the "Fund") and RL RES Holding Trust ("RLHT"). The Restructure did not result in any changes to the underlying business operations of the Company. The Restructure was accounted for as a continuity-of-interests, with no significant impact on the net assets, financial position or results of operations of the Company.

Immediately following the Restructure, on December 31, 2012, RIFGP and 4541219 Canada Inc., the General Partner of VCLP, amalgamated to form Residential Income Fund General Partner Limited (the "Amalgamation"), a corporation established under the laws of Ontario and the sole General Partner of the Partnership and VCLP. The Amalgamation did not have any impact on the net assets, financial position or results of operations of the Company.

2. Significant Accounting Policies

STATEMENT OF COMPLIANCE

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

These consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on March 4, 2014.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a going concern basis and include the accounts of the Company, its 75% owned subsidiaries RIFGP, VCLP, and the Partnership. RIFGP is the managing General Partner of the Partnership and the remaining 25% interest in RIFGP is now owned by BPEDIH. The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Limited. ("BRESML"), a party related to BPEDIH via common control. Royal LePage Real Estate Services Limited ("RES"), a wholly owned subsidiary of BRESML, pays royalties to the Company under a Franchise Agreement.

BASIS OF CONSOLIDATION

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

The Company's significant accounting policies are as follows:

CASH

Cash, consisting of cash on hand, is used to fund dividends to shareholders, the purchase of Franchise Agreements and other operating requirements.

ACCOUNTS RECEIVABLE

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectibility.

INTANGIBLE ASSETS

Intangible assets, consisting of Franchise Agreements and trademark rights, are accounted for using the cost method. Intangible assets are recorded at initial cost less accumulated amortization and accumulated impairment losses. Subsequent adjustments to the purchase price of intangible assets based on future earn-out provisions governed by the terms set out in the Amended and Restated Master Services Agreement ("MSA") dated January 1, 2011 are expensed as incurred.

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

The Company acquires intangible assets annually and capitalizes the estimated purchase price on the purchase date. The initial purchase price for Franchise Agreement(s) is based on the expected discounted cash flows generated over their respective terms. At each balance sheet date, the Company assesses whether there are any indicators that intangible assets are impaired. If indicators of impairment exist, the recoverable amount of the intangible asset or cash-generating unit is estimated. The Company considers the common ownership of Franchise Agreements to be a cash-generating unit. The recoverable amount of the cash-generating unit is the greater of its fair value less costs to sell and its value-in-use. Fair value is determined to be the amount for which the intangible asset can be sold in an arm's length transaction, whereas value-in-use is determined by estimating the present value of the future cash flows expected to be derived from the continued use of the intangible asset or cash-generating unit. If the carrying value of the intangible asset or cash-generating unit exceeds the recoverable amount, the intangible asset or cash-generating unit is written down to the recoverable amount, and an impairment loss is recognized and charged to income in the period. Impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the conditions causing the impairment reversing themselves. In this event, the carrying value of the intangible asset or cash-generating unit is increased to its revised recoverable amount, limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized as income in the period of reversal.

INCOME TAXES

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and the carrying amounts of assets and liabilities, except to the extent that there was a temporary difference present on the initial recognition of an asset or liability outside of a business combination. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized directly in equity.

REVENUE RECOGNITION

Franchise fees are generally based on a percentage of an Agents' Gross Revenues ("variable franchise fees") to a specified maximum plus a dollar amount per Agent ("fixed franchise fees"). Gross revenue is the gross commission income (net of outside Broker payments) paid in respect of the closings of residential resale real estate transactions. Variable franchise fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor, and collectibility is reasonably assured. Fixed franchise fees are recognized as income as earned, and collectibility is reasonably assured.

Premium Franchise Fees are calculated as a percentage ranging from 1% to 5% of an Agent's gross commission income for a select number of Franchise locations. These fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor, and collectibility is reasonably assured.

