Leading Brands
Leading Performance

ROYAL LEPAGE

ROYAL LEPAGE
JOHNSTON & DANIEL DIVISION

La Capitale
La Capitale sells .com

Brookfield Real Estate Services

2008 Annual Report

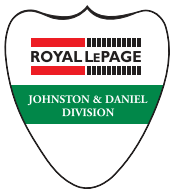
Profile

The Brookfield Real Estate Services Fund is a leading provider of services to residential real estate REALTORS®[1]. The Fund generates cash flow from franchise royalties and service fees derived from a national network of real estate brokers and agents in Canada operating nationally under the Royal LePage brand name, in Québec under the La Capitale Real Estate Network brand, and in high-end neighbourhoods in and around Toronto under the Johnston & Daniel banner.

At January 1, 2009, the Fund Network was comprised of 14,910 REALTORS® operating from 668 locations under 359 franchise agreements. The Fund Network has an approximate 22% share of the Canadian residential resale real estate market based on transactional dollar volume. The Fund pays monthly distributions and trades on the Toronto Stock Exchange under the symbol "BRE.UN". The Fund's website address is **www.brookfieldres.com**

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

Our Leading Brands



Royal LePage

Founded in 1913, Royal LePage has been an industry innovator over the years, becoming the largest national real estate company in Canada. Since the mid-1990s, Royal LePage has more than tripled the size of its sales force and almost doubled its market share. Royal LePage is passionately client focused, as reflected in its motto: "Helping you is what we do." Royal LePage provides its national network with a comprehensive suite of marketing, training and lead generation services.

Johnston & Daniel

Founded in 1950, Johnston & Daniel is a leading residential real estate boutique firm selling distinctive homes in and around Central Toronto, extending to the Caledon, King Township and Muskoka regions. Johnston & Daniel is affiliated with Leading Real Estate Companies of the World™ where it is the premier Canadian representative for the Luxury Portfolio Fine Property Collection segment.

La Capitale Real Estate Network

Founded in 1991, Québec's La Capitale Real Estate Network has grown rapidly in recent years, outpacing competitors' network expansions and per agent sales transactions. It is known for its avant-garde, client-focused philosophy, demonstrated by the innovative services it provides to its agents, and exclusive guarantees it offers its clients which provide buyers with a sense of security.

Well Positioned Throughout the Market Cycle

Our leading brands, business model and growth strategy position the Fund to outperform the residential resale market during a corrective cycle, and our conservative cash payout ratio provides further protection for cash distributions.

Leading brands can gain market share when the residential market slows

There is often a flight to quality by consumers anxious to buy or sell their homes successfully, and brokers and agents seeking to maximize their business prospects.

Our business model significantly mitigates effects of market cycles

A significant proportion of royalties are based primarily on fixed franchise fees, related to the number of REALTORS® rather than home prices and resale volume. In 2008, 69% of royalty fees were fixed in nature based on the number of agents and their productivity.

We are executing a long-term growth strategy

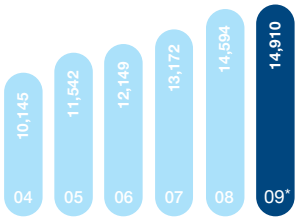
We grow organically as well as by acquiring new franchise contracts, and by acquiring entirely new brands, in order to achieve long-term, consistent growth.

We have conservative financial management

We maintain a conservative balance sheet and cash payout ratio, and acquisitions must be accretive to earnings. Our cash distributions in 2008 were 71% of distributable cash, and our emphasis on fixed fees mitigates the impact of a significant reduction in the market on our current cash distributions.

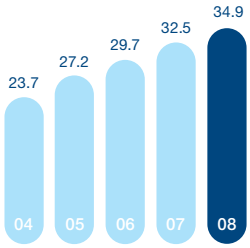
Financial Highlights

Fund Growth (number of REALTORS®)

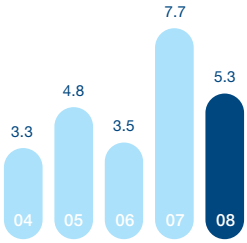


Years ended December 31, except 2009.
* As at January 1, 2009.

Royalties ($ millions)

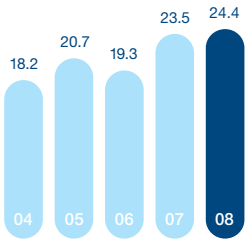


Net Earnings ($ millions)



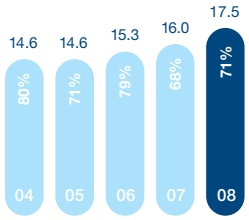
We continued to deliver solid results despite declining activity in real estate markets.

Distributable Cash* ($ millions)

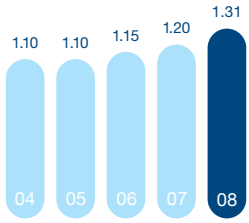


* Defined as royalties less administrative expenses, interest expense and management fee.

Distributions Declared ($ millions) and Distributions as % of Distributable Cash



Unitholder Distribution ($ per Unit)



performance to objectives

Key Objectives For 2008

- Increase revenue by 10% over 2007
- Maintain a consistent monthly distribution to unitholders
- Increase the annual distribution target to $1.25 per unit, a 4.2% increase over the 2007 distribution of $1.20 per unit
- Increase the REALTOR® count by 300 to 500 through recruitment, franchise conversions and acquisitions
- Continue to pursue growth opportunities across Canada and identify opportunities in the U.S.

Key Achievements in 2008

- Increased revenue by 7.4% (against an industry that contracted by over 17%)
- Maintained a consistent monthly distribution to unitholders
- Increased the annual distribution rate to $1.25 per unit effective in January 2008 and to $1.40 in August 2008, resulting in a 9.2% increase in the annual payout to $1.31 per unit, vs. $1.20 in 2007
- Increased the net REALTOR® count by 466 through recruitment, franchise conversions and acquisitions

Letter to Unitholders

Residential real estate markets slowed in almost all regions of Canada during 2008. Nonetheless, we were able to continue to grow our Fund network, increasing market share and broadening our suite of leading brands.

2008 was particularly notable for the expansion of our multi-brand growth strategy.

Nationally, the industry experienced falling unit sales in 2008 and home prices that were essentially flat. The Fund produced a solid performance during the year, growing revenue by 7.4% against an industry that contracted by over 17%. While the market is expected to contract again in the coming year, we will continue to pursue attractive growth opportunities and remain confident in the long-term outlook for housing markets in both Canada and the U.S. In fact, during this period of widespread economic weakness and cyclical downturn in the residential housing sector, a strong business like ours may be able to consolidate weaker firms, acquire valuable assets at attractive values and improve our market share.

I hope the following narrative answers some of the important questions about our performance, strategy and outlook.

Q. What were your main achievements in 2008?

A. 2008 was particularly notable for the expansion of our multi-brand growth strategy. On January 1, 2008, we completed the acquisition of the La Capitale Real Estate Network, adding franchise contracts covering 1,060 REALTORS® in 44 locations in Québec. This was one of the largest transactions in the history of the Canadian real estate brokerage industry. La Capitale has been the fastest growing brand in the Québec real estate brokerage market in recent years, and during 2008 it was successfully integrated as an independent business unit within the Fund's network.

We continued to expand our overall network in the period following this acquisition, increasing the number of REALTORS® by 3.2% to 14,910 at January 1, 2009 through recruitment, franchise conversions and acquisition of franchise agreements by our Royal LePage and La Capitale brands. On an industry revenue basis, our share of the residential brokerage industry increased to an estimated 22%, from 21% previously.

Fund revenue grew by 7.4% despite the overall industry slowdown, reflecting our expanded REALTOR® network, the success of our services and training programs in supporting agent productivity, and the ability of our royalty structure to mitigate the impact of volatility in the value of housing transactions.

Q. What were your key challenges in 2008?

A. The continuous period of expansion in Canadian housing markets that began at the end of the last decade gave way to declining unit sales in most regions during 2008, and the first signs of an anticipated reset in home prices appeared in the fourth quarter. This change represents the first nation-wide downturn in housing markets since 1995. A key challenge our agents now face is to adapt their practices to the very different market conditions. Specifically, they must learn to adjust sales strategies as the market shifts to a buyers' market from a supply constrained sellers' market.

The downturn will provide a challenge to our organic growth, as fewer agents enter the industry, while others depart as transactional dollar volume declines. Traditionally, down-markets create agent attrition primarily among the less productive agents who find themselves unable to generate sufficient income to meet their needs. During the fourth quarter of 2008, we experienced a net decrease of 172 REALTORS® from our network. This was more than offset by a net increase of 322 REALTORS® generated organically during the previous nine months, and 316 by acquisition on January 1, 2009.

Phil Soper, President and Chief Executive

Our business model significantly buffers the Fund's cash available for distributions from market cycles.

Q. How did you address these challenges?

A. When markets slow, established brands such as ours could gain market share and prosper on the strength of their reputation and services, which make them a preferred franchisor or employer.

Royal LePage

Our Services Advisory Council, created in 2007, provided valuable insights into the concerns and needs of our REALTOR® network in different localities across the country and we worked hard to meet those needs through new training programs, market and sales support.

During the year, we refocused our services and training programs in an effort to equip our REALTORS® with the necessary tools to enable them to weather the anticipated downturn in housing markets. We contracted the leading agent training company in North America, Buffini & Company, to train Royal LePage brokerage managers who, in turn, instructed our agents based on Buffini's celebrated "100 Days to Greatness®" program. The outcome has exceeded our expectations, and in 2009 we are expanding the offering to provide additional recruitment and retention training for franchisees. We also began the process of enhancing Royal LePage's primary listing presentment vehicle, royallepage.ca. When complete, these changes will constitute the most significant upgrade to this popular consumer portal in years, substantially improving consumer usability, including a new property search engine with much more robust map-based features.

La Capitale

La Capitale continued to offer and promote its home appliances and infrastructure warranty programs that provide a competitive sales advantage to its agents. The company remained the fastest growing brand in the Québec marketplace.

Q. How do slowing markets affect cash available for distributions?

A. Our business model significantly buffers the Fund's cash available for distributions ('distributable cash') from market cycles. Our 7.4% increase in revenue in 2008 compares with a 17.6% decline in the total value of Canadian resale residential transactions.

Approximately 69% of the Fund's royalties are fixed in nature, based on the number of agents and their productivity. These royalties include not only the monthly $100 per Royal LePage agent and the approximate $170 per La Capital agent which are included in the 'fixed franchise fees' line item on the income statement, but also the 1% variable fee generated by the approximately 20% of Royal LePage agents earning in excess of the amount subject to the $1,300 per annum cap, and most of 'other fees and services'.

In 2008, our annualized cash distribution of $1.31 per unit represented 71% of our distributable cash of $1.84. Based on our royalty structure described above, a 10% decrease in market, with no change in the underlying number of agents and all other factors being held constant, would reduce distributable cash by approximately 3.1%. Accordingly, we feel the Fund's distributable cash could cover the target cash distribution even if there were a significant further reduction in the size of the residential real estate market providing, among other factors, that the underlying number of agents does not decrease significantly. Cash distribution targets are a Board decision based on market conditions and outlook and guided by what is considered to be in the best long-term interests of unitholders.

Proven Performance

In 2009, we expect Canada's resale housing market to see continued price and unit sales corrections across the country.

Q. What is your outlook for the resale residential market in 2009?

A. The current slowdown in housing markets reflects the end of an expansionary period for Canadian housing that goes back to the start of the decade, exacerbated by the impact of the global financial crisis on employment, mortgage financing availability and consumer confidence.

We survey major urban markets across Canada on a quarterly basis to determine current trends in housing prices and unit sales, and from this gauge market trends. Our planning reflects an aggregate of local knowledge from across the country, past experience and current economic realities.

Nationally, the Canadian housing market peaked in 2007 and has been adjusting lower ever since. During the fourth quarter of 2008, our survey found that the average price of a standard two-storey home fell year over year by 6.3% nationally, though there were wide variances coast to coast. Average price variances ranged form a decline of 11.6% in Calgary to an increase of 19.7% in Regina. Of the largest cities, prices in Toronto averaged 6.8% lower than a year ago; in Vancouver, 6.4% lower; and in Montreal, 2.2% lower.

In 2009, we expect Canada's resale housing market to see continued price and unit sales corrections across the country.

Economic forecasts from The Bank of Canada and The Conference Board of Canada have called for continued economic decline during 2009, followed by a broad-based recovery in 2010. Other forecasters believe the recessionary period could extend well into 2010. The Canadian Real Estate Association has projected a 16.9% drop in national MLS sales activity in 2009, a similar drop to that experienced in 2008, followed by a 9.9% rebound in sales activity in 2010.

Q. What progress did you make with your longer-term growth strategy?

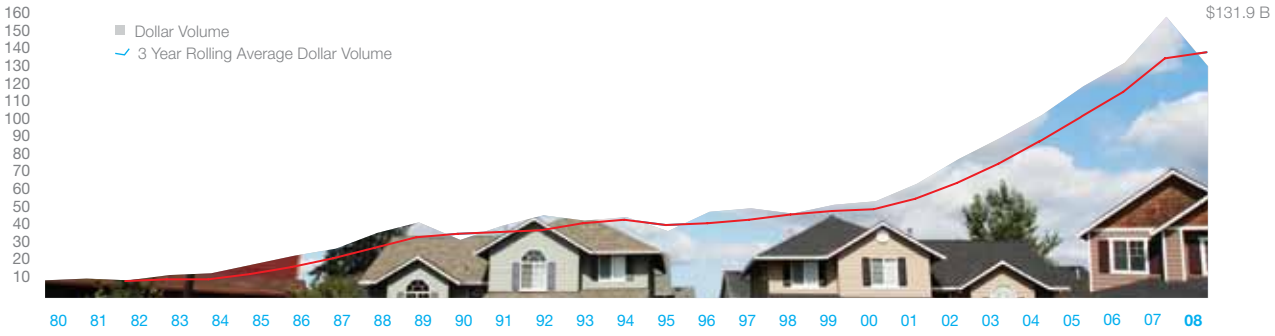
A. As I note above, we continued to expand our REALTOR® network across Canada in 2008 while providing support to help our REALTORS® maximize their productivity. We also continued to pursue brand and geographic expansion opportunities in the United States.

Looking ahead, we maintain confidence in the long-term outlook for the real estate brokerage industry in Canada and the U.S. From 1980 through 2008, the Canadian housing market had grown at a compound annual rate of 9%, based on transaction dollar volume.

As I have shared with you before, we have been exploring the U.S. market in recent years, looking for the appropriate entry point. In November of 2008, a subsidiary of Brookfield Asset Management Inc. acquired the Home Services Division of financial services company GMAC.

GMAC Home Services is a real estate franchising, brokerage and relocation company. Relocation operations span North America, Europe and Asia. The real estate franchise business, with some 15,000 agents, operates across North America and in parts of Europe. The management team for the GMAC franchise group is working to align operations with the types of standards and procedures that are consistent with the high quality agreements that the Fund currently owns. At some point in the future, the Fund's Board may deem it appropriate to investigate the acquisition of some of these franchise assets.

Market Dollar Volume – Canadian Resale Residential Real Estate
(1980 – 2008) (In $ Billions)



Source: CREA

Looking ahead, we maintain confidence in the long-term outlook for the real estate brokerage industry in Canada and the U.S.

Q. Do unsettled economic conditions introduce new risks?

A. The risks inherent in our industry and business, which we have documented since inception, do not appear to have changed. What is apparent is that there is increased likelihood that these risks will impact our results. The key variables that we are very focused on in this market are agent attrition, accounts receivable collection and franchisee financial hardship. Strategies have been put in place to mitigate each risk element.

Q. Have credit markets affected your ability to grow or finance your business?

A. With a strong financial position and an affiliation with Brookfield Asset Management Inc., which owns approximately 25% of the Fund, we are confident that we have access to the capital we will need to continue to grow our business. We enjoy steady cash flow, a healthy balance sheet and have appropriate debt facilities in place at competitive rates. We will be working diligently to renew or replace these facilities well ahead of the 2010 date when the debt comes to term.

Q. What do you plan to do in 2011 when the Fund becomes taxable?

A. We are researching a number of options and as we approach 2011, when income trusts become subject to tax treatment similar to corporations, we will recommend the best course for the Fund and its unitholders to follow in order to realize the full potential of the very strong underlying business. We are also carefully watching capital markets for insight into how other income funds are responding to this upcoming regulatory change.

At this time, we believe it to be prudent to enjoy the tax benefits of the Income Fund structure for as long as possible.

Q. What is the Fund's Outlook?

A. In the short term, the recession and the slowdown in housing markets will affect our business and place downward pressure on the Fund's performance. The impact of the market on our variable fees and the number of REALTORS® in our network are key drivers of our distributable cash. Our objective is to offset an anticipated increase in REALTOR® attrition with focused recruiting and franchise acquisition efforts. While it will be a difficult year for real estate practitioners, we believe that a strong company such as ours may uncover new acquisition opportunities as weaker firms seek affiliation with an organization that is able to provide differentiating services to their agents.

Longer term, we remain confident in the Fund's substantial potential as we implement our multi-brand growth strategy. We believe the market downturn will trigger accelerated consolidation and transformation as the better capitalized, technologically advanced and service-oriented firms uncover new acquisition opportunities and attract increasingly discerning agents. With leading brands and leading industry performance, we can continue to be a successful consolidator in Canada. With our well-developed operating platform, we believe that substantial growth opportunities will also emerge in the U.S..

Through a continuing focus on long-term growth and reliable performance we are committed to building unitholder value.

