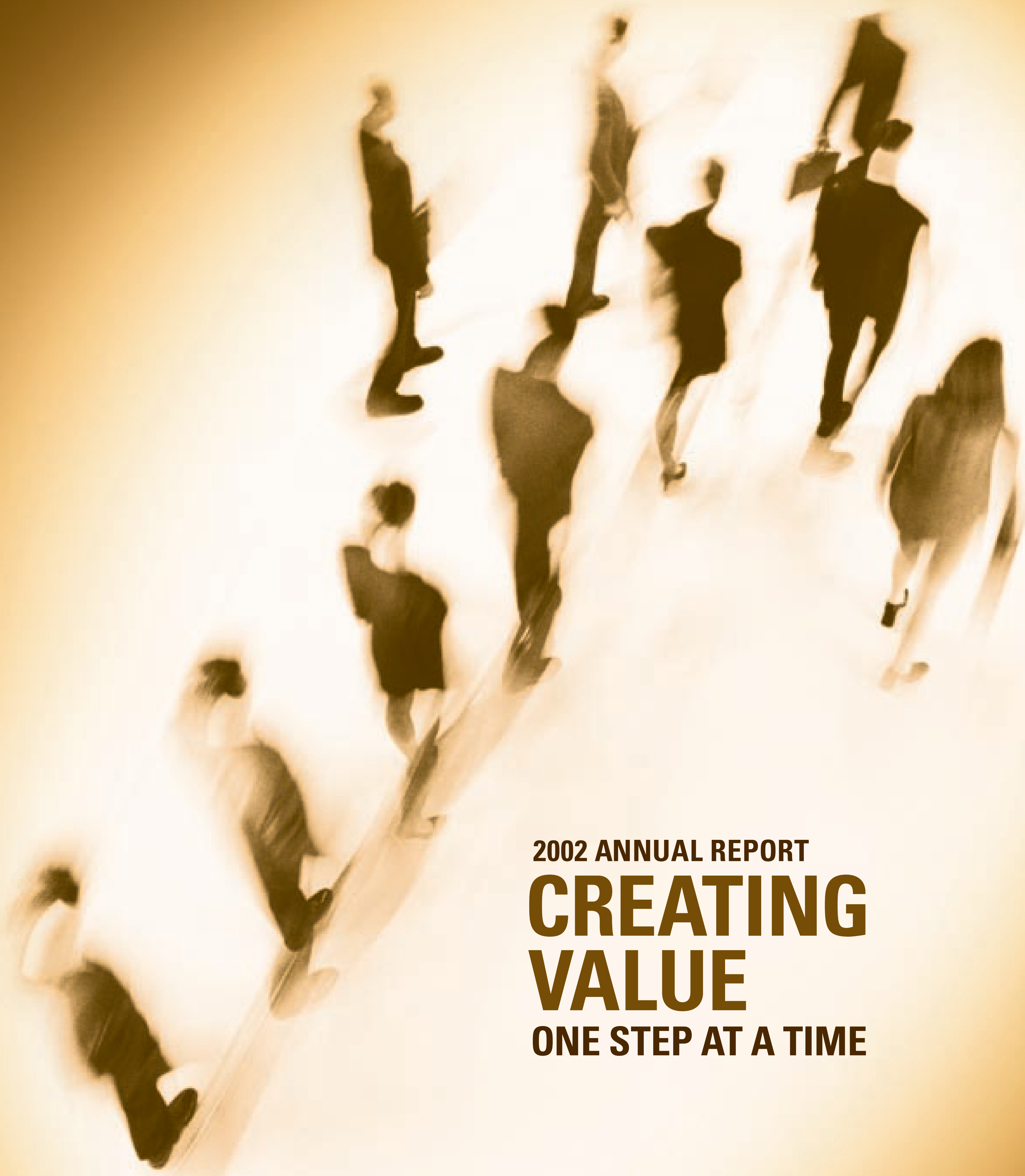


2002 ANNUAL REPORT

CREATING VALUE

ONE STEP AT A TIME

FIRSTSERVICE®

www.firstservice.com

CORPORATE PROFILE

Left to Right: Richard Oller, Scott Patterson, Tim Greener, Jay Hennick, John Friedrichsen

FirstService is a leader in the rapidly growing service sector providing property and business services to commercial and residential customers in the following areas: residential property management; integrated security systems; consumer services; and, customer support and fulfillment and business process outsourcing. FirstService's revenue run rate is currently in excess of US $525 million and total system-wide sales including revenues generated by franchisees are more than US $1.2 billion.

Each service line generates a high percentage of recurring revenues, has strong cash flows and high returns on invested capital and can be leveraged through margin enhancement, cross-selling of services or through consolidation.

FirstService's operations are divided into two divisions: Property Services and Business Services.

PROPERTY SERVICES

RESIDENTIAL PROPERTY MANAGEMENT

FirstService is the leading player in North America in residential property management, managing a total of 1,900 properties (condominiums, co-ops and other resident owned properties) comprising 375,000 residential units operating from 36 offices in 9 States.

INTEGRATED SECURITY SERVICES

FirstService is one of the largest security systems integrators in North America. It designs, installs, monitors and services access control, closed circuit television and other intrusion systems, and also offers high-end guard services in Canada, from 7 branches in the US Northeast and 4 branches in Canada.

CONSUMER SERVICES

FirstService is a leading franchiser of market-leading consumer service brands including California Closets (the largest organized closet installation company in North America); Paul Davis Restoration (the largest insurance restoration company in North America); Certa ProPainters and College Pro Painters (the largest commercial and residential painting company in North America); and Nutri-Lawn, ChemLawn (in Canada) and Green Lawn Care. These services are provided through 1,700 franchised and 15 Company-owned locations.

BUSINESS SERVICES

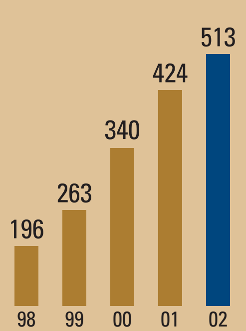
FirstService provides business-to-business customer support and fulfillment services and business process outsourcing to large corporations, banks, insurance companies and governments across North America. Services include technical and product support; student loan servicing; claims and other items processing; coupon and rebate administration; and inventory management, order assembly and shipping of marketing support materials, textbooks, medical information and pharmaceutical samples. Services are provided from 24 branches in the United States and Canada comprising over 2.3 million square feet of service capacity.

5 YEAR GROWTH RECORD

Year Ended March 31	2002[3]	2001	2000	1999	1998
OPERATIONS					
Revenue	$ 512,689	$ 424,174	$ 340,035	$ 263,361	$ 196,488
EBITDA[1]	57,122	47,855	37,977	28,767	18,608
Operating profit	45,043	35,926	27,870	20,622	13,331
Net earnings before extraordinary items	18,211	12,707	9,868	7,222	4,435
Net earnings	17,414	12,707	9,868	7,222	4,435
FINANCIAL POSITION					
Total assets	$ 358,205	$ 313,660	$ 230,887	$ 184,306	$ 126,019
Long-term debt[2]	160,488	149,374	102,177	84,516	38,163
Shareholders' equity	99,842	79,456	68,338	59,020	44,807
Book value per share	7.25	6.03	5.26	4.57	3.65
SHARE DATA					
Net earnings per share before extraordinary items					
Basic	$ 1.34	$ 0.97	$ 0.76	$ 0.57	$ 0.43
Diluted	1.25	0.92	0.72	0.54	0.41
Weighted average shares (thousands)					
Basic	13,565	13,074	12,948	12,564	10,370
Diluted	14,600	13,841	13,708	13,475	10,936
Cash dividends per share	–	–	–	–	–

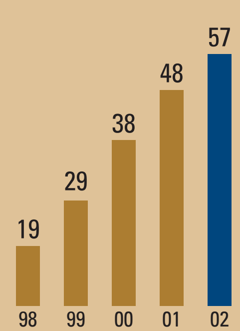
In thousands of US Dollars, except per share amounts, in accordance with US generally accepted accounting principles.

[1] Net earnings before extraordinary item, minority interest share of earnings, income taxes, interest, depreciation and amortization.
[2] Excluding current portion of long-term debt and including interest rate swap.
[3] SFAS 142 was adopted effective April 1, 2001, which resulted in a material decline in amortization expense and a material increase in net earnings. Fiscal 2001 net earnings, restated for SFAS 142, were $15,560 and net earnings per share were $1.19 (basic) and $1.12 (diluted).



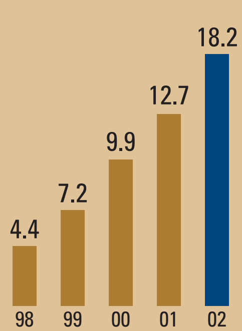
REVENUE ($US millions)

The 5 year compound annual growth rate for revenue is 31.3% reflecting a combination of consistent organic growth and sound acquisitions.



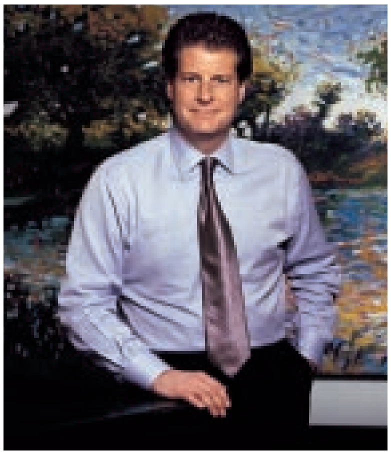
EBITDA ($US millions)

The 36.4% compound annual growth rate in EBITDA over the past years has outpaced increases in revenue – a reflection of management's success in enhancing margins.



NET EARNINGS ($US millions)

Net earnings before extraordinary items has grown at a compound annual growth rate of 40.5% during the 5 year period.



Jay S. Hennick
Founder, President and
Chief Executive Officer

PRESIDENT'S MESSAGE

Fellow shareholders:

Very strong performance – in a very tough market. This one phrase accurately describes Fiscal 2002 for FirstService.

Despite some of the most challenging economic times in recent memory, a period in which many of our peers and the S&P 500 posted significantly lower year over year results, FirstService was able to post strong double digit gains in revenue, EBITDA, earnings and earnings per share.

All of this is reason to be very pleased with our performance this year.

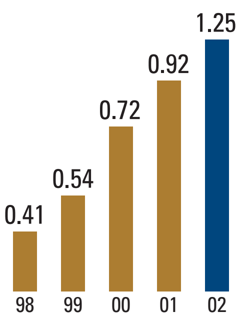
Our ability to continue to achieve strong annual growth in light of a difficult economy is a testimony to our solid business fundamentals:

- *Essential or near essential services* – The vast majority of the services we provide to our clients are necessary services that are required regardless of the state of the economy. This results in a revenue stream that is substantially recession-resistant.
- *Recurring revenue* – FirstService has always targeted service lines that generate a high percentage of contractual revenue. This has continued to reward us with more predictability than most other companies.
- *Diversified revenue base* – FirstService is well diversified geographically, by industry and most importantly by customer. Better results in one service line can offset under performance in another.
- *Highly variable cost structures* – Each of our services enjoy highly variable costs allowing us to manage our costs against expected revenues as we see changes in our business environment.
- *Disciplined growth strategy* – FirstService follows a very disciplined growth strategy balancing internal growth with acquisition. This has allowed us to focus on internal growth and use acquisitions as a means to augment our overall corporate growth.

The greatest asset we have as a company is our management team. The managers in each of our service areas are leaders in their fields. They understand their businesses and they are financially motivated to build long-term value for shareholders. More specifically, they know how to operate in tough times – focusing not only on sustaining operations and streamlining costs, but also on looking for new opportunities that might not have been available if the economy was firing on all cylinders.

Thanks to our strong managers and business fundamentals and the unwavering discipline of our business strategy, we are in a better position today than at any time in our history to capitalize on future opportunities.

Early in the second quarter of the year, we completed the private placement of US $ 100 million of ten-year senior secured notes with a fixed interest rate of 8.06%.



DILUTED EARNINGS PER SHARE ($US)

Diluted earnings per share continues to post strong growth despite the issuance of additional shares during the last 5 years, with compound annual growth of 27.7%.

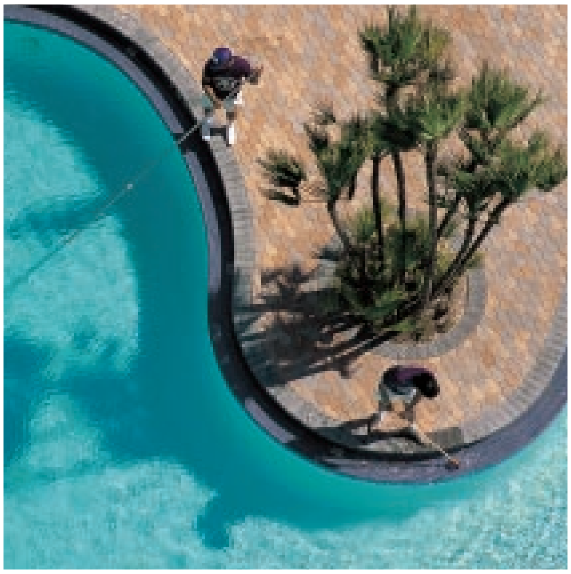
While our overall interest costs increased, we concluded that the benefits of having this new layer of long-term financing more than offset the reduction in our earnings. The other benefit of this financing was the tremendous vote of confidence in our operating strategy by some of America's most prominent financial institutions.

As I mentioned, FirstService generates very strong operational cash flows. In addition, we have about $70 million available on our credit lines to support further growth. Both of these factors will allow us to continue growing our business, without having to raise additional capital until it is prudent to do so.

Notwithstanding our established financial strength, we decided to decrease our acquisition activity this year, investing approximately $20 million, less than half of the prior year's amount. The weak economy and the impact of September 11th created a great deal of uncertainty regarding the sustainability of future earnings in many of our prospective acquisition targets – enough uncertainty for us to effectively pause our acquisition efforts. Having the discipline to make these kinds of decisions is another reason why FirstService continues to be successful.

Reflecting the confidence of our outlook today, we expect to return to our previous pace of acquisition activity over the next few quarters and we are confident that this – along with strong internal growth – will again enable us to meet our historical growth targets this year.

PROPERTY SERVICES



RESIDENTIAL PROPERTY MANAGEMENT

FirstService is North America's largest manager of condominiums, co-operatives and gated communities – communities where residents own their own homes or condo units but share the ownership of common areas. At the end of the year we managed about 1,900 different properties – with 375,000 homes – from 36 offices in 9 US States. In total, we now administer about $700 million dollars a year in annual expenditures for our clients.

Our strategy for property management is to add units under management internally and through acquisition, then leverage our management relationship to gain a greater share of the budget we administer for each community – providing superior services at competitive prices.

During the year, we continued to add units under management and to further penetrate our customer base by cross-selling additional services such as landscaping, irrigation and swimming pool services. We also continued to add to our bottom line by expanding other revenue-generating opportunities, including lock-box services, trash removal, insurance brokerage and a number of other aggregate buying programs.

In addition, we have initiated negotiations with several local cable TV and satellite service providers to provide these services to the communities we serve at more competitive price levels, creating another competitive advantage for FirstService. Although still in the early stages of the process, we are confident we can deliver exceptional incremental value to our clients while earning placement fees for FirstService.

The *Approved Vendor Program,* introduced in the second quarter, is doing very well. This program – which generates incremental subscription fees and further differentiates FirstService property management companies from their competitors – is designed to make sure that the contractors working at our properties are licensed, have the proper insurance and possess a sufficient credit standing to back up the work they do. At year end, nearly 350 vendors were on the system with a target to double that number before the end of Fiscal 2003.

Our painting and restoration operations were one of the service segments hardest hit by economic developments during the year. For the most part, these are larger jobs requiring special community assessments. As a result, community association board members had been reluctant to require their fellow homeowners to fund these expenditures in the current economy, especially after September 11th when many Americans decided to limit travel to their vacation properties. We are starting to see activity in this area return to normal levels and given that these expenditures were delayed rather than eliminated, we expect to win many of these jobs over the next 18 months, as this work is essential to maintaining the condition of our clients' properties.

Painting and restoration aside, internal growth in property management continued in the low double-digit range. This was good performance considering that internal growth in the fourth quarter of fiscal 2001 was greater than 15 percent.

INTEGRATED SECURITY

FirstService is one of North America's largest players in security systems integration, a sector that includes design, installation, monitoring and servicing of access control, closed circuit television and other intrusion systems for large office and residential complexes such as those that we manage.

The security business has many of the same characteristics as our other property services lines. The market is both growing and highly fragmented – and the nature of the business produces a high percentage of recurring revenues. More specifically, we grow by winning new access control and CCTV installations in our markets and once they are installed, we tend to monitor and service these systems for many years.

During the year, we continued to see strong internal growth from our Security Services & Technologies (SST) operations in the US Northeast, while internal growth at Intercon Security in Canada was slightly lower than expected. Early in the year, we acquired Virginia Automation and Security (VASEC) in Washington DC which has now been fully integrated and is operating under our SST brand name. In total we now have 7 branches in the US Northeast and 4 in Canada.

In just twelve months, the electronic security market has changed dramatically, with the pace of consolidation picking up early in the year and then slowing considerably toward the end, due to the general malaise of the economy and the under performance of some of our peers. This uncertainty has helped us recruit sales and installation people for our growing operations and has also created additional acquisition opportunities.


Witnessing many acquisitions over the last few years, several of the stronger independent security companies have begun to reconsider the benefits of being part of a larger entity. In many cases, they are seeking the resources of a larger company but also want to retain an equity stake and play an important role in building a national network of quality security systems integrators. This is exactly the type of opportunity we are looking for – strong operators that want to stay and participate in the success of our growth strategy.

Over the coming quarters, we hope to add at least one larger tuck-under acquisition in this area of our business, in order to expand our market presence and build upon the excellent management team in place.

CONSUMER SERVICES

In consumer services, we own a number of well-known consumer franchised brands, including California Closets, Paul Davis Restoration, Certa ProPainters, College Pro Painters, Cleanol Services and Greenspace Services which owns and operates the Nutri-Lawn, ChemLawn Canada, and Green Lawn Care brands. Despite the sluggish economy, system-wide sales for the year in consumer services were up moderately.

It is not surprising that sales of new franchises tailed off appreciably after September 11th. While this is not a material part of our business, it has traditionally been a good indicator of general economic sentiment. I am pleased to report that the turnaround, which began late in the first quarter of the year, seems to be continuing and we are optimistic that fiscal 2003 will be a stronger year for this segment of our company.

Looking more broadly, most of our consumer brands are 'bread and butter' services which have been around a long time and have generated consistent revenues and earnings regardless of the state of the economy. We see no reason why this will change.

Our strategy of acquiring some of our larger franchises in partnership with strong operators who are already proven performers in our organization provides another avenue of acquisition growth on which we intend to capitalize. The acquisition completed during the year in Seattle and the one last year in Boston are both doing well as Company-owned operations. As a result, we are in active discussions with a few other 'branchise' candidates and hope to be able to add at least one more over the next few quarters.

We would also like to add another complimentary franchise system in fiscal 2003. There are many opportunities to cross-sell the services our franchisees perform to our managed communities. In addition, our management team and the training systems they have developed for franchise organizations are second to none and we have a real opportunity to share best practices and add value to virtually any new franchise system we acquire.

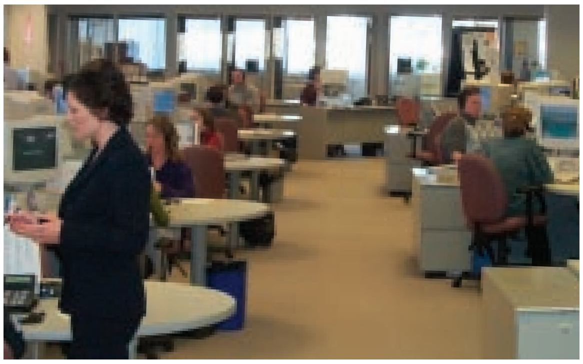
BUSINESS SERVICES

FirstService serves larger corporate and institutional customers with customer support and fulfillment across North America through DDS Distribution Services and the newly acquired Watts Group, along with business process outsourcing in Canada through BDP Business Data Services.

While the impact of Watts, which will celebrate it's 50th anniversary this year, has helped to offset the negative impact of general market conditions experienced through most of fiscal 2002, our customer support and fulfillment business continued to be weak for reasons which are easy to identify.

