

# Q3 2018

## Management's Discussion and Analysis

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## Introduction

This section of Brookfield Real Estate Services Inc.'s interim report includes management's discussion and analysis ("MD&A") of the financial results and financial condition of the Company for the three and nine months ended September 30, 2018, and has been prepared as at November 6, 2018. The three months ended September 30, 2018 shall be referred to in this MD&A as the "Quarter". The nine months ended September 30, 2018, shall be referred to in this MD&A as the "YTD". The comparative three months ended September 30, 2017 shall be referred to in this MD&A as "Prior Year Quarter" and the comparative nine months ended September 30, 2017 shall be referred to in this MD&A as "Prior Year Period". The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars unless otherwise stated.

The definitions of terms capitalized in this MD&A are provided in the Glossary of Terms commencing on page 34.

This MD&A is intended to provide the reader with an assessment of the Company's past performance as well as its financial position, performance objectives and future outlook. The information in this section should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 and the Company's audited financial statements for the year ended December 31, 2017, prepared in accordance with IFRS. Additional information relating to the Company, including its 2017 Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

## Highlights

The table below sets out selected historical information and other data for the Company, which should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the Quarter, the YTD and the audited consolidated financial statements of the Company for the year ended December 31, 2017.

- Net and comprehensive earnings for the Quarter was \$12.5 million, or \$1.32 per Share, compared to net earnings of \$5.0 million or \$0.52 per Share for the Prior Year Quarter.
- Cash Flow from Operations ("CFFO") for the Quarter decreased to \$8.3 million or \$0.65 per share on a diluted basis ("Share"), a decrease of 10% as compared to \$9.2 million or \$0.71 per Share for the Prior Year Quarter.
- CFFO for the rolling twelve-month period ended September 30, 2018 was \$2.44 per Share as compared to \$2.55 per Share for the rolling twelve-month period ended September 30, 2017. The decrease in CFFO was mainly driven by the decrease in premium fees. The obligation to pay premium franchise fees expired for six locations in the first quarter of 2018 and the remaining 15 locations in the Quarter.
- The board of directors of BRESI (the "Board") declared a cash dividend of \$0.1125 per Restricted Voting Share payable on December 31, 2018, to shareholders of record on November 30, 2018. This represents a targeted annual dividend of \$1.35 per Restricted Voting Share.

(Unaudited) (in 000's) except REALTOR® count	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Royalties	11,141	12,235	33,082	34,772
Administration expenses	(82)	(163)	(716)	(706)
Management fee	(2,078)	(2,288)	(6,069)	(6,428)
Interest expense	(669)	(626)	(2,020)	(1,923)
CFFO	\$ 8,312	\$ 9,158	\$ 24,277	\$ 25,715
Dividends	\$ 3,201	\$ 3,161	\$ 9,602	\$ 9,324
Interest on Exchangeable Units	\$ 1,452	\$ 1,444	\$ 4,355	\$ 4,299
Net and comprehensive earnings	\$ 12,544	\$ 4,957	\$ 8,518	\$ 9,566
Number of REALTORS®	18,799	18,117	18,799	18,117

(Unaudited)				
Net and comprehensive earnings per Share	\$ 1.32	\$ 0.52	\$ 0.90	\$ 1.01
CFFO per Share	\$ 0.65	\$ 0.71	\$ 1.89	\$ 2.01
CFFO per Share, rolling twelve-month period ended September 30			\$ 2.44	\$ 2.55
Dividends paid per Restricted Voting Share	\$ 0.34	\$ 0.33	\$ 1.01	\$ 0.98
Interest paid on Exchangeable Units per Exchangeable Unit	\$ 0.44	\$ 0.43	\$ 1.31	\$ 1.29

## Organization

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

BRESI directly owns a 75% interest in the Partnership which, in turn, owns VCLP. In addition, BRESI directly owns a 75% interest in the General Partner. The Partnership and VCLP own and operate the assets from which BRESI derives its revenue.

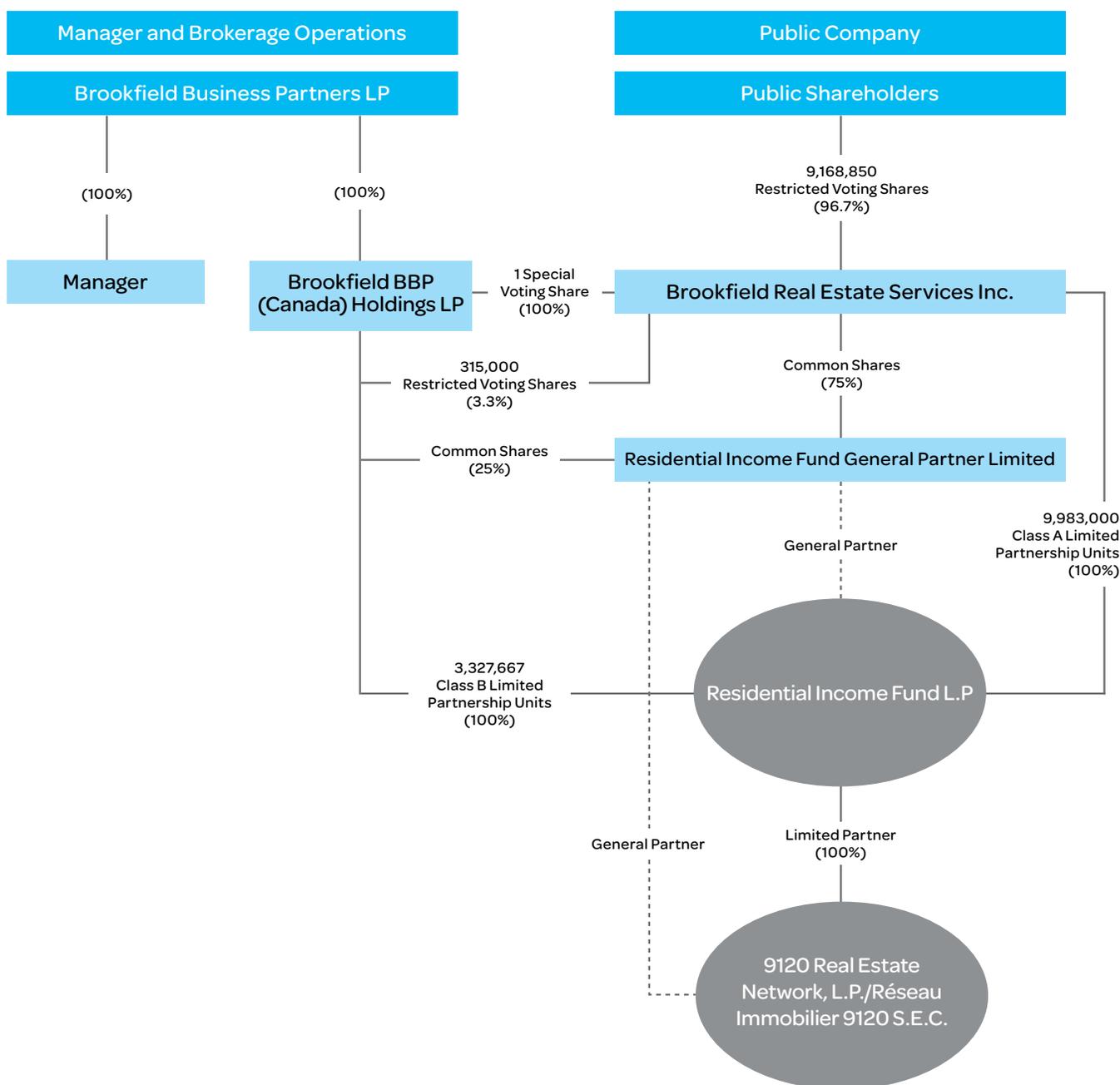
Brookfield BBP (Canada) Holdings L.P ("BBP"), a subsidiary of Brookfield Business Partners L.P, owns the remaining 25% interest in the Partnership through its ownership of exchangeable units of the Partnership (the "Exchangeable Units"), the remaining 25% interest

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

in the General Partner through its ownership of 25 common shares in the General Partner and one Special Voting Share of BRESI. The Special Voting Share entitles BBP to a number of votes at any meeting of the restricted voting shareholders equal to the number of Restricted Voting Shares that may be obtained upon the exchange of all the Exchangeable Units held by the holder and/or its affiliates. In addition to its ownership of the Exchangeable Units, the common shares of the General Partner and the Special Voting Share, BBP indirectly owns 315,000 Restricted Voting Shares.

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

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



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

## Business Strategy

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

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

The number of REALTORS® in the Company Network, the transaction volumes generated in the markets the Company serves, the manner in which the Company structures the contracted revenue streams, and the success in attracting REALTORS® to the Brands through their value propositions and the track record of the Company's Brands are all important factors in the Company's financial and operating performance. These factors, including, among others, general economic conditions and government and regulatory activity impact the Company's performance and are discussed in greater detail throughout this MD&A and in the Company's 2017 Annual Information Form, which is available at [www.sedar.com](http://www.sedar.com).

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

## Structure of Company Royalties

### ROYALTY FEES

The Company generates revenue from royalties with both fixed and variable components. Fixed franchise fees represent royalty fees that are payable to the Company as a fixed monthly amount per REALTOR® without regard to transaction volumes generated by that REALTOR®. Approximately 65% of the Company's royalties during the Quarter (Prior Year Quarter – 55%) were derived from fixed franchise fees. Variable franchise fees represent royalty and other fees that are payable to the Company based on the transaction volumes generated by REALTORS®, subject to a cap. Approximately 28% of the Company's royalties during the Quarter (Prior Year Quarter – 26%) were derived from variable franchise fees. Premium franchise fees are variable amounts that were paid by 21 specific brokerage locations based on the transaction dollar volume generated by the REALTORS® who work out of those locations. Premium franchise fees are paid to the Company in addition to the variable franchise fees paid by REALTORS® operating out of those locations. Approximately 7% of the Company's royalties during the Quarter (Prior Year Quarter – 19%) were derived from premium franchise fees.

Approximately 73% of the Company's annual royalties were partly insulated from the fluctuations in the Canadian Market as they were not directly driven by transaction volumes. This includes a portion of variable franchise fees which are effectively fixed in nature due to fact that variable franchise fees are subject to a cap. The Company believes that the combination of a royalty stream based on the number of REALTORS® in the Network, increasing REALTOR® productivity and steady growth in the Canadian Market provides the base for strong and stable cash flows. A description of each type of royalty fee follows:

**Fixed Franchise Fees** are paid based on the number of REALTORS® in the Franchise Network. Fixed franchise fees from Royal LePage Franchisees consist of a fixed monthly fee of \$128 per REALTOR®, while fixed fees from Via Capitale Franchisees consist primarily of a fixed monthly fee of \$170 per REALTOR®.

On January 1, 2018, the Company increased the Royal LePage fixed fee from \$125 to \$128 per REALTOR®.

**Variable Franchise Fees** are calculated as a percentage of Gross Revenues earned by the Franchisee's REALTORS®. Variable franchise fees are substantially all earned from from Royal LePage Franchisees, are driven by the transactional dollar volume transacted by the REALTORS® and are derived as 1% of each REALTOR®'s Gross Revenues, subject to a cap of \$1,350 per year. Certain REALTORS® in the Royal LePage Network work as part of a Team. All REALTORS® who are members of a Team pay fixed franchise fees. However, for the purposes of the \$1,350 variable fee cap, the Gross Revenues of all Team members are aggregated to one cap.

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

On January 1, 2018, the Company implemented an increase in the cap for the variable franchise fee from \$1,325 to \$1,350 per year.

The amount of variable franchise fee paid by an individual REALTOR® can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices. However, variable franchise fees are subject to a cap of \$1,350. For those REALTORS® or Teams who reach the cap, the variable franchise fee is effectively fixed in nature, in that the variable franchise fee paid by the REALTOR® will not change based on changes in the Canadian Market. In 2017, the variable fees associated with approximately 2,900 REALTORS® and 1,100 Teams (representing more than 3,000 REALTORS®) that exceeded the \$1,325 cap accounted for approximately 13% of royalties.

**Premium Franchise Fees** were paid by 21 of the Company's larger Royal LePage locations in the Greater Toronto Area (the "GTA"). Each of these Franchisees was obligated to pay premium franchise fees ranging from 1% to 5% of the location's Gross Revenue for terms ending up to August 2018. The obligation to pay premium fees for six of these locations expired during the first quarter of 2018 and the remaining 15 locations expired during the Quarter. Of the 15 locations, 11 were operated by the Manager.

**Classification of other franchise fees.** Prior to 2018, the Company reported other franchise fees as a separate category of Royalty. These other franchise fees are comprised primarily of a fixed monthly technology fee for Royal LePage REALTORS®. Over the past several years, the Company has combined this technology fee with the fixed franchise fee as franchisees renew their Franchise Agreements and as new franchisees join the Company Network. As such, these other franchise fees are now being reported as fixed franchise fees or variable franchise fees based on the nature of the fee. Prior years' Royalties have been reclassified to comply with the current year presentation with 98% of other franchise fees reported in the Prior Year Quarter (97% in the Prior Year Period) reclassified to fixed franchise fees.