Philip Soper
PRESIDENT AND CHIEF EXECUTIVE
MARCH 10, 2009

Financial Review

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Introduction

This section of our annual report includes management's discussion and analysis ("MD&A") of our results and financial condition for the three months ended December 31, 2008, (the "Quarter") and as at and for the year ended December 31, 2008. The MD&A is intended to provide you with an assessment of our past performance as well as our financial position, performance objectives and future prospects. The information in this section should be read in conjunction with our audited financial statements for the year ended December 31, 2008, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to the Brookfield Real Estate Services Fund (the "Fund"), including our annual information form, is available on SEDAR at www.sedar.com. All dollar amounts are in Canadian dollars unless otherwise specified.

Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are a number of external and industry factors related to the residential resale real estate brokerage industry and the business of the Fund which may affect an investment in the Fund's units. A summary of these risks is outlined in the Fund's annual information form which is filed on SEDAR at www.sedar.com. Although these risks have not changed since the inception of the Fund, what is apparent is that there is an increased likelihood that certain of these risks will impact our future results. These risks are discussed in further detail in this MD&A to the extent they have changed since December 31, 2007.

Management's Discussion and Analysis of Results and Financial Condition

Highlights

Years ended December 31, ($ 000's) except Agents, Sales Representatives, units and per unit amounts	2008	2007	2006	2005	2004
Royalties	$ 34,883	$ 32,491	$ 29,659	$ 27,196	$ 23,740
Less:					
Administration expenses	817	725	645	595	513
Interest expense	3,174	2,419	2,401	2,289	1,327
Management fee	6,455	5,869	7,285	3,660	3,660
Earnings before undernoted	$ 24,437	$ 23,478	$ 19,328	$ 20,652	$ 18,240
Amortization of intangible assets	16,886	14,804	14,559	14,150	13,677
Other loss	365	–	–	–	–
Income tax recovery	(48)	(1,819)	–	–	–
Non-controlling interest	1,964	2,775	1,319	1,746	1,232
Net and comprehensive earnings	$ 5,270	$ 7,718	$ 3,450	$ 4,756	$ 3,331
Basic and diluted earnings per unit	0.53	$ 0.77	$ 0.35	$ 0.48	$ 0.33
Distributions	$ 17,452	$ 15,972	$ 15,303	$ 14,647	$ 14,647
Cash distributions declared per unit	$ 1.31	$ 1.20	$ 1.15	$ 1.10	$ 1.10
Cash distributions declared per 3,327,667 Special Fund units	$ 1.31	$ 1.20	$ 1.15	$ 1.10	$ 1.10
Total assets	$ 137,940	$ 129,450	$ 134,289	$ 146,165	$ 143,954
Total long-term financial liabilities	$ 55,160	$ 37,617	$ 38,000	$ 38,000	$ 30,600
Number of Agents[1] and Sales Representatives[2]	14,594	13,172	12,149	11,542	10,145

The table above sets out selected historical information and other data for the Brookfield Real Estate Services Fund (the "Fund") which should be read in conjunction with the attached audited consolidated financial statements for the year ended December 31, 2008.

Overview

This MD&A covers the period from January 1, 2008 to December 31, 2008 and has been prepared as at March 10, 2009.

The Fund was established on August 7, 2003, through an initial public offering. The Fund generates cash flow from the franchise royalties and service fees of a Canadian network of real estate franchisees, Agents and Sales Representatives, operating mainly under the Royal LePage, Johnston & Daniel and La Capitale brand names (collectively the "Fund Network").

Management of the Fund is governed by an Amended and Restated Management Services Agreement ("MSA"). The services under the MSA are provided by Brookfield Real Estate Services Limited (the "Manager"), a subsidiary of Brookfield Asset Management Inc. ("BAM"). The senior management team of the Manager developed and managed the Fund Network prior to the inception of the Fund. BAM, through a wholly-owned subsidiary, holds a 25% interest in the Fund (see Transactions with Related Parties).

As at December 31, 2008, the Fund Network was comprised of 14,594 REALTORS®[3] operating from 643 locations. During 2008, the Fund Network had an approximate 22% share of the Canadian residential resale real estate market (the "Market"[4] based on transactional dollar volume.

[1] Agent is defined as an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with a broker.
[2] Sales Representative is defined as an individual who is licensed to buy or sell real estate and is actively doing so through an affiliation with an Agent.
[3] REALTOR® is defined as an individual licensed to trade in Real Estate and includes brokers, Agents and Sales Representatives
[4] The market is defined as the dollar value of residential resale units sold ("Transactional Dollar Volume") over a 12-month period in a particular geographic area.

Management's Discussion and Analysis of Results and Financial Condition

Structure of the Fund

Royalty Fees

The Fund generates royalties with both fixed and variable fee components. During 2008, approximately 69% of the annual royalties were partially insulated from market fluctuations, as they were not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of REALTORS® in the network, Agent and broker productivity, and an increasing supply of new housing inventory mitigates the impact of a downturn in the Market. A summary of these fees is as follows:

Fixed franchise fees are based on the number of Agents and fee paying Sales Representatives, collectively "selling-REALTORS®" in the Fund Network. Fixed franchise fees from Royal LePage franchisees consist of a monthly fixed fee of $100 per selling-REALTOR®, a technology fee and web services and other fees while those from La Capitale franchisees consist primarily of a monthly fee of approximately $170 per selling-REALTOR®.

Variable franchise fees are primarily driven by the volume of business transacted by our Agents. Variable franchise fees from Royal LePage franchisees are driven by the transactional dollar volume transacted by the Agents and are comprised of 1% of each Agent's gross commission income, subject to a cap of $1,300 per year. In addition, 24 of the Fund's larger Royal LePage locations situated in the Greater Toronto Area ("GTA") pay a premium franchise fee ranging from 1% to 5% of the location's gross revenue.

Approximately 87% (88% – 2007) of the Fund's royalties are derived from the combined fixed fee per REALTOR® per month, 1% variable fee and premium fees. The remaining royalty stream is generated from technology fees, the 4.5% variable fee option and web services and other fees. Other fees derived from La Capitale franchisees are comprised primarily of fees driven from a self-insured program called "APEC" which for all participating Agents provides home buyers a warranty on such items as appliances, plumbing, electrical and heating systems.

Monthly Distributions

The targeted annual cash distribution for 2008 had been $1.25 per unit, to be paid monthly to public unitholders. On August 7, 2008, the Board of Trustees increased the annual distribution target from $1.25 to $1.40 per unit effective the month of August 2008.

To reduce unitholder risk, under the terms of the offering, BAM as the non-controlling interest was required to hold its 25% interest for five years ending August 7, 2008 after which it may exchange its Subordinated LP units for units of the Fund. In addition, during the initial five-year period, the non-controlling interest's right to receive distributions on a quarterly basis was reduced to the extent that the public unitholders do not receive their initial targeted monthly distributions of $0.0917 per unit, $1.10 per unit per annum. With the completion of the five-year subordination, the non-controlling interest receives its distributions on a monthly basis and continues to hold its LP units.

Management and the Board of Trustees periodically review the Fund's targeted distribution.

Recent Developments

Franchise Agreement Acquisitions

Royal LePage Franchise Agreements

On January 1, 2009, the Fund acquired 18 new Royal LePage franchise agreements serviced by 230 REALTORS®, with an estimated annual royalty stream of $0.5 million. The agreements for these 21 locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $2.5 million, with $2.0 million (80% deposit) due on closing and the balance to be paid in cash or units during the first quarter of 2010, upon meeting certain terms and conditions of the MSA.

La Capitale Franchise Agreements

On January 1, 2009, the Fund acquired three franchise agreements operating under the La Capitale brand in the province of Québec from an affiliate of the Fund Manager for an estimated purchase price of $0.9 million. These agreements are represented by 86 REALTORS® operating from four locations with an estimated annual royalty stream of $0.2 million. As outlined in the Fund's MSA, 80% of the estimated acquisition price ($0.7 million), which is subject to adjustment, was paid in January 2009. Under terms negotiated with the Fund's Trustees, the balance of the purchase price is to be paid in annual installments over the next three years.

Distribution Increase

Effective August 1, 2008, the targeted annual distribution was increased to $1.40 from $1.25 per unit.

Normal Course Issuer Bid (NCIB)

On October 3, 2008, the Toronto Stock Exchange approved the Fund's notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases will be made at market prices in accordance with the rules and policies of the Toronto Stock Exchange ("TSX"). Daily purchases will be effected through the facilities of the TSX and will be limited to 3,800 units, other than block purchase exceptions. Given current market prices for the Fund units, management believes that the purchase by the Fund of a portion of its outstanding units is an appropriate use of available resources and in the best interests of the Fund and its unitholders. The Fund intends to finance the purchases with available cash on hand. During the Quarter, 163,720 units were acquired at an average cost of $7.51 per unit. As of the date of this MD&A, a further 168,400 units at an average price of $8.67 per unit have been acquired since the start of 2009. Units purchased are cancelled at the end of each month.

Operations Overview

The key drivers of the Fund's business and cash distributions to unitholders are:

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

A summary of our performance against these drivers is as follows:

Number of REALTORS® in the Fund

As at December 31, 2008, the Fund Network was comprised of 338 independently owned and operated franchises operating from 643 locations serviced by 14,594 REALTORS®, with an approximate 22% share of the Canadian residential resale real estate market based on transactional dollar volume.

With the addition of an estimated 316 REALTORS® from the 21 franchise agreements acquired by the Fund on January 1, 2009, the Fund began 2009 with 14,910 REALTORS®, for a total increase of 466 REALTORS®, up 3.2% from January 1, 2008. This growth was within our stated 2008 target growth range of 300 to 500 REALTORS®.

Transaction Volumes

The performance of the Fund is dependent upon the receipt of royalty revenue which, in turn, is partially dependent upon the level of residential resale real estate transactions. The residential real estate industry is affected by all of the factors affecting the economy in general, including changes in interest rates, unemployment and inflation.

During 2008, the Canadian Market experienced declines in unit sales and average selling price as compared to the same period in 2007. During the Quarter, global turmoil in the financial markets combined with eroding consumer confidence resulted in a dramatic decline in Market activity.

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

- Canada's annual rate of housing starts, the market's future inventory, totalled 211,056 as of December 31, 2008, a decrease of 7.6% from the same period in 2007.
- The Canadian Market totalled $131.9 billion for the year ended December 31, 2008, a decrease of 17.6% from the same period in 2007, consisting of a 1.0% decrease in average selling price of a home to $303,593 and a 16.8% decrease in residential unit sales to 434,479 units. When compared to the three months ended December 31, 2007 the Canadian Market declined 40.5%.
- The GTA Market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of $29.0 billion for the year ended December 31, 2008, a 19.2% decrease from the same period in 2007. This market activity is comprised of the sale of 76.4 thousand homes at an average selling price of $379,904, a 19.8% decrease and 0.8% increase, respectively, from the same period in 2007. When compared to the three months ended December 31, 2007 the GTA real estate resale market declined 47.8%.

Stability of the Fund's Royalty Stream

The Fund's network as at December 31, 2008 is comprised of the Royal LePage and the La Capitale networks. The Royal LePage network is characterized as follows:

- Royalties that are derived from a diverse national network of independently owned and operated franchises, the majority of which operate with fewer than 50 Agents.
- A significant portion of the Royalties are fixed in nature based on the number of Agents and their productivity, which through the combination of the $100 per agent per month fee and the 1% variable fee generated by Agents earning in excess of the amount subject to the $1,300 per annum cap, contributed approximately 69% of the Fund's revenue for the year ended December 31, 2008. This compares to 66% for the same period in 2007. The year over year increase in the fixed percentage of our royalties was amplified by the reduction in variable royalty fees during the year.
- The geographic distribution of the Royal LePage Network is similar to the distribution of the overall Canadian REALTOR® population.
- Royalty agreements are 10, 15 and 20 years in duration, significantly exceeding the industry norm of five years.
- During the year ended December 31, 2008, 20 agreements representing 843 REALTORS® were renewed and five agreements representing 22 REALTORS® were terminated.

The La Capitale royalties are characterized as follows:

- The La Capitale network is situated in the province of Québec.
- La Capitale agreements typically have five-year terms.
- Approximately 74% of the royalties are fixed in nature.
- The fixed element of the royalties is comprised primarily of a fixed fee of approximately $170 per agent per month while the other fees are driven primarily from a self-insured program called "APEC" under which participating Agents provide a warranty on such items as appliances, plumbing, electrical and heating systems.
- During the year ended December 31, 2008, one agreement representing three REALTORS® was terminated.

Overall approximately 69% of the Fund's revenue is fixed in nature.

Fund Growth Opportunities

Our growth objective for 2008 was to add 300 to 500 REALTORS® to the Fund Network through recruitment and acquisitions and to increase revenues by 10% over 2007. The REALTOR® growth objective has been achieved by increasing the network of the Fund by approximately 466 REALTORS®, with 150 through organic recruiting and 316 through franchising activities. Although the targeted revenue growth anticipated a softening of the market, the reduction in industry transactional dollar volume during 2008 was greater than expected and limited revenue growth to 7.4%.

Growth through acquisition is achieved through the purchase of franchise agreements acquired by the Manager's dedicated network development team.

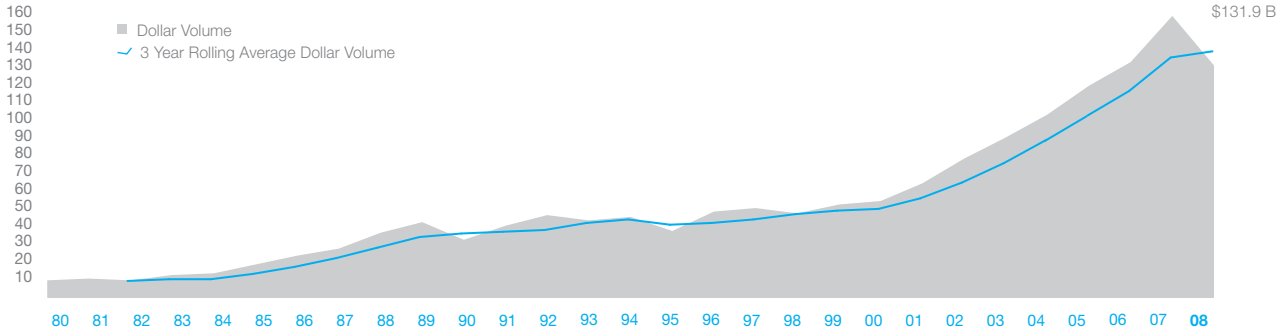
Growth in overall royalties is achieved by: increasing the number of REALTORS® in the Fund; increasing the productivity of Agents; expanding the range of products and services supporting the franchisees and Agents; increasing adoption of these products and services; and providing sales and marketing programs to the Fund Network. These services are supported by ongoing training programs for franchisees and REALTORS® that assist in leveraging the Fund's competitive advantages to attract and retain potential recruits. A summary of results to the date of this MD&A is as follows:

- Organic growth for the year ended December 31, 2008 totalled 150 REALTORS® which is net of a decrease of 172 REALTORS® in the Quarter.
- On January 1, 2009, franchise agreements representing 21 locations serviced by an estimated 230 Agents operating under the Royal LePage brand were purchased by the Fund. The estimated purchase price of these agreements is $2.5 million.
- Consistent with the Fund's historical approach to acquisitions made by the Fund Manager, after evaluation, some of the La Capitale contracts were acquired by the Fund on January 1, 2008, and the remainder were retained by the Manager for future development. On January 1, 2009, four La Capitale locations serviced by 86 Agents were purchased by the Fund for an estimated purchase price of $0.9 million.
- The Manager continues to develop, introduce and support new tools, services and programs, which assist franchisees in attracting and retaining REALTORS®, increasing their productivity and driving down administration costs.

The Canadian Residential Resale Real Estate Market

Since 1980, the Canadian Market has grown at a compound annual growth rate ("CAGR") of 9%. The Canadian Market has been very resilient with only two significant downturns occurring prior to 2008, in 1990 and 1995, both of which returned to pre-downturn levels within 24 months. During the 1990 downturn, interest rates were relatively high and there was significant speculation in the form of building and multiple home ownership. Since that time, lenders now require builders to pre-sell a significant portion of their developments before advancing funds. Market activity since 1980 is provided in the chart below.

Market Dollar Volume – Canadian Resale Residential Real Estate
(1980 – 2008) (In $ Billions)



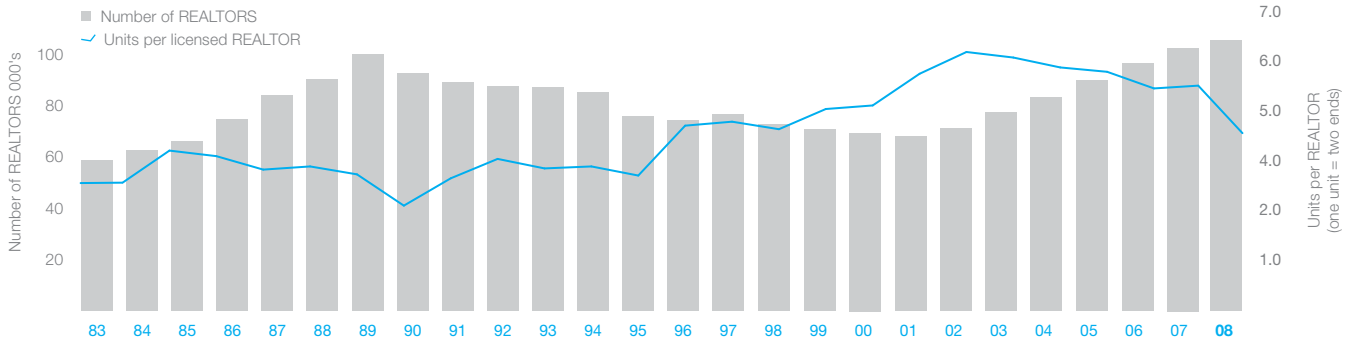
Source: CREA

Management's Discussion and Analysis of Results and Financial Condition

The Canadian Real Estate REALTOR® Population

The number of REALTORS® in the Fund Network is a key driver of the Fund's results. For the year ended December 31, 2008, the Canadian real estate REALTOR® membership grew by 2.8% to 97,168 members with an average of 4.5 units sold per REALTOR®. The number of REALTORS® in the Fund Network grew by 10.8% over the same period. The Canadian REALTOR® population and the average number of units sold per REALTOR® are summarized in the chart below.

