

BRIDGEMARQ REAL ESTATE SERVICES INC.

Form 51-102F4

Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Bridgemarq Real Estate Services Inc. (the “**Company**”)
39 Wynford Drive, Suite 200
Toronto, Ontario, Canada
M3C 3K5

1.2 Executive Officer

The following senior officer of the Company is knowledgeable about the significant acquisition and this Business Acquisition Report:

Glen McMillan, Chief Financial Officer
Tel: (416) 417-3870

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On March 31, 2024, Residential Income Fund L.P. (the “**Partnership**”), a subsidiary of the Company, acquired all of the outstanding shares in the capital of Bridgemarq Real Estate Services Manager Limited (the “**Manager**”) and Proprio Direct Inc. (“**Proprio**”) and, together with the Manager, the “**Acquired Companies**”) from Brookfield BBP (Canada) Sub L.P., an affiliate of Brookfield Business Partners L.P. (collectively, “**Brookfield**”) pursuant to a share purchase agreement dated December 14, 2023 (the “**Purchase Agreement**”) among (*inter alia*) the Company, the Partnership and Brookfield (the “**Acquisition**”). Prior to the completion of the Acquisition, the Manager managed the business and affairs of the Company pursuant to a management services agreement. As a result of the Acquisition, such management services have been internalized. The Acquired Companies own a portfolio of high-quality residential real estate brokerages operating in British Columbia, Ontario and Québec under the Royal LePage®, Via Capitale®, Proprio Direct®, Johnston & Daniel® and Les Immeubles Mont-Tremblant real estate brands. These brokerages provide services to REALTORS® which are complementary to those services provided under the Company’s existing franchise operations.

The Acquisition and the business of the Acquired Companies are further described in the management information circular of the Company dated March 1, 2024 with respect to the special meeting of the Company’s shareholders held on March 25, 2024 (the “**Circular**”), which is available under the Company’s profile on SEDAR+ at www.sedarplus.ca.

2.2 Acquisition Date

March 31, 2024.

2.3 Consideration

As consideration for the Acquisition and the settlement of certain deferred management fees and distributions owing to Brookfield, 2,920,877 Class B subordinated limited partnership units of the Partnership (“**Exchangeable Units**”) were issued to Brookfield on closing of the Acquisition, which are exchangeable on a one-for-one basis into an equivalent number of restricted voting shares of the Company (“**Restricted Voting Shares**”). The purchase price for the Acquisition is subject to certain customary post-closing purchase price adjustments, which will be settled in cash to the extent of any adjustment, all as set out in the Purchase Agreement (which is available under the Company’s profile on SEDAR+ at www.sedarplus.ca).

2.4 Effect on Financial Position

Upon the closing of the Acquisition, the Acquired Companies became wholly-owned subsidiaries of the Partnership and the external management of the business and affairs of the Company by the Manager became internalized.

Following completion of the Acquisition:

- Lorraine Bell, who has been a member of the board of directors of the Company (the “**Board**”) since 2003, succeeded Spencer Enright as the independent chair of the Board;
- Spencer Enright, who for the past decade has been the Chief Executive Officer of the Manager and responsible for overall leadership and oversight over operations of the Acquired Companies, was appointed Chief Executive Officer of the Company and will continue as a director on the Board; and
- Phil Soper will continue in his role managing all agent and franchise relationships as the President of the Company, and Glen McMillan will continue in his role as Chief Financial Officer of the Company.

Except as set out above, the Company presently has no plans or proposals for material changes in its business affairs or the affairs of the Acquired Companies that may have a significant effect on the financial performance and financial position of the Company.

2.5 Prior Valuations

No valuation opinion was obtained within the last 12 months by the Company or, to the knowledge of the Company, by the Acquired Companies to support the consideration paid for the Acquired Companies’ business, as no such valuation opinion was required by securities legislation or a Canadian exchange or market in connection with the Acquisition. However, a special committee of the Board comprised of independent directors (the “**Special Committee**”) was formed to review, consider, negotiate and

evaluate the Acquisition. In support of its mandate, the Special Committee obtained a fairness opinion from Blair Franklin Capital Partners Inc. dated December 14, 2023, attesting to the fairness of the consideration to be offered pursuant to the Acquisition from a financial point of view to the Company (subject to the assumptions, limitations and qualifications set forth therein).

2.6 Parties to Transaction

The Acquisition involved Brookfield, an informed person (as defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations* (“**NI 51-102**”)).

Prior to the completion of the Acquisition, Brookfield owned 315,000 Restricted Voting Shares and 3,327,667 Exchangeable Units representing, in the aggregate, approximately 28.43% of the outstanding Restricted Voting Shares (on a fully-diluted basis, assuming the exchange of all Exchangeable Units). Following the completion of the Acquisition, Brookfield owns 315,000 Restricted Voting Shares and 6,248,544 Exchangeable Units representing, in the aggregate, approximately 41.72% of the outstanding Restricted Voting Shares (on a fully-diluted basis, assuming the exchange of all Exchangeable Units).

Additional disclosure concerning the relationship of the parties to the Acquisition is set out in the Circular.

2.7 Date of Report

May 7, 2024.

Item 3 Financial Statements and Other Information

Pursuant to Part 8 of NI 51-102, the following financial statements are attached hereto and form part of this Business Acquisition Report:

- **Schedule A:** Combined consolidated financial statements of The Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc., which comprise the combined consolidated Balance Sheets as at December 31, 2023 and 2022, and the combined consolidated statements of net earnings (loss) and total comprehensive earnings (loss), combined consolidated statements of changes in total equity and cash flows for the years then ended, and notes to the combined consolidated financial statements and the independent auditor’s report thereon.
- **Schedule B:** Unaudited pro forma consolidated financial statements of the Company, which comprise the unaudited pro forma consolidated balance as at December 31, 2023 and the unaudited pro forma consolidated statement of net and comprehensive earnings (loss) for the year then ended, in each case giving effect to the Acquisition, and notes to the unaudited pro forma consolidated financial statements.

Forward-Looking Statements

This business acquisition report contains forward-looking information and other “forward-looking statements”. Words such as “continues”, “appear”, “until”, “may”, “expect”, “could”, “will”, “intend” 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: any resurgence of COVID-19 (including any impact of COVID-19 on the economy and the Company’s business), changes in the supply or demand of houses for sale in Canada or in any particular region within Canada, changes in the selling price for houses in Canada or any particular region within Canada, changes in the Company’s cash flow, changes in the Company’s strategy with respect to and/or ability to pay dividends, changes in the productivity of the Company’s REALTORS® or the commissions they charge their customers, changes in government policy, laws or regulations which could reasonably affect the housing markets in Canada or the economy in general, changes to any products or services developed or offered by the Company, consumer response to any changes in the housing markets in Canada or any changes in government policy, laws or regulations, changes in general economic conditions (including interest rates, consumer confidence and other general economic factors or indicators), changes in global and regional economic growth, changes in the demand for and prices of natural resources on local and international markets, the level of residential real estate transactions, 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 revenue from the Company’s network, the Company’s 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, changes in tax laws 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.sedarplus.ca. There are also risks that are inherent in the nature of the Acquisition, including the failure to realize the anticipated benefits of the Acquisition. 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, anticipated benefits from the Acquisition, business prospects and the successful execution of the Company’s business strategies. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this business acquisition report 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 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.