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

EXCHANGEABLE UNITS

Exchangeable Units represent the future distribution obligation of the Company in respect of Class B LP Units of the Partnership, a wholly owned subsidiary of the Company, and are convertible, on a one-for-one basis, subject to adjustment, into Restricted Voting Shares of the Company. These financial instruments are classified as a financial liability as a result of their puttable feature as well as by virtue of the Partnership Agreement, whereby the Partnership is required to distribute all of its income to the partners. The Company has designated these financial liabilities as fair value through profit or loss. The fair value of these financial liabilities is based on the market price of the Company's Restricted Voting Shares and the number of Exchangeable Units outstanding at the reporting date.

EARNINGS PER SHARE

The earnings per share are based on the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated to reflect the dilutive effect, if any, of the Exchangeable Unitholders exercising their right to exchange Class B LP Units of the Partnership into Restricted Voting Shares of the Company.

FINANCIAL INSTRUMENTS

All financial instruments are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured at fair value, except for loans and receivables, held-to-maturity instruments and other financial liabilities, which are measured at amortized cost. Transaction costs for financial liabilities are applied against these liabilities and amortized using the effective interest method, the resulting amortization being recorded as interest expense. Gains and losses on financial assets and liabilities classified as FVTPL are included in net earnings in the period in which they arise.

The Company made the following classifications:

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

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs that are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique that are not based on observable market data in determining fair values of the instruments.

The Company did not have any financial instruments at December 31, 2013 that would result in Other Comprehensive Earnings to the Company.

PURCHASE OBLIGATION

The Company's purchase obligation arises from the purchase of Franchise Agreements, for which the purchase price is based on future earn-out provisions governed by the MSA. Such earn-out provisions represent a derivative instrument embedded in a non-financial contract which is not closely related to the host contract. Such instruments are recorded in the consolidated balance sheet at fair value. Changes in the fair value of derivative instruments, including embedded derivatives, are recognized in net earnings.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the Company's consolidated financial statements require the determination of future cash flows utilized in assessing the impairment of intangible assets, determining the useful life of intangible assets, assessing the recoverability of accounts receivable, measurement of deferred taxes, measurement of the fair values of purchase obligation (receivable) and Exchangeable Units and fair values used for disclosure purposes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior periods, and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in these consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the Company's consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all assets and liability account balances.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

ACCOUNTING FOR FRANCHISE AGREEMENTS

The critical judgment made in accounting for the acquisition of Franchise Agreements is determining whether the acquisition is considered the acquisition of assets or a business. In applying the guidance in IFRS 3 *Business Combinations* ("IFRS 3"), the Company must evaluate whether the acquisition includes both inputs and processes and, as well, whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company evaluated the criteria included in IFRS 3 and determined that the acquisition of Franchise Agreements is an acquisition of assets as no "processes" are acquired in respect of the Franchise Agreements. In addition, the Company must apply judgment with respect to the accounting for the earn-out provisions as set out in the MSA, in connection with the purchase of Franchise Agreements. The Company has determined that a portion of the purchase obligation is an embedded derivative instrument in a non-financial host contract, whereby the value changes in response to an underlying contract, which is the actual earned Franchise revenues. The Company has elected to designate the entire purchase obligation as a financial liability at fair value through profit or loss.

IMPAIRMENT CHARGES FOR INTANGIBLE ASSETS

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

RECENT ACCOUNTING AND REPORTING CHANGES

IFRS 10 – *CONSOLIDATED FINANCIAL STATEMENTS* ("IFRS 10")

IFRS 10 replaced the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. The standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is applicable for annual periods beginning on or after January 1, 2013. The new standard did not have any material impact on the Company's financial position or performance.

IFRS 12 – *DISCLOSURE OF INTERESTS IN OTHER ENTITIES* ("IFRS 12")

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is applicable for annual periods beginning on or after January 1, 2013. The new standard has required certain new disclosures in the consolidated financial statements.