Canadian Real Estate REALTORS®
(Year ended December 31)



The Fund Network

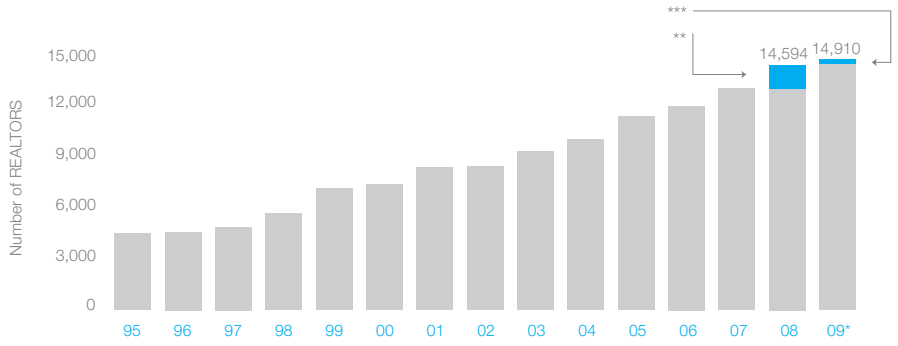
REALTOR® Growth

As at December 31, 2008, the Fund Network was comprised of 338 independently owned and operated franchises operating from 643 locations serviced by 14,594 REALTORS®.

During the Quarter, the Canadian REALTOR® population declined by 1.4% and the Fund Network declined by 172 (1.3%) REALTORS® as was also experienced by the Canadian REALTOR® population.

During 2008, the number of REALTORS® in the Fund Network grew by 10.8% or 1,422 REALTORS® to 14,594. This gain in REALTORS® was obtained through the acquisition of agreements on January 1, 2008 representing 1,272 REALTORS® and the addition of 150 through organic growth. Industry wide, by comparison, CREA reported that the number of REALTORS® in Canada grew by 2.8%.

Fund Growth



Year ended December 31, except 2009
* As at January 1, 2009
** 1,422 REALTOR® growth of 10.8% consisting of 150 REALTORS® organically and 1,272 through acquisition on January 1, 2008.
*** 316 REALTOR® growth of 2.2% consisting of 230 from the Royal LePage brand and 86 from the La Capitale brand.

A summary of the Canadian and Fund's growth in REALTORS® during 2007 and 2008 follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**88,906**		**12,149**	
2007 Q1	1,543	1.7%	633	5.2%
2007 Q2	1,947	2.2%	178	1.5%
2007 Q3	1,313	1.5%	125	1.0%
2007 Q4	797	0.9%	87	0.7%
Opening	**94,506**	**6.3%**	**13,172**	**8.4%**
2008 Q1	1,728	1.8%	1,418	10.8%
2008 Q2	1,838	2.0%	181	1.3%
2008 Q3	387	0.4%	(5)	0.0%
2008 Q4	(1,291)	-1.4%	(172)	-1.3%
Closing	**97,168**	**2.8%**	**14,594**	**10.8%**

* Source – CREA

Network Diversity

The Fund Network is comprised of diverse operations with 76% of the Fund's franchisees operating with fewer than 50 REALTORS® as at December 31, 2008. As summarized in the table below, the Fund Network of REALTORS® is geographically diverse, with REALTORS® spread throughout Canada with a more pronounced presence in the province of Québec as a result of the acquisition of the La Capitale franchise network.

	Canadian[1] REALTOR® Population	Fund[2] Network REALTORS®
Ontario	51%	51%
Prairies	14%	10%
BC	18%	14%
Québec	14%	21%
Maritimes	3%	4%
Total	100%	100%

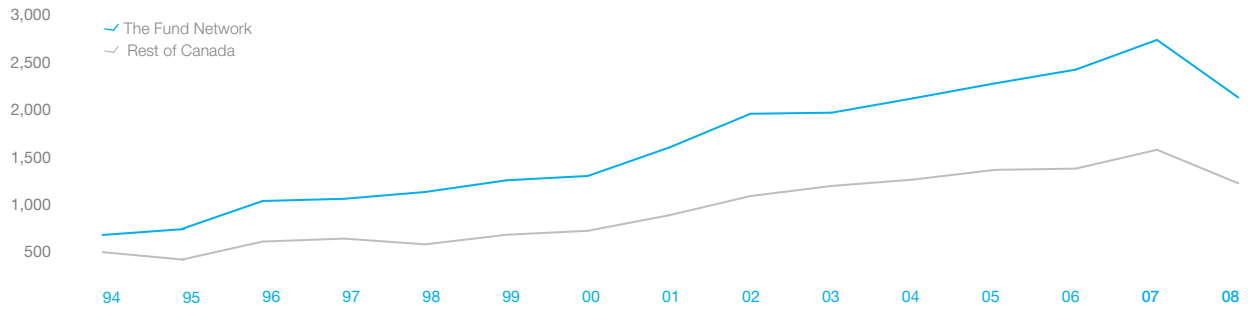
[1] As at December 31, 2008, Source: CREA
[2] As at December 31, 2008

Management's Discussion and Analysis of Results and Financial Condition

REALTOR® Productivity

The average Fund Network REALTOR® generated approximately $2.12 million in transactional dollar volume in 2008, down 22% from $2.70 million in 2007. This productivity was 69% greater than the estimated average of $1.25 million for all other Canadian REALTORS®, down 21% from 2007. Management believes the higher productivity of Fund Network REALTORS® makes the Fund less prone than the industry at large to losing its REALTORS® during a period of reduced transaction dollar volume. A summary of average transaction dollar volume per agent for the years ended December 31, 1994 through 2008 is as follows:

Canadian Residential Real Estate Resale Market
(Average Transaction Dollar Volume Per REALTOR®, $ thousands)



Source: CREA and Fund Management

Operating Results

Years ended December 31, ($ 000's) except Agents, unit and per unit amounts	2008	2007
Royalties		
Fixed franchise fees	$ 17,698	$ 14,872
Variable franchise fees	8,291	8,566
Premium franchise fees	4,450	5,290
Other fee revenue and services	4,444	3,763
	34,883	32,491
Less:		
Administration expenses	817	725
Interest expense	3,174	2,419
Management fee	6,455	5,869
Earnings before undernoted	24,437	23,478
Amortization of intangible assets	16,886	14,804
Other loss (income)	365	–
Income tax recovery	(48)	(1,819)
Net and comprehensive earnings before non-controlling interest	7,234	10,493
Non-controlling interest	1,964	2,775
Net and comprehensive earnings	$ 5,270	$ 7,718
Basic and diluted earnings per unit	$ 0.53	$ 0.77
Number of Agents	13,600	12,201
Number of fixed fee paying Sales Representatives	699	735

As summarized in the previous table, during the year ended December 31, 2008, the Fund generated net and comprehensive earnings before non-controlling interests of $7.2 million, down $3.3 million from the same period in 2007. The year-over-year results included a $2.4 million (7.4%) increase in royalties attributed to growth of the Fund's underlying agent network which was offset by increased amortization, debt service costs and management fees. The year ended December 31, 2007 included the recognition of a $1.8 million income tax recovery, in accordance with new tax legislation. A more detailed discussion of these results is provided below.

The Fund Network

The Fund Network as at December 31, 2008, was comprised of 13,600 Agents and 994 Sales Representatives (699 Sales Representatives operating under the $100 per month fixed fee plan and 295 Sales Representatives who are primarily brokers and managers who do not pay fees), with 13,403 of the Agents operating under the combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option") or the approximate $170 per month flat fee, and 197 Agents operating under the 4.5% variable fee option (the "4.5% option").

Royalties

Royalties for the year ended December 31, 2008, totalled $34.9 million, up 7.4% from the same period in 2007.

The Fund generates royalties from both fixed and variable fee components as described earlier in Structure of the Fund.

Fixed, variable and premium franchise fees together represented 87% of royalties for the year ended December 31, 2008, compared with the 88% experienced during the same period in 2007.

Fixed franchise fees for the year ended December 31, 2008 increased 19.0% over the same period in 2007 and exceeded the overall increase in the underlying Agents as a result of the introduction of La Capitale REALTORS® operating under an approximate $170 per month fee plan.

Variable franchise fees for the year ended December 31, 2008, decreased by 3.2% from the same period in 2007 while the Canadian Market activity decreased 17.6%. These favourable results relative to the Market can be attributed to two factors: the lag between a home sale and closings and the capping of Agent fees at $1,300 per annum.

A lag between variable fees recorded by the Fund and Market activity occurs as Market activity is reported when a home is sold, while the Fund does not record variable fees associated with the home sales until it closes, which is typically 45 to 60 days later. This lag created a spillover effect in the first quarter as a 16.8% year-over-year Market activity increase in the fourth quarter of 2007 materialized as variable fees in the first quarter of 2008 contributing to a variable fee increase of 11.7% over the first quarter of 2007 while the Market experienced a decline of 7.7%. Conversely, some of the 40.5% year-over-year decline in Market activity during the Quarter is expected to adversely impact variable fees during the first quarter of 2009.

The change in variable fees is further mitigated by Agents that have reached the royalty cap of $1,300 per annum as a decrease in the Market does not decrease fees earned from these Agents once they have reached the cap. In 2008, 20% of the Agents in the network reached the royalty cap.

Premium franchise fees are derived from the 24 franchise locations servicing the GTA market that pay premium fees ranging from 1% to 5% of the location's gross revenue. Premium franchise fees for the year ended December 31, 2008 decreased 15.9% from the same period in 2007, while the GTA market activity for the same period experienced a 19.2% decrease. The favourable results relative to the GTA market for the year ended December 31, 2008 can be attributed to the results in the first quarter which were up 21.2% year-over-year reflecting the spill over effect of robust sales during the fourth quarter of 2007 materializing as premium fees in early 2008. Conversely, some of the 47.8% year-over-year decline in GTA market activity during the Quarter is expected to adversely impact premium fees during the first quarter of 2009. The percentage decrease in year-over-year premium fees is not entirely comparable to the overall GTA market decrease, as the change in the market activity experienced by the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity. As mentioned earlier, the lag effect and the decreased market activity during the Quarter are expected to result in lower premium fees in the first quarter of 2009 due to the timing associated with the reported home sale market activity and the recording of actual variable premium fee by the Fund.

Other fees and services comprised of the APEC fee, technology fees, 4.5% option, web service plus other fees and revenue accounted for approximately 13% (12% – 2007) of Fund royalties for the year ended December 31, 2008, increased 18.1% over the same period in 2007. This growth was due primarily to the APEC fee paid by participating La Capitale REALTORS®, growth in the number of REALTORS® in the Royal LePage network, partially offset by a decrease in the 4.5% variable fee, resulting from slowing market activity and the conversion of some offices to the $100/1% fee option.

Management's Discussion and Analysis of Results and Financial Condition

Administration Expenses

Administration expenses of $0.8 million for the year ended December 31, 2008, were in line with management's expectations.

Interest Expense

Interest expense is comprised primarily of interest on the Fund's $38 million private debt placement from 2005 and the $14 million draw on the $15 million credit facility. During the year ended December 31, 2008, the Fund's interest expense totalled $3.2 million up $0.8 million over the same period in 2007 due to the $14 million draw on the credit facility. Total interest expense included $0.3 million in non-cash charges as a result of the amortization of the financing charges incurred and $0.2 million in interest paid in respect of the purchase obligation. The $2 million operating line has remained undrawn since the inception of the Fund.

Management Fee Expense

Management fees of $6.5 million for the year ended December 31, 2008 were up 10% over the same period of 2007. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the La Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Amortization of Intangible Assets

Intangible assets relate to the values attributed to the franchise agreements and relationships and trademarks acquired by the Fund since August 7, 2003. Trademarks are amortized on a straight-line basis over the term of the license agreement plus one renewal period for the Royal LePage trademark and over the license agreement for the La Capitale contract. Franchise agreements are amortized over the term of the agreements. Relationships represent the value attributed to franchise renewals and are amortized over the renewal period, at the commencement of that period. See Acquisitions and Deposit on Acquisitions for further discussion regarding intangible assets arising on acquisitions.

Income Tax Recovery

In accordance with new tax legislation, during the year ended December 31, 2008, the Fund has recorded a non-cash future tax asset of $48 thousand arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rate of 29.5%, applicable to the Fund in 2011 and 28% applicable thereafter (see Impact on Taxation of Income Trusts).

Non-controlling interest ("NCI")

Non-controlling interest ("NCI") of $2.0 million represents the NCI's 25% in the Fund's underlying operations.

Distributable Cash

Distributable cash to unitholders represents net and comprehensive earnings, adjusted for the non-controlling interest's share of net and comprehensive earnings, amortization and reasonable working capital and other reserves as defined by the Fund's Amended and Restated Declaration of Trust.

Distributable cash does not have a standardized meaning under GAAP and accordingly may not be comparable to similar measures used by other issuers. Management believes that distributable cash is a useful supplemental measure of performance as it provides investors with an indication of the amount of cash available for distribution to unitholders. Investors are cautioned, however, that distributable cash should not be construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows. (See the following chart for a reconciliation of distributable cash to the comparable GAAP measure in the Fund's financial statements).

Distributable cash and its utilization since Fund inception ($ 000's)	Total	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
Royalties	**$156,771**	$ 34,883	$ 32,491	$ 29,659	$ 27,196	$ 23,740	$ 8,802
Less/(add):							
Administration expenses	**3,526**	817	725	645	595	513	231
Interest expense	**12,230**	3,174	2,419	2,401	2,289	1,327	620
Management fee	**28,479**	6,455	5,869	7,285	3,660	3,660	1,550
Distributable cash	**112,536**	24,437	23,478	19,328	20,652	18,240	6,401
Less:							
Distributions to public unitholders	**63,043**	13,083	11,980	11,477	10,985	10,985	4,533
Distributions to non-controlling interest	**21,022**	4,369	3,992	3,826	3,662	3,662	1,511
Total distributions	**84,065**	17,452	15,972	15,303	14,647	14,647	6,044
Distributable cash less total distributions	**28,471**	6,985	7,506	4,025	6,005	3,593	357
Less funding of acquisitions	**20,317**	5,564	6,333	7,886	414	120	–
Less purchase of units under NCIB	**291**	291	–	–	–	–	–
Net change in the period	**$ 7,863**	$ 1,130	$ 1,173	$ (3,861)	$ 5,591	$ 3,473	$ 357
Cumulative change		$ 7,863	$ 6,733	$ 5,560	$ 9,421	$ 3,830	$ 357
Distribution percentage payout[1]	**75%**	71%	68%	79%	71%	80%	94%

[1] This represents the Total distributions paid as a percentage of Distributable cash.

Distributable cash Reconciled to cash flow from operating activities ($ 000's)	Total	Year ended Dec. 31, 2008	Year ended Dec. 31, 2007	Year ended Dec. 31, 2006	Year ended Dec. 31, 2005	Year ended Dec. 31, 2004	Aug. 7, 2003 to Dec. 31, 2003
Cash flows from operating activities	**$111,079**	$ 24,174	$ 22,871	$ 20,199	$ 20,607	$ 17,772	$ 5,456
Add (deduct):							
Changes in non-cash working capital items	**2,208**	546	769	(703)	183	468	945
Non-cash interest expense	**(751)**	(283)	(162)	(168)	(138)	–	–
Distributable cash	**$112,536**	$ 24,437	$ 23,478	$ 19,328	$ 20,652	$ 18,240	$ 6,401

Management's Discussion and Analysis of Results and Financial Condition

For the year ended December 31, 2008, the Fund generated distributable cash of $24.4 million, up $1.0 million (4.1%) over the same period in 2007. This increase in distributable cash was primarily due to increased royalties generated from growth in Fund revenues as a result of the acquisition of franchise agreements on January 1, 2008 and organic agent growth, partially offset by increased debt service costs and management fees.

From inception of the Fund, to December 31, 2005, the Fund had accumulated and retained undistributed cash of $9.4 million, which in the event of the release of this cash would result in a 20% management fee payable to the Manager of $1.9 million. During 2006, the Fund released the $9.4 million cash, a portion of which was used to fund the 2005 and 2006 franchise agreements purchase obligations. In addition, the Board of Trustees removed the requirement to retain distributable cash for purposes of the management fee calculation due to the Fund's demonstrated track record of generating distributable cash in excess of its targeted annual distributions. As a result of these two events, the $1.9 million management fee described above was earned and paid during the first quarter of 2006. The management fee continues to be recorded on a "total" basis (see Summary of Quarterly Results for discussion of "total" basis). The Board of Trustees reserves the right to retain cash for working capital requirements.

As at December 31, 2008, the Fund had approximately $7.9 million in distributable cash not yet utilized, as presented in the table above. This undistributed cash represents distributable cash generated by the Fund less distributions to public unitholders and the non-controlling interest, $20.3 million in cash utilized to meet the Fund's franchise agreement purchase obligations and $0.3 million used purchase units of the Fund under the normal course issuer bid.