Schedule A

**Combined Consolidated Financial Statements of The Combined Operations of Bridgemarq
Real Estate Services Manager Limited and Proprio Direct Inc.**

(see attached)

Independent Auditor's Report

To the Board of Directors

Opinion

We have audited the financial statements of The Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc. (the "Company"), which comprise the combined consolidated Balance Sheets as at December 31, 2023 and 2022, and the combined consolidated statements of Net Earnings and total comprehensive earnings, combined consolidated statements of changes in total equity and cash flows for the years then ended, and notes to the combined financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Yours truly,

The signature is written in a cursive, handwritten style. It reads "Deloitte LLP". The word "Deloitte" is written in a larger, more prominent script, and "LLP" is written in a smaller, simpler script to the right.

Chartered Professional Accountants
Licensed Public Accountants

April 29, 2024
Toronto, Ontario

**Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc.
Combined Consolidated Balance Sheets**

(In thousands of Canadian dollars)	Note	December 31 2023	December 31 2022
Assets			
<u>Current assets</u>			
Cash and cash equivalents		\$ 8,948	\$ 11,261
Cash held in trust		35,631	31,153
Accounts receivable		2,241	3,543
Contract transfer receivable	4	356	602
Due from related parties	11	730	712
Income tax receivable		652	1,232
Prepaid expenses and other assets		1,844	1,492
Total current assets		50,402	49,995
<u>Non-current assets</u>			
Contract transfer receivable	4	\$ 1,616	\$ 1,974
Deferred management fees receivable	5	5,323	5,116
Notes receivable	6	436	741
Other non-current assets		183	276
Property and equipment, net	7	2,792	3,756
Right-of-use assets, net	8	11,385	13,334
Deferred income taxes	10	2,533	1,661
Intangible assets, net	9	4,307	4,995
Goodwill	9	6,442	6,442
Total assets		\$ 85,419	\$ 88,290
Liabilities and equity			
<u>Current liabilities</u>			
Accounts payable and accrued liabilities		\$ 15,969	\$ 17,393
Customer deposits		35,631	31,153
Lease liabilities	8	3,408	3,029
Total current liabilities		55,008	51,575
Lease liabilities	8	9,693	12,378
Other non-current liabilities		1,433	1,433
Total liabilities		66,134	65,386
Total owners' equity		19,285	22,904
Total liabilities and equity		\$ 85,419	\$ 88,290

See accompanying notes to the combined consolidated financial statements.

**Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc.
 Combined Consolidated Statements of Net Earnings (Loss) and Total Comprehensive Earnings (Loss)**

Years ended December 31 (In thousands of Canadian dollars)	Note	2023	2022
Revenues			
Gross commission income		\$ 343,260	\$ 398,765
Management fee revenue	11	19,197	19,872
Other revenue		16,004	14,088
		378,461	432,725
Expenses			
Commission and other related costs		324,320	375,527
Cost of other revenue		4,636	4,092
Compensation		27,518	26,704
Software, hosting and licensing		5,069	5,115
Marketing and communications		4,301	4,122
General and administration		4,636	3,883
Premises		2,935	2,872
Other operating		2,235	1,838
Franchise fees	11	732	860
Interest	8	882	847
Depreciation and amortization	7,8,9	5,422	5,956
		382,686	431,816
Earnings (loss) before income tax		(4,225)	909
Current income tax expense	10	266	314
Deferred income tax expense (recovery)	10	(872)	165
Income tax expense (recovery)		(606)	479
Net earnings (loss) and total comprehensive earnings (loss)		\$ (3,619)	\$ 430

See accompanying notes to the combined consolidated financial statements.

**Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc.
Combined Consolidated Statements of Changes in Total Equity**

(In thousands of Canadian dollars)		Equity
Balance, December 31, 2022	\$	22,904
Net loss		(3,619)
Balance, December 31, 2023	\$	19,285

(In thousands of Canadian dollars)		Equity
Balance, December 31, 2021	\$	23,974
Net earnings		430
Dividends paid		(1,500)
Balance, December 31, 2022	\$	22,904

See accompanying notes to the combined consolidated financial statements.

**Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc.
Combined Consolidated Statements of Cash Flows**

Years ended December 31 (In thousands of Canadian dollars)	Note	2023	2022
Cash provided by:			
Operating activities			
Net earnings (loss) for the year		\$ (3,619)	\$ 430
Adjusted for			
Interest income		(2,095)	(1,384)
Interest received		1,888	1,185
Interest expense		882	847
Current income tax expense	10	266	314
Income taxes recovered (paid)		314	(2,130)
Deferred income tax expense (recovery)	10	(872)	165
Depreciation and amortization	7,8,9	5,422	5,956
Other non-cash		132	194
Net changes in non-cash working capital		(492)	(315)
		1,826	5,262
Investing activities			
Additions to property and equipment and intangibles	7,9	(221)	(2,370)
Repayments of contract transfer receivable	4	604	573
Repayment of notes receivable	6	45	95
Acquisitions, net of cash acquired	3		(951)
		428	(2,653)
Financing activities			
Lease payments	8	(4,567)	(4,538)
Dividends paid to shareholders		-	(1,500)
		(4,567)	(6,038)
Net change in cash for the year		(2,313)	(3,429)
Cash, beginning of the year		11,261	14,690
Cash, end of the year		\$ 8,948	\$ 11,261

See accompanying notes to the combined consolidated financial statements.

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization and Basis of Presentation

The Combined Operations of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc. (the “Real Estate Operations” or the “Company”) are comprised of the consolidated operations of Bridgemarq Real Estate Services Manager Limited, a corporation incorporated under the *Ontario Business Corporations Act* (“BRESML”) and Proprio Direct Inc., a corporation incorporated under the *Canada Business Corporations Act* (“Proprio Direct”).

The consolidated operations of BRESML include the following operating corporations, each of which is 100% directly, or indirectly owned by BRESML:

10572314 Canada Inc.
9106-2083 Quebec Inc.
9106-1496 Quebec Inc.
9333-0868 Quebec Inc.
9371-7536 Quebec Inc.
9120-5583 Quebec Inc.
Credit Valley Real Estate Inc.
RLPS GP Inc.
Royal LePage Real Estate Services Ltd.
Sequel Realty Ltd.

As of December 31, 2023, BRESML and Proprio Direct are wholly owned subsidiaries of Brookfield BBP (Canada) L.P. (“BBP Canada”), which is a subsidiary of Brookfield Business Partners L.P. (“BBP”). BBP is listed on the Toronto Stock Exchange and on the New York Stock Exchange.

The Real Estate Operations operate in two business segments.

Bridgemarq Real Estate Brokerage Group (the “Brokerage Operations”) – The Brokerage Operations operate full service real estate brokerage locations in British Columbia, Ontario and Quebec under the Royal LePage®, Via Capitale®, Proprio Direct® Johnston and Daniel® and Les Immeubles Mont-Tremblant® real estate brands. The Brokerage Operations provide services to real estate sales representatives to support them in assisting businesses or residential customers who wish to buy or sell residential or commercial real estate in Canada.