## Network Royalty Profile

As at September 30, 2018, the Company received royalties from 18,799 REALTORS® contracted with 328 Broker-Owners operating under 295 Franchise Agreements from 673 locations, providing services under the Royal LePage, Via Capitale and Johnston & Daniel Brands operating collectively as the Company Network, with an approximate one fifth share of the Canadian Market, based on 2017 transactional dollar volume.

### The Royal LePage Network:

The fees generated from the Royal LePage Network accounted for 95% of the Company's fees for the Quarter (Prior Year Quarter – 97%). Fees earned from the Royal LePage Network for the Quarter include:

- a fixed monthly franchise fee of \$128 per REALTOR® (Prior Year Quarter – \$125);
- a variable franchise fee equal to 1% of Gross Revenue up to a maximum annual amount of \$1,350 per REALTOR® or Team (Prior Year Quarter – \$1,325); and
- premium franchise fees per applicable location.

### The Via Capitale Network:

The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 5% of the Company's fees for the Quarter (Prior Year Quarter – 3%). These fees are primarily made up of a fixed monthly fee of \$170 per REALTOR®.

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

## Overview of Third Quarter and Year to Date 2018 Operating Results

(Unaudited) (in 000's) except per Share amounts; Restricted Voting Shares outstanding; Exchangeable Units outstanding; Number of REALTORS®	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Royalties	\$ 11,141	\$ 12,235	\$ 33,082	\$ 34,772
Less:				
Administration expenses	82	163	716	706
Management fee	2,078	2,288	6,069	6,428
Interest expense	669	626	2,020	1,923
Cash Flow from Operations	\$ 8,312	\$ 9,158	\$ 24,277	\$ 25,715
Recovery / (Impairment and write-off) of intangible assets, net	(322)	709	(450)	605
Amortization of intangible assets	(1,900)	(1,989)	(5,834)	(6,178)
Interest on Exchangeable Units	(1,452)	(1,444)	(4,355)	(4,299)
Gain (loss) on fair value of Exchangeable Units	9,151	(333)	(765)	(2,762)
Gain on interest rate swap	108	547	171	1,017
Gain (loss) on fair value of purchase obligation	2	213	(541)	35
Current income tax expense	(1,367)	(1,516)	(4,137)	(4,180)
Deferred income tax expense (recovery)	12	(388)	152	(387)
Net and comprehensive earnings	\$ 12,544	\$ 4,957	\$ 8,518	\$ 9,566
Basic earnings per Restricted Voting Share	\$ 1.32	\$ 0.52	\$ 0.90	\$ 1.01
Diluted earnings per Share	\$ 0.38	\$ 0.52	\$ 0.90	\$ 1.01
Cash Flow from Operations per Share	\$ 0.65	\$ 0.71	\$ 1.89	\$ 2.01
Dividends paid per Restricted Voting Share	\$ 0.34	\$ 0.33	\$ 1.01	\$ 0.98
Interest paid per Exchangeable Unit	\$ 0.44	\$ 0.43	\$ 1.31	\$ 1.29
Restricted Voting Shares outstanding	9,483,850	9,483,850	9,483,850	9,483,850
Exchangeable Units outstanding	3,327,667	3,327,667	3,327,667	3,327,667
Number of REALTORS®	18,799	18,117	18,799	18,117

(Unaudited) (in 000's) As at	September 30, 2018	December 31, 2017
Total assets	\$ 97,287	\$ 93,523
Total liabilities	\$ 129,635	\$ 124,901

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

### Royalties:

Royalty revenues have decreased compared to the Prior Year Quarter primarily as a result of a decrease in the premium franchise fees and variable franchise fees partly offset by an increase in fixed franchise fees. The obligation to pay premium fees expired for six locations in the first quarter of 2018 and the remaining 15 locations in the Quarter. Variable fees decreased due to overall weakness in the Canadian Market as the total value of real estate bought and sold in Canada decreased by 2% to \$58.2 billion in the Quarter compared to \$59.3 billion in the Prior Year Quarter. Fixed franchise fees increased in the Quarter due to growth in the Company's Network of REALTORS®, which increased by 19 REALTORS® in the Quarter. Compared to the Prior Year Quarter, the Company has increased its REALTOR® base by 682, driven by 563 REALTORS® acquired by way of acquisition of Franchise Agreements and net organic growth of 119 REALTORS® across the Company Network.

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

## **Net Earnings:**

For the Quarter, the Company generated net earnings of \$12.5 million or \$1.32 per Share, compared to net earnings of \$5.0 million or \$0.52 per Share for the Prior Year Quarter.

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

- A gain on the determination of the fair value on the Exchangeable Units of \$9.2 million in the Quarter, compared to a loss of \$0.3 million during the Prior Year Quarter.
- A \$0.5 million decrease in income tax expenses driven by a decrease in taxable income.
- A \$0.1 million decrease in administration expenses mainly as a result of a bad debt recovery in the Quarter compared to a bad debt expense recorded in the Prior Year Quarter of 2017; and
- A \$0.1 million reduction in amortization of intangible assets as a result of a number of Franchise Agreements being fully amortized in prior periods; partly offset by
- A \$0.9 million decrease in royalty revenues as discussed above, net of the decrease in management fees;
- A \$1.0 million increase in impairment and write-off of intangible assets as a result of \$0.4 million impairment recognized during the Quarter for three Franchise Agreements, net of \$0.1 million reversal of impairment for one Franchise Agreement.
- A \$0.4 million decrease on the Company's interest rate swap gain compared to the Prior Year Quarter.
- A \$0.2 million decrease in the gain on the fair value of the purchase obligation from the revaluation of the estimated purchase price of Franchise Agreements.

## VARIATION OF OPERATING RESULTS YEAR TO DATE COMPARED TO THE PRIOR YEAR PERIOD

### **Royalties:**

Royalty revenues have decreased by \$1.7 million compared to the Prior Year Period primarily as a result of a decrease in the premium franchise fees and variable franchise fees partly offset by an increase in fixed franchise fees. The obligation to pay premium fees expired for six locations in the first quarter of 2018 and the remaining 15 locations in the Quarter. In addition, variable fees and premium fees decreased due to overall weakness in the Canadian Market which was down by 15%. Fixed franchise fees increased due to an increase in the number of REALTORS® in the Company Network. The Company's Network of REALTORS® increased by 664 REALTORS® in the YTD, driven by 563 REALTORS® acquired by way of acquisition of Franchise Agreements and net growth of 101 REALTORS® across the Company Network.

### **Net Earnings:**

YTD, the Company generated net earnings of \$8.5 million or \$0.90 per Share, compared to net earnings of \$9.6 million or a \$1.01 per Share for the Prior Year Period.

The primary drivers for the decrease to net earnings for the YTD compared to the Prior Year Period were:

- A \$1.3 million decrease in royalty revenues as discussed above, net of the associated decrease in management fees;
- A \$0.1 million increase in interest expense as a result of higher interest rates associated with the debt facility and higher outstanding principal balance compared to Prior Year Period.
- A \$1.1 million increase in impairment and write-off of intangible assets as a result of \$0.6 million impairment recognized for six Franchise Agreements and write-off of two Franchise Agreements, net of a \$0.1 million reversal of impairment for one Franchise Agreement.
- A \$0.6 million increase in the loss on the fair value of the purchase obligation from the revaluation of the estimated purchase price of Franchise Agreements; and
- A \$0.8 million decrease on the Company's interest rate swap gain compared to the Prior Year Period; partly offset by
- A lower loss on the determination of the fair value on the Exchangeable Units of \$0.8 million, compared to a loss of \$2.8 million during the Prior Year Period.
- A \$0.3 million reduction in amortization of intangible assets as a result of large number of Franchise Agreements being fully amortized in prior periods; and
- A \$0.6 million decrease in income tax expense.

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

## Total Assets:

Total assets increased by \$3.8 million during the YTD, primarily as a result of the increase in the carrying value of intangible assets of \$3.0 million, (driven by the Company’s acquisition of Franchise Agreements totaling \$8.8 million on January 1, 2018 partly offset by amortization, net impairment charges and write-offs), an increase in interest rate swap asset of \$0.2 million and \$0.8 million increase in cash, partly offset by decrease in accounts receivable of \$0.4 million (driven by a decrease in royalty revenues).

## Total Liabilities:

Total liabilities increased by \$4.7 million since December 31, 2017. The main drivers of the increase are as follows:

- A net increase in debt facilities of \$3.2 million to reflect the \$7.2 million borrowings to acquire Franchise Agreements during the YTD net of \$4.0 million repayment on the Acquisition Facility in the Quarter;
- An increase of \$0.8 million in the liability associated with the Exchangeable Units, which is calculated with reference to the trading value of BRESI’s Restricted Voting Shares;
- A \$0.8 million increase in the purchase obligation related to the acquisition of Franchise Agreements;
- A \$0.3 million increase in accounts payable and accrued liabilities.

## Key Performance Drivers

Key performance drivers of the Company’s business include:

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

## Stability of the Company’s Royalty Stream

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

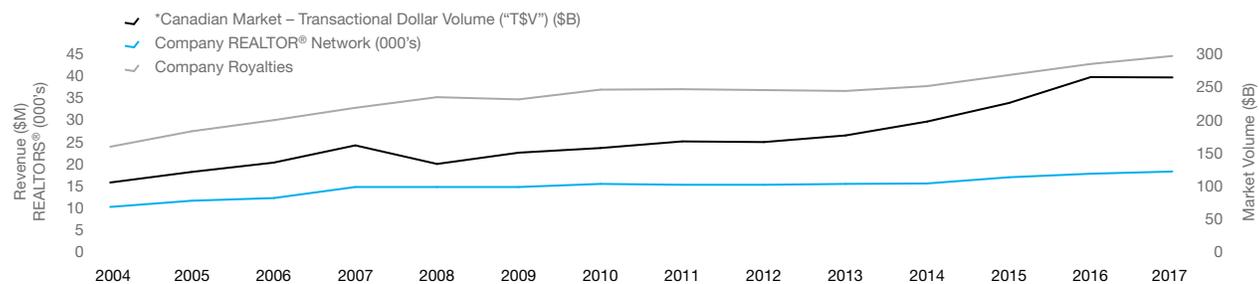
### FIXED – FEE STRUCTURE

The Company estimates that approximately 73% of its royalties are fixed in nature. In addition to its fixed franchise fees, a substantial portion of the Company’s variable franchise fees are effectively fixed in nature.

The amount of variable franchise fee paid by an individual REALTOR® can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices across Canada. However, variable franchise fees are subject to a cap of \$1,350 per REALTOR® or Team of REALTORS®. For those REALTORS® or Teams who reach the cap, the variable franchise fee is effectively fixed in nature, in that the variable franchise fee paid by the REALTOR® or Team will not change based on changes in the Canadian Market.

The chart below compares the Company’s annual royalties to the Canadian Market and the underlying number of REALTORS® in the Company Network. The quarterly changes in the Company’s royalty revenues and the Canadian Market is shown under “Transactional Dollar Volumes” on page 12.

### ROYALTIES, MARKET AND REALTOR® TRENDS



\*Source: Canadian Real Estate Association (“CREA”)

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

## INCREASE IN FEES

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

On January 1, 2016, the Royal LePage Network fixed monthly franchise fee increased from \$122 per REALTOR® to \$125 per REALTOR® and the maximum variable franchise fee payable based on 1% of each REALTOR®'s or Team's Gross Revenue increased from \$1,300 annually to \$1,325. The increase in royalty fees was implemented to 85% of the Royal LePage Network on January 1, 2016 and to the other 15% on January 1, 2017.

On January 1, 2018, the Royal LePage Network fixed monthly franchise fee increased from \$125 per REALTOR® to \$128 per REALTOR® and the maximum variable franchise fee payable based on 1% of each REALTOR®'s or Team's Gross Revenue increased from \$1,325 annually to \$1,350 for the entire Royal LePage Network.

## GEOGRAPHIC DISTRIBUTION OF THE COMPANY NETWORK

As at September 30, 2018, the Company Network of 18,799 REALTORS® operated through 295 Franchise Agreements, contracted with 328 Broker-Owners, providing services across the country through 673 locations. Of the Brokerages in the Company Network, approximately 65% operate with fewer than 50 REALTORS® and represent 15% of the REALTORS® in the Company Network. The Company's smallest Franchisees have one REALTOR® while the largest has more than 1,900 REALTORS®.

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

As at September 30, 2018	Canadian <sup>1</sup> REALTOR® Population	Company REALTOR® Population
Ontario	58%	59%
British Columbia	17%	13%
Quebec	10%	14%
Alberta	9%	6%
Maritimes	3%	4%
Prairies	3%	4%
Total	100%	100%

<sup>1</sup>Source: CREA as at June 30, 2018

## FRANCHISE AGREEMENTS

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

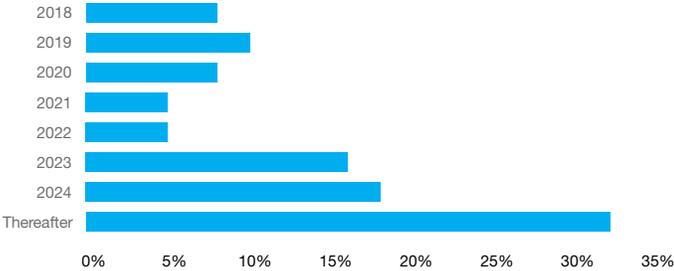
The Royal LePage Franchise Agreements, which represent 95% of the Company's REALTORS®, are for 10 to 20 year terms with a standard renewal term of ten years. These long-duration contracts exceed the industry standard of five years and thereby reduce agreement renewal risk. In addition, the Company regularly attempts to extend contract terms a further ten years in advance of renewal dates when opportunities allow.

