

Interim Condensed Consolidated Balance Sheets

(Unaudited) (In thousands of Canadian dollars)	Note	September 30, 2018	December 31, 2017
Assets			
Current assets			
Cash		\$ 4,267	\$ 3,458
Accounts receivable	4,13	3,965	4,389
Current portion of notes receivable	5	118	103
Current income tax receivable	8	48	–
Prepaid expenses		187	153
		8,585	8,103
Non-current assets			
Notes receivable	5	127	72
Interest rate swap asset	9	216	45
Deferred income tax asset	8	6,546	6,435
Intangible assets	6, 7	81,813	78,868
		\$ 97,287	\$ 93,523
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities	13	\$ 1,119	\$ 803
Purchase obligation	6,13	2,307	1,497
Current Income tax liability	8	–	400
Interest payable to Exchangeable Unitholders	10,13	484	484
Dividends payable to shareholders	12	1,067	1,067
		4,977	4,251
Non-current liabilities			
Debt facilities	9	68,920	65,677
Exchangeable Units	10	55,738	54,973
		129,635	124,901
Shareholders' deficit			
Restricted voting shares	11	140,076	140,076
Deficit		(172,424)	(171,454)
		(32,348)	(31,378)
		\$ 97,287	\$ 93,523

See accompanying notes to the interim condensed consolidated financial statements.

Approved on behalf of the Board


Simon Dean
Director

Lorraine Bell
Director

Interim Condensed Consolidated Statements of Net and Comprehensive Earnings

(Unaudited) (In thousands of Canadian dollars, except per share amounts)	Note	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
		11,141	12,235	33,082	34,772
Expenses					
Administration		82	163	716	706
Management fee	3,13	2,078	2,288	6,069	6,428
Interest expense	9,13	669	626	2,020	1,923
Impairment and write-off / (recovery) of intangible assets, net	7	322	(709)	450	(605)
Amortization of intangible assets	7	1,900	1,989	5,834	6,178
		5,051	4,357	15,089	14,630
Operating income					
Interest on Exchangeable Units	10,13	(1,452)	(1,444)	(4,355)	(4,299)
Gain (loss) on fair value of Exchangeable Units	10	9,151	(333)	(765)	(2,762)
Gain on interest rate swap	9	108	547	171	1,017
Gain (loss) fair value of purchase obligation	6	2	213	(541)	35
		13,899	6,861	12,503	14,133
Earnings before income tax					
Current income tax expense		1,367	1,516	4,137	4,180
Deferred income tax expense (recovery)		(12)	388	(152)	387
Income tax expense	8	1,355	1,904	3,985	4,567
Net and comprehensive earnings					
		\$ 12,544	\$ 4,957	\$ 8,518	\$ 9,566
Basic earnings per share	12	\$ 1.32	\$ 0.52	\$ 0.90	\$ 1.01
Weighted average number of shares outstanding used in computing basic earnings per Share		9,483,850	9,483,850	9,483,850	9,483,850
Diluted earnings per share	12	\$ 0.38	\$ 0.52	\$ 0.90	\$ 1.01
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517	12,811,517	12,811,517	12,811,517

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Shareholders' Deficit

(Unaudited) For the nine months ended September 30, 2018 (In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2017	\$ 140,076	\$ (171,454)	\$ (31,378)
Changes in accounting policy (Note 2)	–	114	114
Net earnings	–	8,518	8,518
Dividends paid	–	(9,602)	(9,602)
Balance, September 30, 2018	\$ 140,076	\$ (172,424)	\$ (32,348)
(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2016	\$ 140,076	\$ (171,374)	\$ (31,298)
Net earnings	–	9,566	9,566
Dividends paid	–	(9,324)	(9,324)
Balance, September, 2017	\$ 140,076	\$ (171,132)	\$ (31,056)

