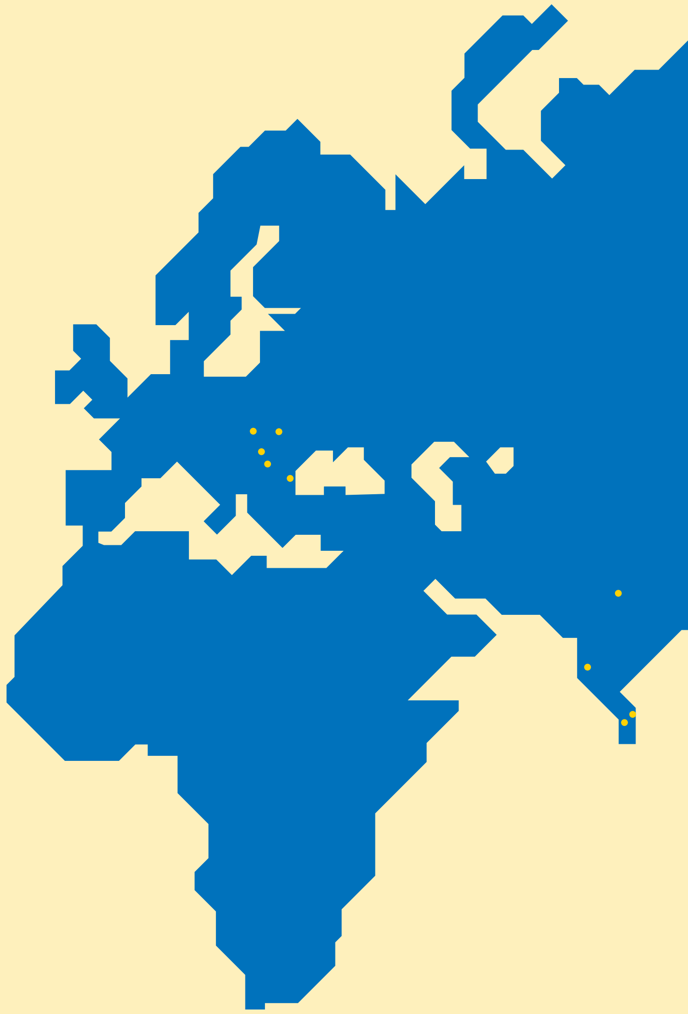
2005 Annual Report

Creating Value
One Step at a Time

FIRSTSERVICE®

Corporate Profile

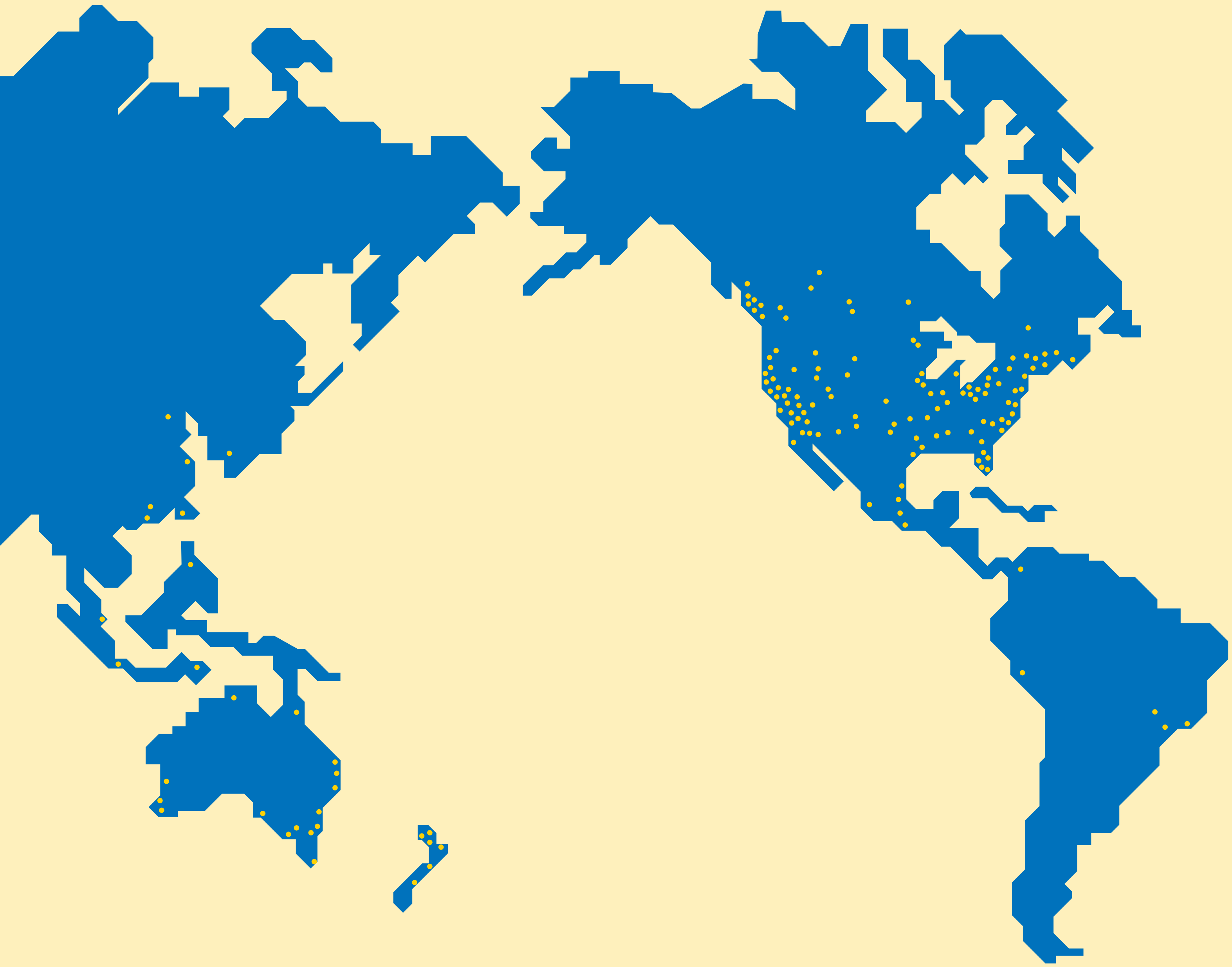


FirstService is a leader in the rapidly growing service sector, serving customers in the following areas: residential property management; commercial real estate; integrated security services; property improvement services; and business services. With an unrivalled business model based on decentralized operations and management ownership, FirstService drives growth through internal initiatives and selective acquisitions.

Market-leading brands include Continental, Wentworth and Prime Management in residential property management; Colliers International in commercial real estate; Intercon Security and SST in integrated security services; California Closets, Paul Davis Restoration, Pillar to Post Home Inspection, CertaPro and College Pro Painters in property improvement; and Resolve Corporation in business services. FirstService's annual revenues exceed US $1 billion.

Stock Listings

NASDAQ:	FSRV
TSX:	FSV.SV



FirstService World Office Locations

President's Message

FirstService achieved several significant corporate milestones in fiscal 2005 as we surpassed a revenue run rate of more than US $1 billion, added another important platform for growth, expanded into international markets and secured new financial resources. These achievements position us well to continue to deliver strong and consistent growth in the coming years.

Fiscal 2005 marks twelve consecutive years of growth in earnings and earnings per share with strong performances from each of our five business platforms: Residential Property Management; Commercial Real Estate; Integrated Security; Property Improvement; and Business Services. Our adjusted earnings per share were up 34% over the prior year and revenues increased 37%. Significantly, our performance gained momentum quarter over quarter throughout the year, setting the stage for another year of strong performance.

We are confident FirstService will continue to deliver another solid performance in fiscal 2006 as a result of the strong results achieved during the past year and the favorable operating environment in our various markets.

The highlight of the year was our acquisition of Colliers Macaulay Nicolls International ("Colliers"). Colliers establishes a new commercial real estate platform under the "Colliers International" brand and extends our reach throughout North America, Asia Pacific, Central Europe and Latin America, making FirstService a true global player. The Colliers acquisition also brings another exceptional leadership team into partnership with FirstService, creating opportunities to take advantage of synergies with other business platforms. Together, we are very excited about the potential of this promising new relationship.

$1+
Billion
Revenue Run Rate

$812
Million
Revenue

$79
Million
EBITDA

I am also very pleased with the outstanding results in our other divisions achieved through a combination of consistent organic growth, disciplined operational management, and selective investments. True to the FirstService way, we have earned our successes with a relentless focus on the fundamentals under the leadership of strong owner management teams. Among our noteworthy achievements:

+ Our Property Improvement division continued its excellent growth across all franchise systems and it continued to pursue selective acquisitions of California Closets franchises in markets with growth potential. Separately, California Closets signed an impressive new licensing agreement with Dorel Industries and secured retail distribution at Target Stores across the U.S.
+ Two new platforms were established in our Residential Property Management division with the acquisition of market leaders in Chicago and Las Vegas bringing the number of units under management to more than 550,000, served from 35 offices in 16 States.
+ Business Services celebrated its first year under the new Resolve brand by winning the largest ever outsourcing contract from Royal Bank of Canada, $100 million over 10 years, to assume management of its student loan program.
+ Integrated Security became more North American in scope through a realignment of its senior management team, added several high profile national accounts, and entered the year with a promising list of significant revenue generating opportunities.

Our goal is to be a well-managed service company that delivers consistent growth in earnings and shareholder value through internal growth and disciplined acquisitions.

We believe our partnership philosophy is a model for the industry — one that empowers great leaders to build the business they know and love with full access to the resources of the FirstService network. Our values and principles remain the foundation of our success: deliver what you promise; have pride in what you do; value integrity and commitment; and be open-minded to possibilities.

Our new debt financing completed in April 2005 is an understated yet significant show of confidence by our noteholders and banking group in our operating and growth strategy. FirstService has locked in US$100 million of long term capital at an attractive fixed rate without issuing equity. In total we have US$150 million of available capital to fund future growth.

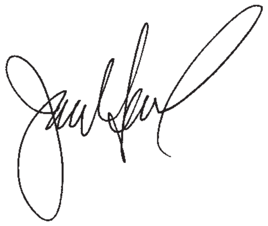
In the important area of corporate governance, we continued to achieve accolades for our high standards with the decision to separate the roles of Chairman and C.E.O. I was personally delighted with the appointment of Peter F. Cohen, a long term director of FirstService to the role of Chairman of the Board while I will remain as Chief Executive Officer. We also strengthened our board with the appointment of Bernard I. Ghert and have consistently raised the bar across our business platforms under the expert guidance of David R. Beatty, Chairman of our Nominating and Corporate Governance Committee.

Fiscal 2005 was a year of impressive achievements in financial performance, growth of our global footprint and industry leading corporate governance. We met our goals for the year and established several true milestones.

On behalf of our Board of Directors, I want to thank all of our business leaders and operating partners for their inspired work this year and our employees for their dedication and commitment to our values and principles.