The Via Capitale Franchise Agreements, which represent 5% of the Company's REALTORS®, are typically five years in duration with standard renewal terms extending five years.

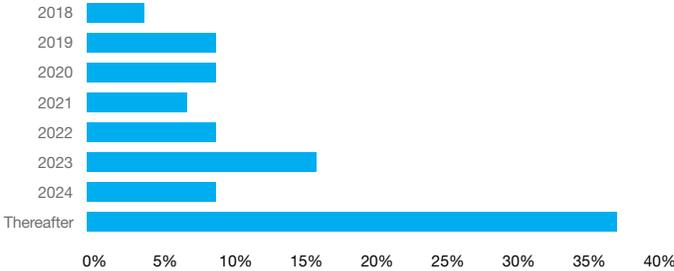
# Management’s Discussion and Analysis of Results and Financial Condition

A summary of the Company’s agreement renewal profiles as at September 30, 2018 for the Company Network is shown below.

**% OF FRANCHISE AGREEMENTS UP FOR RENEWAL**  
(by Number of REALTORS®)



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



## RENEWALS

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

During the Quarter, two Franchise Agreements, representing 208 REALTORS® of the Company Network extended their term or renewed.

During the Quarter, one Franchise Agreement was terminated resulting in a loss of 3 REALTORS®.

For the YTD, nine Franchise Agreements, representing 255 REALTORS® of the Company Network extended their term or renewed, and three Franchise Agreements, representing 32 REALTORS® of the Company Network renewed early.

For the YTD, five Franchise Agreements were terminated resulting in a loss of 14 REALTORS®.

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

## Number of REALTORS® in the Company Network

For the Quarter, the Company Network of 18,799 REALTORS® increased by 19 REALTORS®, compared to a net increase of 1 REALTOR® in the Prior Year Quarter.

For the YTD, the Company Network of 18,799 REALTORS® increased by 664 REALTORS®, compared to a net increase of 537 during the Prior Year Period. After taking into account the 563 REALTORS® added through the acquisition of Franchise Agreements and addendums on January 1, 2018 (January 1, 2017 – 568 REALTORS®), the Company experienced net growth of 101 REALTORS®, compared to net attrition of 31 REALTORS® in the Prior Year Period.

As at December 31,	2003 <sup>2</sup> – 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 <sup>3</sup>
<b>Company Network</b>										
Opening REALTOR® Count	9,238	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580	<b>18,135</b>
Acquisition	2,882	417	247	217	516	493	1,577	459	568	<b>563</b>
Net Recruiting Growth (Attrition)	2,511	260	(494)	(192)	(292)	(426)	(160)	327	(13)	<b>101</b>
Closing REALTOR® Count	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580	18,135	<b>18,799</b>
% Change in the period	58%	5%	(2%)	0%	1%	0%	9%	5%	3%	<b>4%</b>

Canadian REALTOR® Population <sup>1</sup>	2003 <sup>2</sup> – 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 <sup>3</sup>
CREA REALTOR® Membership	98,161	101,916	104,407	106,944	109,032	110,821	114,664	121,212	125,316	–
% Change in the period	38%	4%	2%	2%	2%	2%	3%	6%	3%	–

<sup>1</sup>Source: CREA, CREA Membership data as of September, 2018 not available as of MDA date.

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

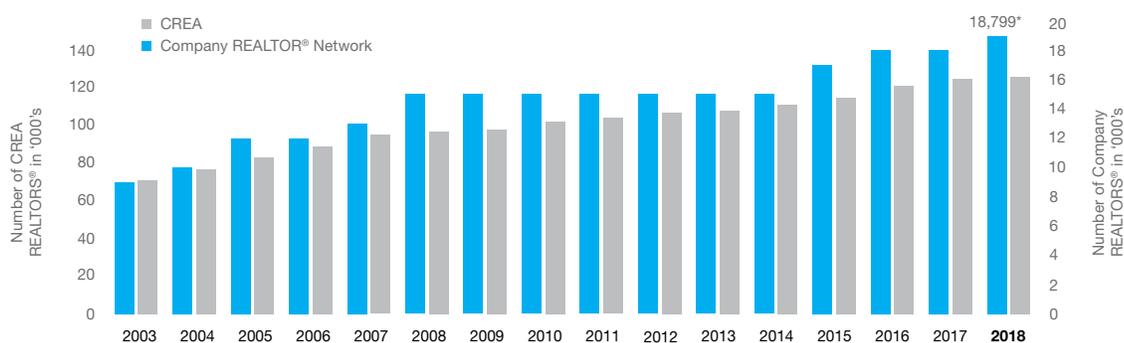
<sup>3</sup>As at September 30, 2018

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

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

## CANADIAN REAL ESTATE REALTORS®

(Years ended December 31)



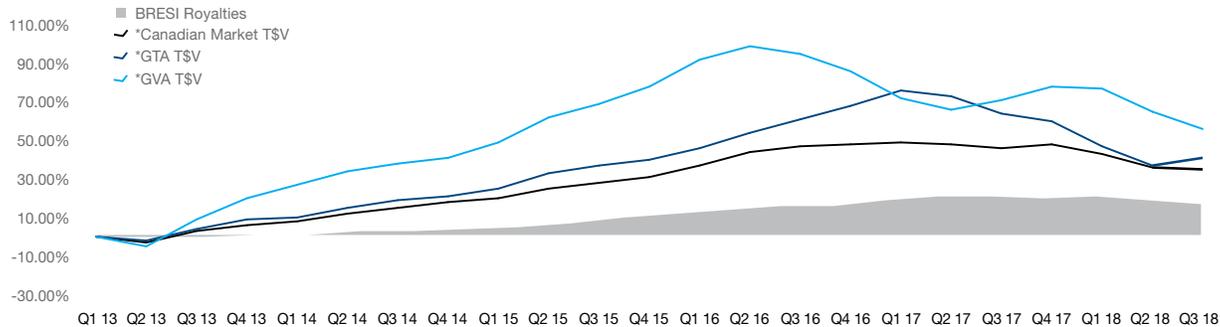
\*As at September 30, 2018

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

## Transactional Dollar Volumes

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

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



\*Source: CREA

Transactional dollar volume of real estate in Canada has declined nationally since the first quarter of 2017 as real estate values and volumes have weakened after a strong run up from the first quarter of 2013. The recent weakness is due to weakness in the GTA (which experienced peak growth in the first quarter of 2017) and greater Vancouver (“GV”) (which peaked in the second quarter of 2016). Royalty revenues have decreased as a result of the reduction in the transactional dollar volumes of the Canadian Market and the expiry of the obligation to pay premium fees for 21 locations in the GTA.

During the Quarter, the Canadian Market closed down 2%, at \$58.2 billion, as compared to the Prior Year Quarter. The reduction in transaction dollar volume was driven by a decrease of 4% in units sold partly offset by a 2% increase in price.

For the rolling twelve-month period ended September 30, 2018, the Canadian Market closed down 11%, at \$231.5 billion, as compared to the rolling twelve-month period ended September 30, 2017, driven by an 8% decrease in units sold and a 3% decrease in price.

During the Quarter, the GTA market closed up 15%, at \$15.7 billion, as compared to the Prior Year Quarter, driven by a 10% increase in number of units sold and a 5% increase in price.

For the rolling twelve-month period ended September 30, 2018, the GTA market closed down 22%, at \$61.9 billion, as compared to the rolling twelve-month period ended September 30, 2017, driven by an 18% decrease in units sold and 4% decrease in price due in part to the impact of government policies designed to moderate the significant increase in selling prices in the market in 2016 and 2017 as well as changes to bank regulations in 2018 making it more difficult for home buyers to qualify for mortgage financing.

During the Quarter, the GV market closed down 36%, at \$5.8 billion, as compared to the Prior Year Quarter, driven by a 37% decrease in units sold, partly offset by a 4% increase in price.

For the rolling twelve-month period ended September 30, 2018, the GV market closed down 15%, at \$29.7 billion, as compared to the rolling twelve-month period ended September 30, 2017, driven by 19% decrease in units sold, partly offset by 4% increase in price.

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

## Company's Growth Opportunities

Growth in the Company's royalties is achieved through:

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

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

### GROWTH IN NUMBER OF REALTORS®

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

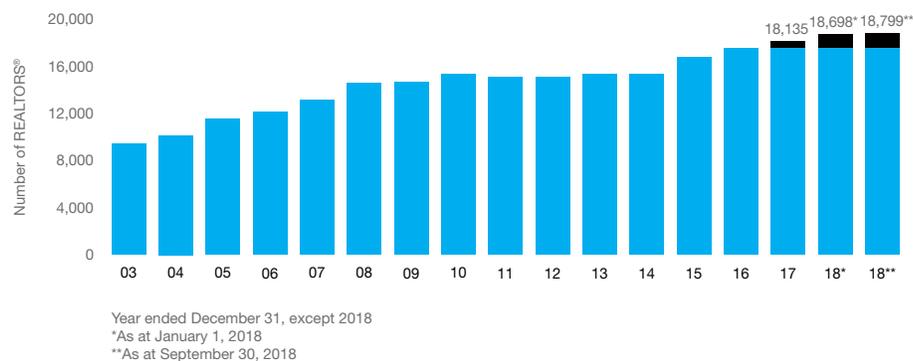
Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network has increased by 103% (9,561 REALTORS®), of which 83% has been through acquisitions and 17% through net recruitment growth. This represents a CAGR of 5% in the Company Network.

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

On January 1, 2018, the Company acquired 38 Franchise Agreements comprised of 563 REALTORS® operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements was \$8.8 million, with an estimated annual royalty stream of \$1.3 million.

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

### COMPANY GROWTH



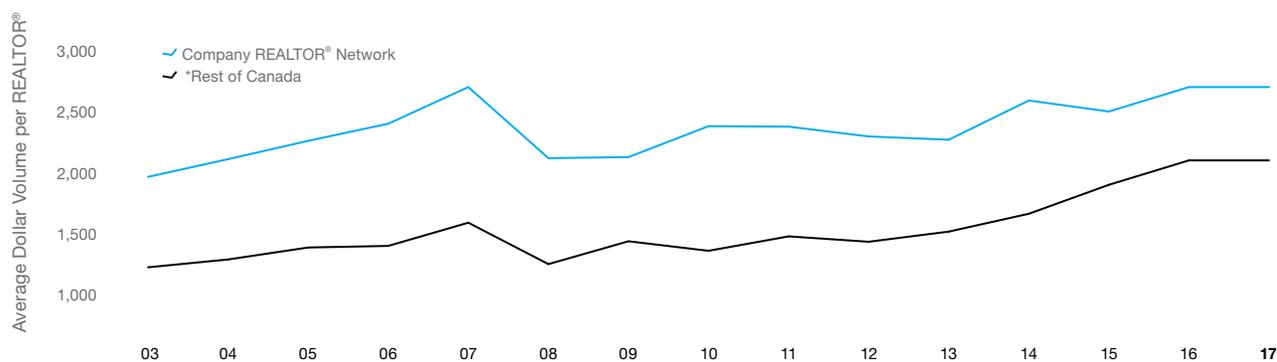
# Management's Discussion and Analysis of Results and Financial Condition

## REALTOR® Productivity

The average REALTOR® in the Company Network generated approximately \$2.7 million in transactional dollar volume for the twelve months ended December 31, 2017, compared to an estimated \$2.1 million in transactional dollar volume generated by an average Canadian REALTOR®, outside the Company Network. Management believes that the higher productivity of the Company's Network of REALTORS®, makes the Company less prone to a loss of REALTORS® during a period of reduced transactional dollar volume. The average transactional dollar volume per REALTOR® for the years ended December 31, 2003, through 2017, is summarized in the chart below.

### CANADIAN RESIDENTIAL REAL ESTATE MARKET REALTOR® PRODUCTIVITY

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



\*Source: CREA

## PRODUCTS AND SERVICES

The Manager, on behalf of the Company, has continued to invest in new products and services to assist Franchisees in managing their businesses as well as provide innovative tools to attract and retain the best talent in the real estate industry.

In the Quarter, Royal LePage launched its 2018 brand campaign 'Home. It's who we are.' on the brand's consumer-facing website, network-facing website and social platforms. Additionally, the brand launched a new resource on its network-facing website for REALTORS® to pursue new accreditations at a discounted cost.

Via Capitale launched its third quarter brand campaign online and through television broadcast. During the same period, the brand announced a new partnership to promote its network's listings in China.