Bridgemarq Real Estate Franchise Management Services (the “Franchise Operations”) – The Franchise Operations provides franchise management services to Bridgemarq Real Estate Services Inc. (“BRESI”) under the Royal LePage®, Via Capitale® and Johnston and Daniel® real estate brands. BRESI is a related company by virtue of the fact that it is 28% indirectly controlled by BBP as at December 31, 2023. BRESI is listed on the Toronto Stock Exchange under the symbol “BRE”.

These combined consolidated financial statements for the Real Estate Operations were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and have been authorized for issuance by the Boards of Directors of BRESML and Proprio Direct on April __, 2024.

These combined financial statements have been prepared on a going concern basis and include the accounts of the Real Estate Operations.

2. Material Accounting Policies

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and cash equivalents. Cash equivalents are short-term (generally with a maturity of three months or less) highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash equivalents are held for meeting short-term cash requirements rather than for investment purposes.

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CASH HELD IN TRUST

Cash held in trust represents customer deposits held in trust accounts established pursuant to provincial regulations. The Brokerage Operations recognize a corresponding customer deposit liability until the funds are released upon settlement of a real estate transaction.

ACCOUNTS RECEIVABLE

Accounts receivables and notes receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any estimated allowance for uncollectable amounts.

LEASES

The Company leases certain of its operating premises and office equipment. Right-of-use assets represent the Company's right to use an underlying asset for the term of the lease and lease liabilities represent the Company's obligation to make lease payments under the terms of the lease. At the commencement of a lease arrangement, the Company records a liability for its lease obligation measured at the present value of the future lease payments adjusted for lease incentives and a right-of-use asset equal to the lease liability, adjusted for any prepayments and lease incentives received. The lease obligation is determined with reference to the term of the lease. Some leases include one or more options to renew or terminate the lease. The exercise of a lease renewal or termination option is assessed at the commencement of the lease and is reflected in the lease term if it is reasonably certain that the option will be exercised. The interest on the lease obligation is included in interest expense and recognized using the effective interest method over the term of the lease.

In addition to the contractual rental payments owing under individual lease agreements used in determining the cost amount of right-of-use assets, the Company may be obligated to pay other ancillary costs associated with the leased assets. These include utilities at leased premises, operating costs and operating escalation, property taxes, cleaning services and maintenance for leased assets. These expenses which are not reflected in the carrying value of right-of-use assets are charged to the combined consolidated statement of net earnings (loss) and comprehensive earnings (loss) and are included in other operating expenses.

PROPERTY AND EQUIPMENT

Property and equipment includes furniture, fixtures and office equipment and leasehold improvements. Property and equipment are recorded at their initial cost, less accumulated depreciation. Depreciation expense on furniture, fixtures and equipment is based on the estimated useful lives of the related assets which range from 3-5 years. Leasehold improvements are amortized over the lower of their estimated useful life or the term of the underlying lease.

BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The identifiable assets and liabilities of the acquired business are recognized at their fair value at the acquisition date. The amount by which the purchase price paid exceeds the fair value of the net identifiable assets acquired is recognized as goodwill. Goodwill arising on acquisitions is reviewed annually for impairment.

ASSET ACQUISITIONS

Asset acquisitions include the acquisition of sales representative contracts from competing brokerages. Such acquisitions are distinguished from business combinations as they do not meet the definition of a business. These contracts are recorded as intangible assets at their original cost and amortized on a straight-line basis over five years.

GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of consideration paid over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Intangible assets consist of sales representative contracts between a brokerage and its sales agents and brands that are acquired or transferred at the time of a business combination or an asset acquisition. These sales representative contracts, while short-term in nature, are subject to a

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very high rate of renewal and are amortized on a straight-line basis over a five-year period. Intangible assets are accounted for using the cost method and are recorded net of accumulated amortization. Brands are recorded at their fair value at the date of acquisition. Brands are measured at cost less net accumulated impairment losses and are not amortized as they are considered to have an indefinite useful life. Indefinite life intangible assets are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Goodwill is not amortized, but is subject to impairment testing annually, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. The impairment assessment is performed at the individual brokerage level.

The assessment of goodwill impairment compares the carrying value of each relevant brokerage, including the carrying value of the related goodwill to its respective recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. Where the carrying value of the goodwill is in excess of its recoverable amount, an impairment charge for the excess is recorded in the Company's combined consolidated statement of net earnings (loss) and total comprehensive earnings (loss).

In determining the fair value less costs of disposal, the fair value of each cash-generating unit is estimated using the income approach, a discounted cash flow method. The fair value less costs of disposal of the Company's cash-generating units is determined utilizing the Company's annual operating plans, and long-term cash flow forecasts (including best estimates of future revenues and operating expenses, including commission expense) and terminal value assumptions as well as market and general economic conditions, trends in the industry. In addition, management uses other assumptions that management believes are reasonable including discount rates, cost of capital, trademark royalty rates, and long-term growth rates.

REVENUE RECOGNITION

BROKERAGE OPERATIONS

As the owner-operator of real estate brokerages, the Brokerage Operations assists home buyers and sellers in acquiring or selling residential and commercial real estate. Gross commission income is recognized at the point in time when a real estate transaction is closed and finalized by the REALTOR® and/or a lease is signed by the vendor or lessor. The commissions that the Company pays to REALTORS® is recognized concurrently with the associated revenue.

FRANCHISE OPERATIONS

The Franchise Operations earns management fee revenue through the provision of franchise administration services to BRESI under the terms of a Management Services Agreement (the "MSA"). The MSA has an initial term of ten-years expiring on December 31, 2028. On expiry, the MSA automatically renews for an additional ten-year term unless the Company or BRESI provides notice of their intention to terminate the MSA no later than six months prior to expiry. Management fees earned under the MSA include a fixed and a variable portion. Fixed management fees are earned as a fixed monthly amount of \$840. Fixed management fees are recognized over time, which is when the control of the services are transferred to BRESI.

Variable management fees are payable to the Franchise Operations calculated as the greater of i) 23.5% of the distributable cash (as defined in the MSA) of BRESI before management fees or ii) 0.342% of the market value of the restricted voting shares of BRESI on a diluted basis. Variable management fees are recognized as distributable cash of BRESI is earned.

OTHER REVENUES

Other revenues are earned by the Brokerage Operations and the Franchise Operations and include revenues from organizing awards and recognition events, amounts received from brokerages to conduct advertising campaigns and amounts received from REALTORS® for miscellaneous services provided by the brokerages such as rent and deal processing. Other revenue is recognized at the time the service or event occurs or when the service is provided to the REALTOR®.

