ANNUAL REPORT 2018

BRIDGEMARQ
REAL ESTATE SERVICES

PROFILE

Brookfield Real Estate Services Inc. doing business as Bridgemarq Real Estate Services ("Bridgemarq" and, together with its subsidiaries the "Company"), through its relationship with Bridgemarq Real Estate Services Manager Limited (the "Manager"), is a leading provider of services to residential real estate brokers and REALTORS®[1] across Canada. The Company generates cash flow from fixed and variable franchise fees that are received from real estate brokers and REALTORS® operating under the Royal LePage, Via Capitale and Johnston & Daniel brands. Approximately 79 per cent of the Company's revenue is based on fees that are fixed in nature; this provides revenue stability and helps insulate cash flows from fluctuations in the Canadian real estate market. Revenue streams are supported by long-term franchise agreements, with royalties predominantly driven by fixed fees based on the number of REALTORS® in the Company's network. As at December 31, 2018, the Company network consisted of 18,725 REALTORS®. In addition, on January 3, 2019 the Company was assigned franchise agreements comprised of 495 REALTORS® for nominal consideration. The Company network has an approximate one fifth share of the Canadian residential real estate market based on 2018 transactional dollar volume. The Company is listed on the TSX and trades under the symbol "BRE". For further information about the Company, please visit www.bridgemarq.com.

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

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BUSINESS STRATEGY

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

Royal LePage

Serving Canadians since 1913, Royal LePage is the country's leading provider of services to real estate brokerages, with a network of over 18,000 real estate professionals in more than 650 locations nationwide. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force. It offers its network of brokers and agents strong support with state-of-the-art marketing and lead generation tools, sophisticated business services, timely market data and analysis, as well as professional development through on-line and in-person training. Royal LePage is the only national real estate company in Canada to have its own charitable foundation, the Royal LePage Shelter Foundation, dedicated to supporting women's and children's shelters and educational programs aimed at ending domestic violence. It is the largest such foundation in the country.

Johnston & Daniel

Founded in 1950, Johnston & Daniel is a leading residential real estate boutique firm with approximately 250 real estate professionals selling distinctive homes in southern Ontario. Johnston & Daniel maintains its market leadership through a combination of rich training and development opportunities, strategic partnerships, in-house marketing services and powerful brand awareness. Johnston & Daniel is a premier Canadian representative of Who's Who in Luxury Real Estate, a compendium of the finest residential real estate firms from around the world. This international luxury network affiliation provides Johnston & Daniel agents and their clients with global exposure for their luxury home listings.

Via Capitale

Since 1991, Via Capitale has been a leader in real estate in Quebec. Its mission is to deliver the best possible service by focusing on the human aspect of each transaction, professionalism and innovation. Via Capitale has approximately 1,000 brokers and agents in 60 locations across the province. It has launched numerous innovative, client-centric programs into the Quebec market through specialized web platforms, and has been developing real estate protection programs for more than 20 years – making it the pioneer in this field and keeping the company at the forefront of the industry. Today, the Via Capitale name is synonymous with protection and innovation in the province of Quebec.

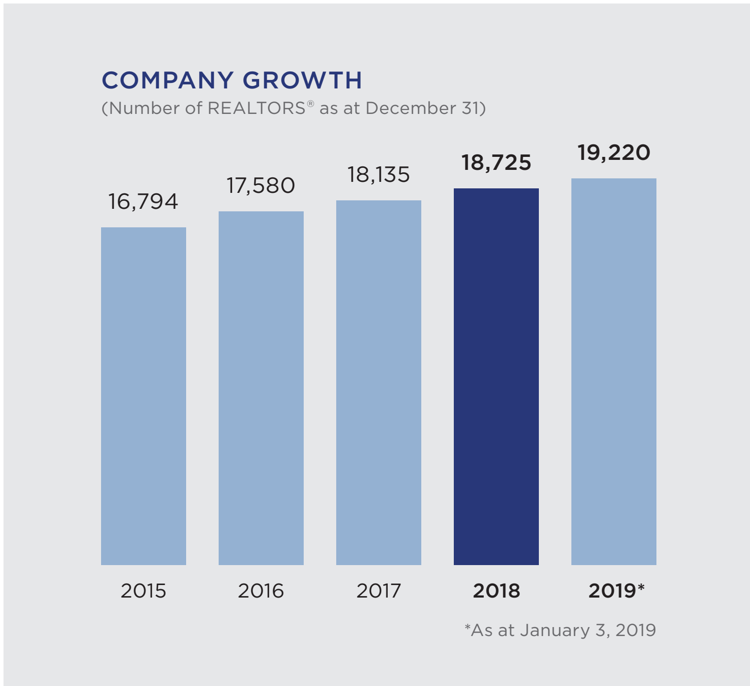
ROYAL LEPAGE

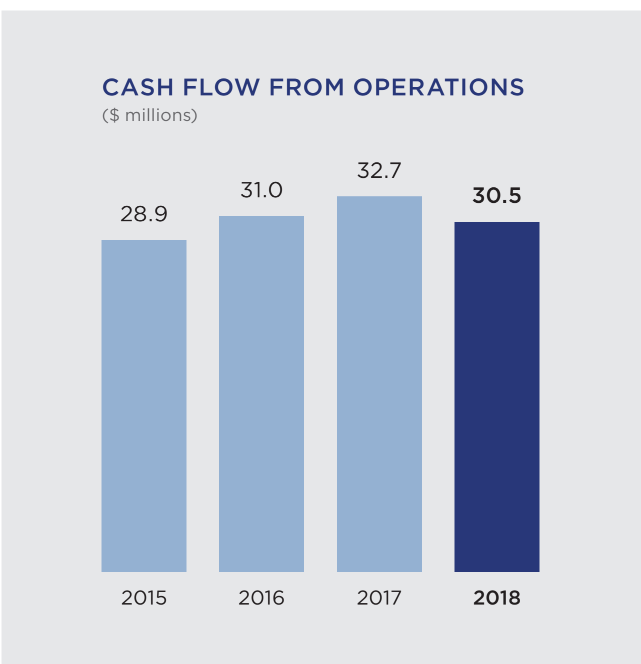
JOHNSTON & DANIEL
A DIVISION OF ROYAL LEPAGE REAL ESTATE SERVICES LTD., BROKERAGE

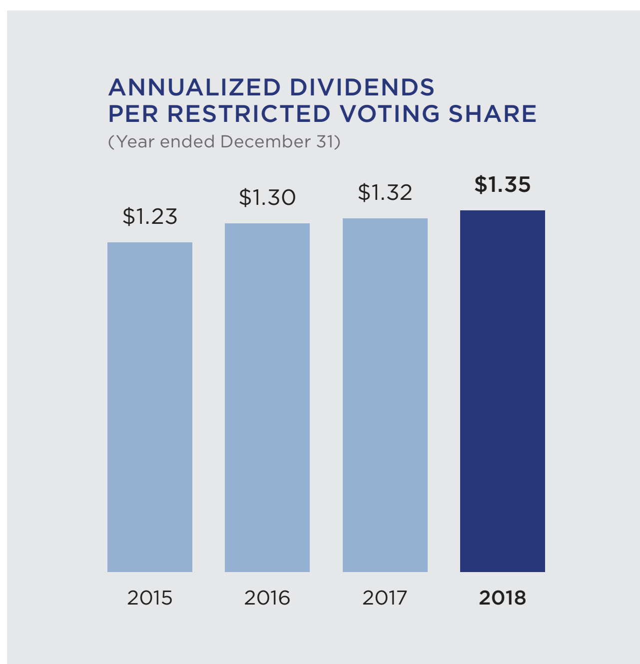
viacapitale

REALTOR® and location count is current as at January 3, 2019.

FINANCIAL HIGHLIGHTS







LETTER TO SHAREHOLDERS

We are pleased with the Company's performance in 2018. The past year was a tumultuous time for publicly traded corporations as stock indexes, including our own TSX, recorded their worst performance in a decade. Weak oil prices, geopolitical unrest and trade wars provided the backdrop. Domestically, we experienced a housing market correction as recent home price overshooting and regulatory intervention born of affordability concerns combined to cause a significant slowdown in our major markets.

In the face of all of this, we continued to grow the size of our agent network and delivered a healthy dividend to shareholders.

Over the years, the fundamental resilience of the Company's underlying business structure has allowed it to mitigate the risk inherent in cyclical real estate markets. Predictable revenue streams tied to long term contracts, with high renewal rates when the agreements do come to term, are a big part of the equation. Reliable revenue streams driven by predominantly fixed royalty fees insulate the Company from the valleys and peaks of economic cycles. Nation-wide diversification completes the picture as the Company is a market leader across Canada, and in all major real estate segments, from city-centre condominiums to luxury suburban homes to rural farmland.

THE SAME TEAM, A NEW LOOK, AND A NEW MANAGEMENT SERVICES AGREEMENT

Built upon the foundation of Canada's oldest and largest real estate services firm, Royal LePage, the Company launched in 2003 as a way investors could participate in Canada's large and growing residential and commercial property brokerage market. In 2018, we completed two important tasks, the signing of a new, ten-year Management Services Agreement (MSA) with our Brookfield-managed operating company, and the rebranding of the Company as Bridgemarq Real Estate Services.

The industry's leading management team, continually enhanced with new faces and new skillsets, remains. Brookfield retains its investment in the Company and ownership of the Manager.

OUR GROWING NETWORK

Showcasing the Company's ability to grow through market cycles, a total of 1,085 net additional agents were added to our network since the beginning of 2018 – the slowest year for Canadian transactional volumes in half a decade. As of January 3 2019, the Company's national network had grown to 19,220 REALTORS®, up 6.0% from 18,135 at December 31, 2017. This growth is expected to generate an incremental annual revenue stream of approximately $2.2 million. Since 2003, the company has experienced compound REALTOR® growth of 5% per annum.

Blossoming in Quebec

Many North American real estate franchisors ignore Quebec, Canada's second most populous province. Natural barriers to entry exist, with cultural and language complexities.

The Company has invested in the region for the long term through both our Royal LePage and Via Capitale brands, and it is paying dividends. A healthy economy, the best employment picture in forty years, and growing household formation are all supportive. At the end of 2018, Bridgemarq's network in the province consisted of over 2,700 REALTORS®, a 17% increase compared to the end of 2017. The Company is well-positioned to benefit from future market expansion.

FINANCIAL PERFORMANCE

The major market correction of 2018 resulted in a 15% drop in Canadian transactional dollar volumes. For the Company, this contributed to a year-over-year decrease in royalties and cash flow from operations of 5.0% and 6.9%, respectively. The Company's ability to mitigate the risk of cyclical market activity is an attractive feature to shareholders.

The Dividend

One of the Company's objectives is to provide shareholders with an investment vehicle that pays a substantial amount of its free cash flow to shareholders in the form of dividends. On March 5, 2019, the Board of Directors of the Company approved a dividend to shareholders of $0.1125 per restricted voting share payable April 30, 2019 to shareholders of record on March 29, 2019. This represents a target annual dividend of $1.35 per restricted voting share.

The Benefits of Long Term Agreements and Fixed Royalty Streams

Approximately 79% of the Company's annual royalties are effectively fixed in nature, insulating the Company from market fluctuations. It is important to note that the real estate business in Canada is comprised of local real estate markets that are most influenced by regional economic performance. Our coast-to-coast operations provide geographic diversification and reduce the impact of cyclical downturns in a given province. In addition, Company revenue is secured by long-term franchise agreements where we enjoy a contract renewal rate of over 96%.

LETTER TO SHAREHOLDERS

OPERATING PLATFORM

Innovative technology, superior marketing systems, and highly effective training and coaching programs allow the Company's network of brokerages to maximize profitability through improved productivity, while attracting and retaining the best in the industry.

Technology that Drives Business

In 2018, our Royal LePage brand introduced a major upgrade to its network-facing services platform rlpnetwork.com. The redesign was backed by extensive research into how the brand's network of agents, administrators and management work today, and how satisfaction and productivity could be improved in the future. The robust cloud-based architecture will drive improved security, responsiveness and availability. New features, designed for both mobile devices and desktop, include a customizable Client Relationship Management (CRM) system that is integrated with the company's Smart Studio marketing centre, awards-level trackers for both agents and teams, and a much enhanced national referral directory.

One of the Company's proudest achievements in 2018 was the successful rollout of Royal LePage Smart Leads. It is an advanced system that matches Canadian home shoppers with specially trained agents, assisted by a dedicated national support team. Other companies, particularly in the U.S., have launched similar programs. Early success supports our program design and execution choices. We are seeing 4.6% of consumer queries or leads successfully convert into closed business. The industry close rate is less than 1%.

The ability to service tens of thousands of consumers through Smart Leads would not be possible without the millions of people who visit the country's most popular real estate company website, royallepage.ca. With continuous innovation and a relentless focus on enhancing consumer experiences, the award-winning web platform received over 41 million visits in 2018.

Building on the successful 2017 launch of Your Perfect Life, (the award-winning online service that matches home buyers to neighbourhoods based on the personality of each), the company launched Lifestyle Match. Both tools use industry-leading demographic data and analytics to help consumers navigate and find the ideal community.

Another very popular online service launched in 2018 was School Search, where families can begin their home search with the particular school they wish their child to attend, and the system will show only those properties that qualify. Or they can start with an interesting neighbourhood and the list of schools servicing the area is produced. Another innovation in a long list of firsts for the Company.

To service increasing interest from Asian investors, Via Capitale launched a new partnership to promote Quebec property listings in China.

Recognition and Awards

In 2018, the Royal LePage brand received a Canadian Marketing Association Award in the Data Marketing and Experiential category as well as the Innovative Media category. The Company also received a 2018 Ovation Award of Excellence and two ACE awards from the Canadian Public Relations Society.

For the 20th year in a row, Via Capitale was awarded the Choix du Consommateur award (Consumer Choice Award) in the Greater Montreal – real estate agency category.

Brand Marketing and Social Media

In 2018, the Royal LePage brand launched the "Home. It's who we are." advertising campaign. The inspiration behind the ads was to highlight how our agents go above and beyond serving in the communities where they live and work. Using advanced CGI (Computer Graphic Imagery), the exterior bricks of a home would transform and an agent would emerge. The campaign was highly successful with millions of consumer impressions across YouTube, Facebook, and Instagram.

Increasingly, home buyers and sellers are searching for real estate information, and real estate agents, using social networks. The Company's strategy is to create a balance of content that inspires and informs homebuyers, sellers, and the real estate industry itself.

In Quebec, Via Capitale launched a Facebook campaign entitled "La difference Via Capitale," which helped grow the brand's Facebook followers by 17% and LinkedIn by 6%. At the end of 2018, consumers following Royal LePage on Instagram grew 60% and Facebook grew 17%. With an early lead in leveraging social channels in the industry, we enjoy more than double the penetration and engagement of our closest competitor on LinkedIn, which grew by 13%.

A Focus on Agent Teams

The role of teams is growing in significance across the real estate services industry. Sometimes referred to as a 'business-within-a-business,' these mini-brokerages have unique needs and are looking for services customized to help them operate profitably. The Company was an early adopter in this space and boasts some of the most productive teams in the industry. In 2018, we commissioned a new study to better understand the evolving needs of teams in order to roll out enhancements to our products and introduce new customized team services in 2019.

Recruiting and Retention Programs

Successful recruiting and retention programs drive organic growth. Building on our highly successful predecessor Broker Boost (a recruiting program that more than doubled the number of agent leads produced for participating broker-managers), the Company has introduced Advanced Broker Boost. This program meets the demand from brokers and managers who had completed the previous program pillars and sought to improve their skills further. This signals a move away from targeting primarily new professionals, towards meaningful connections with highly productive and well-established agents. In 2019, we will launch a six-part recruiting and retention webinar series for brokers and managers focusing on social media skills, including how to better leverage advertising and video.

Continuous Learning

Having useful business services and the leading technology platform means nothing if our people are not using what we provide them. Education and training is key to adoption. We utilize experienced educators that travel the country, 'just-in-time' educational assistance through our client care call centre, online webinars, social media driven video education and even podcasts to help our agents and managers develop professionally and stay current.

Our Via Capitale brand launched new training programs and videos promoting a series of online marketing tools: Maisons-vedettes (featured homes), Courtiers-vedettes (featured agent), and Agence-vedette (featured brokerage agency).

During 2018, Royal LePage began providing access to a series of National Association of REALTORS® designations and specialized training curriculum. Agents will not only learn valuable new skills; they will be able to use designations such as 'certified international property specialist' in their marketing campaigns.

CANADIAN RESIDENTIAL REAL ESTATE MARKET

In 2018, a number of regulatory policy changes at the provincial and federal levels had a significant dampening effect on housing demand. The impact of these policies varied across regions. While major markets such as the Greater Montreal Area and Ottawa continued to see price appreciation and healthy sales during the year, Greater Vancouver and the Greater Toronto Area each experienced significant year-over-year declines in unit sales. At the end of the year, the MLS® HPI composite benchmark price for all residential homes in Greater Vancouver saw a modest decrease of 3% in December 2018 compared to the previous year, while the MLS® HPI composite benchmark price for all residential homes in the Greater Toronto Area increased 3% in the same period.

The Bank of Canada's downgrading of its economic growth outlook for the country may paradoxically help the real estate industry as the likelihood of increases to its policy rate appears to have declined. With competition between lenders, mortgage financing rates dropped in the early stages of 2019. Ongoing low interest rates coupled with Canada's robust job creation performance, should be supportive of both housing and commercial property activity in Canada.

Barring significant external economic shocks, we see continued market strength in Atlantic Canada, Manitoba and Quebec as well as Ontario outside of the Greater Toronto Area. For the GTA, we began to see Toronto proper recover in the later part of 2018 and expect that trend to expand to the suburban region this year. The oil and gas producing regions of Alberta, Saskatchewan and Newfoundland will continue to lag the national average. Regulatory intervention, at the federal, provincial and municipal levels, are the wild cards in the Greater Vancouver region. With arguably the country's strongest economy, and most expensive residential real estate, continued volatility is to be expected in the year ahead.

LETTER TO SHAREHOLDERS

LEADERSHIP

Royal LePage is proud to be the first real estate services brand to win the prestigious Outstanding Corporation Award from the Association of Fundraising Professionals. The Royal LePage Shelter Foundation has helped shelters support 50,000 women and children fleeing violence. With over $30 million raised, the Foundation is the largest charity in Canada dedicated to eradicating domestic violence in our communities, and supporting its victims.

For the sixth consecutive year, I was recognized as the most influential leader in Canadian real estate by U.S. based Swanepoel, the definitive ranking organization in the North American residential real estate industry. I am proud of the exceptional talent and dedication of our Bridgemarq team that makes this kind of recognition possible.

THE VOICE OF CANADIAN REAL ESTATE

Homebuyers and sellers across Canada are insatiable in their pursuit of both local and national real estate market information and insight. Again in 2018, our Royal LePage business was the leader among all real estate companies in brand mentions in Canadian media. In 2018, the Royal LePage brand broke its own record in reaching an astounding 2.7 billion media impressions – a full billion more than the nearest competitor. At the heart of this success is the nation's most comprehensive research and data analytics program, producing not only regular reports featuring the highly respected Royal LePage House Price Composite, but unique insight into everything from millennial attitudes toward home ownership to recreational property trends.