In almost all cases, our clients in the financial services, automotive, consumer products, and travel industries, experienced lower sales in their own operations. To compensate, they looked to reduce expenditures and to delay or eliminate a variety of marketing programs – all of which reduced the level of activity in our branches.

Operationally, we responded positively by helping our clients lower their costs. But we did it in return for other concessions like longer-term contracts and agreements to allow us to re-engineer a number of dated business processes that would help us lower our own operating costs. In addition, we redoubled our efforts to bring new customers on board. In short, economic downcycles are the perfect time to strengthen existing client relationships and to win new business, and we have been doing both.



In the third quarter, our fulfillment operation moved its Dallas branch into a new 250,000 square foot state of the art facility. This will allow us to better service our existing clients and give us the capacity to take on new fulfillment business in the southwest.

After restarting our acquisition activity in the fourth quarter, DDS completed the acquisition of the consumer support services division of Right Choice Services, Inc. in February. Based in Mascoutah, Illinois, Right Choice provides rebate processing and fulfillment, customer support, and consumer loyalty program services to large corporations, predominantly in the consumer packaged goods industry.

In addition, Watts was selected as the preferred provider of customer support and rebate services for Best Buy Inc., North America's largest consumer electronics retailer. Under the terms of the three-year deal, Watts will manage all customer support functions for Best Buy (Future Shop in Canada) – as well as oversee the fulfillment of all rebates, gift cards and other promotions.

In Canada, BDP continued to deliver very strong year-over-year results, as many of the contracts won last year are now fully implemented and running at capacity. As Canada's number two player in student loan servicing, BDP is actively soliciting new contract opportunities to service student loans for many of the provinces of Canada who fund student loans, as well as pursuing other outsourcing opportunities in financial services and insurance.

In the coming year we intend to pursue complimentary acquisitions which will leverage the capabilities of BDP's talented management team.

A MESSAGE OF THANKS

On behalf of the Board of Directors, I want to thank all of our business leaders, operating partners, and employees for a valiant effort under difficult conditions this year. Their achievements position FirstService even more advantageously for the years to come.

Our future remains an exciting one.

Jay S. Hennick
Founder, President and Chief Executive Officer

U.S. SECURITIES & EXCHANGE COMMISSION FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended March 31, 2002

Commission file number 0-24762

FIRSTSERVICE CORPORATION
(Exact name of Registrant as specified in its charter)

Ontario, Canada	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

FirstService Building **1140 Bay Street, Suite 4000** **Toronto, Ontario, Canada**	**M5S 2B4**
(Address of Principal Executive Offices)	(Postal Code)

Registrant's telephone number, including area code: **416-960-9500**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Subordinate Voting Shares

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] or No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Subordinate Voting Shares held by non-affiliates of the Registrant as at May 14, 2002 was $313,466,000 U.S. The number of the Registrant's Subordinate Voting Shares outstanding as at May 14, 2002 was 13,115,718 and the closing market price of such shares on that date was $23.90 U.S. The number of Multiple Voting Shares outstanding on May 14, 2002 was 662,847.

FIRSTSERVICE CORPORATION

Annual Report on Form 10-K
March 31, 2002

INDEX

Unless otherwise indicated, all dollar amounts in this Form 10-K are expressed in U. S. Dollars.

PART I

This annual report is prepared on Form 10-K and is filed by FirstService Corporation, an Ontario company (hereinafter sometimes referred to as the “Registrant”). The Registrant and its subsidiaries are referred to as “FirstService” or the “Company”. The Registrant is a “foreign private issuer” as defined under Rule 405 of Regulation C under the Securities Act of 1933, as amended. However, commencing with the year ended March 31, 2000, the Registrant elected to file its annual, quarterly and current reports on forms designated for U.S. domestic issuers.

Forward-looking statements

This annual report on Form 10-K contains or incorporates by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbors created by such legislation. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and the Company’s plans, goals and objectives. Such statements are generally accompanied by words such as “intend”, “anticipate”, “believe”, “estimate”, “expect” or similar statements. The Company’s actual results may differ materially from such statements. Among the factors that could result in such differences are the impact of weather conditions, increased competition, labor shortages, the condition of the U. S. and Canadian economies, and the ability of the Company to make acquisitions at reasonable prices. Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. The Company notes that past performance in operations and share price are not necessarily predictive of future performance.

ITEM 1. BUSINESS

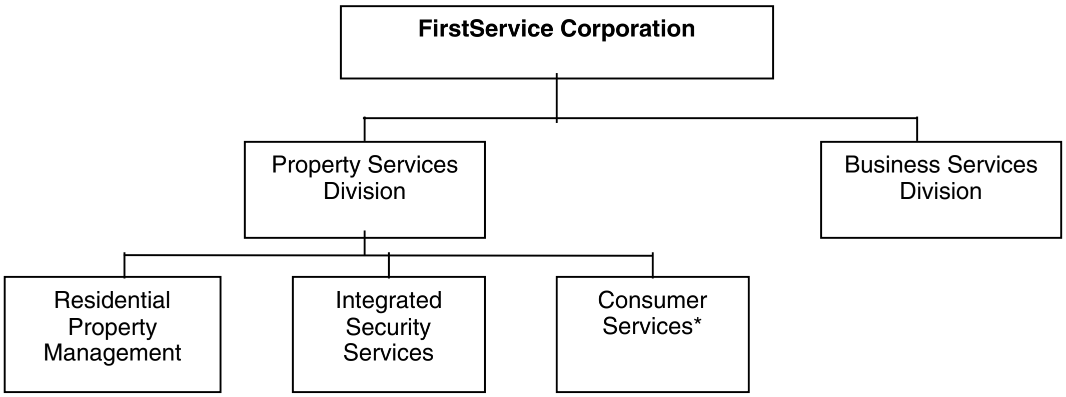
Overview

FirstService is a leader in the rapidly growing service sector, providing a variety of Property and Business Services to commercial and residential customers in the following areas: Residential Property Management, Integrated Security Services, Consumer Services and Business Services. Each service line provides essential or near-essential services, generates a high percentage of recurring revenues, has strong cash flows, generates high returns on invested capital and can be leveraged through margin enhancement, cross-selling or consolidation.

From the time of going public in 1993, the Company has posted a track record of consistent growth in revenues and profitability by leveraging off the expertise it has developed since the predecessor to the Company was founded by Jay S. Hennick, Chairman and CEO, in

1972. For the fiscal year ended March 31, 2002 ("Fiscal 2002"), revenues and EBITDA[1] were $512.7 million and $57.1 million, respectively. Approximately 67% of the Company's revenues are generated in the United States, with the balance in Canada. The Company is listed on both the NASDAQ National Market (symbol: FSRV) and The Toronto Stock Exchange (symbol: FSV). Its Internet address is www.firstservice.com.

The Company's operations are conducted through two operating divisions and four operating segments:



* Includes both franchised and Company-owned services

Revenues by operating segment (In thousands of U.S. Dollars)	**Years ended March 31**				
	2002	**2001**	**2000**	**1999**	**1998**
Property Services Division					
Residential Property Management	$ 205,376	$ 181,730	$ 133,782	$ 90,649	$ 62,958
Integrated Security Services	95,507	81,007	61,539	52,827	46,984
Consumer Services	83,964	78,838	71,330	61,618	49,914
Business Services Division	127,478	82,346	73,198	58,162	36,615
Corporate	364	253	186	105	17
Total	**$ 512,689**	**$ 424,174**	**$ 340,035**	**$ 263,361**	**$ 196,488**

Note 17 to the consolidated financial statements included herein under Part II contains further details regarding the operating profit, total assets and long lived assets of the operating segments of the Company.

[1] EBITDA is defined as net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and amortization. EBITDA is a financial metric used by many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. EBITDA is not a recognized measure for financial statement presentation under United States generally accepted accounting principles ("U.S. GAAP"). Non-U.S. GAAP earnings measures, such as EBITDA, do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers.

Description of business

Property Services Division

Residential Property Management

FirstService is the largest manager of private residential communities in North America. Private residential communities include condominiums, cooperatives, gated communities and a variety of other residential developments governed by multiple unit residential community associations (collectively referred to as “community associations”). In total, the Company manages more than 375,000 residential units in 1,900 community associations in the States of Florida, New Jersey, Arizona, New York, Virginia, Pennsylvania, Delaware, Maryland, and the District of Columbia.

In Florida, the Company operates under the Continental Group, Prime Management Group, Dickinson Management and Sterling Management brands. In the mid-Atlantic region, the Company operates under the Wentworth Group, Armstrong Management, Arco Management and Equity Management brands. The Company’s Arizona operations are conducted through Rossmar & Graham Community Association Management.

In addition, through its subsidiary American Pool Enterprises, Inc. (“American Pool”), FirstService is the largest manager of commercial swimming pools and recreation facilities in North America. American Pool currently serves more than 1,400 commercial swimming pools and recreation facilities and more than 5,500 residential swimming pools in ten states and in Canada, providing recreational facility management, staffing, maintenance and restoration services. The operations of American Pool, outside of the Florida and Arizona markets, are seasonal in nature with the majority of revenues being earned in the first and second fiscal quarters.

In the residential property management industry, there are two types of professional property management companies: (i) traditional property managers, and (ii) full-service property managers. Traditional property managers primarily handle administrative property management functions such as collecting maintenance fees, sourcing and paying suppliers, preparing financial statements and contracting out support services. Full-service property managers provide the same services as traditional property managers but also provide a variety of other services under one exclusive contract. FirstService is a full-service property manager and in many markets provides a full range of services including grounds maintenance, landscaping, painting, restoration, pest control, irrigation, real estate sales and leasing, heating, air conditioning, plumbing and swimming pool management and maintenance.

The aggregate budget of the communities managed by FirstService is approximately $700 million. The aggregate budget of all the community associations in the United States is estimated to be $33 billion. Currently, FirstService accesses approximately 20% of the aggregate budget of its communities through the various services that it offers. The Company’s strategy is to continue to add communities under management while striving to earn a greater percentage of the aggregate budget by introducing additional services and products.

Integrated Security Services

FirstService is one of North America’s largest providers of integrated security services, primarily to the commercial market, with operations in eleven branches: seven in the United States and four in Canada. The Company operates two security brands, Intercon (primarily in Canada) and SST (in the United States).

FirstService designs, installs, repairs and maintains integrated electronic security systems including identification badging, access control and closed-circuit television for office buildings, commercial and industrial facilities, institutional campuses and multi-unit residential properties. FirstService's customers include *Fortune 1000* corporations, property management companies, prominent hospitals and universities and all levels of government. Revenues are derived from installation projects, ongoing service, branch and head office upgrades, central station monitoring and maintenance-related work.

In executing its growth strategy to date, FirstService has focused on the development of long-term customer relationships, providing complete enterprise-wide electronic security solutions for all of its customers' facilities and operations. Going forward, this growth strategy will be augmented by acquisitions in key U.S. markets enabling FirstService to add strong regional operators that are leaders in their markets, establish national service capabilities and leverage its existing national account relationships and supplier base.

In Canada, FirstService supplements its integrated electronic security service offerings with a premium security officer service, providing highly trained manpower on-site, via mobile patrol and in response to central station calls. This full-service approach of providing both security systems expertise and security officer services has been a key success factor in delivering growth in the Canadian market, where commercial security clients often express a desire for comprehensive security services.

Consumer Services

In Consumer Services, FirstService provides a variety of residential and commercial services through its network of 1,700 franchised and 15 Company-owned locations across North America and internationally. The principal brands in the Consumer Services unit include California Closets, Paul Davis Restoration, Certa ProPainters, College Pro Painters, ChemLawn Canada, Green Lawn Care and Nutri-Lawn. Franchised brands are operated by The Franchise Company, Inc. ("TFC") and Company-owned lawn care brands are operated by Greenspace Services, Inc. ("Greenspace").

California Closets is the largest provider of installed closet and home storage systems in North America. Headquartered in San Rafael, California, California Closets has approximately 125 franchise territories in the United States and Canada as well as master franchises in other countries around the world. California Closets receives royalties from franchisees based on a percentage of the franchisees' revenues.

Paul Davis Restoration is a Florida-based franchiser of residential and commercial restoration services serving the insurance restoration industry in the United States through 215 franchises. This company provides restoration services for property damaged by natural or man-made disasters. Paul Davis Restoration receives royalties from franchisees based on a percentage of the franchisees' revenues.

Certa ProPainters is a residential and commercial painting franchise system with approximately 250 franchises operating in major markets across the United States and Canada as well as master franchises in other countries around the world. Certa ProPainters focuses on high-end residential and commercial painting and decorating work and other programs for property managers who have portfolios of condominium and commercial properties. Franchisees pay Certa ProPainters a fixed fee royalty, plus administrative fees for various ancillary services.

College Pro Painters is a seasonal exterior residential painting franchise system operating in 24 states and across Canada with approximately 700 franchises. It recruits students and trains them to operate the business, including price estimating, marketing, operating procedures, hiring, customer service and safety. College Pro Painters receives a royalty from each franchisee based on a percentage of revenue. College Pro Painters' operations are seasonal with significant revenue and earnings in the Company's first and second quarters followed by losses in the third and fourth quarters.

In addition to the franchise systems described above, the Company operates Stained Glass Overlay, an Orange, California based franchiser of decorative glass treatments and Action Window Cleaners, an Ontario-based seasonal franchise system for students that offers residential window cleaning.

Franchise agreements are generally for a term of ten years, with the exception of College Pro Painters and Action Window Cleaners, where the agreements are for a term of one year.

FirstService currently owns and operates two California Closets franchises located in Boston (acquired during fiscal 2001) and Seattle (acquired in July 2001). These operations are referred to as "branchises". The purpose of branchising is to reacquire well-established and profitable franchises located in large territories to accelerate growth in these territories. TFC intends to make several more branchising acquisitions as opportunities arise.

The Company provides Company-owned residential and commercial lawn care and landscape services, primarily in Canada, under the ChemLawn, Green Lawn Care, Natural Alternative and Sears Lawn Care brands, and franchised lawn care services under the Nutri-Lawn brand. Services to residential customers include fertilization, weed and pest control for lawns, trees and shrubs and lawn aeration. The Company serves over 130,000 residential lawn care customers through its Company-owned network of branches in Ontario, Quebec and Alberta and is estimated to have a 40% market share among households who purchase lawn care services, excluding mowing, in those provinces. Services to commercial customers include all of the services provided to residential customers plus mowing, landscaping, irrigation and other services comprising comprehensive grounds maintenance. The Company's lawn care operations are seasonal in nature, with the majority of revenue and operating profit earned during the summer months, offset by operating losses during the winter months.

Business Services Division

FirstService's Business Services Division provides customer support and fulfillment as well as business process outsourcing services to *Fortune 1000* companies through 24 branches in the United States and Canada. The principal Business Services operating subsidiaries are DDS Distribution Services, Ltd. ("DDS"), Herbert A. Watts Ltd. ("Watts") and BDP Business Data Services, Ltd. ("BDP").

Customer support and fulfillment services, offered by DDS and Watts, include customer relationship management ("CRM"), order processing, inventory management, warehousing, order assembly and shipping, rebating and client profiling. The Company works with its clients to create fully integrated customer support and fulfillment solutions, which can include ongoing technical service or product support, order processing (including customized e-commerce solutions), inventory management and fulfillment. Significant customer support and fulfillment clients include Rogers AT&T Wireless, Best Buy, Merck, Readers Digest, DaimlerChrysler, Pepsico, M&M Mars and TD Waterhouse.

CRM services are provided through four state-of-the-art inbound customer contact centers located in Canada with a total of 850 workstations. The Company's March 2001 acquisition of Watts has greatly enhanced its capabilities in CRM while adding a blue chip client base and incremental cross-selling opportunities.

Fulfillment services are provided from 16 branches in the United States and Canada, including significant facilities in Cleveland, Philadelphia, Toronto, Los Angeles, Dallas, Chicago, and Mascoutah, Illinois. In aggregate, the Company occupies 2.3 million square feet of dedicated fulfillment capacity, utilizing bar coding and on-line inventory control systems.

BDP is FirstService's business process outsourcing unit. BDP's objective is to be recognized as the best strategic partner to businesses and governments in Canada for the outsourcing of labor-intensive, back-office functions. BDP provides administrative functions that typically are not strategic to an organization and can be more efficiently and cost-effectively performed by third parties that specialize in such activities. BDP has developed expertise in performing services that require significant labor in coordination with technology, such as the management of loan portfolios, credit card and affinity programs and the processing of drug and dental claims. BDP is the second largest student loan processor in Canada. BDP provides its services from four branches in Canada. Typical contracts vary in length from one to five years. Significant customers include the Government of Canada, Bank of Nova Scotia, Manulife Financial and Sun Life.

A key objective of the Company's Business Services Division is to establish long-term relationships with clients and leverage such relationships through the provision of additional services. DDS, Watts and BDP have similar customer bases and the Company believes there are significant cross-selling opportunities among these businesses.

Industry position, competition and customers

The following information is based solely on estimates made by management of the Company and cannot be verified. In considering the Company's industry and competitive position, it should be recognized that FirstService competes with many other companies in the sale of its services, franchises and products and that some of these competitors are larger and may have greater financial and marketing strength than FirstService.

Property Services Division

Residential Property Management

Based on the most recent available industry data, the Company estimates that: (i) more than 47 million Americans, representing approximately 18 million households, live in condominiums, cooperatives, planned communities and other residential developments governed by multiple unit residential community associations; (ii) more than 50% of new homes currently being built in and around major metropolitan areas in the United States are within these categories; (iii) there are approximately 230,000 community associations in the United States; and (iv) the total annual operating expenses for these community associations are estimated to be $33 billion. The market is growing at a rate of 3-4% per year as a result of the 8,000-11,000 new community associations formed each year. In addition, the growing trend from self-management to professional management, currently almost 50% of the market, is believed to at least double the effective growth rate for professional property management companies.

Typically, owners of privately owned residential units are required to pay quarterly or monthly fees to cover the expenses of managing the condominium or homeowner association's business activities and maintaining community properties. Historically, decision making for communities was delegated to volunteer boards of directors elected by the owners. Increasingly, these volunteer boards have outsourced the responsibility to manage the day-to-day operation and maintenance of community property to professional property management companies.

The residential property management industry is extremely fragmented and dominated by numerous local and regional management companies. Only a small number of such companies, however, have the expertise and capital to provide both traditional property management services as well as the other support services provided by full-service property managers. FirstService is the largest full-service manager of private residential communities in the United States, managing approximately 2% of the nation's approximately 16 million units in community associations. FirstService enjoys a competitive advantage because of its size, depth of financial and management resources, and operating expertise.

The Company's business is subject to regulation by the states in which it operates. For example, the Florida Department of Professional Regulation requires that property managers must be licensed, which involves certain examinations and continuing education. In addition, the unit's real estate sales and leasing operations are subject to regulation as a real estate brokerage by the various states in which they operate.

Integrated Security Services

U.S. security systems integration is a $3 billion industry and is expected to grow at an annual rate of approximately 20% over the next five years. Factors driving this growth include:

- *The trend toward consolidation of security functions and reducing costs:* Corporate and institutional security embodies a variety of independent functions (access control, physical security, employee/user security, surveillance, etc.) operating concurrently. Integrating these functions into one system is simpler, more efficient and requires fewer people and resources to operate. An integrated system may also replace a number of different legacy systems that were required to be managed independently, improving functionality and reducing operating and maintenance costs.

- *Continued development of network and information technology*: Security systems are highly reliant on modern computer and electronic technology and have benefited from advancements in these technologies, becoming increasingly more powerful, flexible and functional. Security systems and information for multiple sites can be integrated and controlled from a centralized location and administered remotely using advanced network and communication technology, including LANs, WANs and Web-based networking.

- *Increased public awareness of security issues*: Recent examples of escalating violence have made security a priority in the workplace, schools and other public facilities.

The industry is highly fragmented but undergoing consolidation. The market is comprised of many small and medium-sized, and a few very large competitors. Of the top 100 systems integrators compiled by *SDM Magazine* for 2001, only the largest four had revenues over $100 million and the smallest 70 had revenues from ranging from $1 million to $12 million. FirstService is one of the largest integrated security services providers in North America.

Larger competitors are driving consolidation in response to customer demands for comprehensive solution providers with national service capabilities. Customers are moving away from developing and sourcing each of their security systems separately from several different suppliers. System integrators must be able to evaluate customer needs, design an integrated suite of systems and products that is simple and effective, and provide quality installation and service in multiple geographic locations. Critical mass and geographic reach have become increasingly important success factors in this industry.

