Q1

ROYAL LEPAGE
FRANCHISE SERVICES FUND

INTERM REPORT TO UNITHOLDERS Q1 2007

ROYAL LEPAGE
www.royallepage.ca

ABOUT THE ROYAL LEPAGE FRANCHISE SERVICES FUND

The Fund is a leading provider of services to residential real estate brokers and their Realtors. 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 under the Royal LePage and Johnston & Daniel brand names. At March 31, 2007, the Fund Network was comprised of 12,782 REALTORS® operating from 600 locations. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume. The Fund is a TSX listed income trust, which pays monthly distributions and trades under the symbol “RSF.UN”. The Fund’s website address is www.rsfund.ca

ROYAL LEPAGE

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Q1 2007 INTERIM REPORT TO UNITHOLDERS

LETTER TO UNITHOLDERS

Financial and Operating Highlights
For the three months ended March 31, 2007 and 2006

	Q1 2007		Q1 2006	
	(thousands)	**(per unit)**	(thousands)	(per unit)
Royalties	**$ 6,910**	**$ 0.52**	$ 6,492	$ 0.49
Operating earnings before management fees[3]	**$ 6,144**	**$ 0.46**	$ 5,742	$ 0.43
Net Earnings	**$ 912**	**$ 0.09**	$ (762)	$ (0.08)
Distributable cash[4]				
For the period	**$ 4,915**	**$ 0.37**	$ 2,631	$ 0.20
Twelve month rolling[1]	**$ 21,612**	**$ 1.62**	$ 20,050	$ 1.51
Distributions	**$ 3,993**	**$ 0.30**	$ 3,827	$ 0.29

Royal LePage Franchise Services Fund (the "Fund") is pleased to report continuing solid results for the first quarter of 2007. Royalty revenue for the three months ended March 31, 2007 (the "Quarter") totalled $6.9 million, a 6.4% increase over the same period of 2006. Operating earnings before management fees for the Quarter increased 7.0% over the same period in 2006 to $6.1 million. Distributable cash in the Quarter was $4.9 million or $0.37 per unit and net earnings were $912,000 or $0.09 per unit. On a rolling 12-month basis, distributable cash of $1.62 per unit as at March 31, 2007 increased 7.3% from $1.51 per unit as at March 31, 2006.[1]

The increase in our royalty revenue reflects growth in the Fund's underlying network of REALTORS®[2] and continued strength in the residential resale housing market. Solid organic growth and acquisitions propelled our REALTOR® network to 12,782 at March 31, 2007, which was 6.6% ahead of a year ago. The strongest regions for house price appreciation continued to be in the West, notably Edmonton, Calgary, Vancouver and Saskatoon, which experienced double digit increases. Home prices in Central and Eastern Canada continued to appreciate, but at moderate levels.

Fund Growth

The Fund's growth objective for 2007 is to add between 300 and 500 REALTORS® to the Fund Network during the year. During the Quarter, the Fund network grew organically by 243 REALTORS, or 1.9% from January 1, 2007. From November 7, 2006 to May 7, 2007, franchise contracts representing 11 locations serviced by an estimated 102 REALTORS were added to the Royal LePage brand. The Manager anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2008.

Fund Structure

The Fund generates both fixed and variable fee components. Variable fees are primarily driven by the total transactional-dollar volume from agent sales commissions, while fixed franchise fees are based on the number of agents and sales representatives in the network. Approximately 67% of the Fund's revenue is based on fixed fees from a large number of long-term franchisee contracts, which provide revenue stability and help insulate the Fund from market fluctuations.

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[1] Adjusted for the one-time accumulated management fee of $1.9 million recognized in the first quarter of 2006 as discussed in our 2006 year-end and first quarter Management Discussion and Analysis.

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

[3] Defined as royalties less administration expense and interest expense. Operating earnings before management fees does not have a standardized meaning under Canadian generally accepted accounting principles and accordingly may not be comparable to similar measures used by other issuers.

[4] Defined as royalties less administrative expenses, interest expense and management fee. Distributable cash does not have a standardized meaning under Canadian generally accepted accounting principles 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 that distributable cash should be not construed as an alternative to using net earnings as a measure of profitability or the statement of cash flows.

Monthly Cash Distribution

The Royal LePage Franchise Services Fund has declared a cash distribution of $0.10 per unit for the month of May 2007, payable June 29, 2007, to unitholders of record May 31, 2007.

Outlook

Given the Canadian housing market's stronger than expected showing in the Quarter, we have raised our projections for 2007 for average house prices to increase 8%, compared with our earlier forecast of 6.5%. In addition, we expect a decrease of 1% in unit property transactions compared with the previous forecasted decrease of 3%.

The shift from a sellers' market to balanced market conditions continued during the quarter in all but Western Canada, where supply constraint and price inflation remain a concern. Across Canada, the positive combination of low mortgage rates, healthy employment, strong consumer confidence, and the affordability of housing leaves us well positioned to maintain our strong performance and pursue opportunities for growth both organically and through acquisitions. Our royalty stream is primarily based on the number of agents in the Fund and in a moderating market, strong national brands like Royal LePage attract agents and brokers seeking to strengthen their position within their communities. Backed by leading edge technology and services that made our agents 66% more productive than the rest of the Canadian industry in 2006, based on average transaction volumes, we are confident we can further expand the number of agents in our network.

Philip Soper
President and Chief Executive

Kevin Cash
Chief Financial Officer
May 7, 2007

FORWARD-LOOKING STATEMENTS

This quarterly report contains 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 transactions, 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.

Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This section of our interim report includes management's discussion and analysis ("MD&A") of our results and financial condition. 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, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to 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. For more detail on these factors see the summary of risks as outlined in the Fund's annual information form which is filed on SEDAR at www.sedar.com.

Management's Discussion and Analysis of Results and Financial Condition

HIGHLIGHTS

Three months ended March 31 ($ 000's) except Agents, Sales Representatives, units and per unit amounts	2007	2006
Royalties	**$ 6,910**	$ 6,492
Less:		
Administration expenses	**174**	160
Interest expense	**592**	590
Management fee	**1,229**	3,111
Earnings and distributable cash	**$ 4,915**	$ 2,631
Amortization of intangible assets	**3,652**	3,604
Non-controlling interest	**351**	(211)
Net and comprehensive earnings (loss)	**$ 912**	$ (762)
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.09**	$ (0.08)
Distributions	**$ 3,993**	$ 3,827
Cash distributions declared per 9,983,000 units	**$ 0.30**	$ 0.29
Cash distributions declared per 3,327,667 Special Fund units	**$ 0.30**	$ 0.29
Total assets	**$ 129,786**	$ 139,023
Total long-term financial liabilities	**$ 37,494**	$ 38,000
Number of Agents[1] and Sales Representatives[2]	**12,782**	11,985

The table above sets out selected historical information and other data for the Royal LePage Franchise Services Fund (the "Fund") which should be read in conjunction with the attached consolidated financial statements for the three months ended March 31, 2007 (the "Quarter"). The consolidated financial statements are prepared in Canadian dollars and are in accordance with Canadian generally accepted accounting principles ("GAAP"). 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. These risks are discussed in further detail in this MD&A to the extent they have changed since December 31, 2006.

OVERVIEW

This MD&A covers the period from January 1, 2007 to March 31, 2007 and has been prepared as at May 7, 2007.

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 national network of real estate franchisees, Agents and Sales Representatives, operating under the Royal LePage and Johnston & Daniel brand names (collectively the "Fund Network").

Management of the Fund is governed by a Management Services Agreement ("MSA"). The services under the MSA are provided by Residential Income Fund Manager ("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% subordinated interest in the Fund (see Transactions with Related Parties).

As at March 31, 2007, the Fund Network was comprised of 12,782 REALTORS[3] operating from 600 locations. The Fund Network has an approximate 20% share of the Canadian residential resale real estate market 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.

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. Approximately 67% of the annual royalties are insulated from market fluctuations, as they are not directly driven by transaction volumes. Management believes that the combination of a royalty stream based on the number of selling-REALTORS in the network, increasing Agent and broker productivity, and an increasing supply of new housing inventory provides the base for a strong, stable and growing cash flow. A summary of these fees follows:

Fixed franchise fees are based on the number of Agents and flat fee paying Sales Representatives, collectively "selling-REALTORS" in the Fund Network and consist of a monthly fixed fee of $100 per selling-REALTOR, a technology fee and web services and other fees.

Prior to July 1, 2005, the fixed fee of $100 and technology fee were based on the number of Agents in the Fund Network. Effective July 1, 2005, franchisees began paying the fixed monthly fee of $100 and a technology fee for Sales Representatives. This change only affected Sales Representatives that are selling-REALTORS, and excludes brokers and managers. As of March 31, 2007, there were 914 Sales Representatives, 643 of which pay the fixed franchise fees. The majority of the remaining 271 Sales Representatives are brokers and managers.

Variable franchise fees are primarily driven by the total transaction dollar volume of business transacted by our Agents. The Fund receives 1% of each Agent's gross commission income, subject to a cap of $1,300 per year. In addition, 23 of the Fund's larger 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 88% (87% – 2006) of the Fund's royalties are derived from the combined fixed fee of $100 per selling-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.

Monthly Distributions

The targeted annual cash distribution for 2007 is $1.20 per unit and is to be paid monthly to public unitholders.

To reduce unitholder risk, 25% of the Fund's units, which are held by BAM are subordinated in their rights to distributions until public unitholders receive their initial target distributions of $0.0917 per unit per month, $1.10 per unit per annum. This subordination is in place until August 7, 2008.

The tax allocation for 2007 distributions is estimated at 89% taxable income and 11% return of capital as compared to 74% and 26%, respectively, for 2006.