Providing public commentary that is honest, insightful and timely, our national and regional spokespeople and media relations professionals have earned the trust and credibility that consumers seek when choosing an agent.

SUMMARY

We are pleased that the Company has continued to expand its agent network in the face of difficult market conditions. Through best-in-class innovation, we put highly effective technology in our people's hands, helping them to solve everyday business problems and to better service the Canadian real estate consumer. In our highly competitive industry, we never take our leadership position for granted. To attract the best and the brightest, we must be the standard by which others are measured.

On behalf of the Board,

PHILIP SOPER
President & Chief Executive Officer

2018 FINANCIALS

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Introduction

This management's discussion and analysis ("MD&A") of the financial results and financial condition of Brookfield Real Estate Services Inc., doing business as Bridgemarq Real Estate Services ("Bridgemarq" and, together with its subsidiaries the "Company") for the three months and the year ended December 31, 2018, has been prepared as at March 5, 2019. The three months ended December 31, 2018, shall be referred to in this MD&A as the "Quarter" and the year ended December 31, 2018, shall be referred to in this MD&A as the "Year". The comparative period of the three months ended December 31, 2017, shall be referred to in this MD&A as the "Prior Year Quarter" and the comparative annual period for the year ended December 31, 2017, shall be referred to in this MD&A as the "Prior Year". The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") and is expressed in Canadian dollars unless otherwise stated.

The definitions of terms capitalized in this MD&A are provided in the Glossary of Terms commencing on page 44.

This MD&A is intended to provide the reader with an assessment of the Company's past performance as well as its financial position, performance objectives and future outlook. The information in this section should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018, prepared in accordance with IFRS. Additional information relating to the Company, including its 2018 Annual Information Form, is available on SEDAR at www.sedar.com.

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

Management's Discussion and Analysis of Results and Financial Condition

Highlights

The table below sets out selected historical information and other data for the Company, which should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018.

- Net and comprehensive earnings for the Year was $17.4 million, or $1.30 per share on a diluted basis ("per Share"), compared to net earnings of $12.4 million or $1.31 per Share for the Prior Year.
- Cash Flow from Operations ("CFFO") for the Year decreased to $30.5 million or $2.38 per Share, a decrease of 7% as compared to $32.7 million or $2.55 per Share for the Prior Year. The decrease in CFFO was mainly driven by the decrease in premium fees and higher administrative expenses due to one-time costs associated with the review and negotiation of amendments to the Previous Management Services Agreement.
- Total dividends paid during the year were $1.35 per Restricted Voting Share, a 2% increase over dividends of $1.32 paid in the Prior Year.

(in 000's) except REALTOR® count	**Three months ended December 31, 2018**	Three months ended December 31, 2017	Three months ended December 31, 2016	**Year ended December 31, 2018**	Year ended December 31, 2017	Year ended December 31, 2016
Royalties	**$ 8,945**	$ 9,466	$ 9,602	**$ 42,027**	$ 44,238	$ 42,436
Administration expense	**(543)**	(110)	(308)	**(1,259)**	(816)	(1,058)
Management fee	**(1,547)**	(1,750)	(1,734)	**(7,616)**	(8,178)	(7,754)
Interest expense	**(666)**	(609)	(627)	**(2,686)**	(2,532)	(2,606)
CFFO	**$ 6,189**	$ 6,997	$ 6,933	**$ 30,466**	$ 32,712	$ 31,018
Dividends paid	**$ 3,201**	$ 3,201	$ 3,081	**$ 12,803**	$ 12,485	$ 12,325
Interest on Exchangeable Units paid	**$ 1,452**	$ 1,451	$ 1,428	**$ 5,806**	$ 5,750	$ 5,710
Net and comprehensive earnings	**$ 8,875**	$ 2,878	$ 5,327	**$ 17,391**	$ 12,444	$ 6,397
Number of REALTORS®				**18,725**	18,135	17,580

	Three months ended December 31, 2018	Three months ended December 31, 2017	Three months ended December 31, 2016	**Year ended December 31, 2018**	Year ended December 31, 2017	Year ended December 31, 2016
Net and comprehensive earnings per Share	**$ 0.24**	$ 0.30	$ 0.31	**$ 1.30**	$ 1.31	$ 0.67
CFFO per Share	**$ 0.48**	$ 0.55	$ 0.54	**$ 2.38**	$ 2.55	$ 2.42
Dividends paid per Restricted Voting Share	**$ 0.34**	$ 0.34	$ 0.32	**$ 1.35**	$ 1.32	$ 1.30
Interest paid on Exchangeable Units per Exchangeable Unit	**$ 0.44**	$ 0.44	$ 0.43	**$ 1.74**	$ 1.73	$ 1.72

Organization

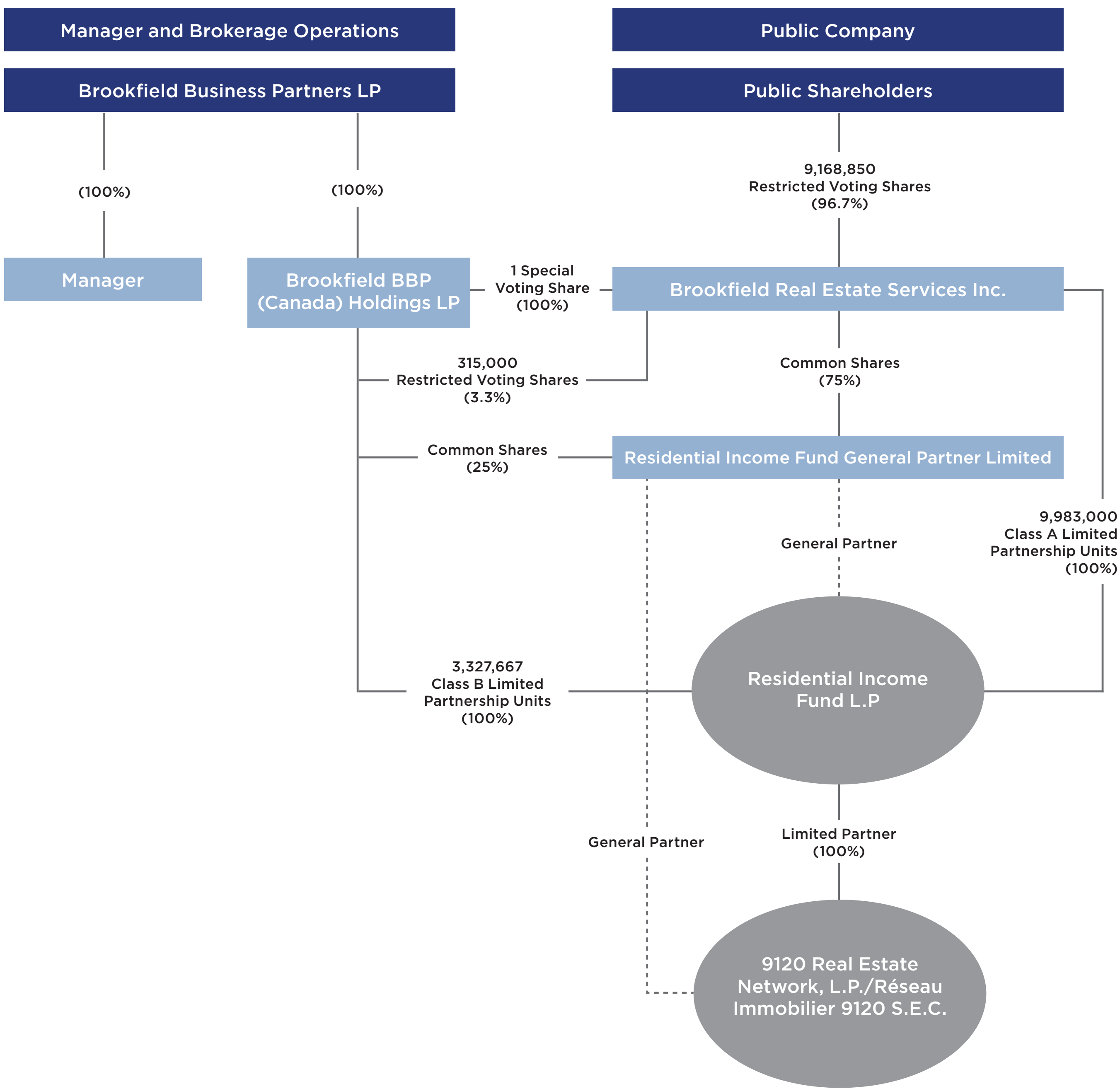
Bridgemarq's Restricted Voting Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "BRE". Through its limited partnership holdings, Bridgemarq owns certain Franchise Agreements and Trademarks of real estate services Brands in Canada.

Bridgemarq directly owns a 75% interest in the Partnership which, in turn, owns VCLP. In addition, Bridgemarq directly owns a 75% interest in the General Partner. The Partnership and VCLP own and operate the assets from which Bridgemarq 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 the General Partner through its ownership of 25 common shares in the General Partner and one Special Voting Share of Bridgemarq. The Special Voting Share entitles BBP to a number of votes at any meeting of the restricted voting shareholders equal to the number of Restricted Voting Shares that may be obtained upon the exchange of all the Exchangeable Units held by the holder and/or its affiliates. In addition to its ownership of the Exchangeable Units, the common shares of the General Partner and the Special Voting Share, BBP indirectly owns 315,000 Restricted Voting Shares.

The Company receives certain management, administrative and support services from the Manager. Bridgemarq derives its revenue from royalties and other services it provides pursuant to certain Franchise Agreements it purchases from the Manager.

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



Management's Discussion and Analysis of Results and Financial Condition

Business Strategy

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

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

The number of REALTORS® in the Company Network, the transaction volumes generated in the markets the Company serves, the manner in which the Company structures the contracted revenue streams, and the success in attracting REALTORS® to the Brands through their value propositions and the track record of the Company's Brands are all important factors in the Company's financial and operating performance. These factors, including, among others, general economic conditions and government and regulatory activity impact the Company's performance and are discussed in greater detail throughout this MD&A and in the Company's 2018 Annual Information Form, which is available at www.sedar.com.

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

Structure of Company Royalties

ROYALTY FEES

The Company generates revenue from royalties with both fixed and variable components. Fixed franchise fees represent royalty fees that are payable to the Company as a fixed monthly amount per REALTOR® without regard to transaction volumes generated by that REALTOR®. Approximately 67% of the Company's royalties during the Year (Prior Year – 61%) were derived from fixed franchise fees. Variable franchise fees represent royalty and other fees that are payable to the Company based on the transaction volumes generated by REALTORS®, subject to a cap. Approximately 26% of the Company's royalties during the Quarter (Prior Year – 24%) were derived from variable franchise fees. Premium franchise fees are variable amounts that were paid by 21 specific brokerage locations based on the transaction dollar volume generated by the REALTORS® who work out of those locations. Premium franchise fees are paid to the Company in addition to the variable franchise fees paid by REALTORS® operating out of those locations. Approximately 7% of the Company's royalties during the Year (Prior Year – 15%) were derived from premium franchise fees.

Approximately 79% of the Company's annual royalties were partly insulated from the fluctuations in the Canadian Market as they were not directly driven by transaction volumes. This includes a portion of variable franchise fees which are effectively fixed in nature due to fact that variable franchise fees are subject to a cap. The Company believes that the combination of a royalty stream based on the number of REALTORS® in the Network, increasing REALTOR® productivity and steady growth in the Canadian Market provides the base for strong and stable cash flows. A description of each type of royalty fee follows:

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

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

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

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

The amount of variable franchise fee paid by an individual REALTOR® can change depending upon, among other things, the total value of real estate they sell in a given year and increases or decreases in home prices. However, variable franchise fees are subject to a cap of $1,350. For those REALTORS® or Teams who reach the cap, the variable franchise fee is effectively fixed in nature, in that the variable franchise fee paid by the REALTOR® will not change based on changes in the Canadian Market. In 2018, the variable fees associated with approximately 2,600 REALTORS® and 1,000 Teams (representing more than 2,900 REALTORS®) that exceeded the $1,350 cap accounted for approximately 12% of royalties.

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

Classification of other franchise fees. Prior to 2018, the Company reported other franchise fees as a separate category of Royalty. These other franchise fees are comprised primarily of a fixed monthly technology fee for Royal LePage REALTORS®. Over the past several years, the Company has combined this technology fee with the fixed franchise fee as franchisees renew their Franchise Agreements and as new franchisees join the Company Network. As such, these other franchise fees are now being reported as fixed franchise fees or variable franchise fees based on the nature of the fee. Prior years' Royalties have been reclassified to comply with the current year presentation with 96% of other franchise fees reported in the Prior Year reclassified to fixed franchise fees.

Network Royalty Profile

As at December 31, 2018, the Company received royalties from 18,725 REALTORS® contracted with 333 Broker-Owners operating under 291 Franchise Agreements from 673 locations, providing services under the Royal LePage, Via Capitale and Johnston & Daniel Brands operating collectively as the Company Network, with an approximate one fifth share of the Canadian Market, based on 2018 transactional dollar volume.

The Royal LePage Network:
The fees generated from the Royal LePage Network accounted for 96% of the Company's fees for the Year (2017 – 96%). Fees charged to the Royal LePage Network for the Year include:

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

The Via Capitale Network:
The fees generated from the Via Capitale Network, which services the Quebec market, accounted for 4% of the Company's fees for the Year (2017 – 4%). These fees are primarily made up of a fixed monthly fee of $170 per REALTOR®.

Management's Discussion and Analysis of Results and Financial Condition

Overview of 2018 Operating Results

Years ended December 31, (in 000's) except per Share amounts; Restricted Voting Shares outstanding; Exchangeable Units outstanding; Number of REALTORS®	2018	2017	2016
Royalties	$ 42,027	$ 44,238	$ 42,436
Less:			
Administration expense	1,259	816	1,058
Management fee	7,616	8,178	7,754
Interest expense	2,686	2,532	2,606
Cash Flow from Operations	$ 30,466	$ 32,712	$ 31,018
Recovery / (Impairment and write-off) of intangible assets, net	(696)	544	(111)
Amortization of intangible assets	(7,705)	(8,137)	(9,583)
Interest on Exchangeable Units	(5,806)	(5,750)	(5,710)
Gain (loss) on fair value of Exchangeable Units	6,489	(2,496)	(3,694)
Gain on interest rate swap	74	1,159	822
Gain (loss) on fair value of purchase obligation	(465)	147	(1,568)
Current income tax expense	(5,183)	(5,280)	(4,893)
Deferred income tax (expense) recovery	217	(455)	116
Net and comprehensive earnings	$ 17,391	$ 12,444	$ 6,397
Basic earnings per Restricted Voting Share	$ 1.83	$ 1.31	$ 0.67
Diluted earnings per Share	$ 1.30	$ 1.31	$ 0.67
Cash Flow from Operations per Share	$ 2.38	$ 2.55	$ 2.42
Dividends paid per Restricted Voting Share	$ 1.35	$ 1.32	$ 1.30
Interest paid per Exchangeable Unit	$ 1.74	$ 1.73	$ 1.72
Restricted Voting Shares outstanding	9,483,850	9,483,850	9,483,850
Exchangeable Units outstanding	3,327,667	3,327,667	3,327,667
Number of REALTORS®	18,725	18,135	17,580

(in 000's) As at December 31,	2018	2017	2016
Total assets	$ 95,659	$ 93,523	$ 92,403
Total liabilities	$ 122,335	$ 124,901	$ 123,701

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

ROYALTIES:

Royalty revenues have decreased compared to the Prior Year primarily as a result of a decrease in the premium franchise fees and variable franchise fees partly offset by an increase in fixed franchise fees. The obligation to pay premium fees expired for six locations in the first quarter of 2018 and the remaining 15 locations in the third quarter. Variable fees decreased due to overall weakness in the Canadian Market as the total value of real estate bought and sold in Canada decreased by 15% to $224.0 billion in the Year compared to $262.5 billion in the Prior Year. Fixed franchise fees increased in the Year due to growth in the Company's Network of REALTORS®, which increased by 590 REALTORS® in the Year compared to a growth of 555 REALTORS® in the Prior Year, driven by 563 REALTORS® acquired by way of acquisition of Franchise Agreements and net organic growth of 27 REALTORS® across the Company Network.

Management's Discussion and Analysis of Results and Financial Condition

NET EARNINGS:

For the Year, the Company generated net earnings of $17.4 million or $1.30 per Share, compared to net earnings of $12.4 million or $1.31 per Share in the Prior Year.

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

- A gain on the determination of the fair value on the Exchangeable Units of $6.5 million in the Year, compared to a loss of $2.5 million during the Prior Year;
- A $0.4 million reduction in amortization of intangible assets as a result of a number of Franchise Agreements being fully amortized in prior periods; and
- A $0.8 million decrease in income tax expenses driven by a decrease in taxable income; partly offset by
- A $1.7 million decrease in royalty revenues as discussed above, net of the associated decrease in management fees;
- A $0.4 million increase in administration expenses mainly as a result of bad debt expense in the Year compared to a bad debt recovery in the Prior Year and one-time costs associated with the review and negotiation of amendments to the Previous MSA;
- A $0.2 million increase in interest expense as a result of higher interest rates associated with the debt facility and higher outstanding principal balances compared to Prior Year;
- A $1.2 million increase in impairment and write-off of intangible as compared to the Prior Year;
- A $0.6 million increase in the loss on the fair value of the purchase obligation from the revaluation of the estimated purchase price of Franchise Agreements; and
- A $1.0 million decrease on the Company's interest rate swap gain compared to the Prior Year.

TOTAL ASSETS:

Total assets increased by $2.1 million during the Year compared to the Prior Year. The main drivers of the increase were as follows:

- A $0.9 million increase in cash;
- A $0.7 million increase in the carrying value of intangible assets, driven by the Company's acquisition of Franchise Agreements totaling $8.8 million on January 1, 2018 partly offset by amortization, net impairment charges and write-offs;
- A $0.3 million increase in goods and services tax receivable;
- A $0.1 million increase in the interest rate swap liability; and
- An increase in income tax receivable and deferred tax asset of $0.5 million; partly offset by
- A decrease in accounts receivable of $0.4 million, driven by a decrease in royalty revenues.

TOTAL LIABILITIES:

Total liabilities decreased by $2.6 million in the Year compared to the Prior Year. The main drivers of the decrease were as follows:

- A decrease of $6.5 million in the liability associated with the Exchangeable Units, which is tied to the trading value of the Restricted Voting Shares (see further discussion under *Annual Operating Results and Cash Flows – Loss on fair value of Exchangeable Units*);
- A $1.5 million decrease in the purchase obligation as a result of payments made during the year; and
- A $0.4 million decrease in current income tax liability; partly offset by
- A net increase in debt facilities of $5.6 million to reflect borrowings to acquire Franchise Agreements during the Year; and
- A $0.2 million increase in accounts payable and accrued liabilities relating to one-time costs associated with the review and negotiation of amendments to the Previous MSA.

Management's Discussion and Analysis of Results and Financial Condition

DIVIDENDS AND DISTRIBUTIONS:

Dividends approved by the Board on Restricted Voting Shares increased to $1.35 per share in the Year, compared to $1.32 in the Prior Year.

Interest on Exchangeable Units increased marginally, consistent with the increase in dividends on the Restricted Voting Shares.