FirstService's strategy is to combine strong regional operators into a national network, focusing on long-term relationships with customers that have complex security needs. FirstService differentiates itself through superior customer service and by designing and integrating open architecture systems (versus proprietary or closed systems).

Consumer Services

The consumer services industry is highly fragmented, consisting principally of a large number of smaller, single-service or single-concept companies. Due to the large size of the overall market for these services, dominant market share is not considered necessary for becoming a major player in the industry. However, because of the low barriers to entry in this segment, the Company believes that brand name recognition among consumers is a critical factor in achieving long-term success in the businesses in which it operates.

The Company believes that the largest franchise companies in North America have been successful because of their ability to realize economies of scale through the centralization and successful application of certain administrative functions such as finance, marketing, purchasing, training and support staffing.

Franchise businesses are subject to U.S. Federal Trade Commission regulations and State and Provincial laws that regulate the offering and sale of franchises. Presently, the Company is authorized to sell franchises in 49 states, in all Canadian provinces and in several other countries around the world. In all jurisdictions, the Company endeavors to have its franchisees meet or exceed regulatory standards.

The professional lawn care industry is estimated to be an $8 billion market (including mowing) in North America, and despite some consolidation, is still highly fragmented. Local and regional competitors, as well as do-it-yourself homeowners, provide strong competition in the Canadian lawn care industry.

Federal and provincial environmental laws are applicable in all jurisdictions in which Greenspace operates. These regulations dictate which products and methods may be used and require employees to be properly trained and licensed in the use of pesticides and herbicides. These laws, together with municipal bylaws, may limit or restrict the use of certain lawn care practices and if such laws change, Greenspace's business may be adversely affected.

Business Services Division

The business services industry is diverse and comprised of distinct sectors, including the areas in which FirstService participates: (i) customer support and fulfillment and (ii) business process outsourcing. Competitors range from large, sophisticated companies to smaller niche providers, with many possessing adequate size and technical capabilities. Given the large size of the market, significant growth can be achieved without significant market share.

Corporations are increasingly concerned with focusing scarce resources on core operations that provide the greatest competitive advantage and best return on investment. As a result, non-core functions are being outsourced to companies that can perform them better, cheaper and faster.

Customer support and fulfillment: The outsourced portion of the $200 billion CRM industry is estimated to be $25 billion and is currently growing at a rate of about 10% per year. Outsourced fulfillment services are a $3.2 billion industry and have grown at a rate of 9.7% annually since 1996.

The emergence of new technologies in conjunction with recent equity market and venture capital liquidity has stimulated competition in this segment, although many new entrants appear to lack significant industry experience. There are many competitors of all sizes, including a number of public CRM companies. FirstService is among a handful of successful competitors, none of which dominates this large, diverse market segment.

Technology investment is the single largest factor driving change in the customer support sector with sophisticated CRM software platforms, high-speed redundant networking, and Web-enabled customer care systems quickly becoming the standard. Outsourced fulfillment is evolving due to the adoption of technologies such as Web-based ordering, real-time inventory, and bar code and radio frequency warehouse systems that are forcing competitors to become larger and more sophisticated to compete.

Business process outsourcing: It is estimated that the outsourced "back office" processing segment was approximately $23 billion in 2000, with an expected five-year compound annual growth rate of about 13%. This segment is occupied by some of the largest business services companies in the world, leveraging their size to realize economies of scale on very large outsourcing contracts. BDP tends to focus on certain niches, such as loan processing and credit and loyalty card administration, where it can capitalize on its specialized expertise.

FirstService competes on the basis of providing competitively priced value-added services, supported by strong operating efficiencies.

Business strategy

Operating strategy

The Company's objective is to increase the revenues, profitability and market position of each operating company and subsequently acquired business, while maintaining the highest level of service to its customers. Key elements of the Company's operating strategy are:

Senior management commitment: The Company strongly believes that management ownership at each of its primary operating units has contributed significantly to its ability to grow its businesses. As a result, the Company expects to continue its practice of encouraging strong operators of newly acquired platform businesses to retain or acquire a significant equity stake in the businesses they operate, generally in the form of a non-transferable direct equity ownership position. In all cases, the Company retains the right to purchase the minority interest at a pre-determined formula price based on a multiple of trailing twelve month EBITDA. These minority interests average approximately 15%. Management believes that its strategy of aligning the interests of operating management with those of the Company provides a powerful incentive to deliver superior financial performance.

Performance-based compensation: The Company uses performance-based compensation programs throughout each of its businesses to attract, retain and motivate its employees. In general, senior managers receive bonuses that are based on a percentage of the amount by which their results exceed budgeted EBITDA. Lower level managers' incentives are also linked to EBITDA targets, but may include other measures deemed important for growing their business. The Company believes these programs are effective incentives to operating management and employees to deliver consistent, high-quality service in a cost-effective manner.

Operating efficiencies: The Company has been able to obtain significant operating efficiencies through the implementation of a variety of "best practices" and has achieved meaningful cost savings through certain economies of scale. The Company attempts to identify and refine its best practices across all of its businesses in order to benefit from the most innovative and effective management techniques. The implementation of best practices has resulted in improved labor management, customer service and service delivery routing. The Company also achieves significant savings through the volume purchasing of vehicles, insurance, group benefits, advertising and professional and financial services.

Marketing penetration and joint marketing: The Company capitalizes on the complementary nature of its businesses by introducing new or additional services to customers with which it already has long-term contractual relationships. The complementary nature of the Company's property services businesses also provides certain advantages when introducing a new service in a market where the Company has existing operations. These advantages include significant market knowledge, demographic information and the ability to share the established overhead of existing operations. Because the Company provides a number of property services, it is able to effectively utilize consolidated customer lists, in-house telemarketing capabilities and other marketing data that is accumulated to conduct cost-efficient customer referral, couponing and other direct mail programs across its businesses.

Acquisition strategy

The acquisition strategy of FirstService has been developed to complement the internal growth strategies of its existing service lines and as a component of the Company's overall growth strategy of building a significant, diversified service business that generates recurring and predictable cash flows and earnings. The acquisition strategy entails the systematic acquisition of established, well managed, and profitable service companies operating in fragmented industries that will:

- Enhance the market position of an existing service line, provide an entry into a new geographic region/market, or introduce a new service line; and
- Provide a return on invested capital that exceeds FirstService's weighted average cost of capital.

Acquisitions are classified as "tuck-under" or "platform". The vast majority of acquisitions that FirstService targets and completes are tuck-under acquisitions. These acquisitions are generally smaller transactions completed within an existing service line that strengthen its regional presence or competitive position through increased market share or the addition of a complementary service line. Platform acquisitions are larger transactions that either establish an existing service line in a new geographic region or provide a vehicle for FirstService to add a new service offering that can be leveraged through cross-selling of services, sharing of best practices or other synergies or through further consolidation. Each acquisition must meet strict criteria that include the following:

- Strong, experienced management teams in place that are interested in growing their businesses and in being rewarded through performance-based compensation;
- History of consistent profitability, supported by significant contractual revenues;
- Non-capital intensive operations with a variable cost structure;
- Leading positions in the markets served; and,
- In the case of platform acquisitions, one or more senior managers who wish to retain a significant minority interest in the acquired company in order to participate directly in its future growth and development as part of FirstService.

In general, platform companies continue to operate on a stand-alone basis in accordance with FirstService's operating strategy, while drawing on the resources of FirstService to facilitate future growth. Most tuck-under acquisitions are fully integrated into the operations of the service line making the acquisition.

FirstService has historically paid approximately four times normalized and sustainable EBITDA ("Valuation EBITDA") for its acquisitions. Usually, consideration is paid with a combination of cash at closing and a contingent note. Contingent notes are typically paid over a three-year period, subject to achievement of the Valuation EBITDA on an averaged basis over the three-year period subsequent to closing. In the event that the actual average EBITDA is less than the Valuation EBITDA, the purchase price and contingent payments are reduced by a multiple of the deficiency in EBITDA.

In executing acquisitions, the acquisition team works closely with operating management of its service lines to identify, negotiate and complete acquisitions. A majority of acquisitions are negotiated on an exclusive basis, without the imposition of an intermediary-controlled auction process, thereby facilitating a focused effort by FirstService to build a relationship with its prospective partner and emphasize the appropriate balance of financial and non-financial, as well as long-term and short-term attributes of the acquisition to the vendor. Notwithstanding the varied acquisition opportunities available to FirstService, management remains committed to a disciplined approach to acquisitions, including a rigorous adherence to its strict acquisition criteria and transaction structure. As well, FirstService only allocates its financial and human resources to existing service lines for acquisitions if the management team has the capacity to integrate the acquisition and the performance of current operations is meeting or exceeding expectations.

The integration process is a critical component of all acquisitions executed by FirstService. This process is initiated during due diligence, when opportunities for integration, operational improvements and the sharing of best practices are identified and an integration plan (the "Plan") is drafted by FirstService. Post-closing, the Plan is reviewed with management of the acquired company to ensure that it accurately captures and prioritizes the issues to be addressed. Once a buy-in has been obtained, the Plan is finalized and a timetable established for the execution of the Plan by the management of the acquired company. This is a collaborative process with a high degree of involvement from FirstService's integration team in overseeing the implementation and in monitoring progress against the timetable.

Recurring revenue

A common theme and key focus across FirstService is recurring, contractual revenue. This is driven by the near-essential nature of the services provided by the Property Services and Business Services Divisions.

Approximately 80% of the Company's revenue is contractual in nature. In the Property Services Division, Residential Property Management contracts are generally for terms of one to three years, and Integrated Security Services contracts are generally one year in duration. Contracts with franchisees in Consumer Services are primarily for ten-year periods. In the Business Services Division, contracts have terms of one to five years, with larger contracts having longer terms. Furthermore, FirstService has historically experienced contract renewal rates in excess of 90%.

Current year developments

On June 29, 2001, the Company amended and restated its credit agreement to allow for the issuance of additional debt. The new agreement provides a $140 million committed revolving credit facility, renewable and extendible in 364-day increments, and if not renewed, a two-year final maturity. On April 25, 2002, the facility was renewed to extend the final maturity to June 25, 2005. Also on June 29, 2001, the Company completed a private placement of $100 million of ten-year 8.06% Guaranteed Senior Secured Notes.

The Company completed four tuck-under acquisitions in its Property Services Division during the year. In the Residential Property Management unit, Community Pool Service, Inc., a Maryland provider of swimming pool management services and Equity Management Group, Inc., a Manhattan-based property management company, were acquired in April 2001 and May 2001, respectively. In Consumer Services, FirstService acquired CC Seattle LLC in July 2001, the Washington State franchisee of its California Closets franchise system. Also in July 2001, the Integrated Security Services unit acquired VASEC Virginia Security and Automation, Inc., a security systems integrator serving the U.S. National Capitol Region.

In the Business Services Division, one tuck-under acquisition was completed during the year. Right Choice Fulfillment ("Right Choice"), a rebate processing and fulfillment business located in Illinois, was purchased by DDS in February 2002. Right Choice generated revenue of $9.5 million and EBITDA of $1.0 million during the year ended December 31, 2001.

During the year, the Company purchased minority shareholdings from two shareholders. In May 2001, the 10% of California Closet Company, Inc. not previously owned by the Company was purchased. In January 2002, the Company purchased an additional 7.2% of The Continental Group, Ltd. bringing its ownership to 87.3%.

Financial information about foreign and domestic operations

Notes 12 and 17 to the consolidated financial statements, included herein under Part II, contain information regarding revenues, earnings before income taxes and minority interest, and total long-lived assets by geographic region.

Minority shareholders of subsidiaries

The Company owns a majority interest (on average, 85% of the equity) in all of its subsidiaries, while the operating management of each non-wholly owned subsidiary owns the remaining shares. This structure was designed to maintain control by FirstService while providing significant incentives to management at the operating companies. In all cases, the Company has the right to repurchase management's shares at a predetermined formula price, usually payable at the Company's option with any combination of Subordinate Voting Shares or cash. The Company may also be obligated to acquire certain of these minority interests in the event of the death, disability or cessation of employment of minority shareholders or if minority shareholders exercise their right to require the Company to repurchase their shares. These arrangements provide significant flexibility to the Company in connection with management succession planning and shareholder liquidity matters.

Major customers

FirstService has no single customer that accounts for more than 2% of its total revenues. No part of the Company's business is dependent on a single customer or a few customers, the loss of which would have a material adverse effect on the Company as a whole.

Employees

The Company has approximately 10,500 full-time employees, rising to a total of 14,000 with seasonal employees in the spring and summer months.

Trademarks

FirstService's trademarks are important for the advertising and brand awareness of all of its businesses and franchises. The Company takes precautions to defend the value of its trademarks by maintaining legal registrations and by litigating against alleged infringements, if necessary.

In the Company's Consumer Services unit, two franchise systems – California Closets and Paul Davis Restoration – have trademarks to which value has been ascribed in the consolidated financial statements. These two franchise systems have franchises in every significant population center in the United States. The value of these trademarks is derived from the recognition they enjoy among the target audiences for closet system installations and disaster restoration services. These trademarks have been in existence for many years, and their prominence among consumers has grown over time through the addition of franchisees and the ongoing marketing programs conducted by both franchisees and the Company.

ITEM 2. PROPERTIES

The head office of the Registrant is a 20,000 square foot, owned building located at 1140 Bay Street, Toronto, Ontario, Canada, M5S 2B4, approximately three-quarters of which is leased to third party tenants.

Business Services Division

DDS leases approximately 1.7 million square feet of warehouse and office space in connection with its fulfillment operations. Principal warehouse locations include 360,000 square feet in Norristown, Pennsylvania; 360,000 square feet in Elyria, Ohio; 300,000 square feet in Strongsville, Ohio; 250,000 square feet in Dallas, Texas; 175,000 square feet in Toronto, Ontario; 116,000 square feet in Whittier, California; 98,000 square feet in Chicago, Illinois; and 73,000 square feet in Mascoutah, Illinois.

Watts occupies approximately 106,000 square feet of owned and 373,000 square feet of leased space to house its customer support and fulfillment operations. The owned space is comprised of its Saint John, New Brunswick and two Prince Edward Island locations. Watts leases 292,000 square feet of space in Toronto, Ontario; 40,000 square feet in Bridgewater, Nova Scotia; 26,000 square feet in Delta, British Columbia and 15,000 square feet in Amherst, New York.

BDP leases approximately 115,000 square feet of office space, consisting of 67,000 square feet in Toronto, Ontario; 27,000 square feet in Orangeville, Ontario; and 21,000 square feet in Ottawa, Ontario.

Property Services Division

Within the Residential Property Management unit, FirstService owns a 38,000 square foot office and warehouse building located in Boca Raton, Florida, which is occupied by Prime Management Group, Inc. and a 35,000 square foot office and warehouse complex in Hollywood, Florida, which is occupied by The Continental Group, Ltd. All other Residential Property Management operations are housed in 55 locations totaling approximately 300,000 square feet in aggregate located in the states where services are offered.

In Integrated Security Services, Intercon leases approximately 70,000 square feet of office space in Toronto, Ontario, Vancouver, British Columbia and Oakbrook, Illinois. SST leases 34,000 square feet of space in five locations within Pennsylvania, New York and New Jersey.

In Consumer Services, TFC leases approximately 77,000 square feet of office and warehouse space in several locations across North America to house its franchise systems. Lawn care services occupy approximately 135,000 square feet of space in eight locations primarily in Ontario, Quebec and Alberta.

The Company believes its existing premises, as described above, are sufficient to meet its current operating requirements. All significant leased properties are held under long-term leases.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, FirstService may become involved in legal proceedings with private or public parties. As at May 14, 2002, these proceedings included several general liability actions, none of which are material to the Company, and no environmental actions.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the year ended March 31, 2002, no matters were submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S SHARES AND RELATED SHAREHOLDER MATTERS

The Registrant's Subordinate Voting Shares are traded on the NASDAQ National Market ("NASDAQ") (symbol: FSRV) and The Toronto Stock Exchange ("TSE") (symbol: FSV). The Registrant's Multiple Voting Shares are not traded on any established public trading market.

The following table shows the highest and lowest closing prices of the Registrant's Subordinate Voting Shares in each quarter of the two years ended March 31, 2002 and 2001:

Quarter		NASDAQ quarterly high price ($ US)	NASDAQ quarterly low price ($ US)	TSE quarterly high price ($ Cdn)	TSE quarterly low price ($ Cdn)
Fiscal 2001	**Q1**	$ 12.75	$ 10.50	$ 19.20	$ 15.50
	Q2	13.00	11.00	19.50	16.00
	Q3	15.38	12.45	23.75	18.80
	Q4	18.00	13.63	26.77	20.75
Fiscal 2002	**Q1**	23.30	15.63	35.00	24.75
	Q2	24.29	18.95	37.77	30.77
	Q3	28.12	20.66	44.93	32.35
	Q4	28.09	21.13	44.80	33.52

As of May 14, 2002, in relation to the Subordinate Voting Shares, there were approximately 300 shareholders of record and approximately 4,000 persons who held shares in the names of nominees. One shareholder, the President and Chief Executive Officer of the Company, held all of the Multiple Voting Shares.

No dividends were declared by the Registrant during the two fiscal years ended March 31, 2002 and 2001. The Company's agreements with its lenders prohibit the Company from declaring dividends without the prior approval of the lenders.

Taxation

The following discussion summarizes certain tax considerations relevant to an investment by individuals and corporations who, for income tax purposes, are resident in the United States and not in Canada, hold shares as capital property, and do not use or hold the shares in carrying on business through a permanent establishment or in connection with a fixed base in Canada (collectively "Unconnected U.S. Shareholders"). The Canadian tax consequences of investment in the shares by investors who are not Unconnected U.S. Shareholders may be expected to differ substantially from the tax consequences discussed herein. This discussion is based upon the provisions of the Income Tax Act (Canada) (the "Tax Act"), the Convention between Canada and the United States of America with respect to taxes on income and capital (the "Convention") and the published administrative practices of the Canada Customs and Revenue Agency and judicial decisions, all of which are subject to change. This discussion does not take into account the tax laws of the various provinces or territories of Canada.

This discussion is intended to be a general description of the Canadian tax considerations and does not take into account the individual circumstances of any particular shareholder.

Any cash and stock dividends on the shares payable to Unconnected U.S. Shareholders generally will be subject to Canadian withholding tax. Under the Convention, the rate of withholding tax generally applicable to Unconnected U.S. Shareholders is 15%. In the case of a U. S. corporate shareholder owning 10% or more of the voting shares of the Company, the applicable withholding tax under the Convention is 5%.

Capital gains realized on the disposition of shares by Unconnected U.S. Shareholders will not be subject to tax under the Tax Act unless such shares are taxable Canadian property within the meaning of the Tax Act. Shares will not be taxable Canadian property to a holder unless, at any time during the five-year period immediately preceding the disposition, the holder, or persons with whom the holder did not deal at arm's length, or any combination thereof, owned 25% or more of the issued shares of any class or series of the Company. If the shares are considered taxable Canadian property to a holder, the Convention will generally exempt Unconnected U.S. Shareholders from tax under the Tax Act in respect of a disposition of shares, provided the value of the shares of the Company is not derived principally from real property situated in Canada.

Equity compensation plan information

The following table provides summary information of the equity compensation plans under which equity securities of the Registrant are authorized for issuance:

Plan category	**Number of Subordinate Voting Shares to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of Subordinate Voting Shares remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)**
Column	*A*	*B*	*C*
Equity compensation plans approved by security holders: Amended Stock Option Plan #2	2,119,115	$13.20 ($21.05 Cdn.)	154,530
Equity compensation plans not approved by security holders: None.	-	-	-

Recent sales of unregistered securities

On June 29, 2001, FirstService sold $100 million of its 8.06% Guaranteed Senior Secured Notes due 2011. The sole placement agent was Merrill Lynch, Pierce, Fenner & Smith Inc. and the securities were sold to qualified institutional buyers ("QIBs") within the meaning of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and to institutional accredited investors ("IAIs") within the meaning of Rule 501 of Regulation D of the Securities

Act. The aggregate placement agent's fees and commissions were $1.35 million. As the transaction involved sales solely to QIBs and IAIs, FirstService relied on the exemption from the registration requirements of Section 5 provided by Section 4(2) of the Securities Act, including Regulation D thereunder.