See accompanying notes to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited) (In thousands of Canadian dollars)	Note	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Cash provided by (used for):					
Operating activities					
Net earnings for the period		\$ 12,544	\$ 4,957	\$ 8,518	\$ 9,566
Adjusted for					
Loss (gain) on fair value of Exchangeable Units	10	(9,151)	333	765	2,762
Loss (gain) on purchase obligation	6	(2)	(213)	541	(35)
Gain on interest rate swap	9	(108)	(547)	(171)	(1,017)
Interest expense	9,13	2,094	2,051	6,292	6,121
Interest paid		(2,098)	(2,047)	(6,274)	(6,087)
Current income tax expense	8	1,367	1,516	4,137	4,180
Income taxes paid		(1,355)	(1,225)	(4,585)	(4,090)
Deferred income tax expense (recovery)	8	(12)	388	(152)	387
Impairment and write-off / (recovery) of intangible assets, net	7	322	(709)	450	(605)
Amortization of intangible assets	7	1,900	1,989	5,834	6,178
Changes in non-cash working capital		1,339	202	652	(715)
		6,840	6,695	16,007	16,645
Investing activities					
Purchase of intangible assets	6	–	2	(8,561)	(10,135)
Interest expense on purchase obligation	6,13	27	19	83	101
Interest paid on purchase obligation		(43)	(33)	(74)	(145)
Deferred costs	7	(244)	–	(244)	–
		(260)	(12)	(8,796)	(10,179)
Financing activities					
Borrowings under debt facilities	9	–	–	7,200	7,400
Repayment under debt facilities	9	(4,000)	(3,500)	(4,000)	(5,000)
Dividends paid to shareholders	12	(3,201)	(3,161)	(9,602)	(9,324)
		(7,201)	(6,661)	(6,402)	(6,924)
Increase / (decrease) in cash during the period		(621)	22	809	(458)
Cash, beginning of the period		4,888	2,622	3,458	3,102
Cash, end of the period		\$ 4,267	\$ 2,644	\$ 4,267	\$ 2,644

See accompanying notes to the interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

1. Organization

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

BRESI directly owns a 75% interest in Residential Income Fund L.P. (the “Partnership”) which, in turn, owns 9120 Real Estate Network, L.P. (“VCLP”). In addition, BRESI directly owns a 75% interest in the general partner of the Partnership, Residential Income Fund General Partner Limited (“RIFGP”) (Collectively, the Partnership, VCLP and RIFGP represent the Company’s “Subsidiaries” and each of them is a “Subsidiary”). The Partnership and VCLP (together the “Operating Subsidiaries”) own and operate the assets from which the Company derives its revenue.

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

The Company receives certain management, administrative and support services from Brookfield Real Estate Services Manager Ltd. (“BRESML”, and together with its subsidiaries, the “Manager”), an indirect wholly owned subsidiary of BBP (see Note 13). The Company is party to a Management Services Agreement (“MSA”) with the Manager. The MSA governs the relationship between the Manager and the Company including the management services provided by the Manager and the acquisition of Franchise Agreements by the Company. The MSA has a term of five-years with an initial expiry of 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.

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 changes to the compensation paid to the Manager, effective January 1, 2019.

The Company derives 100% of its revenue from royalties it receives under the Franchise Agreements.

2. Significant Accounting Policies

BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board using the accounting policies described herein and the accounting policies used to prepare the Annual Financial Statements of the Company as of and for the year ended December 31, 2017.

These interim condensed consolidated financial statements have been authorized for issuance by the Board of Directors of the Company on November 6, 2018 and should be read in conjunction with the audited Annual Financial Statements of the Company for the year ended December 31, 2017.

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

The Company's significant accounting policies are as follows:

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2018 the Company adopted IFRS 15, "Revenue from Contracts with Customers". The Company has determined that certain costs associated with the acquisition of Franchise Agreements, which were expensed in prior periods, must be capitalized under IFRS 15.

The Company has adopted the modified retrospective approach with the aggregate impact of any changes being reflected in the opening balance of deficit at the date of initial application. As a result, the Company has recorded an increase in the cost of intangible assets of \$155 and a net reduction in deficit of \$114, after tax, as at January 1, 2018. (see Note 7)

Effective January 1, 2018 the Company adopted IFRS 9, "Financial Instruments". The Company has determined that no adjustments to the financial statements are required as a result of adopting IFRS 9.