INCOME TAXES

Current income tax assets are measured at the net amount expected to be recovered from tax authorities based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax assets or liabilities are determined using the liability method on temporary differences between the tax bases and the carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
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of unused tax credits and unused tax losses, if any, to the extent that it is probable that the deductions, tax credits and tax losses will be utilized to reduce taxes owing in future periods. The carrying amount of deferred income tax assets is reviewed periodically and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

FINANCIAL INSTRUMENTS

The Company classifies its financial instruments as follows:

<u>Financial Statement Item:</u>	<u>Classification:</u>	<u>Measurement:</u>
Cash and cash equivalents	Amortized Cost	Amortized Cost
Accounts receivable	Amortized Cost	Amortized Cost
Contract transfer receivable	Amortized Cost	Amortized Cost
Due from related party	Amortized Cost	Amortized Cost
Deferred management fees receivable	Amortized Cost	Amortized Cost
Notes receivable	Amortized Cost	Amortized Cost
Accounts payable and accrued liabilities	Amortized Cost	Amortized Cost

CRITICAL JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to select appropriate accounting policies and to make judgements, estimates and assumptions that affect the estimation of future cash flows utilized in assessing the fair value of goodwill and intangible assets and any related net impairment or recovery.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with prior periods. Estimates used in the preparation of the financial statements may be subject to significant adjustments in future periods. The interrelated nature of these factors prevents the Company from quantifying the overall impact of these movements on the Company's combined consolidated financial statements. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

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

IMPAIRMENT OF GOODWILL

The Company annually reviews the carrying value of goodwill to determine if there is any impairment. Determining whether the value of goodwill is impaired requires considerable judgement. The assessment of impairment involves the use of accounting estimates and assumptions, changes in which could materially impact the financial condition or operating performance if actual results differ from such estimates and assumptions. Furthermore, significant negative industry or economic trends, disruptions to the business, unexpected significant changes or planned changes in use of the assets, a decrease in business results, growth rates that fall below management's assumptions, divestitures, or a significant loss in the number of sales representatives at a given brokerage may have a negative effect on the fair values and key valuation assumptions. The estimation of future cash flows and other forward-looking information requires significant judgement and is highly uncertain.

STANDARDS AND INTERPRETATIONS RECENTLY ADOPTED

IAS 8 – AMENDMENT TO DEFINITION OF ACCOUNTING ESTIMATES

In February 2021, the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. In addition, the IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that there is no material impact on the Company's combined consolidated financial statements as a result of these amendments.

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

IAS 12 – DEFERRED TAX RELATED TO ASSETS AND LIABILITIES RESULTING FROM A SINGLE TRANSACTION

In May 2021, the IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023. The Company has determined that there is no material impact on the Company's combined consolidated financial statements as a result of these amendments.

IAS 1 – DISCLOSURE OF MATERIAL ACCOUNTING POLICIES

In February 2021, the IASB issued an amendment to IAS 1 Disclosure of Accounting Policies. These amendments require that entities disclose material accounting policies, as defined, instead of significant accounting policies. We are currently assessing the impact of these amendments on the disclosure of our accounting policies. Effective for annual reporting periods beginning on or after January 1, 2023. The Company has determined that there is no material impact on the Company's combined consolidated financial statements as a result of these amendments.

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IAS 1 – CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

In January 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position. The amendment clarified that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specified that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduced a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services separately. On October 31, 2022, the IASB issued Non-Current Liabilities with Covenants (Amendments to IAS 1). These amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments are effective for January 1, 2024. The Company has determined that the adoption of this amendment will have no material impact on the Company's combined consolidated financial statements.

3. Business Combinations and Asset Acquisitions

ROYAL LEPAGE CREDIT VALLEY – BUSINESS COMBINATION

On December 12, 2022, the Company acquired all of the outstanding shares of Credit Valley Real Estate Inc. (operating as Royal LePage Credit Valley), a real estate brokerage operating in the greater Toronto area, for \$775 plus a deferred payment of \$200 which was payable subject to certain conditions. The deferred payment of \$200 was paid in January 2023. The allocation of the purchase price was as follows:

Working capital	\$	98
Cash and cash equivalents		24
Cash held in trust		1,738
Customer deposits		(1,738)
Property and equipment		19
Intangible assets		955
Goodwill		127
Deferred taxes		(248)
	\$	975

Intangible assets represent the fair value of 123 sales representative contracts that were transferred to the Company at the time of the acquisition. The acquisition strengthens the Brokerage Operations market share in the greater Toronto area.

The goodwill recognized on the acquisition of Royal LePage Credit Valley is attributable mainly to the expected future growth potential from the expanded agent base.

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

ACQUISITION OF ASSETS

On July 22, 2022, the Company acquired 110 sales representative contracts previously affiliated with a competing brokerage located in the greater Toronto area. Total proceeds to acquire these contracts was \$1,300, with \$1,100 paid in cash on the date of the acquisition and \$200 paid in one year. An additional \$750 payable over two years subject to certain operating thresholds being met.

4. Contract Transfer Receivable

The contract transfer receivable represents amounts due from BRESI related to the transfer of franchise agreements to BRESI in a prior year. A portion of the management fee earned under the MSA is allocated as a repayment of the contract transfer receivable with the remainder recorded as management fee revenue in the combined consolidated statement of net and comprehensive earnings (loss). During the year, the Company recorded \$604 of management fees as a reduction in the contract transfer receivable (2022 - \$608) and \$114 as interest income (2022 - \$147).

5. Deferred Management Fees Receivable

The Company agreed to defer certain management fees owing from BRESI of \$5,648 from a prior year. These deferred payments are non-interest bearing, are due no later than 2025 and are repayable in cash or the issuance of exchangeable units in BRESI which can be converted to equity of BRESI, at the option of BRESI. On initial recognition, the Company recorded these deferred payments at their fair value using an income approach to determine fair value. For the year ended December 31, 2023, the Company recorded interest income of \$207 (2022 - \$233) reflecting accretion of the carrying value of the deferred payments using the effective interest method.

6. Note Receivable, net

The Company has provided financing to an affiliated brokerage to acquire another brokerage. Monthly repayment amounts are calculated based on the profitability of the acquired brokerage. The term of the note has been extended and currently has no fixed term. Interest on the note receivable was 0% from April 2021 to June, 2022, 5.5% from July 2022 to December 2022 and 0% thereafter. The carrying value of the note is net of an allowance for doubtful accounts of \$204 (2022 - \$124). During 2023, the Company earned \$0 (2022 - \$20) in interest revenue on the note receivable.

7. Property and Equipment, Net

The Company recorded depreciation expense related to property and equipment of \$1,133 (2022 - \$1,209).

		Furniture, fixtures and equipment	Leasehold improvements	Total
Cost				
At December 31, 2022	\$	6,257	\$ 8,054	\$ 14,311
Additions		92	80	\$ 172
Disposals		(2,092)	(346)	\$ (2,438)
At December 31, 2023	\$	4,257	\$ 7,788	\$ 12,045
Accumulated Depreciation				
At December 31, 2022	\$	(5,316)	\$ (5,239)	\$ (10,555)
Depreciation Expense		(387)	(746)	\$ (1,133)
Disposal		2,089	346	\$ 2,435
At December 31, 2023	\$	(3,614)	\$ (5,639)	\$ (9,253)

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

	Furniture, fixtures and equipment		Leasehold improvements		Total
Cost					
At December 31, 2021	\$	6,353	\$	8,389	\$ 14,742
Additions		183		1,012	1,195
Additions related to business combination (note 3)		17		2	19
Disposals		(296)		(1,349)	(1,645)
At December 31, 2022	\$	6,257	\$	8,054	\$ 14,311
Accumulated Depreciation					
At December 31, 2021	\$	(5,045)	\$	(5,902)	\$ (10,947)
Depreciation expense		(524)		(685)	(1,209)
Disposals		253		1,348	1,601
At December 31, 2022	\$	(5,316)	\$	(5,239)	\$ (10,555)
Carrying Value					
At December 31, 2022	\$	941	\$	2,815	\$ 3,756
At December 31, 2023	\$	643	\$	2,149	\$ 2,792

8. Right-of-Use Assets and Lease Liabilities

The Company's leases, which comprise real estate leases at its administrative offices and its real estate brokerages as well as its leases for office equipment, are for terms ranging from less than 1 year to 10 years.