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

RECENT DEVELOPMENTS

Tax Fairness Plan

Late in 2006, the Federal Minister of Finance released draft legislation in support of a Tax Fairness Plan for Canadians which, if enacted, would result in certain income trusts, including the Fund, paying taxes after fiscal 2010, similar to those paid by Canadian taxable corporations. The payment of such taxes would reduce the cash flow of the Fund, thereby reducing the amount available for distributions to unitholders or payment of franchise contract acquisition obligations. The proposed changes have caused uncertainty in the capital markets and have negatively impacted the unit prices of many income trusts, including the Fund. This uncertainty, 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. While the tax proposals are not law, but may become law at any time, 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.

Franchise Acquisitions

On January 1, 2007, the Fund acquired 22 new franchise contracts serviced by 390 REALTORS, with an estimated annual royalty stream of $0.8 million. The agreements for these locations were acquired in accordance with the terms of the MSA at an estimated purchase price of $7.2 million, with $5.7 million paid on closing and the balance to be paid in cash or units during the first quarter of 2008, upon meeting certain terms and conditions of the MSA.

Distribution Increase

Effective January 1, 2007, the targeted annual distribution was increased to $1.20 from $1.15 per unit.

OPERATIONS OVERVIEW

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

1. the number of selling-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 March 31, 2007, the Fund Network was comprised of 295 independently owned and operated franchises operating from 600 locations serviced by 12,782 REALTORS, with an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

During the Quarter, the Fund Network increased by 243 REALTORS or 1.9% from January 1, 2007. This organic growth is in addition to the 390 REALTORS who joined the Fund Network with the 22 franchise contracts acquired on January 1, 2007, for a total increase of 633 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 the Quarter, the Canadian residential resale real estate market (the "market"[4]) showed few signs of weakness and started the year at a record-breaking pace for both housing unit sales and average price appreciation. Some regional differences still existed with the western provinces experiencing double digit growth in unit sales and average price appreciation as a result of the booming oil industry, while some regions received a boost from unseasonally mild weather. Despite the continued rise in housing prices, housing remained affordable, driven by strong employment prospects and low mortgage rates. A summary of the market and related activity as reported by Canada Mortgage and Housing Corporation ("CMHC"), Canadian Real Estate Association ("CREA") and the Toronto Real Estate Board ("TREB"), follows:

- Canada's annual rate of housing starts, the market's future inventory, totalled 224,194 as of March 31, 2007, a decrease of 3.5% from the same period in 2006.
- The Canadian resale market totalled $138.3 billion for the 12 months ended March 31, 2007, an increase of 9.6% over the same period in 2006, fuelled by a 10.9% increase in average selling price of a home to $283,783 and a 1.2% decrease in residential unit sales to 487,400 units. For the Quarter, the Canadian residential resale housing market totalled $35.3 billion, an increase of 15.1% over the same period in 2006, consisting of a 10.0% increase in average selling price to $293,903 and a 4.6% increase in unit sales to 120,048.
- During the Quarter, new MLS listings for the overall Canadian housing market were up 3.8% from 2006 levels. As a result of this increase in listing inventory relative to sales, the rate of appreciation in housing prices has moderated from that experienced during 2006.
- The GTA market, from which the Fund earns its premium franchise fees, reached a transactional dollar volume of $30.3 billion for the 12 months ended March 31, 2007, a 1.6% increase over the same period in 2006. This market activity was fuelled by the sale of 85,037 homes at an average selling price of $355,869, a 2.9% decrease and 4.6% increase, respectively, over the same period in 2006.
- Strong consumer confidence combined with overall housing affordability continues to encourage existing homeowners to trade up to larger, more expensive dwellings.

[4] The market is defined as the dollar value of 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

Stability of the Fund's Royalty Stream

- The Fund's royalties are derived primarily from a diverse national network of 295 independently owned and operated franchises, the majority of which operate with fewer than 50 Agents.
- A significant portion of the Fund's royalties is 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 $1,300 per annum cap, contributed 67% of the Fund's royalties for the 12 months ended December 31, 2006. This compares to 65% for the same period in 2005.
- The geographic distribution of the Fund Network is similar to the distribution of the overall Canadian REALTOR population.
- During the Quarter, the Fund renewed two expiring agreements representing 123 REALTORS and three other agreements representing 52 REALTORS in advance of their expiry.
- During the Quarter, no franchise contracts were terminated.
- The Fund has secured 10-, 15- and 20-year agreements, significantly exceeding the industry norm of five-year agreements.

Fund Growth Opportunities

Our growth objective for 2007 is to add 300 to 500 REALTORS to the Fund Network through recruitment and acquisitions. Growth through acquisition is achieved through the purchase of franchise contracts acquired by the Manager's dedicated network development team operating under the MSA.

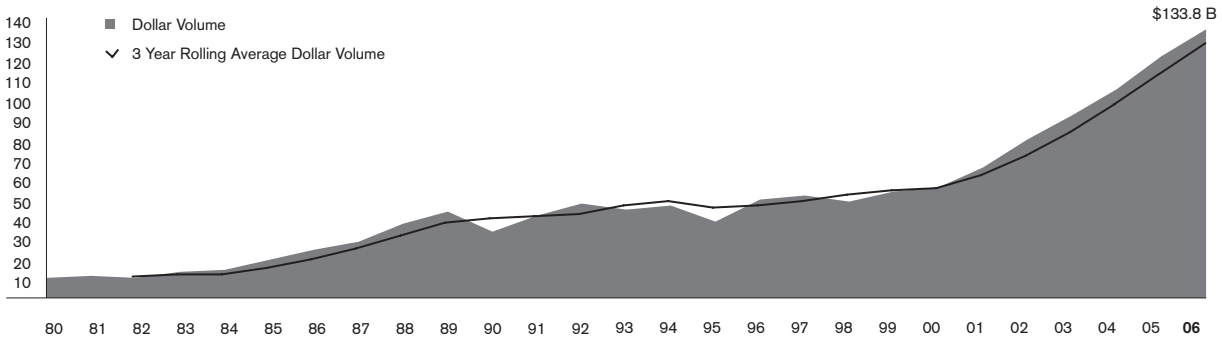
Growth in overall royalties is achieved by: increasing the number of selling-REALTORS in the Fund; increasing the productivity of Agents; expanding the range of products and services supporting the franchisees and Agents; increasing adoption of these products and services; and providing sales and marketing programs to the Fund Network. These services are supported by ongoing training programs for franchisees and selling-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 report follows:

- Organic growth for the Quarter totalled 243 REALTORS.
- From November 7, 2006 to the date of this MD&A, franchise contracts representing 11 locations serviced by an estimated 102 Agents were added to the Royal LePage brand. The Manager anticipates presenting these franchise contracts to the Fund's Trustees for purchase by the Fund on January 1, 2008. The estimated purchase price of these contracts is $1.8 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 residential resale real estate market has grown at a compound annual growth rate ("CAGR") of 10%. The market has been very resilient with only two significant downturns occurring 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 – 2006) (in $ Billions)

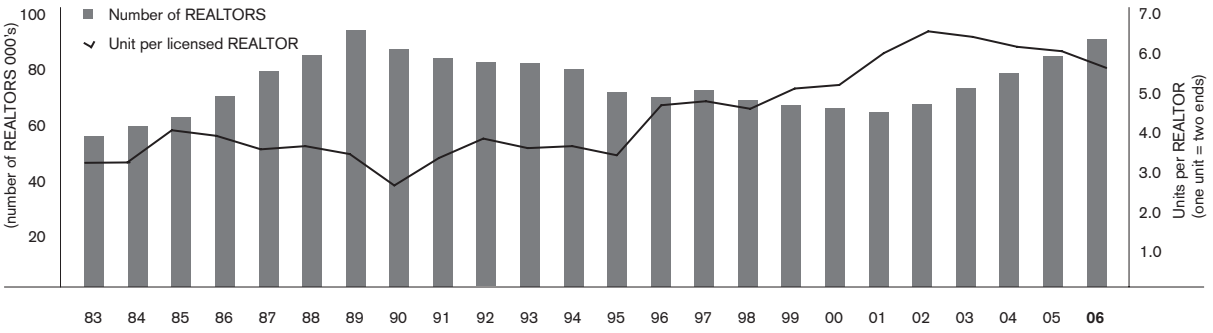


Source: CREA

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, 2006, on the strength of another robust residential resale real estate market, the Canadian real estate REALTOR membership grew by 7.3% to 88,906 members with an average of 5.6 units sold per REALTOR. The number of REALTORS in the Fund Network grew by 5.3% 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

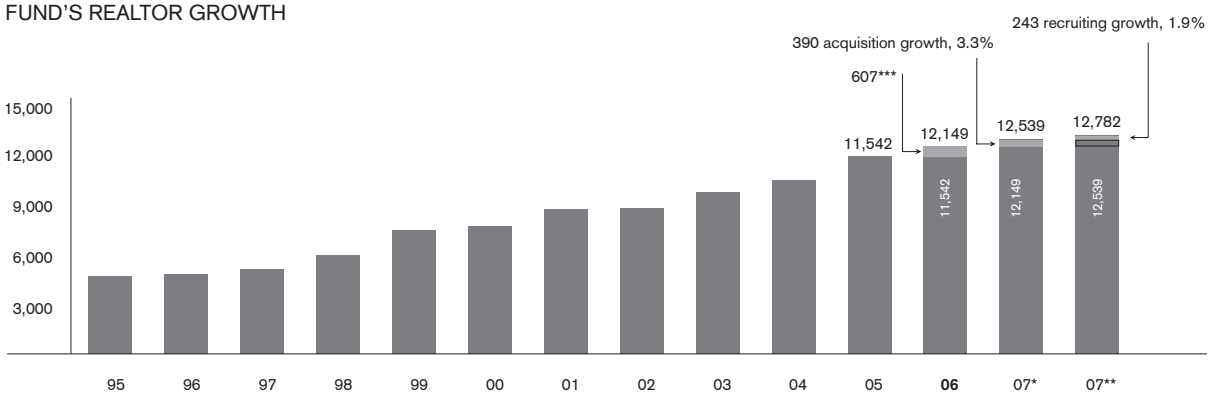
REALTOR Growth

As at March 31, 2007, the Fund Network was comprised of 295 independently owned and operated franchises operating from 600 locations serviced by 12,782 REALTORS, with an approximate 20% share of the Canadian residential resale real estate market based on transactional dollar volume.