## The Canadian Residential Real Estate Market

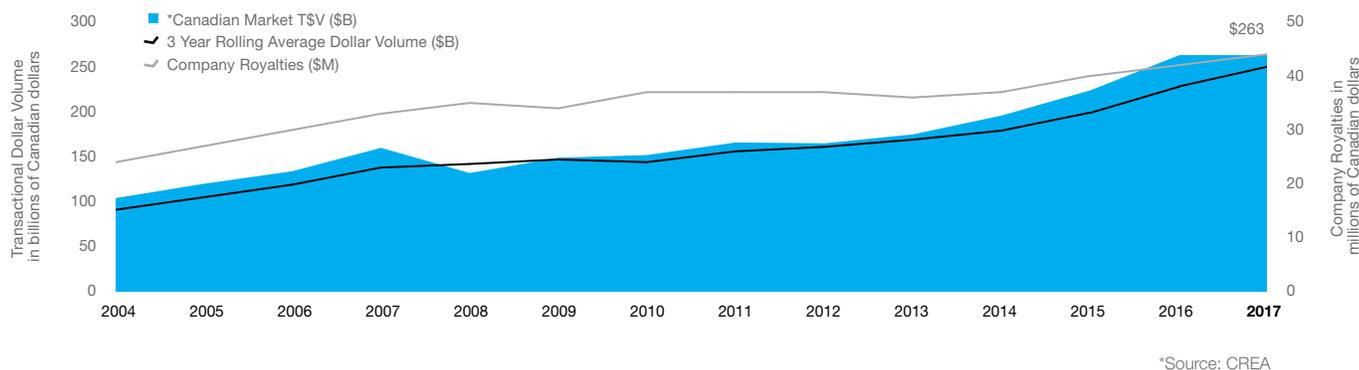
Since 2004, the Canadian Market has grown at a CAGR of 7% compared to our royalty revenues, which have grown at a rate of 5%. Our fee structure is biased towards fees that are fixed in nature, limiting our participation in significant increases or decreases in the Canadian Market.

Over the last three years, the Canadian Market has grown at a CAGR of 10% driven by a 2% increase in units sold and an 8% increase in selling price. In 2016 the Canadian Market experienced a CAGR of 16% driven by 10% increase in units sold and 6% increase in selling price. This momentum continued throughout first six months of 2017, with record sales recorded in Q1 2017, before the Canadian Market saw a decline in last six months of the year. The slowdown in the market has continued into 2018 and is partly the result of various government-mandated regulations including tightened mortgage rules, higher interest rates, and new taxes, which targeted certain foreign buyers of residential real estate in Ontario and BC.

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

## MARKET DOLLAR VOLUME – CANADIAN RESIDENTIAL REAL ESTATE MARKET

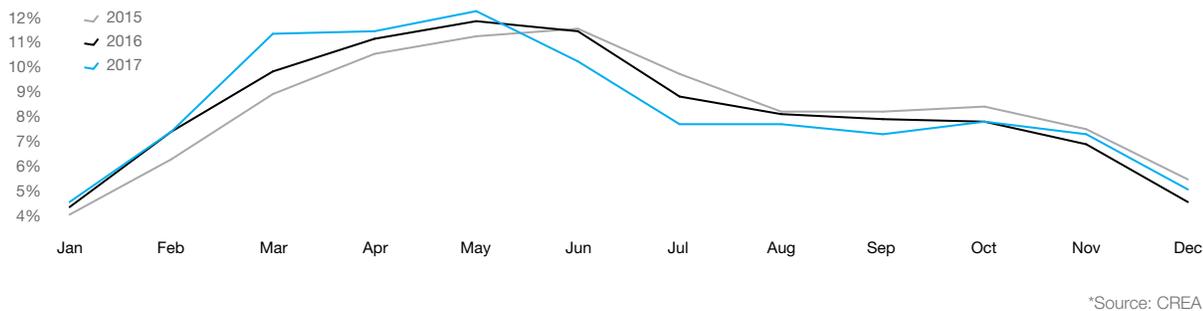
(2004–2017)



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

## CANADIAN RESIDENTIAL REAL ESTATE MARKET

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



## Canadian Market Outlook

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

**From CREA<sup>1</sup>:** Economic and demographic fundamentals remain supportive for housing demand in many parts of the country; however, policy headwinds have impacted homebuyer sentiment and access to mortgage financing in many housing markets. Further expected interest rate increases, combined with this year’s new federal mortgage stress test are expected to continue to keep home sales activity in check over the rest of the year and into 2019.

When the new mortgage stress test was announced last October, it was expected that many homebuyers would expedite their purchases during the two-and-a-half-month window before it took effect this year. In reality, the response to the new policy was stronger than expected. In December 2017, seasonally adjusted national home sales surged to the highest on record before dropping sharply in early 2018.

With much of 2018 now in the rear-view mirror, the stress-test on all new mortgages continues to weigh on home sales. National activity is on track to hit a five-year low in 2018. While summer sales activity in and around the Greater Toronto Area showed signs of rebounding,

<sup>1</sup> Source: CREA Updates Resale Housing Market Forecast, published September 17, 2018

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

this trend may be losing steam. Moreover, additional interest rate increases expected this year and in 2019 will continue to raise the bar that borrowers must clear to qualify for mortgage financing.

Taking these factors into account, national sales are expected to decline by 9.8% to 462,900 units in 2018. The revised national forecast is little changed from CREA's previous forecast published in June, with stronger than expected activity in Ontario offsetting weaker than anticipated activity in British Columbia. Both provinces are nonetheless still projected to post double-digit declines in sales activity this year and account for most of the national decrease.

Sales in Alberta and New Brunswick have also been somewhat stronger than expected in recent months, resulting in an upward revision in their 2018 sales forecasts. Activity in both provinces should moderate over the balance of the year compared to levels this summer.

The national average price is projected to ease to \$494,900 this year, down 2.8% from 2017. As per CREA's previous forecast published in June, the national average price decline reflects fewer sales transactions in B.C. and Ontario in 2018; however, the forecast has been revised lower as a rebound in British Columbia's sales activity so far remains absent.

The national average price is expected to be skewed lower by reduced sales activity for higher-priced homes, with provinces posting a smaller average price decline compared to the national result. Indeed, more than half of all provinces are projected to see average price gains in 2018, including British Columbia.

The average price decline forecast for Ontario (-1.7%) largely reflects fewer higher-priced home sales in Toronto, particularly during the important spring market which normally sees a seasonal jump in the average price but failed to materialize this year. Meanwhile, home prices in Eastern Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island are expected to continue rising following steadily firming market conditions in recent years.

Home prices are projected to edge down by about 1.5% in Alberta, Saskatchewan and Newfoundland and Labrador. In these provinces, particularly in the latter two, supply is historically elevated in relation to demand.

In 2019, national sales are forecast to rebound modestly (+2.1%) to 472,700 units but remain below annual levels recorded in 2014 through 2017. The anticipated partial recovery in sales over the second half of 2018 from deferred purchases over the first half of the year – already evident in Ontario but not yet in British Columbia – is subsequently anticipated to fade over 2019 in tandem with further expected interest rates increases.

The national average price is forecast to rebound by 2.7% to \$508,400 in 2019, reflecting modest average price growth in several provinces and the return of the normal seasonal pattern for sales and average prices in Ontario. Indeed, the forecast increase in average price for Ontario (3.3%) is larger than for any other province in 2019. The average sale price in British Columbia is also forecast to rise but by less than the rate of consumer price inflation.

Market balance is continuing to firm in Quebec, New Brunswick, Nova Scotia and Prince Edward Island. Further modest price increases in these provinces are forecast in 2019, although price gains should be held in check by rising interest rates. Meanwhile, prices are forecast to remain stable from 2018 to 2019 in Alberta, while further edging down in Saskatchewan and Newfoundland and Labrador.

**From TREB<sup>2</sup>:** Greater Toronto Area REALTORS<sup>®</sup> reported 6,455 sales through TREB's MLS<sup>®</sup> System in September 2018 – up 1.9 per cent compared to September 2017. The average selling price for September 2018 sales was up by 2.9 per cent over the same period to \$796,786. The MLS<sup>®</sup> HPI composite benchmark price was up by two per cent year-over-year.

New listings entered into TREB's MLS<sup>®</sup> System in September 2018 amounted to 15,920 – down by 3.1 per cent compared to September 2017. With sales up year-over-year and new listings down, market conditions became tighter. Many buyers may have found it more difficult to find a home meeting their needs.

It is healthy to see sales and prices in many areas across the Greater Toronto Area up a bit, compared to last year's lows. At the same, however, it is important to remember that TREB's market area is made up of over 500 communities. Market conditions have obviously unfolded differently across these communities. This is why it's important to work with a REALTOR<sup>®</sup> who is familiar with local market conditions in your areas of interest.

While higher borrowing costs and tougher mortgage qualification rules have kept sales levels off the record pace set in 2016, many households remain positive about home ownership as a quality long-term investment. As the GTA population continues to grow, the real challenge in the housing market will be supply rather than demand. The Toronto Real Estate Board is especially concerned with issues affecting housing supply as we move towards municipal elections across the region.

<sup>2</sup> Source: TREB Market Watch, GTA Realtors Release September Stats, published October 3, 2018

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

On a monthly basis, after preliminary seasonal adjustment, sales edged up by 0.2 per cent in September 2018 compared to August 2018. The average selling price, after preliminary seasonal adjustment, edged lower by 0.5 per cent month-over-month. Annual rates of price growth have been stronger for higher density home types in 2018, including condominium apartments, townhouses and semi-detached houses. In many neighbourhoods, these home types provide more affordable home ownership options. This is why a policy focus on increasing mid-density housing options throughout the GTA is important.

**From the BoC<sup>3</sup>:** The Bank of Canada increased its target for the overnight rate to 1 ¾ per cent on October 24, 2018. The Bank Rate is correspondingly 2 per cent and the deposit rate is 1 ½ per cent.

The global economic outlook remains solid. The US economy is especially robust and is expected to moderate over the projection horizon, as forecast in the Bank's July Monetary Policy Report (MPR). The new US-Mexico-Canada Agreement (USMCA) will reduce trade policy uncertainty in North America, which has been an important curb on business confidence and investment. However, trade conflict, particularly between the United States and China, is weighing on global growth and commodity prices. Financial market volatility has resurfaced and some emerging markets are under stress but, overall, global financial conditions remain accommodative.

The Canadian economy continues to operate close to its potential and the composition of growth is more balanced. Despite some quarterly fluctuations, growth is expected to average about 2 per cent over the second half of 2018. Real GDP is projected to grow by 2.1 per cent this year and next before slowing to 1.9 per cent in 2020.

The projections for business investment and exports have been revised up, reflecting the USMCA and the recently-approved liquid natural gas project in British Columbia. Still, investment and exports will be dampened by the recent decline in commodity prices, as well as ongoing competitiveness challenges and limited transportation capacity. The Bank will be monitoring the extent to which the USMCA leads to more confidence and business investment in Canada.

Household spending is expected to continue growing at a healthy pace, underpinned by solid employment income growth. Households are adjusting their spending as expected in response to higher interest rates and housing market policies. In this context, household credit growth continues to moderate and housing activity across Canada is stabilizing. As a result, household vulnerabilities are edging lower in a number of respects, although they remain elevated.

CPI inflation dropped to 2.2 per cent in September, in large part because the summer spike in airfares was reversed. Other temporary factors pushing up inflation, such as past increases in gasoline prices and minimum wages, should fade in early 2019. Inflation is then expected to remain close to the 2 per cent target through the end of 2020. The Bank's core measures of inflation all remain around 2 per cent, consistent with an economy that is operating at capacity. Wage growth remains moderate, although it is projected to pick up in the coming quarters, consistent with the Bank's latest Business Outlook Survey.

Given all of these factors, Governing Council agrees that the policy interest rate will need to rise to a neutral stance to achieve the inflation target. In determining the appropriate pace of rate increases, Governing Council will continue to take into account how the economy is adjusting to higher interest rates, given the elevated level of household debt. In addition, we will pay close attention to global trade policy developments and their implications for the inflation outlook.

## COMPANY MARKET OUTLOOK

Despite a decrease in sales activity, the average price of a home in Canada increased 2.1 per cent in the third quarter of 2018 compared to the same quarter in 2017. Nationally, home sales decreased 2.5 per cent year-over-year as consumer demand continued to absorb stress test measures implemented by the Office of the Superintendent of Financial Institutions in January of 2018.

Volatility in sales activity within the Greater Toronto Area showed signs of stabilizing, as transactions in the third quarter grew 9.7 per cent year-over-year. More recently, September sales in the region increased 1.9 per cent compared to September 2017, while home prices also increased 2.0 per cent according to the region's MLS<sup>®</sup> HPI Composite Benchmark Price. Home sales in Greater Vancouver also stalled in the third quarter as activity decreased 36.6 per cent. However, home prices in the region were resilient despite the decline in demand.

In September, the MLS<sup>®</sup> HPI Composite Benchmark Price for Greater Vancouver increased 2.2 per cent over September 2017, which was also a 3.1 per cent increase over the last three months. The Greater Montreal Area continued to see year-over-year increases in both sales activity and home prices in the third quarter.

In addition to the mortgage rules, consumer confidence in large purchases during 2018 had been dampened by ongoing trade negotiations. With the announcement of the USMCA, Canadians are expected to regain confidence in the employment market, which will increase demand for real estate. However, with the Bank of Canada's recent interest rate increase announcement, reduced affordability may offset the release of pent up demand.