ITEM 6. SELECTED FINANCIAL DATA

Five-year financial summary

(in thousands of U.S. Dollars, except per share amounts)

Year ended March 31	2002 (1)	2001	2000	1999	1998
OPERATIONS					
Revenues	$ 512,689	$ 424,174	$ 340,035	$ 263,361	$ 196,488
EBITDA (2)	57,122	47,855	37,977	28,767	18,608
Operating profit (3)	45,043	35,926	27,870	20,622	13,331
Net earnings before extraordinary item	18,211	12,707	9,868	7,222	4,435
Net earnings	17,414	12,707	9,868	7,222	4,435
FINANCIAL POSITION					
Total assets	$ 358,205	$ 313,660	$ 230,887	$ 184,306	$ 126,019
Long-term debt (4)	160,488	149,374	102,177	84,516	38,163
Shareholders' equity	99,842	79,456	68,338	59,020	44,807
Book value per share	7.25	6.03	5.26	4.57	3.65
SHARE DATA					
Net earnings per share before extraordinary items					
Basic	$ 1.34	$ 0.97	$ 0.76	$ 0.57	$ 0.43
Diluted	1.25	0.92	0.72	0.54	0.41
Weighted average shares (thousands)					
Basic	13,565	13,074	12,948	12,564	10,370
Diluted	14,600	13,841	13,708	13,475	10,936
Cash dividends per share	-	-	-	-	-

Notes

(1) Statement of Financial Accounting Standards No. 142 ("SFAS 142") was adopted effective April 1, 2001, which resulted in a material decrease in amortization expense and a material increase in net earnings. Fiscal 2001 net earnings, adjusted for SFAS 142, were $15,560 and net earnings per share were $1.19 (basic) and $1.12 (diluted). Fiscal 2000 net earnings, adjusted for SFAS 142, were $11,382 and net earnings per share were $0.88 (basic) and $0.83 (diluted).

(2) Net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and amortization.

(3) Net earnings before extraordinary items, minority interest share of earnings, income taxes and interest.

(4) Excluding current portion of long-term debt and effect of interest rate swap.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations – year ended March 31, 2002

Consolidated revenues for Fiscal 2002 were $512.7 million, a 21% increase from the $424.2 million reported for the year ended March 31, 2001 ("Fiscal 2001"). Approximately $69.0 million of the increase resulted from the acquisitions of Watts in March 2001, VASEC Virginia Security and Automation, Inc. ("VASEC") in July 2001, several smaller tuck-under companies and the full-year impact of other acquisitions completed in Fiscal 2001.

During Fiscal 2002, the value of the Canadian dollar deteriorated 3.9% relative to the value of the U.S. dollar, based on the average annual exchange rates versus the prior year. During Fiscal 2002, 33% of the Company's revenues were Canadian dollar denominated. Had the exchange rate been held constant year-over-year, the Company's revenues would have been approximately $6.9 million higher, EBITDA[1] would have been $0.6 million higher and diluted earnings per share would have been $0.02 higher.

EBITDA increased 19%, to $57.1 million from $47.9 million in the prior year, while EBITDA margins declined 15 basis points to 11.1% of revenue. The decline in margin is the result of lower sales of higher-margin residential property painting and restoration services, as well as reduced levels of activity in the Business Services fulfillment operations, which typically carry 15% EBITDA margins.

Depreciation for the year ended March 31, 2002 was $11.4 million, up 48% from the previous year, mainly due to the acquisition of Watts. Effective April 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), therefore, no goodwill amortization was recorded during the fiscal year. Amortization of intangibles was $0.7 million, compared to $0.8 million in the previous year.

Interest expense increased 19% over the prior year's level to $11.6 million, primarily as a result of increased borrowings related to the acquisition of Watts completed in March 2001 and contingent acquisition payments made during the year. The Company's average indebtedness during the year increased $41 million or 34% relative to the prior year. Weighted average interest rates were approximately 7.1% in Fiscal 2002 compared to 8.1% in Fiscal 2001, due to the combined effects of lower floating interest rates, the issuance of the fixed-rate debt and the interest rate swap discussed below. In Fiscal 2001, the Company was subject to floating interest rates on the majority of its debt. On June 29, 2001 the Company issued $100 million of 8.06% fixed-rate Guaranteed Senior Secured Notes (the "Notes") and amended and restated its credit agreement for a new $140 million committed senior revolving credit facility (the "Credit Facility") bearing interest at 1.50% to 3.00% above floating reference rates, depending on certain leverage ratios.

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[1] EBITDA is defined as net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and amortization. EBITDA is a financial metric used by many investors to compare companies on the basis of operating results, asset value and the ability to incur and service debt. EBITDA is not a recognized measure for financial statement presentation under United States generally accepted accounting principles ("U.S. GAAP"). Non-U.S. GAAP earnings measures, such as EBITDA, do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other issuers.

On December 7, 2001, the Company entered into an interest rate swap agreement in which the interest stream on $75 million of the fixed-rate 8.06% Notes was exchanged for the variable interest rate of LIBOR + 2.505%. The swap has a maturity matched to the underlying Notes due June 29, 2011. During the four months the swap was in effect, interest savings of $0.6 million resulted. This swap is being accounted for as a hedge in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities.* The swap is carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings.

The income tax provision for the year ended March 31, 2002 was approximately 34% of earnings before taxes, compared with 40% in the prior year. The decline in tax rate resulted from two major factors: (i) the increase in pre-tax earnings resulting from the non-amortization of goodwill due to the adoption of SFAS 142, which reduced the effective tax rate and (ii) continuing leverage from the cross-border tax structure implemented in Fiscal 2000. The Company anticipates that the Fiscal 2003 tax rate will approximate that experienced during Fiscal 2002.

The minority interest share of earnings increased to $3.9 million or 17.5% of earnings before minority interest from $3.0 million, or 19.0%, in the prior year. The $0.9 million increase reflects the increase in earnings year-over-year, including the effects of the non-amortization of goodwill as per SFAS 142, which impacted certain non-wholly owned subsidiaries with goodwill on their balance sheets. The decline in minority interest as a percentage of earnings before minority interest resulted from the acquisition of minority interests during the year, including California Closet Company, Inc. ("California Closets") and The Continental Group, Ltd. ("Continental").

Net earnings before the extraordinary item were $18.2 million, a 17% increase over the prior year (adjusted for SFAS 142), while diluted earnings per share increased 12% to $1.25 (also adjusted for SFAS 142). The increase in diluted earnings per share reflects a 3.8% increase in the weighted average share count as a result of shares issued upon the exercise of stock options and an increase in dilution caused by the 77% increase in the average market price of the Company's shares relative to the prior year.

At the time of the issuance of the Notes and the completion of the Credit Facility on June 29, 2001, the Company wrote off the financing fees related to its previous debt arrangements. This resulted in an extraordinary loss, net of taxes, of $0.8 million. Net earnings, after the extraordinary item, were $17.4 million.

Revenues for the Property Services Division were $384.8 million, an increase of $43.3 million or 13% over the prior year. Approximately $24.0 million of the revenue increase resulted from the acquisitions of several tuck-under companies in Fiscal 2002 in addition to the full year impact of acquisitions completed during Fiscal 2001. The balance of the increase resulted from internal growth of 6% (adjusted for foreign exchange impact). Property Services EBITDA grew 7% to $39.2 million or 10.2% of revenue. In the prior year, the EBITDA margin was 10.7%.

Within Property Services, the Residential Property Management unit generated $205.4 million of revenues for the year, up 13% over the prior year due to internal growth and two small tuck-under acquisitions. Residential Property Management EBITDA was $18.8 million, up 4% over the prior year. The EBITDA margin was 9.2% compared to 9.9% in the prior year. The decline in margin is attributable to the slowdown in painting and restoration operations experienced in the second, third and fourth quarters.

The Integrated Security Services unit reported revenues of $95.5 million, representing growth of 18% over the prior year primarily due to the acquisition of VASEC in July 2001, as well as the full-year impact of the Security Services and Technologies (“SST”) acquisition completed in July 2000, combined with internal growth of 11%. EBITDA was $6.5 million, up 9% over the prior year and EBITDA margins were 6.8% compared with 7.4% in Fiscal 2001. The margin decline is primarily due to mix change resulting from stronger relative revenue growth in the low margin security guard operations, particularly since September 11, 2001.

Consumer Services revenues advanced to $84.0 million, up 7% over the prior year due to the July 2001 acquisition of CC Seattle LLC, the Washington State franchise of the Company’s California Closets franchise system. EBITDA was $13.8 million, up 10% over the prior year. EBITDA margins rose from 15.9% in the prior year to 16.5% in Fiscal 2002 principally as a result of overhead leveraging.

Revenues for the Business Services Division were $127.5 million, an increase of 55% or $45 million over Fiscal 2001. Approximately all of the revenue increase is attributable to the March 2001 acquisition of Watts and the February 2002 acquisition of Right Choice. Internal growth was 2% after adjusting for the impact of foreign exchange. Business Services EBITDA grew 41% to $22.4 million, while margins fell to 17.6% from 19.3%. The margin decline was primarily due to the inclusion of Watts, which carries margins of 13-14% due to its lower-margin direct mail and customer contact operations. Margins at the DDS fulfillment operations were also down year-over-year due to the slowdown in clients’ promotional activities experienced in the second, third and fourth quarters.

Corporate expenses decreased to $4.5 million in Fiscal 2002 from $4.6 million last year, primarily as a result of lower bonuses at the executive level.

Results of operations – year ended March 31, 2001

Consolidated revenues for Fiscal 2001 were $424.2 million, a 25% increase from the $340.0 million reported for the year ended March 31, 2000 (“Fiscal 2000”). Approximately $44.0 million of the increase resulted from the acquisitions of SST and Watts, several smaller tuck-under companies and the full-year impact of acquisitions completed in Fiscal 2000. The balance resulted from internal growth of approximately 12%.

EBITDA increased 26%, to $47.9 million from $38.0 million in the prior year, while EBITDA margins increased 10 basis points to 11.3% of revenue.

Depreciation in Fiscal 2001 was $7.7 million, up 19% from the previous year due largely to acquisitions. Amortization for the year was $4.2 million, up 17% over Fiscal 2000 due to the significant amount of goodwill that has resulted from the acquisitions completed during the years ended March 31, 2001 and 2000.

Interest expense increased 24% over the prior year’s levels to $9.8 million as a result of increased borrowings related to acquisitions completed during Fiscal 2001 and 2000 and higher interest rates. Weighted average interest rates were approximately 8.1% in Fiscal 2001 compared to 7.7% in Fiscal 2000. The change in rates is attributable to increases in floating reference rates.

The income tax provision for the year ended March 31, 2001 was approximately 40% of earnings before taxes, similar to the prior year.

Minority interest increased to $3.0 million or 19.0% of earnings before minority interest from $2.2 million, or 18.0% in the prior year. The increase reflects a change in the mix of earnings relative to the prior year as certain operations having higher minority shareholdings contributed more to consolidated earnings.

Net earnings were $12.7 million, a 29% increase over the prior year, while diluted earnings per share increased 28% to $0.92. Diluted earnings per share reflect a 1% increase in the weighted average number of shares outstanding as a result of shares issued upon the acquisition of a minority shareholding and as a result of the shares issued in connection with stock option exercises.

Revenues for the Property Services Division were $341.6 million, an increase of $74.9 million or 28% over the prior year. Approximately $40.0 million of the revenue increase resulted from the acquisitions of SST and several tuck-under companies in Fiscal 2001 in addition to the full year impact of acquisitions completed during Fiscal 2000. The balance of the increase resulted from internal growth. Property Services EBITDA grew 35% to $36.6 million or 10.7% of revenue compared to an EBITDA margin of 10.2% in the prior year.

Within Property Services, the Residential Property Management unit generated $181.7 million of revenues for the year, up 36% over the prior year due to internal growth and several tuck-under acquisitions including Silver Plumbing, Aquashield Corporation, and Dickinson Management, all completed during Fiscal 2001. Residential Property Management EBITDA was $18.1 million, up 58% over the prior year. The EBITDA margin was 9.9% compared to 8.5% in the prior year, up due to productivity improvements and changes in the service mix due to higher margin restoration and swimming pool management acquisitions completed during the two years.

The Integrated Security Services unit reported revenues of $81.0 million, representing growth of 32% over the prior year fuelled by the acquisitions of SST and Century Security. EBITDA was $6.0 million, up 20% over the prior year and EBITDA margins were 7.4% compared with 8.2%. Fiscal 2000's unusually high margin was due to several highly profitable special contracts completed during that year.

Consumer Services revenues were $78.8 million, up 11% over the prior year due to internal growth and the October 2000 acquisition of Creative Closets, the Boston franchise of California Closets. EBITDA was $12.5 million, up 16% over the prior year. EBITDA margins rose from 15.1% in the prior year to 15.9% in Fiscal 2001 as a result of operating efficiency improvements and the mix change from the Creative Closets acquisition.

Revenues for the Business Services Division were $82.3 million, an increase of 13% or $9.1 million over Fiscal 2000. Approximately $4.0 million of the revenue increase is attributable to the March 1, 2001 acquisition of Watts with the balance from internal growth of approximately 7%. Business Services EBITDA grew 8.0% to $15.9 million, while margins fell to 19.3% from 20.1%. The margin decline was primarily due to the inclusion of Watts, which earned margins of approximately 13% due to its lower-margin direct mail and customer contact operations.

Corporate expenses increased to $4.7 million in Fiscal 2001 from $4.0 million, primarily as a result of higher professional services fees relating to income taxes and to the investigation of potential acquisitions that were not completed.

Quarterly results – years ended March 31, 2002 and 2001

(in thousands of U.S. Dollars, except per share amounts)

	Q1	Q2	Q3	Q4	Year
FISCAL 2002 (1)					
Revenues	$ 136,575	$ 140,468	$ 117,809	$ 117,837	$ 512,689
EBITDA (2)	18,760	22,012	9,215	7,135	57,122
Operating profit (3)	15,804	19,112	6,175	3,952	45,043
Net earnings before extraordinary item	7,090	8,838	1,737	546	18,211
Net earnings per share before extraordinary item:					
Basic	$ 0.53	$ 0.65	$ 0.13	$ 0.04	$ 1.34
Diluted	0.49	0.61	0.12	0.04	1.25
FISCAL 2001					
Revenues	$ 105,391	$ 118,165	$ 96,957	$ 103,661	$ 424,174
EBITDA (2)	14,457	19,448	7,739	6,211	47,855
Operating profit (3)	11,739	16,534	4,779	2,874	35,926
Net earnings before extraordinary item	4,679	6,938	1,055	35	12,707
Net earnings per share before extraordinary item:					
Basic	$ 0.36	$ 0.53	$ 0.08	$ 0.00	$ 0.97
Diluted	0.34	0.50	0.08	0.00	0.92
Fiscal 2001 adjusted for SFAS 142:					
Net earnings before extraordinary item	$ 5,417	$ 7,721	$ 1,869	$ 553	$ 15,560
Net earnings per share before extraordinary item:					
Basic	$ 0.42	$ 0.59	$ 0.14	0.04	$ 1.19
Diluted	0.40	0.56	0.13	0.04	1.12

Notes

(1) SFAS 142 was adopted effective April 1, 2001, which resulted in a material decrease in amortization expense and a material increase in net earnings. Fiscal 2001 net earnings, adjusted for SFAS 142, are shown below the Fiscal 2001 figures.

(2) Net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation and amortization.

(3) Net earnings before extraordinary items, minority interest share of earnings, income taxes and interest.

Reconciliation of EBITDA to operating profit

EBITDA does not include depreciation and amortization expenses, while operating profit does include those expenses. The sum of operating profit, as reported in Note 17 to the consolidated financial statements, and depreciation and amortization, also reported in Note 17, is EBITDA.

Seasonality and quarterly fluctuations

Certain segments of the Company's operations, which in the aggregate comprise approximately 15% of revenues, are subject to seasonal variations. Specifically, the demand for lawn care services, exterior painting services and swimming pool maintenance in the northern United States and Canada is highest during late spring, summer and early fall and very low during winter. As a result, these operations generate a large percentage of their annual revenues between April and September. The Company has historically generated lower profits or net losses during its third and fourth fiscal quarters, from October to March. Residential Property

Management, Integrated Security Services, Business Services and most of the franchised Consumer Services generate revenues approximately evenly throughout the fiscal year.

The seasonality of the lawn care, painting and swimming pool maintenance operations results in variations in quarterly EBITDA margins. Variations in quarterly EBITDA margins can also be caused by acquisitions that alter the consolidated service mix. The Company's non-seasonal businesses typically generate a consistent EBITDA margin over all four quarters, while the Company's seasonal businesses experience high EBITDA margins in the first two quarters, offset by negative EBITDA in the last two quarters. As non-seasonal revenues increase as a percentage of total revenues, the Company's quarterly EBITDA margin fluctuations should be reduced.

Liquidity and capital resources

Cash flow from operations and bank borrowings have historically been the primary funding sources for working capital requirements, capital expenditures and acquisitions. Net cash provided by operating activities for Fiscal 2002 was $25.0 million, up 12% over the prior year, approximately in line with the annual increase in earnings. Management believes that funds from these sources and proceeds from capital stock issues will remain available and are adequate to support ongoing operational requirements and near-term acquisition growth.

On June 29, 2001, the Company amended and restated its credit agreement to allow for the issuance of additional debt. The amended and restated agreement provides $140 million of committed revolving credit facility that is renewable and extendible in 364-day increments, and if not renewed, a two-year final maturity. The Credit Facility was most recently renewed and extended on April 25, 2002. The Credit Facility bears interest at 1.50% to 3.00% over floating reference rates, depending on certain leverage ratios. Also on June 29, 2001, the Company completed a private placement of $100 million of 8.06% Guaranteed Senior Secured Notes. The Notes have a final maturity of ten years, with equal annual principal repayments beginning at the end of the fourth year, resulting in a seven-year average life. Covenants and other limitations within the amended credit agreement and the Notes are similar to those contained in the prior credit agreement. As at March 31, 2002, the Company has drawn $56.2 million U.S. and was in compliance with all covenants. Net borrowings increased by $13.3 million from March 31, 2001 to March 31, 2002.

FirstService's previous credit agreement provided six-year committed revolving credit facilities of $50 million Cdn. and $130 million U.S. to fund acquisitions. Outstanding indebtedness bore interest at a rate based on competitive floating reference rates, as selected by the Company, such as LIBOR, plus a margin of 1.00% to 1.50% per annum, depending on certain leverage ratios. The agreement required the Company to meet specific financial ratios and placed certain limitations on additional borrowing and the ability to pay dividends or sell assets. This agreement was terminated on June 29, 2001, and resulted in the write-off of deferred financing fees totaling $0.8 million, net of taxes.

During Fiscal 2002, capital expenditures totaled $15.6 million comprising approximately $1.4 million for land and buildings, $4.0 million in expenditures on production equipment, $2.0 million on vehicles, $7.6 million on computer equipment and software and $0.6 million for leasehold improvements. The Property Services Division incurred $9.2 million of capital expenditures, the Business Services Division $5.9 million and Corporate $0.5 million.

During the year, the Property Services Division purchased a 12,000 square foot building in Hollywood, Florida at a total cost of $1.4 million. Separately, it also relocated its leased northern New Jersey and Phoenix offices. The Business Services Division relocated its DDS Dallas operation to a larger and more efficient facility. Business Services also completed several software projects including phases of a multi-year warehouse management system upgrade and accounting software upgrades.

Looking forward to Fiscal 2003, capital expenditures are expected to be significantly lower than Fiscal 2002 levels. Property Services will continue to invest in productivity-enhancing software and hardware. In Business Services, the Company intends to continue with its warehouse management system upgrade. No major facilities moves or expansions are planned.

Acquisition expenditures during the year totaled $20.0 million, comprised of $7.7 million for initial acquisition payments, $7.7 million of contingent acquisition liability payments, and $4.6 million related to the acquisition of minority interests of subsidiaries. All of the acquisition consideration was in the form of cash.

In relation to acquisitions completed during the past three years, the Company has contingent acquisition liabilities totaling $21.3 million that are not recorded on the balance sheet. The payment of these amounts is contingent on the acquired businesses meeting pre-determined earnings targets. Any payments, when and if made, would be in cash and would result in an increase in the purchase price for such acquisitions and, as a result, additional intangible assets or goodwill.