IFRS 13 – *FAIR VALUE MEASUREMENT* ("IFRS 13")

IFRS 13 replaces the current guidance on fair value measurement in IFRS with a single standard. The standard defines fair value, provides guidance on its determination and requires disclosures about fair value measurements but does not change the requirements for the items that should be measured and disclosed at fair value. The standard is applicable for annual periods beginning on or after January 1, 2013. The new standard has required certain new disclosures in the consolidated financial statements.

FUTURE ACCOUNTING AND REPORTING CHANGES

IFRS 9 – *FINANCIAL INSTRUMENTS* ("IFRS 9")

IFRS 9 is a multi-phase project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets. In October 2010, the International Accounting Standards Board ("IASB") reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for de-recognizing financial assets and financial liabilities. The mandatory effective date of IFRS 9 has not been finalized. The IASB intends to expand IFRS 9 to add new requirements for impairment of financial assets measured at amortized cost and hedge accounting. On completion of these various phases, IFRS 9 will be a complete replacement of IAS 39. Management is in the process of assessing the impact of adopting IFRS 9, if any.

3. Management Services Agreement

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

Under the MSA, BRESML is to provide certain management, administrative and support services to the Company and its subsidiaries and in return is paid a monthly fee equal to 20% and 30% of the distributable cash of the Partnership and VCLP, respectively. For the year ended December 31, 2013, the Company incurred management fees of $6,677 (December 31, 2012 – $6,772) for these services.

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

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

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

4. Accounts Receivable

Accounts receivable are related to fees due from the Company's Franchise network and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at December 31, 2013, the Company had accounts receivable of $5,321 (December 31, 2012 – $4,247) net of $330 (December 31, 2012 – $779) allowance for doubtful accounts. During the year ended December 31, 2013, $51 of net bad debt expense was included in administration expense (December 31, 2012 – $225). Management conducts an analysis to determine the allowance for doubtful accounts by assessing the collectibility of receivables on a Franchisee-by-Franchisee basis. This assessment takes into consideration factors such as the aging of outstanding fees, Franchisee operating performance, historical payment patterns, current collection efforts and the Company's security interests.

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

	90+ Days	60 Days	30 Days	Current	Total
Accounts receivable	$ 1,051	$ 327	$ 705	$ 3,238	$ 5,321

5. Notes Receivable

The Company has certain Franchisees with which it has entered into a payment plan in respect of franchise fees currently due to the Company, which are in arrears. Generally, these payment plans extend more than one year from the financial statement date as at December 31, 2013 and as a result have been classified as non-current. The terms stipulated in the payment plan agreement require the Franchisees to repay the total outstanding balance in equal monthly payments based on a spread above prime rate. As at December 31, 2013, the Company had notes receivable of $145 (December 31, 2012 – $nil).

6. Asset Acquisitions

The Company's purchase of Franchise Agreements is governed by terms set out in the MSA.

On January 1, 2013, the Partnership acquired 37 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $6,019. A payment of $4,815, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid when the final purchase price is determined on October 31, 2013, the determination date. Until the determination date, the estimated price is revised over the determination period, the one-year period starting on November 1 of the year immediately preceding the purchase date through to October 31 of the following year, based on the annual royalty stream earned. Any subsequent changes to the value of the estimated purchase price during the determination period are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA of prime plus 1%.

On January 1, 2013, VCLP acquired seven new Via Capitale Franchise Agreements from BRESML and a subsidiary of BRESML at an estimated purchase price of $720. A payment of $576, equal to 80% of the estimated purchase price, was due on January 1, 2013, and the remainder is to be paid over the next three years when the final purchase price is determined on October 31, 2015, the determination date. Until the determination date, the estimated price is revised over the determination period, a three-year period from November 1, 2012 to October 31, 2015, based on the average annual royalty stream earned. Any subsequent changes to the value of the estimated purchase obligation are recognized in the consolidated statements of earnings and comprehensive earnings and are classified as (loss) gain on fair value of purchase obligation in the period in which the change occurs. The unpaid balance due as of January 1, 2013 is subject to interest at the rate prescribed in the MSA of prime plus 1%..