RIGHT-OF-USE ASSETS, NET

	Property		Equipment		Total
Cost					
At December 31, 2022	\$	27,453	\$	1,215	\$ 28,668
Additions		2,537		174	2,711
Disposals		(3,565)		(57)	(3,622)
At December 31, 2023	\$	26,425	\$	1,332	\$ 27,757
Accumulated Amortization					
At December 31, 2022	-\$	14,455	-\$	879	-\$ 15,334
Amortization expense		(3,290)		(262)	(3,552)
Disposals		2,457		57	2,514
At December 31, 2023	\$	(15,288)	\$	(1,084)	\$ (16,372)

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

	Property	Equipment	Total
Cost			
At December 31, 2021	\$ 23,949	\$ 1,030	\$ 24,979
Additions	3,552	185	3,737
Disposals	(48)	-	(48)
At December 31, 2022	\$ 27,453	\$ 1,215	\$ 28,668
Accumulated Amortization			
At December 31, 2021	\$ (10,839)	\$ (616)	\$ (11,455)
Amortization Expense	(3,681)	(252)	(3,933)
Disposals	65	(11)	54
At December 31, 2022	\$ (14,455)	\$ (879)	\$ (15,334)
Carrying Value			
At December 31, 2022	\$ 12,998	\$ 336	\$ 13,334
At December 31, 2023	\$ 11,137	\$ 248	\$ 11,385

The Company recorded amortization expense related to right-of-use assets of \$3,552 (2022 - \$3,933).

LEASE LIABILITIES

	December 31 2023	December 31 2022
Balance, beginning of year	\$ 15,407	15,361
Payment of lease liabilities	(4,567)	(4,538)
Additions	2,711	3,737
Interest expense	882	847
Disposals	(1,332)	-
Balance, end of year	\$ 13,101	\$ 15,407

	December 31 2023	December 31 2022
Current portion of lease liabilities	\$ 3,408	\$ 3,029
Long-term portion of lease liabilities	9,693	12,378
Total lease liabilities	\$ 13,101	\$ 15,407

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

9. Goodwill and Intangible Assets

INTANGIBLE ASSETS

	Agent Contracts	Brands	Websites and Software	Total
Cost				
At December 31, 2022	\$ 10,452	\$ 1,834	\$ 225	\$ 12,511
Additions	-	-	49	49
At December 31, 2023	\$ 10,452	\$ 1,834	\$ 274	\$ 12,560
Accumulated Amortization				
At December 31, 2022	\$ (7,441)	\$ -	\$ (75)	\$ (7,516)
Amortization expense	(706)	-	(31)	(737)
At December 31, 2023	\$ (8,147)	\$ -	\$ (106)	\$ (8,253)

	Agent Contracts	Brands	Websites and Software	Total
Cost				
At December 31, 2021	\$ 8,332	\$ 1,834	\$ 215	\$ 10,381
Additions	1,165	-	10	1,175
Additions from business combination (note 3)	955	-	-	955
At December 31, 2022	\$ 10,452	\$ 1,834	\$ 225	\$ 12,511
Accumulated Amortization				
At December 31, 2021	\$ (6,650)	\$ -	\$ (52)	\$ (6,702)
Amortization Expense	(791)	-	(23)	(814)
At December 31, 2022	\$ (7,441)	\$ -	\$ (75)	\$ (7,516)

	Agent Contracts	Brands	Websites and Software	Total
Carrying Value				
At December 31, 2022	\$ 3,011	\$ 1,834	\$ 150	\$ 4,995
At December 31, 2023	\$ 2,305	\$ 1,834	\$ 168	\$ 4,307

GOODWILL

	Goodwill
Cost	
At December 31, 2021	\$ 6,315
Additions from business combination (note 3)	127
At December 31, 2022	\$ 6,442
Additions	-
At December 31, 2023	\$ 6,442

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

10. 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:

	December 31 2023	December 31 2022
Earnings (loss) before income tax for the year:	\$ (4,225)	\$ 909
Expected income tax expense(recovery) at statutory rate of 26.5% (2022 - 26.5%)	(1,120)	241
Increase (decrease) in income tax expense due to the following:		
Intangible assets	-	105
Other	514	133
Total income tax expense (recovery)	\$ (606)	\$ 479

The major components of income tax expense (recovery) include the following:

	December 31 2023	December 31 2022
Current income tax expense	\$ 266	\$ 314
Deferred income tax expense (recovery)	\$ (872)	\$ 165
Total income tax expense (recovery)	\$ (606)	\$ 479

The significant components of the Company's deferred tax assets are as follows:

	Opening Balance	Recognized In		Total
		Business Acquisition	Net Earnings	
Tax loss carryforward	\$ 828	\$ -	\$ 1,077	\$ 1,905
Other non-current liabilities	380		-	380
Leases	490		(35)	455
Depreciation and amortization	(274)		393	119
Other current assets and liabilities	655		(655)	-
Accrued liabilities	126		(19)	107
Contract transfer receivable	(684)		161	(523)
Other	140		(50)	90
At December 31, 2023	\$ 1,661	\$ -	\$ 872	\$ 2,533

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

	Opening Balance	Recognized In		Total
		Business Acquisition	Net Earnings	
Tax loss carryforward	\$ 638	\$ -	\$ 190	\$ 828
Other non-current liabilities	572		(192)	380
Leases	463		27	490
Depreciation and amortization	(56)	(248)	30	(274)
Other current assets and liabilities	986		(331)	655
Accrued liabilities	122		4	126
Contract transfer receivable	(846)		162	(684)
Other	195		(55)	140
At December 31, 2022	\$ 2,074	\$ (248)	\$ (165)	\$ 1,661

As at December 31, 2023, the Company had approximately \$7,190 of Canadian non-capital tax loss carry forwards which expire between fiscal 2036 and 2043. The remaining deductible temporary differences do not expire under current income tax legislation. All deferred tax assets (including tax loss carryforwards and other tax credits) have been recognized in the combined consolidated balance sheets as it is probable that future taxable income will be available to the Company to utilize the benefits of those assets.

11. Related Party Transactions

The Real Estate Operations had the following transactions with BRESI or BBP during the years ended December 31, 2023 and December 31, 2022. These transactions have been recorded at the exchange amount as agreed between the parties.