Prior to January 1, 2018, the Company reported other franchise fees as a separate category of Royalties. Other franchise fees are comprised primarily of a fixed monthly fee which is now combined with fixed franchise fees as Franchise Agreements are renewed or new Franchise Agreements are established. Other franchise fees are now being reported as fixed franchise fees or variable franchise fees based on the nature of the fee with substantially all of the other franchise fees now included in fixed franchise fees. Royalties presented in the financial statements of prior periods have been reclassified to conform to the presentation in these interim condensed consolidated financial statements.

INTANGIBLE ASSETS

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

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

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

The Company reviews intangible assets each reporting period to determine whether indicators of impairment or a reversal of impairment exists on individual Franchise Agreements and Trademarks. When reviewing indicators for impairment or recovery of Franchise Agreements, the Company considers certain factors including, the financial performance of the business, royalties earned, term to maturity, historical REALTOR^{®1} count, collectability of receivables and underlying market conditions. Where indicators of impairment exist, the Company recognizes impairment charges if the carrying amount of a Franchise Agreement (or cash-generating unit) exceeds its recoverable amount (recoverable amount is determined as the higher of a) estimated fair value less costs of disposal and b) value-in-use). Where the counter-parties of one or more Franchise Agreements combine their operations by way of a merger, acquisition or other combination subsequent to the acquisition of the underlying Franchise Agreement, the carrying value of the underlying intangible assets are combined for purposes of evaluating impairment.

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

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

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

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

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

REVENUE RECOGNITION

The Company is in the business of providing information and services to REALTORS® and real estate brokers in Canada through a portfolio of highly regarded real estate services brands (the “Service Offering”). The Service Offering is offered as a complete suite of services. Franchisees who pay royalties under the Franchise Agreements cannot elect to purchase any service under the Service Offering individually or on a stand-alone basis.

Royalties include franchise fees which have both fixed and variable components. Fixed franchise fees represent royalties that are payable to the Company as a fixed monthly amount per REALTOR® without regard to transaction volumes generated by that REALTOR®. Fixed franchise fees are recognized over time, which is when the control of the services and the right to use the trademark are transferred to the customer.

Variable franchise fees represent royalties that are payable to the Company based on the transaction volumes generated by REALTORS®, subject to a cap. Variable franchise fees are a percentage of a REALTORS® gross revenue, which is the gross commission income earned on a transaction. Variable franchise fees are recognized at the point in time when a residential real estate transaction is closed and finalized by the REALTOR® and/or a lease is signed by the vendor or lessor.

Premium franchise fees are variable in nature and are calculated as a percentage of the gross commission income (ranging from 1% to 5%) generated by all a REALTORS® for a select number of franchise locations. Premium franchise fees are recognized as revenue at point in time when a residential real estate transaction is closed and finalized or a lease is signed by the vendor or lessor.

The Company’s royalties are affected by the seasonality of Canadian real estate markets, which typically see stronger transactional dollar volumes in the second and third quarters of each year. The impact of the seasonality of Canadian real estate markets is somewhat mitigated by the fixed-fee nature of the Company’s royalties and the acquisition of Franchise Agreements at the beginning each year.

EXCHANGEABLE UNITS

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

EARNINGS PER SHARE

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

FINANCIAL INSTRUMENTS

The Company classifies its financial instruments as follows:

Financial Statement Item:	Classification:	Measurement:
Cash	Amortized Cost	Amortized Cost
Accounts Receivable	Amortized Cost	Amortized Cost
Notes Receivable	Amortized Cost	Amortized Cost
Interest rate swap asset	FVTPL	Fair Value
Accounts payable and accrued liabilities	Amortized Cost	Amortized Cost
Purchase obligation	FVTPL	Fair Value
Interest payable to Exchangeable Unitholders	Amortized Cost	Amortized Cost
Debt Facilities	Amortized Cost	Amortized Cost
Exchangeable Units	FVTPL	Fair Value
Dividends payable to shareholders	Amortized Cost	Amortized Cost

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

PURCHASE OBLIGATION

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

3. Management Services Agreement

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

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

For the three and nine months ended September 30, 2018, the Company incurred management fees of \$2,078 and \$6,069 (three and nine months ended September 30, 2017 – \$2,288 and \$6,428) for these services.