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

For the year ended December 31, 2013, $210 was recorded as a decrease to the purchase obligation, and the corresponding amount was recorded as a gain on the fair value of purchase obligation (December 31, 2012 – $355).

For the year ended December 31, 2013, the Company incurred $110 of interest expense related to outstanding purchase obligation payments (December 31, 2012 – $43).

On January 1, 2012, the Partnership acquired 20 new Royal LePage Franchise Agreements from BRESML at an estimated purchase price of $1,863. A payment of $1,491, equal to 80% of the estimated purchase price, was paid from cash on hand in 2012, and the remainder was paid by January 31, 2013.

On January 1, 2012, VCLP acquired five new Via Capitale Franchise Agreements from BRESML and a subsidiary of BRESML at an estimated purchase price of $1,018. A payment of $814, equal to 80% of the estimated purchase price, was paid from cash on hand in 2012, and the remainder was paid by January 31, 2013.

The additions to intangible assets during the years ended December 31, 2013 and 2012 are summarized as follows:

Years ended December 31,	Royal LePage	Via Capitale	2013	2012
Franchise Agreements	$ 6,019	$ 720	$ 6,739	$ 2,881

The purchase obligations consist of the following:

Years ended December 31,	Royal LePage	Via Capitale	2013	2012
Purchase obligation at beginning of the year	$ 426	$ (33)	$ 393	$ 832
Current year purchase obligation	6,019	720	6,739	2,881
Price adjustment on current year purchases	(219)	9	(210)	(355)
Payment on current year purchases	(4,815)	(576)	(5,391)	(2,305)
Payment of obligations on prior years' purchases	(426)	(37)	(463)	(660)
Purchase obligation at end of the year	$ 985	$ 83	$ 1,068	$ 393
Current portion of purchase obligation (receivable)	$ 985	$ (11)	$ 974	$ 463
Long-term portion of purchase obligation (receivable)	–	94	94	(70)
Purchase obligation at end of the year	$ 985	$ 83	$ 1,068	$ 393

7. Intangible Assets

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

	Franchise Agreements	Trademarks	Total
Cost			
At January 1, 2012	$ 193,339	$ 5,427	$ 198,766
Purchases	2,881	–	2,881
Impairment	(1,470)	–	(1,470)
At December 31, 2012	$ 194,750	$ 5,427	$ 200,177
Purchases	6,739	–	6,739
Impairment	(292)	–	(292)
Amounts written off	(2,988)	–	(2,988)
At December 31, 2013	**$ 198,209**	**$ 5,427**	**$ 203,636**
Accumulated amortization			
At January 1, 2012	$ 99,014	$ 1,552	$ 100,566
Amortization expense	12,919	185	13,104
At December 31, 2012	$ 111,933	$ 1,737	$ 113,670
Amortization expense	12,498	185	12,683
Amounts written off	(1,889)	–	(1,889)
At December 31, 2013	**$ 122,542**	**$ 1,922**	**$ 124,464**
Carrying value			
At January 1, 2012	$ 94,325	$ 3,875	$ 98,200
At December 31, 2012	$ 82,817	$ 3,690	$ 86,507
At December 31, 2013	**$ 75,667**	**$ 3,505**	**$ 79,172**

For the year ended December 31, 2013, the Company recognized an impairment charge of $1,391 (December 31, 2012 – $1,470), relating to Franchisees where the recovery of capitalized value is no longer reasonably assured, and for the expiry and non-renewal of Franchise Agreements in the Royal LePage and Via Capitale networks.

Management determined the recoverable amount using a value-in-use amount. The discount rate used was the pre-tax rate, which reflects current market assessment of the risks specific to the asset. In calculating the discounted future cash flow for each Franchisee, management performed a net present value of annuity calculation using actual cash flows received in 2011 and 2012, the pre-tax discount rate and the life of the agreements plus one renewal term as the assumptions.

Trademarks arise when a new brand is acquired.