During the Quarter, the Fund Network grew by 243 REALTORS or 1.9% from January 1, 2007. This organic growth is in addition to the 390 REALTORS who joined the Fund Network with the 22 franchise contracts acquired on January 1, 2007, for a year-to-date total increase of 633 REALTORS.

During 2006, the number of REALTORS in the Fund Network grew by 5.3% or 607 REALTORS to 12,149. Industry wide, by comparison, CREA reported that the number of REALTORS in Canada grew by 7.3% during 2006, which exceeded the Fund's growth. Three factors contributed to this difference: first, in anticipation of moderating market activity, many Fund brokerages who have been operating at full physical capacity, chose to focus on increasing agent productivity and more selective agent recruitment, over expanding facilities; second, three operations in Quebec rationalized operations, releasing some agents acquired after their previous year's expansions; and third, the Fund's agent population is slightly over-represented in Ontario and Atlantic Canada regions, which experienced lower growth than some other areas of the country. Management estimates that the slight market-share erosion that this agent change differential represents was offset by the growth in Fund agent productivity, which was greater than the rest of CREA's membership (See Realtor Productivity).

FUND'S REALTOR GROWTH



Year ended December 31, except 2007
*As at January 1, 2007
** As at March 31, 2007
*** 607 REALTOR growth consisting of 261 Agents organically and 346 REALTORS through acquisition on Jan. 1/06

Management's Discussion and Analysis of Results and Financial Condition

A summary of the Canadian and Fund's growth in REALTORS during 2006 and the three months ended March 31, 2007 follows:

	Canada*		The Fund Network	
	Number of Licensed Members	% Change	Number of Licensed Members	% Change
Opening	**82,837**		**11,542**	
2006 Q1	2,509	3.0%	443	3.8 %
2006 Q2	1,477	1.8%	177	1.5 %
2006 Q3	1,293	1.5%	39	0.4 %
2006 Q4	790	1.0%	(52)	(0.4)%
Opening	**88,906**	**7.3%**	**12,149**	**5.3 %**
2007 Q1	N/A		633	5.2 %
Closing	**88,906**		**12,782**	**5.2 %**

* Source – CREA
N/A: Not available at the time of MD&A

Network Diversity

The Fund Network is comprised of diverse operations with 74% of the Fund's franchisees operating with fewer than 50 REALTORS as at December 31, 2006. In addition, the Fund Network of REALTORS is geographically diverse with our REALTORS spread throughout Canada on approximately the same basis as the overall Canadian REALTOR population, as summarized in the table below.

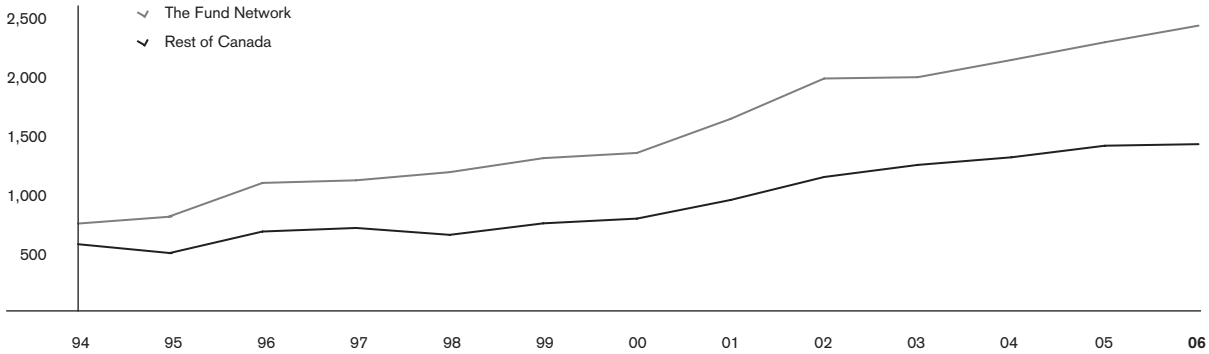
	Canadian[1] REALTOR Population	Fund[2] Network REALTORS
Ontario	50%	54%
Prairies	14%	11%
BC	18%	16%
Quebec	14%	15%
Maritimes	4%	4%
Total	100%	100%

1 As at December 31, 2006, Source: CREA
2 As at March 31, 2007

Realtor Productivity

The average Fund Network REALTOR generated approximately $2.38 million in transactional dollar volume in 2006, up 5% from $2.26 million in 2005. This productivity was 66% greater than the estimated average of $1.43 million for all other Canadian REALTORS, up 3% from 2005. 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 year ended December 31, 1994 through 2006 is as follows:

CANADIAN RESIDENTIAL REAL ESTATE RESALE MARKET (Average Transaction Dollar Volume per REALTOR, $ thousands)



Source: CREA and Fund Management

OPERATING RESULTS

Three months ended March 31 ($ 000's) except Agents, unit and per unit amounts	**2007**	2006
Royalties		
Fixed franchise fees	**$ 3,621**	$ 3,380
Variable franchise fees	**1,720**	1,610
Premium franchise fees	**737**	688
Other fee revenue and services	**832**	814
	6,910	6,492
Less:		
Administration expenses	**174**	160
Interest expense	**592**	590
Management fee	**1,229**	3,111
Earnings before undernoted	**4,915**	2,631
Amortization of intangible assets	**3,652**	3,604
Non-controlling interest	**351**	(211)
Net and comprehensive earnings (loss)	**$ 912**	$ (762)
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.09**	$ (0.08)
Number of Agents	**11,868**	11,141
Number of fixed fee paying Sales Representatives	**643**	605

The Fund Network as at March 31, 2007, was comprised of 11,868 Agents and 914 Sales Representatives, with 11,643 of the Agents operating under the combined flat fee of $100 per month and 1% of gross earnings option (the "$100/1% option"), 225 Agents operating under the 4.5% variable fee option (the "4.5% option") and 643 Sales Representatives operating under the $100 per month fixed fee plan.

Management's Discussion and Analysis of Results and Financial Condition

Royalties for the Quarter totalled $6.9 million, up 6% from the same period in 2006.

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 88% of royalties for the three months ended March 31, 2007, up slightly from 87% reported for the same period in 2006.

Fixed franchise fees for the Quarter increased 7% over the same period in 2006, consistent with the overall increase in the underlying Agents.

Variable franchise fees for the Quarter increased by 7% over the same period in 2006 while the market activity increased 15%. The increase in market activity for the three months ended March 31, 2007 exceeded the increase in the Fund's variable fees due to the timing of earning variable fees as these fees are paid to the Fund after sales transactions close. There is typically a 45 to 60-day delay between a home sale and closing, as such, some of the market activity during the Quarter is expected to materialize as variable fees in the quarter ending June 30, 2007.

Premium franchise fees are derived from the 23 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 Quarter increased 7% over the same period in 2006, while the GTA market activity for the same period experienced a 6% increase. The percentage increase in year-over-year premium fees is not entirely comparable to the overall GTA market increase, as the market growth experienced in the individual market areas serviced by the premium-fee-paying franchise locations differs from the overall GTA market activity.

Other fees and services, which accounted for approximately 12% (13% – 2006) of Fund royalties for the Quarter, increased 2% over the same period in 2006, due primarily to the growth in the number of REALTORS in the network. These fees are comprised of technology fees, 4.5% option, web service and other fees and revenue.

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

Interest expense is comprised of interest on the Fund's $38 million private debt placement and amortization of the financing charges incurred to secure the placement. The Fund's interest expense totalled $0.6 million for the Quarter, and is consistent with the same period in 2006. The $2 million operating line has remained undrawn since inception of the Fund.

Management fee expense

Management fees of $1.2 million for the Quarter, decreased from $3.1 million in the same period in 2006, in line with management's expectations. Management fees represent 20% of royalties less administration expenses and interest expenses in accordance with the MSA.

Included in the management fee for the Quarter ended March 31, 2006 was an accumulated management fee of $1.9 million which was triggered on the utilization of $9.4 million of distributable cash previously retained by the Fund (see Distributable Cash and Summary of Quarterly Results).

Amortization of intangible assets

Intangible assets relate to the values attributed to the franchise contracts 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 agreement plus one renewal period, while franchise contracts 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.

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 table below for a reconciliation of distributable cash to the comparable GAAP measure in the Fund's audited financial statements.)

Distributable cash and its utilization since Fund inception ($ 000's)	**Total**	Three months ended March 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	August 7, 2003 to December 31, 2003
Royalties	**$ 96,307**	$ 6,910	$ 29,659	$ 27,196	$ 23,740	$ 8,802
Less:						
Administration expenses	**2,158**	174	645	595	513	231
Interest expense	**7,229**	592	2,401	2,289	1,327	620
Management fee	**17,384**	1,229	7,285	3,660	3,660	1,550
Distributable cash	**69,536**	4,915	19,328	20,652	18,240	6,401
Less:						
Distributions to public unitholders	**40,933**	2,953	11,477	10,985	10,985	4,533
Distributions to non-controlling interest	**13,618**	957	3,826	3,662	3,662	1,511
Funding of acquisitions	**14,738**	6,333	7,871	414	120	–
Net change in the period	**$ 247**	$ (5,328)	$ (3,846)	$ 5,591	$ 3,473	$ 357
Cumulative change		$ 247	$ 5,575	$ 9,421	$ 3,830	$ 357

Distributable cash Reconciled to cash flows from operating activities ($ 000's)	**Total**	Three months ended March 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	August 7, 2003 to December 31, 2003
Cash flows from operating activities	**$ 67,838**	**$ 3,804**	$ 20,199	$ 20,607	$ 17,772	$ 5,456
Add (deduct):						
Changes in non-cash working capital items	**2,004**	**1,111**	(703)	183	468	945
Amortization of deferred charges	**(306)**	**–**	(168)	(138)	–	–
Distributable cash	**$ 69,536**	**$ 4,915**	$ 19,328	$ 20,652	$ 18,240	$ 6,401

For the Quarter, the Fund generated distributable cash of $4.9 million which was in line with management's expectations. The $2.3 million increase in generated distributable cash over the same period in 2006 was primarily due to an accumulated $1.9 million management fee paid in 2006 as previously discussed.