VARIATION OF OPERATING RESULTS FOR 2017 COMPARED TO 2016

ROYALTIES:

The strong Canadian Market in the first six months of the Year, combined with a significant increase in the number of REALTORS® in the Company Network, contributed to a $1.8 million increase in royalty revenues in the Year, compared to the Prior Year. The total value of real estate bought and sold in Canada was marginally lower at $262 billion in the Year as compared to the Prior Year. Nationally, the number of homes sold was down 4% while the average selling price of a home increased by 4%. The GTA experienced a strong first half of the Year, contributing to increased variable franchise fees and premium franchise fees, before significant weakness in the last half of the year. The Company's Network of REALTORS® increased by 555 REALTORS® in the Year compared to the Prior Year contributing to an increase in fixed and variable franchise fees.

NET EARNINGS:

For the Year, the Company generated net earnings of $12.4 million or $1.31 per Share, compared to net earnings of $6.4 million or $0.67 per Share in the Prior Year.

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

- A $1.4 million increase in royalty revenues, net of the associated increase in management fees;
- A $0.2 million reduction in administration expense mainly as a result of lower bad debt expense;
- A $0.5 million reversal of impairment of intangible assets recorded, compared to an impairment loss of $0.1 million in the Prior Year;
- A $1.5 million reduction in amortization of intangible assets as a result of a number of Franchise Agreements being fully amortized;
- A loss on the determination of the fair value on the Exchangeable Units of $2.5 million in the Year, compared to $3.7 million in the Prior Year;
- A $1.2 million gain on the Company's interest rate swap compared to a gain of $0.8 million in the Prior Year; and
- A gain on the determination of the fair value of the purchase obligation of $0.1 million from the revaluation of the estimated purchase price of Franchise Agreements in the Year, compared to a loss of $1.6 million in the Prior Year; partly offset by
- A $1.0 million increase in income tax expense driven by an increase in taxable income.

TOTAL ASSETS:

Total assets increased by $1.1 million in the Year compared to the Prior Year. The primary drivers of the increase were as follows:

- A net increase in the carrying value of intangible assets of $0.6 million, driven by the Company's acquisition of Franchise Agreements totaling $8.2 million on January 1, 2017 and impairment reversals partly offset by amortization of intangible assets);
- An increase in accounts receivable of $0.5 million; and
- An increase in cash; partly offset by
- A decrease in deferred income tax asset.

Management's Discussion and Analysis of Results and Financial Condition

TOTAL LIABILITIES:
Total liabilities increased by $1.2 million in the Year compared to the Prior Year. The main drivers of the increase were as follows:

- A net increase in debt facilities of $2.0 million to reflect borrowings to acquire Franchise Agreements during the Year; and
- An increase of $2.5 million in the liability associated with the Exchangeable Units, which is tied to the trading value of the Restricted Voting Shares (see further discussion under *Annual Operating Results and Cash Flows – Loss on fair value of Exchangeable Units*); partly offset by
- A $2.1 million decrease in the purchase obligation as a result of payments made during the Year; and
- A $1.1 million decrease in the interest rate swap liability.

DIVIDENDS AND DISTRIBUTIONS:
Dividends approved by the Board on Restricted Voting Shares increased to $1.32 per share in the Year, compared to $1.30 in the Prior Year.

Interest on Exchangeable Units increased marginally, consistent with the increase in dividends on the Restricted Voting Shares.

Key Performance Drivers

Key performance drivers of the Company's business include:

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

Stability of the Company's Royalty Stream

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

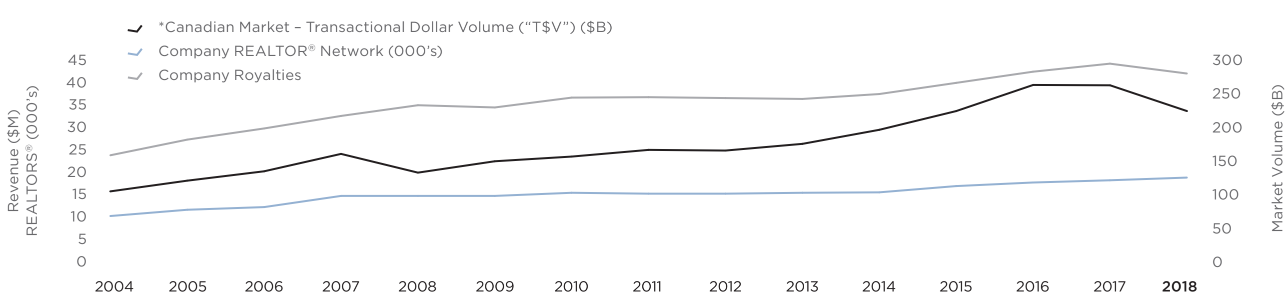
FIXED – FEE STRUCTURE

The Company estimates that approximately 79% of its royalties are fixed in nature. In addition to its fixed franchise fees, a substantial portion of the Company's variable franchise fees are effectively fixed in nature.

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

The chart below compares the Company's annual royalties to the Canadian Market and the underlying number of REALTORS® in the Company Network. The quarterly rolling twelve month changes in the Company's royalty revenues and the Canadian Market is shown under "Transactional Dollar Volumes" on page 18.

ROYALTIES, MARKET AND REALTOR® TRENDS



*Source: Canadian Real Estate Association ("CREA")

INCREASE IN FEES

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

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

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

GEOGRAPHIC DISTRIBUTION OF THE COMPANY NETWORK

As at December 31, 2018, the Company Network of 18,725 REALTORS® operated through 291 Franchise Agreements, contracted with 333 Broker-Owners, providing services across the country through 673 locations. Of the Brokerages in the Company Network, approximately 64% operate with fewer than 50 REALTORS® and represent 15% of the REALTORS® in the Company Network. The Company's smallest Franchisees have one REALTOR® while the largest has more than 1,900 REALTORS®.

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

As at December 31, 2018	**Canadian[1] REALTOR® Population**	**Company REALTOR® Population**
Ontario	58%	59%
British Columbia	17%	13%
Quebec	10%	15%
Alberta	9%	6%
Maritimes	3%	4%
Prairies	3%	3%
Total	100%	100%

[1] *Source: CREA*

FRANCHISE AGREEMENTS

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

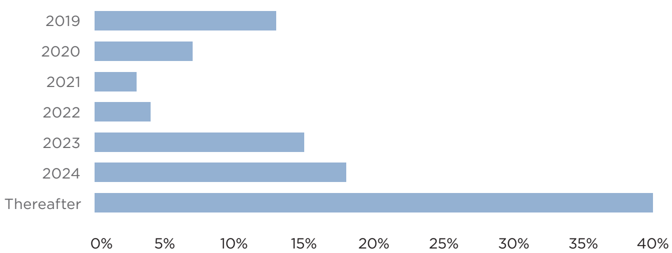
The Royal LePage Franchise Agreements, which represent 95% of the Company's REALTORS®, are for 10 to 20 year terms with a standard renewal term of ten years. These long-duration contracts exceed the industry standard of five years and thereby reduce agreement renewal risk. In addition, the Company regularly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

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

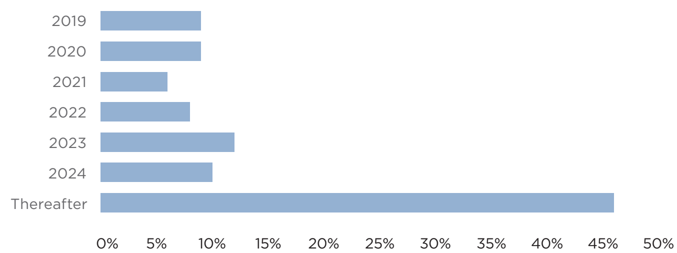
Management's Discussion and Analysis of Results and Financial Condition

A summary of the Company's agreement renewal profiles as at December 31, 2018 for the Company Network is shown below.

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



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



RENEWALS

The Company has historically been able to achieve renewal success in approximately 99% of Franchise Agreements as they come due, expressed as a percentage of the underlying number of REALTORS® associated with those agreements. Due to the ongoing success of the Company's Franchisees, a number of opportunities, such as increasing Franchisee locations, present themselves to renew Franchise Agreements before they come due.

During the Quarter, six Franchise Agreements, representing 288 REALTORS® of the Company Network extended their term or renewed, and seven Franchise Agreements, representing 435 REALTORS® of the Company Network renewed early.

During the Quarter, five Franchise Agreements were terminated, of which two were as a result of Franchisees merging operations and three resulted in loss of 23 REALTORS®.

For the Year, fifteen Franchise Agreements, representing 543 REALTORS® of the Company Network extended their term or renewed, and ten Franchise Agreements, representing 467 REALTORS® of the Company Network renewed early.

For the Year, ten Franchise Agreements were terminated, of which two were as a result of Franchisees merging operations and eight resulted in loss of 37 REALTORS®.

Number of REALTORS® in the Company Network

For the Year, the Company Network of 18,725 REALTORS® increased by 590 REALTORS®, compared to a net increase of 555 REALTORS® in the Prior Year. After taking into account the 563 REALTORS® added through the acquisition of Franchise Agreements and addendums on January 1, 2018 (January 1, 2017 – 568 REALTORS®), the Company experienced net growth of 27 REALTORS®, compared to net attrition of 13 REALTORS® in the Prior Year.

As at December 31,	2003[1] – 2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Company Network										
Opening REALTOR® Count	9,238	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580	**18,135**
Acquisition	2,882	417	247	217	516	493	1,577	459	568	**563**
Net Recruiting Growth (Attrition)	2,511	260	(494)	(192)	(292)	(426)	(160)	327	(13)	**27**
Closing REALTOR® Count	14,631	15,308	15,061	15,086	15,310	15,377	16,794	17,580	18,135	**18,725**
% Change in the period	58%	5%	(2%)	0%	1%	0%	9%	5%	3%	**3%**

Canadian REALTOR® Population	2003[1] – 2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CREA REALTOR® Membership	98,161	101,916	104,407	106,944	109,032	110,821	114,664	121,212	125,316	**129,752**
% Change in the period	38%	4%	2%	2%	2%	2%	3%	6%	3%	**4%**

[1] Opening Count as at August 2003

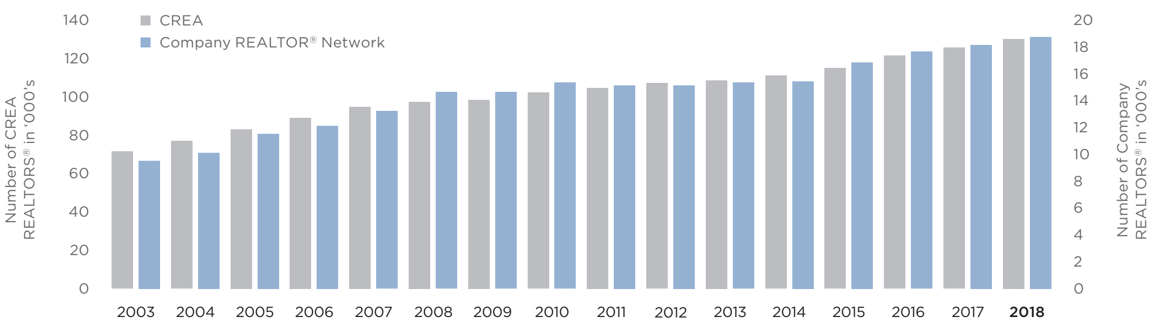
Management's Discussion and Analysis of Results and Financial Condition

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

The number of REALTORS® in the Company network increases when the Company purchases Franchise Agreements from the Manager or when it enters into Franchise Agreements directly with Franchisees. Prior to January 1, 2019, the Company would generally purchase Franchise Agreements from the Manager on January 1 of each year, unless additional purchases were approved by the Board of Directors of the Company. During those quarters where no Franchise Agreements were purchased, REALTOR® growth tended to be more modest, and could be negative, indicating periods of net attrition. Under the terms of the Amended MSA, the Company will enter into Franchise Agreements directly with Franchisees which is expected to result in smoother growth in the number of REALTORS® in the Company Network from quarter to quarter.

CANADIAN REAL ESTATE REALTORS®

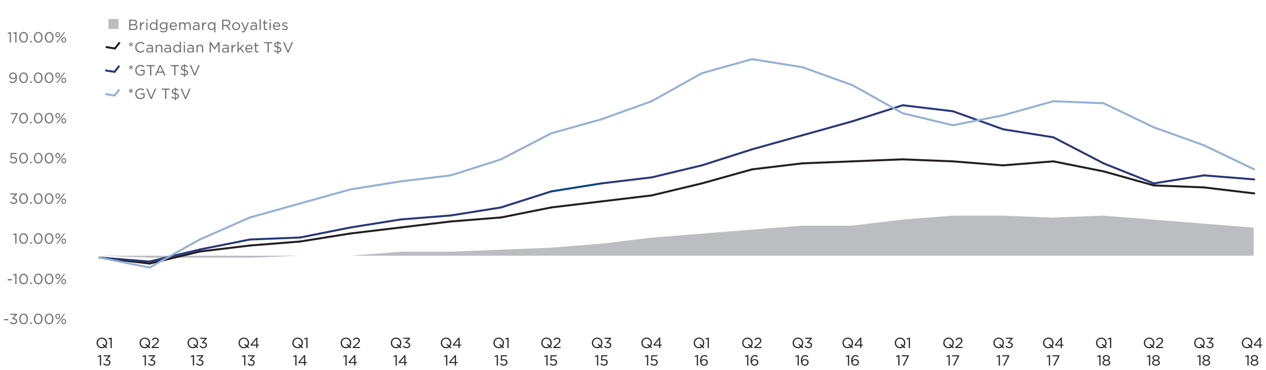
(Years ended December 31)



Transactional Dollar Volumes

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

QUARTERLY ROLLING TWELVE-MONTH % CHANGE



*Source: CREA

Management's Discussion and Analysis of Results and Financial Condition

Transactional dollar volume of real estate in Canada has declined nationally since the first quarter of 2017 as real estate values and volumes have weakened after a strong run up from the first quarter of 2013. Weakness over the past two years is due to weakness in the GTA (which experienced peak growth in the first quarter of 2017) and the Greater Vancouver ("GV") market (which peaked in the second quarter of 2016). Royalty revenues have decreased in 2018 as a result of the reduction in the transactional dollar volumes of the Canadian Market and the expiry of the obligation to pay premium fees for 21 locations.

For the Year, the Canadian Market was 15% lower than the Prior Year at $224.0 billion as a result of a 4% decrease in price and a 11% decrease in units sold.

During the Quarter, the Canadian Market closed down 14%, at $46 billion, as compared to the Prior Year Quarter. The decrease in transaction dollar volume was driven by a 2% decrease in price and a 12% decrease in units sold.

For the Year, the GTA market closed down 20%, at $61 billion, as compared to 2017, driven by a 4% decrease in price and a 16% decrease in units sold due in part to the impact of government policies designed to moderate the significant increase in selling prices in the market in 2016 and 2017 as well as changes to bank regulations in 2018 making it more difficult for home buyers to qualify for mortgage financing.

During the Quarter, the GTA market closed down 6%, at $14 billion, as compared to the Prior Year Quarter. The decrease in transaction dollar volume was driven by a 10% decrease in units sold partly offset by a 4% increase in price.

For the Year, the GV market closed down 30%, at $26 billion, as compared to 2017, driven by a 32% decrease in units sold partly offset by a 2% increase in price.

During the Quarter, the GV market closed down 42%, at $5 billion, as compared to the Prior Year Quarter, driven by a 42% decrease in units sold with prices unchanged.

Company's Growth Opportunities

Growth in the Company's royalties is achieved through:

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

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

GROWTH IN THE NUMBER OF REALTORS® AND OTHER REVENUES

The Company strives to increase the number of REALTORS® in the Company Network through the continued momentum of converting competing brokerages and REALTORS® to the Company's Brands and developing programs to increase REALTOR® growth. This is generally achieved through acquisition of Franchise Agreements from the Manager, prior to January 1, 2019.

Since the inception of the Company in August 2003 with 9,238 REALTORS®, the Company Network has increased by 103% (9,487 REALTORS®), of which 84% has been through acquisitions and 16% through net recruitment growth. This represents a CAGR of 5% in the Company Network.

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

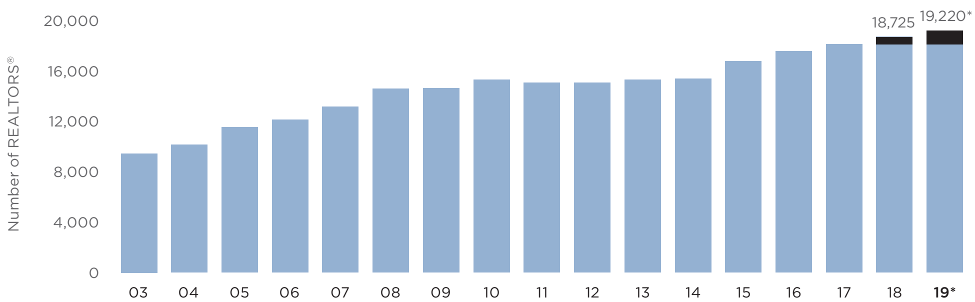
On January 1, 2018, the Company acquired 38 Franchise Agreements comprised of 563 REALTORS® operating under the Royal LePage and Via Capitale Brands. The estimated purchase price of these agreements was $8.8 million, with an estimated annual royalty stream of $1.3 million.

Management's Discussion and Analysis of Results and Financial Condition

On January 3, 2019, pursuant to the terms of the Amended MSA, the Manager transferred 47 Franchise Agreements comprised of 495 REALTORS® operating under the Royal LePage and Via Capitale Brands as well as other agreements which give the Company the rights to receive certain revenues previously earned by the Manager for nominal consideration. The estimated annual royalty stream related to these Franchise Agreements is $0.9 million. In 2018, the Manager earned approximately $3.6 million in net revenues under the other agreements.

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

COMPANY GROWTH



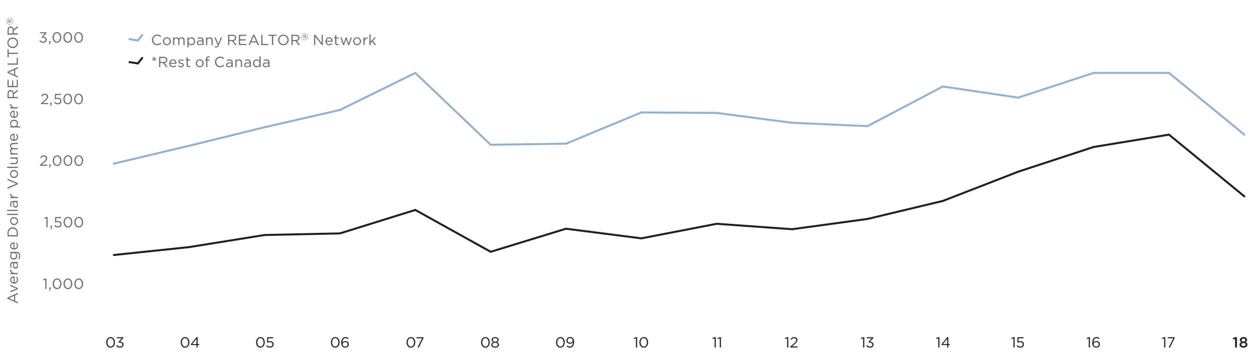
Year ended December 31, except 2019
*As at January 3, 2019

REALTOR® Productivity

The average REALTOR® in the Company Network generated approximately $2.2 million in transactional dollar volume for the twelve months ended December 31, 2018, compared to an estimated $1.7 million in transactional dollar volume generated by an average Canadian REALTOR®, outside the Company Network. The transactional dollar volume generated by an average Canadian REALTOR® has decreased by 19% compared to Prior Year, which is consistent with the decrease in the Canadian Market. Management believes that the higher productivity of the Company's Network of REALTORS®, makes the Company less prone to a loss of REALTORS® during a period of reduced transactional dollar volume. The average transactional dollar volume per REALTOR® for the years ended December 31, 2003, through 2018, is summarized in the chart below.