<sup>3</sup> Source: BoC press release published October 24, 2018

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

## Third Quarter and Year to Date Operating Results and Cash Flows

(Unaudited) (in 000's) except per Share amounts; Number of REALTORS®	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Royalties				
Fixed franchise fees	\$ 7,211	\$ 6,740	\$ 21,180	\$ 20,112
Variable franchise fees	3,121	3,227	8,934	9,433
Premium franchise fees	809	2,268	2,968	5,227
	<b>11,141</b>	12,235	<b>33,082</b>	34,772
Less:				
Administration expense	82	163	716	706
Management fee	2,078	2,288	6,069	6,428
Interest expense	669	626	2,020	1,923
	<b>2,829</b>	3,077	<b>8,805</b>	9,057
Cash Flow from Operations	<b>8,312</b>	9,158	<b>24,277</b>	25,715
Recovery / (Impairment and write-off) of intangible assets, net	(322)	709	(450)	605
Amortization of intangible assets	(1,900)	(1,989)	(5,834)	(6,178)
Interest on Exchangeable units	(1,452)	(1,444)	(4,355)	(4,299)
Gain (loss) on fair value of Exchangeable Units	9,151	(333)	(765)	(2,762)
Gain on interest rate swap	108	547	171	1,017
Gain (loss) on fair value of purchase obligation	2	213	(541)	35
Earnings before income taxes	<b>13,899</b>	6,861	<b>12,503</b>	14,133
Current income tax expense	1,367	1,516	4,137	4,180
Deferred income tax expense (recovery)	(12)	388	(152)	387
Net and comprehensive earnings	<b>\$ 12,544</b>	\$ 4,957	<b>\$ 8,518</b>	\$ 9,566
Basic earnings per Share	<b>\$ 1.32</b>	\$ 0.52	<b>\$ 0.90</b>	\$ 1.01
Diluted earnings per Share	<b>\$ 0.38</b>	\$ 0.52	<b>\$ 0.90</b>	\$ 1.01
Cash Flow from Operations per share on a diluted basis	<b>\$ 0.65</b>	\$ 0.71	<b>\$ 1.89</b>	\$ 2.01
Number of REALTORS®	<b>18,799</b>	18,177	<b>18,799</b>	18,177

### Cash Flow Information (in 000's)

Cash provided by (used for):				
Operating activities	\$ 6,840	\$ 6,695	\$ 16,007	\$ 16,645
Investing activities	(260)	(12)	(8,796)	(10,179)
Financing activities	(7,201)	(6,661)	(6,402)	(6,924)

### THIRD QUARTER OPERATING RESULTS AND CASH FLOWS

During the Quarter, the Company generated net earnings of \$12.5 million and cash provided by operating activities of \$6.8 million, as compared to net earnings of \$5.0 million and cash provided by operating activities of \$6.7 million in the Prior Year Quarter. CFFO of \$8.3 million generated during the Quarter declined from the \$9.2 million generated in the Prior Year Quarter.

**Royalties** for the Quarter totaled \$11.1 million, compared to \$12.2 million for the Prior Year Quarter. Fixed franchise fees represented 65% of royalties for the Quarter (Prior Year Quarter – 55%). Royalties decreased due primarily to the decrease in premium fees and variable fees partly offset an increase in fixed fees.

**Fixed franchise fees** for the Quarter increased by 7% as compared to the Prior Year Quarter, due to the increase in the REALTOR® base resulting from the acquisition of Franchise Agreements on January 1, 2018 representing 563 REALTORS® and recruitment of an additional 101 REALTORS® during the YTD.

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

**Variable franchise fees** for the Quarter decreased by 3%, as a result of a weaker Canadian Market.

**Premium franchise fees** were derived from 21 franchise locations servicing the GTA Market which paid premium franchise fees ranging from 1% to 5% of the location's Gross Revenue. Premium franchise fees for the Quarter have decreased by 64%, compared to the Prior Year Quarter due to the expiry of the obligation to pay premium franchise fees for fifteen out of the twenty-one locations in the Quarter.

**Administration expenses** of \$0.1 million for the Quarter were lower than for the Prior Year Quarter primarily due to recovery of bad debt expense compared to a bad debt expense recorded in the Prior Year Quarter.

**Management fee expense** of \$2.1 million for the Quarter, calculated in accordance with the MSA, decreased by 9% in the Quarter as compared to the Prior Year Quarter, due to the decrease in CFFO.

**Interest expense** was slightly higher compared to the Prior Year Quarter due to higher borrowings and an increase in interest rates on the Company's variable rate borrowings.

**Recovery / (Impairment and write-off) of intangible assets, net** represents a net impairment of \$0.3 million for the Quarter compared to a net recovery of \$0.7 million during the Prior Year Quarter. During the Quarter, the Company identified three Franchise Agreements which required impairment charges of \$0.4 million as their carrying value exceeded their recoverable amount. These charges were partly offset by a reversal of \$0.1 million in impairment associated with one Franchise Agreement as the conditions causing such impairment have become more favourable. In the Prior Year Quarter, the Company recorded impairment reversals for five Franchise Agreements which had been previously impaired.

**Amortization of Intangible Assets** for the Quarter totaled \$1.9 million, a decrease of 4% compared to the Prior Year Quarter as a result of certain Franchise Agreements being fully amortized.

**Interest on Exchangeable Units** represents the distributions to Exchangeable Unitholders. For the Quarter, total distributions amounted to \$0.44 per Exchangeable Unit (Prior Year Quarter – \$0.43). Distributions to Exchangeable Unitholders are determined with reference to dividends paid on BRESI's Restricted Voting Shares.

**Gain on fair value of Exchangeable Units** represents the change in the fair value of the Exchangeable Units. The Exchangeable Units are valued based on the value of the Company's Restricted Voting Shares. At September 30, 2018, the Company's Restricted Voting Shares were valued at \$16.75 per share compared to \$19.50 at June 30, 2018, resulting in a gain of \$9.2 million in the Quarter. This gain represents a decrease in the obligation associated with the conversion features of the Exchangeable Units. For the Prior Year Quarter, the price of the Company's Restricted Voting Shares increased from \$16.50 at June 30, 2017 to \$16.60 at September 30, 2017, resulting in a loss of \$0.3 million.

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

**Gain on fair value of purchase obligation** represents a decrease in the liability to the Manager related to Franchise Agreements purchased at the beginning of each year. The gain in the Quarter and Prior Year Quarter are as a result of certain of those underlying franchisees generating lower cash flows than those estimated on the date the Franchise Agreements were acquired.

**Income Tax Expense** The effective income tax rate paid by the Company for the Quarter was 10% (Prior Year Quarter – 28%). The Company's effective income tax rate in the interim condensed consolidated statement of net and comprehensive earnings is significantly different than the Company's enacted income tax rate of 26.5%. The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items included in determining net earnings that are not included in determining taxable income include, among other things, non-deductible amortization of intangible assets, interest on Exchangeable Units and fair valuation adjustments on Exchangeable Units.

**Cash provided by operating activities** increased slightly compared to the Prior Year Quarter as a significant reduction in non-cash working capital balances, was partly offset by the impact of lower operating income before net impairment and amortization of assets.

**Cash used in investing activities** increased by \$0.3 million compared to the Prior Year Period. During the Quarter, the Company paid \$244 comprising legal expenses, financial advisory fees and incremental directors fees to members of a special committee of the Board of Directors established to evaluate the Company's options with respect to the amendment of the MSA. These costs are included in cash used in investing activities, have been capitalized and will be amortized over the life of the amended MSA.

**Cash used for financing activities** increased by \$0.5 million due to higher debt repayment compared to the Prior Year Quarter, and higher dividend payments to holders of Restricted Voting Shares.

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

## YEAR TO DATE OPERATING RESULTS AND CASH FLOWS

For the YTD, the Company generated net earnings of \$8.5 million and cash provided by operating activities of \$16.0 million, as compared to net earnings of \$9.6 million and cash provided by operating activities of \$16.6 million in the Prior Year Period. CFFO of \$24.3 million for the YTD declined compared to CFFO of \$25.7 million for the Prior Year Period.

**Royalties** for the YTD totaled \$33.1 million, compared to \$34.8 million for the Prior Year Period. Fixed franchise fees represented 64% of royalties for the YTD (Prior Year Period – 58%). Royalties decreased due primarily to the decrease in premium fees and variable fees partly offset by an increase in fixed fees. Additionally, the obligation to pay Premium fees for six locations expired in the first quarter of 2018 and the remaining 15 locations out of the 21 locations expired in the Quarter. This significant decline was partly offset by the larger REALTOR® base compared to the Prior Year Period.

**Fixed franchise fees** for the YTD increased by 5% as compared to the Prior Year Period, due to the increase in the REALTOR® base driven primarily by the acquisition of Franchise Agreements January 1, 2018 representing 563 REALTORS® and recruitment of an additional 101 REALTORS® during the YTD.

**Variable franchise fees** for the Quarter decreased by 5%, as a result a decrease in the transactional dollar volume of the Canadian Market driven by the weak GTA and GV market, mainly as a result of significant decline in sales activity compared to the Prior Year Period.

**Premium franchise fees** were derived from 21 franchise locations servicing the GTA Market which paid premium franchise fees ranging from 1% to 5% of the location's Gross Revenue. Premium franchise fees for the YTD have decreased by 43% compared to the Prior Year Period consistent with the decrease in the segments of the underlying GTA market serviced by those locations and the expiry of the obligation to pay premium franchise fees for all 21 locations during the YTD.

**Administration expenses** of \$0.7 million for the YTD are consistent with Prior Year Period.

**Management fee expense** of \$6.1 million for the YTD, calculated in accordance with the MSA, decreased 6% as compared to the Prior Year Period, due to the decrease in CFFO.

**Interest expense** was slightly higher compared to the Prior Year Period due to higher borrowings and an increase in interest rates on the Company's variable rate borrowings.

**Recovery / (Impairment and write-off) of intangible assets, net** represents a net impairment of \$0.5 million for the YTD compared to a net recovery of \$0.6 million during the Prior Year Period. During the YTD, the Company identified six Franchise Agreements, which required impairment charges \$0.6 million, as their carrying value exceeded their recoverable amount, and two Franchise Agreements that were written off as a result of early termination. These charges were partly offset by a \$0.1 million reversal of an impairment associated with one Franchise Agreement as the conditions causing such impairment have become more favourable. In the Prior Year Period, the Company recorded impairment reversals for five Franchise Agreements that had previously been impaired, partly offset by impairment charges for three Franchise Agreements and the write off of two Franchise Agreements.

**Amortization of Intangible Assets** for the YTD totaled \$5.8 million, a decrease of 6% compared to the Prior Year Period as a result of certain Franchise Agreements being fully amortized.

**Interest on Exchangeable Units** represents the distributions to Exchangeable Unitholders. For the YTD, total distributions amounted to \$1.31 per Exchangeable Unit (Prior Year Period – \$1.29). Distributions to Exchangeable Unitholders are determined with reference to dividends paid on Restricted Voting Shares.

**Loss on fair value of Exchangeable Units** represents the change in the fair value of the Exchangeable Units. The Exchangeable Units are valued based on the value of the Company's Restricted Voting Shares. At September 30, 2018, the Company's Restricted Voting Shares were valued at \$16.75 per share compared to \$16.52 at December 31, 2017, resulting in a loss of \$0.8 million for the YTD. This loss represents an increase in obligation associated with the conversion features of the Exchangeable Units. For the Prior Year Period, the price of the Company's Restricted Voting Shares increased from \$15.77 at December 31, 2016 to \$16.60 at September 30, 2017, resulting in a loss of \$2.8 million.

**Gain on interest rate swap** of \$0.2 million is a non-cash item which represents the change in fair value of the Interest Rate Swap entered into on October 27, 2014 by the Company. The interest rate swap fixes the annual interest rate on the Company's Term Facility at 3.64%.

**Loss on fair value of purchase obligation** of \$0.5 million represents an increase in the liability to the Manager related to Franchise Agreements purchased at the beginning of each year. The loss in the YTD is as a result of certain of those Franchise Agreements generating higher cash flows than those estimated on the date the Franchise Agreements were acquired.

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**Income Tax Expense** The effective income tax rate paid by the Company for the Quarter of 32% (Prior Year Period – 32%). The Company's effective income tax rate in the interim condensed consolidated statement of earnings and comprehensive earnings is significantly different than the Company's enacted income tax rate of 26.5%. The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items included in determining net earnings that are not included in determining taxable income include, among other things, non-deductible amortization of intangible assets, interest on Exchangeable Units and fair valuation adjustments on Exchangeable Units.

**Cash provided by operating activities** decreased to \$16.0 million compared to \$16.6 million in the Prior Year Period as the impact of lower operating income before net impairment and amortization of assets was partly offset by the benefit of a reduction in working capital requirements.

**Cash used in investing activities** decreased by \$1.4 million compared to the Prior Year Period as payments associated with the addition of intangible assets were lower.

**Cash used in financing activities** represents a \$0.5 million decrease compared to the Prior Year Period due to lower debt repayments partly offset by higher dividend payments to holders of Restricted Voting Shares.