4. Accounts Receivable

Accounts receivable represent royalties due from the Company's franchise network pursuant to Franchise Agreements and are valued initially at fair value, then subsequently measured at amortized cost less any provision for doubtful accounts. As at September 30, 2018, the Company had accounts receivable of \$3,965 (December 31, 2017 – \$4,389) net of an allowance for doubtful accounts of \$632 (December 31, 2017 – \$698).

For the three and nine months ended September 30, 2018, administration expenses included a net reversal of bad debt expense of \$55 and bad debt expense of \$125 (September 30, 2017 – a net reversal of bad debt expense of \$8 and bad debt expense of \$102).

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

The table below summarizes the aging of accounts receivable as at September 30, 2018 and December 31, 2017.

As at,	September 30, 2018	December 31, 2017
Current	\$ 3,161	\$ 3,193
30 Days	442	623
60 Days	277	267
90+ Days	717	1,004
Subtotal	\$ 4,597	5,087
Allowance for Doubtful Accounts	(632)	(698)
Accounts Receivable	\$ 3,965	\$ 4,389

The Company recognizes royalty revenues in income to the extent that it is probable that the Company will collect the royalty revenue when the revenue is earned. During the three months ended September 30, 2018, the Company recognized \$192 of royalty revenues that were not recognized in prior periods as the collection of those revenues was not probable. During the three and nine months ended September 30, 2018, the Company identified \$52 and \$145 of royalty revenues that were not recognized as income as collection was not probable at the time the revenues were earned (three and nine months ended September 30, 2017 – \$33 and \$125). As at September 30, 2018, the Company had a cumulative amount of \$663 of royalty income that was not recognized as collectability was not probable at the time the revenue was earned (December 31, 2017 – \$727).

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

5. Notes Receivable

The Company has certain franchisees with which it has entered into a signed formalized payment plan in respect of franchise fees due to the Company which were in arrears. Amounts under these payment plans which are due greater than one year from the financial statement date have been classified as non-current. The terms stipulated in the payment plan require the franchisees to repay the total outstanding balance in monthly payments plus interest based on a spread above the prime interest rate ("Prime"). As at September 30, 2018, the Company had notes receivable of \$245 (December 31, 2017 – \$175), of which \$118 was due within 12 months (December 31, 2017 – \$103) and \$127 was considered non-current (December 31, 2017 – \$72).

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

As at,	September 30, 2018	December 31, 2017
Current portion	\$ 118	\$ 103
Receivable in 13-24 months	15	72
Receivable thereafter	112	–
Notes Receivable	\$ 245	\$ 175

6. Asset Acquisitions

On January 1, 2018, (an "Acquisition Date") the Company acquired 34 Franchise Agreements under the Royal LePage brand and four Franchise Agreements under Via Capitale brand from the Manager for an estimated purchase price of \$8,830. A payment of \$7,064 (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").

On January 1, 2017, (an "Acquisition Date") the Company acquired 51 Franchise Agreements under the Royal LePage brand and four Franchise Agreements under the Via Capitale brand from the Manager for an estimated purchase price of \$8,222. A payment of \$6,576 (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 6, 2017. The remainder was paid on February 26, 2018.

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

For the three and nine months ended September 30, 2018, the Company recorded a gain of \$2 and loss of \$541 on the fair value of the purchase obligation (three and nine months ended September 30, 2017 – gains of \$213 and \$35).

For the three and nine months ended September 30, 2018, the Company incurred \$27 and \$83 of interest expense related to the outstanding purchase obligation (three and nine months ended September 30, 2017 – \$19 and \$101).