In those operations where operating managements are also minority owners, the Company is party to shareholders' agreements. These agreements allow the Company to "call" the minority position for a predetermined formula price, which is usually equal to the multiple of earnings paid by the Company for the original acquisition. Minority owners may also "put" their interest to the Company at the same price, with certain limitations. The total value of the minority shareholders' interests was approximately $30.0 million at March 31, 2002. While it is not management's intention to acquire outstanding minority interests, this step would materially increase net earnings. On an annual basis, the impact of the acquisition of all minority interests would increase interest expense by $1.3 million, reduce income taxes by $0.4 million and reduce minority interest share of earnings by $3.9 million, resulting in an approximate net increase to net earnings of $3.0 million.

The following table summarizes the Company's contractual obligations as at March 31, 2002:

Contractual obligations (In thousands of U.S. Dollars)	**Payments due by period**				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt	$ 162,479	6,045	14,918	71,632	69,884
Capital lease obligations	3,132	1,148	1,739	245	-
Operating leases	55,841	13,011	20,958	11,581	10,291
Unconditional purchase obligations	-	-	-	-	-
Other long-term obligations	-	-	-	-	-
Total contractual obligations	$ 221,452	$ 20,204	$ 37,615	$ 83,458	$ 80,175

At March 31, 2002, the Company had commercial commitments totaling $2.2 million comprised of letters of credit outstanding due to expire within one year.

Discussion of critical accounting policies

Critical accounting policies are those that management deems to be most important to the portrayal of the Company's financial condition and results, and that require management's most difficult, subjective or complex judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. The Company has identified two critical accounting policies: goodwill and indefinite life intangible assets impairment testing and acquisition purchase price allocations.

The annual goodwill and indefinite life intangible assets impairment testing required under SFAS 142 requires judgment on the part of management. Goodwill and indefinite life intangible assets impairment testing involves making estimates concerning the fair value of reporting units and then comparing the fair value to the carrying amount of each unit. If fair values were to decline dramatically, due to a prolonged economic downturn or changes in the business environment, it is possible that conditions for impairment of goodwill and indefinite life intangible assets could exist.

Acquisition purchase price allocations require use of estimates and judgment on the part of management, especially in the determination of intangible assets acquired relative to the amount that is classified as goodwill. For example, if different assumptions were used regarding the profitability and expected lives of acquired customer contracts and relationships, different amounts of intangible assets and related amortization could be reported.

Impact of recently issued accounting standards

The Company adopted SFAS 141 and 142, *Business Combinations* and *Goodwill and Other Intangibles*, during the year. With respect to SFAS 142, the Company elected early adoption effective April 1, 2001. SFAS 141 was adopted effective July 1, 2001. Note 3 to the consolidated financial statements describes the impact of these standards.

In August 2001, the FASB issued SFAS 143, *Accounting for Retirement Obligations*, effective for years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset, except for certain obligations of lessees. The Company expects that SFAS 143 will not have a material impact on its results of operations or financial condition.

In August 2001, FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective for the Company's fiscal year ending March 31, 2003. The standard addresses the accounting for long-lived assets (i) to be held and used; (ii) to be disposed of by sale; and (iii) to be disposed of other than by sale. The Company expects that SFAS 144 will not have a material impact on its results of operations or financial condition.

In April 2002, FASB issued SFAS 145, *Rescission of SFAS 4, 44 and 64, Amendment of SFAS 13 and Technical Corrections as of April 2002*. This new standard impacts the reporting of gains and losses from extinguishment of debt and accounting for leases, and is effective for the Company's fiscal year beginning April 1, 2004. Had SFAS 145 been in effect during the year ended March 31, 2002, the extraordinary loss on early retirement of debt of $0.8 million (net of income tax benefit of $0.6 million) would have been reported as interest expense of $1.4 million and a reduction of income tax expense of $0.6 million.

Forward-looking statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company intends that such forward-looking statements be subject to the safe harbors created by such legislation. Such forward-looking statements involve risks and uncertainties and include, but are not limited to, statements regarding future events and the Company's plans, goals and objectives. Such statements are generally accompanied by words such as "intend", "anticipate", "believe", "estimate", "expect" or similar statements. The Company's actual results may differ materially from such statements. Among the factors that could result in such differences are the impact of weather conditions, increased competition, labor shortages, the condition of the U.S. and Canadian economies, and the ability of the Company to make acquisitions at reasonable prices. Although the Company believes that the assumptions underlying its forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in such forward-looking statements will be realized. The inclusion of such forward-looking statements should not be regarded as a representation by the Company or any other person that the future events, plans or expectations contemplated by the Company will be achieved. The Company notes that past performance in operations and share price are not necessarily predictive of future performance.

ITEM 7A. FINANCIAL INSTRUMENTS – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has identified two market risks that may impact its earnings and cash flows: interest rate risk and foreign currency risk. The Company uses sensitivity analyses as its primary analytical technique to evaluate the hypothetical effects of market risks on future earnings and cash flows, and sensitivity analyses are provided below.

Interest rate risk

FirstService's exposure to market risk for changes in interest rates comes from two sources: (i) its revolving Credit Facility which bears interest at floating reference rates, primarily LIBOR, plus a spread that is variable depending on certain leverage ratios, and (ii) its $75 million variable for fixed interest rate swap arrangement. On March 31, 2002, the amount drawn on the revolving Credit Facility was $56.2 million, bearing interest at a rate of 4.2%. The variable interest rate under the terms of the swap was approximately 4.4% as at March 31, 2002. The Company may from time to time use derivative instruments to manage its interest rate risk, and as at March 31, 2002, only one such instrument, described above, was held.

A 10% increase in floating reference rates, or 20 basis points, would increase interest expense by approximately $0.3 million, and decrease net earnings by $0.2 million, over a full year. A 10% increase in the Company's total debt to EBITDA leverage ratio would result in a 75 basis point increase in the interest rate spread over floating reference rates, increasing interest expense by approximately $0.4 million and reducing net earnings by $0.3 million, over a full year.

Foreign currency risk

Approximately 33% of FirstService's operations are conducted in foreign currencies, principally in Canadian dollars. FirstService monitors its foreign currency exposure. The Company may from time to time use derivative instruments to manage its foreign currency risk, and as at March 31, 2002, no such instruments were held.

FirstService has mitigated, and expects to continue to mitigate, a portion of its currency exposure through the decentralized nature of its organization, where, in each business unit, generally both revenue and the related costs are local currency based. FirstService has the ability to borrow funds under its revolving Credit Facility in either or both U.S. and Canadian currencies. This allows the Company to effectively match the currency of earnings with the currency of principal and interest payments, which also mitigates some foreign currency risk.

A 3% ($0.02 U.S.) change in the value of the Canadian dollar would have the impact of changing revenue by $5.1 million and net earnings by approximately $0.3 million, over a full year. A decline in the value of the Canadian dollar relative to the U.S. dollar would have the impact of reducing the revenue and earnings of FirstService.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Set forth below is the report of PricewaterhouseCoopers LLP dated May 10, 2002, the consolidated balance sheets of FirstService Corporation as at March 31, 2002 and 2001, the consolidated statements of earnings, shareholders' equity and cash flows for each year in the three year period ended March 31, 2002 and the notes to the consolidated financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

To the shareholders of FirstService Corporation:

We have audited the consolidated balance sheets of FirstService Corporation as at March 31, 2002 and 2001 and the consolidated statements of earnings, shareholders' equity and cash flows for each year in the three-year period ended March 31, 2002. These consolidated financial statements and the financial statement schedules listed in the index appearing under Item 14 on page 62 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and 2001 and the results of its operations and cash flows for each year in the three-year period ended March 31, 2002 in accordance with United States generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above present fairly, in all material respects, the information set forth herein when read in conjunction with the related consolidated financial statements.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for goodwill and intangible assets effective April 1, 2001.

We also reported separately on May 10, 2002, to the shareholders of the Company on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the March 31, 2002 and 2001 consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants

Toronto, Ontario
May 10, 2002

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands of U.S. Dollars, except per share amounts) – in accordance with United States generally accepted accounting principles

For the years ended March 31	**2002**	2001	2000
Revenues	**$ 512,689**	$ 424,174	$ 340,035
Cost of revenues	**343,415**	284,474	226,154
Selling, general and administrative expenses	**112,152**	91,845	75,904
Depreciation and amortization	**12,079**	11,929	10,107
Interest	**11,616**	9,767	7,849
Earnings before income taxes and minority interest	**33,427**	26,159	20,021
Income taxes (note 12)	**11,355**	10,464	7,989
Earnings before minority interest	**22,072**	15,695	12,032
Minority interest share of earnings	**3,861**	2,988	2,164
Net earnings before extraordinary item	**18,211**	12,707	9,868
Extraordinary loss on early retirement of debt, net of income tax benefit of $578	**797**	-	-
Net earnings	**$ 17,414**	$ 12,707	$ 9,868
Earnings per share (note 13)			
Net earnings before extraordinary item:			
Basic	**$ 1.34**	$ 0.97	$ 0.76
Diluted	**1.25**	0.92	0.72
Net earnings:			
Basic	**1.28**	0.97	0.76
Diluted	**1.19**	0.92	0.72

The accompanying notes are an integral part of these consolidated financial statements.

FIRSTSERVICE CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

As at March 31	**2002**	2001
Assets		
Current assets		
Cash and cash equivalents	**$ 7,332**	$ 5,115
Accounts receivable, net of an allowance of $4,084 (2001 - $4,123)	**88,587**	79,473
Inventories (note 5)	**9,078**	9,627
Prepaids and other (note 5)	**13,303**	10,757
Deferred income taxes (note 12)	**2,571**	1,136
	120,871	106,108
Other receivables (note 6)	**4,908**	5,092
Fixed assets (note 7)	**45,367**	40,741
Other assets (note 7)	**5,411**	4,026
Deferred income taxes (note 12)	**972**	1,472
Intangible assets (note 8)	**29,422**	25,557
Goodwill (note 9)	**151,254**	130,664
	237,334	207,552
	$ 358,205	$ 313,660
Liabilities		
Current liabilities		
Accounts payable	**$ 20,587**	$ 22,220
Accrued liabilities (note 5)	**38,269**	34,001
Income taxes payable	**2,259**	2,436
Unearned revenue	**9,654**	9,505
Long-term debt – current (note 10)	**7,193**	3,050
Deferred income taxes (note 12)	**583**	558
	78,545	71,770
Long-term debt less current portion (note 10)	**158,418**	149,374
Interest rate swap (note 15)	**2,070**	-
Deferred income taxes (note 12)	**7,881**	4,236
Minority interest	**11,449**	8,824
	179,818	162,434
Shareholders' equity		
Capital stock (note 11)	**57,712**	54,863
Issued and outstanding 13,112,418 (2001 - 12,505,393) Subordinate Voting Shares and 662,847 (2001 - 662,847) convertible Multiple Voting Shares		
Receivables pursuant to share purchase plan (note 11)	**(2,630)**	(3,196)
Retained earnings	**45,386**	27,972
Cumulative other comprehensive loss	**(626)**	(183)
	99,842	79,456
	$ 358,205	$ 313,660

Commitments and contingencies (note 16)

The accompanying notes are an integral part of these consolidated financial statements.

Signed on behalf of the Board

Director *Peter Cohen* (signed) Director *Michael Appleton* (signed)

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

	Issued and outstanding shares (note 11)	Capital stock (note 11)	Receivables pursuant to share purchase plan	Retained earnings	Cumulative other comprehensive earnings (loss)	Total shareholders' equity
Balance, March 31, 1999	12,919,055	$ 53,654	$ (3,294)	$ 6,168	$ 2,492	$ 59,020
Comprehensive earnings:						
Net earnings	-	-	-	9,868	-	9,868
Foreign currency translation adjustments	-	-	-	-	(323)	(323)
Comprehensive earnings						9,545
Subordinate Voting Shares:						
Stock options exercised	132,475	465	-	-	-	465
Purchased for cancellation	(62,000)	(270)	-	(422)	-	(692)
Balance, March 31, 2000	12,989,530	53,849	(3,294)	15,614	2,169	68,338
Comprehensive earnings:						
Net earnings	-	-	-	12,707	-	12,707
Foreign currency translation adjustments (note 14)	-	-	-	-	(2,352)	(2,352)
Comprehensive earnings						10,355
Subordinate Voting Shares:						
Issued for purchase of minority interest	69,360	649	-	-	-	649
Stock options exercised	158,850	580	-	-	-	580
Purchased for cancellation	(49,500)	(215)	-	(349)	-	(564)
Cash payments on share purchase plan	-	-	98	-	-	98
Balance, March 31, 2001	13,168,240	54,863	(3,196)	27,972	(183)	79,456
Comprehensive earnings:						
Net earnings	-			17,414		17,414
Foreign currency translation adjustments	-				(443)	(443)
Comprehensive earnings						16,971
Subordinate Voting Shares:						
Stock options exercised	607,025	2,849				2,849
Cash payments on share purchase plan	-		566			566
Balance, March 31, 2002	13,775,265	$ 57,712	$ (2,630)	$ 45,386	$ (626)	$ 99,842

The accompanying notes are an integral part of these consolidated financial statements.

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. Dollars) – in accordance with United States generally accepted accounting principles

For the years ended March 31	**2002**	2001	2000
Cash provided by (used in)			
Operating activities			
Net earnings	**$ 17,414**	$ 12,707	$ 9,868
Items not affecting cash:			
Depreciation and amortization	**12,079**	11,929	10,107
Deferred income taxes	**489**	1,056	1,087
Minority interest share of earnings	**3,861**	2,988	2,164
Write-off of financing fees on early debt retirement	**1,375**	-	-
Other	**471**	451	446
Changes in operating assets and liabilities:			
Accounts receivable	**(7,043)**	(5,235)	(2,080)
Inventories	**782**	(450)	(949)
Prepaids and other	**(3,051)**	(1,270)	(1,360)
Accounts payable	**(2,047)**	3,304	(1,395)
Accrued liabilities	**279**	(4,103)	686
Income taxes payable	**489**	2,520	1,698
Unearned revenue	**(133)**	(1,607)	(599)
Net cash provided by operating activities	**24,965**	22,290	19,673
Investing activities			
Acquisitions of businesses, net of cash acquired	**(15,363)**	(40,583)	(22,069)
Purchases of minority shareholders' interests	**(4,623)**	(4,070)	-
Purchases of fixed assets	**(15,611)**	(10,502)	(8,824)
Proceeds from sale of business and other assets	-	-	105
Purchases of other assets	**(470)**	(91)	(1,038)
Decrease (increase) in other receivables	**80**	(705)	(980)
Net cash used in investing activities	**(35,987)**	(55,951)	(32,806)
Financing activities			
Increases in long-term debt	**168,817**	43,374	23,056
Repayments of long-term debt	**(155,246)**	(7,006)	(10,706)
Financing fees paid	**(3,030)**	-	(545)
Proceeds received on exercise of stock options and share purchase plan	**2,849**	580	465
Repayment of receivables pursuant to share purchase plan	**566**	98	-
Repurchases of Subordinate Voting Shares	-	(564)	(692)
Dividends paid to minority shareholders of subsidiaries	**(139)**	(475)	(190)
Net cash provided by financing activities	**13,817**	36,007	11,388
Effect of exchange rate changes on cash	**(578)**	(528)	415
Increase (decrease) in cash and cash equivalents during the year	**2,217**	1,818	(1,330)
Cash and cash equivalents, beginning of year	**5,115**	3,297	4,627
Cash and cash equivalents, end of year	**$ 7,332**	$ 5,115	$ 3,297

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of U.S. Dollars, except per share amounts) – in accordance with United States generally accepted accounting principles

1. Description of the business

FirstService Corporation (the "Company") is a provider of property and business services to residential, corporate and public sector customers in the United States and Canada. The Company's operations are conducted through two operating divisions, Property Services and Business Services. The Property Services Division includes Residential Property Management, Integrated Security Services and Consumer Services, which represent approximately 75% of the Company's revenues for the year ended March 31, 2002. The Business Services Division provides customer support and fulfillment and business process outsourcing services to corporations and government agencies.

2. Summary of significant accounting policies

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates are related to indefinite life intangible assets and goodwill. Actual results could be materially different from these estimates. Significant accounting policies are summarized as follows:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and accounts are eliminated on consolidation.

Cash and cash equivalents

Cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is determined by the weighted average or first-in, first-out methods. The weighted average and the first-in, first-out methods represent approximately 30% and 70% of total inventories, respectively. Finished goods and work-in-progress include the cost of materials, direct labor and manufacturing overhead costs.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and amortization. The cost of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Fixed assets are depreciated and amortized over their estimated useful lives as follows:

Buildings	5% declining balance and 40 years straight-line
Vehicles	3 to 10 years straight-line
Furniture and equipment	20% to 30% declining balance and 3 to 10 years straight-line
Computer equipment and software	20% declining balance and 3 to 5 years straight-line
Enterprise system software	5 to 10 years straight-line
Leasehold improvements	term of the leases to a maximum of 10 years

The Company reviews the carrying value of fixed assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

Financial instruments

The Company uses an interest rate swap to hedge its interest rate exposure. The swap is carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings.

Financing fees

Financing fees related to the credit facility are amortized to interest expense on a straight-line basis over the term of the associated debt. Financing fees related to the notes are amortized to interest expense using the effective interest method.

Goodwill and intangible assets

Goodwill and intangible assets are accounted for in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, ("SFAS 141") and SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142").

In accordance with SFAS 142, effective April 1, 2001, goodwill and indefinite life intangible assets are not subject to amortization. Instead, goodwill is tested annually for impairment.

Amortizable intangible assets are amortized using the straight-line method over their estimated useful lives as follows:

Management contracts and other	over life of contract
Customer lists and relationships	3 to 10 years
Franchise rights	15 to 40 years

The Company reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets.

The indefinite-life franchise intangible assets, comprised of trademarks and trade names and franchise rights, are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired, in which case the carrying value of the asset is written down to fair value in accordance with SFAS 142.

Revenue recognition and unearned revenue

(a) Company-owned Property Services and Business Services
Revenues from Residential Property Management, Company-owned Consumer Services, Integrated Security Services and Business Services are recognized at the time the service is rendered or the product is shipped. Revenues from Integrated Security Services installation contracts and Residential Property Management painting and restoration contracts in process are recognized on the percentage of completion method, generally in the ratio of actual costs to total estimated contract costs. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

(b) Franchised Consumer Services
The Company's franchised Consumer Services are conducted principally through subsidiaries California Closet Company, Inc., Paul Davis Restoration, Inc., Certa ProPainters Ltd. and College Pro Painters Ltd. Royalties are charged as a percentage of revenue, as defined, where reported by the franchisees except for Certa ProPainters Ltd., where the franchisees are charged a fixed monthly amount. Revenue from administrative and other support services, as applicable, is recognized as the services are provided.

Advertising costs

Advertising costs are expensed as incurred except for prepaid direct-response advertising, which is recorded as a current asset and is amortized over the period of expected sales revenue resulting from such advertising.

Foreign currency translation

Assets and liabilities of the Company's subsidiary operations that are measured in a functional currency other than the U.S. Dollar are translated into U.S. Dollars at the exchange rates prevailing at year-end and revenues and expenses at the weighted average exchange rates for the year. All exchange gains and losses on translation are shown as a separate component of shareholders' equity.

Income taxes

Income taxes have been provided using the asset and liability method whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period in which the change occurs.

Income taxes are not provided on the unremitted earnings of U.S. subsidiaries because it has been the practice and is the intention of the Company to reinvest these earnings in the U.S. businesses.

Stock-based compensation

The Company applies Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plan. No compensation expense is recognized when shares or stock options are issued to employees or directors. Any consideration paid on the exercise of stock options is credited to share capital. However, the Company discloses pro forma earnings and earnings per share to reflect compensation costs in accordance with the methodology prescribed under SFAS 123, *Accounting for Stock-Based Compensation*.

3. Adoption of new accounting standards

In April 2001, the Company elected early adoption of SFAS 142, *Goodwill and Other Intangible Assets*. SFAS 141, *Business Combinations,* was adopted on July 1, 2001. SFAS 141 addresses financial accounting and reporting for business combinations and replaces APB 16, *Business Combinations*. SFAS 141 requires the use of the purchase method of accounting for acquisitions and provides new recognition criteria for intangible assets. SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and replaces APB 17, *Intangible Assets*. SFAS 142 also addresses how intangible assets should be accounted for upon their acquisition and after they have been initially recognized in the financial statements. These new standards provide specific guidance on measuring goodwill for impairment annually using a two-step process.