CANADIAN RESIDENTIAL REAL ESTATE MARKET REALTOR® PRODUCTIVITY

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



*Source: CREA

Management's Discussion and Analysis of Results and Financial Condition

PRODUCTS AND SERVICES

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

During the fourth quarter, Royal LePage continued to make enhancements to its consumer-facing website, royallepage.ca. Earlier this year, the brand launched Royal LePage Lifestyle Match on the site, which enhances a homebuyer's property search through scoring criteria to find the perfect location. Another popular website enhancement that is now available is a school search function where a consumer can search for homes in a specific school catchment area.

One of the most significant launches in 2018 was Royal LePage's new lead management solution for its REALTORS®. This tool is designed to improve lead conversion through automating best practices. Also in 2018, Royal LePage launched brand and media campaigns designed to heighten brand awareness across the brand's consumer-facing website, network-facing website and social platforms as well as national and regional media. The brand also launched a Facebook campaign for brokers that focuses on recruiting new and experienced REALTORS®. Additionally, the brand launched a new resource on its network-facing website for REALTORS® to pursue new accreditations at a discounted cost.

In 2018, Via Capitale announced a new partnership to promote its network's listings in China. Earlier this year, the brand launched new training sessions and videos for brokers promoting the brand's tools including the Maisons-vedettes and courtiers-vedettes products. The brand also launched Agence-vedette, a new tool to support brokerages with online promotion. Also this year, Via Capitale launched its Facebook campaign "La difference Via Capitale" as well as online and broadcast brand campaigns.

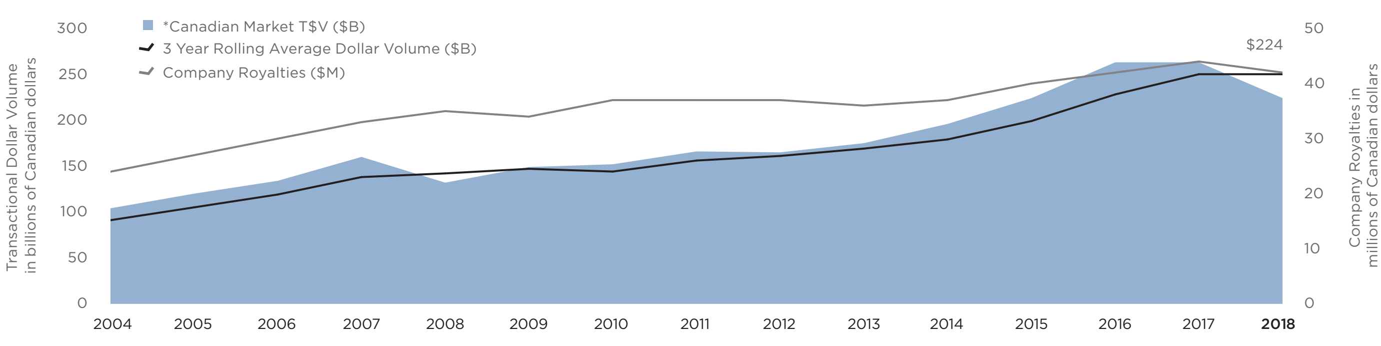
The Canadian Residential Real Estate Market

Since 2004, the Canadian Market has grown at a CAGR of 5% compared to our royalty revenues, which have grown at a rate of 4%. Our fee structure is biased towards fees that are fixed in nature, limiting our participation in significant increases or decreases in the Canadian Market.

The Canadian Market experienced steady growth from 2013 through 2016 and began slowing down after the first quarter of 2017. The transactional dollar volume of $224.0 billion for 2018 is consistent with the transactional dollar volume for 2015. In 2016 the Canadian Market experienced a CAGR of 16% driven by 10% increase in units sold and 6% increase in selling price. This momentum continued into 2017, with record sales recorded in Q1 2017, before the Canadian Market saw a decline in the last nine months of the year. The slowdown in the market has continued into 2018 and is partly the result of higher interest rates, various government-mandated regulations including tightened mortgage rules, and new taxes, which targeted certain foreign buyers of residential real estate in Ontario and BC.

TRANSACTION DOLLAR VOLUME – CANADIAN RESIDENTIAL REAL ESTATE MARKET

(2004–2018)



*Source: CREA

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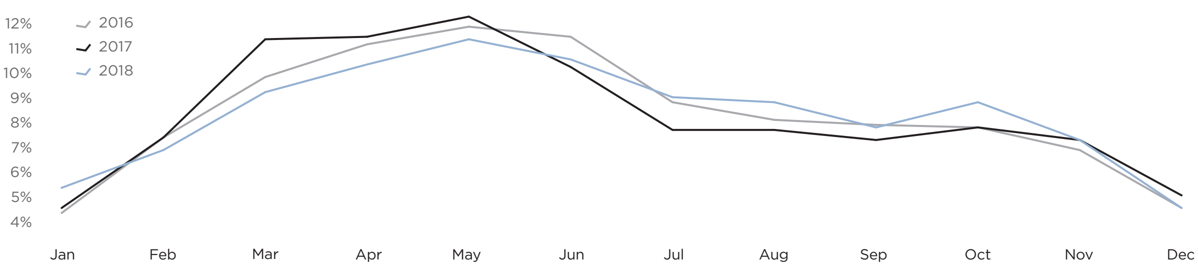
The Company's royalty revenues are affected by the seasonality of the Canadian Market, which typically sees stronger transactional dollar volumes in the second and third quarters of each year, as summarized in the chart below. The impact of the seasonality of the Canadian Market is somewhat mitigated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

CANADIAN RESIDENTIAL REAL ESTATE MARKET

(*% Canadian Market T$V by month)



*Source: CREA

Canadian Market Outlook

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

From CREA[1]: While economic and demographic fundamentals remain supportive for housing demand in many parts of the country, policy headwinds together with rising interest rates are limiting access to mortgage financing and negatively impacting homebuyer sentiment. At the same time, growth in home prices has slowed sharply in some regions. Indeed, home prices are declining in parts of the country where the supply of homes available for purchase is elevated relative to sales.

In 2019, home sales activity and prices are expected to be held in check by recent policy changes from different levels of government, in addition to additional interest rate increases.

National sales are forecast to remain little changed in 2019 (456,200 units; -0.5%), as rising interest rates combined with the mortgage stress-test offset continuing population, job and income growth. This forecast would mark a nine-year low for Canadian MLS® Systems home sales. Further activity declines in British Columbia and Alberta are expected to offset a small rebound in Ontario sales and continuing gains in Quebec.

The national average price is forecast to rebound by 1.7% to $496,800 in 2019, reflecting average price growth ahead of consumer price inflation in Ontario, Quebec, New Brunswick and Nova Scotia along with a rebound in Ontario sales activity as a share of overall national sales. More modest gains are forecast for British Columbia, Manitoba and Prince Edward Island. By contrast, prices are forecast to continue to fall in 2019 in Alberta, Saskatchewan and Newfoundland & Labrador.

From TREB[2]: This year's Market Year in Review and Outlook report follows a volatile year for the housing market in 2018. Moderate improvement in terms of sales and average selling price is expected for 2019.

"Although we won't experience record levels, we do expect to see a better year in 2019 for sales and selling prices reported by GTA REALTORS® through TREB's MLS® System. Many buyers who moved to the sidelines over the past year due to various government policies, including the OSFI-mandated mortgage stress test, have re-evaluated their positioning in the marketplace vis-à-vis home type, location and price point. It makes sense that Ipsos, in its Home Buyers Survey conducted for TREB, found that the share of intending home buyers has increased," said Mr. Bhaura. Toronto Real Estate Board President.

[1] Source: CREA Updates Resale Housing Market Forecast, published December 17, 2018
[2] Source: TREB Market Year in Review & Outlook Report, published February 6, 2019

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"Even though we're seeing positive government action on a number of key housing files, one area that needs to be revisited is the imposition of the OSFI-mandated two percentage point mortgage stress test. While we saw buyers return to the market in the second half of 2018, we have to have an honest discussion on whether or not today's home buyers are being stress tested against rates that are realistic. Home sales in the GTA, and Canada more broadly, play a huge role in economic growth, job creation and government revenues every year. Looking through this lens, policymakers need to be aware of unintended consequences the stress test could have on the housing market and broader economy," said John DiMichele, TREB CEO.

The following points summarize TREB's outlook for 2019 and results of the Ipsos Home Owners and Home Buyers surveys:

- 83,000 sales are forecast to be reported through TREB's MLS® System in 2019 – a moderate increase compared to 77,375 sales in 2018. This moderate increase will be underpinned by an uptick in the number of people considering a home purchase, as reported by Ipsos, which will be supported by continued population growth, low unemployment rate and lower average fixed-rate borrowing costs compared to 2018.
- Slightly tighter market conditions, similar to those observed in the second half of 2018, will support a moderate pace of price growth in 2019. The average selling price in the Greater Toronto Area will increase to $820,000 – close to the peak reached in 2017 and up from an average of $787,195 in 2018. The condominium apartment market segment will continue to be the driver of price growth, whereas average detached home price growth will be below the average growth rate for the market as a whole.
- Ipsos results confirm that the OSFI-mandated mortgage stress test has negatively impacted affordability. TREB analysis found that, on average, home buyers had to qualify for monthly mortgage payments almost $700 above what they will actually pay. In order to account for the higher qualification standard, intending home buyers have adjusted their preferences, including the type of home they intend on purchasing. The Ipsos Home Buyers Survey found that the share of buyers intending to purchase a detached home is at the lowest level since the fall survey was introduced in 2015. Higher density home types, which have a lower price point on average, have become more popular with intending buyers.
- Notwithstanding the brief spike in 2017, new listings entered into TREB's MLS® System receded back to the post-recession norm in 2018, hovering between 155,000 and 156,000. The expectation is that the new listing trend will remain relatively flat in 2019. The Ipsos Home Owners Survey pointed to a slight dip in listing intentions this year.
- The rental market in the GTA is expected to remain tight in 2019, with low vacancies underpinning annual average rates of rent growth in the high single-digits or even low double-digits for one-bedroom and two-bedroom condominium apartments leased through TREB's MLS® System. The supply of rental units could continue to be problematic in 2019. The Ipsos Home Owners Survey found that almost two thirds of investor-owners are thinking about selling one or more of their units over the next year. The existence of rent controls on these units could arguably be prompting this thought process.

"Despite some uncertainty regarding economic growth over the next year, many traditional housing market drivers remain in place. The GTA population will continue to grow over the next year, as people are attracted to the GTA by the region's diversity of job opportunities. Unemployment is expected to remain very low and home buyers are expected to benefit from lower fixed mortgage rates, on average, compared to 2018," said Jason Mercer, TREB's Director of Market Analysis and Service Channels.

"Ipsos surveys consistently find housing to be top of mind for Canadians. In the fourth quarter of 2018, housing was ranked as the third most important issue Canada-wide and second most important issue in Ontario. This suggests that housing policy should also be top of mind for both the relatively new provincial government in Ontario and federal party leaders who have an election on the near horizon," said Sean Simpson, Vice President at Ipsos.

From the BoC[3]: The Bank of Canada today maintained its target for the overnight rate at 1 ¾ per cent. The Bank Rate is correspondingly 2 per cent and the deposit rate is 1 ½ per cent.

The global economic expansion continues to moderate, with growth forecast to slow to 3.4 per cent in 2019 from 3.7 per cent in 2018. In particular, growth in the United States remains solid but is expected to slow to a more sustainable pace through 2019. However, there are increasing signs that the US-China trade conflict is weighing on global demand and commodity prices.

[3] Source: BoC press release published January 9,2019

Global benchmark prices for oil have been about 25 per cent lower than assumed in the October Monetary Policy Report (MPR). The lower prices primarily reflect sustained increases in US oil supply and, more recently, increased worries about global demand. These worries among market participants have also been reflected in bond and equity markets.

The drop in global oil prices has a material impact on the Canadian outlook, resulting in lower terms of trade and national income. As well, transportation constraints and rising production have combined to push up oil inventories in the west and exert even more downward pressure on Canadian benchmark prices. While price differentials have narrowed in recent weeks following announced mandatory production cuts in Alberta, investment in Canada's oil sector is projected to weaken further.

These developments are occurring in the context of a Canadian economy that has been performing well overall. Growth has been running close to potential, employment growth has been strong and unemployment is at a 40-year low. Looking ahead, exports and non-energy investment are projected to grow solidly, supported by foreign demand, the CUSMA, the lower Canadian dollar, and federal tax measures targeted at investment.

Meanwhile, consumption spending and housing investment have been weaker than expected as housing markets adjust to municipal and provincial measures, changes to mortgage guidelines, and higher interest rates. Household spending will be dampened further by slow growth in oil-producing provinces. The Bank will continue to monitor these adjustments.

The Bank projects real GDP will grow by 1.7 per cent in 2019, 0.4 percentage points slower than the October outlook. This revised forecast reflects a temporary slowing in the fourth quarter of 2018 and the first quarter of 2019. This will open up a modest amount of excess capacity, primarily in oil-producing regions. Nevertheless, indicators of demand should start to show renewed momentum in early 2019, leading to above-potential growth of 2.1 per cent in 2020.

Core inflation measures remain clustered close to 2 per cent. As expected, CPI inflation eased to 1.7% in November, due to lower gasoline prices. CPI inflation is projected to edge further down and be below 2 per cent through much of 2019, owing mainly to lower gasoline prices. On the other hand, the lower level of the Canadian dollar will exert some upward pressure on inflation. As these transitory effects unwind and excess capacity is absorbed, inflation will return to around the 2 per cent target by late 2019.

Weighing all of these factors, Governing Council continues to judge that the policy interest rate will need to rise over time into a neutral range to achieve the inflation target. The appropriate pace of rate increases will depend on how the outlook evolves, with a particular focus on developments in oil markets, the Canadian housing market, and global trade policy.

COMPANY MARKET OUTLOOK

In addition to regular cyclical activity in local housing market activity, a number of regulatory policy changes were put in place that have had a dampening effect on demand for real estate across Canada. While many cities with affordable real estate and healthy economies, such as the Greater Montreal Area or Ottawa, continued to see price appreciation and healthy sales in 2018, Greater Vancouver and the Greater Toronto Area saw a significant year-over-year decline in unit sales, decreasing 32%[4] and 16%[5] for the full year, respectively.

Despite the decline in sales in Greater Vancouver, listings were down 2%[6] in 2018 compared to the previous year. The MLS® HPI composite benchmark price for all residential homes in the region saw a modest decrease of 3% in December 2018 compared to December 2017[7]. In addition to the mortgage stress test, new tax policies within British Columbia's 2018 provincial budget were a significant factor affecting sales and home values.

While sales activity in the Greater Toronto Area was down year-over-year, the MLS® HPI composite benchmark price for all homes in the region saw a 3% increase in December 2018 compared to December 2017[8].

The Canadian economy is performing well overall, with pockets of uncertainty. Canada's unemployment rate hit a 40-year low in November, 2018. In January, 2019, the Bank of Canada continued to maintain its current target for the overnight rate, which is supportive of real estate markets. However, persistently weak oil prices driven by domestic market access bottlenecks and global supply gluts have hit Western Canada hard, and trade tensions between China and the U.S. in particular are impacting consumer confidence across the continent.

[4] December 2018, REBGV, Monthly Market Report
[5] January 4, 2019, TREB releases monthly market figures as reported by GTA REALTORS®
[6] December 2018, REBGV, Monthly Market Report
[7] December 2018, REBGV, Monthly Market Report
[8] January 4, 2019 Toronto Real Estate Board MLS® Home Price Index – December 2018

Management's Discussion and Analysis of Results and Financial Condition

Annual Operating Results and Cash Flows

Years ended December 31, (in 000's) except per Share amounts; Number of REALTORS®	2018	2017
Royalties		
Fixed franchise fees	$ 28,326	$ 26,816
Variable franchise fees	10,737	10,853
Premium franchise fees	2,964	6,569
	42,027	44,238
Less:		
Administration expense	1,259	816
Management fee	7,616	8,178
Interest expense	2,686	2,532
	11,561	11,526
Cash Flow from Operations	30,466	32,712
Recovery / (Impairment and write-off) of intangible assets, net	(696)	544
Amortization of intangible assets	(7,705)	(8,137)
Interest on Exchangeable Units	(5,806)	(5,750)
Gain (loss) on fair value of Exchangeable Units	6,489	(2,496)
Gain on interest rate swap	74	1,159
Gain (loss) on fair value of purchase obligation	(465)	147
Earnings before income taxes	22,357	18,179
Current income tax expense	5,183	5,280
Deferred income tax expense (recovery)	(217)	455
Net and comprehensive earnings	$ 17,391	$ 12,444
Basic earnings per Share	$ 1.83	$ 1.31
Diluted earnings per Share	$ 1.30	$ 1.31
Number of REALTORS®	18,725	18,135

Cash Flow Information (in 000's)	2018	2017
Cash provided by (used for):		
Operating activities	$ 18,971	$ 21,060
Investing activities	(10,849)	(10,119)
Financing activities	(7,241)	(10,585)

ANNUAL OPERATING RESULTS AND CASH FLOWS

During the Year, the Company generated net earnings of $17.4 million and cash provided by operating activities of $19.0 million, as compared to net earnings of $12.4 million and cash provided by operating activities of $21.1 million in the Prior Year. CFFO of $30.5 million generated during the Year declined from the $32.7 million generated in the Prior Year.

Royalties for the Year totaled $42.0 million, compared to $44.2 million for the Prior Year. Royalties decreased due primarily to the decrease in premium fees and variable fees partly offset by an increase in fixed fees.

Fixed franchise fees for the Year increased by 6% as compared to the Prior Year, due to the increase in the REALTOR® base resulting from the acquisition of Franchise Agreements on January 1, 2018 representing 563 REALTORS® and recruitment of an additional 27 REALTORS® during the Year.

Variable franchise fees for the Year decreased by 1%, as a result of a decrease in the transactional dollar volume of the Canadian Market driven by the weakness in the GTA and GV markets, partly offset by impact of the increase in the numbers of REALTORS® in the Company Network compared to the Prior Year.

Management's Discussion and Analysis of Results and Financial Condition

Premium franchise fees were derived from 21 franchise locations servicing the GTA Market which paid premium franchise fees ranging from 1% to 5% of the location's Gross Revenue. Premium franchise fees for the Year have decreased by 55% compared to the Prior Year primarily due to the expiry of the obligation to pay premium franchise fees for all 21 locations during the Year.