Changes in the purchase obligation for the nine months ended September 30, 2018 and the year ended December 31, 2017 were as follows:

As at,	September 30, 2018	December 31, 2017
Purchase obligation at beginning of the year	\$ 1,497	\$ 3,559
Current year's purchases	8,830	8,222
Adjustment to the purchase obligation	541	(147)
Payments made during the period	(8,561)	(10,137)
Purchase obligation at end of period	\$ 2,307	\$ 1,497

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

7. Intangible Assets

For the nine months ended September 30, 2018, there were six Franchise Agreements identified with a carrying amount in excess of their recoverable amount as a result of a decrease in revenue generated under those Franchise Agreements compared to the prior year. The Company recognized impairment charges for the three and nine months ended September 30, 2018 of \$446 and \$548 (three and nine months ended September 30, 2017 – \$132 and \$197 related to three franchise agreements).

For the three months ended September 30, 2018, there was one Franchise Agreement, previously identified as being impaired, where the conditions causing such impairment have become more favourable such that a portion of the impairment charges recorded in prior periods can be reversed. For the three and nine months ended September 30, 2018, the Company recognized a reversal of previously recorded impairment charges of \$125 to increase the carrying value of the intangible asset to its revised recoverable amount (2017 – \$854 related to five Franchise Agreements).

For the nine months ended September 30, 2018, the Company identified two Franchise Agreements that were subject to early termination or non-renewal. The Company recognized a write off of \$27 in the second quarter (three and nine months ended September 30, 2017 – \$13 and \$52 related to two Franchise Agreements).

For the three and nine months ended September 30, 2018, the Company recorded an expense of \$1,900 and \$5,834 (three and nine months ended September 30, 2017 – \$1,989 and \$6,178) of amortization of intangible assets.

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

	Franchise Agreements	Trademarks	Deferred costs	Total
Cost				
At December 31, 2017	\$ 229,089	\$ 5,427	\$ –	\$ 234,516
Purchases	8,830	–	244	9,074
Changes in accounting policy (Note 2)	155	–	–	155
Impairment	(548)	–	–	(548)
Impairment recovery	125	–	–	125
Amounts written-off	(83)	–	–	(83)
At September 30, 2018	\$ 237,568	\$ 5,427	\$ 244	\$ 243,239
Accumulated amortization				
At December 31, 2017	\$ (152,998)	\$ (2,650)	\$ –	\$ (155,648)
Amortization expense	(5,696)	(138)	–	(5,834)
Amounts written-off	56	–	–	56
At September 30, 2018	\$ (158,638)	\$ (2,788)	\$ –	\$ (161,426)
Carrying value				
At December 31, 2017	\$ 76,091	\$ 2,777	\$ –	\$ 78,868
At September 30, 2018	\$ 78,930	\$ 2,639	\$ 244	\$ 81,813

As a result of adopting IFRS 15 on January 1, 2018, the Company adjusted the cost of intangible assets by \$155 to capitalize the historical legal costs associated with the acquisition of the Franchise Agreements and will amortize the cost over the term of the underlying agreements plus one renewal period using the straight-line method on an agreement by agreement basis.

Deferred costs incurred during the nine months ended September 30, 2018 represent expenses associated with the renewal of the MSA and are comprised of legal expenses, fees paid to a financial advisor and incremental fees paid to certain independent directors of the Company for their participation on a special committee of the Board established to evaluate the Company's options with respect to the renewal of the MSA, which expires June 30, 2019. These costs have been capitalized and will be amortized over the life of the renewed MSA.