As at April 2001, the Company identified those intangible assets that remain separable under the provisions of SFAS 142 and those that are to be included in goodwill. The comparative consolidated balance sheet has been restated to reclassify intangible assets from goodwill. In applying SFAS 142, the Company re-evaluated the useful lives of these separable intangible assets. The amount reclassified April 1, 2001 was \$24,649. The reclassification includes net indefinite-life intangible assets of \$21,460, net amortizable franchise rights of \$2,280 and net customer lists and relationships of \$909.

In the year of adoption, SFAS 142 requires the first step of the goodwill impairment test to be completed within the first six months and the second step to be completed within twelve months of adoption. The first step of the test was completed during the quarter ended September 30, 2001 and no indications of goodwill impairment were found, therefore the second step was not applicable. Intangible assets were tested for impairment during the quarter ended June 30, 2001 and no indications of impairment were found to exist.

Had the provisions of SFAS 142 been applied for the years ended March 31, 2001 and 2000, the Company's comparative earnings and earnings per share would be as follows:

	2002	2001	2000
Reported net earnings before extraordinary item	**$ 18,211**	$ 12,707	$ 9,868
Goodwill amortization, net of income taxes	**-**	3,126	2,050
Minority interest	**-**	(273)	(536)
Adjusted net earnings before extraordinary item	**$ 18,211**	$ 15,560	$ 11,382
Reported net earnings	**$ 17,414**	$ 12,707	$ 9,868
Goodwill amortization, net of income taxes	**-**	3,126	2,050
Minority interest	**-**	(273)	(536)
Adjusted net earnings	**$ 17,414**	$ 15,560	$ 11,382
Net earnings per share before extraordinary item:			
Basic			
Reported	**$ 1.34**	$ 0.97	$ 0.76
Goodwill amortization, net of income taxes	**-**	0.24	0.16
Minority interest	**-**	(0.02)	(0.04)
Adjusted	**$ 1.34**	$ 1.19	$ 0.88
Diluted			
Reported	**$ 1.25**	$ 0.92	$ 0.72
Goodwill amortization, net of income taxes	**-**	0.22	0.15
Minority interest	**-**	(0.02)	(0.04)
Adjusted	**$ 1.25**	$ 1.12	$ 0.83
Net earnings per share:			
Basic			
Reported	**$ 1.28**	$ 0.97	$ 0.76
Goodwill amortization, net of income taxes	**-**	0.24	0.16
Minority interest	**-**	(0.02)	(0.04)
Adjusted	**$ 1.28**	$ 1.19	$ 0.88
Diluted			
Reported	**$ 1.19**	$ 0.92	$ 0.72
Goodwill amortization, net of income taxes	**-**	0.22	0.15
Minority interest	**-**	(0.02)	(0.04)
Adjusted	**$ 1.19**	$ 1.12	$ 0.83

4. Significant business acquisitions

2002 acquisitions:
On July, 2001, an 80% owned subsidiary of the Company (Security Services and Technologies ("SST")) acquired an 80% voting equity interest of VASEC Virginia Security and Automation, Inc. ("VASEC") of Springfield, Virginia. VASEC is a provider of integrated security services.

On February 1, 2002, an 87.5% owned subsidiary of the Company (DDS Distribution Services Ltd. ("DDS")) acquired 100% of the assets of the Fulfillment Division of Right Choice Services, Inc. ("Right Choice") of Mascoutah, Illinois. Right Choice is a rebate processing and fulfillment business.

In addition, the Company and its subsidiaries acquired three other businesses and acquired minority shareholdings in two subsidiaries.

2001 acquisitions:
On July 1, 2000, the Company acquired an 80% interest in SST, headquartered in Norristown, Pennsylvania. SST is an integrated security services provider.

On March 1, 2001, the Company acquired an 82.15% interest in Herbert A. Watts Limited ("Watts") headquartered in Toronto, Ontario. Watts is a customer support and fulfillment company.

2000 acquisitions:
On June 1, 1999, the Company acquired an 80% interest in American Pool Enterprises, Inc. ("American Pool") headquartered in Beltsville, Maryland. American Pool provides commercial swimming pool management services.

On July 1, 1999, DDS, at the time an 89% owned subsidiary of the Company, acquired 100% of Southwest Distribution Services Group ("DDS SW"), a Texas-based textbook fulfillment business.

Details of 2002 acquisitions are as follows:

	2002		
	Right Choice	**VASEC**	**Aggregate other**
Current assets	**$ 2,212**	**$ 841**	**$ 441**
Long-term assets	**219**	**86**	**433**
Current liabilities	**(1,992)**	**(539)**	**(1,044)**
Long-term liabilities	**-**	**(191)**	**(2,293)**
Minority interest	**-**	**(78)**	**710**
	439	**119**	**(1,753)**
Note consideration	**-**	**-**	**1,720**
Cash consideration	**3,300**	**1,700**	**7,287**
Acquired intangibles	**$ 527**	**$ 286**	**$ 3,084**
Acquired goodwill	**$ 2,334**	**$ 1,295**	**$ 7,676**
Contingent consideration at date of acquisition	**$ 3,300**	**$ 860**	**$ 1,985**

Factors contributing to the goodwill on the above-noted acquisitions include operating synergies between the acquired businesses and the Company's existing operations, customer services capabilities, expanded geographic reach of Company service lines and skilled assembled workforces.

Details of prior year acquisitions are as follows:

	2001		2000	
	Watts	SST	American Pool	DDS SW
Net assets acquired, at fair market value:				
Tangible assets, net of liabilities	$ 139	$ 792	$ (6,444)	$ 673
Minority interest	(25)	(158)	-	-
	114	634	(6,444)	673
Cash consideration	10,865	7,500	4,755	8,711
Acquired goodwill	$ 10,751	$ 6,866	$ 11,199	$ 8,038
	$ 16,515Cdn.			
Contingent consideration at date of acquisition	$ 10,424	$ 4,250	$ 2,800	$ 3,000
	$ 16,012Cdn.			

In 2001, in addition to the individual acquisitions disclosed above, the Company made various other acquisitions and acquired certain minority interests for total consideration of $16,183 (2000 - $5,730) comprised of cash of $15,534 (2000 - $5,730), and capital stock of $649 (2000 - $nil) to acquire net tangible assets of $3,391 (2000 - $1,040) resulting in goodwill of $12,792 (2000 - $4,690).

In fiscal 2002, the Company finalized the allocation of the purchase price with respect to the March 2001 Watts acquisition. The final adjustment to this purchase equation and the purchase equations on other acquisitions resulted in additional goodwill and accrued liabilities in the amount of $1,860, net of income taxes, principally to reflect costs to restructure operations of one of the acquired subsidiaries.

In 2000, the Company disposed of business assets of subsidiaries with a net book value of $209 for net proceeds of $105.

Certain vendors, at the time of acquisition, are entitled to receive contingent consideration if the acquired businesses exceeded certain financial thresholds during the two to four-year period following the date of acquisition. As at March 31, 2002, there was contingent consideration outstanding of up to $21,300 payable during the period extending to June 2005. In addition, vendors are entitled to receive interest on the principal amount of each contingent payment, to the extent payable, which interest is calculated from the acquisition date to the payment date at interest rates ranging from 7% to 9%. These amounts have been treated as contingent consideration and any resulting payments will be recorded as intangible assets or goodwill to the extent that the contingencies are determined payable. Contingent consideration paid or accrued during the year ended March 31, 2002 was $7,425, net of deferred income tax of $273 (2001 - $11,715) (2000 - $6,570).

The acquisitions referred to above were accounted for by the purchase method of accounting for business combinations. Accordingly, the accompanying consolidated statements of earnings do not include any revenues or expenses related to these acquisitions prior to these respective closing dates. The cash portions of the acquisitions were financed through available cash and borrowings from the Company's revolving credit facility.

Following are the Company's unaudited pro forma results assuming the acquisitions of Right Choice, VASEC, Watts and SST occurred on April 1 on the respective year of acquisition. The year immediately prior to the year of each respective acquisition also includes the pro forma results of that respective acquisition.

	2002	2001
Pro forma revenue	**$ 522,216**	$ 485,256
Pro forma net earnings	**18,017**	15,478
Pro forma earnings per share:		
Basic	**$ 1.33**	$ 1.18
Diluted	**1.23**	1.12

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of results of operations that would have actually resulted had the combinations been in effect at the beginning of each year or of future results of operations.

5. Components of working capital accounts

	2002	2001
Inventories		
Supplies and other	**$ 3,143**	$ 3,422
Finished goods	**4,642**	4,574
Work-in-progress	**1,005**	1,380
Small equipment	**288**	251
	$ 9,078	$ 9,627
Prepaids and other		
Advertising	**$ 2,467**	$ 3,222
Insurance	**2,562**	1,240
Security deposits	**1,216**	1,120
Other	**7,058**	5,175
	$ 13,303	$ 10,757

	2002	2001
Accrued liabilities		
Accrued payroll and benefits	**$ 15,360**	$ 14,567
Customer advances	**14,838**	13,295
Other	**8,071**	6,139
	$ 38,269	$ 34,001

6. Other receivables

Other receivables are comprised of:

(a) $1,426 (2001 - $1,094) of secured interest and non-interest bearing loans due from minority shareholders of four (2001 - three) subsidiaries;

(b) $1,682 (2001 - $2,130) of long-term receivables, certain of which are interest bearing, relating to painting, restoration and integrated security systems installation projects conducted by the Company's Property Services Division; and

(c) $1,800 (2001 - $1,868) of interest bearing franchise fees receivable from franchisees in the Company's Consumer Services unit.

7. Fixed assets and other assets

2002	Cost	Accumulated depreciation/ amortization	**Net 2002**
Fixed assets			
Land	$ 2,209	$ -	**$ 2,209**
Buildings	6,790	834	**5,956**
Vehicles	15,153	9,169	**5,984**
Furniture and equipment	33,430	19,476	**13,954**
Computer equipment and software	20,349	11,184	**9,165**
Enterprise system software	4,377	1,669	**2,708**
Leasehold improvements	10,034	4,643	**5,391**
Total	$ 92,342	$ 46,975	**$ 45,367**
Other assets			
Funds held in trust	$ 1,892	$ -	**$ 1,892**
Investments	850	-	**850**
Financing fees	3,030	361	**2,669**
Total	$ 5,772	$ 361	**$ 5,411**

2001	Cost	Accumulated depreciation / amortization	Net 2001
Fixed assets			
Land	$ 1,812	$ -	$ 1,812
Buildings	5,901	647	5,254
Vehicles	13,388	8,069	5,319
Furniture and equipment	29,375	14,430	14,945
Computer equipment and software	13,647	7,924	5,723
Enterprise system software	3,921	1,136	2,785
Leasehold improvements	9,451	4,548	4,903
Total	$ 77,495	$ 36,754	$ 40,741
Other assets			
Funds held in trust	$ 1,904	$ -	$ 1,904
Investments	647	-	647
Financing fees	2,897	1,422	1,475
Total	$ 5,448	$ 1,422	$ 4,026

Included in fixed assets are vehicles under capital lease at a cost of $5,697 (2001 - $4,460) with a net book value of $2,542 (2001 - $2,282), furniture and equipment under capital lease at a cost of $743 (2001 - $nil) and net book value of $435 (2001 - $nil) and computer equipment and software under capital lease at a cost of $757 (2001 - $2,441) with a net book value of $604 (2001 - $1,187).

8. Intangible assets

2002	Gross carrying amount	Accumulated amortization	**Net 2002**
Amortized intangible assets			
Management contracts and other	$ 2,376	$ 1,639	**$ 737**
Customer lists and relationships	2,536	733	**1,803**
Franchise rights	2,653	315	**2,338**
	7,565	2,687	**4,878**
Indefinite-life franchise intangible assets			
Trademarks and trade names	11,327	-	**11,327**
Franchise rights	13,217	-	**13,217**
	24,544	-	**24,544**
	$ 32,109	$ 2,687	**$ 29,422**

2001	Gross carrying amount	Accumulated amortization	Net 2001
Amortized intangible assets			
Management contracts and other	$ 2,307	$ 1,477	$ 830
Customer lists and relationships	1,383	309	1,074
Franchise rights	25,254	1,601	23,653
	$ 28,944	$ 3,387	$ 25,557

During the year ended March 31, 2002, the company acquired the following intangible assets:

	Amount	Weighted average amortization period in years
Amortized intangible assets		
Management contracts and other	$ 88	5
Customer lists and relationships	1,179	5
Franchise rights	198	15
	1,465	6
Indefinite-life franchise intangible assets		
Trademarks and trade names	1,450	-
Franchise rights	1,634	-
	3,084	-
	$ 4,549	-

The following is the estimated annual amortization expense for each of the next five years ending March 31:

2003	$ 798
2004	718
2005	527
2006	307
2007	229

9. Goodwill

	Property Services – Residential Property Management	Property Services – Integrated Security Services	Property Services – Consumer Services	Business Services	Corporate	Consolidated
Balance, April 1, 2001	$ 48,268	$ 21,774	$ 14,968	$ 45,654	$ -	$ 130,664
Goodwill resulting from adjustments to purchase price allocations	101	(166)	(255)	2,180	-	1,860
Goodwill resulting from contingent acquisition payments	3,363	1,853	-	2,209	-	7,425
Goodwill resulting from purchases of minority shareholders' interests	2,143	-	2,056	-	-	4,199
Goodwill acquired during year	1,608	1,351	1,775	2,372	-	7,106
Balance, March 31, 2002	$ 55,483	$ 24,812	$ 18,544	$ 52,415	$ -	$ 151,254

10. Long-term debt

	2002	2001
Revolving credit facility of $140,000 U.S., of which up to $40,000 U.S. may be drawn in Canadian funds, $14,000 U.S. due June 25, 2004 and the balance due June 25, 2005	**$ 56,160**	$ -
Revolving credit facility of $130,000 U.S. and $50,000 Cdn. due June 1, 2004	**-**	142,812
8.06% Guaranteed Senior Secured Notes due June 29, 2011	**100,000**	-
Adjustment to Guaranteed Senior Secured Notes resulting from interest rate swap	**(2,070)**	-
Obligations under capital leases bearing interest ranging primarily from 6% to 9%, maturing at various dates through 2006	**3,132**	2,409
Other long-term debt bearing interest primarily at 8%, maturing at various dates through 2008	**8,389**	7,203
	165,611	152,424
Less: current portion	**7,193**	3,050
	$ 158,418	$ 149,374

The revolving credit facility at March 31, 2002 is comprised of borrowings of $44,681 U.S. and $18,300 Cdn. ($11,479 U.S.) (2001 - $120,045 U.S. and $35,887 Cdn. ($22,767 U.S.)).

Included in capital leases at March 31, 2002 and 2001 are obligations in Canadian dollars of $2,263 ($1,420 U.S.) and $1,561 ($990 U.S.), respectively.

Included in other long-term debt at March 31, 2002 and 2001 are obligations in Canadian dollars of $6,202 ($3,891 U.S.) and $5,921 ($3,756 U.S.), respectively.

At March 31, 2002, the estimated aggregate amount of principal repayments on long-term debt required in each of the next five fiscal years and thereafter to meet the retirement provisions are as follows:

2003	$ 7,193
2004	1,380
2005	15,277
2006	57,530
2007	14,347
Thereafter	69,884

On June 29, 2001, the Company amended and restated its credit agreement to allow for the issuance of additional debt. The amended and restated agreement provides a $140,000 committed senior revolving credit facility (the "Credit Facility") renewable and extendible in 364-day increments, and if not renewed, a two-year final maturity. The Credit Facility was most recently renewed and extended on April 25, 2002. The Credit Facility bears interest at 1.50% to 3.00% over floating reference rates, depending on certain leverage ratios. At March 31, 2002, the Company had drawn $56,160 on the Credit Facility, and had $83,840 of available un-drawn credit.

Also on June 29, 2001, the Company completed a private placement of $100,000 of 8.06% fixed-rate Guaranteed Senior Secured Notes (the "Notes"). The Notes have a final maturity of ten years, with seven equal annual principal repayments beginning at the end of the fourth year, resulting in a seven-year average life. On December 7, 2001, the Company entered into an interest rate swap agreement on $75,000 of the 8.06% Notes for a variable rate of LIBOR + 250.5 basis points. The term of the swap matches the term of the Notes (see note 15 for swap accounting).

The Credit Facility and the Notes rank equally in terms of security. The Company has granted these lenders various security including the following: an interest in all of the assets of the Company including the Company's share of its subsidiaries, an assignment of material contracts and an assignment of the Company's "call rights" with respect to shares of the subsidiaries held by minority interests.

The covenants and other limitations within the Credit Facility and the Note agreement are substantially the same. The covenants require the Company to maintain certain ratios including leverage, fixed charge coverage, interest coverage and net worth. Other limitations include prohibition from paying dividends, and without prior approval, from undertaking certain mergers, acquisitions and dispositions.

11. Capital stock

The authorized capital stock of the Company is as follows:

An unlimited number of preference shares, issuable in series;
An unlimited number of Subordinate Voting Shares having one vote per share; and
An unlimited number of Multiple Voting Shares having 20 votes per share, convertible at any time into Subordinate Voting Shares at a rate of one Subordinate Voting Share for every Multiple Voting Share outstanding.

The following table provides a summary of total capital stock:

	Subordinate Voting Shares		*Multiple Voting Shares*		Total	Total
	Number	Amount	Number	Amount	Number	Amount
Balance, March 31, 2000	12,326,683	$ 53,476	662,847	$ 373	12,989,530	$ 53,849
Balance, March 31, 2001	12,505,393	54,490	662,847	373	13,168,240	54,863
Balance, March 31, 2002	13,112,418	57,339	662,847	373	13,775,265	57,712

On May 17, 2000, the Company purchased shares of its subsidiary, The Franchise Company, Inc., from a minority shareholder. As consideration, 69,360 Subordinate Voting Shares with a value of $971 Cdn. ($649 U.S.) were issued.

The Company has $2,630 ($3,714 Cdn.) (2001 - $3,196 ($4,513 Cdn.)) of secured interest bearing loans related to the purchase of 412,500 Subordinate Voting Shares (2001 - 492,500 shares). The loans, which are secured by the shares issued, have a five- or ten-year term from the grant date, however, they are open for repayment at any time. The maturities of these loans are as follows, for the years ending March 31:

2003	$ 196
2004	286
2005	-
2006	-
2007	916
2008	467
2009	765
	$ 2,630

The Company has a stock option plan for officers, key full-time employees and directors of the Company and its subsidiaries. At March 31, 2002, a total of 3,850,000 Subordinate Voting Shares were reserved and approved by the shareholders of the Company for issuance pursuant to stock options of which 3,695,470 have been granted resulting in 154,530 options available for future grants. Each option vests over a four-year term and expires five years from the date granted and allows for the purchase of one Subordinate Voting Share. Options are exercisable in either U.S. or Canadian Dollars. At March 31, 2002, there were 2,119,115 options outstanding to 70 employees and directors at prices ranging from $5.80 to $23.14 ($8.00 to $36.89 Cdn.) per share, expiring on various dates through January 2007.

The number of Subordinate Voting Shares issuable under options and the average option prices per share are as follows:

	Shares issuable under options			*Weighted average price per share ($U.S.)*		
	2002	2001	2000	**2002**	2001	2000
Shares issuable under options – Beginning of year	**2,119,640**	1,879,200	1,342,675	**$ 8.57**	$ 8.02	$ 5.37
Granted	**625,000**	419,790	669,000	**20.93**	12.69	11.97
Exercised for cash	**(607,025)**	(158,850)	(132,475)	**4.70**	3.69	3.51
Expired or forfeited	**(18,500)**	(20,500)	-	**7.25**	10.28	-
Shares issuable under options – End of year	**2,119,115**	2,119,640	1,879,200	**$ 13.20**	$ 8.57	$ 8.02
Options exercisable – End of year	**925,498**	1,117,624	896,803			

	Weighted average price per share ($Cdn.)		
	2002	2001	2000
Shares issuable under options – Beginning of year	**$ 13.52**	$ 11.62	$ 8.10
Granted	**32.77**	19.08	17.61
Exercised for cash	**7.35**	5.55	5.17
Expired or forfeited	**11.35**	15.46	-
Shares issuable under options – End of year	**$ 21.05**	$ 13.52	$ 11.62

The weighted average fair value of options granted in 2002, 2001 and 2000 was $6.59 ($10.31 Cdn.), $4.84 ($7.28 Cdn.) and $4.54 ($6.68 Cdn.) per share, respectively.