Together we have taken FirstService to the next level and we are superbly positioned to achieve new milestones in the years ahead, while continuing to build value for our shareholders — one step at a time!

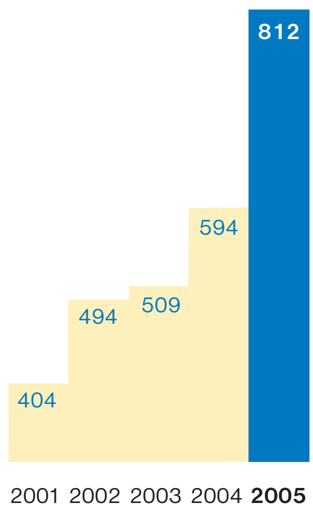
Jay S. Hennick
Founder, President and Chief Executive Officer



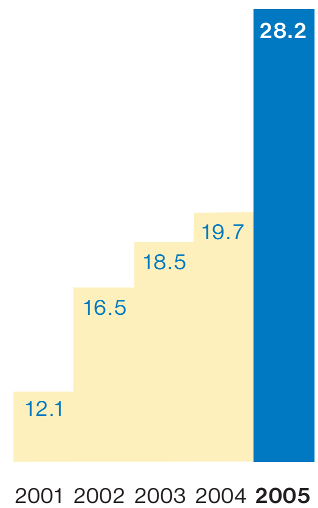
Fiscal 2005 was a year of corporate milestones & significant growth for FirstService.

Left to right: Roman Kocur, Doug Cooke, Michael Natale, John Friedrichsen and Scott Patterson

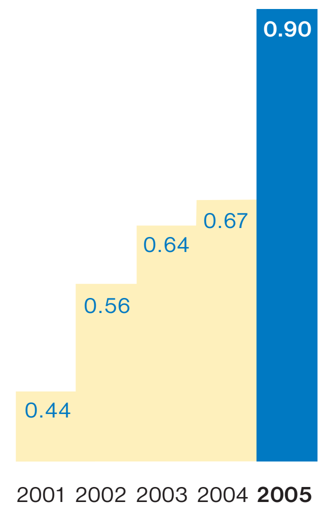
Five Year Growth Record



Revenues
US$ Millions
- 20% 5 year CAGR



Net Earnings*
US$ Millions
- 23% 5 year CAGR



Diluted EPS*
US$
- 20% 5 year CAGR

* From continuing operations, adjusted for amortization of short-lived intangible assets related to Colliers acquisition.

Year Ended March 31	**2005**	2004	2003	2002	2001
Operations					
Revenues	**$ 812,290**	$ 593,782	$ 508,675	$ 493,551	$ 404,233
EBITDA[1]	**78,763**	54,521	50,588	55,240	45,310
Operating earnings	**51,568**	39,485	37,432	43,287	34,033
Net earnings from continuing operations	**22,645**	19,662	18,453	16,482	12,056
Net earnings	**23,207**	19,024	18,440	17,029	12,631
Financial Position					
Total assets	**$ 626,728**	$ 437,553	$ 389,031	$ 365,929	$ 305,137
Long-term debt	**220,015**	163,888	164,919	165,611	152,424
Shareholders' equity	**185,871**	155,101	123,406	99,221	79,220
Book value per share	**6.15**	5.26	4.36	3.60	3.01
Share Data					
Net earnings per share from continuing operations					
Basic	**$ 0.76**	$ 0.69	$ 0.66	$ 0.61	$ 0.46
Diluted	**0.72**	0.67	0.64	0.56	0.44
Weighted average shares (thousands)					
Basic	**29,777**	28,570	27,842	27,130	26,148
Diluted	**30,467**	29,192	28,995	29,200	27,682

In thousands of US Dollars, except per share amounts.

[1]Net earnings before interest, taxes, depreciation and amortization.

Five Platforms for Growth

FirstService owns and operates market-leading positions in five service areas. All share the same characteristics and operate in a similar way.

Each service line generates a significant percentage of recurring revenues; has low capital intensity combined with a highly variable cost structure; and produces strong cash flows and high returns on invested capital. Furthermore, each service line can be leveraged through complementary acquisitions, cross-selling of services and innovative margin enhancement initiatives.

Our partnership philosophy includes equity ownership and performance-based compensation. Strong owner management teams provide leadership and front-line decision-making, supported by well-defined operating guidelines and the combined resources of FirstService.

Residential Property Management

Overview
+ Largest industry player
+ Full-service management
  • Condominiums
  • Co-ops
  • Gated communities
  • Rental units
+ 3000 properties, 16 States
+ 550,000 homes
+ $2 B fees administered

Revenue: $300M

Achievements
+ Revenue up 20%
+ Internal growth 11%
+ Margin up 0.2%
+ Property transfer system implemented
+ Added two platforms
+ Divested concrete restoration business

Looking Ahead
+ 8% internal growth
+ Increase EBITDA margin
+ Add another platform

Business Leaders
+ Gene Gomberg
+ Richard Strunin
+ Chip Sollins

Commercial Real Estate

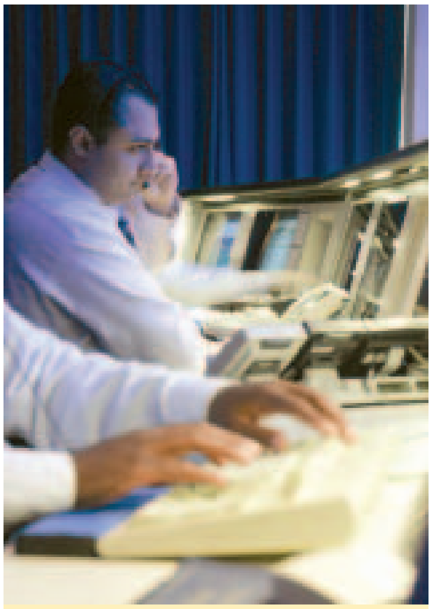
Overview
+ 3rd largest industry player
  • Brokerage
  • Property management
  • Advisory services
+ 80 offices in 20 countries
  • USA & Canada
  • Australia & New Zealand
  • China
  • Central Europe
  • Latin America

Revenue: $325M

Achievements
+ Completed integration with FirstService

Looking Ahead
+ 15% internal growth
+ Increase EBITDA margin
+ Add commercial mortgage brokerage operation
+ Complete several small acquisitions
+ Expand into asset management

Business Leader
+ Douglas Frye



Integrated Security Services

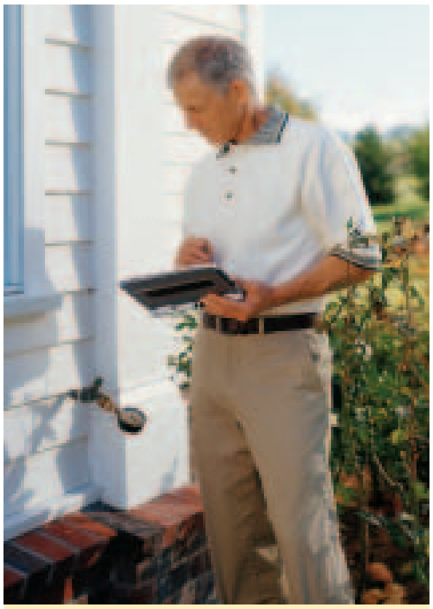
Overview
+ 5th largest industry player
+ Security systems
    • Integration
    • Service & maintenance
    • System monitoring
    • Security manpower
+ 13 US States, 3 Provinces

Revenue: $160M

Achievements
+ Revenue up 17%
+ 11% internal growth
+ EBITDA up 22%
+ EBITDA margin up 0.3%
+ 1st year as FirstService Security
+ Implemented enterprise software
+ Completed several major systems sales

Looking Ahead
+ 12% internal growth
+ Increase EBITDA margin
+ Capitalize on large account opportunities
+ Add another platform

Business Leader
+ Frank Brewer



Property Improvement

Overview
+ 2nd largest industry player
+ Well-known brands
    • California Closets
    • Paul Davis Restoration
    • Pillar to Post Home Inspection
    • CertaPro Painters
    • College Pro Painters
+ 1,900 franchisees
    • 9 company owned
+ 50 US States, 40 Countries
+ $800M system-wide sales

Revenue: $120M

Achievements
+ Revenue up 25%
+ 14% internal growth
+ EBITDA up 33%
+ Added 4 branchises
+ Completed licensing deal
+ Divested small franchise system

Looking Ahead
+ 9% internal growth
+ Increase EBITDA margin
+ Add 2 new branches
+ Add large franchise system

Business Leader
+ Steve Rogers

Business Services

Overview
+ Business outsourcing
    • Technical & product support
    • Marketing fulfillment
    • Transaction processing
    • Student loan servicing
+ 21 North American locations
+ 1,200 call center seats

Revenue: $170M

Achievements
+ Revenue up 6%
+ EBITDA up 22%
+ EBITDA margin up 1.9%
+ 1st year as Resolve Corporation
+ Added several long-term student loan contracts
+ Added large health claims contract

Looking Ahead
+ 6% internal growth
+ Maintain EBITDA margin
+ Implement new contracts
+ Complete acquisition

Business Leaders
+ Lawrence Zimmering
+ Tom Aiton

The Year in Review

Fiscal 2005 was a year of corporate milestones and significant growth for FirstService.

The strong performances from each of our business platforms can be directly attributed to our common sense approach to business strategy and the winning partnership philosophy that has been a key to our success. At FirstService, we focus on the fundamental drivers of each business and seek out opportunities within our other leading platforms to enhance our performance. Each of our services shares the same characteristics and operates in a similar way, resulting in a consistent and effective business model that has generated solid annual results and provided excellent returns for shareholders since we became a public company in 1993.

We're proud of our achievements and we look forward to building even more success in the years ahead by continuing to establish new partnerships through disciplined acquisitions, growing our existing businesses internally, and further sharpening our strategic focus, while leading in the important area of corporate governance.

Colliers International

The highlight of the year was our acquisition of Colliers Macaulay Nicolls International ("Colliers"), the largest single operation within the Colliers International affiliated network worldwide. Establishing a new platform for growth has been a priority for us, and this acquisition opens up exciting new opportunities for growth in the commercial real estate space.

The Colliers business platform includes more than 4,100 employees, spanning 80 offices in 20 countries throughout North America, Asia Pacific, Central Europe and Latin America. Colliers is one of the most recognized brand names in the global commercial real estate market, and one of the top three commercial real estate service organizations in the world. It provides a variety of commercial real estate services including leasing and sales brokerage, property and facility management, and valuation and advisory services.

Colliers is also a perfect fit with our proven business model and partnership philosophy. Senior managers and active brokers continue to hold a significant equity stake in the business. Partnering with an experienced and financially motivated management team is not only consistent with the FirstService philosophy, it will also translate into a real advantage in the marketplace. We expect to capitalize on this by using equity ownership as a means of recruiting and retaining the highest quality people available. The high achieving individuals who will make a difference to our future need to have a vested interest in the value they help create.