Management's Discussion and Analysis of Results and Financial Condition

From inception of the Fund, up 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 contracts 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 reserves the right to retain cash for working capital requirements generated from operations before management fees in the future.

As at March 31, 2007, the Fund had approximately $0.2 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, the non-controlling interest and $14.7 million in cash utilized to meet the Fund's franchise contract purchase obligations.

ACQUISITIONS AND DEPOSIT ON ACQUISITIONS

Under terms of the MSA the Fund is permitted to acquire franchise contracts 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 contracts is not determined until after October 31 of each year when an audit of the actual royalties generated under these contracts 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 contracts 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 2006, the January 1, 2006 franchise contract acquisition obligation was audited and determined to be $5.6 million, $0.6 million less than the estimated obligation due primarily to the lower than estimated retention of Agents in one of the Fund's larger acquisitions. A summary of the franchise contracts acquired by the Fund since inception is summarized as follows:

Date acquired by the Fund, January 1	2007	2006	2005
($ milllions unless stated otherwise)			
Purchase Price			
Estimated	7.18	6.22	9.26
Actual	(a)	5.55	9.94
Payments			
Initial	5.74	4.98	7.05
Final (b) (c)	(a)	0.57	2.89
Estimated			
Annual royalty stream	0.82	0.74	1.15
Number of REALTORS	390	346	558
Number of locations	22	21	47
Number of contracts	22	16	38
Actual			
Annual royalty stream (b)	(a)	0.66	1.24
Number of REALTORS	(a)	345	666
Number of locations	22	21	46
Number of contracts	22	16	37

a) To be determined at the end of the year in accordance with the terms of the MSA
b) Audited
c) Purchase price obligation at December 31

PRIVATE DEBT PLACEMENT AND $2 MILLION OPERATING LINE

In the low interest rate environment of 2004 and 2005, the Fund sought to increase its debt to meet its franchise contract purchase obligations and move 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. The $0.8 million in issue costs associated with the $38 million private debt placement and the $2 million operating line are amortized over the term of the private debt placement. During the Quarter, $40,000 of these charges were amortized.

Management's Discussion and Analysis of Results and Financial Condition

SUMMARY OF QUARTERLY RESULTS

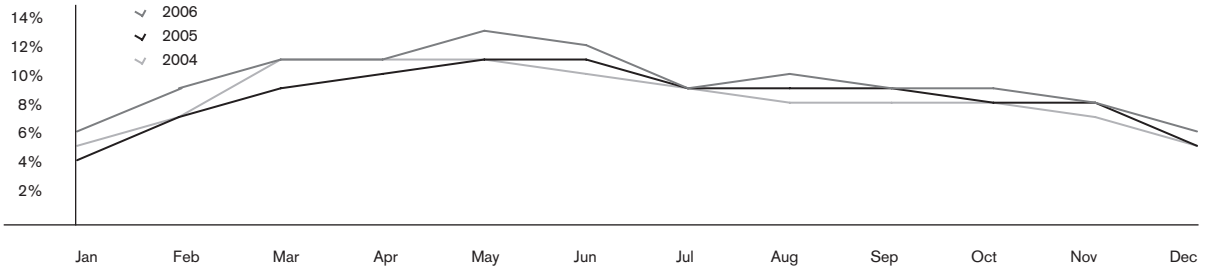
Three months ended ($ 000's) except Agents, unit and per unit amounts	2007	2006				2005		
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Royalties								
Fixed franchise fees	**$ 3,621**	$ 3,509	$ 3,485	$ 3,453	$ 3,380	$ 3,261	$ 3,127	$ 2,999
Variable franchise fees	**1,720**	1,347	2,377	2,498	1,610	1,327	2,444	2,231
Premium franchise fees	**737**	990	1,685	1,125	688	1,065	1,497	1,103
Other fee revenue and services	**832**	919	923	856	814	872	869	805
	6,910	6,765	8,470	7,932	6,492	6,525	7,937	7,138
Less:								
Administration expenses	**174**	132	163	190	160	202	125	145
Interest expense	**592**	606	605	600	590	604	602	602
Management fee	**1,229**	1,205	1,540	1,429	3,111	915	915	915
Earnings before undernoted	**4,915**	4,822	6,162	5,713	2,631	4,804	6,295	5,476
Amortization of intangible assets	**3,652**	3,666	3,657	3,632	3,604	3,589	3,569	3,521
Non-controlling interest	**351**	317	657	556	(211)	350	702	519
Net and comprehensive earnings (loss)	**$ 912**	$ 839	$ 1,848	$ 1,525	$ (762)	$ 865	$ 2,024	$ 1,436
Basic and diluted earnings per unit (9,983,000 units)	**$ 0.09**	$ 0.08	$ 0.19	$ 0.15	$ (0.08)	$ 0.09	$ 0.20	$ 0.14
Number of Agents	**11,868**	11,258	11,307	11,271	11,141	10,693	10,514	10,376
Number of fixed fee paying Sales Representatives	**643**	644	644	645	605	566	477	–

Revenues increased in each quarter, year over year due to a number of factors such as organic Agent count growth, increasing Agent productivity, the acquisition of franchise contracts on January 1 of each year, the introduction of new fees such as the $100 per month selling-REALTOR fee in July 2005 and the introduction of new services.

Management fees increased in 2006 due to the payment of an accumulated management fee (see Distributable Cash) and the recording of the fees on a "total" basis (see discussion of "total" basis below).

The Fund's royalty revenues are affected by the seasonality of the Canadian Residential Resale Real Estate 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 acquisition of contracts in January of each year; the introduction of new services and fees; and the significant fixed element of the Fund's agent count-based fees and services fees, as well as the Fund's variable franchise fee 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

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. A "total" basis refers to the calculation of the management fees as 20% of royalties less administration expenses and interest expense before reserves for working capital requirements ("Reserve"). Prior to the end of 2005, a Reserve was deducted for purposes of the management fee calculation. As discussed earlier, this Reserve requirement was removed and the accumulated management fee was paid in the first quarter of 2006. With this payment, on an inception to date basis the adjusted management fee presented in the table below totals the same amount expensed in the Fund's audited financial statements. As noted on the table below distributable cash calculated on this basis has been increasing each quarter and has significantly outpaced declared distributions.

Adjusted[1] rolling twelve-month distributable cash

Twelve months ended ($ 000's) except Agents, unit and per unit amounts	**2007**	2006				2005		
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Royalties	**$ 30,077**	$ 29,659	$ 29,419	$ 28,886	$ 28,092	$ 27,196	$ 26,207	$ 25,222
Less:								
Administration expenses	**659**	645	715	677	632	595	608	602
Interest expense	**2,403**	2,401	2,399	2,396	2,398	2,289	2,062	1,753
Adjusted management fee[1]	**5,403**	5,323	5,261	5,163	5,012	4,862	4,707	4,573
	21,612	21,290	21,044	20,650	20,050	19,450	18,830	18,294
Adjusted distributable cash per unit – total basis	**$ 1.62**	$ 1.60	$ 1.58	$ 1.55	$ 1.51	$ 1.46	$ 1.41	$ 1.37

[1] Above adjusted for management fees calculated before Reserves requirements. See "total" basis description.

Adjusted[1] rolling twelve-month distributable cash

Reconciled to cash flows from operating activities

Twelve months ended ($ 000's) except Agents, unit and per unit amounts	**2007**	2006				2005		
	March 31	December 31	September 30	June 30	March 31	December 31	September 30	June 30
Cash flows from operating activities	**$ 20,968**	$ 20,199	$ 19,223	$ 19,720	$ 20,379	$ 20,607	$ 19,974	$ 18,463
Add (deduct):								
Changes in non-cash working capital items	**807**	(703)	254	(112)	(1,008)	183	(2)	803
Amortization of deferred charges	**(124)**	(168)	(167)	(165)	(165)	(138)	(98)	(58)
Non-cash interest expense	**(39)**	–	–	–	–	–	–	–
Management fee adjustment[1]	**–**	1,962	1,734	1,207	844	(1,202)	(1,044)	(914)
	21,612	21,290	21,044	20,650	20,050	19,450	18,830	18,294
Adjusted distributable cash per unit – total basis	**$ 1.62**	$ 1.60	$ 1.58	$ 1.55	$ 1.51	$ 1.46	$ 1.41	$ 1.37

[1] Above adjusted for management fees calculated before Reserves requirements. See "total" basis description.

LIQUIDITY

The Fund utilized cash flow generated from operating activities for the Quarter of $3.8 million to meet acquisition and distribution requirements, without drawing on the $2 million operating line. A summary of the Fund's working capital position follows:

Working Capital ($ 000's)	**As at March 31, 2007**	As at December 31, 2006
Current assets		
Cash and cash equivalents	**$ 512**	$ 6,951
Accounts receivable and other	**3,138**	2,791
	$ 3,650	$ 9,742
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,236**	$ 2,998
Purchase obligation	**–**	576
Distribution payable to unitholders	**998**	956
	3,234	4,530
Net working capital	**$ 416**	$ 5,212

The Fund had a net positive working capital position of $0.4 million as at March 31, 2007, a decrease of $4.8 million from December 31, 2006. This decrease was due primarily to the use of cash to fund the acquisition of franchise contracts (see Acquisitions and Deposit on Acquisitions).

Accounts receivable increased $0.3 million from December 31, 2006 due primarily to seasonal market fluctuations and increased revenues associated with the increase in the number of selling-REALTORS.

Accounts payable and accrued liabilities of $2.2 million decreased $0.8 million from December 31, 2006 due primarily to the deferral of the management fee payment, in the third quarter of 2006, to accommodate the January 1, 2007 franchise contract acquisition payment. Accounts payable and accrued liabilities is comprised of a $1.0 million ($1.0 million – December 31, 2006) quarterly distribution payable to the non-controlling interest, $0.4 million ($1.2 million – December 31, 2006) in management fees payable to the Manager and $0.8 million ($0.8 million – December 31, 2006) in interest expense, deferred service revenue and administration expense accruals.