A summary of the main elements of the Fund's performance that assist in the assessment of the sustainability of the Fund's cash distributions is presented in the table below:

Ended December 31,	Three months		Year ended	
($ 000's)	**2008**	2007	**2008**	2007
Cash flows from operating activities	**$ 5,576**	$ 4,941	**$ 24,174**	$ 22,871
Net income for the period	**200**	917	**5,270**	7,718
Actual cash distributions paid	**3,329**	3,037	**12,933**	11,980
Excess of cash flows from operating activities over cash distributions paid	**2,247**	1,904	**11,241**	10,891
Shortfall of net income over cash distributions paid	**$ (3,129)**	$ (2,120)	**$ (7,663)**	$ (4,262)

The Fund's cash distributions to unitholders are fully funded by cash flow generated from operations. The Fund has consistently distributed cash in excess of net income to unitholders as a significant portion of the Fund's operating expenses are comprised of the non cash amortization of intangible assets consisting of franchise agreements, relationships and trademarks. The distribution of this excess is not viewed by management as an economic return of capital as these intangible assets are not expected to require a further cash outlay in the future; rather, the value of these assets to the Fund lie in part with management's ability to retain and renew the underlying franchise agreements and ensure the ongoing integrity of the trademarks. The Fund has not distributed all of the cash flow generated from operations to unitholders as cash distributions, as the cash generated in excess of these amounts as summarized in the table above (see table – Distributable cash and its utilization since Fund inception) has been utilized to fund the acquisition of franchise agreements and pay distributions to the non controlling interest. It is management's expectation, at the discretion of the Board of Trustees, that in the short to near term cash distributions to unitholders will continue and the remaining cash flow will be utilized to fund acquisitions and pay distributions to the non controlling interest.

Acquisitions and Deposit on Acquisitions

Under terms of the MSA, the Fund is permitted to acquire franchise agreements approved by independent trustees of the Fund from the Manager on January 1 of each year. The purchase price is determined in line with the terms of the MSA. The actual purchase price for these agreements is not determined until after October 31 of each year when an audit of the actual royalties generated under these agreements is completed and the purchase price is recalculated as detailed in the MSA. As a result, the initial payment representing up to 80% of the estimated purchase price is recorded as a deposit on acquisition. At each quarter end, the purchase price obligation is recalculated based on the actual royalties generated from these agreements and the resultant amount is removed from the deposit on acquisition and reclassified to intangible assets. The increase in intangible assets is amortized in accordance with the Fund's intangible assets policy. Recalculated purchase price obligations in excess of the deposit on acquisitions are classified as purchase obligations and the corresponding amount transferred to intangible assets and amortization, as previously described, is recorded.

During 2008, the January 1, 2008 franchise agreement purchase price was audited and determined to be $22.74 million, $1.60 million greater than the estimated obligation due to a combination of a greater number of Agents and higher that planned revenues.
A summary of the franchise agreements acquired by the fund since inception is as follows:

Date acquired by the Fund, January 1, ($ millions unless stated otherwise)	2009	2008	2007	2006	2005
Purchase price					
Estimated	3.40	21.14	7.18	6.22	9.26
Actual (a) (d)	(d)	23.20	8.04	5.55	9.94
Payments					
Initial	2.72	16.91	5.74	4.98	7.05
Final (b) (c) (d)	(a)	2.67	2.30	0.57	2.89
Estimated					
Annual royalty stream	0.70	2.99	0.82	0.74	1.15
Number of REALTORS®	316	1,272	390	346	558
Number of locations	25	60	22	21	47
Number of contracts	21	60	22	16	38
Actual					
Annual royalty stream (b)	(d)	3.21	0.92	0.66	1.24
Number of REALTORS®	(d)	1,502	534	345	666
Number of locations	25	60	22	21	46
Number of contracts	21	60	22	16	37

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

During the first quarter of 2008, $16.9 million was paid and recorded as a deposit on acquisition in respect of the Royal LePage and La Capitale acquisitions. At each quarter end, the realized portion of the estimated asset value was recalculated based on the actual royalties generated from these agreements. Based on these quarterly calculations, $16.9 million was transferred from deposit on acquisition to intangible assets. During 2008, the realized portion of the estimated asset value exceeded the deposit on acquisition by $5.8 million which has been recorded as a purchase price obligation and added to intangible assets. The $16.9 million transfer from deposit on acquisition to intangible assets consisted of $14.0 million related to the acquisition of La Capitale and $2.9 million from the acquisition of Royal LePage franchise contracts.

In addition, the year ended December 31, 2008, intangible assets were further increased by $3.1 million due to future income tax liabilities arising from the La Capitale acquisition as described below. The increase attributable to future income tax liabilities arises as the assets of La Capitale were acquired on a tax deferred basis through a partnership with the underlying tax value attributed to the partnership units. As a result, the individual agreements and trademarks of the partnership at the time of acquisition by the Fund have a zero tax basis. The temporary difference between the carrying value of these agreements and trademarks and zero tax basis results in a future income tax liability. Under GAAP the Fund is required to adjust the carrying value of the agreements by an amount equal to the income tax liability. During the Quarter and year ended December 31, 2008, the Fund recorded future income tax liabilities of $0.6 million and $3.1 million, respectively.

Debt Financing

In 2005, the Fund increased its debt to meet its franchise agreement purchase obligations and moved from a floating interest rate position to a fixed interest rate position. Accordingly, on February 18, 2005, the Fund completed a $38 million private debt placement with a number of Canadian institutional investors for a five-year term with interest fixed at 5.882%, payable quarterly in arrears. The full amount of the debt is due upon maturity on February 17, 2010.

The Fund has a $2 million operating line provided by a single Canadian financial institution. As of the date of this MD&A, this operating line remains undrawn and in force. On March 6, 2009, the operating line was renewed to February 17, 2010.

On April 4, 2008, the Fund completed a $15 million term facility with a Canadian financial institution and with effect from April 7, 2008 entered into an interest rate swap agreement which fixed the variable portion of the term facility's interest at 3.29% for a total annual interest rate of 4.29% over the term of the facility (before legal and associated costs). On closing, the Fund drew down $14 million of the term facility to fund the obligations arising from the January 1, 2008 acquisitions. This term facility matures on February 17, 2010, the same date as the $38 million private debt placement.

The interest rate swap is a financial derivative valued separately from the term facility. The Fund values the swap agreement at its market value. Changes in the value of the swap agreement are recorded as other income or loss.

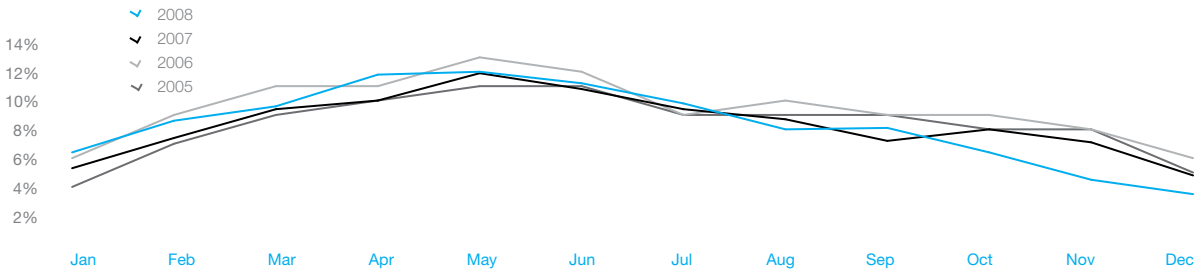
Summary of Quarterly Results

Three months ended	2008				2007			
($ 000's) except Agents, unit and per unit amounts	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Royalties								
Fixed franchise fees	$ 4,491	$ 4,431	$ 4,440	$ 4,336	$ 3,788	$ 3,749	$ 3,714	$ 3,621
Variable franchise fees	1,243	2,499	2,628	1,921	1,315	2,661	2,870	1,720
Premium franchise fees	937	1,514	1,106	893	1,348	1,899	1,306	737
Other fee revenue and services	1,069	1,203	1,230	942	997	986	948	832
	7,740	9,647	9,404	8,092	7,448	9,295	8,838	6,910
Less:								
Administration expenses	224	188	215	190	192	184	175	174
Interest expense	794	803	766	811	606	606	615	592
Management fee	1,412	1,805	1,765	1,473	1,330	1,700	1,610	1,229
Earnings before undernoted	5,310	6,851	6,658	5,618	5,320	6,805	6,438	4,915
Amortization of intangible assets	4,658	4,297	4,035	3,896	3,746	3,723	3,683	3,652
Other loss (income)	335	92	(62)	–	–	–	–	–
Future income tax expense/(recovery)	(1)	(1)	(11)	(35)	293	(11)	(2,101)	–
Net and comprehensive earnings before non-controlling interest	318	2,463	2,696	1,757	1,281	3,093	4,856	1,263
Non-controlling interest	118	652	718	476	364	811	1,249	351
Net and comprehensive earnings	$ 200	$ 1,811	$ 1,978	$ 1,281	$ 917	$ 2,282	$ 3,607	$ 912
Basic and diluted earnings per unit	$ 0.02	$ 0.18	$ 0.20	$ 0.13	$ 0.09	$ 0.23	$ 0.36	$ 0.09
Number of Agents	13,600	13,732	13,715	13,551	12,201	12,117	12,038	11,868
Number of fixed fee paying Sales Representatives	699	729	740	728	735	716	673	643

Revenues increased in each quarter, year over year due to a number of factors such as organic Agent count growth, Agent productivity, and the acquisition of franchise agreements on January 1 of each year. An income tax recovery of $1.8 million was recorded during 2007, in line with new tax legislation effecting income trusts (see Impact of Taxation on Income Trusts).

The Fund's royalty revenues are affected by the seasonality of the Canadian Market which typically has stronger second and third quarters as summarized in the chart below. The seasonality of this market is mitigated by the timing of certain factors such as: the factors noted above, the significant fixed element of the Fund's agent count-based fees and the fixed element of variable Royal LePage franchise fees resulting from the $1,300 per annum capping feature described earlier.

Canadian Residential Resale Real Estate Market
(% Transactional Dollar Volume by Month)



Source: CREA and Fund Management

Management's Discussion and Analysis of Results and Financial Condition

A key statistic management utilizes to monitor Fund performance is the rolling 12-month distributable cash per unit, adjusted for management fees on a "total" basis. As noted on the table below, distributable cash calculated on this basis had been steadily increasing each quarter until leveling off in the third quarter and declining slightly in the Quarter.

Adjusted[1] rolling twelve-month distributable cash

Twelve months ended	2008				2007			
($ 000's) except per unit amounts	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Royalties	$ 34,883	$ 34,591	$ 34,239	$ 33,673	$ 32,491	$ 31,808	$ 30,983	$ 30,077
Less:								
Administration expenses	817	785	781	741	725	665	644	659
Interest expense	3,174	2,986	2,789	2,638	2,419	2,419	2,418	2,403
Adjusted Management fee[1]	6,455	6,373	6,268	6,113	5,869	5,745	5,584	5,403
	24,437	24,447	24,401	24,181	23,478	22,979	22,337	21,612
Adjusted Distributable cash per unit – total basis	$ 1.84	$ 1.84	$ 1.83	$ 1.82	$ 1.76	$ 1.73	$ 1.68	$ 1.62

Adjusted[1] rolling twelve-month distributable cash
Reconciled to cash flows from operating activities

Twelve months ended	2008				2007			
($ 000's) except per unit amounts	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31
Cash flows from operating activities	$ 24,174	$ 23,539	$ 24,744	$ 24,335	$ 22,871	$ 23,998	$ 22,054	$ 20,968
Add (deduct):								
Changes in non-cash working capital items	546	1,149	(149)	12	769	(856)	446	807
Non-cash interest expense	(283)	(241)	(194)	(166)	(162)	(162)	(163)	(163)
	24,437	24,447	24,401	24,181	23,478	22,979	22,337	21,612
Adjusted Distributable cash per unit – total basis	$ 1.84	$ 1.84	$ 1.83	$ 1.82	$ 1.76	$ 1.73	$ 1.68	$ 1.62

[1] Above adjusted for management fees calculated before Reserve requirements.
A "total" basis refers to the calculation of the management fee as per the MSA before Reserves for working capital requirements.
Prior to 2005, a Reserve was deducted for the purposes of the management fee calculation.
This Reserve requirement was removed and the accumulated management fee was paid in the first quarter of 2006.

Fourth Quarter Review

As summarized in the table provided in the Summary of Quarterly Results, during the Quarter the Fund generated net and comprehensive earnings before non-controlling interest ("NCENCI") of $0.3 million, down $1.0 million from the same period of 2007 as the growth of the Fund's underlying agent network was more than offset by higher interest expense, management fees, amortization and interest expense relating to the La Capitale acquisition.

The Fund Network

After experiencing growth in the first half of 2008, the Fund's REALTORS® count declined by 172 during the Quarter. This net decline was the result of REALTORS® leaving the industry in light of the economic slow down and was consistent with overall declines experienced in CREA's membership.

Royalties for the Quarter of $7.7 million were up 3.9% over the same period in 2007, due in part to the growth in the underlying number of agents in the Network. Both the overall Canadian Residential Real Estate Market and the Greater Toronto Area real estate Market experienced steep declines during the Quarter that may result in lower variable and premium fee revenues during the quarter ending March 31, 2009. Combined, fixed franchise fees, variable franchise fees and premium franchise fees represented 86% of royalties for the Quarter, in comparison to 87% for the same period in 2007.

Fixed franchise fees for the Quarter were up 18.6% over the same period in 2007. This increase exceeded the overall increase in the underlying Agents due primarily to the acquisition of La Capitale franchise agreements operating under an approximate $170 per REALTOR® per month fee plan.

Variable franchise fees for the Quarter decreased 5.5% from the same period in 2007 while the related market activity declined by 40.5%. The decrease in market activity for the Quarter outpaced the decrease in the Fund's variable fees due to the timing of the earning of variable fees as these fees are paid to the Fund after the sales transaction closes as previously described. In addition, since the 1% variable fee generated by Agents is capped at $1,300 per annum, a market reduction experienced by those Agents with sales well above the capped level will have a less than proportionate impact on variable franchise fees.

Premium franchise fees for the Quarter declined 30.5% from the same period in 2007, due primarily to a 47.8% decrease in the GTA Market which experienced its fourth consecutive quarterly year-over-year decline. The percentage decrease in year-over-year premium fees is not entirely comparable to the overall GTA market decrease, as the market decline experienced in the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity. In addition, there is typically a 45 to 60-day delay between a home sale and closing; as such, some of the decreased market activity during the Quarter is expected to materialize as lower premium fees in the quarter ending March 31, 2009.

Other fees and services accounted for 14% of the Fund's royalties for the Quarter, compared to 13% of royalties in the same period in 2007. These fees were comprised of the APEC fee, technology fees, 4.5% option, web service and other fees and revenue, were up 7.2% over the same period in 2007, due primarily to the APEC fee paid by participating La Capitale REALTORS®, growth in the number of REALTORS® in the Royal LePage network and partially offset by a decrease in the 4.5% variable fee, resulting from slowing market activity and the conversion of some offices to the $100/1% fee option.

Administration expenses of $0.2 million for the Quarter were in line with management's expectations.

Interest expense for the Quarter of $0.8 million related to the balance to the Fund's underlying debt agreements.

Management fee expense of $1.4 million for the Quarter was in line with growth in the Fund's royalties. In accordance with the MSA, management fees are calculated as 30% of net royalty fees earned (defined as Distributable Cash in the MSA) from the La Capitale franchise agreements and 20% of the balance of royalties less administrative and interest costs.

Amortization of intangible assets of $4.7 million increased by $0.9 million over the comparative amount in 2007 in line with the additional amortization associated with the franchise agreements acquired on January 1, 2008.

Income tax recovery was negligible during the Quarter.

Non-controlling interest ("NCI") charge of $118 thousand represents the NCI's 25% interest in the Fund's underlying operations.

Distributable cash for the Quarter totalled $5.3 million, consistent with the same period in 2007.

Management's Discussion and Analysis of Results and Financial Condition

Liquidity

The Fund utilized cash flow generated from operating activities for the Quarter and year ended December 31, 2008 of $5.6 million and $24.2 million, respectively, to meet acquisition and distribution requirements. A summary of the Fund's working capital position is as follows:

Working Capital

($ 000's)	As at December 31, 2008	As at September 30, 2008	As at June 30, 2008	As at March 31, 2008	As at December 31, 2008
Current assets					
Cash and cash equivalents	$ 7,924	$ 7,746	$ 5,307	$ 2,365	$ 7,516
Accounts receivable and other	3,369	3,345	3,863	3,373	2,836
	$ 11,293	$ 11,091	$ 9,170	$ 5,738	$ 10,352
Current liabilities					
Accounts payable and accrued liabilities	$ 2,551	$ 1,842	$ 2,422	$ 2,336	$ 2,232
Purchase obligation	3,031	1,386	–	5,358	2,295
Distribution payable to unitholders	1,148	1,168	1,038	1,038	998
	6,730	4,396	3,460	8,732	5,525
Net working capital	$ 4,563	$ 6,695	$ 5,710	$ (2,994)	$ 4,827

Changes in the Fund's working capital during the year was primarily driven by cash flow generated from operations, the recording of obligations arising from the purchase of franchise agreements and the settlement of these obligations. During the first quarter the Fund's working capital decreased due primarily to the recording of obligations and payments related to the acquisition of franchise contracts. During the second quarter working capital increased as the Fund closed a $15 million term facility and drew down $14 million to satisfy various purchase obligations. Working capital decreased by the end of the fourth quarter due primarily to the recording of obligations related to franchise purchase obligations.