The Colliers business model of long-term and sophisticated customer relationships, low capital intensity, highly variable cost structure, and strong cash flows creates significant growth opportunities. Internal growth will be driven by increasing market share in existing operations; through the acquisition of other commercial real estate players; and through the addition of complementary services such as property management, asset management, and mortgage brokerage.

This acquisition has propelled FirstService beyond the billion-dollar annualized revenue mark — a real milestone. As well, current operations of Colliers have added significantly to our earnings, giving us strong momentum going into fiscal 2006. We look forward to leveraging our resources with this proven team of leaders to build a great business for the long term.

COLLIERS INTERNATIONAL

North America's Largest Property Manager

FirstService is the largest provider of residential property management services to communities in North America. We currently manage more than 3,000 properties, including over 550,000 homes, and administer a total client budget of more than $2 billion annually.

Overall profits and operating margins were up nicely over the prior year, with growth being generated both internally and through acquisition. During the year, we expanded our presence by acquiring two new platforms in Chicago and Las Vegas, both leading residential property management organizations.

In Chicago, we completed the acquisition of Wolin-Levin. Founded more than 50 years ago, Wolin-Levin manages over 300 properties, totaling more than 17,000 units, and administers more than $100 million in rents and other maintenance fees. Establishing a beachhead in Chicago had been a priority for us, and this acquisition represents a major step forward in the growth strategy for our Residential Property Management business.

While our Las Vegas acquisition only adds about $6 million in management fee revenue, it brings about 39,000 residential units and about $100 million in annual budget. More importantly, it puts us in an excellent position to capitalize on the development taking place in Las Vegas and surrounding markets. In fact, several of our existing clients in other markets are in the process of developing high-rise properties in Las Vegas and we have been assisting them in establishing budgets and operating plans for these new communities. Now that we have a significant presence in this market, we will be able to take on the full property management responsibilities once the communities are built, giving us a tremendous pipeline of property management revenue to generate in the coming years.

Our business remains very strong in our other regions as well – a testament to our strong operating systems and value added programs. By continuing to add units under management through internal growth and acquisitions, we can leverage our management relationship to do more for our clients.

We focus on the fundamental drivers of each business and seek opportunities to enhance our performance and profitability.

The Year in Review

Strong Internal Growth Drives Property Improvement

In addition to developing new partnerships, we continue to look for ways to leverage our customer base and add value to clients by taking advantage of complementary service offerings. In the area of Property Improvement, we had solid results from franchise systems California Closets, Paul Davis Restoration, Pillar to Post Home Inspection, CertaPro Painters and College Pro Painters, which all posted record results.

Since the October 2003 acquisition of Pillar to Post, North America's number one player in home inspections, sales and profits have tracked well in excess of our expectations and we expect these results to continue. Floor Coverings International, a growing player in the mobile carpet and flooring industry, delivered solid results and we continue to be very excited about their future prospects.

Our company-owned California Closets "branchise" operations are now approaching $40 million in annual revenues and continue to exceed expectations. As the outlook for the home storage industry continues to be very strong, we intend to maintain our strategy of selectively re-purchasing under-performing California Closets franchises in attractive markets and converting them into company-owned operations where we see upside potential.

California Closets "ready to assemble" storage systems and related products are also now on the shelves at Target Stores across the United States thanks to a new licensing initiative with Dorel Industries. This new offering does not conflict with our traditional product and was designed for customers who want a simple, less expensive alternative to the professionally designed and installed organizing system. Dorel is a highly regarded consumer products company that has built its reputation on manufacturing and distributing high quality products through major retailers. We look forward to this new relationship generating incremental royalty streams for FirstService beginning this year.

Overall, as the industry leader with the most recognized brand in the business, the FirstService Property Improvement platform is in an ideal position to capitalize on the continuing robust growth in this sector across North America.

We are well positioned for strong growth in the high-end integrated security business.

Integrated Security Services Continues to Grow

In both the U.S. and Canada, our Integrated Security Services platform is seeing tremendous growth. We have a very strong and experienced management team in place, and because of our partnership philosophy, we have a real competitive advantage over many of the larger players in the market. Larger clients want to deal with security providers that have the size and resources of a large organization that are also led by security professionals who combine expertise with a personal passion to satisfy their unique security requirements. Fortunately we are one of the very few players in North America that can offer both, and this is making a real difference on the front lines.

In Canada, Intercon Security had strong sales and achieved new levels of operating efficiency in both its electronic and security manpower operations. Our U.S. branches have been successful selling the proprietary access control product and central station monitoring services developed by Intercon, while our Canadian branches have capitalized on SST's strong national accounts program to sell third party products to larger institutional clients in Canada that want to purchase more mainstream security systems.

This momentum should lead to another record year in revenue and profits. FirstService is very well positioned for strong growth in the high-end electronic security business and to take advantage of increasing expenditures by clients in this important area.

The Year in Review

Business Services

Resolve Corporation is now established as a recognized brand in business services. The entire management team is to be congratulated for a first-rate debut performance under the new "Resolve" brand. Our efforts to increase cross-selling and provide wider solutions to our clients is clearly gaining momentum, while we continue to generate strong organic growth through increased sales with existing and new clients.

One of the year's major highlights was Resolve's win of the largest-ever outsourcing contract from Royal Bank of Canada: a $100 million contract over 10 years to take over the management of student loans. This new long-term contract, announced after our year end, demonstrates the excellence that Resolve represents in supporting the financial sector in student loan processing, and builds on our growing student loan portfolio business. The new contract with Royal Bank is the largest, single non-Government owned student loan portfolio in Canada, and with this contract, Resolve will be administering more than 800,000 student loan contracts for clients across North America.

Resolve's insurance industry services also expanded, with Manulife Financial selecting Resolve to provide services in support of group health claims processing for policy holders of Maritime Life, which had been acquired through Manulife's acquisition of John Hancock.

A final highlight of the year was our significant investment in the expansion of Resolve's Voice Over Internet Protocol (VOIP) communications capabilities. The conversion of our existing locations in Eastern Canada has doubled the size of Resolve's VOIP footprint and our commitment to this advanced technology enables Resolve to remain aligned with the on-going convergence of communications technology.

Overall, Resolve will continue to focus on bottom line performance and enhanced service delivery. To that end, FirstService has renewed its commitment to the ongoing continuous improvement of our US consumer and trade fulfillment operations. This will enable Resolve to continue to deliver enhanced customer service to its clients, while further streamlining our operations and improving our efficiencies.

Resolve

Strategic Focus

As we look ahead to Fiscal 2006 and beyond, FirstService is well positioned to continue its exceptional financial performance thanks to our solid business fundamentals and outstanding management team.

Our goal is to be a well-managed diversified service company that delivers consistent growth in earnings and in shareholder value. We are disciplined and careful in our approach and manage our business every day with a commitment to acting in the best long-term interests of our shareholders. Our partnership philosophy is one of the defining attributes of our company and is the principal reason our business platforms are managed by such talented, determined and passionate teams.

We operate in a dynamic marketplace and must constantly review all our business platforms to ensure they remain aligned with our strategic priorities. Last year, one of our goals was to sell our lawn care operations, and this was completed shortly after our year-end. The rationale for the sale was simple: our business was mature in our markets and we were not prepared to invest the capital necessary to expand it into new markets. At the same time, we also determined that certain of our smaller operations were not generating the kind of return on invested capital we required to continue to expand and grow as a company and deliver value to our shareholders.

With this in mind, our Property Improvement division sold its small subsidiary Stained Glass Overlay to allow management to focus on faster growing businesses within the platform. And our Residential Property Management division also disposed of its restoration services operation to focus on its core business of residential property management and related services that deliver more consistent operating results.

Our strict strategic focus combined with our new debt financing gives FirstService more power to grow, both internally and externally, in line with the best interests of our shareholders. With $150 million available to fund future growth and our common sense approach to business fundamentals, we will continue to deliver incremental growth and shareholder value.

Peter F. Cohen
Chairman

Our goal is to be a well-managed diversified service company that delivers consistent growth in earnings and in shareholder value.

Leading in Corporate Governance

As FirstService continues to evolve as a company we will continue to make adjustments at the most senior levels of accountability. We are determined to be leaders in the area of corporate governance and, in accordance with industry best practices we have separated the roles of Chairman and CEO. Peter F. Cohen, our lead director and long-term member of our board, has been appointed to the role of Chairman of the Board while Jay Hennick will remain as Chief Executive Officer. We also strengthened our board with the appointment of Bernard I. Ghert who brings substantial experience in financial services and real estate to FirstService as a new director and Chairman of our Audit Committee.

We continue to benefit from the guidance provided by David R. Beatty, Chairman of our Nominating and Corporate Governance Committee. Mr. Beatty is the Managing Director of the Canadian Coalition for Good Governance, a professor at the Rotman School of Business at the University of Toronto and a respected leader in the area of good governance in North American academic and business circles.

The Year Ahead

Overall, we are fortunate to own and operate market-leading positions in each of our five platforms. These achievements could not have come to fruition without the inspired work of all of our business leaders, operating partners and employees who have helped to assemble all of our achievements into shared success. As the *Wall Street Journal* said in a feature article on FirstService on December 22, 2004 — our "mix works" — and we look forward to our businesses generating even greater returns in the year to come.

One Step
at a Time

Management's Discussion & Analysis of Results of Operations & Financial Condition in US Dollars

May 20, 2005

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2005.

Consolidated review

FirstService Corporation (the "Company" or "FirstService") generated strong operating results in fiscal 2005, with revenue and adjusted diluted earnings per share[1] growth in excess of 34%.

We completed the acquisition of a 71.8% interest in CMN International Inc. ("CMN") on November 30, 2004. CMN is the largest member of the Colliers International commercial real estate services network, with operations in the United States, Canada, Australia and 20 other countries. CMN generated revenues of approximately $285 million during the year prior to acquisition. The net purchase price of $40 million was financed through our revolving credit facility.

We completed several acquisitions in the Residential Property Management area, most notably establishing new platforms in Chicago and Las Vegas. In Property Improvement Services, we also acquired the Dallas franchise of our California Closets franchise system.

On December 15, 2004 we completed a 2 for 1 stock split effected in the form of a dividend. Share information for all periods has been updated to reflect the split.

During the year, we sold three small operations that displayed limited growth prospects and weak returns on investment. The businesses have been reclassified to discontinued operations for all periods presented. They contributed aggregate revenues of $39 million in fiscal 2004, the last full year of ownership, to the Property Improvement Services and Residential Property Management segments and collectively generated net operating losses in each of the past three years. In aggregate, a net gain of $1.2 million was realized upon the disposals.

On May 18, 2005, the Company updated its outlook for fiscal 2006. Internal revenue growth, margin improvements, and the impact of previously completed acquisitions during the last twelve months will contribute positively to results in fiscal 2006. The updated outlook is for revenues of $1.05 to $1.10 billion, EBITDA[2] of $92.0 to $99.0 million, and adjusted diluted earnings per share of $0.97 to $1.07. The updated outlook retained the same revenue range as outlined in the Company's preliminary outlook for Fiscal 2006 issued on January 26, 2005, while the range for EBITDA was increased from a range of $90.0 to $95.0 million and the upper end of the range for adjusted earnings per share was increased from $1.05.