8. Income Taxes

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax basis result in either deferred income tax assets or liabilities, except to the extent that a temporary difference was present on the initial recognition of the asset outside of a business combination. Deferred income taxes are computed using substantively enacted tax rates applicable to the years in which the temporary differences are expected to reverse.

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

Years ended December 31,	2013	2012
Earnings before income taxes for the year:	$ 4,244	$ 5,834
Expected income tax expense at statutory rate of 26.5% (2012 – 26.5%)	1,124	1,545
Increase (decrease) in income tax expense (recovery) due to the following:		
Non-deductible amortization	1,487	1,569
Non-deductible loss on fair value of Exchangeable Units	644	26
Non-deductible interest on Exchangeable Units	1,238	1,397
Non-deductible impairment and write-off on Intangibles	127	225
Non-deductible purchase obligation	(14)	(94)
Income allocated to Exchangeable Unitholders	(1,392)	(1,390)
Rate changes	–	(207)
True-up from provision to tax return	139	(201)
Other	3	(8)
Total income tax expense	$ 3,356	$ 2,862

The major components of income tax expense include the following:

Years ended December 31,	2013	2012
Current tax expense	$ 3,958	$ 3,786
Deferred tax recovery	(602)	(924)
Total income tax expense	$ 3,356	$ 2,862

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

As at December 31,	2013	2012
Intangible assets	$ 4,938	$ 4,256
Financing costs	(14)	66
Total deferred tax asset	$ 4,924	$ 4,322

9. Operating Credit Facility

The Partnership has 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 2.5% to 3% or the Banker's Acceptance rate plus 3.5% to 4%, based on the ratio of total debt to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization ("Consolidated EBITDA") of the Partnership, as defined in the amended credit agreement. EBITDA is defined as earnings (loss) before tax, before interest on Exchangeable Units, gain (loss) on fair value of Exchangeable Units and gain (loss) on purchase obligation. As at December 31, 2013, the Company is compliant with its financial covenants. The assets of the Company have been pledged as security against the operating facility. As at December 31, 2013 and December 31, 2012, the Revolver had not been drawn upon.

10. Long-Term Debt

The Company's long-term debt consists of the following debt facilities:

As at December 31,	2013	2012
Private debt placement	$ 32,565	$ 32,454
Term facility	20,217	20,148
	$ 52,782	$ 52,602

Long-term debt includes a $32,700 private debt placement with a number of Canadian institutional investors, with fixed interest of 5.809%, and a $20,300 term facility provided by a Canadian financial institution, with interest available in the form of a floating rate at prime plus 1.5%, payable quarterly, or at Banker's Acceptance rates plus 3% with terms of up to six months. Both facilities have a five-year term maturing on February 17, 2015. The assets of the Company have been pledged as security against the private debt placement, term facility and operating credit facility on a pari-passu basis.

The Company incurred $855 in issue costs associated with the debt obligations, resulting in net proceeds of $52,145.

The private placement and term facility had fair values of $33,911 and $20,300, respectively, at December 31, 2013 (December 31, 2012 – $34,492 and $20,300).

During the year ended December 31, 2013, $180 of amortization of the issue costs was recorded as interest expense (December 31, 2012 – $173).

11. Exchangeable Units

BPEDIH owns 315,000 Restricted Voting Shares of the Company, 25 common shares in RIFGP, 3,327,667 Exchangeable Units of the Partnership and one Special Voting Share of the Company, which accompanies the Exchangeable Units; this reflects an effective 28.4% interest in the Partnership. The Special Voting Share entitles the holder to a number of votes at any meeting of the Restricted Voting Shareholders equal to the number of Restricted Voting Shares that may be obtained upon the exchange of all the Exchangeable Units held by the holder and/or its affiliates. The Company indirectly holds the remaining 71.6% interest in the Partnership through Class A limited Partnership Units of the Partnership. The Exchangeable Unitholders are entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Exchangeable Units for Restricted Voting Shares of the Company.