Administration expenses of $1.3 million for the Year were higher than for the Prior Year primarily due to bad debt expense in the Year (compared to a bad debt recovery recorded in the Prior Year) and one-time costs associated with the review and negotiation of amendments to the Previous MSA incurred in the Quarter.

Management fee expense of $7.6 million for the Year, calculated in accordance with the Previous MSA, decreased by 7% in the Year as compared to the Prior Year, due to the decrease in CFFO.

Interest expense was $0.2 million higher compared to the Prior Year due to higher borrowings and an increase in interest rates on the Company's variable rate borrowings.

Recovery / (Impairment and write-off) of intangible assets, net represents a net impairment of $0.7 million for the Year compared to a net recovery of $0.5 million during the Prior Year. During the Year, the Company identified seven Franchise Agreements, which required impairment charges $0.8 million, as their carrying value exceeded their recoverable amount, and two Franchise Agreements that were written off as a result of early termination. These charges were partly offset by a $0.1 million reversal of an impairment associated with one Franchise Agreement as the conditions causing such impairment have become more favourable. In the Prior Year, the Company recorded impairment reversals for five Franchise Agreements that had previously been impaired, partly offset by impairment charges for four Franchise Agreements and the write off of two Franchise Agreements.

Amortization of Intangible Assets for the Year totaled $7.7 million, a decrease of 5% compared to the Prior Year as a result of certain Franchise Agreements being fully amortized.

Interest on Exchangeable Units represents the distributions to Exchangeable Unitholders. For the Year, total distributions amounted to $1.74 per Exchangeable Unit (Prior Year – $1.73). Distributions to Exchangeable Unitholders are determined with reference to dividends paid on Bridgemarq's Restricted Voting Shares.

Gain on fair value of Exchangeable Units represents the change in the fair value of the Exchangeable Units. The Exchangeable Units are valued based on the value of the Company's Restricted Voting Shares. At December 31, 2018, the Company's Restricted Voting Shares were valued at $14.57 per share compared to $16.52 at December 31, 2017, resulting in a gain of $6.5 million for the Year. This gain represents a decrease in the obligation associated with the conversion features of the Exchangeable Units. For the Prior Year, the price of the Company's Restricted Voting Shares increased from $15.77 at December 31, 2016 to $16.52 at December 31, 2017, resulting in a loss of $2.5 million.

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

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

Income Tax Expense The effective income tax rate paid by the Company for the Year was 22% (Prior Year – 32%). The Company's effective income tax rate in the condensed consolidated statement of earnings and comprehensive earnings is significantly different than the Company's enacted income tax rate of 26.5%. The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items included in determining net earnings that are not included in determining taxable income include, among other things, non-deductible amortization of intangible assets, interest on Exchangeable Units and fair valuation adjustments on the Exchangeable Units.

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Cash provided by operating activities decreased to $19.0 million compared to $21.1 million in the Prior Year as result of lower royalties and higher payments for interest and income taxes partly offset by the benefit of lower non-cash working capital requirements during the Year.

Cash used in investing activities increased by $0.7 million compared to the Prior Year due to higher payments associated with the acquisition of intangible assets.

Cash used in financing activities decreased by $3.3 million compared to the Prior Year due to higher borrowings associated the financing of the acquisition of intangible assets and lower debt repayments partly offset by higher dividend payments to holders of Restricted Voting Shares.

Fourth Quarter Operating Results and Cash Flows

For three months ended, (in 000's) except per Share amounts number of REALTORS®;		**Dec. 31, 2018**		Dec. 31, 2017
Royalties				
Fixed franchise fees	**$**	**7,146**	$	6,704
Variable franchise fees		**1,799**		1,420
Premium franchise fees		**–**		1,342
		8,945		9,466
Less:				
Administration expense		**543**		110
Management fee		**1,547**		1,750
Interest expense		**666**		609
Cash Flow from Operations		**6,189**		6,997
Impairment and write-off of intangible assets, net		**(245)**		(61)
Amortization of intangible assets		**(1,871)**		(1,959)
Interest on Exchangeable Units		**(1,452)**		(1,451)
Gain on fair value of Exchangeable Units		**7,254**		266
Gain (loss) on interest rate swap		**(97)**		142
Gain on fair value of purchase obligation		**77**		113
Earnings before income taxes		**9,855**		4,047
Current income tax expense		**1,045**		1,100
Deferred income (recovery) tax expense		**(65)**		69
Net and comprehensive earnings	**$**	**8,875**	$	2,878
Basic earnings per Share	**$**	**0.94**	$	0.30
Diluted earnings per Share	**$**	**0.24**	$	0.30
Cash Flow from Operations per share on a diluted basis	**$**	**0.48**	$	0.55
Number of REALTORS®		**18,725**		18,135

Cash Flow Information (in 000's)				
Cash provided by (used for):				
Operating activities	**$**	**2,964**	$	4,415
Investing activities		**(2,052)**		60
Financing activities		**(839)**		(3,661)

Management's Discussion and Analysis of Results and Financial Condition

FOURTH QUARTER OPERATING RESULTS AND CASH FLOWS

During the Quarter, the Company generated net earnings of $8.9 million and cash provided by operating activities of $3.0 million, as compared to net earnings of $2.9 million and cash provided by operating activities of $4.4 million in the Prior Year Quarter. CFFO of $6.2 million generated during the Quarter declined from the $7.0 million generated in the Prior Year Quarter.

Royalties for the Quarter totaled $9.0 million, compared to $9.5 million for the Prior Year Quarter. Royalties decreased due to the expiry of the remaining premium fee contracts in the third quarter partly offset by an increase in fixed franchise fees and variable franchise fees.

Fixed franchise fees for the Quarter increased by 7% as compared to the Prior Year Quarter, due to the increase in the REALTOR® base resulting from the acquisition of Franchise Agreements on January 1, 2018 representing 563 REALTORS® and recruitment of an additional 27 REALTORS® during the Year.

Variable franchise fees for the Quarter increased by 27% despite the decline in the market, as a result of the incidence of capping of variable fees and the recognition of previously unrecognized revenues.

Premium franchise fees were derived from 21 franchise locations servicing the GTA Market which paid premium franchise fees ranging from 1% to 5% of the location's Gross Revenue. Premium franchise fees are nil in the quarter due the expiry of the obligation to pay premium franchise fees for all 21 locations during the third quarter.

Administration expense of $0.5 million for the Quarter were higher than for the Prior Year Quarter primarily due to lower bad debt recovery compared to the bad debt recovery recorded in the Prior Year Quarter and one-time costs associated with the review and negotiation of amendments to the Previous MSA incurred in the Quarter.

Management fee expense of $1.5 million for the Quarter, calculated in accordance with the Previous MSA, decreased by 12% in the Quarter as compared to the Prior Year Quarter, due to the decrease in CFFO.

Interest expense was $0.1 million higher compared to the Prior Year Quarter due to higher borrowings and an increase in interest rates on the Company's variable rate borrowings.

Impairment and write-off of intangible assets, net represents a net impairment of $0.2 million for the Quarter compared to a net impairment of $0.1 million during the Prior Year Quarter. During the Quarter, the Company identified four Franchise Agreements which required impairment charges of $0.2 million as their carrying value exceeded their recoverable amount. In the Prior Year Quarter, the Company identified two Franchise Agreements which required impairment charges of $0.1 million as their carrying value exceeded their recoverable amount.

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

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

Gain on fair value of Exchangeable Units represents the change in the fair value of the Exchangeable Units. The Exchangeable Units are valued based on the value of the Company's Restricted Voting Shares. At December 31, 2018, the Company's Restricted Voting Shares were valued at $14.57 per share compared to $16.75 at September 30, 2018, resulting in a gain of $7.3 million in the Quarter. This gain represents a decrease in the obligation associated with the conversion features of the Exchangeable Units. For the Prior Year Quarter, the price of the Company's Restricted Voting Shares decreased from $16.60 at September 30, 2017 to $16.52 at December 31, 2017, resulting in a gain of $0.3 million.

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

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

Income Tax Expense The effective income tax rate paid by the Company for the Quarter was 9% (Prior Year Quarter – 29%). The Company's effective income tax rate in the interim condensed consolidated statement of net and comprehensive earnings is significantly different than the Company's enacted income tax rate of 26.5%. The difference in the effective income tax rate is driven by a number of items that are included in the determination of net earnings but excluded from the determination of taxable income. Items included in determining net earnings that are not included in determining taxable income include, among other things, non-deductible amortization of intangible assets, interest on Exchangeable Units and fair valuation adjustments on Exchangeable Units.

Cash provided by operating activities decreased by $1.5 million compared to the Prior Year Quarter as result of lower royalties, an increase in administration expense mainly due to one-time costs associated with the review and negotiation of amendments to the Previous MSA, and higher non-cash working capital requirements in the Quarter.

Cash used in investing activities increased by $2.1 million compared to the Prior Year Quarter as the Company paid the purchase obligation associated with the January 1, 2018 acquisition of Franchise Agreement during the Quarter. In the Prior Year, the purchase obligation associated with the January 1, 2017 acquisition of Franchise Agreement was not paid until the first quarter of 2018.

Cash used for financing activities decreased by $2.8 million compared to the Prior Year due to increased borrowings under Company's debt facilities and lower debt repayments.

Summary of Quarterly Results and Cash Flow from Operations

For three months ended,	**2018**				2017			
(in 000's) except per Share amounts and number of REALTORS®;	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Royalties								
Fixed franchise fees	**$ 7,146**	$ 7,211	$ 7,058	$ 6,911	$ 6,704	$ 6,741	$ 6,720	$ 6,651
Variable franchise fees	**1,799**	3,121	3,243	2,570	1,420	3,226	3,608	2,599
Premium franchise fees	**–**	809	1,171	989	1,342	2,268	1,800	1,159
	8,945	11,141	11,472	10,470	9,466	12,235	12,128	10,409
Less:								
Administration expense	**543**	82	280	354	110	163	6	537
Management fee	**1,547**	2,078	2,103	1,889	1,750	2,288	2,296	1,844
Interest expense	**666**	669	679	672	609	626	643	654
Cash Flow from Operations	**6,189**	8,312	8,410	7,555	6,997	9,158	9,183	7,374
Recovery / (impairment and write-off) of intangible assets, net	**(245)**	(322)	(129)	–	(61)	709	(52)	(52)
Amortization of intangible assets	**(1,871)**	(1,900)	(1,926)	(2,009)	(1,959)	(1,989)	(2,059)	(2,130)
Interest on Exchangeable Units	**(1,452)**	(1,452)	(1,452)	(1,452)	(1,451)	(1,444)	(1,427)	(1,428)
Gain (loss) on fair value of Exchangeable Units	**7,254**	9,151	(6,988)	(2,928)	266	(333)	(1,064)	(1,365)
Gain (loss) on interest rate swap	**(97)**	108	4	59	142	547	420	50
Gain (loss) on fair value of purchase obligation	**77**	2	(26)	(518)	113	213	(104)	(74)
Earnings before income taxes	**9,855**	13,899	(2,107)	707	4,047	6,861	4,897	2,375
Current income tax expense	**1,045**	1,367	1,568	1,202	1,100	1,516	1,498	1,166
Deferred income tax expense (recovery)	**(65)**	(12)	(10)	(130)	69	388	69	(70)
Net and comprehensive earnings (loss)	**$ 8,875**	$ 12,544	$ (3,665)	$ (365)	$ 2,878	$ 4,957	$ 3,330	$ 1,279
Basic earnings (loss) per Share	**$ 0.94**	$ 1.32	$ (0.39)	$ (0.04)	$ 0.30	$ 0.52	$ 0.35	$ 0.13
Diluted earnings (loss) per Share	**$ 0.24**	$ 0.38	$ (0.39)	$ (0.04)	$ 0.30	$ 0.52	$ 0.35	$ 0.13
Number of REALTORS®	**18,725**	18,799	18,780	18,708	18,135	18,117	18,116	18,077

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For the twelve months ended December 31, 2018, the Company generated CFFO of $2.38 per Share, as compared to $2.55 per Share generated during the Prior Year. A summary of the Company's CFFO generated over the last eight quarters on a rolling twelve months' basis is presented in the table below.

ROLLING TWELVE-MONTH CASH FLOW FROM OPERATIONS

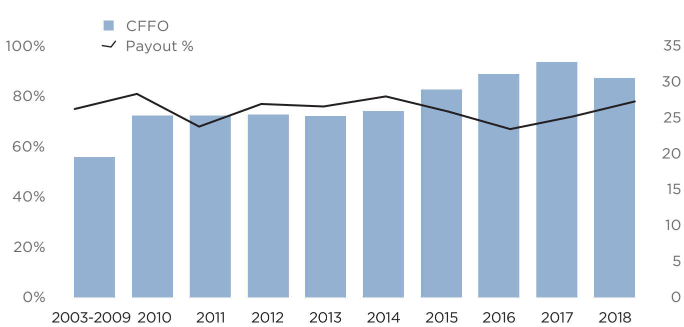
For twelve months ended,		2018				2017		
(in 000's) except per Share amounts	**Dec. 31**	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Royalties	**$ 42,027**	$ 42,549	$ 43,643	$ 44,299	$ 44,238	$ 44,374	$ 44,706	$ 43,447
Less:								
Administration expense	**1,259**	826	907	633	816	1,014	1,103	1,300
Management fee	**7,616**	7,820	8,030	8,223	8,178	8,162	8,205	7,912
Interest expense	**2,686**	2,629	2,586	2,550	2,532	2,550	2,586	2,596
	30,466	31,274	32,120	32,893	32,712	32,648	32,812	31,639
Cash Flow from Operations per Share	**$ 2.38**	$ 2.44	$ 2.51	$ 2.57	$ 2.55	$ 2.55	$ 2.56	$ 2.47

The Company's operations have generated significant cash flows with $386.6 million of CFFO generated since inception, of which $289.4 million has been distributed to shareholders and Exchangeable Unitholders or used to pay current income taxes. The remaining $97.2 million retained by the Company plus funds generated from working capital and net borrowings has been used to acquire Franchise Agreements, and to repurchase Restricted Voting Shares in 2008 and 2009.

The chart below presents a summary of the CFFO generated by the Company since inception and the percentage payout of these amounts to shareholders and the Exchangeable Unitholders of the Company (in the form of dividends to shareholders and interest to the Exchangeable Unitholders) and for income taxes.

CASH FLOW FROM OPERATIONS

(Years ended December 31, in $ millions)



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

CASH FLOW FROM OPERATING ACTIVITIES RECONCILED TO CASH FLOW FROM OPERATIONS

($ 000's)	**Three months ended December 31, 2018**	Three months ended December 31, 2017	**Year ended December 31, 2018**	Year ended December 31, 2017
Cash flow from operating activities	**$ 2,964**	$ 4,415	**$ 18,971**	$ 21,060
Add (deduct):				
Interest on Exchangeable Units	**1,452**	1,451	**5,806**	5,750
Income taxes paid	**1,356**	1,225	**5,941**	5,315
Changes in non-cash working capital items	**423**	(107)	**(229)**	608
Interest expense	**(2,091)**	(2,044)	**(8,382)**	(8,165)
Interest paid	**2,085**	2,057	**8,359**	8,144
CFFO	**$ 6,189**	$ 6,997	**$ 30,466**	$ 32,712

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

CFFO does not have a standardized meaning under IFRS and, accordingly, may not be comparable to similar measures used by other companies. Management believes that CFFO is a useful supplemental measure of performance as it provides investors with an indication of the amount of pre-tax cash generated from operations and available to holders of Restricted Voting Shares and Exchangeable Unitholders, and to meet cash tax obligations. Investors are cautioned, however, that CFFO should not be interpreted as an alternative to using net earnings (as a measure of profitability) or cash provided by operating activities (as a measure for cash flows) to evaluate the Company's financial performance.

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

Debt Facilities

As at December 31, 2018 the Company's $78.0 million financing was scheduled to mature on February 17, 2020 and was comprised of the following three arrangements:

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

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

The covenants of this financing prescribed that the Company must maintain a ratio of Consolidated EBITDA to Senior Interest Expense at a minimum of 5:1 and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5:1 as defined under the loan agreement. Consolidated EBITDA is defined as operating income before deducting amortization and net impairment or recovery of intangible assets. Senior Indebtedness is defined as borrowings on the Company's debt facilities. Senior Interest Expense is defined as interest on Senior Indebtedness. As at December 31, 2018 the company is compliant with these covenants.

On December 13, 2018, the Company completed its amended finance arrangements with its lender. The amended and restated arrangements became effective on January 1, 2019. The main amendments to the debt facilities include:

- An extension of the committed debt facilities to December 31, 2023.
- An increase in the maximum borrowings under the Term Facility from $53.0 million to $55.0 million.
- A reduction in the minimum ratio of Consolidated EBITDA to Senior Interest Expense 5:1 to 3:1.
- An increase in the permitted ratio of Senior Indebtedness to Consolidated EBITDA from 2.5:1 to 4:1.
- Where the ratio of Senior Indebtedness to Consolidated EBITDA exceeds 3.4:1, the Company is obligated to make monthly repayments of combined interest and principal in an amount equal to an annual 10% straight line amortization of the outstanding debt facilities until such time as the ratio of Senior Indebtedness to Consolidated EBITDA is less than 3.25:1 for a period of two consecutive months.

There are no significant changes to the security arrangements or interest arrangements associated with the debt facilities as a result of these amendments.

In accordance with IFRS 9, the Company assessed the impact of the amended finance arrangements to determine whether there was an extinguishment of the debt facilities at the time the amended finance arrangements were agreed. As a result of this assessment, the Company determined that the impact of these amendments on the net present value of the cash flows of the debt facility was immaterial, resulting in no gain or loss being recorded in the consolidated financial statements.

The Company incurred $138 in legal costs and commitment fees during the Quarter related to the amended finance arrangements, which have been recognized as deferred financing costs in accordance with IAS 23, Borrowing Costs. Beginning January 1, 2019, these deferred financing costs along with the $65 deferred financing cost balance from the previous years will be amortized over the term of the amended and restated debt facilities.

On January 2, 2019, the Company borrowed $2.0 million on the Term Facility, bringing total borrowings on the Term Facility to $55.0 million.

Liquidity

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

The Company's ability to grow its CFFO is dependent upon the ability of the Manager to increase the size of the Network, which it can do by, a) supporting Franchisees in their efforts to recruit REALTORS® to their Brokerages, b) assisting Franchisees to acquire Brokerages from outside the Network, c) prior to January 1, 2019, entering into new Franchise Agreements which were then be purchased by the Company under the terms of the Previous MSA, and d) subsequent to December 31, 2018, source independent Brokerages and REALTORS® as well as Brokerages and REALTORS® represented by other real estate service companies to join the Company Network by entering into Franchise Agreements with the Company or joining any of the Company's Franchisees. Under the terms of the Previous MSA, prior to January 1, 2019, the Company purchased new Franchise Agreements subject to a) the Franchise Agreements meeting specific criteria as outlined in the Previous MSA, and b) the Company having sufficient liquidity to complete any purchase of Franchise Agreements. The Company utilized the Acquisition Facility specifically to provide capital resources to purchase Franchise Agreements from the Manager. The Company met regularly with the Manager during the year to determine the Manager's progress in entering into new Franchise Agreements. Under the terms of the Amended MSA, subsequent to December 31, 2018, the Company enters into Franchise Agreements directly with Franchisees and is no longer required to acquire Franchise Agreements from the Manager.