Notes to the Interim Condensed Consolidated Financial Statements

(Unaudited)

For the three and nine months ended September 30, 2018 and 2017

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

8. Income Taxes

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

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Earnings before income tax for the period:	\$ 13,899	\$ 6,861	\$ 12,503	\$ 14,133
Expected income tax expense at statutory rate of 26.5% (2017 – 26.5%)	3,684	1,817	3,313	3,745
Increase (decrease) in income tax expense due to the following:				
Non-deductible amortization	136	197	424	495
Non-deductible loss (gain) on fair value of Exchangeable Units	(2,425)	88	203	732
Non-deductible interest on Exchangeable Units	385	382	1,154	1,139
Non-deductible impairment and write-off / (recovery) of intangible assets	(1)	(46)	8	(40)
Non-deductible adjustments to purchase obligation	–	–	–	–
Income allocated to Exchangeable Unitholders	(424)	(534)	(1,245)	(1,480)
Recognition of deferred tax assets and other	–	–	128	(24)
Total income tax expense	\$ 1,355	\$ 1,904	\$ 3,985	\$ 4,567

The major components of income tax expense include the following:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Current income tax expense	\$ 1,367	\$ 1,516	\$ 4,137	\$ 4,180
Deferred income tax expense (recovery)	(12)	388	(152)	387
Total income tax expense	\$ 1,355	\$ 1,904	\$ 3,985	\$ 4,567

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

9. Debt Facilities

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

As at,	September 30, 2018	December 31, 2017
Term facility	\$ 53,000	\$ 53,000
Acquisition facility	16,000	12,800
	\$ 69,000	\$ 65,800
Financing fees	(80)	(123)
Debt facilities	\$ 68,920	\$ 65,677

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

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

A \$20,000 revolving acquisition facility (the "Acquisition Facility") is available to support acquisitions pursued by the Company. A standby fee of 0.15% applies on undrawn amounts under the Acquisition Facility. Repayment of principal outstanding is due on Maturity. During the nine months ended September 30, 2018, the Company borrowed \$7,200 to finance the purchase of Franchise Agreements (September 30, 2017 – \$7,400). During the nine months ended September 30, 2018, the Company made repayments of \$4,000 (September 30, 2017 – \$5,000). As of September 30, 2018, \$4,000 is available to the Company to support acquisitions.

A \$5,000 revolving operating facility (the "Operating Facility") is available to meet the Company's day-to-day operating requirements. No amounts have been drawn on this facility as at September 30, 2018.

Borrowings under each of these arrangements are secured by a first ranking security interest in substantially all assets of the Company and bear interest at a variable rate of Banker's Acceptances (BAs) +1.70% or Prime + 0.5%, at the option of the Company.

The Company's ability to borrow under these arrangements is subject to certain covenants. Under these covenants, the Company must maintain a ratio of Consolidated EBITDA to Interest Expense on Senior Indebtedness at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1. Consolidated EBITDA is defined as operating income before interest expense, impairment and amortization of intangible assets. Senior Indebtedness is defined as borrowings on the Company's debt facilities. At September 30, 2018 and December 31, 2017, the Company complied with all covenants under the debt facilities.

Subsequent to September 30, 2018, in conjunction with the approval of the Amended MSA, the board of directors approved certain amendments to the debt facilities which are subject to completion of final agreements and are expected to be effective from January 1, 2019.

In October, 2014, the Company entered into a five-year interest rate swap agreement to swap the variable interest obligation on the Term Facility to a fixed rate obligation of 3.64%. The interest rate swap is a financial instrument and is disclosed at its fair value with any change in that fair value recorded as a gain or loss in the Company's interim condensed consolidated statements of net and comprehensive earnings. The fair value is determined using a discounted cash flow model using observable yield curves and applicable credit spreads at a credit adjusted rate. At September 30, 2018 the Company determined that the fair value of the interest rate swap represents an asset of \$216 (December 31, 2017 – \$45). For the three and nine months ended September 30, 2018, the Company recognized a fair value gain of \$108 and \$171 (three and nine months ended September 30, 2017 – \$547 and \$1,017).

10. Exchangeable Units

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

The Company measures the Exchangeable Units at their fair value using the closing price of the Company's restricted voting shares listed on the Toronto Stock Exchange. At September 30, 2018, the Company used the closing market price of BRESI's shares of \$16.75 (December 31, 2017 – \$16.52). During the three and nine months ended September 30, 2018, the Company recorded a gain of \$9,151 and a loss of \$765 related to the fair value of the Exchangeable Units (three and nine months ended September 30, 2017 – loss of \$333 and \$2,762).