	December 31 2023	December 31 2022
Management fee revenue received from BRESI	\$ 19,197	\$ 19,872
Interest on contract transfer receivable	\$ 114	\$ 143
Interest on deferred management fees receivables	\$ 207	\$ 199
Gross Franchise fee expenses paid to BRESI	\$ 5,622	\$ 4,260
Insurance premiums	\$ 143	\$ 153

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

	December 31 2023	December 31 2022
Management fees receivable	\$ 730	\$ 712
Contract transfer receivable	\$ 1,972	\$ 2,576
Deferred management fees receivable	\$ 5,323	\$ 5,116
Franchise fees payable	\$ 330	\$ 457

Compensation expense paid to key management personnel totaled \$1,739 (2022 - \$2,238) and was comprised of short-term compensation of \$1,739 (2022-\$1,849) and other long-term compensation of \$nil (2022-\$389).

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

12. 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

A significant portion of the accounts receivable is collected by the Brokerage Operations on behalf of real estate agents or cooperating brokerages. All real estate transactions require the purchaser to pay a deposit which reduces the likelihood that a buyer will not complete the transaction. Credit risk also arises from the possibility that sales representatives may not pay amounts owing to the Brokerage Operations. Credit risk is limited to the recorded amount of accounts receivable and is mitigated by the fact that the Brokerage Operations has the ability to deduct any amounts owing from sales agents from the commission income they earn on their transactions with customers.

B) MARKET RISK

The Company operates real estate brokerage offices in a number of markets across the country. For the year ended December 31, 2023, the Brokerages Operations generated approximately 46% (2022 - 44%) of its revenue from its offices in the greater Toronto area, 18% (2022 - 19%) of its revenue from its offices in the Greater Vancouver area and 36% (2022 -37%) of its revenues from its offices in the greater Montreal area. Real estate markets are cyclical and unpredictable which may contribute to volatility in the Company's cash flows. This market volatility is someone mitigated by the lower volatility associated with management fee revenues earned by the Franchise Operations and the geographic diversification of the Brokerage Operations.

C) LIQUIDITY RISK

The Company is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs. The Company has no third-party debt and generates substantial cash flow to finance its business.

	2024	2025	2026	2027	2028	Beyond 2029	Total
Accounts payable and accrued liabilities	\$ 15,969	- \$	- \$	- \$	- \$	- \$	15,969
Customer deposits	35,631	-	-	-	-	-	35,631
Leases	3,408	2,793	2,256	1,401	1,223	2,020	13,101
Other non-current liabilities	1,433	-	-	-	-	-	1,433
Total	\$56,441	\$ 2,793	\$ 2,256	\$ 1,401	\$ 1,223	\$ 2,020	\$66,134

D) FAIR VALUE

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are estimated by management to approximate their carrying values due to their short-term nature. The fair value of deferred management fees receivable, the contract transfer receivable and notes receivable approximate their carrying values as a result of their floating rate terms.

13. Management of Capital

The Company's capital is made up of its cash on hand and net Owners' equity. The Company has no third-party debt. In the past, the Company has received capital from its owner (either directly or indirectly) to support investments in real estate brokerages.

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

The Company has \$2,500 of revolving operating credit facilities which are available to meet the Company's day-to-day operating requirements. No amounts have been drawn on these facilities at December 31, 2023. A portion of these revolving operating facilities is secured by a first ranking security of certain of the assets of the Company.

The Company's objectives in managing its capital include; a) maintaining financial flexibility to preserve its ability to meet financial obligations; b) deploying capital to invest in attractive investment opportunities and c) provide an appropriate investment return to its owner through the payment of periodic dividends.

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.

There were no changes in the Company's approach to capital management during the years ended December 31, 2023 and 2022.

14. Segmented Information

The Real Estate Operations operate in two business segments. These segments are determined based on the nature of their operations, the products and services they provide and the nature of the customers they service. Within the Brokerage Operations, there are a number of brokerage locations that operate in different geographical regions under different real estate brands. These brokerage locations have been grouped to form the Brokerage Operations due to the nature of their operations and the commonality in how they generate revenues. All of the brokerage locations in the Brokerage Operations operate in Canada. The Franchise Operations provides management services to a number of real estate Brands. These brands have been grouped to form the Franchise Operations due to the nature of their operations and the commonality in how they generate revenues. All of the brands in the Franchise Operations operate in Canada.

Management evaluates the operating results of each segment based upon revenue and EBITDA. EBITDA is defined as net and comprehensive earnings (loss) before income tax expense, interest expense and depreciation and amortization. The Real Estate Operations presentation of EBITDA may not be comparable to similar measures used by other companies.

The table below reconciles net and comprehensive earnings (loss) as presented in the statement of net and comprehensive earnings (loss) to EBITDA used by management to evaluate the business segments of the Real Estate Operations:

	December 31 2023	December 31 2022
Net earnings (loss) and total comprehensive earnings	\$ (3,619)	\$ 430
Income tax expense (recovery)	(606)	479
Earnings (loss) before income taxes	(4,225)	909
Add: Interest expense	882	847
Depreciation and amortization	5,422	5,956
EBITDA	\$ 2,079	\$ 7,712

The tables below provide selected segment disclosure for certain financial statement balances.

	December 31 2023	December 31 2022
Segment earnings (loss) before income tax		
Brokerage Operations	\$ (1,590)	\$ 441
Franchise Operations	(2,635)	468
Total earnings (loss) before income tax	\$ (4,225)	\$ 909

NOTES TO THE COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2023 and 2022
(Expressed in thousands of Canadian dollars, unless stated otherwise)

	December 31 2023	December 31 2022
Segment Revenue		
Brokerage Operations	\$ 354,589	\$ 408,616
Franchise Operations	23,872	24,109
Total Revenue	\$ 378,461	\$ 432,725

	December 31 2023	December 31 2022
Segment Depreciation and amortization		
Brokerage Operations	\$ 4,735	\$ 5,221
Franchise Operations	687	735
Total depreciation and amortization	\$ 5,422	\$ 5,956

	December 31 2023	December 31 2022
Segment EBITDA		
Brokerage Operations	\$ 4,006	\$ 6,448
Franchise Operations	(1,927)	1,264
Total EBITDA	\$ 2,079	\$ 7,712

	December 31 2023	December 31 2022
Segment Assets		
Brokerage Operations	\$ 72,957	\$ 75,374
Franchise Operations	12,462	12,916
Total assets	\$ 85,419	\$ 88,290

15. Subsequent Events

During the year, it was announced that the Company's parent BBP had entered into a share purchase agreement to sell the outstanding shares of the Company from BBP to BRESI. This transaction (the "Transaction") is considered a related party transaction under Canadian securities regulations and under the rules of the Toronto Stock Exchange and requires that the shareholders of BRESI (excluding any voting interests held by BBP) approve the Transaction.

On March 25, 2024, the shareholders of BRESI approved the Transaction and the Transaction closed on March 31, 2024.