The Company measures the Exchangeable Units at their fair value using the closing price of the Company's actively traded shares listed on the TSX as of the last date of market trading for the Period. As at December 31, 2013, the closing market price of the Company's shares was $13.35 (December 31, 2012 – $12.62). During the year ended December 31, 2013, the Company recorded a loss of $2,429 related to the fair value of the Exchangeable Units (December 31, 2012 – loss of $100).

12. 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 year ended December 31, 2013.

No preferred shares were issued or outstanding as at December 31, 2013.

The following table summarizes the outstanding shares of the Company:

As at December 31,	2013	2012
Restricted Voting Shares	9,483,850	9,483,850
Special Voting Share	1	1

13. Earnings per Share

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

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	2013	2012
Net earnings available to Restricted Voting Shareholders – basic	$ 888	$ 2,972
Interest on Exchangeable Units	4,672	5,272
Loss on fair value of Exchangeable Units	2,429	100
Net earnings available to Restricted Voting Shareholders – diluted	$ 7,989	$ 8,344
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
Basic earnings per share	$ 0.09	$ 0.31
Diluted earnings per share	$ 0.09	$ 0.31
Dividends declared	$ 10,471	$ 10,471
Restricted Voting Shares	9,483,850	9,483,850
Dividends per Restricted Voting Share	$ 1.10	$ 1.10

14. Related Party Transactions

Unless disclosed elsewhere, the Company had the following transactions with parties related to the Exchangeable Unitholders for the years ended December 31, 2013 and 2012. These transactions have been recorded at the exchange amount agreed to between the parties.

Years ended December 31,	2013	2012
a) Royalties		
Fixed, variable and other franchise fees	$ 2,632	$ 2,617
Premium Franchise Fees	$ 4,494	$ 4,643
b) Expenses		
Management fees	$ 6,677	$ 6,772
Insurance and other	$ 105	$ 109
Interest on purchase obligations	$ 110	$ 43
c) Interest paid		
Interest paid to Exchangeable Unitholders	$ 4,672	$ 5,272

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

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

As at December 31,		2013		2012
d) Accounts receivable				
Franchise fees receivable and other	$	631	$	1,440
e) Non-current assets				
Purchase receivable	$	–	$	70
f) Accounts payable and accrued liabilities				
Management fees	$	580	$	565
Interest on purchase obligations	$	7	$	8
Administrative shared service liability and other	$	220	$	85
g) Interest payable to Exchangeable Unitholders	$	389	$	989
h) Purchase obligation payable	$	1,068	$	463

As at December 2013, BRESML provided $900 in funding in the form of a line of credit for certain Franchisee operations.

The Company is governed by an independent Board of Directors, who are required to participate in scheduled and special Board and committee meetings. During the year ended December 31, 2013, $383 (December 31, 2012 – $285) of director fee compensation was included in administration expense.

15. Financial Instruments

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

A) CREDIT RISK

Credit risk arises from the possibility that the Franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Company's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all Franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis. As at December 31, 2013, the Company has an allowance for doubtful accounts of $330 (December 31, 2012 – $779).

B) LIQUIDITY RISK

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs, including paying ongoing future dividends to shareholders and interest to Exchangeable Unitholders. Management reduces liquidity risk by maintaining more conservative debt covenant ratios compared with those required by the covenants associated with the long-term debt. Also, the Company has a $2,000 unutilized credit under the Revolver, as described in Note 9.