As discussed earlier, the Fund purchased franchise contracts representing 390 REALTORS operating out of 22 locations for an estimated purchase price of $7.2 million plus GST. Under terms of the MSA, 80% of the estimated purchase price is payable on acquisition. This obligation along with the $0.6 million purchase obligation from the January 1, 2006 franchise contract acquisitions were paid during the Quarter from existing cash and cash equivalents.

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. Other capital resources include: funds generated from operations; $0.2 million in unutilized distributable cash held for future distributions in anticipation of the seasonality of the Canadian residential resale real estate market; debt servicing and distribution requirements; financing for the acquisition of franchise contracts. Management will assess financing alternatives such as the issuance of additional Fund units and additional debt when funding requirements, such as potential acquisition opportunities, present themselves.

With $0.2 million in cumulative unutilized distributable cash, an anticipated flow-through of strong market unit sales, and the anticipated generation of distributable cash in excess of distributions in the future, we anticipate meeting our near-term financing requirements.

OFF-BALANCE SHEET ARRANGEMENTS

The Fund has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2007, the Fund's interests are ultimately controlled 75% by the public Fund and 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 must hold its 25% interest for five years until August 7, 2008 at which time 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 is reduced to the extent that the public unitholders do not receive their targeted monthly distributions of $0.0917 per unit.

As at March 31, 2007, BAM continued 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 contract with the Fund on the inception of the Fund. This franchise contract 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 contract for one additional corporately-owned location was acquired by the Fund on January 1, 2007.

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 of 10 years and is automatically renewable for successive 10-year terms subject to certain performance criteria and or other notification requirements. The MSA details the Fund Manager's responsibilities and provides for a monthly fee, payable in arrears, of 20% of cash otherwise distributable.

On January 1 of each year the Fund may, upon the Board of Trustees' approval and based upon criteria detailed in the MSA, purchase franchises acquired by the Fund 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 are 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.

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:

Three months ended March 31	**2007**	2006
a) Royalties		
Fixed, variable and other franchise fees	**$ 508**	$ 461
Premium franchise fees	**$ 618**	$ 570
b) Expenses		
Management fees	**$ 1,229**	$ 3,111
Insurance and other	**$ 25**	$ 23
c) Distributions		
Distribution paid to non-controlling interest	**$ 957**	$ 957
d) Accounts receivable		
Franchise fees receivable and other	**$ 425**	$ 375
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 998**	$ 957
Management fees	**$ 469**	$ 1,228
Purchase obligation	**$ –**	$ 576

Effective January 1, 2007, the Fund acquired 22 new Royal LePage residential real estate brokerage franchise contracts representing 22 real estate brokerage locations serviced by 390 real estate agents. The Fund acquired the contracts from the Fund Manager through the Partnership, the limited partnership that held the real estate broker franchise contracts for the Fund. The purchase price of $7.2 million is based on an estimated annual royalty stream of $0.8 million and has been calculated in accordance with the formula set forth in the Fund's MSA. The initial purchase price obligation of $5.7 million was paid by the Partnership during January 2007 using cash on hand. The remaining $1.5 million is expected to be paid in the first quarter of 2008 upon meeting the terms set out in 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 contracts and relationships, and trademarks and their related amortization periods. The Fund's administration costs of approximately $0.6 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 and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, purchase obligation, distributions payable to unitholders and a $38 million private debt placement.

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 $38 million private debt is fixed at 5.882% with an effective rate after financing costs of 6.3% for a five-year term commencing February 18, 2005 and as such is not subject to interest rate fluctuations.

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

CONTROLS AND PROCEDURES

We maintain appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Our Chief Executive and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2007, and have concluded that such disclosure controls and procedures are operating effectively.

Management is responsible for establishing adequate 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 GAAP. Our Chief Executive and Chief Financial Officer assessed, or caused an assessment under their direct supervision of, the design of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at March 31, 2007 and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed. No changes were made to the design of our internal controls over financial reporting during the three months ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Note however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

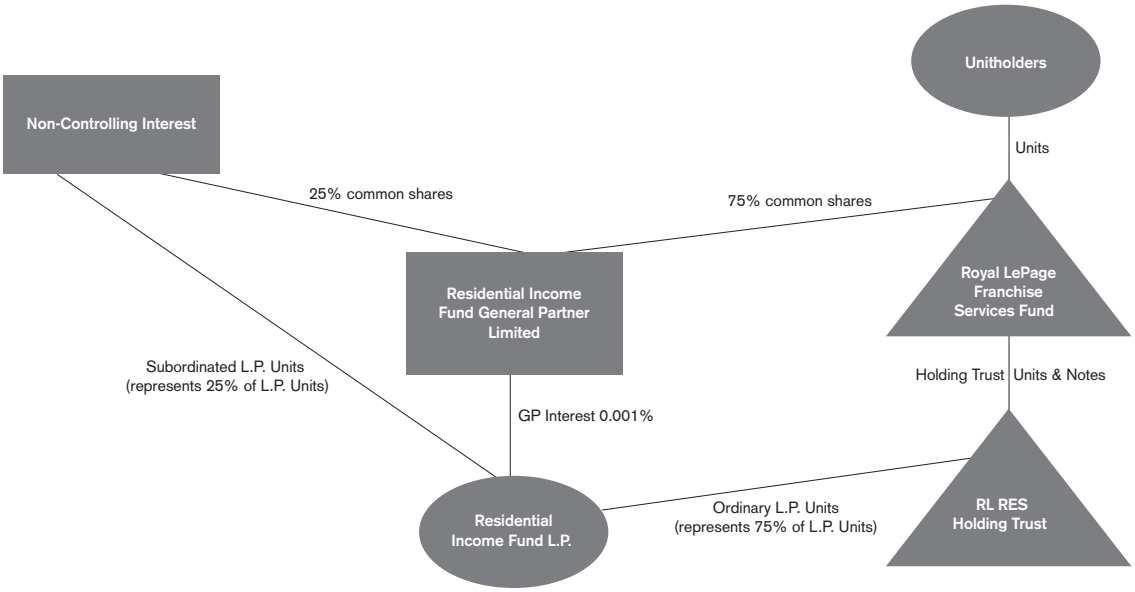
Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

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 March 31, 2007, 9,983,000 units were issued and outstanding. In addition to these units, the Fund has also issued 3,327,667 Special Fund Units, which entitles the holder to vote in all votes of Fund units as if they had converted their Subordinated LP Units into Fund units.

Management's Discussion and Analysis of Results and Financial Condition

FUND STRUCTURE



The Fund is governed by a Board of Trustees and is comprised of a Trust (Fund) on Trust (Holding Trust) structure, as summarized above, 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.

Under the terms of the Offering, the subordinated unitholder must retain its full interest for five years from the commencement of the Fund. Fund distributions of all available cash are 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 are subordinated to the public unitholders' distributions to the extent the public unitholders have not received the initial targeted monthly distribution of $0.0917 per unit, $1.10 per unit per annum. At the end of the five-year term, the subordinated unitholder may exchange its units for units of the Fund.

The LP manages the Fund's operations and underlying structure by way of the MSA, which was 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 its 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, 2006 were comprised of the costs of the initial public offering, intangible assets of the LP, acquisitions of franchise contracts subsequent to inception, and costs associated with the $38 million private debt placement, which have the following deductibility profile and amounts:

Taxation of Fund Distributions

($ millions)

Future Deduction Basis	Actual Deduction for 2004	Actual Deduction for 2005	Actual Deduction for 2006	Remaining Balance	Estimated Deduction for 2007
7% of Balance	6.2	5.7	5.2	71.4	4.7
Five-year straight-line	1.8	1.9	1.9	3.4	1.9
Length of contract plus one renewal	–	0.6	0.9	14.0	1.4
	8.0	8.2	8.1	88.8	8.1

For the year ended December 31, 2006, the Fund had a return of capital per unit of approximately 26% (14% – 2005) and a taxable amount per unit of approximately 74% (86% – 2005). These calculations are summarized in the table below. The estimated tax allocation of distribution for 2007 is 89% taxable income and 11% return of capital.

($ millions)	**2006**	2005	2004	2003
Fund net earnings	**3.5**	4.8	3.3	2.0
Add				
Non-controlling interest	**1.3**	1.7	1.2	0.7
Amortization	**14.6**	14.2	13.7	3.8
Rounding and other				(0.1)
Taxable earnings	**19.4**	20.7	18.2	6.4
Less				
Tax deduction	**8.1**	8.2	8.0	3.4
Taxable income	**11.3**	12.5	10.2	3.0
Distributions	**(15.3)**	(14.6)	(14.6)	(6.0)
Return of capital	**(4.0)**	(2.1)	(4.4)	(3.0)
Return of capital	**26%**	14%	30%	50%
Taxable	**74%**	86%	70%	50%
Distributions				
Unitholders	**11.5**	11.0	11.0	4.5
Non-controlling interest	**3.8**	3.6	3.6	1.5
	15.3	14.6	14.6	6.0

Impact of Taxation on Income Trusts

At this time, it is too early to determine the extent to which the proposed taxation of income trusts will affect the Fund (see Recent Developments). Management will continue to monitor and analyze this situation and its implications for the Fund as they develop. In the meantime, the business fundamentals for the Fund remain strong and we will continue to build the business to create long-term sustainable value for unitholders.