## Summary of Quarterly Results and Cash Flow from Operations

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

	2018				2017			2016
For three months ended,	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Royalties								
Fixed franchise fees	\$ 7,211	\$ 7,058	\$ 6,911	\$ 6,704	\$ 6,741	\$ 6,720	\$ 6,651	\$ 6,414
Variable franchise fees	3,121	3,243	2,570	1,420	3,226	3,608	2,599	1,549
Premium franchise fees	809	1,171	989	1,342	2,268	1,800	1,159	1,639
	<b>11,141</b>	11,472	10,470	9,466	12,235	12,128	10,409	9,602
Less:								
Administration expense	82	280	354	110	163	6	537	308
Management fee	2,078	2,103	1,889	1,750	2,288	2,296	1,844	1,734
Interest expense	669	679	672	609	626	643	654	627
Cash Flow from Operations	<b>8,312</b>	8,410	7,555	6,997	9,158	9,183	7,374	6,933
Recovery / (impairment and write-off) of intangible assets, net	(322)	(129)	–	(61)	709	(52)	(52)	–
Amortization of intangible assets	(1,900)	(1,926)	(2,009)	(1,959)	(1,989)	(2,059)	(2,130)	(2,155)
Interest on Exchangeable units	(1,452)	(1,452)	(1,452)	(1,451)	(1,444)	(1,427)	(1,428)	(1,428)
Gain (loss) on fair value of Exchangeable Units	9,151	(6,988)	(2,928)	266	(333)	(1,064)	(1,365)	2,762
Gain on interest rate swap	108	4	59	142	547	420	50	621
Gain (loss) on fair value of purchase obligation	2	(26)	(518)	113	213	(104)	(74)	(167)
Earnings (loss) before income taxes	<b>13,899</b>	(2,107)	707	4,047	6,861	4,897	2,375	6,566
Current income tax expense	1,367	1,568	1,202	1,100	1,516	1,498	1,166	1,063
Deferred income tax expense / (recovery)	(12)	(10)	(130)	69	388	69	(70)	176
Net earnings and comprehensive income (loss)	<b>\$ 12,544</b>	\$ (3,665)	\$ (365)	\$ 2,878	\$ 4,957	\$ 3,330	\$ 1,279	\$ 5,327
Basic earnings (loss) per Share	<b>\$ 1.32</b>	\$ (0.39)	\$ (0.04)	\$ 0.30	\$ 0.52	\$ 0.35	\$ 0.13	\$ 0.56
Diluted earnings (loss) per Share	<b>\$ 0.38</b>	\$ (0.39)	\$ (0.04)	\$ 0.30	\$ 0.52	\$ 0.35	\$ 0.13	\$ 0.31
Cash Flow from Operations per share on a diluted basis	<b>\$ 0.65</b>	\$ 0.66	\$ 0.59	\$ 0.55	\$ 0.71	\$ 0.72	\$ 0.58	\$ 0.54
Number of REALTORS®	<b>18,799</b>	18,780	18,708	18,135	18,117	18,116	18,077	17,580

For the twelve months ended September 30, 2018, the Company generated CFFO of \$2.44 per Share, as compared to \$2.55 per Share generated during the twelve months ended September 30, 2017. A summary of the Company's CFFO generated over the last eight quarters on a rolling twelve months' basis is presented in the table below.

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

## ROLLING TWELVE-MONTH CASH FLOW FROM OPERATIONS

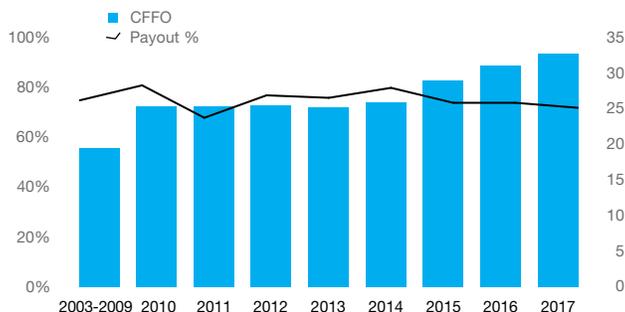
(Unaudited) (in 000's) except per Share amounts		2018			2017			2016
For twelve months ended,	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31
Royalties	\$ 42,549	\$ 43,643	\$ 44,299	\$ 44,238	\$ 44,374	\$ 44,706	\$ 43,447	\$ 42,436
Less:								
Administration expense	826	907	633	816	1,014	1,103	1,300	1,058
Management fee	7,820	8,030	8,223	8,178	8,162	8,205	7,912	7,754
Interest expense	2,629	2,586	2,550	2,532	2,550	2,586	2,596	2,606
	<b>31,274</b>	<b>32,120</b>	<b>32,893</b>	<b>32,712</b>	<b>32,648</b>	<b>32,812</b>	<b>31,639</b>	<b>31,018</b>
Cash Flow from Operations per Share	\$ 2.44	\$ 2.51	\$ 2.57	\$ 2.55	\$ 2.55	\$ 2.56	\$ 2.47	\$ 2.42

The Company's operations have generated significant cash flows with \$380 million of CFFO generated since inception, of which \$286 million has been distributed to shareholders and Exchangeable Unitholders or used to pay current income taxes. The remaining \$94 million retained by the Company plus funds generated from working capital and net borrowings has been used to acquire Franchise Agreements, and to repurchase Restricted Voting Shares in 2008 and 2009.

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) and for income taxes.

## CASH FLOW FROM OPERATIONS

(Years ended December 31, in \$ millions)



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

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

(Unaudited) (\$ 000's)		2018			2017			2016
For three months ended,	Sept.30	June 30	Mar.31	Dec.31	Sept.30	June 30	Mar.31	Dec.31
Cash flow from operating activities	\$ 6,840	\$ 5,447	\$ 3,721	\$ 4,415	\$ 6,695	\$ 6,541	\$ 3,409	\$ 4,732
Add (deduct):								
Interest on Exchangeable Units	1,452	1,452	1,452	1,451	1,444	1,427	1,428	1,427
Income taxes paid	1,355	1,628	1,602	1,225	1,225	1,304	1,561	1,122
Changes in non-cash working capital items	(1,339)	(104)	790	(107)	(202)	(70)	987	(338)
Interest expense	(2,094)	(2,106)	(2,093)	(2,044)	(2,051)	(2,039)	(2,031)	(2,032)
Interest paid	2,098	2,093	2,083	2,057	2,047	2,020	2,020	2,022
CFFO	\$ 8,312	\$ 8,410	\$ 7,555	\$ 6,997	\$ 9,158	\$ 9,183	\$ 7,374	\$ 6,933

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

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

CFFO does not have a standardized meaning under IFRS and, accordingly, may not be comparable to similar measures used by other companies. 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 holders of Restricted Voting Shares and Exchangeable Unitholders, and to meet cash tax obligations. Investors are cautioned, however, that CFFO should not be interpreted as an alternative to using net earnings (as a measure of profitability) or cash provided by operating activities (as a measure for cash flows) to evaluate the Company's financial performance.

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

## Debt Facilities

As at September 30, 2018 the Company's \$78.0 million financing is comprised of the following three arrangements, maturing February 17, 2020.

- A \$53.0 million term facility (the "Term Facility"). The Term Facility bears interest at a variable rate of Banker's Acceptances ("BAs") +1.70% or Prime + 0.5%, which the Company has swapped to a fixed rate of 3.64%. The swap contract matures on October 28, 2019;
- A \$20.0 million acquisition facility (the "Acquisition Facility") to support acquisitions pursued by the Company, bearing interest at a variable rate of BAs +1.70% or Prime + 0.5%. A standby fee of 0.15% applies on undrawn amounts under this facility; and
- A \$5.0 million revolving operating facility (the "Operating Facility") to meet the Company's day-to-day operating requirements, bearing interest at a variable rate of BAs +1.70% or Prime + 0.5%.

Borrowings under each of these arrangements are secured by a first ranking security interest in substantially all assets of the Company.

The covenants of this financing prescribe that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5:1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5:1 as defined under the loan agreement. Consolidated EBITDA is defined as operating income before deducting amortization and net impairment or recovery of intangible assets. Senior Indebtedness is defined as borrowings on the Company's debt facilities. Senior Interest Expense is defined as interest on Senior Indebtedness. As at September 30, 2018 the Company is compliant with these covenants.

Subsequent to September 30, 2018, the Company has agreed to certain amendments to its Debt Facilities. The amendments to the Debt Facilities include an extension of the maturity to December 31, 2023; an increase in the maximum borrowings to \$80.0 million; and an easing of certain required financial covenants. The amended Debt Facilities are subject to completion of final agreements and are expected to be effective from January 1, 2019.

## Liquidity

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

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

For the YTD, the Company funded the purchase of Franchise Agreements primarily through \$7.2 million in borrowings under its available debt facilities. The Company generated sufficient CFFO during the nine months ended September 30, 2018 (after payment of dividends,

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

distributions and its operating obligations) to repay \$4.0 million of outstanding borrowings on its debt facilities and to pay \$1.5 million to settle the purchase obligation outstanding for Franchise Agreements acquired on January 1, 2017. The Company anticipates using its debt facilities to fund the purchase of Franchise Agreements in the future with repayments of any borrowings to be funded using CFFO.

## WORKING CAPITAL

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

Overall, working capital decreased by \$2.0 million from \$5.6 million as at June 30, 2018, to \$3.6 million as at September 30, 2018.

The decrease in working capital resulted primarily from:

- A \$0.6 million decrease in cash;
- A \$1.1 million decrease in accounts receivable as a result of lower royalties earned in the Quarter compared to the second quarter of 2018 and improved collections; and
- A \$0.3 million decrease in sales tax receivables as outstanding balances were collected in the Quarter.

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

(Unaudited) (\$ 000's) As at	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Change in Quarter	Change in Year
<b>Current assets</b>										
Cash	\$ 4,267	\$ 4,888	\$ 2,648	\$ 3,458	\$ 2,644	\$ 2,622	\$ 3,305	\$ 3,102	\$ (621)	\$ 1,623
Accounts receivable and current portion of notes receivable	4,083	5,234	4,862	4,492	4,779	5,172	4,849	3,967	(1,151)	(696)
Prepaid expenses	187	179	164	153	156	147	141	147	8	31
Current income tax receivable	48	60	34	–	–	–	–	–	(12)	48
Sales tax receivable	–	257	579	–	–	–	–	–	(257)	–
	<b>\$ 8,585</b>	<b>\$ 10,618</b>	<b>\$ 8,287</b>	<b>\$ 8,103</b>	<b>\$ 7,579</b>	<b>\$ 7,941</b>	<b>\$ 8,295</b>	<b>\$ 7,216</b>	<b>\$ (2,033)</b>	<b>\$ 1,006</b>
<b>Current liabilities</b>										
Accounts payable and accrued liabilities	\$ 1,119	\$ 1,109	\$ 1,014	\$ 803	\$ 867	\$ 1,131	\$ 827	\$ 893	\$ 10	\$ 252
Purchase obligation	2,307	2,310	2,284	1,497	1,611	1,825	4,279	3,559	(3)	696
Current income tax liability	–	–	–	400	525	234	40	435	–	(525)
Interest payable to Exchangeable Unitholders	484	484	484	484	484	476	476	476	–	–
Dividends payable to Restricted Voting shareholders	1,067	1,067	1,067	1,067	1,067	1,027	1,027	1,027	–	–
	<b>4,977</b>	<b>4,970</b>	<b>4,849</b>	<b>4,251</b>	<b>4,554</b>	<b>4,693</b>	<b>6,649</b>	<b>6,390</b>	<b>7</b>	<b>423</b>
<b>Net working capital</b>	<b>\$ 3,608</b>	<b>\$ 5,648</b>	<b>\$ 3,438</b>	<b>\$ 3,852</b>	<b>\$ 3,025</b>	<b>\$ 3,248</b>	<b>\$ 1,646</b>	<b>\$ 826</b>	<b>\$ (2,040)</b>	<b>\$ 583</b>

## Cash and Capital Resources

A summary of cash and capital resources available to the Company as at September 30, 2018 and December 31, 2017 is presented below:

(Unaudited) (in 000's) As at	September 30, 2018	December 31, 2017
Cash	\$ 4,267	\$ 3,458
Term Facility	–	–
Acquisition Facility	4,000	7,200
Operating Facility	5,000	5,000
<b>Net borrowing capacity</b>	<b>\$ 9,000</b>	<b>\$ 12,200</b>
<b>Available resources</b>	<b>\$ 13,267</b>	<b>\$ 15,658</b>

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As at September 30, 2018, \$16.0 million of the Acquisition Facility has been drawn by the Company, leaving \$9.0 million available under the debt facilities. This represents a decrease of \$3.2 million in net borrowing capacity as a result of the Company borrowing \$7.2 million on the Acquisition Facility on January 1, 2018 to fund the acquisition of certain Franchise Agreements from the Manager and repayment of \$4.0 million in the Quarter.

In addition to the capital resources included in the table above, the Company generates substantial CFFO which can be used to fund dividend payments and interest on Exchangeable Units, to acquire Franchise Agreements and to repay amounts owing under the debt facilities.

## Commitments

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

(Unaudited) As at September 30, 2018	2018	2019	2020	2021	Beyond 2021	Total
Accounts payable and accrued liabilities	\$ 1,119	\$ –	\$ –	\$ –	\$ –	\$ 1,119
Purchase obligation	2,307	–	–	–	–	2,307
Interest payable to Exchangeable Unitholders	484	–	–	–	–	484
Dividends payable to shareholders	1,067	–	–	–	–	1,067
Interest on long-term debt	626	2,505	417	–	–	3,549
Debt facilities	–	–	69,000	–	–	69,000
Exchangeable Units	–	–	–	–	55,738	55,738
<b>Total</b>	<b>\$ 5,603</b>	<b>\$ 2,505</b>	<b>\$ 69,417</b>	<b>\$ –</b>	<b>\$ 55,738</b>	<b>\$ 133,264</b>

On January 1, 2018, the Company acquired 34 Franchise Agreements under the Royal LePage Brand and four Franchise Agreements under the Via Capitale Brand representing a total of 563 agents from the Manager for an estimated purchase price of \$8.8 million. A payment of \$7.1 million (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 3, 2018. The remainder is to be paid after the final purchase price is determined on October 31, 2018 (a "Determination Date").