[1]Adjusted diluted net earnings per share from continuing operations is defined as diluted net earnings per share from continuing operations plus the effect, after income taxes, of the amortization of the short-lived brokerage backlog intangible asset acquired in connection with the CMN acquisition. The Company believes this measure is useful because it isolates the impact of material non-recurring aquisition-related amortization expense. This is not a recognized measure of financial performance under generally accepted accounting principals ("GAAP") in the United States and Canada, and should not be considered as a substitute for diluted net earnings per share from continuing operations, as determined in accordance with GAAP. The Company's method of calculating this measure may differ from other issuers and accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation appears below.

(in US$)

Year ended March 31	**2005**	2004	2003
Adjusted diluted net earnings per share from continuing operations	**$ 0.90**	$ 0.67	$ 0.64
Amortization of brokerage backlog, net of deferred income taxes	**(0.18)**	-	-
Diluted net earnings per share from continuing operations	**$ 0.72**	$ 0.67	$ 0.64

[2]EBITDA is defined as net earnings before extraordinary items, discontinued operations, minority interest share of earnings, income taxes, interest, other income, depreciation and amortization. The Company uses EBITDA to evaluate operating performance and as a measure for debt covenants with its lenders. EBITDA is an integral part of the Company's planning and reporting systems. Additionally, the Company uses multiples of current and projected EBITDA in conjunction with discounted cash flow models to determine its overall enterprise valuation and to evaluate acquisition targets. The Company believes EBITDA is a reasonable measure of operating performance because of the low capital intensity of its service operations. The Company believes EBITDA is a financial metric used by many investors to compare companies, especially in the services industry, on the basis of operating results and the ability to incur and service debt. EBITDA is not a recognized measure of financial performance under GAAP in the United States and Canada, and should not be considered as a substitute for operating earnings, net earnings or cash flows from operating activities, as determined in accordance with GAAP. The Company's method of calculating EBITDA may differ from other issuers and accordingly, EBITDA may not be comparable to measures used by other issuers. A reconciliation appears below.

(in thousands of US$)

Year ended March 31	**2005**	2004	2003
EBITDA	**$ 78,763**	$ 54,521	$ 50,588
Depreciation and amortization	**(27,195)**	(15,036)	(13,156)
Operating earnings	**$ 51,568**	$ 39,485	$ 37,432

Results of operations – year ended March 31, 2005

FirstService reported revenues of $812.3 million for the year, an increase of 37% relative to the prior year. The increase was comprised of internal growth of 10%, acquisitions of 25% and the impact of foreign exchange of 2%.

Operating earnings increased 31% relative to the prior year, to $51.6 million. EBITDA increased 44% to $78.8 million. The gap between operating earnings growth relative to revenue and EBITDA growth is primarily the result of rapid amortization of brokerage backlog intangibles related to the CMN acquisition, which has a significant impact on the first year after acquisition.

Depreciation and amortization expense was $27.2 million relative to $15.0 million in the prior year. With regard to the CMN acquisition, we recorded a short-lived intangible asset relating to the backlog of pending brokerage transactions that existed at the acquisition date. The intangible is being amortized to coincide with the expected completion dates of the underlying brokerage transactions. Brokerage backlog amortization expense recorded during the four month period from the acquisition date to March 31, 2005 was $8.7 million. An additional $1.9 million of brokerage backlog amortization expense is expected to be recorded during the first two quarters of fiscal 2006, upon which the intangible asset will be substantially amortized. The balance of the increase in depreciation and amortization is the result of amortization of other intangible assets recognized upon acquisitions during the past two years, as well as increases in fixed assets resulting from capital expenditures and acquisitions.

Interest expense increased to $11.0 million from $7.9 million in the prior year. Our weighted average interest rate increased to approximately 6.2% versus 5.2% in the prior year as our predominately floating rate structure was impacted by an increase in market-based interest rates during the year. Our indebtedness also increased substantially during the year due to the financing of the CMN acquisition. In December 2004, we cancelled an interest rate swap on a notional principal of $30 million of our 6.40% Notes at a cost of nil. The balance of our debt was at floating rates as of March 31, 2005.

Our consolidated income tax rate for fiscal 2005 was 27.8%, reflecting the benefit of a $1.1 million reduction in tax liability related to resolution of tax matters from other years. The prior year's tax rate was 30%. We continue to benefit from the cross-border tax structures first implemented in fiscal 2000. We expect our fiscal 2006 tax rate to be approximately 31% due to the impact of the acquisition of CMN.

Net earnings from continuing operations was $22.6 million, an increase of 15% relative to fiscal 2004. Adjusting for the after-tax impact of the short-term brokerage backlog amortization related to the CMN acquisition, net earnings from continuing operations would have been $5.6 million higher, or $28.2 million, for an increase of 44%. All of the Company's continuing operations contributed strongly to the increase in net earnings.

Discontinued operations reported an operating loss of $0.6 million attributable to costs to transition operations to the new owner and collect outstanding receivables at the South Florida restoration business. The net operating loss of $0.6 million in the prior year was also primarily attributable to the same business.

We reported a $1.2 million net gain on the sale of the three discontinued operations. A net gain on sale of $3.5 million after income taxes of $0.9 million was recorded on the lawn care operation (Property Improvement Services). The disposal of the South Florida restoration business (Residential Property Management) resulted in a net loss of $1.1 million, after deferred income taxes of $0.6 million. The proceeds receivable on the sale resulted in deferred income taxes because the tax basis of the assets sold was nominal. The sale of the decorative glass treatment operation (Property Improvement Services) resulted in a net loss of $1.2 million, with no tax impact.

The Property Improvement Services operations reported revenues of $111.8 million, an increase of 25% versus the prior year, excluding discontinued operations. Of the increase, 14% was attributable to internal growth and 11% to acquisitions. EBITDA for the year was $19.9 million, 33% higher than the prior year, and the EBITDA margin increased 110 basis points to 17.8%. Solid results were generated at all of our major franchise systems, including California Closets, Paul David Restoration, Pillar to Post Home Inspection, CertaPro Painters, and College Pro Painters.

The Commercial Real Estate Services segment, comprised of CMN, reported revenues of $120.5 million during the four months it was owned by us in fiscal 2005. CMN has benefited from strong market conditions in the regions in which it operates and has performed beyond our expectations to date. However, due to the nature of economic cycles and the relatively lower proportion of recurring revenues in this segment relative to our other segments, we believe this operation will experience greater volatility in earnings than our four other service lines. EBITDA was $11.1 million for the four month period, at a margin of 9.2%, which reflected the positive impact of December peak period brokerage volumes. The fourth quarter was impacted by the January to March seasonal low for brokerage activity, resulting in a margin for the quarter of 0.6%. We expect annualized margins of approximately 6.0% for 2006. Stock option expense of $0.2 million was recorded to account for stock options granted to key senior management and brokers.

In Residential Property Management, excluding discontinued operations, revenues increased 20% to $275.2 million. After considering the 10% impact of acquisitions, internal growth was 10% and was attributable to core management contract wins and an increase in ancillary service revenues.

Residential Property Management reported EBITDA of $24.1 million or 8.8% of revenues, up from $19.7 million or 8.6% of revenues in the prior year. The increase in margin was attributed primarily to higher productivity, in part due to increased service requirements arising from the severe weather conditions in South Florida experienced in August and September 2004, an increase in higher margin ancillary services, and the favorable impact of acquisitions.

Integrated Security Services revenues were $143.2 million, an increase of 17% relative to the prior year. Seven percent of the increase was attributable to internal growth while 6% was from an acquisition completed in February 2004 and 4% was attributable to foreign exchange on Canadian operations. Segment EBITDA was $10.3 million, or 7.2% of revenues, a 30 basis point improvement relative to the prior year and due primarily to a greater mix of higher margin systems integration services revenues.

Business Services generated annual revenues of $160.9 million, an increase of 6% relative to the prior year. Four percent of the growth was attributable to changes in foreign exchange rates and the balance was internal growth. In the fourth quarter of the current year, the Company reached a settlement upon the completion of a long-term contract. The prior year's fourth quarter benefited from a significant short-term contract to provide services for the "GM Hot Button" promotion. Other revenue sources were flat for the year. Based on the pipeline as of May 2005, we expect increased volumes from existing clients and prospects for fiscal 2006. Approximately $0.9 million annualized fixed costs will end in June 2005 when a facilities lease expires, and this will reduce excess capacity in our marketing support services operations. There is customer concentration in this segment, as the largest customer represents approximately 10% of segment revenues.

Business Services EBITDA was $22.4 million or 13.9% of revenues, versus $18.3 million or 12.0% in the prior year. The increase in margin was attributable primarily to the settlement of the long-term contract during the fourth quarter. The net impact of foreign exchange on the year's EBITDA was insignificant.

Corporate costs rose to $9.0 million from $6.9 million in fiscal 2004. Performance based executive compensation expense increased $1.3 million relative to the prior year. Professional fees (legal, audit and Sarbanes-Oxley consulting) were higher than the previous year. In addition, the Company recorded $0.6 million of stock option expense during the year, an increase of $0.3 million relative to the prior year.

Results of operations – year ended March 31, 2004

FirstService reported revenues of $593.8 million for the year, an increase of 17% relative to the prior year. The increase was comprised of internal growth of 8%, acquisitions of 5% and the impact of foreign exchange of 4%.

Changes in foreign exchange rates were dramatic during the year, with the average value of the Canadian dollar rising 14.5% relative to the value of the US dollar. The Company's Canadian dollar denominated revenues and earnings benefit from a stronger Canadian dollar upon conversion to US dollars. This is offset by exchange losses incurred by certain Business Services operations based in Canada that sell services to US clients in US dollars. If exchange rates had remained constant year-over-year, the current year's revenues would have been $22.1 million lower and EBITDA would have been $0.9 million higher.

Operating earnings increased 5% relative to the prior year, to $39.5 million. EBITDA increased 8% to $54.5 million. In fiscal 2003, operating earnings and EBITDA included $4.2 million of executive life insurance proceeds, partially offset by $1.9 million in severance and transition costs in the Business Services segment. In fiscal 2004, no such amounts were included in earnings.

Depreciation and amortization expense was $15.0 million relative to $13.2 million in the prior year. Depreciation expense increased by $1.5 million, approximately half attributable to acquisitions and half attributable to investments in fixed assets to support the growth of our operations. Amortization of intangibles accounted for $0.4 million of the increase and was driven by intangibles acquired during the last two years, especially franchise rights related to Consumer Services acquisitions completed during fiscal 2004.