The options outstanding as at March 31, 2002 to purchase Subordinate Voting Shares are as follows:

	Options outstanding			*Options exercisable*	
Range of exercise prices ($U.S.)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price ($U.S.)	Number exercisable	Weighted average exercise price ($U.S.)
$5.80 to $11.04	598,615	1.22	$ 7.81	471,973	$ 7.30
$11.20 to $14.62	895,500	2.72	11.67	391,025	11.43
$15.70 to $23.14	625,000	4.51	20.55	62,500	20.55
	2,119,115	2.67	$ 13.20	925,498	$ 9.94

	Options outstanding			*Options exercisable*	
Range of exercise prices ($Cdn.)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price ($Cdn.)	Number exercisable	Weighted average exercise price ($Cdn.)
$8.00 to $16.00	598,615	1.22	$ 12.45	471,973	$ 11.64
$16.47 to $22.50	895,500	2.72	18.61	391,025	18.22
$25.00 to $36.89	625,000	4.51	32.77	62,500	32.77
	2,119,115	2.67	$ 21.05	925,498	$ 15.85

SFAS 123 requires pro forma disclosures of earnings and earnings per share as if the fair value method of accounting for employee stock options had been applied. Compensation cost is based on the fair value of the award using the Black-Scholes option-pricing model. The disclosures in the table below show the company's earnings and earnings per share after including the effect of the compensation cost.

	2002	2001	2000
Pro forma net earnings	**$ 16,270**	$ 11,737	$ 9,164
Pro forma net earnings per share:			
Basic	**$ 1.20**	$ 0.90	$ 0.71
Diluted	**1.11**	0.85	0.67
Assumptions			
Risk-free interest rate	**5.0%**	5.5%	5.5%
Expected life in years	**4.0**	4.5	4.5
Volatility	**30%**	35%	35%
Dividend yield	**0.0%**	0.0%	0.0%

12. Income taxes

Income taxes differ from the amounts that would be obtained by applying the statutory rate to the respective years' earnings before taxes. These differences result from the following items:

	2002	2001	2000
Income tax expense using combined statutory rates of approximately 41% (2001 - 44%; 2000 - 45%)	**$ 13,705**	$ 11,509	$ 9,009
Non-deductible expenses:			
Amortization of goodwill and intangibles	**-**	1,085	397
Loss not tax effected	**443**	-	-
Other	**250**	210	185
Foreign tax rate reduction	**(3,043)**	(2,340)	(1,602)
Provision for income taxes as reported	**$ 11,355**	$ 10,464	$ 7,989

Earnings before income taxes and minority interest by tax jurisdiction comprise the following:

	2002	2001	2000
Canada	**$ 12,537**	$ 7,494	$ 9,132
United States	**20,890**	18,665	10,889
Total	**$ 33,427**	$ 26,159	$ 20,021

The provision for income taxes comprises the following:

	2002	2001	2000
Current			
Canada	**$ 4,004**	$ 2,664	$ 3,414
United States	**6,862**	6,744	3,488
	10,866	9,408	6,902
Deferred			
Canada	**(1,130)**	633	143
United States	**1,619**	423	944
	489	1,056	1,087
Total	**$ 11,355**	$ 10,464	$ 7,989

The significant components of deferred income taxes are as follows:

	2002	2001
Deferred income tax assets		
Expenses not currently deductible	**$ 1,100**	$ 790
Provision for doubtful accounts	**507**	107
Inventory and other reserves	**427**	84
Loss carry-forwards	**1,509**	1,536
Capital stock underwriting expenses	**-**	91
	3,543	2,608
Deferred income tax liabilities		
Depreciation and amortization	**6,919**	3,933
Prepaid and other expenses deducted for tax purposes	**583**	558
Financing fees	**962**	303
	8,464	4,794
Net deferred income tax liability	**$ (4,921)**	$ (2,186)

Cumulative undistributed earnings of U.S. subsidiaries approximated $31,699 as at March 31 (2001 - $22,305).

13. Shares outstanding for earnings per share calculations

	2002	2001	2000
Shares issued and outstanding at beginning of year	**13,168,240**	12,989,530	12,919,055
Weighted average number of shares:			
Issued in the year	**397,077**	117,728	33,617
Repurchased in the year	**-**	(33,396)	(4,623)
Weighted average number of shares used in computing basic earnings per share	**13,565,317**	13,073,862	12,948,049
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	**1,034,551**	767,134	759,689
Number of shares used in computing diluted earnings Per share	**14,599,868**	13,840,996	13,707,738

14. Other supplemental information

	2002	2001	2000
Products and services segmentation			
Revenue			
Products	**$ 75,337**	$ 54,091	$ 28,670
Services	**437,352**	370,083	311,365
Total	**512,689**	424,174	340,035
Cost of revenue			
Products	**46,060**	36,557	22,545
Services	**297,355**	247,917	203,609
Total	**343,415**	284,474	226,154
Net	**$ 169,274**	$ 139,700	$ 113,881
Franchised operations			
Revenue	**$ 54,173**	$ 55,661	$ 51,541
Operating profit	**$ 9,283**	$ 7,999	$ 6,861
Initial franchise fee revenue	**$ 2,951**	$ 4,157	$ 3,224

	2002	2001	2000
Cash payments made during the year			
Income taxes	**$ 10,649**	$ 4,308	$ 4,571
Interest	**$ 9,633**	$ 9,616	$ 7,992
Non-cash financing activities			
Increases in capital lease obligations	**$ 1,965**	$ 1,170	$ 1,186
Issuance of Subordinate Voting Shares to acquire minority interest	**$ -**	$ 649	$ -
Depreciation and amortization expense			
Fixed assets	**$ 11,394**	$ 7,708	$ 6,486
Goodwill	**-**	3,402	2,755
Intangible assets	**685**	819	866
	$ 12,079	$ 11,929	$ 10,107
Other expenses			
Advertising expense	**$ 9,582**	$ 8,264	$ 7,056
Rent expense	**$ 13,943**	$ 10,599	$ 9,359

The foreign currency translation adjustment for the year ended March 31, 2001 is net of current income taxes of $444 on realized exchange gains for income tax purposes.

15. Financial instruments

Concentration of credit risk
The company is subject to credit risk with respect to its accounts receivable and other receivables. Concentrations of credit risk with respect to these receivables are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different service lines in two countries.

Interest rate risk
The Company maintains an interest rate risk management strategy that uses interest rate swaps to lower the long-term cost of borrowed funds. The Company's specific goals are to (i) manage interest rate sensitivity by modifying the characteristics of some of its debt and (ii) lower the long-term cost of its borrowed funds. Fluctuations in interest rates create an unrealized appreciation or depreciation in the market value of the Company's fixed-rate debt when that fair value is compared with the cost of the borrowed funds. The effect of this unrealized appreciation or depreciation in market value, however, will generally be offset by the gain or loss on the interest rate swaps that are linked to the debt.

On December 7, 2001, the Company entered into an interest rate swap agreement to exchange the fixed rate on $75,000 of its 8.06% Notes for a variable rate of LIBOR + 250.5 basis points. The term of the swap matches the term of the Notes with a maturity of June 29, 2011. This swap is being accounted for as a fair value hedge in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities.* The swap is carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized currently in earnings. The fair value of the swap is determined based on the present value of the estimated future net cash flows using implied rates in the applicable yield curve as of the valuation date. Due to changes in the yield curve, the fair value of the swap fluctuates and at March 31, 2002, the fair value represented a loss of $2,070.

Fair value of financial instruments
The carrying amounts for cash and cash equivalents, funds held in trust, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short maturity of these instruments, unless otherwise indicated.

	2002		2001	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	**$ 7,332**	**$ 7,332**	$ 5,115	$ 5,115
Other receivables	**4,908**	**4,829**	5,092	5,004
Long-term debt including current portion	**165,611**	**168,941**	152,424	152,424
Interest rate swap	**(2,070)**	**(2,070)**	-	-

16. Commitments and contingencies

(a) Lease commitments

Minimum operating lease payments are as follows:

Year ending March 31	
2003	$ 13,011
2004	11,540
2005	9,418
2006	7,075
2007	4,506
Thereafter	10,291

(b) Shareholder agreements

The Company has shareholder agreements with the minority owners of its subsidiaries. These agreements allow the Company to "call" the minority position for a predetermined formula price, which is usually equal to the multiple of net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation, and amortization paid by the Company for the original acquisition. The minority owners may also "put" their interest to the Company at the same price subject to certain limitations. The purchase price may, at the option of the Company, be paid primarily in Subordinate Voting Shares. Acquisitions of these minority interests would be accounted for using the purchase method.

(c) Contingencies

The Company is involved in legal proceedings and claims primarily arising in the normal course of its business. In the opinion of management, the Company's liability, if any, would not materially affect its financial condition or operations.

17. Segmented information

Operating segments
Within the Property Services Division, three operating units (Residential Property Management, Integrated Security Services and Consumer Services) provide a variety of services to residential and commercial customers. The Business Services Division provides customer support and fulfillment and business process outsourcing services to corporate and institutional clients.

2002	Property Services – Residential Property Management	Property Services – Integrated Security Services	Property Services – Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 205,376	$ 95,507	$ 83,964	$ 127,478	$ 364	$ 512,689
Depreciation and amortization	3,716	1,377	1,906	4,964	116	12,079
Segment operating profit	15,118	5,158	11,940	17,412	(4,585)	45,043
Interest expense						(11,616)
Income taxes						(11,355)
Minority interest						(3,861)
Net earnings before extra-ordinary items						$ 18,211
Total assets	$ 106,268	$ 57,515	$ 69,336	$ 117,874	$ 7,212	$ 358,205
Total additions to long-lived assets	$ 13,237	$ 5,154	$ 8,984	$ 13,365	$ 478	$ 41,218

2001	Property Services – Residential Property Management	Property Services – Integrated Security Services	Property Services – Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 181,730	$ 81,007	$ 78,838	$ 82,346	$ 253	$ 424,174
Depreciation and amortization	4,505	1,371	2,555	3,397	101	11,929
Segment operating profit	13,546	4,654	9,947	12,491	(4,712)	35,926
Interest expense						(9,767)
Income taxes						(10,464)
Minority interest						(2,988)
Net earnings						$ 12,707
Total assets	$ 84,332	$ 42,033	$ 55,295	$ 124,580	$ 7,420	$ 313,660
Total additions to long-lived assets	$ 15,652	$ 10,194	$ 8,535	$ 25,796	$ -	$ 60,177

2000	Property Services – Residential Property Management	Property Services – Integrated Security Services	Property Services – Consumer Services	Business Services	Corporate	Consolidated
Revenues	$ 133,782	$ 61,539	$ 71,330	$ 73,198	$ 186	$ 340,035
Depreciation and amortization	3,511	887	2,847	2,801	61	10,107
Segment operating profit	7,903	4,143	7,933	11,874	(3,983)	27,870
Interest expense						(7,849)
Income taxes						(7,989)
Minority interest						(2,164)
Net earnings						$ 9,868
Total assets	$ 73,518	$ 25,282	$ 50,953	$ 74,476	$ 6,658	$ 230,887
Total additions to long-lived assets	$ 23,909	$ 3,175	$ 3,735	$ 10,923	$ 97	$ 41,839

Geographic segments
Revenues in each geographic segment are reported by customer location.

Canada

	2002	2001	2000
Revenues	**$ 168,669**	$ 119,372	$ 109,410
Total long-lived assets	**$ 53,082**	$ 49,651	$ 31,970

United States

	2002	2001	2000
Revenues	**$ 344,020**	$ 304,802	$ 230,625
Total long-lived assets	**$ 172,961**	$ 147,311	$ 115,218

Consolidated

	2002	2001	2000
Revenues	**$ 512,689**	$ 424,174	$ 340,035
Total long-lived assets	**$ 226,043**	$ 196,962	$ 147,188

18. Comparative amounts

Certain comparative amounts in the consolidated balance sheets and notes to the consolidated financial statements have been reclassified to conform with the current year's presentation.

19. Impact of recently issued accounting standards

In August 2001, FASB issued SFAS 143, *Accounting for Retirement Obligations*, effective for years beginning after June 15, 2002. SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset, except for certain obligations of lessees. The Company expects that SFAS 143 will not have a material impact on its results of operations or financial condition.

In August 2001, FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective for the Company's fiscal year ending March 31, 2003. The standard addresses the accounting for long-lived assets (i) to be held and used; (ii) to be disposed of by sale; and (iii) to be disposed of other than by sale. The Company expects that SFAS 144 will not have a material impact on its results of operations or financial condition.

In April 2002, FASB issued SFAS 145, *Rescission of SFAS 4, 44 and 64, Amendment of SFAS 13 and Technical Corrections as of April 2002*. This new standard impacts the reporting of gains and losses from extinguishment of debt and accounting for leases, and is effective for the Company's fiscal year beginning April 1, 2004. Had SFAS 145 been in effect during the year ended March 31, 2002, the extraordinary loss on early retirement of debt of $797, net of income tax benefit of $578, would have been reported as interest expense of $1,375 and a reduction of income tax expense of $578.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Directors

The Directors of the Company stand for re-election each year. The Directors as at May 14, 2002 were as follows:

Name	Age	Present position and tenure	Business experience during last five years
Michael H. Appleton	61	Director since 1994 and Secretary	Managing Partner, Fogler, Rubinoff LLP (Toronto law firm)
David R. Beatty	60	Director since May 2001	Corporate Director; Director of Clarkson Center for Business Ethics
Brent S. Belzberg	51	Director since May 2002	Managing Partner, TorQuest Partners (merchant bank); Former President and Chief Executive Officer, Harrowston, Inc. (Canadian publicly traded holding company)
Brendan Calder	55	Director since 1996	Entrepreneur in Residence, Rotman School of Management, University of Toronto; Corporate Director; Former Chairman and Chief Executive Officer, CIBC Mortgages Inc. (subsidiary of a Canadian chartered bank)
Peter F. Cohen	49	Director since 1990	President, Dawsco Capital Corp. (Ontario-based holding company); Former Chairman and Chief Executive Officer, Centrefund Realty Corp. (Canadian publicly traded real estate company)
Jay S. Hennick	45	President, Chief Executive Officer and Director	President and Chief Executive Officer
Samuel Hennick	71	Director since 1993	Chairman and Chief Executive Officer, Stargems Inc. (Toronto-based jewellery manufacturing company)
Steven Rogers	46	Director since 1989	President and Chief Executive Officer, The Franchise Company, Inc. (subsidiary of FirstService)

Mr. Samuel Hennick is the father of Mr. Jay S. Hennick.

Audit Committee

The Audit Committee is composed of three non-management members. The committee reviews the quarterly and annual consolidated financial statements intended for circulation among shareholders and reports upon these to the Board. In addition, the Board may refer to the Audit Committee on other matters and questions relating to the financial position of the Company. The Audit Committee members are Messrs. Appleton, Calder and Cohen.

Compensation Committee

The Compensation Committee is composed of three non-management members and makes recommendations to the Board on, among other things, the compensation of the Chief Executive Officer including grants of options under the Company's Stock Option Plan to the

Chief Executive Officer. The Compensation Committee members are Messrs. Appleton, Calder and Cohen.

Directors' compensation

During Fiscal 2002, each Director who was not a full-time employee of the Company or any of its subsidiaries received an annual retainer of $1,600 plus a fee equal to $480 for each meeting of the Board of Directors or Committee thereof attended by such Director in person and $225 for each meeting held by telephone. During Fiscal 2002, the Company paid the Directors aggregate fees totaling $16,225.

In addition, most Directors have received stock option grants under the Company's stock option plan. During Fiscal 2002, the following directors were granted options: Mr. Appleton – 10,000; Mr. Calder – 25,000; Mr. Cohen – 20,000; Mr. Jay S. Hennick – 200,000 and Mr. Rogers – 5,000.

Executive officers

The following shows the names and ages, as at May 14, 2002, of the present executive officers of the Registrant, all positions presently held by each officer, and the year each person became an officer. The executive officers do not have a fixed term of office.

Name	Age	Present position with the Company	First became an officer
Jay S. Hennick	45	President, Chief Executive Officer and Director	1988
D. Scott Patterson	41	Senior Vice President and Chief Financial Officer	1995
Timothy J. Greener	50	Senior Vice President, Integration	1996
John B. Friedrichsen	40	Senior Vice President, Acquisitions	1998
Richard Oller	48	Senior Vice President, Development	2002
Douglas G. Cooke	42	Corporate Controller and Treasurer	1995

Mr. Hennick is the founder of the Company and has been President and Chief Executive Officer since its inception.

Mr. Patterson has held his current position since February 1995. Mr. Patterson is a Chartered Accountant.

Mr. Greener was president of a subsidiary of the Company until October 1996, at which time he assumed his present position.

Mr. Friedrichsen was Vice President, Corporate Finance with Ernst & Young Corporate Finance Inc. prior to becoming Vice President, Acquisitions in January 1998. Mr. Friedrichsen is a Chartered Accountant.

Mr. Oller was president of a subsidiary of the Company until March 2002, at which time he assumed his present position.

Mr. Cooke has held his current position since June 1995. Mr. Cooke is a Chartered Accountant.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid to the Chief Executive Officer and the four next most highly compensated executive officers in respect of Fiscal 2002. Each of the listed persons held the office indicated on the table on March 31, 2002.

Summary compensation table		**Annual compensation**			**Long term compensation**			
					Awards		**Payouts**	
Name and principal position	**Fiscal year**	**Salary ($ US)**	**Bonus ($ US)**	**Other annual comp-ensation ($ US)**	**Restricted stock awards ($ US)**	**Securities underlying options (#)**	**LTIP payouts ($ US)**	**All other comp-ensation ($ US)**
Jay S. Hennick,	2002	$ 495,000	$ 433,700	-	-	200,000		
President and Chief	2001	475,400	660,000	-	-	62,100	-	-
Executive Officer	2000	442,000	736,700	-	-	150,000	-	-
D. Scott Patterson,								
Senior Vice President	2002	159,600	92,700			50,000		
and Chief Financial	2001	146,300	203,200	-	-	81,150	-	-
Officer	2000	136,000	226,700	-	-	75,000	-	-
Timothy J. Greener,	2002	190,000	83,600			40,000		
Senior Vice	2001	180,000	220,000	-	-	37,460	-	-
President, Integration	2000	175,000	145,800	-	-	25,000	-	-
John B. Friedrichsen,		118,200	52,000			40,000		
Senior Vice	2002	109,700	91,400	-	-	60,770	-	-
President,	2001	91,800	76,500	-	-	50,000	-	-
Acquisitions	2000							
Douglas G. Cooke,	2002	86,300	15,500			10,000		
Corporate Controller	2001	86,400	30,000	-	-	18,310	-	-
& Treasurer	2000	78,200	32,600	-	-	15,000	-	-

The following table summarizes the number and terms of the stock options granted during Fiscal 2002 to the executive officers.

Option grants in Fiscal 2002	**Individual grants**				**Potential realized value at assumed annual rates of stock price appreciation for option term**	
Name	**Number of securities underlying options granted (#)**	**% of total options granted to employees in Fiscal 2002**	**Exercise price ($ US per share)**	**Expiration date**	**5% ($ US)**	**10% ($ US)**
Jay S. Hennick	100,000 100,000	16.0% 16.0	$ 16.94 23.14	May 3, 2006 January 30, 2007	468,000 639,000	1,034,000 1,413,000
D. Scott Patterson	50,000	8.0	23.14	January 30, 2007	320,000	707,000
Timothy J. Greener	40,000	6.4	23.14	January 30, 2007	256,000	565,000
John B. Friedrichsen	40,000	6.4	23.14	January 30, 2007	256,000	565,000
Douglas G. Cooke	10,000	1.6	23.14	January 30, 2007	64,000	141,000

Note
One option entitles the holder to purchase one Subordinate Voting Share. All options listed in the table above vest in the following manner: 10% on grant date, 15% on the first anniversary, 20% on second anniversary, 25% on third anniversary and 30% on the fourth anniversary of the grant date. The expiration date is the fifth anniversary of the grant date.

The following table summarizes the exercises of stock options during Fiscal 2002 by the executive officers and the number of, and the spread on, unexercised options held by such officers on March 31, 2002.