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

	2014	2015	2016	Beyond 2016	Total
Accounts payable and accrued liabilities	$ 1,384	$ –	$ –	$ –	$ 1,384
Purchase obligation	974	23	23	48	1,068
Interest payable to Exchangeable Unitholders	389	–	–	–	389
Dividends payable to shareholders	872	–	–	–	872
Interest on long-term debt	3,042	761	–	–	3,803
Private debt placement	–	32,700	–	–	32,700
Term facility	–	20,300	–	–	20,300
Exchangeable Units	–	–	–	44,424	44,424
Total	$ 6,661	$ 53,784	$ 23	$ 44,472	$ 104,940

C) INTEREST RATE RISK

The Company is exposed to the risk of interest rate fluctuations on its Revolver and term facilities as the interest rates on these facilities are tied to the prime and Banker's Acceptance rates. Management has elected to continue with a floating rate position on these facilities and monitors this position on an ongoing basis. The Company's $32,700 private debt placement is fixed and accordingly does not have cash flow risk of interest rate fluctuations or short-term refinancing risk. An increase of 1% in the Company's effective interest rate on its variable rate debt would result in an interest expense increase of approximately $203 (2012 – $203).

D) FAIR VALUE

The fair value of the Company's financial instruments, which consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation (receivable), interest payable to Exchangeable Unitholders and dividends payable to shareholders, are estimated by management to approximate their carrying values due to their short-term nature (Level 3). Similarly, the Company's floating rate debt has a fair value that approximates its face value. The Company 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 value of the Company's long-term debt is disclosed in Note 10.

E) FAIR VALUE HIERARCHY

The following table summarizes the financial instruments measured at fair value in the consolidated balance sheet as at December 31, 2013 and December 31, 2012, classified using the fair value hierarchy:

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

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Financial asset or liability				
Purchase obligation, net	$ –	$ –	$ 393	$ 393
Exchangeable Units	41,995	–	–	41,995
Total	$ 41,995	$ –	$ 393	$ 42,388

See Note 6 for a reconciliation of the Level 3 fair values and Note 11 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 according to a predetermined formula specified in the MSA based on cash flow from newly acquired Franchise Agreements during their determination period. As such, the fair value is sensitive to the cash flow amounts, and all other inputs are observable.

16. Management of Capital

The Company's capital is made up of its cash on hand, long-term debt, Exchangeable Units and shareholders' equity.

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

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

The covenants of the long-term debt prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.25 to 1.

Senior Indebtedness is defined as the Company's long-term debt, disclosed under Note 10, which is made up of $32,700 in private debt placement and $20,300 in a term facility. Senior Interest Expense includes interest expenses generated on the Company's Senior Indebtedness.

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

17. Segmented Information

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

18. Subsequent Events

ACQUISITIONS

ROYAL LEPAGE FRANCHISE AGREEMENTS

On January 1, 2014, the Partnership acquired 45 new Royal LePage Franchise Agreements from BRESML. The estimated purchase price of $6,059 is based on an estimated annual royalty stream of $923. A deposit of $4,847, equal to 80% of the estimated purchase price, is to be paid from cash on hand, 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.

VIA CAPITALE FRANCHISE AGREEMENTS

On January 1, 2014, the Partnership acquired one new Via Capitale Franchise Agreements from BRESML. The estimated purchase price of $193 is based on an estimated annual royalty stream of $27. A deposit of $154, equal to 80% of the estimated purchase price, is to be paid from cash on hand, 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.

Board of Directors

The Company is governed by a Board of five Trustees, four of whom are independent of the Company and its Manager.

The Board oversees the business and affairs of the Company. The independent Directors also monitor the performance of the Manager, Brookfield Real Estate Services Manager Limited, a subsidiary of Brookfield Asset Management Inc., on behalf of the Company to ensure compliance with the terms of the Management Services Agreement.

The Directors have adopted formal terms of reference regarding their responsibilities and all matters of governance. They have agreed to formal distribution and disclosure policies, which are reviewed on an ongoing basis. The Company has two committees: the Audit Committee and Governance Committee.

George Myhal, CA, I.E.

Director and Chairman

Senior Managing Partner
Brookfield Asset Management Inc.