Interest expense decreased to $7.9 million from $8.9 million in the prior year. Our weighted average interest rate decreased to approximately 5.2%, down from 5.5% in the prior year, and average indebtedness also decreased as cash flow was utilized to repay borrowings. Substantially all of our debt was at floating interest rates as at March 31, 2004. Our 6.40% Notes and 8.06% Notes have been swapped to variable rates. The 6.40% Notes, which were issued on October 1, 2003, were swapped to a variable rate of LIBOR + 170 basis points.

Our consolidated income tax rate for fiscal 2004 was 30%. The prior year's rate of 27% was impacted by the $4.2 million of tax-free executive life insurance proceeds received during that year. We continue to benefit from the cross-border tax structures first implemented in fiscal 2000.

Net earnings from continuing operations was $19.7 million, an increase of 7% relative to fiscal 2003. The net loss from discontinued operations was $0.6 million. The discontinued South Florida concrete restoration operations suffered from intense price competition and cost overruns on certain projects. The discontinued lawn care operations faced a difficult operating environment during the year in terms of adverse weather conditions, negative consumer sentiment towards pesticides and increasing insurance costs. In addition, a fleet renewal program to replace aging lawn care production vehicles resulted in an increase to depreciation expense of $0.2 million.

The Consumer Services operations, excluding the discontinued lawn care and decorative glass treatment operations, reported revenues of $89.4 million, an increase of 26% versus the prior year. Of the increase, 14% was attributable to internal growth, 10% to the four tuck-under acquisitions completed in October 2003, and 2% to changes in foreign exchange rates. Internal growth was strong at our California Closets and Paul Davis Restoration franchise systems. EBITDA for the year was $14.9 million, $1.8 million higher than the prior year, while the EBITDA margin declined 180 basis points to 16.7%. The decline in margin is attributable to several factors including service mix change with the addition of the fifth and sixth Company-owned California Closets "branchise" stores during the year and costs to relocate and reorganize the Toronto-based Cleanol operations.

In Residential Property Management, excluding the discontinued South Florida concrete restoration operations, revenues increased 12% to $228.8 million. Excluding the 5% impact of acquisitions, internal growth was 7% and was primarily attributable to core management contract wins.

Residential Property Management reported EBITDA of $19.7 million or 8.6% of revenues, up from $15.2 million or 7.5% of revenues in the prior year. The prior year's results were negatively impacted by increases to insurance costs that could not be passed on to clients, but were positively impacted by $1.0 million of executive life insurance proceeds. The core management business generated improved margins year over year and was responsible in large part for the margin improvement.

Integrated Security Services revenues were $122.7 million, an increase of 14% relative to the prior year. Eight percent of the increase was attributable to foreign exchange on Canadian operations, while 5% was attributable to internal growth and 1% was from an acquisition completed in February 2004. The January 2004 disposal of the Chicago security officer assets had a nominal impact on fiscal 2004 revenues. On an annual basis, the security officer assets generated approximately $3 million of revenues. A loss on disposal of $0.2 million was recorded as other income in the fourth quarter.

Segment EBITDA was $8.4 million, or 6.9% of revenues, a margin equivalent to the fiscal 2003 results. The EBITDA margin is expected to improve in fiscal 2005 because of strong backlogs of systems installation work. The segment suffered from weak systems installation revenues in the fourth quarter, causing the quarter's margin to be 4.4%.

Business Services generated annual revenues of $152.4 million, an increase of 21% relative to the prior year. Growth was comprised of 9% foreign exchange on Canadian operations, internal growth of 8% and acquisitions of 4%. A significant portion of the internal growth was due to a contract to provide services for the "GM Hot Button" OnStar promotion during the fourth quarter; the quarter's internal growth was 41%. Work on the promotion ended in April 2004.

Business Services EBITDA was $18.3 million or 12.0% of revenues, down from $19.8 million or 15.6% of revenues in fiscal 2003. In fiscal 2003, $3.2 million of executive life insurance proceeds were received, and $1.9 million of severance and related costs were recorded. After adjusting for these costs, fiscal 2003's margin would have been 14.6%. The current year's decline in margin is attributable to excess fulfillment storage capacity and foreign exchange on Canadian operations that sell services in US dollars. The net impact of foreign exchange on the segment's results is a reduction in EBITDA of $0.7 million relative to exchange rates in effect during the prior year.

Corporate costs rose to $6.9 million from $4.8 million in fiscal 2003. Fiscal 2004's costs include a performance-based executive bonus accrual of $1.7 million versus an accrual of nil in the prior year. The Company began expensing stock options on a prospective basis effective April 1, 2003 and as a result, the Company recorded $0.3 million of stock option expense during the year. In addition, professional fees (legal, audit and Sarbanes-Oxley consulting) were higher than the previous year. Expenses totaling $0.5 million relating to acquisitions that were ultimately not completed were included in the prior year's figures.

Seasonality and quarterly fluctuations

Certain segments of the Company's operations are subject to seasonal variations. The demand for exterior painting (Property Improvement Services segment) and swimming pool management in the northern United States and Canada (Residential Property Management segment) is highest during late spring, summer and early fall and very low during winter. In addition, the majority of textbook fulfillment activity (Business Services segment) occurs in the months of June to August. These operations generate most of their annual revenues and earnings between April and September and comprise approximately 7% of consolidated revenues.

The newly acquired Commercial Real Estate Services operation generates peak revenues and earnings in the month of December followed by a low in January and February as a result of the timing of closings on commercial real estate brokerage transactions. Revenues and earnings during the balance of the year are relatively even. These operations comprise approximately 20% of consolidated revenues.

The seasonality of these service lines results in variations in quarterly revenues and operating margins. Variations can also be caused by acquisitions, which alter the consolidated service mix.

Selected annual information — last five fiscal years (in thousands of US$, except per share amounts)

Year Ended March 31	**2005**	2004	2003	2002	2001
Operations					
Revenues	**$ 812,290**	$ 593,782	$ 508,657	$ 493,551	$ 404,233
Operating earnings	**51,568**	39,485	37,432	43,287	34,033
Net earnings from continuing operations	**22,645**	19,662	18,453	16,482	12,056
Net earnings from discontinued operations, net of income taxes	**562**	(638)	(13)	547	575
Net earnings	**23,207**	19,024	18,440	17,029	12,631
Financial Position					
Total assets	**$ 626,728**	$ 437,553	$ 389,031	$ 365,929	$ 305,137
Long-term debt	**220,015**	163,888	164,919	165,611	152,424
Shareholders' equity	**185,871**	155,101	123,406	99,221	79,220
Book value per share	**6.15**	5.26	4.36	3.60	3.01
Other Data					
EBITDA	**$ 78,763**	$ 54,521	$ 50,588	$ 55,240	$ 45,310
Diluted earnings per share from continuing operations adjusted for brokerage backlog amortization	**0.90**	0.67	0.64	0.56	0.44
Share Data					
Net earnings per share					
Basic					
Continuing operations	**$ 0.76**	$ 0.69	$ 0.66	$ 0.61	$ 0.46
Discontinued operations	**0.02**	(0.02)	-	0.02	0.02
	$ 0.78	$ 0.67	$ 0.66	$ 0.63	$ 0.48
Diluted					
Continuing operations	**$ 0.72**	$ 0.67	$ 0.64	$ 0.56	$ 0.44
Discontinued operations	**0.02**	(0.02)	-	0.02	0.02
	$ 0.74	$ 0.65	$ 0.64	$ 0.58	$ 0.46
Weighted average shares (thousands)					
Basic	**29,777**	28,570	27,842	27,130	26,148
Diluted	**30,467**	29,192	28,995	29,200	27,682
Cash dividends per share	**-**	-	-	-	-

Quarterly results — years ended March 31, 2005 & 2004 (in thousands of US$, except per share amounts)

	Q1	Q2	Q3	Q4	Year
Fiscal 2005					
Revenues	**$ 167,044**	**$ 180,700**	**$ 218,184**	**$ 246,362**	**$ 812,290**
Operating earnings	**14,403**	**18,707**	**15,069**	**3,389**	**51,568**
Net earnings from continuing operations	**7,249**	**9,681**	**5,305**	**410**	**22,645**
Net earnings from discontinued operations	**2,143**	**(153)**	**(363)**	**(1,065)**	**562**
Net earnings	**9,392**	**9,528**	**4,942**	**(655)**	**23,207**
Net earnings per share:					
Basic	**0.32**	**0.32**	**0.17**	**(0.02)**	**0.78**
Diluted	**0.31**	**0.31**	**0.16**	**(0.04)**	**0.74**
Fiscal 2004					
Revenues	$ 144,337	$ 152,974	$ 144,661	$ 151,810	$ 593,782
Operating earnings	11,662	15,530	6,758	5,535	39,485
Net earnings from continuing operations	5,274	7,364	3,043	3,981	19,662
Net earnings from discontinued operations	1,137	1,605	(1,033)	(2,347)	(638)
Net earnings	6,411	8,969	2,010	1,634	19,024
Net earnings per share:					
Basic	0.23	0.32	0.07	0.06	0.67
Diluted	0.23	0.31	0.07	0.05	0.65
Other Data					
Diluted earnings per share from continuing operations adjusted for brokerage backlog amortization—Fiscal 2005	**$ 0.24**	**$ 0.32**	**$ 0.27**	**$ 0.07**	**$ 0.90**
Diluted earnings per share from continuing operations—Fiscal 2004	0.19	0.25	0.10	0.13	0.67
EBITDA—Fiscal 2005	**18,273**	**22,797**	**24,646**	**13,047**	**78,763**
EBITDA—Fiscal 2004	15,322	19,114	10,573	9,512	54,521

Liquidity and capital resources

The Company generated cash flow from operating activities totaling $37.0 million for fiscal 2005, an increase of 3% relative to the prior year. Working capital deployment increased at a faster pace than net earnings. Two significant accounts receivable totaling $9.0 million were received shortly after year end. Had these funds been received prior to year end, the year's cash flow would have been correspondingly higher. We believe that cash from operations and other existing resources will continue to be adequate to satisfy the ongoing working capital needs of the Company.

Net indebtedness as at March 31, 2005 was $182.3 million, up from $141.4 million at March 31, 2004. Net indebtedness is calculated as the current and non-current portion of long-term debt adjusted for interest rate swaps less cash and cash equivalents. The acquisition of CMN and capital expenditures drove the increase in debt.

We are in compliance with the covenants required of our financing agreements as at March 31, 2005 and, based on our outlook for fiscal 2006, we expect to remain in compliance with such covenants. We had $20.0 million of available credit as of March 31, 2005.

On April 1, 2005, we entered into an amended and restated credit agreement with a syndicate of banks to provide a $110 million committed senior revolving credit facility with a three year term to replace the existing $90 million facility. The amended revolving credit facility bears interest at 1.00% to 2.25% over floating reference rates, depending on the ratio of our net debt to adjusted EBITDA. The covenants remained substantially unchanged relative to the prior credit agreement.