In addition to the factors described above, accounts receivable and other assets has increased from $2.8 million at the beginning of the year to $3.4 million by year end due primarily to an increase in the number of REALTORS® in the Fund and an increase in the collection cycle resulting from the marked decline in the market during the Quarter. The Fund has not provided an allowance against the franchisee receivables as there are no material collection concerns warranting an allowance at this time. Lastly, included in accounts payable and accrued liabilities is a $0.9 million payable to BAM for the purchase of units through the NCIB, partially offset by a $0.6 million year over year reduction in distributions payable to the non controlling interest ("NCI") as a result of the NCI receiving its distributions on a monthly basis rather than a quarterly basis as a result of the completion of the subordination requirement (see Transactions with Related Parties).

Capital Resources

The existing capital resources that the Fund can draw on consist of a $2 million operating line, which has been unutilized since the inception of the Fund and $1 million remaining undrawn from a $15 million term facility (see Debt Financing).

Other capital resources include: funds generated from operations and $7.4 million in unutilized distributable cash held for future distributions in anticipation of the seasonality of the Canadian Market; debt servicing; distribution requirements; and financing for the acquisition of franchise agreements.

The Fund's long-term debt is comprised of a $38 million Private Placement and $15 million term facility both maturing on February 17, 2010. During 2009 the Fund will continue to benefit from the stability of fixed interest costs associated with the Fund's long-term debt and will be focused on refinancing this debt as it matures in February 2010.

Off-Balance Sheet Arrangements

The Fund has no off-balance sheet arrangements.

Transactions With Related Parties

The Fund's interests are ultimately controlled 75% by the public and approximately 25% by BAM, which sold its interest in certain assets to the Fund. These assets included the relationships, trademarks and franchise agreements related to the business of its Royal LePage residential resale real estate brokerage franchise operations. Under the terms of the offering, the non-controlling interest was required to hold its 25% interest for five years ending August 7, 2008 after which it may exchange its Subordinated LP units for units of the Fund. In addition, during the initial five-year period, the non-controlling interest's right to receive distributions on a quarterly basis was reduced to the extent that the public unitholders do not receive their initial targeted monthly distributions of $0.0917 per unit. With the completion of in the five-year subordination, the non-controlling interest receives its distributions on a monthly basis and continues to hold its LP units.

BAM continues to operate 16 corporately-owned residential resale real estate brokerage locations in the GTA serviced by over 1,000 Agents. Of these operations, 14 entered into a single franchise agreement with the Fund on the inception of the Fund and two additional franchise agreements were added on January 1, 2007 and 2008. The original single franchise agreement for the 14 locations provides for a 20-year term for these locations under the $100/1% option and an additional Premium franchise fee ranging from 1% to 5% of the location's gross commission income for a 15-year term after which time the Premium franchise fees cease. The two new locations each have a new franchise agreement with the expiry date and cessation of premium fees consistent with the original agreement for the 14 locations.

The management of the Fund and its underlying structure is provided under an MSA by the Manager, which is a company controlled by the non-controlling interest. The MSA provides for an initial term expiring August 6, 2013 and is automatically renewable for successive 10-year terms subject to certain performance criteria and/or other notification requirements. The MSA details the Manager's responsibilities and provides for a monthly fee, payable in arrears, of 20% of cash otherwise distributable for Royal LePage agreements and 30% in respect of cash otherwise distributable from the La Capitale franchise agreements.

On January 1 of each year the Fund may, upon the Board of Trustees' approval and criteria detailed in the MSA, purchase Royal LePage franchises acquired by the Manager up to or on or about October 31 of the previous year. The acquisition amount is determined in accordance with a formula detailed in the MSA. The acquisition costs may be satisfied by way of cash or units of the Fund and are paid 80% on acquisition and the remaining 20% a year later when the actual franchise fees are reviewed and the acquisition calculations are adjusted accordingly.

On January 1 of each year, the Fund may, upon the Independent Trustees' approval and criteria established by the Board of Trustees, purchase La Capitale franchises acquired by the Manager or its affiliates up to or on or about October 31 of the previous year. The acquisition costs may be satisfied by way of cash or units of the Fund. Modification of the MSA relating to the La Capitale acquisition costs and management fees are as follows:

(a) the discount factor of 92.5%, which is applied to the Royalties upon which the purchase price is based, was increased to 90%, thereby reducing the purchase price;

(b) the final purchase price is to be calculated based on the average annual Royalties earned from La Capitale Franchise Agreements over three years (instead of one year);

(c) the Partnership will pay a management fee equal to 30% of net royalties (defined as Distributable Cash in the MSA), received from the La Capitale franchise agreements, instead of 20%. The increase in the management fee resulted in a direct and proportional decrease in the purchase price paid by the Partnership, as the purchase price is calculated based on Royalties earned from the La Capitale franchise agreements net of the management fee.

The related party transactions entered into by the Fund were transacted at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts in thousands of dollars follows:

Years ended December 31,	2008	2007
a) Royalties		
Fixed, variable and other franchise fees	$ 2,359	$ 2,248
Premium franchise fees	$ 3,943	$ 4,473
b) Expenses		
Management fees	$ 6,455	$ 5,869
Insurance and other	$ 102	$ 101
Interest	$ 210	$ –
c) Distributions		
Distribution paid to non-controlling interest	$ 4,978	$ 3,993

As at December 31,	2008	2007
d) Accounts receivable		
Franchise fees receivable and other	$ 394	$ 554
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	$ 389	$ 998
Management fees	$ 417	$ 429
NCIB settlement payable	$ 942	$ –
f) Purchase obligation	$ 6,211	$ 2,295

Effective January 1, 2009, the Fund acquired 18 Royal LePage franchise agreements serviced by 230 real estate agents. The Fund acquired the agreements from the Manager for an estimated purchase price of $2.5 million which is based on an estimated annual royalty stream of $0.5 million and has been calculated in accordance with the formula set forth in the Fund's MSA. The initial purchase price obligation of $2.0 million was due and paid in the first quarter of 2009 and the remaining $0.5 million is expected to be paid in the first quarter of 2010 upon meeting the terms set out in the MSA.

Also effective January 1, 2009, the Fund acquired from an affiliate of the Manager (the "Seller") three La Capitale franchise agreements serviced by 86 REALTORS®. The estimated purchase price of $0.9 million is based on an estimated annual royalty stream of $0.2 million calculated in accordance with the MSA as modified by the Board of Trustees as previously described. The initial purchase price obligation of $0.7 million was paid in the first quarter of 2009. The remaining 20% of the purchase obligation is to be paid out over the next three years based on an annual review of the actual royalties received and a re-estimation of the purchase price. Such payment will be made on or about January 1 of 2010, 2011 and 2012, with any excess over the purchase price plus interest being paid to the Seller and any payments made by the Fund in excess of the purchase price plus interest being paid by the Seller to the Fund.

During the first quarter of 2009, the Fund paid $2.7 million from cash on hand against the 2009 initial purchase obligation of $3.4 million in accordance with the MSA.

Critical Accounting Estimates

Substantially all of the Fund's activities are based on cash transactions with revenue and expenditures based on contracted terms. The only operating activities not based on contractual terms include: the Fund's administration costs, allocation of the intangible assets between franchise agreements and relationships, and trademarks and their related amortization periods. The Fund's administration costs of approximately $0.8 million per annum relate to the Fund's public reporting, regulatory and insurance costs.

The allocation of the Fund's intangible assets between their various classifications is subject to management estimates. The Fund's intangible assets are continuously monitored to ensure that there is no impairment in the carrying value of these assets. A change in the carrying value would affect the net earnings of the Fund but would have no direct cash flow implications.

Financial Instruments

The Fund's financial instruments consist of cash, accounts receivable, derivative liability, accounts payable and accrued liabilities, purchase obligation, distributions payable to unitholders, a $38 million private debt placement, a $15 million term facility and a $2 million credit facility.

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

The Fund's $38 million private debt is fixed at 5.882% for a five-year term commencing February 18, 2005 and as such is not subject to interest rate fluctuations.

On April 4, 2008, the Fund completed a $15 million term facility with a Canadian financial institution and with effect from April 7, 2008 entered into an interest rate swap agreement which fixed the variable portion of the term facility's interest at 3.29% for a total effective annual interest rate of 4.29% over the term of the facility. The interest rate swap is a financial derivative valued separately from the term facility. The Fund values the swap agreement at its market value. Changes in the value of the swap agreement are recorded as other income or loss.

Management estimates the fair value of the Fund's financial instruments to approximate their carrying values.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Fund on a timely basis so that appropriate decisions can be made regarding public disclosure. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and CFO have evaluated the effectiveness of the Fund's disclosure controls and procedures as of the year ended December 31, 2008. Based on that evaluation, the CEO and CFO have concluded that the disclosure control procedures are effective and provide reasonable assurance that: (a) information required to be disclosed by the Fund in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (b) material information regarding the Fund is accumulated and communicated to management, including its CEO and CFO in a timely manner.

Internal Controls Over Financial Reporting

The CEO and CFO have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2008, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, the CEO and CFO concluded that, as of December 31, 2008, internal controls over financial reporting were effective based on the criteria established in Internal Control – Integrated Framework.

Changes in Internal Controls Over Financial Reporting

There have been no significant changes in our internal control over financial reporting in fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Discussion and Analysis of Results and Financial Condition

Outstanding Units

The Fund's capital structure remains unchanged from its launch on August 7, 2003, with the Fund authorized to issue an unlimited number of units of the same class with equal rights and privileges. As at December 31, 2008, 9,819,280 units remained outstanding. In addition to these units, the Fund has 3,327,667 Special Fund Units outstanding, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units.

On October 3, 2008, the Toronto Stock Exchange approved the Fund's notice of intention to make a normal course issuer bid for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008, to October 6, 2009. Purchases will be made at market prices in accordance with the rules and policies of the Toronto Stock Exchange. Daily purchases will be effected through the facilities of the TSX and will be limited to 3,800 units, other than block purchase exceptions.

During the Quarter and year ended December 31, 2008, 163,720 units were purchased at an average price of $7.51 per unit. As of the date of this MD&A, a further 168,400 units at an average price of $8.67 per unit have been acquired.

Given current market prices for the Fund units, management believes that the purchase by the Fund of a portion of its outstanding units is an appropriate use of available resources and in the best interests of the Fund and its unitholders. The Fund has been and intends to continue to finance these purchases with available cash on hand.

Fund Structure

On October 31, 2007, the name of the Royal LePage Franchise Services Fund was changed to the Brookfield Real Estate Services Fund. This name change reflects the Fund's long-term multi-brand growth strategy and its close association with BAM, which has a strong reputation in the global real estate industry. The Fund currently receives revenues from franchisees operating under the national brand of Royal LePage and Québec based La Capitale network. As a result of these changes, the Fund's TSX stock symbol has been changed to BRE.UN and the website to www.brookfieldres.com.

The Fund is governed by a Board of Trustees and is comprised of a Trust (Fund) on Trust (Holding Trust) structure, that controls a general partner and Limited Partnership. The Trust on Trust structure qualifies the Fund for Canadian RRSPs, RRIFs, RESPs, DPSPs and similar plans.

Substantially, all Fund activity is transacted through the Limited Partnership ("LP"), which in turn flows distributions to public unitholders and the non-controlling interest through the Fund structure. The Fund has a 75% interest in the LP by way of Ordinary LP units held by the Holding Trust while the subordinated unitholder has a 25% interest in the Partnership by way of Subordinated LP units. The Fund and the subordinated unitholder have a 75% and 25% respective ownership in the General Partner, which mirrors their LP interests.

As part of the Fund's purchase of the La Capitale assets on January 1, 2008, the LP acquired two companies, a Limited Partnership ("LCLP") which held the La Capitale assets and the General Partner ("LCGP"). For a more detailed explanation of the Fund Structure please see the 2008 Annual Information Circular.

Under the terms of the Offering, the subordinated unitholder had to retain its full interest for five years from the commencement of the Fund. Fund distributions of all available cash were made on a monthly basis to public unitholders and on a quarterly basis to the subordinated unitholder. During the initial five-year period, the subordinated unitholder's distributions were subordinated to the public unitholders' distributions to the extent the public unitholders had not received the initial targeted monthly distribution of $0.0917 per unit, $1.10 per unit per annum. The initial five year term ended August 7, 2008 after which the subordinated unitholder may exchange its units for units of the Fund and receives distributions on a monthly basis.

The LP manages the Fund's operations and underlying structure by way of the MSA, as discussed in detail earlier.

Taxation of Fund Distributions

Under the Fund's Amended and Restated Declaration of Trust, the maximum tax deductions available to the Fund shall be claimed to the extent it brings the taxable income of the Trust to nil. The deductions available to the Trust are comprised of the costs of the offering and intangible assets. The estimated deductions available to the Trust as at December 31, 2008 are comprised of the costs of the initial public offering, intangible assets of the LP, acquisitions of franchise agreements subsequent to inception, costs associated with the $38 million private debt placement, and costs associated with the $15 million credit facility, which have the following deductibility profile and amounts:

Taxation of Fund Distributions

($ millions)

Future Deduction Basis	Remaining Balance December 31 2008	Estimated Addition for 2009	Estimated Deduction for 2009	Estimated Balance December 31 2009
7% of Balance	78.6	2.5	5.6[1]	74.9
Five year straight-line	0.4		0.2	0.2
	79.0	2.5	5.8	75.1

[1] This estimated deduction for 2009 is calculated as 7% of the sum of the remaining balance as of December 31, 2008 and 75% of the estimated addition for 2009.

For the year ended December 31, 2008, the Fund had a return of capital per unit of approximately 0% (3% – 2007) and a taxable amount per unit of approximately 100% (97% – 2007). These calculations are summarized in the table below.

($ millions)	2003	2004	2005	2006	2007	**2008**
Fund net earnings	2.0	3.3	4.8	3.5	7.7	**5.3**
Add:						
Non-controlling interest	0.7	1.2	1.7	1.3	2.8	**2.0**
Amortization	3.8	13.7	14.2	14.6	14.8	**16.9**
Income tax	–	–	–	–	(1.8)	**–**
Other	(0.1)				0.1	**0.5**
Taxable earnings	6.4	18.2	20.7	19.4	23.6	**24.7**
Less:						
Tax deduction	3.4	8.0	8.2	8.1	8.1	**7.2**
Taxable income	3.0	10.2	12.5	11.3	15.5	**17.5**
Distributions	(6.0)	(14.6)	(14.6)	(15.3)	(16.0)	**(17.5)**
Return of capital	(3.0)	(4.4)	(2.1)	(4.0)	(0.5)	**–**
Return of capital	50%	30%	14%	26%	3%	**0%**
Taxable	50%	70%	86%	74%	97%	**100%**
Distributions						
Unit holders	4.5	11.0	11.0	11.5	12.0	**13.1**
Non-controlling interest	1.5	3.6	3.6	3.8	4.0	**4.4**
	6.0	14.6	14.6	15.3	16.0	**17.5**

Impact of Taxation on Income Trusts

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011. This trust legislation was substantially enacted into law on June 12, 2007. Accordingly, during the second quarter of 2007, the Fund began to recognize future income taxes or recoveries arising from those temporary tax differences expected to reverse after January 1, 2011.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

In 2011 when the Fund expects to becomes a taxable entity, income taxes payable will reduce net earnings and will affect distributable cash by an equal amount.

In accordance with new tax legislation, as at December 31, 2008 the Fund has recorded a non-cash future tax liability of $1.2 million, arising from temporary tax differences expected to reverse after January 1, 2011 at the tax rate of 29.5%, applicable to the Fund in 2011 and 28% applicable there after. This non-cash future tax liability is net of the original non-cash future asset of $1.9 million recorded as at December 31, 2008. The increase attributable to future income tax liabilities arises as the assets of La Capitale were acquired on a tax deferred basis through a partnership with the underlying tax value attributed to the partnership units. As a result, the individual agreements and trademarks of the partnership at the time of acquisition by the Fund do not have a tax basis. The temporary difference between the carrying value of these agreements and trademarks and zero tax basis results in a future income tax liability of $3.1 million.

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

This trust legislation, and the related impact and proposed limits on equity issued by Income Funds to fund acquisitions, may affect the Fund's ability to make future acquisitions; accordingly, management and the Trustees have been monitoring the changes in the income trust environment and are continuing to review potential impacts on the Fund's current strategy and the alternatives available to the Fund, to protect and enhance unitholder value.

Change in Accounting Policies

Accounting Changes

The CICA has issued new accounting standards.

a) Section 3862, Financial Instruments – Disclosures and Section 3863, Financial Instruments – Presentation. These two new sections, issued by the CICA on December 1, 2006, replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements and carrying forward, unchanged, existing presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards came into effect for the Fund during the first quarter of 2008. The Fund has not experienced any material impact on the consolidated financial statements by adopting these standards.

b) Section 1535, Capital Disclosures. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. This new standard came into effect for the Fund in the first quarter of 2008. The Fund has not experienced any material impact on the consolidated financial statements by adopting these standards

Accounting Changes – Future

a) Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section, issued in February 2008, will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Fund will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of Intangible assets subsequent to their initial recognition The Fund has evaluated this standard and it currently has no impact on the carrying value of the Fund's Intangible Assets.

b) International Financial Reporting Standards ("IFRS")

Management has been assessing the impact of IFRS on the financial statements of the Fund and aside from prescribed changes in financial statement presentation and related disclosure the most significant impacts are on the accounting for the acquisition of franchise contracts, valuation of Intangibles and impairment of Intangibles.

Acquisition of franchise contracts

Currently under GAAP the Fund records the initial franchise contract obligations as deposits on acquisition with subsequent adjustments to the deposit obligation or purchase obligation as royalties are earned from the contracts. Under IFRS the Fund would record the estimated purchase price as an asset and the related purchase obligation.