Lorraine Bell, CA [1, 2]

Director and Chair of the Audit Committee

Self-employed Consultant
Over 25 years experience in the financial sector

Simon Dean [1, 2]

Director

Self-employed Consultant
Previously CEO of the Manager and its predecessor (ret. 2005)

Allen Karp, LLB [1, 2]

Director and Chair of the Governance Committee

Previously Partner, Goodman and Carr LLP,
Chairman and CEO, Cineplex Odeon Corporation

Gail Kilgour, ICD.D [1, 2]

Director

Chair, Audit Committee, Ontario Realty Corporation
Over 30 years experience in the financial services industry

[1] Member of the Audit Committee
[2] Member of the Governance Committee

Audit Committee

The Audit Committee is comprised of four independent, financially literate Directors. They meet on a quarterly basis and oversee financial accounting and reporting, internal control, risk management and insurance, external/internal audit and publicly disclosed financial information.

The Audit Committee reviews and reports to the Board of Directors on interim financial statements, audited annual financial statements, public disclosure documents containing audited or unaudited financial information, and the effectiveness of management policies and practices concerning financial reporting and control.

The Audit Committee is also responsible for retaining the external auditor. It receives an annual report from the auditor on the independence of the auditors. The committee also reviews any relationship between the auditor, the Company and the Company Manager – or any other relationships that may adversely affect the auditor's independence.

Governance Committee

The Governance Committee is responsible for ensuring that the Company adheres to principles of good governance. Made up of four independent Directors, the Committee provides direction on the size and composition of the Board, Director nominations, Trustee orientation and effectiveness, and Director compensation, in accordance with the governance policy adopted by the board. On an annual basis, the Governance Committee evaluates the effectiveness of the Board and its committees.

Management Team

THE COMPANY

Philip Soper
President and Chief Executive

Kevin Cash
Chief Financial Officer

THE COMPANY MANAGER

Spencer Enright
President and CEO

Philip Soper
President, Royal LePage

Kevin Cash
Chief Financial Officer

Carolyn Cheng
Senior Vice President, Strategic Business Services

Sandra Helmi
Senior Vice President, Marketing & Communications

George Heos
Senior Vice President, Network Development

Yvonne Ratigan
Vice President, Network Service

Gino Romanese
Senior Vice President, Brokerage

Helping Our Community

A home should be a place of safety, security and comfort. Sadly, for thousands of Canadian women and children, this is not the case. The Royal LePage Shelter Foundation helps local shelters provide safe haven and new beginnings for more than 30,000 women and children every year.

ABOUT THE FOUNDATION:

- Royal LePage is the only major Canadian real estate company with its own charity;
- The foundation is the largest public foundation in Canada dedicated exclusively to supporting women's and children's shelters and violence prevention and education;
- Many Royal LePage offices across Canada partner with a local shelter providing much-needed financial support and essential goods and services. Funds raised by the local Royal LePage offices remain in their local community;
- Royal LePage (The Manager) pays all the administrative costs of the charity so that 100% of funds raised go directly towards the cause;
- The Royal LePage Shelter Foundation provided the financial support used to create and launch the Fourth R, a curriculum-based education program teaching grade 8 and 9 students about healthy relationships and dating violence.

Shareholder Information

We regularly provide shareholders with information about the Company through our annual report, quarterly reports, and news releases. Information is available online at www.brookfieldresinc.com. On the site you will find summary information about the Company including annual and quarterly reports, press releases, webcasts, slide presentations, and dividend information.

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CST Trust Company
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Toronto, ON
M5H 4A6

Tel: 416-682-3860 or 1-800-387-0825
Fax: 1-888-249-6189
Inquiries@canstockta.com
www.canstockta.com

AUDITORS

Deloitte & Touche LLP

CORPORATE COUNSEL

Goodmans LLP

TSX SYMBOL: BRE

Shares are eligible investments for DPSPs, RRSPs, RRIFs and RESPs

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, May 6, 2014 at 10:00 a.m. at the Hockey Hall of Fame, located at Brookfield Place, 30 Yonge Street, Toronto

PLEASE DIRECT INQUIRIES TO:

Tammy Gilmer
Director, Communications & Investor Relations
tgilmer@brookfieldres.com

Building on Success

www.brookfieldresinc.com

Brookfield Real Estate Services Inc.

Brookfield