Schedule B

Unaudited Pro Forma Consolidated Financial Statements of the Company

(see attached)

Bridgemarq Real Estate Services Inc.
Unaudited Pro Forma Consolidated Balance Sheet

As at December 31, 2023

(In thousands of Canadian dollars)	Bridgemarq	Acquired Entities	Pro Forma Adjustments	Note 3	Pro Forma Consolidated
Assets					
Current assets					
Cash and cash equivalents	\$ 5,743	\$ 8,948	\$ -		\$ 14,691
Cash held in trust	-	35,631	-		35,631
Accounts receivable	3,494	2,241	-		5,735
Contract transfer receivable	-	356	(356) f (iv)		-
Due from related parties	-	730	(730) f (vi)		-
Current portion of notes receivable	287	-	-		287
Income tax receivable	85	652	272 g		1,009
Prepaid expenses and other current assets	805	1,844	-		2,649
	10,414	50,402	(814)		60,002
Non-current assets					
Contract transfer receivable	-	1,616	(1,616) f (iv)		-
Deferred management fees	-	5,323	(5,323) f (v)		-
Notes receivable	61	436	-		497
Other non-current assets	-	183	-		183
Property and equipment, net	-	2,792	-		2,792
Right-of-use assets, net	-	11,385	-		11,385
Deferred income taxes	6,232	2,533	(326) g		8,439
Intangible assets, net	48,185	4,307	8,093 a		60,585
Goodwill	-	6,442	12,312 a		18,754
	\$ 64,892	\$ 85,419	\$ 12,326		\$ 162,637
Liabilities and shareholders' deficit					
Current liabilities					
Accounts payable and accrued liabilities	\$ 1,407	\$ 15,969	\$ 297 e, f (vi)		\$ 17,673
Customer deposits	-	35,631	-		35,631
Contract transfer obligation	356	-	(356) f (iv)		-
Lease liabilities	-	3,408	-		3,408
Interest payable to Exchangeable Unitholders	484	-	-		484
Dividends payable to shareholders	1,067	-	-		1,067
	3,314	55,008	\$ (59)		58,263
Non-current liabilities					
Debt facilities	67,022	-	-		67,022
Deferred payments	6,235	-	(6,235) a, f (v)		-
Contract transfer obligation	1,616	-	(1,616) f (iv)		-
Lease liabilities	-	9,693	-		9,693
Other non-current liabilities	-	1,433	(1,433) a		-
Exchangeable Units	43,825	-	40,805 a		84,630
	122,012	66,134	31,462		219,608
Shareholders' deficit					
Restricted voting shares	140,076	-	-		140,076
Total owner's equity	-	19,285	(19,285) a		-
Deficit	(197,196)	-	149 a, g		(197,047)
	(57,120)	19,285	(19,136)		(56,971)
	\$ 64,892	\$ 85,419	\$ 12,326		\$ 162,637

See accompanying notes to the unaudited pro forma consolidated financial statements.

Bridgemarq Real Estate Services Inc.
Unaudited Pro Forma Consolidated Statement
of Net and Comprehensive Earnings (Loss)

Year ended December 31, 2023

(In thousands of Canadian dollars, except per share amounts)	Bridgemarq	Acquired Entities	Pro Forma Adjustments	Note 3	Pro Forma Consolidated
Revenues					
Gross Commission Income	\$ -	\$ 343,260	\$ -		\$ 343,260
Management fee revenue	-	19,197	(19,197) f (i)		-
Franchise fees	44,845	-	(732) f (ii)		44,113
Other revenue	3,609	16,004	(357) f (iii)		19,256
	<u>48,454</u>	<u>378,461</u>	<u>(20,286)</u>		<u>406,629</u>
Expenses					
Commission and other related costs	-	324,320	-		324,320
Cost of other revenue	1,031	4,636	-		5,667
Management fees	19,159	-	(19,159) f (i)		-
Compensation	-	27,518	-		27,518
Software, hosting and licensing	-	5,069	-		5,069
Marketing and communications	-	4,301	-		4,301
General and administration	2,885	4,636	1,028 e		8,549
Premises	-	2,935	-		2,935
Other operating	-	2,235	-		2,235
Franchise fees	-	732	(732) f (ii)		-
Interest expense	2,967	882	(357) f (iii)		3,492
Write-off of intangible assets	201	-	-		201
Depreciation and amortization	6,894	5,422	1,274 a		13,590
	<u>33,137</u>	<u>382,686</u>	<u>(17,945)</u>		<u>397,878</u>
Operating income	15,317	(4,225)	(2,340)		8,752
Interest on Exchangeable Units	(5,806)	-	(5,096) b		(10,902)
Loss on fair value of Exchangeable Units	(1,098)	-	(964) c		(2,062)
Loss on interest rate swap	(1,386)	-	-		(1,386)
Gain on settlement of pre-existing relationships	0	-	1,231 a		1,231
Loss on debt facility amendment	(122)	-	-		(122)
Earnings before income tax	6,905	(4,225)	(7,170)		(4,490)
Current income tax expense (recovery)	3,396	266	(1,633) g		2,029
Deferred income tax recovery	(488)	(872)	326 g		(1,034)
Income tax expense	2,908	(606)	(1,307)		995
Net and comprehensive earnings (loss)	\$ 3,997	\$ (3,619)	\$ (5,863)		\$ (5,485)
Basic earnings per share	\$ 0.42				\$ (0.58)
Diluted earnings per share	\$ 0.42				\$ (0.58)

See accompanying notes to the unaudited pro forma consolidated financial statements.

Notes to the Unaudited Pro Forma Consolidated Financial Statements

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

1. PROPOSED TRANSACTION

On March 31, 2024, Bridgemarq Real Estate Services Inc., ("Bridgemarq" and together with its subsidiaries, the "Company") acquired all of the issued and outstanding shares in the capital of Bridgemarq Real Estate Services Manager Limited and Proprio Direct Inc. (collectively, the "Acquired Companies" and together with their subsidiaries, the "Acquired Entities") from a subsidiary of Brookfield Business Partners L.P. ("Brookfield") (the "Acquisition"). Upon closing of the Acquisition, the Company issued to Brookfield 2,856,792 Class B LP Units, or Exchangeable Units, to acquire the Acquired Entities and 64,085 Class B LP Units, to settle the deferred payments owing by the Company to Brookfield for a total of 2,920,877 Class B LP Units. The Class B LP Units are exchangeable into Restricted Voting Shares of Bridgemarq on a one-for-one basis (subject to customary anti-dilution adjustments) at the option of the holder. As a result of the Acquisition, Brookfield's ownership interest in the Company increased from approximately 28.4% to approximately 41.7%, assuming the exchange of all the Class B LP units. The purchase price for the Transaction is subject to certain customary post-closing purchase price adjustments, which will be settled in cash to the extent of any adjustment.

2. BASIS OF PRESENTATION

These unaudited pro forma consolidated financial statements have been prepared in connection with the Acquisition and have been prepared from information derived from, and should be read in conjunction with, the audited consolidated financial statements of the Company and the audited combined consolidated financial statements the Acquired Companies as at and for the year ended December 31, 2023, each prepared in accordance with International Financial Reporting Standards ("IFRS"). The pro forma consolidated financial statements have been prepared using accounting policies consistent with these historical financial statements.

Bridgemarq has reviewed the accounting policies and disclosures of the Acquired Entities and determined that there are no adjustments required to the balances reflected in the financial statements of the Acquired Entities to conform to the accounting policies employed by Bridgemarq.

These unaudited pro forma consolidated financial statements include:

(a) An unaudited pro forma consolidated balance sheet as at December 31, 2023 combining:

- The audited consolidated balance sheet of the Company as at December 31, 2023;
- The audited combined consolidated balance sheet of the combined operations of the Acquired Companies as at December 31, 2023; and
- The adjustments described in Note 3.