Management's Discussion and Analysis of Results and Financial Condition

CHANGE IN ACCOUNTING POLICIES

Accounting Changes – Financial Instruments

Effective January 1, 2007, the Fund adopted CICA Handbook Sections 3855, Financial Instruments – Recognition and Measurement, 3865, Hedges, 1530, Comprehensive Income, 3861, Financial Instruments – Disclosure and Presentation, and consequential amendments to other sections (collectively "the new financial instruments framework"). The new financial instruments framework introduces a number of potentially significant changes in accounting for financial instruments under Canadian GAAP, including:

- Fair value measurement for many financial instruments, including all derivative financial instruments;
- Requirement to classify all financial instruments with the classification selected at inception determining the ongoing accounting for the instrument;
- Expanded definition of a derivative, including application of fair value accounting to certain nonfinancial derivatives and introduction of the concept of embedded derivatives to Canadian GAAP;
- Use of the effective interest method to amortize premiums, discounts and costs associated with interest bearing financial instruments; and
- Requirement to present a Statement of Comprehensive Income and report accumulated other comprehensive income as a component of shareholders' equity.

On adoption of the new financial instruments framework on January 1, 2007, the Fund recorded adjustments in connection with the following:

- As a result of applying CICA Handbook Section 3855, the Fund reclassified deferred financing costs of $526 from deferred charges to long-term debt and applied the effective interest method of valuation to its long-term debt. These changes resulted in a decrease of $29 in the opening carrying value of the private debt placement, with the corresponding decrease in the prior year's interest expense reflected as an increase in opening unitholders' equity of $22 (net of $7 minority interest).

The Fund does not have any financial instruments or embedded derivatives at January 1 and March 31, 2007 that would result in Other Comprehensive Earnings to the Fund.

Equity

Effective January 1, 2007, the Fund adopted CICA Handbook Section 3251 Equity. This Section establishes standards for the presentation of equity and changes in equity during the reporting period. These changes have been reflected in the financial statements.

OUTLOOK

We expect continued strength in the Canadian residential resale real estate market in the mid-term due to strong underlying market fundamentals supported by low interest rates, strong consumer confidence, the relative affordability of residential real estate and a relatively strong economy. This strength has been, and will continue to be, mitigated somewhat by a trend toward rising interest rates and an increase in listing inventory levels. This rise in listing inventory is expected to lessen the pace of price appreciation across Canada from double digits seen over the past few years to single digits for the near and mid-term, with the anticipated overall effect of a strong but more balanced market in most regions of Canada. Alberta continues to record double digit price appreciation but the pace of growth there also has been moderating.

We are well positioned for the shift to balanced markets, as the benefits of strong brands and productivity-enhancing tools become more apparent to brokers and Agents when transaction volumes moderate, and there typically are more acquisition opportunities.

The continued strength of the Canadian residential real estate market is in contrast with our U.S. counterpart, which has softened significantly. While transactional dollar volume in the Canadian residential resale market increased 11.2% in 2006 fuelled by a selling price increase of 11.1%, sales in the U.S. of existing homes declined by 8.4% and the average house price increased by only 0.6%, which was well down from the average 9.1% appreciation of 2005. This divergent trend continued in the first quarter of 2007, reflecting a number of factors, notably: the United States has a more aggressive monetary policy; more financial instruments that have stimulated speculative residential development and investment; a tax system that encourages maximum homeowner leverage; higher household debt; and a longer run-up and steeper house price increases. As a result, we expect this discrepancy between the two markets to continue in the short and mid-term.

The growth in transaction dollar volume of Canadian residential resale real estate represents an opportunity to generate greater distributable cash through increased franchise fees earned from increased Agent productivity and the attraction of franchisees and REALTORS to our brands. To this end, we will continue to seek ways to enhance our service and support offerings and improve our efficiencies.

During 2006, we continued to expand and improve our sales, marketing, communication and technology tools, as well as training programs to help Agents apply the tools in order to maximize their productivity. Our leading internet-based technology platform provides Agents with an integrated web-based portal for developing their skills and growing their businesses. We also expanded our program of training and coaching programs to help agents achieve their career objectives.

During 2007, we will continue to develop expertise in high growth niche markets. We were the first organization in Canada to announce the launch of a seniors real estate specialist designation (SRES®) program, effective in the first quarter of 2007. This designation, which is recognized by CARP, Canada's association for individuals who are aged 50-plus, will provide our Agents with the tools and recognition to build their seniors client base. We will also continue to develop our Carriage Trade program which provides comprehensive marketing support for high-end properties.

Continuing strong market fundamentals, our technology enhancements, marketing initiatives combined with favourable debt refinancing and increased royalties from acquisitions, set the stage for stable and sustainable unitholder distributions.

FORWARD-LOOKING STATEMENTS

This MD&A and other content of this Financial Review report contains 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.

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION – NET AND COMPREHENSIVE EARNINGS AND DISTRIBUTABLE CASH BY PERIOD

Three months ended ($ 000's except per unit amounts, unaudited)	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Royalties	$ 7,138	$ 7,937	$ 6,525	$ 6,492	$ 7,932	$ 8,470	$ 6,765	**$ 6,910**
Less:								
Administration expenses	145	125	202	160	190	163	132	**174**
Management fee	915	915	915	3,111	1,429	1,540	1,205	**1,229**
Interest expense	602	602	604	590	600	605	606	**592**
Amortization of intangible assets	3,521	3,569	3,589	3,604	3,632	3,657	3,666	**3,652**
Earnings (loss) before undernoted	1,955	2,726	1,215	(973)	2,081	2,505	1,156	**1,263**
Non-controlling interest	(519)	(702)	(350)	211	(556)	(657)	(317)	**(351)**
Net and comprehensive earnings (loss) for the period	1,436	2,024	865	(762)	1,525	1,848	839	**912**
Add :								
Amortization of intangible assets	3,521	3,569	3,589	3,604	3,632	3,657	3,666	**3,652**
Non-controlling interest	519	702	350	(211)	556	657	317	**351**
Distributable cash	5,476	6,295	4,804	2,631	5,713	6,162	4,822	**4,915**
Add (less) change in:								
Unutilized cash	(1,814)	(2,633)	(1,142)	1,196	(1,889)	(2,338)	(997)	**(1,005)**
Distributable cash	$ 3,662	$ 3,662	$ 3,662	$ 3,827	$ 3,824	$ 3,824	$ 3,825	**$ 3,910**
Distributable cash available to:								
Public unitholders	$ 2,747	$ 2,746	$ 2,746	$ 2,870	$ 2,868	$ 2,869	$ 2,870	**$ 2,953**
Non-controlling interest	915	916	916	957	956	958	955	**957**
	$ 3,662	$ 3,662	$ 3,662	$ 3,827	$ 3,824	$ 3,827	$ 3,825	**$ 3,910**
Distributions to public unitholders	$ 2,747	$ 2,746	$ 2,746	$ 2,870	$ 2,868	$ 2,869	$ 2,870	**$ 2,953**
Per unit (9,983,000 units):								
Basic and diluted earnings (loss)	$ 0.14	$ 0.20	$ 0.09	$ (0.08)	$ 0.15	$ 0.19	$ 0.08	**$ 0.09**
Basic and diluted distributable cash before working capital and other reserves	$ 0.41	$ 0.47	$ 0.36	$ 0.20	$ 0.43	$ 0.46	$ 0.36	**$ 0.37**
Basic and diluted distributions	$ 0.28	$ 0.28	$ 0.28	$ 0.29	$ 0.29	$ 0.29	$ 0.29	**$ 0.30**

TAX ALLOCATION OF DISTRIBUTIONS

For the year ended December 31 (Unaudited)	2003[1]	2004	2005	2006	**2007**
	(actual)	(actual)	(actual)	(actual)	**(estimated)**
Other taxable income	50%	70%	86%	74%	**89%**
Return of capital	50%	30%	14%	26%	**11%**
Total distributions of the period	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)	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Revenue								
Fixed franchise fees	$ 2,999	$ 3,127	$ 3,261	$ 3,380	$ 3,453	$ 3,485	$ 3,509	**$ 3,621**
Variable franchise fees	2,231	2,444	1,327	1,610	2,498	2,377	1,347	**1,720**
Premium franchise fees	1,103	1,497	1,065	688	1,125	1,685	990	**737**
Other fee revenue and services	805	869	872	814	856	923	919	**832**
	$ 7,138	$ 7,937	$ 6,525	$ 6,492	$ 7,932	$ 8,470	$ 6,765	**$ 6,910**
% Revenue by region								
British Columbia	15	14	14	16	15	14	14	**15**
Prairies	11	11	11	11	11	11	11	**11**
Ontario	57	59	59	56	57	59	59	**58**
Quebec	13	12	12	13	13	12	12	**12**
Maritimes	4	4	4	4	4	4	4	**4**
	100	100	100	100	100	100	100	**100**

Three months ended **Changes during the period**	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Number of Agents and Sales Representatives	323	119	205	443	177	39	(52)	**633**
Number of Agents	295	138	179	448	130	36	(49)	**610**
Number of fixed fee paying Sales Representatives	–	477	89	39	40	(1)	–	**(1)**
Number of locations	–	(4)	–	21	(2)	(1)	(1)	**22**
Number of franchisees	(1)	(2)	–	16	(1)	(1)	(1)	**20**
At end of period								
Number of Agents and Sales Representatives	11,218	11,337	11,542	11,985	12,162	12,201	12,149	**12,782**
Number of Agents	10,376	10,514	10,693	11,141	11,271	11,307	11,258	**11,868**
Number of fixed fee paying Sales Representatives	–	477	566	605	645	644	644	**643**
Number of locations	565	561	561	582	580	579	578	**600**
Number of franchisees	264	262	262	278	277	276	275	**295**

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION

Fund Unit Performance

Three months ended	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Trading price range of units (TSX: "RSF.UN")								
High	$ 14.30	$ 14.50	$ 13.50	$ 14.25	$ 14.75	$ 14.50	$ 14.50	**$ 14.00**
Low	$ 12.60	$ 12.05	$ 10.31	$ 12.50	$ 12.41	$ 13.00	$ 11.00	**$ 11.85**
Close	$ 13.29	$ 13.00	$ 13.10	$ 13.30	$ 13.26	$ 14.10	$ 13.35	**$ 12.74**
Average daily volume	5,646	7,467	4,481	11,570	18,383	5,883	11,731	**4,230**
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	**9,983,000**
Net enterprise value at period end (thousands)								
Market capitalization[5]	$ 176,899	$ 173,039	$ 174,370	$ 177,032	$ 176,499	$ 187,680	$ 177,697	**$ 169,578**
Long-term debt	38,000	38,000	38,000	38,000	38,000	38,000	38,000	**37,494**
Less:								
Cash on hand	5,430	8,532	9,941	1,278	2,268	4,708	6,951	**512**
	$ 209,469	$ 202,507	$ 202,429	$ 213,754	$ 212,231	$ 220,972	$ 208,746	**$ 206,560**