Valuation of Intangibles

Under IFRS, Intangible assets under certain conditions are to be revalued at the end of each reporting period with any changes in value going through the Fund's statement of earnings. A prerequisite for the application of this accounting treatment is there must be an active market for these assets and the assets must be held for trading. The Fund's Intangibles are comprised of contracts, relationships and trademarks. The Fund does not trade these assets nor is there an active market for these assets and as such the Fund will not be required to revalue its Intangibles under these IFRS requirements.

Impairment of Intangibles

Under current GAAP the impairment of Intangible assets are reviewed at the end of each reporting period by comparing the expected future undiscounted cash flows to be generated from the Fund's Intangibles assets against the carrying value of the assets. Under IFRS the Fund is required to assess its Intangibles for impairment in value using a discounted cash flow ("DCF") whereby the DCF expected to be derived from the Fund's Intangible assets are compared to their carrying value in the financial statements at the end of each reporting period. Where the value of the DCF is less than the carrying value, the carrying value of the Intangible is to be recorded at the DCF value with the difference or impairment being written off as a current period charge to the statement of earnings. IFRS does not permit a write up of Intangibles should the DCF exceed the carrying value regardless of whether or not the Intangible was subject to an earlier impairment charge.

The primary drivers of the DCF as they relate to franchise contracts and relationships are the expected future cash flows from these assets over the remaining initial term of the contracts and the first renewal term, respectively, and the discount rate utilized. Management has determined that the yield on the Fund's units would be an appropriate rate to utilize for this purpose as this is the inherent rate of return for the Fund and was used in part to determine the purchase price for the Fund's franchise contract acquisitions.

The DCF approach to the valuation of Intangibles does not recognize the future value of the contracts and relationships derived from the period occurring after the remaining initial and first renewal term of the underlying contracts. With the decreasing yield of the Fund due in part to the overall economic turmoil it is conceivable that an impairment charge in respect of the Fund's Intangibles could arise as result of the application of this accounting requirement.

c) Business Combinations

In January 2009, the CICA issued new accounting standards concerning Business Combinations ("Section 1582"), Non-controlling Interests ("Section 1602") and Consolidated Financial Statements ("Section 1601"), which is based on the IASB's International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The Non-controlling Interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards ("IFRS"). The impact of the new standards on the Company's results of operations, financial position and disclosures will be assessed as part of the Company's IFRS transition project.

Risk Factors

Risks related to the residential resale real estate brokerage industry and the business of the Partnership and the Fund are outlined in the Fund's Annual Information Form which is available at www.sedar.com and on the Fund's website www.brookfieldres.com under Investor Relations/Financial Reports.

Management's Discussion and Analysis of Results and Financial Condition

Outlook

Following record housing prices and units sold in Canada during 2007, the Market declined by 17.6% in 2008 to $131.9 billion. This current slowdown in housing markets reflects the end of an expansionary period for Canadian housing that goes back to the start of the decade. We anticipate a further retreat in the Market in the midst of the current Canadian recession and global economic uncertainty. CREA has projected a 6.4% weighted average drop in average MLS home prices and a 16.9% drop in national MLS unit sales activity in 2009, followed by steady prices and a 9.9% rebound in unit sales in 2010 with most of the increased activity in the second half of that year.

Real estate resale markets in Canada are being affected by a drop in consumer confidence resulting from widespread economic concerns, originating largely from the U.S. credit market crisis that has spread globally and has diminished the value of a range of asset classes. The sharp drop in commodity prices has affected Canada's resource-based regional economies, as have layoffs in manufacturing-based regions. We anticipate a further decline in Canadian real estate markets until consumer confidence improves.

The reduction in unit sales from record levels and decline in transaction dollar volume in Canada in recent quarters may reduce the number of agents entering the industry and cause less productive Agents to seek other employment opportunities. When markets slow, established brands can gain market share as their reputation and support services make them a destination of choice. The Fund's three leading brands are well positioned for a market slowdown.

The variable and fixed elements of the Fund's royalty stream drive distributable cash. From a variable fee perspective the impact of a further market decline is mitigated by the composition of the royalty stream which is approximately 69% fixed and 31% variable resulting in an approximate 31% change in royalty fees for changes in overall Market activity. For example, all other factors being held constant, a 10% decrease in market activity would result in an approximate 3.1% decline in royalties. A more substantive change in the Fund's variable royalty fee revenue however could result if Market activity in the GTA were to differ significantly from the overall Market, as the Fund earned 13% of its fees revenue in the form of a premium royalty fee from this Market. In addition the Fund's variable fees may differ from the overall Market activity as a result of the Fund's over representation in the province of Québec and under representation in the western provinces.

From a fixed fee perspective, a loss of agents could result in a $1,500 to $2,000 fixed fee reduction and up to $1,300 of variable fees for agents who have reached the related variable fee cap. In the Quarter, the Fund experienced agent loss and this agent loss may continue to occur with less productive agents who are unable to generate sufficient income to meet their needs during a market correction. During 2008, the Fund's agents were on average 69% more productive than the rest of the industry therefore, management believes they are better able to withstand a significant reduction in the market.

Another factor affecting REALTORS® of the Fund is the number of new Agents who have joined over the past two years, a significant number of whom have joined the Fund network. Typically these agents need two years to build a sufficient book of business and as such are more vulnerable to exiting the market.

During 2009 the Fund will continue to benefit from the stability of fixed interest costs associated with the Fund's long-term debt and will be focused on refinancing this debt as it comes due in February 2010.

In summary, the Fund has experienced growth in distributable cash even while the Market declined. Our high proportion of fixed revenue and growth through acquisitions mitigates some of the impact of a declining Market. These strategies have positioned the Fund to maintain performance stability throughout the Market cycle. Our objective is to offset an anticipated increase in REALTOR® attrition with focused recruiting and franchise acquisition efforts.

We maintain confidence in the long-term growth potential of the real estate services industry, and of the Fund as we implement our multi-brand growth strategy. During this downturn we anticipate consolidation within the industry as the better capitalized, technologically advanced and service-oriented brands gain market share organically and through acquisitions. With leading brands and leading performance, we are a consolidator in the industry in Canada, and we continue to have our sights set on expansion into the U.S. at the appropriate time.

Forward-Looking Statements

This MD&A and other content of this Financial Review report contain forward-looking information and other "forward-looking statements". The words such as "should", "will", "continue", "plan", "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Fund 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 set forward in the forward-looking statements include a change in general economic conditions; interest rates; consumer confidence; the level of residential resale transaction; the average rate of commissions charged; competition from other traditional real estate brokers or from discount and/or internet-based real estate alternatives; the availability of acquisition opportunities and/or the closing of existing real estate offices; other developments in the residential real estate brokerage industry or the Fund that reduce the number of and/or royalty revenue from the Fund's REALTORS®; our ability to maintain brand equity through the use of trademarks; the availability of equity and debt financing; a change in tax provisions; and other risks detailed in the Fund's annual information form which is filed with securities commissions and posted on SEDAR at www.sedar.com. The Fund 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 – Net Earning and Distributable Cash by Period

Three months ended ($ 000's except per unit amounts, unaudited)	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Royalties	$ 6,910	$ 8,838	$ 9,295	$ 7,448	$ 8,092	$ 9,404	$ 9,647	**$ 7,740**
Less:								
Administration expenses	174	175	184	192	190	215	188	**224**
Management fee	1,229	1,610	1,700	1,330	1,473	1,765	1,805	**1,412**
Interest expense	592	615	606	606	811	766	803	**794**
Other (income)/loss	–	–	–	–	–	(62)	92	**335**
Amortization of intangible assets	3,652	3,683	3,723	3,746	3,896	4,035	4,297	**4,658**
Earnings before undernoted	1,263	2,755	3,082	1,574	1,722	2,685	2,462	**317**
Future income tax recovery/(expense)	–	2,101	11	(293)	35	11	1	**1**
Non-controlling interest	(351)	(1,249)	(811)	(364)	(476)	(718)	(652)	**(118)**
Net and comprehensive earnings for the period	912	3,607	2,282	917	1,281	1,978	1,811	**200**
Add :								
Amortization of intangible assets	3,652	3,683	3,723	3,746	3,896	4,035	4,297	**4,658**
Non-cash other (income)/loss	–	–	–	–	–	(62)	92	**335**
Future income tax (recovery) expense	–	(2,101)	(11)	293	(35)	(11)	(1)	**(1)**
Non-controlling interest	351	1,249	811	364	476	718	652	**118**
Distributable cash	4,915	6,438	6,805	5,320	5,618	6,658	6,851	**5,310**
Less change in:								
Unutilized cash	(1,005)	(2,445)	(2,812)	(1,244)	(1,463)	(2,508)	(2,351)	**(663)**
Cash required for distributions	$ 3,910	$ 3,993	$ 3,993	$ 4,076	$ 4,155	$ 4,150	$ 4,500	**$ 4,647**
Distributable cash available to:								
Public unitholders	$ 2,953	$ 2,995	$ 2,995	$ 3,037	$ 3,115	$ 3,114	$ 3,375	**$ 3,479**
Non-controlling interest	957	998	998	1,039	1,040	1,036	1,125	**1,168**
	$ 3,910	$ 3,993	$ 3,993	$ 4,076	$ 4,155	$ 4,150	$ 4,500	**$ 4,647**
Distributions to public unitholders	$ 2,953	$ 2,995	$ 2,995	$ 3,037	$ 3,115	$ 3,114	$ 3,375	**$ 3,479**
Per unit (9,983,000 units less retired):								
Basic and diluted earnings	$ 0.09	$ 0.36	$ 0.23	$ 0.09	$ 0.13	$ 0.20	$ 0.18	**$ 0.02**
Basic and diluted distributable cash before working capital and other reserves	$ 0.37	$ 0.48	$ 0.51	$ 0.40	$ 0.42	$ 0.50	$ 0.51	**$ 0.40**
Basic and diluted distributions	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.31	$ 0.31	$ 0.34	**$ 0.35**

Tax Allocation of Distributions

For the year ended December 31, (Unaudited)	2003[1]	2004	2005	2006	2007	**2008**
Other taxable income	50%	70%	86%	74%	97%	**100%**
Return of capital	50%	30%	14%	26%	3%	**0%**
Total distributions of the period	100%	100%	100%	100%	100%	**100%**

[1] Inception (August 7) to December 31, 2003.

Supplemental Information – Selected Financial and Operating Information

Three months ended ($000's, unaudited)	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Revenue								
Fixed franchise fees	$ 3,621	$ 3,714	$ 3,749	$ 3,788	$ 4,336	$ 4,440	$ 4,431	**$ 4,491**
Variable franchise fees	1,720	2,870	2,661	1,315	1,921	2,628	2,499	**1,243**
Premium franchise fees	737	1,306	1,899	1,348	893	1,106	1,514	**937**
Other fee revenue and services	832	948	986	997	942	1,230	1,203	**1,069**
	$ 6,910	$ 8,838	$ 9,295	$ 7,448	$ 8,092	$ 9,404	$ 9,647	**$ 7,740**
% Revenue by region								
British Columbia	15	15	13	13	14	13	11	**11**
Prairies	11	11	9	9	10	10	9	**10**
Ontario	58	59	63	63	55	54	59	**53**
Québec	12	12	11	11	18	20	18	**22**
Maritimes	4	3	4	4	3	3	3	**4**
	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Number of REALTORS®	633	178	125	87	1,418	181	(5)	**(172)**
Number of Agents	610	170	79	84	1,350	164	17	**(132)**
Number of fixed fee paying Sales Representatives	(1)	30	43	19	(7)	12	(11)	**(30)**
Number of locations	22	(6)	–	(3)	55	(2)	–	**(1)**
Number of franchise agreements	20	(6)	–	(4)	54	(1)	–	**–**
At end of period								
Number of REALTORS®	12,782	12,960	13,085	13,172	14,590	14,771	14,766	**14,594**
Number of Agents	11,868	12,038	12,117	12,201	13,551	13,715	13,732	**13,600**
Number of fixed fee paying Sales Representatives	643	673	716	735	728	740	729	**699**
Number of locations	600	594	594	591	646	644	644	**643**
Number of franchise agreements	295	289	289	285	339	338	338	**338**

Management's Discussion and Analysis of Results and Financial Condition

Supplemental Information – Fund Unit Performance

Three months ended	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Trading price range of units (TSX: "RSF.UN")								
High	$ 14.00	$ 14.26	$ 14.14	$ 13.89	$ 13.88	$ 12.00	$ 10.87	**$ 10.47**
Low	$ 11.85	$ 12.10	$ 12.26	$ 11.50	$ 11.01	$ 10.00	$ 8.04	**$ 6.15**
Close	$ 12.74	$ 13.75	$ 12.87	$ 13.88	$ 11.75	$ 10.00	$ 9.84	**$ 7.74**
Average daily volume	4,230	6,497	3,618	8,266	4,385	5,110	10,901	**11,121**
Number of units outstanding at period end	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	9,983,000	**9,819,280**
Net enterprise value at period end (thousands)								
Market capitalization[1]	$169,578	$183,022	$171,308	$184,752	$156,400	$133,107	$130,977	**$101,757**
Long-term debt	37,494	37,535	37,576	37,617	37,660	51,511	51,532	**51,615**
Less:								
Cash on hand	512	2,434	6,652	7,516	2,365	5,307	7,746	**7,924**
	$206,560	$218,123	$202,232	$214,853	$191,695	$179,311	$174,763	**$145,448**

[1] Comprised of the number of units outstanding at period end and 3,327,667 subordinated units, multiplied by the closing unit price.

Distribution History

	Distributions Declared per Unit					
Month	2003	2004	2005	2006	2007	**2008**
January		$ 0.0917	$ 0.0917	$ 0.0958	$ 0.1000	**0.1040**
February		0.0917	0.0917	0.0958	0.1000	**0.1040**
March		0.0917	0.0917	0.0958	0.1000	**0.1040**
April		0.0917	0.0917	0.0958	0.1000	**0.1040**
May		0.0917	0.0917	0.0958	0.1000	**0.1040**
June		0.0917	0.0917	0.0958	0.1000	**0.1040**
July		0.0917	0.0917	0.0958	0.1000	**0.1040**
August		0.0917	0.0917	0.0958	0.1000	**0.1170**
September	$ 0.1789*	0.0917	0.0917	0.0958	0.1000	**0.1170**
October	0.0917	0.0917	0.0917	0.0958	0.1000	**0.1170**
November	0.0917	0.0917	0.0917	0.0958	0.1000	**0.1170**
December	0.0917	0.0917	0.0917	0.0958	0.1000	**0.1170**
	$ 0.45	$ 1.10	$ 1.10	$ 1.15	$ 1.20	**$ 1.31**

* Based on a 55-day period.

Supplemental Information – Condensed Balanced Sheet

As at ($ 000's, unaudited)	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Cash and cash equivalents	$ 512	$ 2,434	$ 6,652	$ 7,516	$ 2,365	$ 5,307	$ 7,746	**$ 7,924**
Accounts receivable	3,030	3,854	3,054	2,752	3,272	3,801	3,322	**3,224**
Prepaid expenses	108	62	23	84	101	62	23	**145**
Deposit on acquisition	3,908	1,512	–	–	1,908	5,545	–	**–**
Financial derivatives	–	–	–	–	–	62	–	**–**
Future income tax asset	–	2,101	2,112	1,819	799	333	–	**–**
Intangible assets	122,228	120,941	119,593	117,279	121,857	122,317	125,921	**126,647**
	$ 129,786	$ 130,904	$ 131,434	$ 129,450	$ 130,302	$ 137,427	$ 137,012	**$ 137,940**
Accounts payable and accrued liabilities	$ 2,236	$ 2,450	$ 2,978	$ 2,232	$ 2,336	$ 2,422	$ 1,842	**$ 2,551**
Purchase obligations – short term	–	–	862	2,295	5,358	–	1,386	**3,031**
Distributions payable to unitholders	998	998	998	998	1,038	1,038	1,168	**1,148**
Long-term debt	37,494	37,535	37,576	37,617	37,660	51,511	51,532	**51,615**
Purchase obligations – long term	–	–	–	–	–	–	–	**3,180**
Financial derivatives	–	–	–	–	–	–	30	**365**
Deferred tax payable	–	–	–	–	–	–	635	**1,193**
Non-controlling interest	22,677	22,928	22,740	22,106	21,542	21,224	20,751	**19,701**
Unitholders' equity	66,381	66,993	66,280	64,202	62,368	61,232	59,668	**55,156**
	$ 129,786	$ 130,904	$ 131,434	$ 129,450	$ 130,302	$ 137,427	$ 137,012	**$ 137,940**

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Supplemental Information – Condensed Cash Flow by Period

Three months ended ($ 000's, unaudited)	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Cash provided by (used for):								
Operating activities								
Net earnings for the period	$ 912	$ 3,607	$ 2,282	$ 917	$ 1,281	$ 1,978	$ 1,811	**$ 200**
Add (deduct)								
Non-controlling interest	351	1,249	811	364	476	718	652	**118**
Future income tax (recovery) expense	–	(2,101)	(11)	293	(35)	(11)	(1)	**(1)**
Non-cash interest expense	39	41	41	41	43	69	88	**83**
Non-cash other (income) / loss	–	–	–	–	–	(62)	92	**335**
Amortization of intangible assets	3,652	3,683	3,723	3,746	3,896	4,035	4,297	**4,658**
Changes in non-cash working capital	(1,150)	(564)	1,365	(420)	(393)	(403)	68	**183**
	3,804	5,915	8,211	4,941	5,268	6,324	7,007	**5,576**
Investing activities								
Deposit on acquisition	(5,743)	–	–	–	(3,949)	(12,965)	–	**(70)**
Payment of purchase price obligation	(576)	–	–	–	(2,295)	–	–	**–**
Re-purchase of fund units	–	–	–	–	–	–	–	**(291)**
Purchase of intangible assets	(14)	–	–	–	(20)	(49)	(1)	**70**
	(6,333)	–	–	–	(6,264)	(13,014)	(1)	**(292)**
Financing activities								
Proceeds from term facility	–	–	–	–	–	13,782	(67)	**–**
Distributions paid to unitholders	(2,953)	(2,995)	(2,995)	(3,037)	(3,115)	(3,114)	(3,375)	**(3,329)**
Distributions paid to non-controlling interest	(957)	(998)	(998)	(1,040)	(1,040)	(1,036)	(1,125)	**(1,777)**
	(3,910)	(3,993)	(3,993)	(4,077)	(4,155)	9,632	(4,567)	**(5,106)**
Increase (decrease) in cash and cash equivalents during the period	(6,439)	1,922	4,218	864	(5,151)	2,942	2,439	**179**
Cash and cash equivalents, beginning of period	6,951	512	2,434	6,652	7,516	2,365	5,307	**7,746**
Cash and cash equivalents, end of period	$ 512	$ 2,434	$ 6,652	$ 7,516	$ 2,365	$ 5,307	$ 7,746	**$ 7,924**