This unaudited pro forma consolidated balance sheet gives effect to the Acquisition as if it had closed on December 31, 2023.

(b) An unaudited pro forma consolidated statement of net earnings (loss) and comprehensive earnings (loss) for the year ended December 31, 2023 combining:

- The audited consolidated statement of net and comprehensive earnings of the Company for the year ended December 31, 2023;
- The audited combined consolidated statement of net earnings (loss) and total comprehensive earnings (loss) of the combined operations of Acquired Companies for the year ended December 31, 2023; and
- The adjustments described in Note 3.

This unaudited pro forma consolidated statement of net and comprehensive earnings (loss) for the year ended December 31, 2023 gives effect to the Acquisition as if it had closed on January 1, 2023.

The unaudited pro forma consolidated financial statements have been prepared for illustrative purposes only to show the effect of the Acquisition assuming it had closed on the dates indicated.

The unaudited pro forma financial statements are not intended to be indicative of Bridgemarq's financial position or the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. Actual amounts recorded subsequent to the Acquisition will differ from those reflected

Notes to the Unaudited Pro Forma Consolidated Financial Statements

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

in the unaudited pro forma financial statements and such differences could be material. The information upon which such adjustments and assumptions were made was preliminary and adjustments and assumptions of this nature are difficult to make with complete accuracy.

The historical audited consolidated financial statements and historical audited combined consolidated financial statements have been adjusted to give effect to unaudited pro forma events that are:

- directly attributable to the Acquisition; and
- factually supportable.

The unaudited pro forma consolidated financial statements do not reflect and do not give effect to:

- any integration costs that may be incurred as a result of the Acquisition;
- operating efficiencies and expanded growth opportunities that may result from the Acquisition; or
- any other benefits expected to be derived from combining the Company and the Acquired Entities.

3. Pro Forma Assumptions and Adjustments

The pro forma consolidated financial statements have been presented assuming that the Acquisition closed on January 1, 2023 for the pro forma consolidated statements of net and comprehensive earnings and on December 31, 2023 for the pro forma consolidated balance sheet. These unaudited pro forma consolidated financial statements give effect to the following items:

- The issuance of 2,856,792 Class B Units to acquire all of the issued and outstanding shares of the Acquired Companies and 64,085 Class B Units to settle the deferred payments owing by the Company to Brookfield.

The consideration to be paid in the Acquisition for purposes of determining the pro forma balance sheet is based on the closing price of Bridgemarq's Restricted Voting Shares on the TSX on March 31, 2024 of \$13.97 per share or approximately \$39,909 for the acquisition of the shares of the Acquired Companies and \$895 for the settlement of deferred payments owing to Brookfield. The purchase price for the Acquisition is subject to certain customary post-closing purchase price adjustments, which will be settled in cash to the extent of any adjustment.

The Company will record a settlement gain of \$1,214 on the pre-existing relationships with the Target Entities as a result of the Acquisition.

The Company will also record a gain of \$17 on the settlement of the deferred payments owing to Brookfield.

The Acquisition will be accounted for as a business combination per IFRS 3, *Business Combinations* which requires recognition of the identifiable assets acquired and liabilities assumed measured at acquisition-date fair value. The preliminary purchase price allocation for the shares of the Acquired Companies is as follows:

(In thousands of Canadian dollars)

Base purchase price	\$39,909
Less: settlement of pre-existing relationships	<u>(6,811)</u>
Net consideration paid	<u>\$33,098</u>
Fair value of identifiable assets acquired	\$66,645
Fair value of intangible assets acquired	12,400
Goodwill	18,754
Fair value of liabilities assumed	<u>(64,701)</u>
Fair value of net assets acquired	<u>\$33,098</u>

The fair value of the intangible assets acquired includes the fair value of certain brands utilized by the Acquired Entities and brokerage contracts with independent sales representatives of the Acquired Entities. Brands are not amortized, as they are considered to have an indefinite useful life, and are reviewed for impairment on an annual basis. Independent sales representative contracts, while short-term in nature, are subject to a very high

Notes to the Unaudited Pro Forma Consolidated Financial Statements

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

rate of renewal and are amortized on a straight-line basis over a five-year period. Intangible assets are accounted for using the cost method and are recorded net of accumulated amortization.

The fair value of the liabilities assumed includes an adjustment for the carrying value of other non-current liabilities of the Acquired Entities to reflect the fair value of the related obligation as nil.

- b. Interest on Exchangeable Units, which represents the distributions to Exchangeable Unitholders, was adjusted to reflect the distributions on the Exchangeable Units issued as a result of the Acquisition from the date of their assumed issuance.
- c. A gain on fair value of Exchangeable Units, which represents the change in the fair value of the Exchangeable Units, was recorded to reflect the gain resulting from the fair valuation of the Exchangeable Units from the date of their assumed issuance. The Exchangeable Units are valued based on the market value of the Company's Restricted Voting Shares. At January 1, 2023, Bridgemarq's Restricted Voting Shares were valued at \$12.84. At December 31, 2023, Bridgemarq's Restricted Voting Shares were valued at \$13.17.
- d. Basic earnings (loss) per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of Restricted Voting Shares outstanding. The diluted earnings per share is calculated by adjusting the weighted average number of Restricted Voting Shares to assume conversion of all of the Exchangeable Units. Diluted earnings per share has been adjusted to give effect to the Exchangeable Units issued as a result of the Acquisition.
- e. Estimated costs incurred to complete the Acquisition include legal fees, advisory fees, other transaction costs and directors fees and have been reflected in the consolidated pro forma financial statements.
- f. The elimination of transactions and balances between the Company and the Acquired Entities are as follows.
 - (i) Management fee expenses: Bridgemarq's management fee expense is eliminated against the related management fee revenue recognized by the Acquired Entities.
 - (ii) Franchise fee revenue: Bridgemarq's franchise fee revenue received from the Acquired Entities is eliminated against the related franchise fees expense recorded by the Acquired Entities.
 - (iii) Interest expense: Bridgemarq's interest expense on deferred payments and interest expense on the contract transfer obligation is eliminated against the related 'other revenue' recorded by the Acquired Entities.
 - (iv) Contract transfer obligation: Bridgemarq's contract transfer obligation is eliminated against the related contract transfer receivable recorded by the Acquired Entities.
 - (v) Deferred management fees: Bridgemarq's deferred management fee payable has been eliminated against the deferred management fee receivable recorded by the Acquired Entities.
 - (vi) Due to related parties: Unpaid management fees recorded as accounts payable by Bridgemarq are eliminated against the related management fees receivable recorded by the Acquired Entities.
- g. The income tax effect of the pro forma adjustments is based on the Company's statutory income tax rate of 26.5% and reflects:
 - (i) the deduction of transaction costs
 - (ii) the gain on settlement of deferred management fees and the contract transfer obligation
 - (iii) the gain on settlement of the deferred distributions owed to Brookfield, and
 - (iv) a lower allocation of partnership of income of a subsidiary of Bridgemarq as a result of the issuance of Class B LP Units under the terms of the Acquisition