Also on April 1, 2005, we completed a private placement of $100 million of 5.44% Senior Secured Notes with a group of US institutional investors. The 5.44% Notes have a final maturity of April 1, 2015 with five equal annual principal repayments beginning on April 1, 2011. The proceeds of the private placement were used to fully repay outstanding balances on the revolving credit facility.

In May 2005, we cancelled an interest rate swap on a notional principal of $20 million of our 6.40% Notes at a cost of $0.05 million. As of May 2005, approximately 60% of our debt is at a weighted average fixed interest rate of 5.7%.

During fiscal 2005, we had several foreign exchange contracts to fix the conversion of a portion of the US dollar revenues into Canadian dollars to match our Canadian dollar costs in our Business Services segment. At March 31, 2005, we had eight such contracts outstanding. In aggregate, the contracts require us to sell $8.0 million in exchange for Canadian dollars at a weighted average exchange rate of 1.2356 during the period extending to March 30, 2006. A gain of $0.2 million relating to these contracts was included in fiscal 2005 earnings.

Capital expenditures for the year were $17.0 million. Significant purchases included production equipment at several California Closets branchises, leasehold improvements at several locations in our Residential Property Management and Commercial Real Estate segments, and voice communications technology upgrades in Business Services.

When making acquisitions, we generally purchase executive life insurance policies on the principal managers of the acquired businesses. We believe this practice mitigates risk on acquisitions. At March 31, 2005, the Company had twenty such life insurance policies in force.

In relation to acquisitions completed during the past three years, we have outstanding contingent consideration totaling $14.2 million as at March 31, 2005 ($16.2 million as at March 31, 2004). The amount of the contingent consideration is not recorded as a liability unless the outcome of the contingency is determined to be beyond a reasonable doubt. The contingent consideration is based on achieving specified earnings levels, and is issued or issuable at the end of the contingency period. When the contingencies are resolved and additional consideration is distributable, we will record the fair value of the additional consideration as additional costs of the acquired businesses.

In certain cases, our subsidiaries have issued options to purchase shares of subsidiaries to operating managers. The subsidiary stock options are accounted for in the same manner as stock options of the Company. In addition, the numerators for our diluted earnings per share calculations are adjusted to account for potential dilution from stock options in subsidiaries. When stock options are exercised, the minority shareholders become party to shareholders' agreements as described below.

All minority shareholders of our subsidiaries are party to shareholders' agreements. These agreements allow us to "call" the minority position for a formula price, which is usually equal to a multiple of trailing two-year average earnings. 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, as calculated in accordance with the shareholders' agreements, was approximately $70.0 million at March 31, 2005 (March 31, 2004 - $30.0 million). Approximately $25.0 million of the increase was attributable to fiscal 2005 aquisitions. The purchase price of minority interests may, at our option, be paid primarily in Subordinate Voting Shares of FirstService. While it is not our intention to acquire outstanding minority interests, this step may materially increase net earnings. On an annual basis, we estimate the impact of the acquisition of all minority interests with cash would increase interest expense by $3.5 million, increase amortization expense by $2.5 million, reduce income taxes by $1.8 million and reduce minority interest share of earnings by $9.0 million, resulting in an approximate increase to net earnings of $4.8 million or $0.15 per diluted share, all relative to the amounts reported for the year ended March 31, 2005.

The following table summarizes our contractual obligations as at March 31, 2005:

Contractual obligations (in thousands of US$)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	$ 215,784	$ 16,782	$ 30,717	$ 30,196	$ 138,089
Capital lease obligations	3,948	1,424	2,524	-	-
Operating leases	163,523	31,503	48,885	32,419	50,716
Unconditional purchase obligations	-	-	-	-	-
Other long-term obligations	-	-	-	-	-
Total contractual obligations	$ 383,255	$ 49,709	$ 82,126	$ 62,615	$ 188,805

At March 31, 2005, we had commercial commitments totaling $10.6 million comprised of letters of credit outstanding due to expire within one year.

To manage our insurance costs, we take on risk in the form of high deductibles on many of our coverages. We believe this step reduces overall insurance costs in the long term, but may cause fluctuations in the short term depending on the frequency and severity of insurance incidents.

Discussion of critical accounting estimates

Critical accounting estimates are those that management deems to be most important to the portrayal of our financial condition and results of operations, and that require management's most difficult, subjective or complex judgements, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified five critical accounting estimates: goodwill impairment testing, acquisition purchase price allocations, amortization of intangible assets, accounts receivable allowances and accounting for income taxes.

Annual goodwill impairment testing requires judgement on the part of management. Goodwill 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. The determination of what constitutes a reporting unit requires significant management judgement. Estimates of fair value can be impacted by sudden changes in the business environment or prolonged economic downturns, and therefore require significant management judgement in their determination.

Acquisition purchase price allocations require use of estimates and judgement 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.

Amortization of intangible assets requires management to make estimates of useful lives and to select methods of amortization. Useful lives and methods of amortization are determined at the time assets are initially acquired, and then are re-evaluated each reporting period. Significant judgement is required to determine whether events and circumstances warrant a revision to remaining periods of amortization. Changes to estimated useful lives and methods of amortization could result in increases or decreases in amortization expense. A 10% reduction to the weighted average useful life of intangible assets, other than short-lived brokerage backlog amortization, would result in an increase to annual amortization expense of $0.4 million.

Accounts receivable allowances are determined using a combination of historical experience, current information, and management judgement. Actual collections may differ from our estimates. A 10% increase in the accounts receivable allowance would increase bad debt expense by $0.8 million.

Income taxes are calculated based on the expected treatment of transactions recorded in the consolidated financial statements. The benefits of certain net operating loss carry-forwards, which have been recognized in the financial statements, require significant management judgement regarding future realization. In determining current and deferred components of income taxes, we interpret tax legislation and make assumptions about the timing of the reversal of deferred tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods.

Transactions with related parties

Please refer to note 19 to the consolidated financial statements for information regarding transactions with related parties.

Impact of recently issued accounting standards

Please refer to note 21 to the consolidated financial statements for a discussion of recently issued accounting standards.

Reconciliation to generally accepted accounting principles in Canada

The consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States. Please refer to note 22 to the consolidated financial statements for a discussion of the adjustments required to reconcile the consolidated financial statements to generally accepted accounting principles in Canada. There are no material differences between the consolidated financial statements under generally accepted accounting principles in Canada or the United States.

Outstanding share data

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, an unlimited number of Subordinate Voting Shares and an unlimited number of Multiple Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote in respect of each Subordinate Voting Share held at all meetings of the shareholders of the Company. The holders of Multiple Voting Shares are entitled to twenty votes in respect of each Multiple Voting Share held at all meetings of the shareholders of the Company.

As of the date hereof, the Company has outstanding 28,879,094 Subordinate Voting Shares, 1,325,694 Multiple Voting Shares and no preference shares. In addition, as at the date hereof, 1,832,000 Subordinate Voting Shares are issuable upon exercise of options granted under the Company's stock option plan.

Disclosure controls and procedures

As of March 31, 2005, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon that evaluation and as of March 31, 2005, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the company files and submits under applicable Canadian and US securities laws is recorded, processed, summarized and reported as and when required.

Additional information

Copies of publicly filed documents of the Company, including our Annual Information Form, can be found through the SEDAR web site at www.sedar.com.

Forward-looking statements

This management discussion and analysis report contains or incorporates by reference certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend 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. Our actual results may differ materially from such statements. Factors that could result in such differences, among others, are:

- Economic conditions, especially as they relate to consumer spending and business spending on customer relations and promotion.
- Commercial real estate property values, vacancy rates and general conditions of financial liquidity for real estate transactions.
- Extreme weather conditions impacting demand for our services or our ability to perform those services.
- Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.
- Competition in the markets served by the Company.
- Labor shortages or increases in wage and benefit costs.
- The effects of changes in interest rates on our cost of borrowing.
- Unexpected increases in operating costs, such as insurance, workers' compensation, health care and fuel prices.
- Changes in the frequency or severity of insurance incidents relative to our historical experience.
- The effects of changes in the Canadian dollar foreign exchange rate in relation to the US dollar on the Company's Canadian dollar denominated revenues and expenses.
- Our ability to make acquisitions at reasonable prices and successfully integrate acquired operations.
- Changes in government policies at the federal, state/provincial or local level that may adversely impact our student loans processing or textbook fulfillment activities.

Although we believe that the assumptions underlying our 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. We note that past performance in operations and share price are not necessarily predictive of future performance.

Report of Management

To the shareholders of FirstService Corporation:

Management is responsible for the preparation and presentation of FirstService Corporation's consolidated financial statements. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the consolidated financial statements reasonably present the Company's financial condition and results of operations in all material respects. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and reconciled to generally accepted accounting principles in Canada in note 22 to the consolidated financial statements in all material respects. Management has included in the Company's consolidated financial statements amounts based on estimates and judgements that it believes are most appropriate under the circumstances.

PricewaterhouseCoopers LLP, the independent auditors of the Company, have audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards, and they provide an objective, independent review of the fairness of reported operating results and financial condition.

The Board of Directors of the Company has an Audit Committee that meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters.

Jay S. Hennick
President and CEO

John B. Friedrichsen
Senior Vice President and CFO

May 17, 2005

Auditors' Report

To the shareholders of FirstService Corporation:

We have audited the consolidated balance sheets of FirstService Corporation as at March 31, 2005 and 2004 and the consolidated statements of earnings, shareholders' equity and cash flows for each year in the three-year period ended March 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for each year in the three-year period ended March 31, 2005 in accordance with generally accepted accounting principles in the United States.