The Exchangeable Unitholders are entitled to cash distributions from the Partnership in respect of their economic interest in the Partnership as and when declared by the Board of Directors of RIFGP. Such distributions are made on a before tax basis and are directly taxable in the hands of the Exchangeable Unitholders. For the three and nine months ended September 30, 2018 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of \$1,452 and \$4,355 (three and nine months ended September 30, 2017 – \$1,444 and \$4,299).

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11. Share Capital

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

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

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

No additional restricted voting shares were issued during the three and nine months ended September 30, 2018 or the twelve months ended December 31, 2017.

No preferred shares were issued or outstanding as at September 30, 2018 or December 31, 2017.

The following table summarizes the outstanding shares of BRESI:

As at,	September 30, 2018	December 31, 2017
Restricted voting shares	9,483,850	9,483,850
Special voting share	1	1

12. Earnings Per Share

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

(In thousands of Canadian dollars, except share and per share amounts)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net earnings available to restricted voting shareholders – basic	\$ 12,544	\$ 4,957	\$ 8,518	\$ 9,566
Interest on Exchangeable Units	1,452	1,444	4,355	4,299
Loss (gain) on fair value of Exchangeable Units	(9,151)	333	765	2,762
Net earnings available to restricted voting shareholders – diluted	\$ 4,845	\$ 6,734	\$ 13,638	\$ 16,627
Weighted average number of shares outstanding used in computing basic earnings per share	9,483,850	9,483,850	9,483,850	9,483,850
Total outstanding Exchangeable Units	3,327,667	3,327,667	3,327,667	3,327,667
Weighted average number of shares outstanding used in computing diluted earnings per share	12,811,517	12,811,517	12,811,517	12,811,517
Basic earnings per share	\$ 1.32	\$ 0.52	\$ 0.90	\$ 1.01
Diluted earnings per share	\$ 0.38	\$ 0.52	\$ 0.90	\$ 1.01
Dividends declared	\$ 3,201	\$ 3,161	\$ 9,602	\$ 9,324
Restricted voting shares	9,483,850	9,483,850	9,483,850	9,483,850
Dividends per restricted voting share	\$ 0.34	\$ 0.33	\$ 1.01	\$ 0.98

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13. Related Party Transactions

In addition to transactions disclosed elsewhere in the interim condensed consolidated financial statements, the Company had the following transactions with parties related to the Manager or the Exchangeable Unitholders during the three and nine months ended September 30, 2018 and the three and nine months ended September 30, 2017. These transactions have been recorded at the exchange amount as agreed between the parties.

(In thousands of Canadian dollars, except share and per share amounts)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
a) Royalties				
Fixed franchise fees	\$ 721	\$ 701	\$ 2,908	\$ 2,094
Variable franchise fees	\$ 236	\$ 253	\$ 1,088	\$ 939
Premium franchise fee	\$ 803	\$ 1,828	\$ 3,635	\$ 4,358
b) Expenses				
Management fees	\$ 2,078	\$ 2,288	\$ 6,069	\$ 6,428
Insurance premiums and other	\$ 5	\$ 6	\$ 17	\$ 7
Interest on purchase obligations	\$ 27	\$ 19	\$ 83	\$ 101
c) Interest				
Interest to Exchangeable Unitholders	\$ 1,452	\$ 1,444	\$ 4,355	\$ 4,299

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

As at,	September 30, 2018	December 31, 2017
d) Accounts receivable		
Franchise fees receivable and other	\$ 339	\$ 701
e) Accounts payable and accrued liabilities		
Management fees	\$ 702	\$ 644
Interest on purchase obligations	\$ 27	\$ 18
f) Interest payable to Exchangeable Unitholders	\$ 484	\$ 484
g) Purchase obligation	\$ 2,307	\$ 1,497

The members of the Company's board of directors are compensated for their services. During the three and nine months ended September 30, 2018, the Company incurred \$202 and \$331 (three and nine months ended September 30, 2017 – \$59 and \$190) in directors' fees. The Company has capitalized \$125 of directors' fees representing fees paid to certain directors for their participation on a special committee of the Board established to evaluate the Company's options with respect to the renewal of the MSA, which expires June 30, 2019. These capitalized fees are included in intangible assets. Those directors' fees not capitalized are included in administration expense.