[5] 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 per Unit				
Month	2003	2004	2005	2006	**2007**
January		$ 0.0917	$ 0.0917	$ 0.0958	**$ 0.1000**
February		0.0917	0.0917	0.0958	**0.1000**
March		0.0917	0.0917	0.0958	**0.1000**
April		0.0917	0.0917	0.0958	
May		0.0917	0.0917	0.0958	
June		0.0917	0.0917	0.0958	
July		0.0917	0.0917	0.0958	
August		0.0917	0.0917	0.0958	
September	$ 0.1750*	0.0917	0.0917	0.0958	
October	0.0917	0.0917	0.0917	0.0958	
November	0.0917	0.0917	0.0917	0.0958	
December	0.0917	0.0917	0.0917	0.0958	
	$ 0.45	$ 1.10	$ 1.10	$ 1.15	**$ 0.30**

* Based on a 55-day period

SUPPLEMENTAL INFORMATION – CONDENSED BALANCE SHEET

As at ($ 000's, unaudited)	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Cash and cash equivalents	$ 5,430	$ 8,532	$ 9,941	$ 1,278	$ 2,268	$ 4,708	$ 6,951	**$ 512**
Accounts receivable	3,074	2,797	2,434	2,614	3,320	3,159	2,699	**3,030**
Prepaid expenses	60	27	84	95	61	27	92	**108**
Deferred charges	743	703	684	640	599	557	516	**–**
Deposit on acquisition	1,118	–	–	2,979	1,423	–	–	**3,908**
Intangible assets	136,169	135,404	133,022	131,417	129,356	127,149	124,031	**122,228**
	$ 146,594	$ 147,463	$ 146,165	$ 139,023	$ 137,027	$ 135,600	$ 134,289	**$ 129,786**
Accounts payable and accrued liabilities	$ 2,003	$ 2,122	$ 2,064	$ 2,573	$ 2,320	$ 2,189	$ 2,998	**$ 2,236**
Purchase obligations	–	1,686	2,893	–	–	27	576	**–**
Distributions payable to unitholders	915	915	915	957	957	956	956	**998**
Long-term debt	38,000	38,000	38,000	38,000	38,000	38,000	38,000	**37,494**
Non-controlling interest	26,604	26,390	25,824	24,656	24,257	23,956	23,317	**22,677**
Unitholders' equity	79,072	78,350	76,469	72,837	71,493	70,472	68,442	**66,381**
	$ 146,594	$ 147,463	$ 146,165	$ 139,023	$ 137,027	$ 135,600	$ 134,289	**$ 129,786**

Management's Discussion and Analysis of Results and Financial Condition

SUPPLEMENTAL INFORMATION – CONDENSED CASH FLOW BY PERIOD

Three months ended ($ 000's, unaudited)	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2006**
Cash provided by (used for):								
Operating activities								
Net earnings (loss) for the period	$ 1,436	$ 2,024	$ 865	$ (762)	$ 1,525	$ 1,848	$ 839	**$ 912**
Add (deduct)								
Non-controlling interest	519	702	350	(211)	556	657	317	**351**
Amortization of deferred charges	41	40	40	44	41	42	41	**–**
Non-cash interest expense	–	–	–	–	–	–	–	**39**
Amortization of intangible assets	3,521	3,569	3,589	3,604	3,632	3,657	3,666	**3,652**
Changes in non-cash working capital	(29)	429	248	360	(925)	63	1,205	**(1,150)**
	5,488	6,764	5,092	3,035	4,829	6,267	6,068	**3,804**
Investing activities								
Deposit on acquisition	–	–	–	(4,978)	–	–	–	**(5,743)**
Payment of purchase price obligation	–	–	–	–	–	–	–	**(576)**
Purchase of intangible assets	(19)	–	–	(2,893)	(15)	–	–	**(14)**
	(19)	–	–	(7,871)	(15)	–	–	**(6,333)**
Financing activities								
Distributions paid to unitholders	(2,747)	(2,746)	(2,746)	(2,870)	(2,869)	(2,869)	(2,869)	**(2,953)**
Distributions paid to non-controlling interest	(915)	(916)	(916)	(957)	(955)	(958)	(956)	**(957)**
Deferred charges	(35)	–	(21)	–	–	–	–	**–**
	(3,697)	(3,662)	(3,683)	(3,827)	(3,824)	(3,827)	(3,825)	**(3,910)**
Increase (decrease) in cash and cash equivalents during the period	1,772	3,102	1,409	(8,663)	990	2,440	2,243	**(6,439)**
Cash and cash equivalents, beginning of period	3,658	5,430	8,532	9,941	1,278	2,268	4,708	**6,951**
Cash and cash equivalents, end of period	$ 5,430	$ 8,532	$ 9,941	$ 1,278	$ 2,268	$ 4,708	$ 6,951	**$ 512**

SUPPLEMENTAL INFORMATION – CANADIAN REAL ESTATE MARKET

Three months ended	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Canada								
Transaction dollar volume[1]	$ 37,809	$ 32,190	$ 25,601	$ 30,652	$ 42,607	$ 33,200	$ 27,227	**$ 35,283**
Average selling price	$ 251,101	$ 250,214	$ 256,519	$ 267,167	$ 283,261	$ 276,591	$ 280,968	**$ 293,903**
Number of units sold	150,573	128,649	99,802	114,730	150,417	120,032	96,903	**120,048**
Number of REALTORS at period end	80,604	82,112	82,837	85,361	86,838	88,131	88,906	**NA**
Housing starts	67,183	62,809	58,405	43,917	65,229	60,197	58,052	**40,716**
Greater Toronto Area								
Transaction dollar volume[1]	$ 9,371	$ 7,310	$ 6,117	$ 6,913	$ 9,640	$ 7,094	$ 6,180	**$ 7,348**
Average selling price	$ 344,557	$ 329,131	$ 338,396	$ 348,596	$ 363,429	$ 343,014	$ 351,070	**$ 363,259**
Number of units sold	27,196	22,211	18,075	19,831	26,525	20,680	17,604	**20,228**
Housing starts	13,050	11,774	9,854	7,290	11,462	8,750	9,578	**5,585**

Twelve months ended	June 30, 2005	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006	**March 31, 2007**
Canada								
Transaction dollar volume[1]	$ 109,670	$ 116,166	$ 120,395	$ 126,189	$ 130,983	$ 132,190	$ 133,825	**$ 138,316**
Average selling price	$ 238,134	$ 244,667	$ 249,365	$ 255,814	$ 265,640	$ 272,145	$ 277,034	**$ 283,783**
Number of units sold	460,537	474,795	482,805	493,285	493,085	485,733	483,062	**487,400**
Housing starts	230,938	227,993	225,481	232,314	230,360	227,748	227,395	**224,194**
Seasonally adjusted housing starts	237,200	230,500	227,700	252,300	232,200	211,300	211,500	**210,900**
Greater Toronto Area								
Transaction dollar volume[1]	$ 27,352	$ 28,205	$ 28,815	$ 29,786	$ 30,056	$ 29,839	$ 29,903	**$ 30,262**
Average selling price	$ 328,419	$ 332,471	$ 336,190	$ 340,287	$ 346,024	$ 349,689	$ 352,382	**$ 355,869**
Number of units sold	83,283	84,834	85,710	87,532	86,861	85,330	84,859	**85,037**
Housing starts	42,601	41,995	41,596	41,968	40,380	37,356	37,080	**35,375**

NA: Not available at date of Management's Discussion and Analysis

[1] ($ millions)

Source: CMHC, CREA and TREB

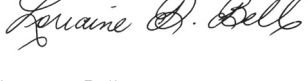
Interim Consolidated Balance Sheets

As at (in thousands of dollars)	**March 31, 2007** (Unaudited)	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	**$ 512**	$ 6,951
Accounts receivable	**3,030**	2,699
Prepaid expenses	**108**	92
	3,650	9,742
Deferred charges (notes 2 and 5)	**–**	516
Deposit on acquisition (note 3)	**3,908**	–
Intangible assets (note 3)	**122,228**	124,031
	$ 129,786	$ 134,289
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 2,236**	$ 2,998
Purchase obligation (note 3)	**–**	576
Distribution payable to unitholders	**998**	956
	3,234	4,530
Long-term debt (note 5)	**37,494**	38,000
Non-controlling interest (note 5)	**22,677**	23,317
	63,405	65,847
Unitholders' equity	**66,381**	68,442
	$ 129,786	$ 134,289

See accompanying notes to the consolidated financial statements

On behalf of the board

Simon Dean
Trustee



Lorraine Bell
Trustee

Interim Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

Three months ended March 31
(unaudited)

(in thousands of dollars, except unit and per unit amounts)	2007	2006
Royalties		
Fixed franchise fees	**$ 3,621**	$ 3,380
Variable franchise fees	**1,720**	1,610
Premium franchise fees	**737**	688
Other fee revenue and services	**832**	814
	6,910	6,492
Expenses		
Administration	**174**	160
Management fee (note 7(ii))	**1,229**	3,111
Interest expense (note 5)	**592**	590
Amortization of intangible assets	**3,652**	3,604
	5,647	7,465
Earnings (loss) before undernoted	**1,263**	(973)
Non-controlling interest	**(351)**	211
Net and comprehensive earnings (loss)	**$ 912**	$ (762)
Basic and diluted earnings (loss) per unit (9,983,000 units) (note 6)	**$ 0.09**	$ (0.08)