In 2018, the Company funded the purchase of Franchise Agreements primarily through $7.2 million in borrowings under its available debt facilities. The Company generated sufficient CFFO during the Year (after payment of dividends, distributions and its operating obligations) to repay $4.0 million of outstanding borrowings on its debt facilities and to pay $3.7 million to settle the purchase obligation outstanding for Franchise Agreements acquired in 2017 and 2018.

WORKING CAPITAL

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

Overall, working capital increased by $2.9 million from $3.9 million as at December 31, 2017, to $6.7 million as at December 31, 2018. The increase in working capital resulted primarily from:

- A $0.9 million increase in cash;
- A $0.3 million increase in goods and services tax receivable;
- A $1.5 million decrease in the purchase obligation as a result of payments made during the year; and
- A $0.4 million increase in current income tax receivable and $0.4 million decrease in current income tax liability; offset by
- A $0.4 million decrease in accounts receivable as a result of lower royalties; and
- A $0.2 million increase in accounts payable and accrued liabilities relating to costs incurred for the Amended MSA.

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

($ 000's) As at	**Dec. 31, 2018**	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Change in Quarter	Change in Year
Current assets										
Cash	**$ 4,339**	$ 4,267	$ 4,888	$ 2,648	$ 3,458	$ 2,644	$ 2,622	$ 3,305	$ 72	$ 881
Accounts receivable and current portion of notes receivable	**4,125**	4,083	5,234	4,862	4,492	4,779	5,172	4,849	42	(367)
Prepaid expenses	**207**	187	179	164	153	156	147	141	20	54
Current income tax receivable	**358**	48	60	34	–	–	–	–	310	358
Goods and Services tax receivable	**264**	–	257	579	–	–	–	–	264	264
	$ 9,293	$ 8,585	$ 10,618	$ 8,287	$ 8,103	$ 7,579	$ 7,941	$ 8,295	$ 708	$ 1,190
Current liabilities										
Accounts payable and accrued liabilities	**$ 1,003**	$ 1,119	$ 1,109	$ 1,014	$ 803	$ 867	$ 1,131	$ 827	$ (116)	$ 200
Purchase obligation	**–**	2,307	2,310	2,284	1,497	1,611	1,825	4,279	(2,307)	(1,497)
Current income tax liability	**–**	–	–	–	400	525	234	40	–	(400)
Interest payable to Exchangeable Unitholders	**484**	484	484	484	484	484	476	476	–	–
Dividends payable to Restricted Voting shareholders	**1,067**	1,067	1,067	1,067	1,067	1,067	1,027	1,027	–	–
	2,554	4,977	4,970	4,849	4,251	4,554	4,693	6,649	(2,423)	(1,697)
Net working capital	**$ 6,739**	$ 3,608	$ 5,648	$ 3,438	$ 3,852	$ 3,025	$ 3,248	$ 1,646	$ 3,131	$ 2,887

Cash and Capital Resources

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

(in 000's) As at December 31,		2018		2017
Cash	**$**	**4,339**	$	3,458
Term Facility		**–**		–
Acquisition Facility		**1,500**		7,200
Operating Facility		**5,000**		5,000
Net borrowing capacity	**$**	**6,500**	$	12,200
Available resources	**$**	**10,839**	$	15,658

As at December 31, 2018, $18.5 million of the Acquisition Facility has been drawn by the Company, leaving $6.5 million available under the debt facilities. This represents a decrease of $5.7 million in net borrowing capacity as a result of the Company borrowing $7.2 million on the Acquisition Facility on January 1, 2018 to fund the acquisition of Franchise Agreements from the Manager, an additional $2.5 million borrowed on December 2018 to repay the outstanding purchase obligation and repayments of $4.0 million during the Year.

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

Commitments

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

As at December 31,		2019		2020		2021		2022		Beyond 2022		Total
Accounts payable and accrued liabilities	$	1,003	$	–	$	–	$	–	$	–	$	1,003
Interest payable to Exchangeable Unitholders		484		–		–		–		–		484
Dividends payable to shareholders		1,067		–		–		–		–		1,067
Interest on long-term debt		2,639		2,639		2,639		2,639		2,639		13,194
Debt facilities		–		–		–		–		73,500		73,500
Exchangeable Units		–		–		–		–		48,484		48,484
Total	$	5,193	$	2,639	$	2,639	$	2,639	$	124,623	$	137,732

On January 1, 2018, the Company acquired 34 Franchise Agreements under the Royal LePage Brand and four Franchise Agreements under the Via Capitale Brand representing a total of 563 agents from the Manager for an estimated purchase price of $8.8 million. A payment of $7.1 million (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 3, 2018. The remainder was paid on December 24, 2018.

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

Off-Balance Sheet Arrangements

The Company has no off–balance sheet arrangements.

Transactions with Related Parties

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

The Manager operates 25 corporately owned Royal LePage residential Brokerage locations. These locations are serviced by 1,934 REALTORS® with 1,312 REALTORS® operating out of 14 locations in the GTA market, 609 REALTORS® operating out of 9 locations in the Greater Vancouver market and 13 REALTORS® operating from two locations in Quebec. All but one of the Franchise Agreements (representing 7 agents) associated with the corporately owned Brokerages had been purchased by the Company as at December 31, 2018.

All of the corporately owned operations operate under Franchise Agreements with standard fixed and variable franchise fees. The GTA based locations are up for renewal in 2023, while the Greater Vancouver operations are up for renewal between 2023-2024. The Quebec locations are up for renewal in 2028. Included in the GTA based Franchise Agreement was an obligation to pay premium franchise fees ranging from 1% to 5% of Gross Revenue for 11 of the 14 locations until August 2018. Including amounts received from the corporately owned Brokerage, premium franchise fees represented 7% of royalties in the Year (Prior Year – 15%). The Company will no longer receive premium franchise fees as all those agreements have expired as of August 2018.

Prior to January 1, 2019, the management of the Company was provided by the Manager under the terms of the Previous MSA which was scheduled to expire on December 31, 2018, subject to certain conditions. In September, 2018, the term of the Previous MSA was extended to June 30, 2019. With effect as of November 6, 2018, the Manager and the Company entered into the Amended MSA. The Amended MSA replaced the Previous MSA except that the compensation of the Manager was governed by the Previous MSA until December 31, 2018. The Amended MSA has an initial term of ten years and is automatically renewable for successive ten-year terms subject to certain notices. The Manager is a company controlled by the Exchangeable Unitholders.

Under the Previous MSA and the Amended MSA, the Manager provides certain management, administrative and support services to the Company and its subsidiaries. Under the Previous MSA, the Manager paid a monthly fee equal to 20% of the distributable cash flow of the Company. The Manager was eligible to earn an additional fee for net organic recruitment growth, which was intended to closely align the Manager and the Company's goals with growing the underlying network of REALTORS®. No additional fee for net organic recruitment was paid to the Manager under the Previous MSA. The Previous MSA also provided the Manager with the ability to sell other branded Canadian franchisors that it acquired to the Company based on a pre-determined formula. No other branded Canadian franchisors were sold to the Company under the Previous MSA.

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

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

Under the Amended MSA, the Manager is entitled to a monthly fee equal to $840,000 plus:

a) during the first five years of the initial term of the Amended MSA, the greater of:

  (i) 23.5% of the Distributable Cash of the Partnership and the Distributable Cash of 9120 (each as defined in the Amended MSA); and

  (ii) 0.342% of the Current Market Value (as defined in the Amended MSA), and

b) after the first five years of the initial term of the Amended MSA, the greater of:

  (i) 25.0% of the Distributable Cash of the Partnership and the Distributable Cash of 9120 and

  (ii) 0.375% of the Current Market Value.

Under certain circumstances, the Company may pay the monthly fees to the Manager through the issuance of Exchangeable Units by the Partnership.

Under the Amended MSA, the Manager no longer enters into Franchise Agreements and sells them to the Company. Rather, the Company enters into Franchise Agreements directly with Franchisees.

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

On January 1, 2017, the Company acquired 55 Franchise Agreements under the Royal LePage and Via Capitale Brands representing a total of 568 REALTORS®, from the Manager for an estimated purchase price of $8.2 million. A payment of $6.6 million (approximating 80% of the estimated purchase price) plus applicable taxes was paid on January 6, 2017. The remainder was paid on February 26, 2018.

On January 1, 2018, the Company acquired 38 Franchise Agreements under the Royal LePage and Via Capitale Brands representing a total of 563 REALTORS®, from the Manager for an estimated purchase price of $8.8 million. A payment of $7.1 million (approximating 80% of the estimated purchase price), plus applicable taxes was paid on January 3, 2018. The remainder was paid on December 24, 2018.

Under the terms of the Amended MSA, the Manager agreed to assign to the Company, at no cost, certain contracts associated with revenue streams that the Manager has developed outside of the Franchise Agreements owned by the Company. These ancillary revenues will be earned by the Company commencing January 1, 2019 and include certain referral fee revenues, commercial agent service fees and revenue sharing arrangements under marketing partnerships.

Critical Accounting Estimates and Assumptions

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

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

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

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

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

FORWARD LOOKING INFORMATION FOR ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

The measurement of estimated credit losses for accounts receivable and notes receivable and the assessment of increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment. In assessing the valuation of accounts receivable, the Company evaluates 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.

ACCOUNTING FOR FRANCHISE AGREEMENTS

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

IMPAIRMENT OF INTANGIBLE ASSETS AND RECOVERY OF IMPAIRMENT

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

Financial Instruments

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

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

Management's Discussion and Analysis of Results and Financial Condition

On October 27, 2014, the Company entered into an interest rate swap arrangement to fix the interest rate on the Company's $53.0 million Term Facility at 3.64% to October 28, 2019. Subsequent to the end of the Year, the Company's Term Facility was increased to $55.0 million and maturity was extended to December 31, 2023.

The Company is exposed to the risk of interest rate fluctuations on its $20.0 million Acquisition Facility, $5.0 million Operating Facility and $2.0 million of its Term Facility (subsequent to December 31, 2018) as the interest rates on these facilities are based on Prime or Banker's Acceptance interest rates. As at December 31, 2018, the Company has drawn $18.5 million on the Acquisition Facility, and nil on the Operating Facility. Subsequent to December 31, 2018, the Company drew the remaining available $2.0 million on the Term Facility.

Disclosure Controls and Internal Controls over Financial Reporting

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

DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

The evaluation of the effectiveness of DC&P, as defined in National Instrument 52-109 *Certification of Disclosures in Issuers' Annual and Interim Filings*, was performed under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. They conclude that these DC&P were adequate and effective as at December 31, 2018. The Company's management can therefore provide reasonable assurance that it receives material information relating to the Company in a timely manner so that it can provide investors with complete and reliable information.

INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

Management has designed ICFR to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with IFRS. The design and effectiveness of ICFR was evaluated as defined in National Instrument 52-109 under the supervision of the President and Chief Executive Officer and the Chief Financial Officer. Based on the evaluations, they conclude that ICFR is adequate and effective to provide such assurance as at December 31, 2018. The design of ICFR is undertaken in accordance with the 2013 COSO framework.

Outstanding Restricted Voting Shares

Bridgemarq is authorized to issue an unlimited number of Restricted Voting Shares, an unlimited number of preferred shares and one Special Voting Share. As of March 5, 2019 Bridgemarq has issued 9,483,850 Restricted Voting Shares, no preferred shares and one Special Voting Share.

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

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

Risk Factors

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

Management's Discussion and Analysis of Results and Financial Condition

Forward-Looking Statements

This MD&A contains forward-looking information and other "forward-looking statements" within the meaning of applicable securities legislation. Words such as "adjust", "affecting", "attract", "are", "assumed", "believes", "can", "continue(s)", "continued", "consist", "could", "derives", "estimated", "estimates", "expected", "exposed", "forecast(s)", "further", "future", "generally", "generates", "grow", "growing", "growth", "impacting", "increase(s)", "increasing", "leading", "limiting", "makes", "may", momentum", "objective(s)", "ongoing", "operates", "outlook", "outperforming", "performing", "potential", "project(ed)", "provide(s)", "provided", "purchases", "receives", "remain", "reflects", "remain", "retain", "seeks", "servicing", "should", "slowed", "strives", "support", "tended", "typically", "uncertainty", "weighing", "will" and other expressions that are predictions of or could indicate future events and trends and that do not relate to historical matters, identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those indicated in the forward looking statements include, but are not limited to: a change in general economic conditions (including interest rates, consumer confidence, commodity prices, real estate legislation and regulations and other general economic factors or indicators), the level of residential real estate transactions, the availability of attractive investment opportunities, the average rate of commissions charged, competition from other real estate brokers or from discount and/or Internet-based real estate alternatives, the closing of existing real estate brokerage offices, other developments in the residential real estate brokerage industry or the Company that reduce the number of REALTORS® in the Company's Network or royalty revenue from the Company's Network, availability to generate sufficient cash flows in the future to pay dividends to holders of Restricted Voting Shares and interest to Exchangeable Unitholders, ability to acquire, renew and/or extend Franchise Agreements, the ability to increase fees, the ability to maintain brand equity through the use of trademarks, the methods used by shareholders or analysts to evaluate the value of the Company and its publicly traded securities, the availability of equity and debt financing, conversion of Exchangeable Units into Restricted Voting Shares, a change in tax law or regulations, and other risks detailed in the Company's annual information form, which is filed with securities commissions and posted on SEDAR at www.sedar.com. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to management. Material factors or assumptions that were applied in drawing conclusions or making estimates set out in the forward-looking statements include, but are not limited to: anticipated economic conditions, anticipated impact of government policies, anticipated financial performance, anticipated market conditions, business prospects, the successful execution of the Company's business strategies, regulatory developments and the ability to obtain financing on acceptable terms. The factors underlying current expectations are dynamic and subject to change. Although the forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements in this MD&A are made as of the date of this MD&A and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis of Results and Financial Condition

Supplemental Information – Distributions/Dividends Declared History

(per Restricted Voting Share*) Month Declared	2018	2017	2016	2015	2014	2013	2012	2011
January	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
February	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
March	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
April	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
May	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
June	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
July	**$ 0.1125**	$ 0.1083	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
August	**$ 0.1125**	$ 0.1125	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
September	**$ 0.1125**	$ 0.1125	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
October	**$ 0.1125**	$ 0.1125	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
November	**$ 0.1125**	$ 0.1125	$ 0.1083	$ 0.1042	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
December	**$ 0.1125**	$ 0.1125	$ 0.1083	$ 0.1083	$ 0.1000	$ 0.0920	$ 0.0920	$ 0.0920
	$ 1.3500	$ 1.3206	$ 1.2996	$ 1.2335	$ 1.2000	$ 1.1040	$ 1.1040	$ 1.1040

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

Supplemental Information – Share Performance

(in Canadian dollars) except shares outstanding and average daily volume For three months ended,	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	Mar.31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar.31, 2017
Trading price range of units (TSX: "BRE")								
Close	**$ 14.57**	$ 16.75	$ 19.50	$ 17.40	$ 16.52	$ 16.60	$ 16.50	$ 16.18
High	**$ 17.24**	$ 19.95	$ 20.15	$ 18.25	$ 16.95	$ 17.60	$ 16.68	$ 16.60
Low	**$ 12.36**	$ 15.40	$ 16.67	$ 16.27	$ 15.79	$ 15.65	$ 15.10	$ 15.68
Average daily volume	**14,161**	17,095	10,548	13,445	14,044	11,144	11,867	10,954
Number of restricted voting shares outstanding at period end	**9,483,850**	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850	9,483,850
Market capitalization ($000's)	**$186,664**	$ 214,593	$249,825	$222,920	$ 211,646	$ 212,671	$ 211,390	$207,290

Supplemental Information – Canadian Residential Real Estate Market

For Three months ended	**Dec. 31, 2018**	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Canada								
Transaction dollar volume[1]	**$ 46,390**	$ 58,183	$ 71,195	$ 48,272	$ 53,860	$ 59,298	$ 88,349	$ 60,948
Average selling price	**$ 488,699**	$ 488,875	$ 492,372	$ 489,959	$ 500,451	$ 478,947	$ 531,057	$ 522,528
Number of units sold	**95,056**	120,750	144,113	98,523	107,623	123,809	166,364	116,641
Number of REALTORS® at period end	**129,752**	128,646	127,950	126,224	125,269	125,316	123,395	122,158
Housing starts	**52,492**	49,187	52,928	42,105	55,318	55,486	50,669	40,811
Greater Toronto Area								
Transaction dollar volume[1]	**$ 13,716**	$ 15,708	$ 18,958	$ 12,576	$ 14,622	$ 13,701	$ 25,600	$ 22,088
Average selling price	**$ 787,300**	$ 786,957	$ 789,893	$ 767,271	$ 759,900	$ 747,096	$ 866,793	$ 873,774
Number of units sold	**17,395**	20,109	23,531	16,391	19,242	18,339	29,534	25,279
Housing starts	**11,029**	9,427	8,949	11,702	8,578	11,384	8,381	10,395
Greater Vancouver Area								
Transaction dollar volume[1]	**$ 4,900**	$ 5,825	$ 8,634	$ 6,906	$ 8,381	$ 9,064	$ 12,899	$ 7,416
Average selling price	**$1,048,435**	$1,050,945	$1,062,498	$1,040,374	$ 1,051,173	$ 1,008,187	$ 1,075,331	$ 969,893
Number of units sold	**4,722**	5,703	7,988	6,638	7,973	8,990	11,995	7,646
Housing starts	**5,348**	5,494	5,698	6,864	8,179	5,825	6,931	5,269
Greater Montreal Area								
Transaction dollar volume[1]	**$ 4,000**	$ 3,747	$ 5,501	$ 4,406	$ 3,946	$ 3,320	$ 5,013	$ 3,887
Average selling price	**$ 384,754**	$ 380,962	$ 376,155	$ 369,475	$ 366,014	$ 376,941	$ 366,784	$ 347,306
Number of units sold	**10,134**	9,565	14,743	12,311	10,781	8,808	13,668	11,191
Housing starts	**8,143**	4,816	7,566	4,475	8,970	5,981	5,102	4,703