PricewaterhouseCoopers LLP

Pricewaterhouse Coopers LLP
Chartered Accountants

Toronto, Canada
May 17, 2005

FirstService Corporation
Consolidated Statements of Earnings
in thousands of US Dollars, except per share amounts
in accordance with generally accepted accounting principles in the United States

For the years ended March 31	**2005**	2004	2003
Revenues	**$ 812,290**	$ 593,782	$ 508,675
Cost of revenues (exclusive of depreciation shown below)	**526,623**	408,327	345,524
Selling, general and administrative expenses (note 5)	**206,904**	130,934	112,563
Depreciation	**15,320**	12,824	11,319
Amortization of intangibles other than brokerage backlog	**3,140**	2,212	1,837
Amortization of brokerage backlog	**8,735**	-	-
	51,568	39,485	37,432
Other income, net (note 6)	**(375)**	(1,116)	(1,106)
Interest expense	**11,019**	7,900	8,934
Earnings before income taxes and minority interest	**40,924**	32,701	29,604
Income taxes (note 14)	**11,338**	9,815	8,036
Earnings before minority interest	**29,586**	22,886	21,568
Minority interest share of earnings	**6,941**	3,224	3,115
Net earnings from continuing operations	**22,645**	19,662	18,453
Net earnings (loss) from discontinued operations, net of income taxes (note 4)	**562**	(638)	(13)
Net earnings	**$ 23,207**	$ 19,024	$ 18,440
Net earnings (loss) per share (note 15)			
Basic			
Continuing operations	**$ 0.76**	$ 0.69	$ 0.66
Discontinued operations	**0.02**	(0.02)	-
	$ 0.78	$ 0.67	$ 0.66
Diluted			
Continuing operations	**$ 0.72**	$ 0.67	$ 0.64
Discontinued operations	**0.02**	(0.02)	-
	$ 0.74	$ 0.65	$ 0.64

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

FirstService Corporation
Consolidated Balance Sheets in thousands of US Dollars

in accordance with generally accepted accounting principles in the United States

As at March 31	2005	2004
Assets		
Current assets		
Cash and cash equivalents	**$ 37,458**	$ 15,620
Accounts receivable, net of an allowance of $8,471 (2004 - $3,976)	**168,927**	97,367
Income taxes recoverable	**2,498**	-
Inventories (note 7)	**20,878**	15,229
Prepaids and other (note 7)	**12,591**	15,659
Deferred income taxes (note 14)	**6,418**	3,358
	248,770	147,233
Other receivables (note 8)	**7,077**	5,397
Interest rate swaps (note 17)	**283**	6,805
Fixed assets (note 9)	**57,241**	49,826
Other assets (note 9)	**6,402**	2,829
Deferred income taxes (note 14)	**8,992**	2,167
Intangible assets (note 10)	**61,423**	37,717
Goodwill (note 11)	**236,540**	185,579
	377,958	290,320
	$ 626,728	$ 437,553
Liabilities		
Current liabilities		
Accounts payable	**$ 41,905**	$ 20,526
Accrued liabilities (note 7)	**113,524**	49,353
Income taxes payable	**3,673**	1,985
Unearned revenue	**5,154**	9,736
Long-term debt - current (note 12)	**18,206**	3,502
Deferred income taxes (note 14)	**320**	1,266
	182,782	86,368
Long-term debt - non-current (note 12)	**201,809**	160,386
Deferred income taxes (note 14)	**29,802**	19,594
Minority interest	**26,464**	16,104
	258,075	196,084
Shareholders' equity		
Capital stock (note 13)	**73,542**	68,557
Issued and outstanding: 28,867,094 (2004 - 28,174,036) Subordinate Voting Shares and 1,325,694 (2004 - 1,325,694) convertible Multiple Voting Shares		
Contributed surplus (note 13)	**805**	183
Receivables pursuant to share purchase plan (note 13)	**(2,148)**	(2,148)
Retained earnings	**103,011**	81,972
Cumulative other comprehensive earnings	**10,661**	6,537
	185,871	155,101
	$ 626,728	$ 437,553

Commitments and contingencies (note 18)

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

Director

Director

FirstService Corporation
Consolidated Statements of Shareholders' Equity in thousands of US Dollars

in accordance with generally accepted accounting principles in the United States

	Issued and outstanding shares (note 13)	Capital stock	Contributed surplus	Receivables pursuant to share purchase plan	Retained earnings	Cumulative other comprehensive earnings (loss)	Total shareholders' equity
Balance, March 31, 2002	27,550,530	$ 57,712	$ -	$ (2,630)	$ 44,765	$ (626)	$ 99,221
Comprehensive earnings:							
Net earnings	-	-	-	-	18,440	-	18,440
Foreign currency translation adjustments	-	-	-	-	-	2,947	2,947
Comprehensive earnings							21,387
Subordinate Voting Shares:							
Stock options exercised	843,250	3,002	-	-	-	-	3,002
Purchased for cancellation	(65,400)	(143)	-	-	(257)	-	(400)
Cash payments on share purchase plan	-	-	-	196	-	-	196
Balance, March 31, 2003	28,328,380	60,571	-	(2,434)	62,948	2,321	123,406
Comprehensive earnings:							
Net earnings	-	-	-	-	19,024	-	19,024
Foreign currency translation adjustments	-	-	-	-	-	4,216	4,216
Comprehensive earnings							23,240
Subordinate Voting Shares:							
Stock option expense	-	-	322	-	-	-	322
Stock options exercised	1,171,350	7,986	(139)	-	-	-	7,847
Cash payments on share purchase plan	-	-	-	286	-	-	286
Balance, March 31, 2004	29,499,730	68,557	183	(2,148)	81,972	6,537	155,101
Comprehensive earnings:							
Net earnings	-	-	-	-	23,207	-	23,207
Foreign currency translation adjustments (note 4)	-	-	-	-	-	4,124	4,124
Comprehensive earnings							27,331
Subordinate Voting Shares:							
Stock option expense	-	-	622	-	-	-	622
Stock options exercised	911,130	5,515	-	-	-	-	5,515
Purchased for cancellation	(218,072)	(530)	-	-	(2,168)	-	(2,698)
Balance, March 31, 2005	**30,192,788**	**$ 73,542**	**$ 805**	**$ (2,148)**	**$ 103,011**	**$ 10,661**	**$ 185,871**

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

FirstService Corporation

Consolidated Statements of Cash Flows in thousands of US Dollars

in accordance with generally accepted accounting principles in the United States

For the years ended March 31	**2005**	2004	2003
Cash provided by (used in)			
Operating activities			
Net earnings from continuing operations	**$ 22,645**	$ 19,662	$ 18,453
Items not affecting cash:			
Depreciation and amortization	**27,195**	15,036	13,156
Deferred income taxes	**(5,287)**	(683)	2,786
Minority interest share of earnings	**6,941**	3,224	3,115
Stock option expense	**622**	322	-
Other	**341**	(503)	(287)
Changes in operating assets and liabilities:			
Accounts receivable	**(13,342)**	(2,256)	9,661
Inventories	**(6,425)**	839	(4,292)
Prepaids and other	**3,171**	(1,069)	(1,042)
Accounts payable	**(1,958)**	(10,464)	(355)
Accrued liabilities	**3,189**	12,778	(6,629)
Income taxes payable	**(1,028)**	(1,670)	(1,503)
Unearned revenue	**967**	575	(3,033)
Net cash provided by operating activities	**37,031**	35,791	30,030
Investing activities			
Acquisitions of businesses, net of cash acquired	**(56,869)**	(16,019)	(9,561)
Purchases of minority shareholders' interests	**(2,148)**	(1,098)	(6,352)
Purchases of fixed assets	**(17,028)**	(13,121)	(9,335)
Purchases of intangible assets	**(235)**	(551)	(579)
Decrease (increase) in other assets	**342**	(163)	2,069
Decrease (increase) in other receivables	**2,092**	1,869	(578)
Net cash used in investing activities	**(73,846)**	(29,083)	(24,336)
Financing activities			
Increase in long-term debt	**59,586**	60,522	14,474
Repayment of long-term debt	**(10,956)**	(62,559)	(28,683)
Financing fees paid	**(124)**	(525)	-
Proceeds received on exercise of stock options	**5,515**	7,847	3,002
Repurchase of Subordinate Voting Shares	**(2,698)**	-	(400)
Collection of receivables pursuant to share purchase plan	**-**	286	196
Dividends paid to minority shareholders of subsidiaries	**(606)**	(510)	(191)
Net cash provided by (used in) financing activities	**50,717**	5,061	(11,602)
Net cash provided by (used in) discontinued operations	**4,801**	(1,052)	1,110
Effect of exchange rate changes on cash	**3,135**	(475)	2,844
Increase (decrease) in cash and cash equivalents during the year	**21,838**	10,242	(1,954)
Cash and cash equivalents, beginning of year	**15,620**	5,378	7,332
Cash and cash equivalents, end of year	**$ 37,458**	$ 15,620	$ 5,378

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

FirstService Corporation
Notes to the Consolidated Financial Statements in thousands of US Dollars, except per share amounts—in accordance with generally accepted accounting principles in the United States

1. Description of the business

FirstService Corporation (the "Company") is a provider of property and business services to commercial, institutional and residential customers in the United States, Canada and several other countries. The Company's operations are conducted through five segments: Residential Property Management, Commercial Real Estate Services, Integrated Security Services, Property Improvement Services (formerly known as Consumer Services) and Business Services.

2. Summary of significant accounting policies

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States ("GAAP") 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 goodwill, intangible assets and the collectibility of accounts receivable. 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. Where the Company does not have a controlling interest but does exert significant influence, the equity method is used. 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 35% and 65% (2004 - 35% and 65%) 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. The cost of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Fixed assets are depreciated over their estimated useful lives as follows:

Buildings	5% declining balance and 20 to 40 years straight-line
Vehicles	3 to 5 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
Leasehold improvements	term of the leases to a maximum of 10 years

Financial instruments

The Company uses interest rate swaps to hedge a portion of its interest rate exposure. The swaps, to which hedge accounting is applied, are carried at fair value on the consolidated balance sheets, 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. If swaps are terminated, the resulting gain or loss is deferred and recognized over the remaining life of the underlying debt. The Company uses foreign exchange contracts to fix its exposure to Canadian dollar expenses. These contracts are not accounted for as hedges. They are carried on the balance sheet at fair value and gains or losses are recognized in earnings.

Financing fees

Financing fees related to the revolving credit facility are amortized to interest expense on a straight-line basis over the term of the associated debt. Financing fees related to the Senior Secured 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, and SFAS No. 142, Goodwill and Other Intangible Assets. Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a business combination and is not subject to amortization.

Intangible assets are recorded at cost and are amortized over their estimated useful lives as follows:

Brokerage backlog	as underlying brokerage transactions are completed
Management contracts and other	straight-line over life of contract ranging from 2 to 15 years
Customer lists and relationships	straight-line over 2 to 25 years
Trademarks and trade names:	
Indefinite life	not amortized
Amortized	straight-line over 25 to 35 years
Franchise rights	by pattern of use

The Company reviews the carrying value of finite life intangible assets for impairment whenever events and circumstances indicate that the carrying amount of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of the impairment loss is based on the excess of the carrying amount of the asset over the fair value calculated using discounted expected future cash flows.

Goodwill and indefinite life intangible assets 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 amount of the asset is written down to fair value. Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a discounted cash flow approach. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any.

Revenue recognition and unearned revenue

(a) Real estate brokerage operations

Revenues from brokerage transactions are recognized when the related transaction is completed, normally the earlier of the closing date or occupancy, unless future contingencies exist. If contingencies exist, revenue recognition is deferred until the contingencies are satisfied.

(b) Service operations other than real estate brokerage

Revenues are recognized at the time the service is rendered or the product is shipped. Revenues from security systems installations or similar contracts in process are recognized on the percentage of completion method, generally in the ratio of actual costs to total estimated contract costs, unless the Company cannot reasonably estimate its gross margins in which case the completed contract method is used. Amounts received from customers in advance of services being provided are recorded as unearned revenue when received.

(c) Franchise operations

The Company operates several franchise systems within its Property Improvement Services segment. Initial franchise fees are recognized when all material services or conditions related to the sale of the franchise have been performed. Royalty revenues are recognized based on a percentage of franchisee revenues, as reported by the franchisees. Revenues from administrative and other support services, as applicable, are recognized as the services are provided.