Supplemental Information – Canadian Real Estate Market

Three months ended	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Canada								
Transaction dollar volume[1]	$ 35,287	$ 52,385	$ 40,546	$ 31,875	$ 32,578	$ 46,258	$ 34,091	**$ 18,977**
Average selling price	$293,849	$309,165	$308,542	$314,591	$312,583	$314,517	$294,657	**$281,220**
Number of units sold	120,084	169,441	131,412	101,323	104,221	147,078	115,699	**67,481**
Number of REALTORS® at period end	90,449	92,396	93,709	94,538	96,266	98,072	98,459	**97,168**
Housing starts	40,716	64,615	67,838	55,174	43,610	62,087	58,292	**47,067**
Greater Toronto Area								
Transaction dollar volume[1]	$ 7,438	$ 11,841	$ 8,788	$ 7,838	$ 6,720	$ 10,645	$ 7,572	**$ 4,093**
Average selling price	$363,488	$381,364	$368,685	$394,382	$379,232	$397,591	$368,516	**$359,883**
Number of units sold	20,463	31,049	23,837	19,874	17,721	26,773	20,548	**11,372**
Housing starts	5,585	9,386	9,723	8,599	8,945	11,684	11,736	**9,847**

Twelve months ended	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Canada								
Transaction dollar volume[1]	$138,622	$148,310	$155,507	$160,093	$157,385	$151,310	$144,803	**$131,905**
Average selling price	$283,397	$292,292	$300,141	$306,539	$310,794	$312,440	$309,196	**$303,593**
Number of units sold	489,145	507,403	518,113	522,260	506,397	484,285	468,321	**434,479**
Housing starts	224,194	223,580	231,221	228,343	231,237	228,709	219,163	**211,056**
Seasonally adjusted housing starts	210,900	225,500	278,200	187,500	254,700	217,800	217,600	**177,300**
Greater Toronto Area								
Transaction dollar volume[1]	$ 30,352	$ 32,535	$ 34,248	$ 35,905	$ 35,188	$ 33,991	$ 32,775	**$ 29,030**
Average selling price	$355,943	$362,321	$368,444	$377,066	$380,489	$385,364	$385,970	**$379,904**
Number of units sold	85,272	89,796	92,953	95,223	92,481	88,205	84,916	**76,414**
Housing starts	35,375	33,299	34,272	33,293	36,653	38,951	40,964	**42,212**

Source: CMHC, CREA and TREB

[1] Millions of dollars.

Management's Responsibility for the Financial Statements

The accompanying financial statements and other financial information have been prepared by the Fund's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Fund maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These financial statements have been prepared in conformity with Canadian generally accepted accounting principles, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this annual report is consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche, LLP, the independent auditors appointed by the unitholders, have examined the consolidated financial statements set out on pages 43 through 54 in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further examined by the Board of Trustees and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Trustees. 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 Trustees, directly and through its Audit Committee, oversees management financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Toronto, Canada. March 10, 2009

Philip Soper
PRESIDENT AND CHIEF EXECUTIVE

Kevin A. Cash
SENIOR VICE-PRESIDENT, CFO

Auditors' Report

To the Unitholders of Brookfield Real Estate Services Fund

We have audited the consolidated balance sheets of Brookfield Real Estate Services Fund (the "Fund") as at December 31, 2008 and 2007 and the consolidated statements of earnings and comprehensive earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO, CANADA, MARCH 10, 2009

Brookfield Real Estate Services Fund

Consolidated Balance Sheets

As at December 31, 2008 and 2007 (in thousands of dollars)	2008	2007
Assets		
Current assets		
Cash	$ 7,924	$ 7,516
Accounts receivable	3,224	2,752
Prepaid expenses	145	84
	11,293	10,352
Future income tax asset (note 6)	–	1,819
Intangible assets (note 5)	126,647	117,279
	$ 137,940	$ 129,450
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,551	$ 2,232
Purchase obligation (note 4)	3,031	2,295
Distribution payable to unitholders	1,148	998
	6,730	5,525
Long-term debt (note 8)	51,615	37,617
Purchase obligation (note 4)	3,180	–
Financial derivative (note 8)	365	–
Future income tax liability (note 6)	1,193	–
Non-controlling interest (note 9)	19,701	22,106
	82,784	65,248
Unitholders' equity	55,156	64,202
	$ 137,940	$ 129,450

See accompanying notes to the consolidated financial statements

On behalf of the board

Simon Dean
TRUSTEE

Lorraine Bell
TRUSTEE

Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31 (in thousands of dollars, except unit and per unit amounts)	2008	2007
Royalties		
Fixed franchise fees	$ 17,698	$ 14,872
Variable franchise fees	8,291	8,566
Premium franchise fees	4,450	5,290
Other fees and services	4,444	3,763
	34,883	32,491
Expenses		
Administration	817	725
Management fee (note 3)	6,455	5,869
Interest expense	3,174	2,419
Other loss (note 8)	365	–
Amortization of intangible assets (note 5)	16,886	14,804
	27,697	23,817
Earnings before income tax and non-controlling interest	7,186	8,674
Future income tax recovery (note 6)	48	1,819
Earnings before non-controlling interest	7,234	10,493
Non-controlling interest (note 9)	(1,964)	(2,775)
Net and comprehensive earnings	$ 5,270	$ 7,718
Basic and diluted earnings per unit (9,974,391 weighted average units) (2007 – 9,983,000 units) (note 11)	$ 0.53	$ 0.77

See accompanying notes to the consolidated financial statements

Consolidated Statements of Unitholders' Equity

(in thousands of dollars)	Units	Contributed Surplus	Net Earnings	Distributions	Net Deficit	Total
Balance, January 1, 2007	$ 92,938	$ –	$ 13,506	$ (37,980)	$ (24,474)	$ 68,464
Changes during the period:						
Net income		–	7,718	–	7,718	7,718
Unit distributions		–	–	(11,980)	(11,980)	(11,980)
Balance, December 31, 2007	$ 92,938	$ –	$ 21,224	$ (49,960)	$ (28,736)	$ 64,202
Changes during the period:						
Issuer repurchases (note 10)	(1,637)	404	–	–	–	(1,233)
Net earnings		–	5,270	–	5,270	5,270
Unit distributions		–	–	(13,083)	(13,083)	(13,083)
Balance, December 31, 2008	$ 91,301	$ 404	$ 26,494	$ (63,043)	$ (36,549)	$ 55,156

There is no accumulated other comprehensive income or loss to the Fund.

See accompanying notes to the consolidated financial statements

Brookfield Real Estate Services Fund

Consolidated Statements of Cash Flows

Years ended December 31, (in thousands of dollars)	2008	2007
Cash provided by (used for):		
Operating activities		
Net earnings for the year	$ 5,270	$ 7,718
Items not affecting cash		
Non-controlling interest	1,964	2,775
Future income tax recovery	(48)	(1,819)
Non-cash interest expense (note 8)	283	162
Change in value of derivatives	365	–
Amortization of intangible assets	16,886	14,804
Changes in non-cash working capital (note 13)	(546)	(769)
	24,174	22,871
Investing activities		
Purchase of intangible assets (note 4)	(16,984)	(5,757)
Payment of purchase price obligation	(2,295)	(576)
Repurchase of Fund units	(291)	–
	(19,570)	(6,333)
Financing activities		
Proceeds from Term Facility (note 8)	13,715	–
Distributions paid to unitholders	(12,933)	(11,980)
Distributions paid to non-controlling interest	(4,978)	(3,993)
	(4,196)	(15,973)
Increase in cash during the year	408	565
Cash, beginning of year	7,516	6,951
Cash, end of year	$ 7,924	$ 7,516

See supplemental cash flow disclosure (note 13)

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007 (in thousands of dollars)

1. Organization

Brookfield Real Estate Services Fund (the "Fund") is a limited purpose trust established under the laws of the Province of Ontario and pursuant to an Amended and Restated Declaration of Trust. On August 7, 2003, the Fund raised $99,830 (before issue costs) by issuing units on the Toronto Stock Exchange. These proceeds together with the proceeds of a term loan were utilized to acquire franchise agreements, relationships and trademark rights.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements include the accounts of Brookfield Real Estate Services Fund, its wholly-owned subsidiary RL RES Holding Trust ("RLHT"), and its 75% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP"), Residential Income Fund L.P. (the "Partnership"), 9120 Real Estate Network, L.P. ("LCLP"), a wholly owned subsidiary of the Partnership, and 9188-5517 Québec Inc., the "General Partner of LCLP". RIFGP is the managing general partner of the Partnership. Trilon Bancorp Inc. (the "non-controlling interest") owns the remaining 25% interest in the Partnership and RIFGP. The Fund receives certain management, administrative and support services from Brookfield Real Estate Services Ltd. ("BRESL"), a party related to the non-controlling interest via common control.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's significant accounting policies are as follows:

Revenue recognition

Franchise fees are generally based on a percentage of an agent's gross revenue ("Variable Franchise Fees") to a specified maximum plus a dollar amount per agent ("Fixed Franchise Fees"). Gross revenue is the gross commission income (net of outside broker payments) paid in respect of the closings of residential resale real estate transactions. Variable Franchise Fees are recognized as income at the time a residential resale real estate transaction closes or lease is signed by the vendor or lessor. Fixed Franchise Fees are recognized as income as earned.

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

Other fee-based revenues are generally recognized as income when the related services have been provided. Any prepayment for future service is recorded as deferred revenue. Deferred revenue as at December 31, 2008 was $140 (2007 – $161).

Intangible assets

Intangible assets, consisting of franchise agreements, relationships and trademark rights are recorded at cost less accumulated amortization. The franchise agreements are being amortized over the term of the agreements using the effective rate method. Relationships are amortized over one renewal period, at the commencement of that period, using the effective rate method. The trademarks are amortized on a straight-line basis over the term of the agreement plus one renewal period, if applicable. The Fund reviews the carrying value of the intangible assets for impairment whenever events or circumstances indicate the carrying value may not be recoverable. If impairment is determined to exist, the intangible assets are written down to their fair value.

Earnings per unit

The earnings per unit are based on the weighted average number of units outstanding during the year. Diluted earnings per unit are calculated to reflect the dilutive effect, if any, of the non-controlling interest exercising its right to exchange its Subordinated LP Units of the Partnership into units of the Fund after August 7, 2008.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination the carrying value of intangible assets, determination of the future tax balances, useful lives for amortization of intangible assets and provisions for contingencies. Actual results could differ from those estimates.

Financial instruments

i) On January 1, 2008, the Fund adopted CICA Handbook Sections 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. These two new sections, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements and carrying forward, unchanged, existing presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Fund has included these disclosures in Note 14.

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

The Fund made the following classifications:

Cash or cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Purchase obligation	Other financial liabilities
Distributions payable to unitholders	Other financial liabilities
Long-term debt	Other financial liabilities

iii) The Fund utilizes a derivative financial instrument to manage its interest rate risk. Derivative financial instruments are classified as Held-for-trading and are carried at estimated fair values. Gains or losses arising from changes in fair value are recognized in the consolidated statement of earnings and are classified as other income or loss in the period the change occurs.

iv) The Fund did not have any financial instruments at December 31, 2008 that would result in Other Comprehensive Earnings to the Fund.

Capital Disclosures

On January 1, 2008, the Fund adopted CICA Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital. The Fund has included this disclosure in Note 15.

Future Accounting Changes

Goodwill and Intangible Assets

On January 31, 2008, the CICA issued a new accounting standard, Section 3064 – *Goodwill and Intangible Assets*. Section 3064 will replace Section 3062 – *Goodwill and Other Intangible Assets* and Section 3450 – *Research and Development Costs*. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard, regarding intangible assets, will be effective for the Fund in the first quarter of 2009. The Fund has evaluated this standard and determined that there is no impact to the consolidated financial statements.

Business Combinations

In January 2009, the CICA issued new accounting standards concerning Business Combinations ("Section 1582"), Non-controlling Interests ("Section 1602") and Consolidated Financial Statements ("Section 1601"), which is based on the IASB's International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The Non-controlling Interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards ("IFRS"). The impact of the new standards on the Company's results of operations, financial position and disclosures will be assessed as part of the Company's IFRS transition project.

3. Management Services Agreement

On January 1, 2008, the Fund entered into an Amended and Restated Management Services Agreement ("MSA") with BRESL, a party related to the non-controlling interest via common control. This agreement replaced the original Management Services Agreement which commenced August 7, 2003 with an initial term of 10 years and automatically renewable for successive 10-year periods subject to approval of the Fund and BRESL. The termination date and renewal periods of the MSA remain consistent with the original agreement. Under the MSA, BRESL is to provide certain management, administrative and support services to the Fund and its subsidiaries and in return is paid a monthly fee equal to 20% of the cash of the Partnership otherwise available for distribution and 30% of LCLP available for distribution. For the year ended December 31, 2008, BRESL earned $6,455 for these services (2007 – $5,869). The MSA also prescribes the conditions under which the Fund purchases contracts from BRESL and the formula for calculating the purchase price.

4. Asset Acquisitions

On January 1, 2008, the Partnership acquired 16 new Royal LePage franchise agreements from BRESL at a purchase price of $3,984 and $303 of related legal and other acquisition costs, in accordance with the terms set out in the MSA.

On January 1, 2008, the Partnership acquired 100% of the partnership units of LCLP, which holds franchise agreements operating under the La Capitale brand in Québec and associated trademarks, and 100% of the shares of the General Partner of LCLP for an estimated purchase price of $18,907, including $151 of related legal and other acquisition costs, from Trilon Bancorp Inc., the parent company of BRESL. The estimated purchase price is calculated in accordance with the terms of the Fund's MSA and the Unit and Share Purchase Agreement negotiated by the Fund's Trustees and is based on an estimated annual royalty stream of $2,718. The estimated price is to be revised at the end of each of the next two years based on the average annual royalty stream over the three-year period from November 1, 2007 to October 31, 2010.

The acquisitions during 2008 are summarized as follows:

	Royal LePage	LCLP	Total	2007 Total
Franchise agreements	$ 2,941	$ 10,842	$ 13,783	$ 8,038
Relationships and trademarks	1,346	11,125	12,471	–
	4,287	21,967	26,254	8,038
Future income tax liability	–	(3,060)	(3,060)	–
	$ 4,287	$ 18,907	$ 23,194	$ 8,038

The consideration paid, including transaction costs, consists of the following:

	Royal LePage	LCLP	Total	2007 Total
Cash on hand	$ 2,968	$ 1,050	$ 4,018	$ 5,743
Proceeds of term facility	–	12,965	12,965	–
	2,968	14,015	16,983	5,743
Remaining purchase price obligation, current	1,319	1,712	3,031	2,295
Remaining purchase price obligation, long-term	–	3,180	3,180	
	$ 4,287	$ 18,907	$ 23,194	$ 8,038

On January 1, 2007, the Partnership acquired 22 Royal LePage franchise agreements from BRESL at a purchase price of $8,038 calculated in accordance with the MSA.

5. Intangible Assets

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

	2008		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 147,176	$ 76,279	$ 70,897
Relationships and trademarks	57,299	1,549	55,750
	$ 204,475	$ 77,828	$ 126,647

	2007		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 133,393	$ 59,988	$ 73,405
Relationships and trademarks	44,828	954	43,874
	$ 178,221	$ 60,942	$ 117,279

Amortization for the year ended December 31, 2008 was $16,886 (2007 – $14,804).

6. Future Income Taxes

On October 31, 2006, the Minister of Finance announced proposed tax legislation ("trust legislation") that will change the income tax rules applicable to publicly traded trusts rendering income trusts taxable in 2011. This trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules.

Prior to June 12, 2007, income tax obligations relating to distributions from the Fund were obligations of the unitholders and, accordingly, no provisions for income taxes were recorded by the Fund.

Under the trust legislation the Fund is not expected to be liable for current taxes until January 1, 2011. Beginning June 12, 2007, the Fund recognized future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011 at the tax rates of 29.5% applicable to the Fund in 2011 and 28% thereafter.

The Fund had a future income tax asset of $1,819 at December 31, 2007. During the year ended December 31, 2008, the Fund recorded an additional non-cash future tax recovery of $48. The resulting future income tax asset totalled $1,867 as at December 31, 2008.

The assets of LCLP acquired by the Partnership as described in Note 4 were obtained on a tax-deferred basis with the related tax value attributed to the partnership units of LCLP held by the Partnership. Accordingly, the individual franchise agreements and trademarks of the partnership at the time of acquisition by the Fund did not have a tax basis. The temporary difference between the carrying value of these agreements and zero tax basis results in a future income tax liability. Under GAAP the Fund is required to adjust the carrying value of the acquired assets by an amount equal to the future income tax liability. Accordingly, during the year ended December 31, 2008, the Fund recorded future income tax liabilities of $3,060, which net of the future income tax asset described above resulted in a net future income tax liability of $1,193.