During the first quarter of 2018, the Company finalized the purchase price with respect to the acquisitions of Franchise Agreements in 2017. In February, the Company paid \$1.5 million to the Manager related to those acquisitions.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Transactions with Related Parties

As at the date of this MD&A, BBP controlled approximately 28.4% of the Company through its ownership of the Exchangeable Units of the Partnership and 315,000 Restricted Voting Shares. The Exchangeable Units were issued by the Company at its inception to affiliates of BBP as consideration for certain assets purchased from those affiliates. These assets included the Trademarks and Franchise Agreements related to the business of its Royal LePage residential real estate brokerage franchise operations.

The Manager operates 25 corporately owned Royal LePage residential Brokerage locations. These locations are serviced by 1,934 REALTORS® with 1,312 REALTORS® operating out of 14 locations in the GTA market, 609 REALTORS® operating out of 9 locations in the Greater Vancouver market and 13 REALTORS® operating from two locations in Quebec. All but one of the Franchise Agreements (representing 7 agents) associated with the corporately owned Brokerages have been purchased by the Company.

All of the corporately owned operations operate under Franchise Agreements with standard fixed and variable franchise fees. The GTA based locations are up for renewal in 2023, while the Greater Vancouver operations are up for renewal between 2023-2024. Included in the GTA based Franchise Agreement was an obligation to pay premium franchise fees ranging from 1% to 5% of Gross Revenue for 11 of the 14 locations until August 2018. Including amounts received from the corporately owned Brokerage, premium franchise fees represented 7% of royalties in the Quarter (Prior Year Quarter– 19%). The Company will no longer receive premium franchise fees as all those agreements have expired in August 2018.

The management of the Company is provided by the Manager under the terms of the MSA. The Manager is a company controlled by the Exchangeable Unitholders. Under the MSA, the Manager provides certain management, administrative and support services to the Company and its subsidiaries and in return is paid a monthly fee equal to 20% of the distributable cash flow of the Company. The Manager

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can earn an additional fee for net organic recruitment growth, which closely aligns the Manager and the Company's goals with growing the underlying network of REALTORS®. The MSA also provides the Manager with the ability to sell other branded Canadian franchisees that it may acquire to the Company based on a pre-determined formula. The MSA was effective January 1, 2014, with an initial five-year term December 31, 2018. On September 26, 2018, the Company and the Manager announced an extension of the current term of the MSA to June 30, 2019 as they evaluated various matters being considered in association with the renewal of the MSA. On expiry, the MSA automatically renews for an additional five-year term unless the Company or the Manager provides notice of their intention to terminate no later than six months prior to expiry. As a result of the extension of the current term of the MSA, either party must give notice of their intention not to renew the MSA no later than December 31, 2018.

The MSA prescribes the conditions under which the Company purchases Franchise Agreements from the Manager and the formula for calculating the purchase price. The final purchase price for existing Brands is based on, among other things, the average annual royalties earned over a specified one-year period, with 80% of the purchase price payable upon acquisition and the remaining balance to be paid at a later date, subject to adjustment.

On January 1 of each year, (or such other time as the Board may deem appropriate), the Company may, subject to approval by the Board and meeting certain criteria detailed in the MSA, purchase Royal LePage and Via Capitale Franchise Agreements entered into by the Manager prior to October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or issuance of Exchangeable Units or Restricted Voting Shares, at the option of the Company.

The related party transactions entered into by the Company were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts can be found in Note 13 of the interim condensed consolidated financial statements.

On January 1, 2017, the Company acquired 51 Franchise Agreements under the Royal LePage Brand and four Franchise Agreements under the Via Capitale Brand, representing a total of 568 REALTORS®, from the Manager for an estimated purchase price of \$8.2 million. A payment of \$6.6 million (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 6, 2017. The remainder was paid on February 26, 2018.

On January 1, 2018, the Company acquired 34 Franchise Agreements under the Royal LePage Brand and four Franchise Agreements under the Via Capitale Brand, representing a total of 563 REALTORS®, from the Manager for an estimated purchase price of \$8.8 million. A payment of \$7.1 million, approximating 80% of the estimated purchase price, plus applicable taxes was paid on January 3, 2018. The remainder is to be paid after the final purchase price is determined on October 31, 2018.

Subsequent to September 30, 2018, the Company agreed to certain changes to the MSA (the "Amended MSA"). The operational terms of the Amended MSA are effective January 1, 2019 and the services provided by the Manager are substantially unchanged from the current MSA. The Amended MSA is for a ten-year term with automatic ten-year renewals and includes the following changes:

- The Company will no longer acquire Franchise Agreements from the Manager. Rather, the Company will enter into Franchise Agreements directly with Franchisees;
- The Company will pay the Manager a fixed management fee of \$840,000 per month and a variable management fee of 23.5% of the distributable cash flow of the Company for the first five years of the Amended MSA, increasing to 25% of the distributable cash flow of the Company in the next five years of the Amended MSA;
- Franchise Agreements owned by the Manager at December 31, 2018 will be assigned to the Company at nominal cost, and
- The Manager will assign to the Company, at no cost, certain contracts associated with revenue streams that it has developed outside of the Franchise Agreements owned by the Company. These ancillary revenues include certain referral fee revenues, commercial agent service fees and revenue sharing arrangements under marketing partnerships.

## Critical Accounting Estimates and Assumptions

Substantially all of the Company's activities are based on cash transactions, with revenue and expenditures based on contracted terms. The operating activities not based on contractual terms include bad debt expense (which is included in the Company's administration costs), and the amortization of intangible assets.

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

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

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

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been prepared in a manner consistent with prior periods, and management is not aware of any trends, commitments, events or uncertainties that will materially affect the methodology or assumptions utilized in these interim condensed consolidated financial statements. The estimates are impacted by, among other things, movements in interest rates, and cash flow forecasts, which are judgements and are uncertain. The interrelated nature of these factors prevents management from quantifying the overall impact of these movements on the Company's interim condensed consolidated financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

## CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

### 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 whether the integration of acquired inputs and processes into current processes of the Company would meet the definition of a business. The Company has evaluated the criteria included in IFRS 3 and determined that the acquisition of Franchise Agreements is an acquisition of assets as no processes are acquired in respect of the Franchise Agreements. In addition, the Company must apply judgment with respect to the accounting for the purchase obligation in connection with the purchase of Franchise Agreements. The Company has determined that the purchase obligation is an embedded derivative instrument in a non-financial host contract, whereby the value changes in response to changes in the estimated royalty expected to be earned under the Franchise Agreement and the actual royalty earned during the determination period. The Company records any change in the fair value of this financial liability in the interim condensed consolidated statement of net and comprehensive earnings.

### Impairment of Intangible Assets and Recovery of Impairment

Under IAS 36, Impairment of Assets, the Company ensures that the carrying value of intangible assets are not more than their recoverable amount (i.e. the higher of; a) fair value less costs of disposal, and b) value-in-use). The Company regularly reviews intangible assets to determine whether indicators of impairment exist on individual Franchise Agreements and Trademarks. When reviewing indicators of impairment for Franchise Agreements, the Company considers certain factors including, royalties earned, term to maturity, historical REALTOR® count, collectability of receivables and underlying market conditions. Where indicators of impairment exist, the Company recognizes impairment charges if the carrying amount of a Franchise Agreement exceeds its recoverable amount or if the recovery of the carrying amount is no longer probable. When an intangible asset has been previously written down to its recoverable amount as a result of recording an impairment loss and the conditions causing such an impairment loss have become more favourable, the previously recorded impairment loss may be reversed and is recorded as a recovery of impairment.

## Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, notes receivable, current income tax receivable, interest rate swap asset, accounts payable and accrued liabilities, purchase obligation, interest payable to Exchangeable Unitholders, dividends payable to holders of Restricted Voting Shares, debt facilities and Exchangeable Unit liability.

The Company is exposed to credit risk with respect to accounts and notes receivable to the extent that any Franchisees are unable to pay their fees. The Company's credit risk is limited to the recorded amount of accounts and notes receivable. Management reviews the financial position of all Franchisees during the application process and closely monitors outstanding amounts receivable on an ongoing basis to evaluate the risk of a default occurring over the expected life of the accounts receivable. This monitoring includes evaluating the franchisee's historical payment patterns, the current financial health of the franchisee and expected or possible changes in future events or market conditions to determine whether an allowance for doubtful accounts should be recorded.

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

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

The Company is exposed to the risk of interest rate fluctuations on its \$20.0 million Acquisition Facility and \$5.0 million Operating Facility as the interest rates on these facilities are based on Prime or Banker's Acceptance interest rates. As at September 30, 2018, the Company has drawn \$16 million on the Acquisition Facility, and nil on the Operating Facility.

## Disclosure Controls and Internal Controls over Financial Reporting

The Company takes all necessary steps to ensure that material information regarding the Company's reports filed or submitted under securities legislation fairly presents the financial information of the Company. Responsibility for this resides with management, including the President and Chief Executive Officer and the Chief Financial Officer. Management is responsible for establishing, maintaining and evaluating disclosure controls and procedures as well as internal control over financial reporting.

### DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 Certification of Disclosures in Issuers' Annual and Interim Filings, was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at September 30, 2018. 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 the Company's financial reporting is reliable and that the Company's interim condensed consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR was evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at September 30, 2018. The design of ICFR is undertaken in accordance with the 2013 COSO framework.

## Outstanding Restricted Voting Shares

BRESI is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. As of November 6, 2018 BRESI has issued 9,483,850 Restricted Voting Shares, no preferred shares and one Special Voting Share.

Each Restricted Voting Share represents a proportionate voting right in BRESI, and holders of BRESI's Restricted Voting Shares are entitled to dividends declared and distributed by BRESI.

The Special Voting Share is owned by BBP and represents the proportionate voting rights of Exchangeable Unitholders in the Company. The Special Voting Share is not eligible to receive dividends and can be redeemed at \$0.01 per share.

## Risk Factors

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

## Forward-Looking Statements

This MD&A contains forward-looking information and other "forward-looking statements" within the meaning of applicable securities legislation. Words such as "anticipates", "attract", "are", "believes", "can", "continue(s)", "continued", "consist", "could", "estimated", "estimates", "expected", "exposed", "forecast(s)", "further", "future", "generally", "generates", "grow", "growing", "growth", "increase(s)", "increasing", "leads", "limiting", "may", "momentum", "move", "objective(s)", "ongoing", "operates", "outlook", "outperforming", "overheating", "potential", "project(ed)", "projection", "provide(s)", "provided", "purchases", "remain", "reflects", "retain", "retains", "seeks", "servicing", "settling", "still", "strives", "support", "tends", "typically", "uncertainty", "will", and other expressions that are predictions of or could indicate future events and trends and that do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those indicated in the forward looking statements include, but are not limited to: a change in general economic conditions (including interest rates, consumer confidence, commodity prices, real estate legislation and regulations and other general economic factors or indicators), the level of residential real estate transactions, the availability of attractive investment opportunities, the average rate of commissions charged, competition from other real estate brokers or from discount and/or Internet-based real estate alternatives, the closing of existing real estate brokerage offices, other developments in the residential real estate brokerage industry or the Company that reduce the number of REALTORS® in the Company's Network or royalty revenue from the Company's Network, availability to

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

generate sufficient cash flows in the future to pay dividends to holders of Restricted Voting Shares and interest to Exchangeable Unitholders, ability to acquire, renew and/or extend Franchise Agreements, the ability to increase fees, the ability to maintain brand equity through the use of trademarks, the methods used by shareholders or analysts to evaluate the value of the Company and its publicly traded securities, the availability of equity and debt financing, conversion of Exchangeable Units into Restricted Voting Shares, a change in tax law or regulations, and other risks detailed in the Company's annual information form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to management. Material factors or assumptions that were applied in drawing conclusions or making estimates set out in the forward-looking statements include, but are not limited to: anticipated economic conditions, anticipated impact of government policies, anticipated financial performance, anticipated market conditions, business prospects, the successful execution of the Company's business strategies, regulatory developments and the ability to obtain financing on acceptable terms. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Supplemental Information – Dividends Declared History

(per Restricted Voting Share\*)

Month Declared	2010	2011	2012	2013	2014	2015	2016	2017	2018
January	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
February	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
March	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
April	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
May	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1000	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
June	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
July	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1083	<b>\$ 0.1125</b>
August	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1125	<b>\$ 0.1125</b>
September	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1125	<b>\$ 0.1125</b>
October	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1125	
November	\$ 0.1170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1042	\$ 0.1083	\$ 0.1125	
December	\$ 0.3170	\$ 0.0920	\$ 0.0920	\$ 0.0920	\$ 0.1000	\$ 0.1083	\$ 0.1083	\$ 0.1125	
	\$ 1.6036	\$ 1.1040	\$ 1.1040	\$ 1.1040	\$ 1.2000	\$ 1.2335	\$ 1.2996	\$ 1.3206	<b>\$ 1.0125</b>