Aggregated option exercises in Fiscal 2002 and year-end option values			Number of securities underlying unexercised options at March 31, 2002 (#)	Value of unexercised in-the-money options at March 31, 2002 ($ US)
Name	**Shares acquired on exercise (#)**	**Value realized ($ US)**	**Exercisable / Unexercisable**	**Exercisable / Unexercisable**
Jay S. Hennick	200,000	$ 2,760,000	305,525 / 331,575	$ 3,857,000 / $ 2,223,000
D. Scott Patterson	100,000	2,460,000	160,288 / 158,363	2,016,000 / 1,220,000
Timothy J. Greener	25,000	468,000	60,115 / 82,345	716,000 / 490,000
John B. Friedrichsen	20,000	185,000	62,193 / 113,578	677,000 / 826,000
Douglas G. Cooke	20,000	489,000	25,828 / 32,483	315,000 / 255,000

Employment agreement

The Company has an employment agreement with Jay S. Hennick, the President and Chief Executive Officer of the Company, made as of April 1, 1998 having a term of five years, with one-year renewals at the option of Mr. Hennick. In the event of a change of control of the Company, or in the event the Company terminates Mr. Hennick's employment without cause after March 31, 2003, Mr. Hennick will be entitled to:

(a) Payment of 300% of the aggregate of: (i) Mr. Hennick's then current salary; (ii) the benefits and other payments paid pursuant to the agreement in the previous fiscal year; and (iii) an amount equal to the bonus paid to Mr. Hennick in the previous fiscal year;
(b) Certain job relocation expenses; and
(c) At Mr. Hennick's option, an amount equal to the difference between the exercise price of any rights or options to purchase shares of the Company that he owned, or was entitled to receive, and the market value of such shares.

Compensation Committee insider participation

The Directors who served on the Compensation Committee during Fiscal 2002 were Messrs. Appleton, Calder and Cohen. None of the persons who served as members of the Compensation Committee in Fiscal 2002 was an officer or employee of the Company or any of its subsidiaries during Fiscal 2002 and none of such persons was formerly an officer of the Company or any of its subsidiaries.

Compensation Committee report on executive compensation

Compensation policy

When determining the compensation of executive officers, the Committee considers the objectives of: (i) retaining executives critical to the success of the Company and the enhancement of shareholder value; (ii) providing fair and competitive compensation; (iii) balancing the interests of management and shareholders of the Company; (iv) rewarding performance, both on an individual basis and with respect to the business in general; and (v) ensuring the recognition of the fact that the Company carries on business with a small number of executives relative to other public companies of similar size. In order to achieve these objectives, the compensation paid to the executive officers consists of three components:

(a) Base salary;
(b) Annual bonus incentive; and
(c) Long-term incentive in the form of stock options granted in accordance with the Company's stock option plan.

Base salary

The base salary of each executive officer is determined by an assessment by the Committee of such executive's performance, a consideration of competitive compensation levels in corporations similar to the Company and a review of the performance of the Company as a whole and the role the executive officer played in such performance.

Annual bonus incentive

Annual cash bonus incentive awards are earned based entirely on a formula that relates to earnings per share growth of the Company over the previous year. No bonuses are paid to executives if earnings per share growth is less than 10%. This form of annual bonus incentive establishes a direct link between executive compensation and the Company's operating performance relative to the prior year.

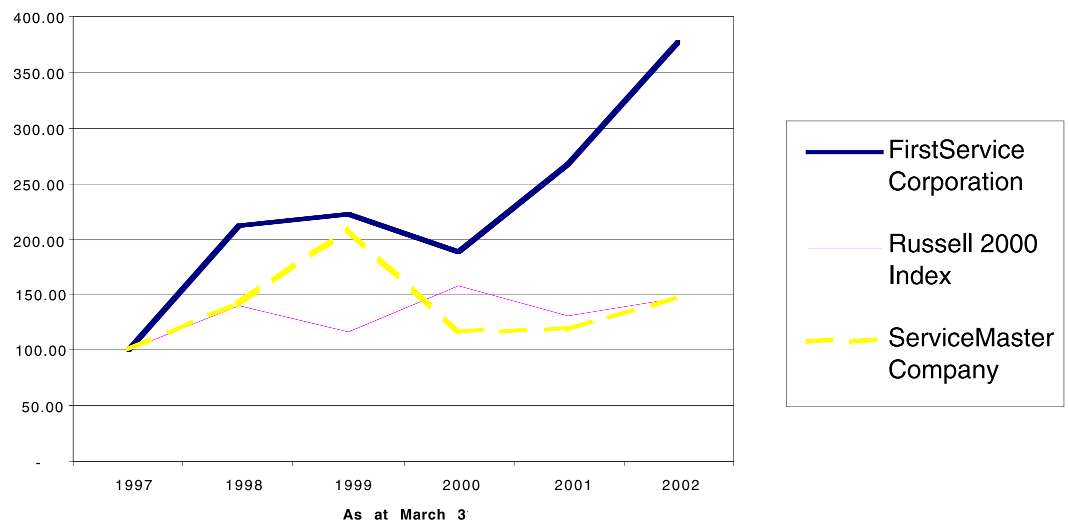
Long-term incentive

The Company provides a long-term incentive by granting stock options to the executive officers. The options permit each executive officer to acquire Subordinate Voting Shares of the Company at an exercise price equal to the market price of such shares under option at the date the option was granted. The objective of granting options is to encourage each executive officer to acquire an increased ownership interest in the Company over a period of time, which acts as a financial incentive for each executive officer to consider the long-term interests of the Company and its shareholders.

Performance graph

The following graph compares the five-year cumulative total return to shareholders of the Company with the five-year cumulative total return of the Russell 2000 Index and The ServiceMaster Company.

Comparison of five year cumulative total return on $100 invested among FirstService Corporation, the Russell 2000 Index and The ServiceMaster Company*



* $100.00 invested on March 31, 1997 in stock or index, assuming reinvestment of dividends.

As at March 31	1997	1998	1999	2000	2001	2002
FirstService Corporation	$ 100.00	$ 211.56	$ 222.11	$ 187.59	$ 267.86	$ 376.70
Russell 2000 Index	100.00	140.32	116.08	157.37	131.52	147.85
The ServiceMaster Company	100.00	142.56	209.90	117.21	118.59	146.89

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial shareholders of more than 5% of any class of shares known to the Registrant as of May 14, 2002.

Name of class	Name and address of beneficial owner	Number of shares beneficially owned	Percentage of class owned
Multiple Voting Shares	Jay S. Hennick 1140 Bay Street Suite 4000 Toronto, Ontario M5S 2B4	662,847	100.0%

The table below sets forth, as of May 14, 2002, the beneficial ownership of the Company's shares with respect to the Company's directors, executive officers and the Company's directors and officers as a group.

Name of class	Name of beneficial owner	Number of shares beneficially owned	Exercisable options	Percentage of class owned(1)
Multiple Voting Shares	Jay S. Hennick	662,847	-	100.0%
Subordinate Voting Shares	Michael H. Appleton	4,500	13,000	0.1%
	David R. Beatty	2,000	6,250	0.0%
	Brent S. Belzberg	-	2,500	0.0%
	Brendan Calder	-	6,250	0.0%
	Peter F. Cohen	30,000	10,000	0.3%
	Douglas G. Cooke	22,500	25,828	0.4%
	John B. Friedrichsen	30,000	62,193	0.7%
	Timothy J. Greener	141,643	60,115	1.6%
	Jay S. Hennick	575,887	305,525	6.7%
	Samuel Hennick	187,790	17,500	1.6%
	Richard Oller	10,000	21,500	0.3%
	D. Scott Patterson	48,800	160,288	1.6%
	Steven Rogers	91,485	28,750	0.9%
	All directors and officers as a group (13 persons)	1,144,605	719,699	14.2%

Note

(1) Percentage ownership is calculated using as a denominator the total number of shares of the class outstanding plus the number of shares of the class to which the beneficial owner indicated has a right to acquire pursuant to options currently exercisable or exercisable within 60 days.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The legal firm of Fogler, Rubinoff, of which Mr. Appleton is a partner, received fees from the Company during the year for legal services performed.

Indebtedness of management

Executive officers were indebted to the Company in connection with the purchase of the Company's Subordinate Voting Shares. This indebtedness is secured by the Subordinate Voting Shares acquired. The indebtedness has a five to ten year term from the grant date, is interest bearing and is open for repayment at any time. The following table lists the indebtedness of each executive officer:

Name	Largest amount outstanding during Fiscal 2002 ($ US)	Amount outstanding as at May 14, 2002 ($ US)	Financially assisted securities purchases during Fiscal 2002	Number of Subordinate Voting Shares held in trust by Company as security for indebtedness
Jay S. Hennick	$ 2,148,400	$ 2,148,400	-	365,000
D. Scott Patterson	549,800	-	-	-
Timothy J. Greener	127,500	127,500	-	10,000
John B. Friedrichsen	283,200	283,200	-	30,000
Douglas G. Cooke	93,500	70,800	-	7,500

No executive officer had any other indebtedness to the Company in excess of $60,000 at any time during the year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial statements, schedules and exhibits

1. Financial statements

The documents listed below are included herein under Part II and are also contained in the FirstService Annual Report to Shareholders for 2002:

- Report of Independent Accountants;
- Consolidated Statements of Earnings for the three years ended March 31, 2002, 2001 and 2000;
- Consolidated Balance Sheets as at March 31, 2002 and 2001;
- Consolidated Statements of Shareholders' Equity for the three years ended March 31, 2002, 2001 and 2000;
- Consolidated Statements of Cash Flows for the three years ended March 31, 2002, 2001 and 2000; and
- Notes to the Consolidated Financial Statements.

2. Financial statement schedules
   - Schedule – Amounts receivable from related parties and underwriters, promoters and employees other than related parties: Item 13
   - Included in Part IV of this report: Schedule II – Valuation and Qualifying Accounts

3. Exhibits

Included in Part IV of this report:
- List of Exhibits
- Exhibit 21 – Subsidiaries of the Registrant

(b) Reports on Form 8-K filed during the last quarter of Fiscal 2002

None.

FIRSTSERVICE CORPORATION

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(in thousands of U.S. Dollars)

Description	Balance at beginning of year	Additions charged to bad debt expense	Additions from acquisitions of businesses	Deductions due to write-offs of uncollectible accounts	Balance at end of year
Allowance for doubtful accounts receivable (current):					
Year ended March 31, 2002	$ 4,123	2,040	-	(2,079)	$ 4,084
Year ended March 31, 2001	$ 3,273	2,303	728	(2,181)	$ 4,123

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

FIRSTSERVICE CORPORATION
Registrant

/s/ D. Scott Patterson
D. Scott Patterson
Senior Vice President and
Chief Financial Officer

Date: May 14, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in their capacities and on the date indicated.

Name and signature	Title	Date
/s/ Jay S. Hennick Jay S. Hennick	President, Chief Executive Officer and Director *(Principal executive officer)*	May 14, 2002
/s/ D. Scott Patterson D. Scott Patterson	Senior Vice President and Chief Financial Officer *(Principal financial and accounting officer)*	May 14, 2002
/s/ Michael H. Appleton Michael H. Appleton	Director	May 14, 2002
/s/ David R. Beatty David R. Beatty	Director	May 14, 2002

/s/ Brent S. Belzberg Brent S. Belzberg	Director	May 14, 2002
/s/ Brendan Calder Brendan Calder	Director	May 14, 2002
/s/ Peter F. Cohen Peter F. Cohen	Director	May 14, 2002
/s/ Samuel Hennick Samuel Hennick	Director	May 14, 2002
/s/ Steven Rogers Steven Rogers	Director	May 14, 2002

LIST OF EXHIBITS

Exhibit #	*Description*
3.1	Articles of Incorporation and Amendment. Incorporated by reference to Form 10-Q for the period ended June 30, 1999, filed on August 12, 1999.
3.2	By-Laws and Amendments. Incorporated by reference to Form 10-Q for the period ended June 30, 1999, filed on August 12, 1999.
10.1	Credit Facility dated April 1, 1999 among the Company and a syndicate of bank lenders. Incorporated by reference to Form 10-Q for the period ended June 30, 1999, filed on August 12, 1999.
10.2	FirstService Corporation Amended Stock Option Plan #2. Incorporated by reference to Form 10-K for the year ended March 31, 2000, filed on June 29, 2000.
10.3	FirstService Corporation Amended Share Purchase Plan #2. Incorporated by reference to Form 10-K for the year ended March 31, 2000, filed on June 29, 2000.
10.4	Amended and Restated Credit Agreement dated June 21, 2001 among the Company and a syndicate of bank lenders. Incorporated by reference to Form 10-Q for the quarter ended June 30, 2001 filed on August 14, 2001.
10.5	Note and Guarantee Agreement - $100 million U.S. 8.06% Guaranteed Senior Secured Notes due 2011. Incorporated by reference to Form 10-Q for the quarter ended June 30, 2001 filed on August 14, 2001.
21	Subsidiaries of FirstService Corporation. Included herein.

EXHIBIT 21

SUBSIDIARIES OF FIRSTSERVICE CORPORATION

Name of subsidiary	Percentage owned by Registrant (1)	Jurisdiction of incorporation
American Pool Enterprises, Inc. (2)	80.00%	Delaware
BDP Business Data Services, Ltd.	86.00%	Ontario
BLW, Inc. (d/b/a Security Services and Technologies (“SST”)) (3)	80.00%	Pennsylvania
Cleanol Services Inc.	90.00%	Ontario
DDS Distribution Services, Ltd. (4)	87.50%	Ontario
Dickinson Management, Inc.	80.00%	Florida
FirstService (U.S.A.), Inc.	100.00%	Delaware
FirstService (U.S.A.) Security Holdings Inc.	100.00%	Delaware
FirstService Continental Inc.	100.00%	Florida
FirstService Delaware, LLC	87.10%	Delaware
FirstService Delaware, LP	87.10%	Delaware
FirstService Financial Inc.	100.00%	Pennsylvania
FirstService GP, Inc.	100.00%	Ontario
FirstService Nova Scotia Corp.	87.10%	Nova Scotia
FirstService Watts Ltd.	100.00%	Ontario
Greenspace Services Ltd. (5)	90.00%	Ontario
Herbert A. Watts Ltd. (6)	82.15%	Ontario
Intercon Security Ltd. (7)	100.00%	Ontario
Prime Management Group, Inc. (8)	100.00%	Florida
Rossmar & Graham Community Association Management, Inc.	100.00%	Arizona
Superior Pool, Spa and Leisure Ltd.	65.00%	Ontario
The Continental Group, Inc.	87.30%	Florida
The Continental Group, Ltd. (9)	87.30%	Florida
The Franchise Company, Inc. (10)	82.60%	Ontario
The Wentworth Group, Inc. (11)	80.00%	Pennsylvania

Notes

(1) The percentage of each subsidiary not owned by the Registrant is owned by operating management of each respective subsidiary.
(2) American Pool Enterprises, Inc. has 22 wholly owned subsidiaries.
(3) SST has 1 wholly owned and 1 non-wholly owned subsidiary.
(4) DDS Distribution Services, Ltd. has 14 wholly owned subsidiaries.
(5) Greenspace Services Ltd. has 2 wholly owned subsidiaries.
(6) Herbert A. Watts Ltd. has 8 wholly owned subsidiaries.
(7) Intercon Security Ltd. has 4 wholly owned subsidiaries.
(8) Prime Management Group, Inc. has 4 wholly owned subsidiaries.
(9) The Continental Group, Ltd. has 5 wholly owned subsidiaries.
(10) The Franchise Company, Inc. has 10 wholly owned subsidiaries and 3 non-wholly owned subsidiaries.
(11) The Wentworth Group, Inc. has 9 wholly owned subsidiaries and 2 non-wholly owned subsidiaries.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Michael H. Appleton, QC*
Toronto, Ontario
Managing Partner,
Fogler, Rubinoff
(Law firm)

David R. Beatty, OBE
Toronto, Ontario
Corporate Director;
Director of the Clarkson Centre
for Business Ethics

Brent S. Belzberg
Toronto, Ontario
Managing Partner
TorQuest Partners
(Merchant bank)

Brendan Calder*
Toronto, Ontario
Entrepreneur in Residence
Rotman School of Management
University of Toronto;
Corporate Director

Peter F. Cohen*
North York, Ontario
President
Dawsco Capital Corp.
(Holding company)

Jay S. Hennick
Toronto, Ontario
Chairman, President and
Chief Executive Officer
FirstService Corporation

Samuel Hennick
North York, Ontario
Chief Executive Officer
Stargems Inc.
(Jewellery manufacturing company)

Steven Rogers
Mississauga, Ontario
President and Chief Executive Officer
The Franchise Company
(Subsidiary of the Company)

**Audit and Compensation Committees*

SENIOR OFFICERS

Jay S. Hennick
Chairman, President and
Chief Executive Officer

D. Scott Patterson
Senior Vice-President and
Chief Financial Officer

Timothy J. Greener
Senior Vice-President, Integration

John B. Friedrichsen
Senior Vice-President, Acquisitions

Richard Oller
Senior Vice-President, Development

Douglas G. Cooke
Corporate Controller and Treasurer

Michael H. Appleton, QC
Corporate Secretary

Lynda A. Cralli
Assistant Corporate Secretary

Christian Mayer
Senior Financial Analyst

Kevin Roy
Senior Analyst, Acquisitions

RESIDENTIAL PROPERTY MANAGEMENT

The Continental Group, Ltd.
Gene Gomberg, Chief Executive Officer
Richard M. Strunin, President

Prime Management Group, Inc.
Charles D. Sollins, Chief Executive Officer

The Wentworth Group, Inc.
David Epstein, President

Rossmar & Graham
C. Robert Burgess, Chief Executive Officer

American Pool Enterprises, Inc.
Mitch Friedlander, President

INTEGRATED SECURITY

Security Services & Technologies
Frank Brewer, Chief Executive Officer

Intercon Security Ltd.
Rene Gulliver, President

CONSUMER SERVICES

The Franchise Company, Inc.
Steven Rogers, Chief Executive Officer

Greenspace Services Ltd.
Dr. William Black, President

Cleanol Services, Inc.
Rob Jenkins, President

BUSINESS SERVICES

DDS Distribution Services, Ltd.
Tom Aiton, Chief Executive Officer

Herbert A. Watts Ltd.
Rip Gauthier, Chief Executive Officer

BDP Business Data Services, Ltd.
Lawrence Zimmering, Chief Executive
Officer

CORPORATE INFORMATION

CORPORATE OFFICES

Head Office, Canada
1140 Bay Street, Suite 4000
Toronto, Ontario M5S 2B4
Phone: 416-960-9500

Head Office, United States
6300 Park of Commerce Blvd.
Boca Raton, Florida 33487
Phone: 561-989-5100

Website
www.firstservice.com

LEGAL COUNSEL

United States
Shearman & Sterling

Canada
Fogler, Rubinoff

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants

BANKERS

Bank One Canada
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Toronto Dominion Bank

REGISTRAR AND TRANSFER AGENT

Equity Transfer Services Inc.
Telephone: 416-361-0152
E-mail: info@equitytransfer.com

INVESTOR RELATIONS

Securities, portfolio managers and representatives of financial institutions seeking information about FirstService may contact:

Lynda Cralli
Assistant Corporate Secretary
Telephone: 416-960-9500

STOCK EXCHANGE LISTINGS

FirstService shares are listed and traded on:

NASDAQ National Market (Symbol-FSRV)
The Toronto Stock Exchange (Symbol-FSV)

FirstService shares are also included in the S&P/TSX Composite Index

EARNINGS AND CORPORATE NEWS

Corporate news releases, including earnings and other financial information, are available at:

Website: www.firstservice.com
Telephone: 416-960-9500

Copies of FirstService's Form 10-K, 10-Q and 8-K reports as filed with The Securities and Exchange Commission are available free of charge. These documents may be obtained on-line through the company's website.

RESEARCH COVERAGE

Investors may contact the following firms who have recently provided research coverage on FirstService:

CIBC World Markets
Credit Suisse First Boston
Dundee Securities Corporation
Jolson Merchant Partners
National Bank Financial
Ryan, Beck & Co.
Northern Securities Inc.
Pacific International Securities
TD Securities
William Blair & Co.

The reference to such firms does not imply any endorsement of information by FirstService.

Creative: Echo Advertising + Marketing, Toronto

NOTICE OF SHAREHOLDERS MEETING

The annual meeting of the shareholders
will be held on Tuesday June 25, 2002 at 10:00 am
at The Design Exchange, TD Centre
234 Bay Street, Toronto, Ontario.

www.firstservice.com