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14. Financial Instruments

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

A) CREDIT RISK

Credit risk arises from the possibility that franchisees may not pay amounts owing to the Company. The Company's credit risk is limited to the recorded amount of accounts receivable and notes receivable. The Manager reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis 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 impairment should be recorded.

As at September 30, 2018, the Company has an allowance for doubtful accounts of \$632 (December 31, 2017 – \$698). In addition, as at September 30, 2018 the Company had a cumulative amount of \$663 of royalty income that was not recognized as collectability was not probable at the time the revenue was earned (December 31, 2017 – \$727).

B) LIQUIDITY RISK

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

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

As at 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
Total	\$ 5,603	\$ 2,505	\$ 69,417	\$ –	\$ 55,738	\$ 133,264

C) INTEREST RATE RISK

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

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

The Acquisition Facility bears variable interest at a rate of BAs + 1.70% or Prime + 0.5%. Management has elected to pay interest at variable interest rates on the Acquisition Facility and monitors this position on an ongoing basis. An increase of 1% in the Company's effective interest rate on its variable rate Acquisition Facility would result in an increase in its annual interest expense of approximately \$160.

D) FAIR VALUE

The fair value of certain of the Company's financial instruments, including cash, accounts receivable, notes receivable, accounts payable and accrued liabilities, interest payable to Exchangeable Unitholders and dividends payable to holders of restricted voting shares, are estimated by management to approximate their carrying values due to their short-term nature. The fair value of the Company's outstanding borrowings of \$69,000 approximate their carrying value of \$68,920 as a result of their floating rate terms.

E) FAIR VALUE HIERARCHY

The following table summarizes the financial instruments measured at fair value in the interim condensed consolidated balance sheets as at September 30, 2018 and December 31, 2017, classified using the fair value hierarchy:

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As at September 30, 2018	Level 1	Level 2	Level 3	Total
Financial asset:				
Interest rate swap asset	–	216	–	216
Total	\$ –	\$ 216	\$ –	\$ 216
Financial liability:				
Purchase obligation	–	–	2,307	2,307
Exchangeable Units	55,738	–	–	55,738
Total	\$ 55,738	\$ –	\$ 2,307	\$ 58,045

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Financial asset:				
Interest rate swap asset	–	45	–	45
Total	\$ –	\$ 45	\$ –	\$ 45
Financial liability:				
Purchase obligation	–	–	1,497	1,497
Exchangeable Units	54,973	–	–	54,973
Total	\$ 54,973	\$ –	\$ 1,497	\$ 56,470

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

15. Management of Capital

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

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

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

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

Senior Indebtedness is defined as borrowings under the Company's debt facilities, as disclosed in Note 9 as at September 30, 2018 and December 31, 2017. The Company is compliant with all financial covenants. There were no changes in the Company's approach to capital management during the period.

16. Segmented Information

The Company has only one business segment which is providing information and services to REALTORS® and real estate brokers in Canada through a portfolio of highly regarded real estate services brands. The economic characteristics are consistent across the Company's brands as they each provide services, similar in nature, in the Canadian residential real estate market. Of the Company's royalty revenues for the three and nine months ended September 30, 2018, 95% and 96% respectively (three and nine months ended September 30, 2017 – 97% and 96% respectively) are generated from the network of franchisees operating under the Royal LePage and Johnston and Daniel brands and 5% and 4% respectively (three and nine months ended September 30, 2017 – 3% and 4% respectively) are generated from the network of franchisees operating under the Via Capitale brand.