[1] (in millions Canadian dollars)
Source: CREA, CMHC, TREB

For Twelve months ended	**Dec. 31, 2018**	Sept. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec 31, 2017	Sept. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Canada								
Transaction dollar volume[1]	**$ 224,040**	$ 231,510	$ 232,625	$ 249,779	$ 262,455	$ 258,486	$ 264,831	$ 267,051
Average selling price	**$ 488,700**	$ 491,519	$ 490,700	$ 503,263	$ 510,179	$ 506,278	$ 503,155	$ 495,786
Number of units sold	**458,442**	471,009	474,068	496,319	514,437	510,561	526,342	538,642
Housing starts	**196,712**	199,538	205,837	203,578	202,284	193,216	187,303	185,856
Greater Toronto Area								
Transaction dollar volume[1]	**$ 60,958**	$ 61,864	$ 59,857	$ 66,499	$ 76,011	$ 79,379	$ 87,081	$ 89,513
Average selling price	**$ 787,300**	$ 780,392	$ 772,318	$ 796,341	$ 822,681	$ 816,514	$ 803,567	$ 769,112
Number of units sold	**77,426**	79,273	77,503	83,506	92,394	97,217	108,368	116,385
Housing starts	**41,107**	38,656	40,613	40,045	38,738	40,092	38,322	40,010
Greater Vancouver Area								
Transaction dollar volume[1]	**$ 26,264**	$ 29,746	$ 32,985	$ 37,249	$ 37,759	$ 35,086	$ 33,468	$ 35,720
Average selling price	**$1,048,433**	$ 1,051,011	$1,044,180	$1,046,443	$ 1,031,546	$1,004,955	$ 981,996	$ 981,394
Number of units sold	**25,051**	28,302	31,589	35,596	36,604	34,913	34,082	36,397
Housing starts	**23,404**	26,235	26,566	27,799	26,204	23,741	25,274	26,102
Greater Montreal Area								
Transaction dollar volume[1]	**$ 17,653**	$ 17,600	$ 17,173	$ 16,685	$ 16,166	$ 14,444	$ 14,042	$ 13,442
Average selling price	**$ 377,584**	$ 371,297	$ 368,182	$ 366,156	$ 364,510	$ 363,298	$ 359,671	$ 352,801
Number of units sold	**46,753**	47,400	46,643	45,568	44,448	39,758	39,041	38,100
Housing starts	**25,000**	25,827	26,992	24,528	24,756	20,362	20,129	19,746

[1] (in millions Canadian dollars)
Source: CREA, CMHC, TREB

Management's Discussion and Analysis of Results and Financial Condition

Supplemental Information – Cash Flow from Operations

CASH FLOW FROM OPERATIONS AND ITS UTILIZATION SINCE COMPANY INCEPTION

($ 000's)	Total	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Jan. 1, 2010 to Dec. 31, 2015	Canadian GAAP Aug.7, 2003 to Dec. 31, 2009
Royalties	**$ 543,219**	**$ 42,027**	$ 44,238	$ 42,436	$ 223,388	$ 191,130
Less:						
Administration expense	**16,578**	**1,259**	816	1,058	9,053	4,392
Management fee	**98,999**	**7,616**	8,178	7,754	40,607	34,844
Interest expense	**41,046**	**2,686**	2,532	2,606	17,790	15,432
Cash Flow from Operations	**386,596**	**30,466**	32,712	31,018	155,938	136,462
Less:						
Dividends to shareholders	**186,167**	**12,803**	12,485	12,325	71,683	76,871
Interest to Exchangeable Unitholders	**74,336**	**5,806**	5,750	5,710	31,243	25,827
Current Income tax expense	**28,939**	**5,183**	5,280	2,606	15,870	–
Total distributions and current income taxes	**289,442**	**23,792**	23,515	20,641	118,796	102,698
Cash Flow from Operations less total distributions and current income taxes	**97,153**	**6,674**	9,197	10,377	37,142	33,764
Less: Funding of acquisitions	**100,946**	**10,792**	10,137	9,429	45,444	25,144
Less: Purchase of units under NCIB	**4,096**	**–**	–	–	–	4,096
Cash Flow from Operations less funding of acquisitions	**$ (7,889)**	**$ (4,118)**	$ (940)	$ 948	$ (8,302)	$ 4,524
Working capital and net borrowings	**12,228**	**4,999**	1,296	(3,491)	7,105	2,318
Change in Year	**$ 4,339**	**$ 881**	$ 356	$ (2,543)	$ (1,197)	$ 6,842
Cash balance, beginning of Year	**–**	**$ 3,458**	$ 3,102	$ 5,645	$ 6,842	$ –
Cash balance, end of Year	**$ 4,339**	**$ 4,339**	$ 3,458	$ 3,102	$ 5,645	$ 6,842
Distributions payment rate[1]	**75%**	**78%**	72%	67%	76%	75%

[1] This represents the total distributions paid and current income taxes accrued as a percentage of Cash Flow from Operations.

CASH FLOW FROM OPERATING ACTIVITIES RECONCILED TO CASH FLOW FROM OPERATIONS

($ 000's)	Total	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016	Jan. 1, 2010 to Dec. 31, 2015	Canadian GAAP Aug.7, 2003 to Dec. 31, 2009
Cash Flow from Operating activities	**$ 286,846**	**$ 18,971**	$ 21,060	$ 20,148	$ 89,879	$ 136,789
Add (deduct):						
Changes in non-cash working capital items	**1,774**	**(229)**	608	111	515	768
Interest on Exchangeable Units	**48,509**	**5,806**	5,750	5,710	31,243	–
Income taxes paid	**35,767**	**5,941**	5,315	5,098	19,413	–
Interest on Trust units	**15,212**	**–**	–	–	15,212	–
Change in accrued interest expense	**(1,512)**	**(23)**	(21)	(49)	(324)	(1,095)
Cash Flow From Operations	**$ 386,596**	**$ 30,466**	$ 32,712	$ 31,018	$ 155,938	$ 136,462

Supplemental Information –Selected Operating Information

As at	**Dec. 31, 2018**	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017
Number of REALTORS®	**18,725**	18,799	18,780	18,708	18,135	18,117	18,116	18,077
Number of locations	**673**	673	673	677	658	662	669	675
Number of franchise agreements	**291**	295	295	297	293	294	297	302

Supplemental Information – Acquisitions

Year acquired by the Company ($ millions, Canadian dollars) except number of REALTORS®	2018	2017	2016	2015	2014	2013	2012	2011
Estimate purchase price								
Royal LePage	$ 8.6	$ 7.7	$ 6.0	$ 19.3	$ 6.1	$ 6.0	$ 1.9	$ 2.5
Via Capitale	0.2	0.5	0.6	0.7	0.2	0.7	1.0	1.0
	$ 8.8	$ 8.2	$ 6.6	$ 20.0	$ 6.3	$ 6.7	$ 2.9	$ 3.5
Actual purchase price								
Royal LePage	$ 9.0	$ 7.6	$ 6.2	$ 21.3	$ 7.1	$ 5.8	$ 1.9	$ 2.5
Via Capitale	0.3	0.5	0.6	0.6	0.1	0.9	0.8	0.8
	$ 9.3	$ 8.1	$ 6.8	$ 21.9	$ 7.2	$ 6.7	$ 2.7	$ 3.3
Acquired REALTORS®								
Royal LePage	548	542	419	1,530	484	462	145	188
Via Capitale	15	26	40	47	9	54	72	59
	563	568	459	1,577	493	516	217	247

Management's Discussion and Analysis of Results and Financial Condition

Glossary of Terms

"Amended Management Services Agreement" or **"Amended MSA"** means the fourth amended and restated management services agreement, made effective November 6, 2018, together with any amendments thereto, between the Company and the Manager pursuant to which, among other things, the Manager provides management and administrative services to the Company including management of the assets of the Company.

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

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

"Bridgemarq" means Brookfield Real Estate Services Inc. (doing business as Bridgemarq Real Estate Services), a corporation incorporated under the laws of the Province of Ontario.

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

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

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

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

"Company" means Bridgemarq, together with its subsidiaries.

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

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

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

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

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

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

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

Management's Discussion and Analysis of Results and Financial Condition

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

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

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

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

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

"Previous Management Services Agreement" or **"Previous MSA"** means the third amended and restated management services agreement, made effective January 1, 2014 and expiring effective December 31, 2018 between the Company and the Manager, together with any amendments thereto, pursuant to which, among other things, the Manager provided management and administrative services to the Company, including management of the assets of the Company.

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

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

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

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

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

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

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

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

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

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

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

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's discussion and analysis attached hereto are the responsibility of the management of Brookfield Real Estate Services Inc., doing business as Bridgemarq Real Estate Services ("Bridgemarq" and, together with its subsidiaries the "Company"). To fulfill this responsibility, the Company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information attached hereto is consistent with the information contained in the consolidated financial statements.

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

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

TORONTO, CANADA, March 5, 2019

Philip Soper
President and Chief Executive Officer

Glen McMillan
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Brookfield Real Estate Services Inc.

Opinion

We have audited the consolidated financial statements of Brookfield Real Estate Services Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of net and comprehensive earnings, changes in shareholders' deficit and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (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, 2018 and 2017, 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.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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.

Independent Auditor's Report

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Paul Fletcher.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
March 5, 2019

Consolidated Balance Sheets

As at December 31, (In thousands of Canadian dollars)	Note	2018	2017
Assets			
Current assets			
Cash		$ 4,339	$ 3,458
Accounts receivable	4,13	4,024	4,389
Current portion of notes receivable	5	101	103
Current income tax receivable	8	358	–
Prepaid expenses		207	153
Goods and Services tax receivable	4	264	–
		9,293	8,103
Non-current assets			
Notes receivable	5	119	72
Interest rate swap asset	9	119	45
Deferred income tax asset	8	6,611	6,435
Intangible assets	6,7	79,517	78,868
		$ 95,659	$ 93,523
Liabilities and shareholders' deficit			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 1,003	$ 803
Purchase obligation	6,13	–	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
		2,554	4,251
Non-current liabilities			
Debt facilities	9	71,297	65,677
Exchangeable Units	10	48,484	54,973
		122,335	124,901
Shareholders' deficit			
Restricted voting shares	11	140,076	140,076
Deficit		(166,752)	(171,454)
		(26,676)	(31,378)
		$ 95,659	$ 93,523

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

Simon Dean
Director

Lorraine Bell
Director

Consolidated Statements of Net and Comprehensive Earnings

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	Note	2018	2017
Royalties			
Fixed franchise fees	2	$ 28,326	$ 26,816
Variable franchise fees	2	10,737	10,853
Premium franchise fees		2,964	6,569
		42,027	44,238
Expenses			
Administration expense	4,7,13	1,259	816
Management fee	3,13	7,616	8,178
Interest expense	9,13	2,686	2,532
Impairment and write-off / (recovery) of intangible assets, net	7	696	(544)
Amortization of intangible assets	7	7,705	8,137
		19,962	19,119
Operating income		22,065	25,119
Interest on Exchangeable Units	10,13	(5,806)	(5,750)
Gain / (loss) on fair value of Exchangeable Units	10	6,489	(2,496)
Gain on interest rate swap	9	74	1,159
Gain / (loss) on fair value of purchase obligation	6	(465)	147
Earnings before income tax		22,357	18,179
Current income tax expense		5,183	5,280
Deferred income tax expense / (recovery)		(217)	455
Income tax expense	8	4,966	5,735
Net and comprehensive earnings		$ 17,391	$ 12,444
Basic earnings per share	12	$ 1.83	$ 1.31
Weighted average number of shares outstanding used in computing basic earnings per share		9,483,850	9,483,850
Diluted earnings per share	12	$ 1.30	$ 1.31
Weighted average number of shares outstanding used in computing diluted earnings per share		12,811,517	12,811,517

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Deficit

(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	–	17,391	17,391
Dividends paid	–	(12,803)	(12,803)
Balance, December 31, 2018	**$ 140,076**	**$ (166,752)**	**$ (26,676)**

(In thousands of Canadian dollars)	Common Equity	Deficit	Total Deficit
Balance, December 31, 2016	$ 140,076	$ (171,374)	$ (31,298)
Net earnings	–	12,444	12,444
Dividends paid	–	(12,524)	(12,524)
Balance, December 31, 2017	$ 140,076	$ (171,454)	$ (31,378)

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, (In thousands of Canadian dollars)	Note	2018	2017
Cash provided by (used for):			
Operating activities			
Net earnings for the year		$ 17,391	$ 12,444
Adjusted for			
Loss / (gain) on fair value of Exchangeable Units	10	(6,489)	2,496
Loss / (gain) on fair value of purchase obligation	6	465	(147)
Gain on interest rate swap	9	(74)	(1,159)
Interest expense	13	8,382	8,165
Interest paid		(8,359)	(8,144)
Interest income		(92)	(24)
Interest received		92	24
Current income tax expense	8	5,183	5,280
Income taxes paid		(5,941)	(5,315)
Deferred income tax expense / (recovery)	8	(217)	455
Impairment and write-off / (recovery) of intangible assets, net	7	696	(544)
Amortization of intangible assets	7	7,705	8,137
Changes in non-cash working capital		229	(608)
		18,971	21,060
Investing activities			
Purchase of intangible assets	6	(10,792)	(10,137)
Interest expense on purchase obligation	6,13	110	117
Interest paid on purchase obligation	6,13	(102)	(99)
Contract acquisition costs	7	(65)	–
		(10,849)	(10,119)
Financing activities			
Borrowings under debt facilities	9	9,700	7,400
Financing Fees	9	(138)	–
Repayment under debt facilities	9	(4,000)	(5,500)
Dividends paid to shareholders	12	(12,803)	(12,485)
		(7,241)	(10,585)
Increase in cash during the year		881	356
Cash, beginning of the year		3,458	3,102
Cash, end of the year		$ 4,339	$ 3,458

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

1. Organization

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

Bridgemarq 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, Bridgemarq 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 Bridgemarq. 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 Bridgemarq, BBP indirectly owns 315,000 restricted voting shares.

The Company receives certain management, administrative and support services from Bridgemarq Real Estate Services Manager Ltd. (formerly known as 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 had a term of five years with an initial expiry of December 31, 2018. On September 26, 2018, the Company and the Manager extended the term of the MSA to June 30, 2019 as they evaluated various matters being considered in association with the renewal of the MSA.

On November 6, 2018, the Company entered into an amended Management Services Agreement (the "Amended MSA") with the Manager. The Amended MSA provides for certain amendments to the existing Management Services Agreement intended to, among other things, improve certain economic aspects of the agreement for the Company. The Amended MSA became effective on November 6, 2018, except for the changes to the compensation of the Manager, which became effective January 1, 2019. The Amended MSA has an initial term expiring on December 31, 2028, with provisions for automatic ten-year renewals thereafter (see Note 3).

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

2. Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been authorized for issuance by the Board of Directors of the Company on March 5, 2019.

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

The Company's significant accounting policies are as follows:

ADOPTION OF NEW ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICIES

REVENUE FROM CONTRACTS WITH CUSTOMERS

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), which supersedes IAS 18 – Revenue and a number of revenue-related interpretations. Application of the standard is mandatory and it applies to substantially all of the Company's contracts with customers. Upon adoption of IFRS 15, the Company determined that certain costs associated with the acquisition of Franchise Agreements, which were expensed in prior periods, must be capitalized. 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).

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

FINANCIAL INSTRUMENTS

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9"), which supersedes IAS 39 – Financial Instruments: Recognition and Measurement. Application of the Standard is mandatory and it establishes principles for the financial reporting of financial assets and financial liabilities in the Company's consolidated financial statements. Upon adoption of IFRS 9, the Company completed an assessment of the impact of adopting IFRS 9 and determined that no adjustments to the consolidated financial statements are required as a result of adopting IFRS 9. Financial liabilities categorized as "other financial liabilities" and financial assets categorized as "loans and receivables" under IAS 39 are classified as "amortized cost" under IFRS 9 as further described under "Significant Accounting Policies – FINANCIAL INSTRUMENTS".

RECLASSIFICATION OF OTHER REVENUE

Prior to January 1, 2018, the Company reported other revenue as a separate category of Royalties. Other revenue is 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 revenue is now being reported as fixed franchise fees or variable franchise fees based on the nature of the fee with substantially all other revenue now included in fixed franchise fees. Royalties presented in the consolidated financial statements of prior period have been reclassified to conform to the presentation in these consolidated financial statements.

ACCOUNTS RECEIVABLE

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

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 Company's outstanding purchase obligation liability.

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.

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

INCOME TAXES

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and the carrying amounts of assets and liabilities, except to the extent that there was a temporary difference present on the initial recognition of an asset or liability outside of a business combination. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses 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.

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 performance obligation associated with the services has been completed and the right to use the trademark is 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 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 of each year. Under the terms of the Amended MSA, effective January 1, 2019, the Company will no longer acquire Franchise Agreements from the Manager, but rather, will enter into Franchise Agreements directly (see Note 3).

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 Bridgemarq. 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.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

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 Bridgemarq.

FINANCIAL INSTRUMENTS

Effective January 1, 2018 the Company adopted IFRS 9, “Financial Instruments”, which introduced a change to the classification of financial liabilities and financial assets. Financial liabilities previously categorized as “other financial liabilities” and financial assets categorized as “loans and receivables” under IAS 39 is to be classified as “amortized cost” under IFRS 9.

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

The Company does not have any held-to-maturity investments or available-for sale financial assets.

Financial liabilities classified as fair value through profit or loss (“FVTPL”) are not financial liabilities that are held for trading.

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

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

Transaction costs for financial liabilities classified as amortized costs are applied against these liabilities and amortized using the effective interest method, the resulting amortization being recorded as interest expense. Gains and losses on financial instruments classified as FVTPL are included in net earnings in the period in which they arise.

PURCHASE OBLIGATION

The Company’s purchase obligation liability is recorded in the consolidated balance sheets at fair value and 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 embedded in a non-financial contract which is not closely related to the host contract. Changes in the fair value of the purchase obligation liability are recognized as a fair value change in the consolidated statements of net and comprehensive earnings in the period they arise.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

CRITICAL JUDGMENTS AND ESTIMATES

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

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

FORWARD LOOKING INFORMATION FOR ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

The measurement of estimated credit losses for accounts receivable and notes receivable and the assessment of increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment. In assessing the valuation of accounts receivable and notes receivable, the Company evaluates 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.

ACCOUNTING FOR FRANCHISE AGREEMENTS

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

IMPAIRMENT OF INTANGIBLE ASSETS AND RECOVERY OF IMPAIRMENT

Under IAS 36, Impairment of Assets, the Company ensures that intangible assets and the related direct acquisition costs are not carried at more than their recoverable amount. The Company regularly reviews intangible assets to determine whether indicators of impairment or a reversal of impairment exists on individual Franchise Agreements and Trademarks. Determining whether the value of a Franchise Agreement is impaired or has increased requires considerable judgment. When reviewing indicators for impairment or recovery of previously impaired Franchise Agreements, the Company considers certain factors including, financial performance of the business, royalties earned, term to maturity, historical agent count, collectability of receivables and underlying market conditions.

FUTURE CHANGES IN ACCOUNTING STANDARDS

IFRS 16, LEASES

IFRS 16, *Leases* ("IFRS 16"), introduces changes to lease accounting whereby many of the leases previously accounted for as operating leases will now need to be accounted for as capital leases. IFRS 16 superseded IAS 17-Leases and related interpretations. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2019 with early adoption permitted. Management expects to adopt the modified retrospective approach with the aggregate impact being reflected in the opening balance of deficit at the date of initial application, January 1, 2019. Management has completed its assessment of the impact of adopting IFRS 16 and determined no material financial statement adjustments are required upon adoption of the standard.

IAS 23, BORROWING COSTS

An amendment to IAS 23, *Borrowing Costs* ("IAS 23"), effective for annual periods beginning on or after January 1, 2019 clarifies that if any asset-specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that asset-specific borrowing becomes part of that entity's general borrowings. The Company has completed its assessment of the impact on its consolidated financial statements and determined no material impact upon applying the amendments to IAS 23.

IAS 12, INCOMES TAXES

An amendment to IAS 12, *Income Taxes* ("IAS 12"), effective for annual periods beginning on or after January 1, 2019 clarifies that an entity must recognize all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. The Company has completed its assessment of the impact on its consolidated financial statements and determined no material impact upon applying the amendments to IAS 12.