Interim Consolidated Statements of Unitholders' Equity

(unaudited)

(in thousands of dollars)	Units	Net Earnings	Distributions	Deficit	Total
Balance, December 31, 2005	$ 92,938	$ 10,034	$ (26,503)	$ (16,469)	$ 76,469
Changes during the period:					
Net loss	–	(762)	–	(762)	(762)
Unit distributions	–	–	(2,870)	(2,870)	(2,870)
Balance, March 31, 2006	$ 92,938	$ 9,272	$ (29,373)	$ (20,101)	$ 72,837
Balance, December 31, 2006	$ 92,938	$ 13,484	$ (37,980)	$ (24,496)	$ 68,442
Transition adjustment (notes 2 & 5)		22		22	22
New Opening Balance	$ 92,938	$ 13,506	$ (37,980)	$ (24,474)	$ 68,464
Changes during the period:					
Net and comprehensive earnings	–	912	–	912	912
Unit distributions	–	–	(2,995)	(2,995)	(2,995)
Deficit	–	912	(2,995)	(2,083)	(2,083)
Balance, March 31, 2007	**$ 92,938**	**$ 14,418**	**$ (40,975)**	**$ (26,557)**	**$ 66,381**

See accompanying notes to the interim consolidated financial statements

Interim Consolidated Statements of Cash Flows

Three months ended March 31
(unaudited)

(in thousands of dollars)	2007	2006
Cash provided by (used for):		
Operating activities		
Net earnings (loss) for the period	**$ 912**	$ (762)
Items not affecting cash		
Non-controlling interest	**351**	(211)
Amortization of deferred charges (notes 2 and 5)	**–**	44
Non-cash interest expense (notes 2 and 5)	**39**	–
Amortization of intangible assets	**3,652**	3,604
	4,954	2,675
Changes in non-cash operating working capital	**(1,150)**	360
	3,804	3,035
Investing activities		
Deposit on acquisition (note 3)	**(5,743)**	(4,978)
Purchase of intangible assets (note 3)	**(14)**	–
Payment of purchase price obligation (note 3)	**(576)**	(2,893)
	(6,333)	(7,871)
Financing activities		
Distributions paid to unitholders	**(2,953)**	(2,870)
Distributions paid to non-controlling interest	**(957)**	(957)
	(3,910)	(3,827)
Decrease in cash and cash equivalents during the period	**(6,439)**	(8,663)
Cash and cash equivalents, beginning of period	**6,951**	9,941
Cash and cash equivalents, end of period	**$ 512**	$ 1,278
Supplementary Cash Flow Information		
Interest paid	**$ 559**	$ 559

See accompanying notes to the interim consolidated financial statements

Notes to the Interim Consolidated Financial Statements

March 31, 2007 (unaudited) (in thousands of dollars)

1. ORGANIZATION

Royal LePage Franchise 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.

These consolidated financial statements include the accounts of Royal LePage Franchise Services Fund, its wholly-owned subsidiary RL RES Holding Trust ("RLHT"), and its 75% owned subsidiaries, Residential Income Fund General Partner Limited ("RIFGP") and Residential Income Fund L.P. (the "Partnership"). 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 Residential Income Fund Manager Limited ("RIFML"), a party related to the non-controlling interest via common control.

Seasonality

The Fund's business follows a seasonal pattern, with revenue traditionally being lower in the first and fourth quarters. Due to this seasonality, the interim earnings statements are not necessarily indicative of annual earnings.

2. SUMMARY OF ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The accounting principles used in these interim consolidated financial statements are consistent with those used in the annual consolidated financial statements. They do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the December 31, 2006 annual consolidated financial statements.

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Fund adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income.

Under the new standards, 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 and cash equivalents	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Purchase obligation	Other liabilities
Distributions payable to unitholders	Other liabilities
Long-term debt	Other liabilities

The prospective adoption of these new standards resulted in changes in the accounting for and presentation of the Fund's financial instruments and the recognition of certain transition adjustments recorded in opening unitholders' equity as described in Note 5.

The Fund does not have any financial instruments or embedded derivatives at January 1, 2007 and March 31, 2007, that would result in other Comprehensive Earnings to the Fund.

Notes to the Interim Consolidated Financial Statements

March 31, 2007 (unaudited) (in thousands of dollars)

3. ASSET ACQUISITIONS AND INTANGIBLE ASSETS

On January 1, 2007, the Partnership acquired 22 new franchise agreements from RIFML. The estimated purchase price of $7,179 is based on an estimated annual royalty stream of $822 and has been calculated in accordance with the formula set forth in the MSA. A deposit of $5,743, equal to 80% of the estimated purchase price was paid on January 2, 2007 and the remainder will be paid a year later, when the final purchase price is calculated in accordance with the terms set out in the MSA. The Partnership used cash reserves to acquire these agreements.

Until the final purchase price is determined, each quarter the purchase price obligation is recalculated based on the actual royalties received. Correspondingly, the deposit on acquisition is reduced by the calculated amount and transferred to intangible assets. These assets are then amortized in accordance with the Fund's policy and calculated on a prospective basis.

The recalculated purchase price obligation in excess of the deposit on acquisition will be recorded as a purchase obligation and the corresponding amount added to the intangible assets and amortized as described above.

During the three months ended March 31, 2007, $1,835 was transferred from "deposit on acquisition" and recorded as "intangible assets".

On February 19, 2007, $14 was paid in cash for due diligence relating to the January 1, 2007 acquisition and was recorded as "intangible assets".

On January 1, 2006, the Partnership acquired 16 franchise agreements from RIFML at a purchase price of $5,554 calculated in accordance with the Management Services Agreement ("MSA").

On January 4, 2006, $4,978 was paid in cash on deposit against this purchase price obligation and the remaining balance of $576 was paid in cash on January 2, 2007.

On January 1, 2005, the Partnership acquired 38 franchise agreements from RIFM at a purchase price of $9,934 calculated in accordance with the MSA. On February 18, 2005, $7,041 was paid in cash against this purchase price obligation and the remaining $2,893 was paid in cash on January 4, 2006.

	March 31, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
Franchise agreements	**$ 128,980**	**$ 49,059**	**$ 79,921**
Relationships and trademarks	**43,038**	**731**	**42,307**
	$ 172,018	**$ 49,790**	**$ 122,228**

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Franchise agreements	$ 127,665	$ 45,481	$ 82,184
Relationships and trademarks	42,504	657	41,847
	$ 170,169	$ 46,138	$ 124,031

4. 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 banker's 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 March 31, 2007, the operating credit facility had not been drawn upon.

Notes to the Interim Consolidated Financial Statements

March 31, 2007 (unaudited) (in thousands of dollars)

5. LONG-TERM DEBT

On February 18, 2005, the Partnership completed the issuance of a $38,000 private debt placement (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 proceeds of the private placement, net of $822 in issue costs, were utilized by the Partnership to payout and retire its $30,600 term loan and to fund the Partnership's January 1, 2005 franchise agreement acquisition obligations.

On January 1, 2007, in accordance with the new accounting standards described in note 2, the Fund reclassified deferred financing costs of $526 from deferred charges to long-term debt and applied the effective interest method of valuation to its long-term debt. These changes resulted in a decrease of $29 in the opening carrying value of the private placement, with the corresponding decrease in the prior year's interest expense reflected as an increase in opening unitholders' equity of $22 (net of $7 minority interest).

During the three months ended March 31, 2007, $39 of amortization of long-term debt was recorded as interest expense.

6. EARNINGS PER UNIT

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

7. RELATED PARTY TRANSACTIONS

i) Unless disclosed elsewhere, the Fund had the following transactions with parties related to the non-controlling interest during the three months ended March 31, 2007 and March 31, 2006. These transactions have been recorded at the exchange amount agreed to between the parties.

Three months ended March 31	**2007**	2006
a) Royalties		
Fixed, variable and other franchise fees	**$ 508**	$ 461
Premium franchise fees	**$ 618**	$ 570
b) Expenses		
Management fees (note 7(ii))	**$ 1,229**	$ 3,111
Insurance and other	**$ 25**	$ 23
c) Distributions		
Distributions paid to non-controlling interest	**$ 957**	$ 957

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

As at	**March 31, 2007**	December 31, 2006
d) Accounts receivable		
Franchise fees receivable and other	**$ 425**	$ 375
e) Accounts payable and accrued liabilities		
Distributions payable to non-controlling interest	**$ 998**	$ 957
Management fees	**$ 469**	$ 1,228
Purchase obligation	**$ –**	$ 576

Notes to the Interim Consolidated Financial Statements

March 31, 2007 (unaudited) (in thousands of dollars)

ii) Management Fees

From inception to March 31, 2006, the Fund accumulated and retained cash of $9.4 million as a reserve, which in the event of the release of this reserve would result in a 20% management fee payable to RIFML. During the three months ended March 31, 2006, the Fund released the $9.4 million in reserves, a portion of which was used to fund the 2005 and 2006 franchise agreements purchase obligations. As a result, a management fee of $1.9 million relating to the $9.4 million in reserves was incurred for the three months ended March 31, 2006.

Management Team

Philip Soper,
President and Chief Executive

Kevin Cash,
Chief Financial Officer

Carolyn Cheng,
Vice President, Strategic Business Services

Max Cohen,
Secretary & General Counsel

Lisa Da Rocha,
Vice President, Marketing and Communications

Wendy Forsythe,
Vice President, Sales Services

Andy Puthon,
Executive Vice President, Network Development

Gino Romanese,
Senior Vice President, Brokerage Operations

Gurinder Sandhu,
Vice President, Finance

Scott Webb,
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Deloitte & Touche LLP

TSX symbol: RSF.un
Fund units are eligible investments for DPSPs, RRSPs, RRIFs and RESPs

Annual General Meeting
The Annual General Meeting was held on May 8, 2007 at 10:00 a.m. at the Hockey Hall of Fame, located at BCE Place, 30 Yonge Street, Toronto. An audio replay and presentation slides are posted online at www.rsfund.ca under Investor Info> Investor Presentations.

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