In 2011, when the Fund is expected to become a taxable entity, income taxes payable may reduce net earnings and may affect distributable cash by an equal amount.

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

For the year ended December 31,		2008		2007
Expected income tax expense at a statutory tax rate of 33.5% (2007 36%)	$	1,749	$	2,129
Effect of current year's income being distributed to unitholders		(1,749)		(2,129)
Future income tax recovery due to the trust legislation		–		1,819
Future income tax recovery due to ongoing operations and intangible assets		48		–
Future income tax recovery	$	48	$	1,819

The tax effect of the estimated temporary differences as at December 31, 2010 that give rise to the net future tax (liability) asset is as follows:

		2008		2007
Future tax asset (liability):				
Intangible assets	$	(1,193)	$	1,819
Net future tax (liability) asset	$	(1,193)	$	1,819

7. Operating Credit Facility

On February 16, 2005, the Partnership obtained a credit facility (the "revolver") of up to $2,000 from a Canadian financial institution. This revolver may be used to provide working capital to the Partnership from time to time. The revolver is subject to annual renewal with outstanding principal under the revolver subject to interest at the lender's prime rate plus 1% to 1.5% or the Bankers' Acceptance rate plus 2% to 2.5%, based on the ratio of total debt to Adjusted EBITDA of the Partnership as defined in the credit agreement. As at December 31, 2008, the operating credit facility had not been drawn upon.

On March 6, 2009, the operating line was renewed until February 17, 2010.

8. Long-Term Debt

A summary of the Fund's long-term debt is comprised of the following debt facilities, both of which mature on February 17, 2010:

As at December 31		2008		2007
Private debt placement	$	37,791	$	37,617
Term Facility		13,824		–
	$	51,615	$	37,617

a) Private Placement

On February 18, 2005, the Partnership completed the issuance of a $38,000 private debt placement, net of $822 in issue costs (the "private placement") provided by Canadian institutional investors. The private placement is for a five-year term with interest fixed at 5.882%, and only interest payable quarterly in arrears.

The private placement had a fair value of $37,406 at December 31, 2008 (2007 – $37,576).

During the year ended December 31, 2008, $173 of amortization of the issue costs was recorded as interest expense (2007 – $162).

b) Term Facility

On April 4, 2008, in connection with the LCLP acquisition, the Partnership completed a $15,000 Term Facility with a single Canadian financial institution from which the Fund drew down $14,000 on closing. Interest on the Term Facility is available in the form of floating prime rate payable quarterly, or a Bankers' Acceptance rates plus 1% with terms of up to six months. The Fund paid $285 in issue costs for the Term Facility.

The Fund elected to classify the Term Facility as Other Liability, consistent with the classification of its preexisting long-term debt.

On April 7, 2008 the Partnership entered into an interest rate swap agreement, which fixed the variable portion of the Term Facility's interest at 3.29% for a total effective annual interest rate of 4.29% before legal and associated costs over the term of the facility. The Term Facility and interest rate swap mature on February 17, 2010, the same date as the private placement described above.

The Term Facility had a fair value of approximately $14,000 on December 31, 2008. During the year ended December 31, 2008, $110 of amortization of issue costs was recorded as interest expense.

The interest rate swap is a financial derivative valued separately from the Term Facility. The Fund values the swap agreement at its market value, which as at December 31, 2008 was in an unrealized loss position of ($365). Changes in the value of the swap agreement are recorded as other income or loss. During the year ended December 31, 2008, $365 was recorded as other loss.

9. Non-Controlling Interest

The non-controlling interest owns 25 common shares in RIFGP and 3,327,667 Class B limited partnership units of the Partnership which reflects an effective 25% interest in the Partnership. An equivalent amount of Special Fund Units, which represent voting rights in the Fund, also accompanied the Class B LP Units. The Fund indirectly holds the remaining 75% interest in the Partnership through Class A limited partnership units of the Partnership ("Ordinary LP Units").

Prior to August 7, 2008 ("Conversion Date"), distributions to holders of the Class B limited partnership units ("Class B LP Units") were subordinated to the distributions to the holders of Class A limited partnership units ("Class A LP Units"). The non-controlling interest is entitled to indirectly exchange, on a one-for-one basis, subject to adjustment, the Class B LP Units for Units of the Fund on or after conversion date. After August 7, 2008, there are no longer any restrictions to the non-controlling interests in disposing of its Class B units.

Effective August 7, 2008, the subordination period ended and distributions were paid to the holders of Class B LP Units on the same monthly schedule as distributions paid to holders of Class A LP Units.

As at December 31, 2008, the non-controlling interest had not elected to exchange the Class B LP Units for Fund Units.

A summary of the non-controlling interest is as follows:

	2008	2007
Non-controlling interest, beginning of year	$ 22,106	$ 23,324
Share of earnings for the year	1,964	2,775
Distributions during the year	(4,369)	(3,993)
Non-controlling interest, end of year	$ 19,701	$ 22,106

10. Fund Units

i) The Fund is authorized to issue an unlimited number of units, each of which represents an equal undivided beneficial interest in any distributions from the Fund. All units are of the same class with equal rights and privileges.

Pursuant to the Amended and Restated Declaration of Trust, the holder of the Special Fund Units, which accompanied the Class B LP Units (see Note 9), will be entitled to vote in all votes of Fund unitholders, as if they were holders of the number of units of the Fund they would receive if Class B LP Units were exchanged into units of the Fund as of the record date of such votes, and will be treated in all respects as unitholders of the Fund for the purpose of any such votes. The Special Fund Units are not entitled to receive distributions.

Units are redeemable at the option of the holder at a price based on the market value as defined in the Declaration of Trust, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund.

ii) On October 3, 2008, the Toronto Stock Exchange ("TSX") approved the Fund's notice of intention to make a normal course issuer bid ("NCIB") for up to 499,150 of its units, representing 5% of its 9,983,000 outstanding units as of September 30, 2008. The Fund may purchase units at prevailing market prices during the period from October 7, 2008 to October 6, 2009. Purchases are made at market prices in accordance with the rules and policies of the TSX. Daily purchases are effected through the facilities of the TSX and limited to 3,800 units, other than block purchase exceptions. The Fund believes that the purchase by the Fund of a portion of its outstanding units may from time to time be an appropriate use of available resources and in the best interests of the Fund and its unitholders.

The Fund finances these purchases with a special distribution from the Partnership. Units purchased are cancelled at the end of each month.

As at December 31, 2008, the Fund purchased and cancelled 163,720 units at a total cost of $1,233. The repurchased units had an issued value of $1,637, resulting in a contributed surplus of $404.

Fund Units	2008			2007		
	Units		Amount	Units		Amount
Beginning of year	9,983,000	$	92,938	9,983,000	$	92,938
NCIB purchases	(163,720)		(1,637)	–		–
End of year	9,819,280	$	91,301	9,983,000	$	92,938

The number of Class A and Class B LP Units remain unchanged.

11. Earnings per Unit

The Special Fund Units, referred to in note 10, were not included in the diluted per unit calculations as the effect would have been anti-dilutive.

12. Related Party Transactions

Unless disclosed elsewhere, the Fund had the following transactions with parties related to the non-controlling interest during years ended December 31, 2008 and 2007. These transactions have been recorded at the exchange amount agreed to between the parties.

		2008		2007
a) Royalties				
Fixed, variable and other franchise fees	$	2,359	$	2,248
Premium franchise fees	$	3,943	$	4,473
b) Expenses				
Management fees	$	6,455	$	5,869
Insurance and other	$	102	$	101
Interest	$	210	$	–
c) Distributions				
Distributions paid to non-controlling interest	$	4,978	$	3,993

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

		2008		2007
d) Accounts receivable				
Franchise fees receivable and other	$	394	$	554
e) Accounts payable and accrued liabilities				
Distributions payable to non-controlling interest	$	389	$	998
Management fees	$	417	$	429
NCIB settlement payable	$	942	$	–
f) Purchase obligation	$	6,211	$	2,295

13. Supplemental Cash Flow Information

	2008	2007
a) Changes in non-cash working capital		
Accounts receivable	$ (472)	$ (53)
Prepaid expenses	(61)	8
Accounts payable and accrued liabilities	(163)	(766)
Distributions payable to unitholders	150	42
	$ (546)	$ (769)

	2008	2007
b) Supplementary information		
Interest paid	$ 2,942	$ 2,235

14. Financial Instruments

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

a) Credit Risk

Credit risk arises from the possibility that the franchisees may experience financial difficulty and be unable to pay outstanding franchise fees. The Fund's credit risk is limited to the recorded amount of accounts receivable. Management reviews the financial position of all franchisees during the application process and closely monitors outstanding accounts receivable on an ongoing basis.

b) Liquidity Risk

The Fund is exposed to liquidity risk in its ability to finance its working capital requirements and meet its cash flow needs including paying ongoing future distributions to unitholders. Management reduces liquidity risk by maintaining more conservative working capital ratios compared with those required by the covenants associated with the long-term debt. Also, the Fund has $3,000 unutilized credit under the Term Facility and the revolver described in notes 7 and 8 respectively.

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

	2009	2010	2011	Total
Accounts payable and accrued liabilities	$ 2,551	$ –	$ –	$ 2,551
Purchase obligations	3,031	1,590	1,590	6,211
Distributions payable to unitholders	1,148	–	–	1,148
Private debt placement	–	38,000	–	38,000
Term facility	–	14,000	–	14,000
Total	**$ 6,730**	**$ 53,590**	**$ 1,590**	**$ 61,910**

c) Interest Rate Risk

The Fund has chosen to mitigate the interest rate risk associated with the Term Facility by entering into an interest rate swap agreement to effectively fix the interest rate associated with the Term Facility.

d) Fair Value

The fair value of the Fund's financial instruments, which consist of cash, accounts receivable, accounts payable and accrued liabilities, purchase obligation and distributions payable to unitholders are estimated by management to approximate their carrying values due to their short-term nature. The fair market value of the Fund's long-term debt and derivative liability are disclosed in Note 8.

15. Management of Capital

The Fund's capital is comprised of its cash, long-term debt, unitholders' equity and non-controlling interest.

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

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

The covenants of the Private Placement and Term Facility prescribe that the Fund must maintain a ratio of adjusted EBITDA to Senior Interest Expense at a minimum of 5.00 to 1 and a ratio of Senior Indebtedness to Adjusted EBITDA at a maximum 2.25 to 1. The Fund is compliant with all financial covenants.

There were no changes in the Fund's approach to capital management during the year.

16. Subsequent events

Acquisitions

Royal LePage franchise agreements

On January 1, 2009, the Partnership acquired 21 Royal LePage franchise agreements from BRESL. The estimated purchase price of $2,532 is based on an estimated annual royalty stream of $481 and has been calculated in accordance with a formula set out in the MSA. A deposit of $2,025, equal to 80% of the estimated purchase price, was paid from cash on hand on January 2, 2009 and the remainder is payable a year later, when the final purchase price is calculated in accordance with the terms set out in the MSA.

La Capitale franchise agreements

On January 1, 2009, the Partnership acquired three LCLP agreements from BRESL. These contracts represent 86 agents operating from 4 locations. The estimated purchase price of $903 is based on an estimated annual royalty stream of $201 and has been calculated in accordance with a formula set forth in the MSA. A deposit of $723, being 80% of the estimated value, was paid from cash on hand on January 6, 2009. Under terms negotiated with the Fund's trustees, the balance of the purchase price is to be paid in annual installments over the next three years. The management fee attributed to revenue generated from these contracts will be 30% and the accretive factor applied to these contracts on vend-in was 10%.

Operating Credit Facility

On March 6, 2009, the operating line was renewed until February 17, 2010.

NCIB

During the period from January 1 to March 10, 2009, the Fund purchased and cancelled 168,400 units at a total cost of $1,459. The Fund had 9,650,880 outstanding Class A Units at March 10, 2009.

Board of Trustees

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

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

The Trustees have adopted formal terms of reference regarding their responsibilities and all matters of governance. They have agreed to formal distribution and disclosure policies, which are reviewed on an ongoing basis.

Lorraine Bell

Trustee and Chair of the Audit Committee

Since 1996, Ms. Bell has been a self-employed consultant. She is a Chartered Accountant with over 25 years of experience in the financial sector. Ms. Bell is a member of the Board of Directors and the Audit and Human Resources Committee of the Ontario Financing Authority. Prior to being self-employed, she was the founder and responsible for General Re Financial Products Canada, a derivatives services company, which she ran from 1993 until 1996.

Simon Dean

Trustee

Since April, 2005, Mr. Dean has been a self-employed consultant. Previously, he was Chief Executive Officer of the Manager (and its predecessor) since January 1995 and Managing Partner of Brookfield Business Services since 2001. Prior to joining the Manager's predecessor, he was President and Chief Executive Officer of three retail organizations owned by Rogers Communications Inc. from 1988 to 1993 and Executive Vice President of Rogers Cantel Mobile Communications Inc., a national cellular service provider, from 1993 to 1994.

Allen Karp

Trustee and Chair of the Governance Committee

Mr. Karp resides in Toronto, Ontario. Mr. Karp was a partner in the law firm of Goodman and Carr LLP, where he practiced law from 1966 to 1986. Mr. Karp had been with Cineplex Odeon Corporation since 1986, where he retired as President and Chief Executive Officer in 2002; and as Chairman Emeritus in 2005. Mr. Karp also sits on the Board of Directors of Tucows Inc.; is a Trustee and Chairman of IBI Income Fund; and is a director and past Chairman of the Toronto International Film Festival Group.

Gail Kilgour

Trustee

Ms. Kilgour, ICD.D, brings more than 25 years of experience in the financial services industry to the Board. She currently serves on the Board of Directors for the Ontario Realty Corporation and chairs their Human Resources Committee.. A self employed consultant since 2005 and Corporate Director, Ms. Kilgour was prior to 2004 employed by the Canadian Imperial Bank of Commerce ("CIBC"), in a number of senior management roles including, Senior Vice President, Government Sponsored Student Loans; President and Chief Executive Officer, EDULINX Canada Corporation, a subsidiary of CIBC; and Senior Vice-President, CIBC's e-Business Strategy.

George Myhal

Trustee and Chairman

Mr. Myhal is a Senior Managing Partner and Chief Operating Officer of Brookfield Asset Management Inc.. Mr. Myhal has held a number of senior positions within Brookfield since joining the company in 1981. He has been instrumental in the development and growth of Brookfield's asset management business and is responsible for corporate development and Brookfield's public securities group. He received a Chartered Accountant designation and is an industrial engineering graduate of the University of Toronto.

Audit Committee

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

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

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

Management Team

The Fund

Philip Soper,
President and Chief Executive

Kevin Cash,
Chief Financial Officer

Max Cohen,
Secretary & General Counsel

The Fund Manager

Philip Soper,
President and Chief Executive

Kevin Cash,
Chief Financial Officer

Carolyn Cheng,
Vice President, Strategic Business Services

Lisa da Rocha,
Vice President, Services

Dan Hill,
Director of Information Systems

Paul Legault,
President and Chief Executive Officer,
La Capitale Real Estate Network

Andy Puthon,
Executive Vice President, Network Development

Gino Romanese,
Senior Vice President, Brokerage Services

Gurinder Sandhu,
Vice President, Finance

Sandra Webb,
Senior Vice President, Marketing

Helping Our Community

A home should be a place of safety, security and comfort. Sadly, for thousands of Canadian women and children, this is not the case. Through our network, the Royal LePage Shelter Foundation helps local shelters provide safe haven and new beginnings for 30,000 women and children every year. Last year, we donated more than $1 million through agent contributions, the generous support of our brokers and the Royal LePage network who organize fundraising activities.

About Our Foundation:

- Royal LePage is the only Canadian real estate company with its own charity;
- Our foundation is the largest public foundation in Canada dedicated exclusively to supporting shelters and ending violence against women and children;
- Many Royal LePage offices across Canada partner with a local women's shelter to provide much-needed financial support as well as other essential goods and services. Funds raised by the local Royal LePage offices remain in their local community and because Royal LePage pays the costs of administration, 100% of all money and effort goes toward the cause;
- In addition to helping victims, we also work hard to prevent domestic violence. With our national partner the *Canadian Women's Foundation*, we provide grants to provincial agencies that help women gain independence and economic self-sufficiency;
- The Royal LePage Shelter Foundation is also a major financial contributor to the *Fourth R*, a high-school program for preventing dating violence, substance abuse, and risky sexual practices.

One family and one home at a time, we are helping to create safer homes and safer communities.

The Royal LePage Shelter Foundation **www.royallepage/shelter**

Unitholder Information

We regularly provide unitholders with information about the Fund through our annual report, quarterly reports, and news releases. Information is available online at **www.brookfieldres.com**. On the site you will find summary information about the Fund including annual and quarterly reports, press releases, webcasts, slide presentations, and cash distribution information.

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Auditors

Deloitte & Touche LLP

Corporate Counsel

Goodmans LLP

TSX Symbol: BRE.UN

Fund units are eligible investments for DPSPs, RRSPs, RRIFs and RESPs

Annual General Meeting

The Annual General Meeting will be held on Tuesday, May 5, 2009 at 10:00 a.m. at the Hockey Hall of Fame, located at Brookfield Place, 30 Yonge Street, Toronto

Please Direct Inquiries to:

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Investor Relations
jwatson@brookfieldres.com

Proven performance.
Structured reliability.
Meaningful potential.

www.brookfieldres.com

Brookfield Real Estate Services