IFRS 3, BUSINESS COMBINATIONS

An amendment to IFRS 3, *Business Combinations* ("IFRS 3"), effective for annual periods beginning on or after January 1, 2020 clarifies the definition of a business and provides guidance in determining whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and provides additional supplementary guidance. The Company is currently evaluating the impact on its consolidated financial statements and expects no material impact upon applying the amendments to IFRS 3.

IAS 1, PRESENTATION OF FINANCIAL STATEMENTS

An amendment to IAS 1, *Presentation of Financial Statements* ("IAS 1"), effective for annual periods beginning on or after January 1, 2020 clarifies the definition of "material" to align the definition used in the Conceptual Framework developed by the IASB and with all other accounting standards. Under the amendment, information is defined as "material" if, "omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The Company is currently evaluating the impact on its consolidated financial statements and expects no material impact upon applying the amendments to IAS 1.

3. Management Services Agreement

The MSA, among other things, prescribed the conditions under which the Company purchased Franchise Agreements from the Manager and the formula for calculating the purchase price. The purchase price for existing brands was 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 was to be paid to the Manager for net REALTOR® growth, with the fee being calculated on similar terms. The MSA also provided 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 and the Amended MSA, the Manager provides certain management, administrative and support services to the Company. Under the MSA, the Manager was paid a monthly fee equal to 20% of the distributable cash of the Company.

For the twelve months ended December 31, 2018, the Company incurred management fees of $7,616 (2017 – $8,178) for these services.

Under the terms of the Amended MSA, effective January 1, 2019 the monthly fee payable to the Manager is equal to a fixed management fee of $840 plus a variable management fee equal to a) 23.5% of the distributable cash of the Company for the first five years of the term of the Amended MSA, and b) 25% thereafter with the variable management fee being subject to upward adjustment if the market capitalization of the Company exceeds certain thresholds. In addition, under the terms of the Amended MSA, the Company will no longer pay the Manager to acquire Franchise Agreements, but rather, will enter into Franchise Agreements directly (see Note 7).

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

4. Accounts Receivable and Goods and Services Tax 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 December 31, 2018, the Company had accounts receivable of $4,024 (2017 – $4,389) net of an allowance for doubtful accounts of $472 (2017 – $698). During the year ended December 31, 2018, administration expenses included $111 bad debt expense (2017 – net bad debt recovery of $20).

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 December 31, 2018 and 2017.

As at December 31,		**2018**		2017
Current	**$**	**2,917**	$	3,193
30 Days		**666**		623
60 Days		**201**		267
90+ Days		**712**		1,004
Subtotal	**$**	**4,496**	$	5,087
Allowance for Doubtful Accounts		**(472)**		(698)
Accounts Receivable	**$**	**4,024**	$	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 year, the Company recognized $198 of royalty revenues that were not recognized in prior periods as the collection of those revenues was not probable at the time the revenue was earned (2017 – nil). In addition, the Company identified $118 of royalty revenues that were not recognized as income during 2018 (2017 – $176 of royalty revenues not recognized).

Goods and Services tax receivable represents the net refund balance outstanding as at December 31, 2018 relating to GST and HST returns which include significant input tax credits paid on the repayment of purchase obligation associated with the acquisition of Franchise Agreements on January 1, 2018.

5. Notes Receivable

The Company has certain franchisees with which it has entered into a 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 December 31, 2018, the Company had notes receivable of $220 (December 31, 2017 – $175), of which $101 was due within 12 months (December 31, 2017 – $103) and $119 was considered non-current (December 31, 2017 – $72).

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

As at December 31,		**2018**		2017
Current portion	**$**	**101**	$	103
Receivable in 13-24 months		**29**		72
Receivable thereafter		**90**		–
Notes Receivable	**$**	**220**	$	175

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

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 was paid on December 24, 2018.

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 twelve months ended December 31, 2018, the Company recorded a loss of $465 on the fair value of the purchase obligation (2017 – gain of $147).

For the twelve months ended December 31, 2018, the Company incurred $110 of interest expense related to the outstanding purchase obligation (2017 – $117).

Changes in the purchase obligation for the twelve months ended December 31, 2018 and 2017 were as follows:

Years ended December 31,	2018	2017
Purchase obligation at beginning of year	$ 1,497	$ 3,559
Current year's purchases	8,830	8,222
Adjustment to purchase obligation in the current year	465	(147)
Payments made during the year	(10,792)	(10,137)
Purchase obligation at end of year	$ –	$ 1,497

7. Intangible Assets

During the year ended December 31, 2018, there were seven Franchise Agreements identified with a carrying amount in excess of their recoverable amount. The Company recognized impairment charges for the twelve months ended December 31, 2018 of $794 (2017 – $259 related to four Franchise Agreements).

During the year ended December 31, 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 twelve months ended December 31, 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).

During the year ended December 31, 2018, the Company identified two Franchise Agreements that were subject to early termination or non-renewal. For the twelve months ended December 31, 2018, the Company recognized a write off of $27 (2017 – $51 related to two Franchise Agreement).

For the twelve months ended December 31, 2018, the Company recorded an expense of $7,705 (2017 – $8,137) related to the amortization of intangible assets.

Notes to the Consolidated Financial Statements

Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

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

	Franchise Agreements	Trademarks	Total
Cost			
At December 31, 2017	$ 229,089	$ 5,427	$ 234,516
Purchases	8,830	–	8,830
Changes in accounting policy (Note 2)	155	–	155
Contract acquisition costs	65	–	65
Impairment	(794)	–	(794)
Impairment recovery	125	–	125
Amounts written-off	(83)	–	(83)
At December 31, 2018	**$ 237,387**	**$ 5,427**	**$ 242,814**
Accumulated amortization			
At December 31, 2017	$ (152,998)	$ (2,650)	$ (155,648)
Amortization expense	(7,520)	(185)	(7,705)
Amounts written-off	56	–	56
At December 31, 2018	**$ (160,462)**	**$ (2,835)**	**$ (163,297)**
Carrying value			
At December 31, 2017	$ 76,091	$ 2,777	$ 78,868
At December 31, 2018	**$ 76,925**	**$ 2,592**	**$ 79,517**

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 amortizes the cost over the term of the underlying agreements plus one renewal period using the straight-line method on an agreement by agreement basis.

In accordance with terms of the Amended MSA, on January 3, 2019, the Manager transferred 47 Franchise Agreements under the Royal LePage and Via Capitale brands as well as other agreements which give the Company the rights to receive certain revenues previously earned by the Manager, for nominal consideration. During the year, the Company incurred $441 in professional fees, directors' fees and legal expenses directly associated with the review and negotiation of the Amended MSA and the transfer of Franchise Agreements and other agreements. The Company has determined that $65 of these expenses should be capitalized in accordance with IFRS 15 as they are allocable to the Franchise Agreements and other agreements transferred to the Company which will be generating revenue for the Company. These costs will be amortized over the term of the underlying Franchise Agreements or other agreements plus one renewal period using the straight-line method on an agreement by agreement basis. The remaining $376 of costs which were not capitalized are included in administration expenses in the consolidated statements of net and comprehensive income.

(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:

Years ended December 31,	**2018**	2017
Earnings before income tax for the year:	**$ 22,357**	$ 18,179
Expected income tax expense at statutory rate of 26.5% (2017 – 26.5%)	**5,925**	4,817
Increase (decrease) in income tax expense due to the following:		
Non-deductible amortization	**558**	650
Non-deductible loss (gain) on fair value of Exchangeable Units	**(1,720)**	661
Non-deductible interest on Exchangeable Units	**1,539**	1,524
Non-deductible impairment and write-off / (recovery) of intangible assets, net	**15**	(36)
Income allocated to Exchangeable Unitholders	**(1,479)**	(1,857)
Recognition of deferred tax assets and other	**128**	(24)
Total income tax expense	**$ 4,966**	$ 5,735

The major components of income tax expense include the following:

Years ended December 31,	**2018**	2017
Current income tax expense	**$ 5,183**	$ 5,280
Deferred income tax expense (recovery)	**(217)**	455
Total income tax expense	**$ 4,966**	$ 5,735

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

	Intangible Assets	Other	Total
Deferred income tax assets:			
At December 31, 2017	6,447	(12)	6,435
Deferred income tax recovery (expense)	236	(19)	217
Changes in accounting policy (Note 2)	(41)	–	(41)
At December 31, 2018	**6,642**	**(31)**	**6,611**

	Intangible Assets	Other	Total
Deferred income tax assets:			
At December 31, 2016	6,596	295	6,891
Deferred income tax expense	(149)	(307)	(456)
At December 31, 2017	6,447	(12)	6,435

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

9. Debt Facilities

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

As at December 31,	**2018**	2017
Term facility	**$ 53,000**	$ 53,000
Acquisition facility	**18,500**	12,800
	$ 71,500	$ 65,800
Financing fees	**(203)**	(123)
Debt facilities	**$ 71,297**	$ 65,677

As of December 31, 2018, the Company had $78,000 in financing available under a borrowing agreement with a Canadian Chartered Bank, with an initial maturity date of February 17, 2020 ("Maturity"). On December 13, 2018, the Company amended the borrowing agreement to increase the maximum financing available to $80,000, amend the financial covenants and extend the term of the agreement to December 31, 2023 ('Extended Maturity") with an effective date of January 1, 2019.

The debt facilities under the agreement are comprised of the following:

A $53,000 non-revolving term variable rate facility (the "Term Facility"). Repayment of principal outstanding is due on Maturity. On January 2, 2019, the Company drew $2,000 on the Term Facility increasing the borrowings under the Term Facility to $55 million.

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 year, the Company borrowed $7,200 to finance the purchase of Franchise Agreements (2017 – $7,400) in the first quarter and $2,500 to finance the payment of the purchase obligation owing to the Manager in the fourth quarter (2017 – nil). During the year, the Company made repayments of $4,000 (2017 – $5,500). As at December 31, 2018, $1,500 is available to the Company.

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 at December 31, 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 earnings before interest, tax, depreciation and amortization ("EBITDA") to Interest Expense on Senior Indebtedness at a minimum of 5.0 to 1 (3.0 to 1 effective January 1, 2019) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5 to 1 (4.0 to 1 effective January 1, 2019). 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 December 31, 2018 and December 31, 2017, the Company complied with all covenants under the debt facilities.

Effective January 1, 2019, the Company is obligated to make limited principal repayments under the Debt Facilities in circumstances where the ratio of Senior Indebtedness to Consolidated EBITDA exceeds 3.4:1. Such payments shall continue until the ratio of Senior Indebtedness to Consolidated EBITDA is less than 3.25:1.

The Company reviewed the impact of the amendments to the debt facilities completed on December 13, 2018 to determine whether the amendments resulted in an extinguishment or a debt modification under IFRS 9. The impact of these amendments on the net present value of the cash flows of the debt facility were determined to be immaterial, resulting in no gain or loss being recorded in the consolidated financial statements.

The Company incurred $138 in legal costs and commitment fees which have been added to financing fees and will be amortized through December 31, 2023.

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

In October, 2014, the Company entered into a five-year interest rate swap agreement to swap the variable interest obligation on $53,000 of 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 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 December 31, 2018 the Company determined that the fair value of the interest rate swap asset was $119 (2017 – $45). For the twelve months ended December 31, 2018, the Company recognized a fair value gain of $74 (2017 – $1,159).

10. Exchangeable Units

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

The Company measures the Exchangeable Units at their fair value using the closing price of Bridgemarq's restricted voting shares listed on the Toronto Stock Exchange. At December 31, 2018, the Company used the closing market price of Bridgemarq's shares of $14.57 (2017 – $16.52). During the twelve months ended December 31, 2018, the Company recorded a gain of $6,489 related to the fair value of the Exchangeable Units (2017 – loss of $2,496).

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 twelve months ended December 31, 2018 the Board of Directors of RIFGP declared distributions payable to the Exchangeable Unitholders of $5,806 (2017 – $5,750).

11. Share Capital

Bridgemarq 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 Bridgemarq, and holders of the restricted voting shares are entitled to dividends declared and distributed by Bridgemarq.

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 Bridgemarq.

No additional restricted voting shares were issued during the twelve months ended December 31, 2018 or the twelve months ended December 31, 2017.

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

The following table summarizes the outstanding shares of Bridgemarq:

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

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Years ended December 31, 2018 and 2017
(Expressed in thousands of Canadian dollars, unless stated otherwise)

12. Earnings Per Share

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

Years ended December 31, (In thousands of Canadian dollars, except share and per share amounts)	2018	2017
Net earnings available to restricted voting shareholders – basic	**$ 17,391**	$ 12,444
Interest on Exchangeable Units	**5,806**	5,750
Loss (gain) on fair value of Exchangeable Units	**(6,489)**	2,496
Net earnings available to restricted voting shareholders – diluted	**$ 16,708**	$ 20,690
Weighted average number of shares outstanding used in computing basic earnings per share	**9,483,850**	9,483,850
Total outstanding Exchangeable Units	**3,327,667**	3,327,667
Weighted average number of shares outstanding used in computing diluted earnings per share	**12,811,517**	12,811,517
Basic earnings per share	**$ 1.83**	$ 1.31
Diluted earnings per share	**$ 1.30**	$ 1.31
Dividends declared	**$ 12,803**	$ 12,524
Restricted voting shares	**9,483,850**	9,483,850
Dividends per restricted voting share	**$ 1.35**	$ 1.32

13. Related Party Transactions

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

Year ended December 31,	2018	2017
a) Royalties		
Fixed franchise fees	**$ 2,909**	$ 2,799
Variable franchise fees	**$ 983**	$ 1,068
Premium franchise fees	**$ 2,832**	$ 5,495
b) Expenses		
Management fees	**$ 7,616**	$ 8,178
Insurance premiums and other	**$ 22**	$ 13
Interest on purchase obligations	**$ 110**	$ 117
c) Interest		
Interest to Exchangeable Unitholders	**$ 5,806**	$ 5,750

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

As at December 31,	2018	2017
d) Accounts receivable		
Franchise fees receivable and other	**$ 318**	$ 701
e) Accounts payable and accrued liabilities		
Management fees	**$ 522**	$ 644
Interest on purchase obligations	**$ 26**	$ 18
f) Interest payable to Exchangeable Unitholders	**$ 484**	$ 484
g) Purchase obligation	**$ –**	$ 1,497

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

The members of the Company's board of directors are compensated for their services. During the twelve months ended December 31, 2018, the Company incurred $419 (2017 – $251) in directors' fees including $175 (2017 – nil) in fees paid to certain directors for their participation on a special committee of the Board established to evaluate the Amended MSA and the transfer of certain Franchise Agreements and other agreements to the Company on January 3, 2019. The Company has capitalized $20 of the directors' fees with the remainder included in administration expenses.

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 December 31, 2018, the Company has an allowance for doubtful accounts of $472 (2017 – $698).

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 $18,500 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 December 31,	2019	2020	2021	2022	Beyond 2022	Total
Accounts payable and accrued liabilities	$ 1,003	$ –	$ –	$ –	$ –	$ 1,003
Interest payable to Exchangeable Unitholders	484	–	–	–	–	484
Dividends payable to shareholders	1,067	–	–	–	–	1,067
Interest on long-term debt	2,639	2,639	2,639	2,639	2,639	13,194
Debt facilities	–	–	–	–	73,500	73,500
Exchangeable Units	–	–	–	–	48,484	48,484
Total	$ 5,193	$ 2,639	$ 2,639	$ 2,639	$ 124,623	$ 137,732

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 $53,000 of the Company's 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 $185.

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 $71,500 approximate their carrying value of $71,297 as a result of their floating rate terms.

Notes to the Consolidated Financial Statements

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

E) FAIR VALUE HIERARCHY

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

As at December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset:				
Interest rate swap asset	–	119	–	119
Total	**$ –**	**$ 119**	**$ –**	**$ 119**
Financial liability:				
Exchangeable Units	48,484	–	–	48,484
Total	**$ 48,484**	**$ –**	**$ –**	**$ 48,484**

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 5.0:1 (3.0:1 effective January 1, 2019) and a ratio of Senior Indebtedness to Consolidated EBITDA at a maximum of 2.5:1 (4.0:1 effective January 1, 2019).

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

16. Segmented Information

The Company has 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 96% (2017 – 96%) are generated from the network of franchisees operating under the Royal LePage and Johnston and Daniel brands and 4% (2017 – 4%) are generated from the network of franchisees operating under the Via Capitale brand.

Board of Directors

The Company is governed by a Board of Directors with five members, three of whom are independent of the Company and its Manager.

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

The Directors have adopted formal terms of reference regarding their responsibilities and all matters of governance. The Company has two standing committees: the Audit Committee and Governance Committee.

Lorraine Bell, CPA, CA
Director and Chair of Audit Committee[1, 2]

Simon Dean
Director[1, 2]

Spencer Enright, CPA, CA
Director and Chairman of the Board of Directors

Joe Freedman, J.D., MBA
Director

Gail Kilgour, ICD.D
Director and Chair of Governance Committee[1, 2]

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

Management Team

THE COMPANY

Philip Soper
President and Chief Executive Officer

Glen McMillan
Chief Financial Officer

THE MANAGER

Spencer Enright
Chief Executive Officer

Philip Soper
President

Glen McMillan
Chief Financial Officer

Luc Poupart
President, Via Capitale

Carolyn Cheng
Chief Operating & Technology Officer

George Heos
Senior Vice President, Network Development

Kevin Somers
Chief Operating Officer, Corporate Brokerages

Sandra Webb
Senior Vice President, Marketing & Communications

Paul Zappala
Executive Vice-President, General Counsel

Neghan Alim
Controller

Penny Egan
Assistant Vice-President, Franchising

Helping Our Community

A home should be a place where families experience safety, happiness and harmony. Sadly, for thousands of Canadian women and children living with domestic violence, this is not the case. The Royal LePage Shelter Foundation helps local shelters provide a safe haven and new beginnings for more than 50,000 women and children every year. More information about the Royal LePage Shelter Foundation can be found at: **www.royallepage.ca/shelter**.

royal lepage
shelter foundation

ABOUT THE FOUNDATION:

- Royal LePage is the only major Canadian real estate company with its own branded charity. The foundation is the largest public charity in Canada dedicated exclusively to supporting women's shelters and domestic violence prevention programs;
- Many Royal LePage offices across Canada partner with a local shelter to provide much-needed financial support and essential goods and services. Funds raised by Royal LePage offices remain in their local communities;
- Royal LePage (the Manager) pays all the administrative costs of the charity so that 100 per cent of funds raised go directly towards the cause;
- The Royal LePage Shelter Foundation provided the financial support used to create and launch the Fourth R, a curriculum based education program delivered in 5,000 schools across Canada that teaches high school students how to have healthy relationships and prevent dating violence;
- The Royal LePage Shelter Foundation is a national philanthropic partner of Canadian Women's Foundation and Women's Shelters Canada; and,
- Since the Royal LePage Shelter Foundation's inception in 1998, more than $30 million has been raised.

Shareholder Information

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

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AUDITORS

Deloitte LLP

CORPORATE COUNSEL

Goodmans LLP

TSX SYMBOL: BRE

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

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held on Tuesday, May 7, 2019 at 10:00AM EST, at Vantage Venues, Inverness Room, 27th Floor, 150 King Street West, Toronto, Ontario, M5H 1J9.

DIRECT INQUIRIES TO:

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