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

## Supplemental Information – Share Performance

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

	Dec. 31, 2016	Mar.31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar.31, 2018	June 30, 2018	Sept. 30, 2018
Trading price range of units (TSX: "BRE")								
Close	\$ 15.77	\$ 16.18	\$ 16.50	\$ 16.60	\$ 16.52	\$ 17.40	\$ 19.50	<b>\$ 16.75</b>
High	\$ 16.72	\$ 16.60	\$ 16.68	\$ 17.60	\$ 16.95	\$ 18.25	\$ 20.15	<b>\$ 19.95</b>
Low	\$ 14.90	\$ 15.68	\$ 15.10	\$ 15.65	\$ 15.79	\$ 16.27	\$ 16.67	<b>\$ 15.40</b>
Average daily volume	7,623	10,954	11,867	11,144	14,044	13,445	10,548	<b>17,095</b>
Number of restricted voting shares outstanding at period end	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	<b>9,483,850</b>
Market capitalization (\$000's)	\$ 202,076	\$ 207,290	\$ 211,390	\$ 212,671	\$ 211,646	\$ 222,920	\$ 249,825	<b>\$ 214,593</b>

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

## Supplemental Information – Canadian Residential Real Estate Market

For Three months ended	Dec. 31, 2016	Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 49,891	\$ 60,948	\$ 88,349	\$ 59,298	\$ 53,860	\$ 48,272	\$ 71,195	<b>\$ 58,183</b>
Average selling price	\$ 480,891	\$ 522,528	\$ 531,057	\$ 478,947	\$ 500,451	\$ 489,959	\$ 492,372	<b>\$ 488,875</b>
Number of units sold	103,747	116,641	166,364	123,809	107,623	98,523	144,113	<b>120,750</b>
Number of REALTORS® at period end <sup>2</sup>	121,212	122,158	123,395	124,041	125,316	126,224	127,950	<b>–</b>
Housing starts	46,250	40,811	50,669	55,486	55,318	42,105	52,928	<b>49,187</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 17,990	\$ 22,088	\$ 25,600	\$ 13,701	\$ 14,622	\$ 12,576	\$ 18,958	<b>\$ 15,708</b>
Average selling price	\$ 747,559	\$ 873,774	\$ 866,793	\$ 747,096	\$ 759,900	\$ 767,271	\$ 789,893	<b>\$ 786,957</b>
Number of units sold	24,065	25,279	29,534	18,339	19,242	16,391	23,531	<b>20,109</b>
Housing starts	9,932	10,395	8,381	11,384	8,578	11,702	8,949	<b>9,427</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 5,708	\$ 7,416	\$ 12,899	\$ 9,064	\$ 8,381	\$ 6,906	\$ 8,634	<b>\$ 5,825</b>
Average selling price	\$ 908,628	\$ 969,893	\$ 1,075,331	\$ 1,008,187	\$ 1,051,173	\$ 1,040,374	\$ 1,062,498	<b>\$ 1,050,945</b>
Number of units sold	6,282	7,646	11,995	8,990	7,973	6,638	7,988	<b>5,703</b>
Housing starts	5,716	5,269	6,931	5,825	8,179	6,864	5,698	<b>5,494</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 2,224	\$ 3,887	\$ 5,013	\$ 3,320	\$ 3,946	\$ 4,406	\$ 5,501	<b>\$ 3,747</b>
Average selling price	\$ 360,778	\$ 347,306	\$ 366,784	\$ 376,941	\$ 366,014	\$ 369,475	\$ 376,155	<b>\$ 380,962</b>
Number of units sold	6,091	11,191	13,668	8,808	10,781	12,311	14,743	<b>9,565</b>
Housing starts	4,576	4,703	5,102	5,981	8,970	4,475	7,566	<b>4,816</b>

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

<sup>2</sup> CREA Membership data as of September 30, 2018 not available as of MDA date.

Source: CREA, CMHC, TREB

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

For Twelve months ended	Dec. 31, 2016	Mar. 31, 2017	Jun. 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Sept. 30, 2018
<b>Canada</b>								
Transaction dollar volume <sup>1</sup>	\$ 262,963	\$ 267,051	\$ 264,831	\$ 258,486	\$ 262,455	\$ 249,779	\$ 232,625	<b>\$ 231,510</b>
Average selling price	\$ 490,495	\$ 495,786	\$ 503,155	\$ 506,278	\$ 510,179	\$ 503,263	\$ 490,700	<b>\$ 491,519</b>
Number of units sold	536,118	538,642	526,342	510,561	514,437	496,319	474,068	<b>471,009</b>
Housing starts	180,647	185,856	187,303	193,216	202,284	203,578	205,837	<b>199,538</b>
<b>Greater Toronto Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 82,702	\$ 89,513	\$ 87,081	\$ 79,379	\$ 76,011	\$ 66,499	\$ 59,857	<b>\$ 61,864</b>
Average selling price	\$ 727,210	\$ 769,112	\$ 803,567	\$ 816,514	\$ 822,681	\$ 796,341	\$ 772,318	<b>\$ 780,392</b>
Number of units sold	113,725	116,385	108,368	97,217	92,394	83,506	77,503	<b>79,273</b>
Housing starts	39,027	40,010	38,322	40,092	38,738	40,045	40,613	<b>38,656</b>
<b>Greater Vancouver Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 41,584	\$ 35,720	\$ 33,468	\$ 35,086	\$ 37,759	\$ 37,249	\$ 32,985	<b>\$ 29,746</b>
Average selling price	\$ 1,017,221	\$ 981,394	\$ 981,996	\$ 1,004,955	\$ 1,031,547	\$ 1,046,443	\$ 1,044,180	<b>\$1,051,011</b>
Number of units sold	40,880	36,397	34,082	34,913	36,604	35,596	31,589	<b>28,302</b>
Housing starts	27,914	26,102	25,274	23,741	26,204	27,799	26,566	<b>26,235</b>
<b>Greater Montreal Area</b>								
Transaction dollar volume <sup>1</sup>	\$ 13,078	\$ 13,442	\$ 14,042	\$ 14,444	\$ 16,166	\$ 16,685	\$ 17,173	<b>\$ 17,600</b>
Average selling price	\$ 348,654	\$ 352,801	\$ 359,671	\$ 363,298	\$ 364,501	\$ 366,156	\$ 368,182	<b>\$ 371,297</b>
Number of units sold	37,510	38,100	39,041	39,758	44,448	45,568	46,643	<b>47,400</b>
Housing starts	17,834	19,746	20,129	20,362	24,756	24,528	26,992	<b>25,827</b>

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

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

## Supplemental Information – Cash Flow from Operations

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

(Unaudited) (\$ 000's)	Canadian GAAP					
	Total	Nine months ended Sept. 30, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Jan. 1, 2010 to Dec. 31, 2015	Aug.7, 2003 to Dec. 31, 2009
Royalties	\$ 534,274	\$ 33,082	\$ 44,238	\$ 42,436	\$ 223,388	\$ 191,130
Less:						
Administration expense	16,035	716	816	1,058	9,053	4,392
Management fee	97,452	6,069	8,178	7,754	40,607	34,844
Interest Expense	40,380	2,020	2,532	2,606	17,790	15,432
Cash Flow from Operations	380,407	24,277	32,712	31,018	155,938	136,462
Less:						
Dividends to shareholders	182,966	9,602	12,485	12,325	71,683	76,871
Interest to Exchangeable Unitholders	72,885	4,355	5,750	5,710	31,243	25,827
Current Income tax expense	30,180	4,137	5,280	4,893	15,870	–
Total distributions and current income taxes	286,031	18,094	23,515	22,928	118,796	102,698
Cash Flow from Operations less total distributions and current income taxes	94,376	6,183	9,197	8,090	37,142	33,764
Less: Funding of acquisitions	98,715	8,561	10,137	9,429	45,444	25,144
Less: Purchase of units under NCIB	4,096	–	–	–	–	4,096
Cash Flow from Operations less funding of acquisitions	\$ (8,435)	\$ (2,378)	\$ (940)	\$ (1,339)	\$ (8,302)	\$ 4,524
Working capital and net borrowings	12,702	3,187	1,296	(1,204)	7,105	2,318
Change in period	\$ 4,267	\$ 809	\$ 356	\$ (2,543)	\$ (1,197)	\$ 6,842
Cash balance, beginning of Period	\$ –	\$ 3,458	\$ 3,102	\$ 5,645	\$ 6,842	\$ –
Cash balance, end of Period	\$ 4,267	\$ 4,267	\$ 3,458	\$ 3,102	\$ 5,645	\$ 6,842
Distributions payment rate <sup>1</sup>	75%	75%	72%	74%	76%	75%

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

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

(Unaudited) (\$ 000's)	Canadian GAAP					
	Total	Nine months ended Sept. 30, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Jan. 1, 2010 to Dec. 31, 2015	Aug.7, 2003 to Dec. 31, 2009
Cash Flow from Operating activities	\$ 283,883	\$ 16,007	\$ 21,060	\$ 20,148	\$ 89,879	\$ 136,789
Add (deduct):						
Changes in non-cash working capital items	1,350	(652)	608	111	515	768
Interest on Exchangeable Units	47,058	4,355	5,750	5,710	31,243	–
Income taxes paid	34,411	4,585	5,315	5,098	19,413	–
Interest on Trust units	15,212	–	–	–	15,212	–
Change in accrued interest expense	(1,507)	(18)	(21)	(49)	(324)	(1,095)
Cash Flow From Operations	\$ 380,407	\$ 24,277	\$ 32,712	\$ 31,018	\$ 155,938	\$ 136,462

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

## Supplemental Information – Selected Operating Information

As at	Dec. 31, 2016	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	June 30, 2018	Sept. 30, 2018
Number of REALTORS®	17,580	18,077	18,116	18,117	18,135	18,708	18,780	<b>18,799</b>
Number of locations	667	675	669	662	658	677	673	<b>673</b>
Number of franchise agreements	297	302	297	294	293	297	295	<b>295</b>

## Supplemental Information – Acquisitions

Year acquired by the Company (\$ millions, Canadian dollars) except number of REALTORS®	2018	2017	2016	2015	2014	2013	2012	2011	2010
Estimate purchase price									
Royal LePage	\$ 8.6	\$ 7.7	\$ 6.0	\$ 19.3	\$ 6.1	\$ 6.0	\$ 1.9	\$ 2.5	\$ 4.2
Via Capitale	0.2	0.5	0.6	0.7	0.2	0.7	1.0	1.0	1.0
	\$ 8.8	\$ 8.2	\$ 6.6	\$ 20.0	\$ 6.3	\$ 6.7	\$ 2.9	\$ 3.5	\$ 5.2
Actual purchase price									
Royal LePage	(a), (b) \$ 7.6	\$ 6.2	\$ 21.3	\$ 7.1	\$ 5.8	\$ 1.9	\$ 2.5	\$ 4.2	
Via Capitale	(a), (b) 0.5	0.6	0.6	0.1	0.9	0.8	0.8	1.1	
	(a) \$ 8.1	\$ 6.8	\$ 21.9	\$ 7.2	\$ 6.7	\$ 2.7	\$ 3.3	\$ 5.3	
Acquired REALTORS®									
Royal LePage	548	542	419	1,530	484	462	145	188	343
Via Capitale	15	26	40	47	9	54	72	59	74
	563	568	459	1,577	493	516	217	247	417

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

(b) Actual purchase price determined is subject to audit of incremental cash flows earned.

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

## GLOSSARY OF TERMS

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

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

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

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

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

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

**"Cash Flow from Operations"** or **"CFFO"** means operating income (adjusted to reflect interest expense paid) before deducting amortization and net impairment or recovery of intangible assets. CFFO is used by the Company to measure the amount of cash generated from operations, which is available to the Company's shareholders on a diluted basis, where such dilution represents the total number of shares of the Company that would be outstanding if Exchangeable Unitholders converted Class B LP units into Restricted Voting Shares. The Company uses CFFO to assess its operating results and the value of its business and believes that many of its shareholders and analysts also find this measure useful. CFFO does not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies.

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

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

**"Exchangeable Units"** means the 3,327,667 Class B LP Units the Partnership issued at the inception of the Company to an affiliate of BBP in partial consideration for the Partnership's acquisition of the assets of the Partnership from that affiliate. The Class B LP Units, except as otherwise noted, have economic and voting rights equivalent in all material respects to the Class A LP Units. The Class B LP Units are indirectly exchangeable, on a one-for-one basis, subject to adjustment, for Restricted Voting Shares.

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

**"Franchise Agreements"** means the franchise agreements and addendums thereto pursuant to which Brokerage offices offer residential brokerage services to their REALTORS®, including use of the Trademarks.

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

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

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

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

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

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

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

**"Management Services Agreement"** or **"MSA"** means the third amended and restated management services agreement, made effective January 1, 2014 between the Company and the Manager, together with any amendments thereto, pursuant to which, among other things, the Manager provides management and administrative services to the Company, including management of the assets of the Company.

**"Manager"** means Brookfield Real Estate Services Manager Limited, a corporation incorporated under the laws of the Province of Ontario and an indirectly, wholly-owned subsidiary of BBP, together with its subsidiaries. The Manager provides management and administrative services to the Company, including management of the assets of the Company.

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

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

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

**"Restricted Voting Share(s)"** means the restricted voting shares in the capital of BRESI.

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

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

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

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

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

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

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

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

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