Foreign currency translation

Assets and liabilities of the Company's subsidiary operations that are measured in a functional currency other than the US dollar are translated into US dollars at the exchange rates prevailing at year-end and revenues and expenses at the weighted average exchange rates for the year. Exchange gains and losses are included in earnings. Currency translation adjustments are included in other comprehensive earnings.

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 income tax consequences of events that have been recognized in the financial statements or income tax returns. Deferred tax assets and liabilities are measured using enacted income 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 income tax rates is recognized in earnings in the period in which the change occurs. A valuation allowance is recorded when there is uncertainty regarding realization of a deferred income tax asset.

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

Stock-based compensation

Effective April 1, 2003, the Company began accounting for stock options as compensation expense in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of SFAS 123* ("SFAS 148") provides alternative methods of transitioning to the fair value based method of accounting for employee stock options as compensation expense. The Company is using the "prospective method" of SFAS 148 and is expensing the fair value of new option grants awarded subsequent to March 31, 2003. Compensation expense is allocated to reporting periods using the graded attribution approach.

Prior to April 1, 2003, the Company applied Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations in accounting for its stock option plans. No compensation expense was recognized when shares or stock options were issued to employees or directors. However, the Company discloses pro forma earnings and earnings per share to reflect compensation costs in accordance with the methodology prescribed under SFAS 123.

3. Acquisitions

2005 acquisitions:

The Company completed the acquisition of 71.8% of the shares of CMN International Inc. ("CMN") on November 30, 2004. CMN is a member of the Colliers International commercial real estate services network, with operations in the United States, Canada, Australia and twenty other countries. CMN is headquartered in Vancouver.

The Company completed seven other business acquisitions in Residential Property Management and Property Improvement Services. The Company also purchased minority interests from four shareholders in Property Improvement Services.

Details of the 2005 acquisitions are as follows:

		2005	
	CMN	**Aggregate other acquisitions**	**Purchases of minority shareholders' interests**
Current assets	**$ 57,150**	**$ 1,281**	**$ -**
Long-term assets	**16,807**	**1,747**	**-**
Current liabilities	**(83,644)**	**(2,351)**	**-**
Long-term liabilities	**(15,167)**	**(2,604)**	**-**
Minority interest	**(3,720)**	**(89)**	**272**
	(28,574)	**(2,016)**	**272**
Note consideration	**$ -**	**$ 405**	**$ -**
Cash consideration	**$ 39,833**	**$ 10,512**	**$ 2,148**
Acquired intangible assets	**29,402**	**6,289**	**-**
Acquired goodwill	**39,005**	**6,644**	**1,876**
Contingent consideration at date of acquisition	**$ -**	**$ 3,759**	**$ -**

The purchase prices of acquisitions resulted in the recognition of goodwill. The primary factors contributing to goodwill are assembled workforces and future growth prospects.

2004 acquisitions:

The Company completed six small acquisitions during the year. Four were completed in the Property Improvement Services segment in October 2003, one was completed in Residential Property Management in January 2004 and one was completed in Integrated Security Services in February 2004.

The Company purchased minority interests from two shareholders in the Business Services segment during the year.

Details of the 2004 acquisitions are as follows:

	2004	
	Acquisitions	Purchases of minority shareholders' interests
Current assets	$ 2,587	$ -
Long-term assets	700	-
Current liabilities	(2,136)	-
Long-term liabilities	(3,238)	-
Minority interest	(223)	674
	(2,310)	674
Cash consideration	$ 13,722	$ 1,098
Acquired intangible assets	8,011	-
Acquired goodwill	8,021	424
Contingent consideration at date of acquisition	$ 6,002	$ -

2003 acquisitions:

The Company completed seven small acquisitions during the year, three in Consumer Services and two in each of Residential Property Management and Business Services, which collectively are shown in the Acquisitions column below.

The Company also acquired minority interests from several shareholders in the Business Services, Residential Property Management and Integrated Security Services segments during the year.

Details of the 2003 acquisitions are as follows:

	2003	
	Acquisitions	Purchases of minority shareholders' interests
Current assets	$ 821	$ -
Long-term assets	1,347	-
Current liabilities	(1,389)	-
Long-term liabilities	(942)	(840)
Minority interest	(229)	775
	(392)	(65)
Cash consideration	$ 6,599	$ 6,352
Acquired intangible assets	2,226	2,064
Acquired goodwill	4,765	4,353
Contingent consideration at date of acquisition	$ 4,074	$ 1,000

Certain vendors, at the time of acquisition, are entitled to receive contingent consideration if the acquired businesses achieve specified earnings levels during the two- to five-year periods following the dates of acquisition. Such contingent consideration is issued at the expiration of the contingency period. As at March 31, 2005, there was contingent consideration outstanding of up to $14,200 ($16,200 as at March 31, 2004). The contingencies will expire during the period extending to January 2009. The contingent consideration will be recorded when the contingencies are resolved and the consideration is issued or becomes issuable, at which time the Company will record the fair value of the consideration issued or issuable, including interest, if any, as additional costs of the acquired businesses. Contingent consideration issued or issuable during the year ended March 31, 2005 was $7,392 net of deferred income tax of $172 (2004 - $1,565, net of deferred income tax of $95).

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 their respective closing dates. The cash portions of the consideration for the acquisitions were financed through available cash and borrowings from the Company's revolving credit facility. The goodwill acquired during 2005 is not deductible for income tax purposes.

The Company has recognized liabilities in connection with business acquisitions regarding exiting activities of the acquired businesses and involuntary employee terminations. If the ultimate amount expended is less than the amount recorded as a liability, the excess is applied to reduce the cost of the acquired entity. If the ultimate amount expended is greater than the amount accrued, then the difference is expensed. The opening accrual as at March 31, 2004 and reduction of excess in the current year relate to costs to exit activities of a subsidiary of Herbert A. Watts Ltd., acquired in 2001. Regarding the 2005 liabilities, terminations affecting managerial employees of the acquired businesses are expected to be completed by December 2005.

Accrual as at March 31, 2004	$ 1,719
Add: liabilities recognized upon 2005 business acquisitions	2,000
Less: cash or other payments	-
Less: excess applied to reduce cost of acquired entity	(690)
Foreign exchange	99
Accrual as at March 31, 2005	$ 3,128

Following are the Company's unaudited consolidated pro forma results assuming the 2005 and 2004 acquisitions occurred on April 1 of the respective year of acquisition. The year immediately prior to the year of each respective acquisition also includes the pro forma results of the respective acquisitions.

(unaudited)	**2005**	2004
Pro forma revenues	**$ 998,123**	$ 927,256
Pro forma net earnings from continuing operations	**24,100**	19,986
Pro forma net earnings per share from continuing operations		
Basic	**$ 0.81**	$ 0.70
Diluted	**0.77**	0.68

The pro forma results for each year include $10,626 ($6,801 net of income taxes) of brokerage backlog amortization expense related to the CMN acquisition. The brokerage backlog has a useful life of approximately 0.5 years and therefore is a non-recurring item. These unaudited consolidated 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.

4. Dispositions

On April 1, 2004, the Company sold substantially all of the assets of the lawn care operations carried on by its subsidiary Greenspace Services Ltd. to a third party. During the fourth quarter of fiscal 2005, the Company sold (i) substantially all of the assets of the South Florida concrete restoration operations carried on by its subsidiary Aqua-Shield Corp. to a third party and (ii) all of the shares of its subsidiary Stained Glass Overlay, Inc., a franchisor of decorative glass treatments, to an officer of that subsidiary.

The aggregate proceeds on the dispositions were $15,555 comprised of cash of $5,389, notes receivable of $4,644, and assumption of liabilities by the purchasers of $5,522. The pre-tax gain on disposal was $2,695, less income taxes of $1,495, resulting in a net gain of $1,200. The net gain on disposal includes a gain of $1,578 related to cumulative foreign currency translation on Canadian dollars realized upon the disposal of the assets of Greenspace Services Ltd.

For the years ended March 31, 2005, 2004 and 2003, the operating results of these operations are reported as discontinued operations. The lawn care and decorative glass treatment operations were previously included in the Property Improvement Services segment. The concrete restoration operations were previously included in the Residential Property Management segment. The operating results, balance sheets and cash flow information for the discontinued operations are as follows:

Operating results for years ended March 31	**2005**	2004	2003
Revenues	**$ 13,164**	$ 39,103	$ 34,017
Earnings (loss) from discontinued operations before income taxes	**(1,126)**	(1,162)	200
Provision for (recovery of) income taxes	**(488)**	(524)	213
Net loss from discontinued operations	**(638)**	(638)	(13)
Net gain on disposal	**1,200**	-	-
Net earnings (loss) from discontinued operations	**$ 562**	$ (638)	$ (13)
Net earnings (loss) per share from discontinued operations			
Basic	**$ 0.02**	$ (0.02)	$ -
Diluted	**0.02**	(0.02)	-

Balance sheets as at March 31	**2005**	2004
Current assets	**$ 7,246**	$ 11,884
Non-current assets	**-**	7,966
Total assets	**$ 7,246**	$ 19,850
Current liabilities	**$ 1,286**	$ 8,733
Non-current liabilities	**-**	85
Total liabilities	**$ 1,286**	$ 8,818

The balance sheet as at March 31, 2005 represents primarily accounts receivable and accounts payable related to a discontinued operation.

Cash flow information for years ended March 31	**2005**	2004	2003
Cash provided by (used in)			
Operating activities	**$ (590)**	$ (140)	$ 2,523
Investing activities	**5,391**	(1,496)	(1,835)
Financing activities	**-**	584	422
Net cash provided (used)	**$ 4,801**	$ (1,052)	$ 1,110

5. Unusual item

During 2003, the Company received $4,228 of executive life insurance proceeds upon the deaths of two senior management employees, one in the Business Services segment in the amount of $3,228 and one in Residential Property Management in the amount of $1,000. The amounts received were recorded as reductions of selling, general and administrative costs. No such proceeds were received in 2005 or 2004.

6. Other income

	2005	2004	2003
Gain on foreign exchange contracts	**$ 200**	$ 219	$ -
Earnings from equity investments	**125**	-	-
Dilution gains on sales of shares of subsidiaries	**112**	1,137	1,106
Disposal of security officer assets of Chicago Integrated Security Services branch	**-**	(240)	-
Loss on sale of equity investments	**(62)**	-	-
	$ 375	$ 1,116	$ 1,106

7. Components of working capital accounts

	2005	2004
Inventories		
Work-in-progress	**$ 9,245**	$ 8,888
Finished goods	**7,831**	3,156
Supplies and other	**3,802**	3,185
	$ 20,878	$ 15,229

	2005	2004
Prepaids and other		
Insurance	**$ 4,518**	$ 3,259
Security deposits	**1,554**	1,410
Transportation	**864**	1,775
Advertising	**180**	2,804
Other	**5,475**	6,411
	$ 12,591	$ 15,659

	2005	2004
Accrued liabilities		
Accrued payroll, commission and benefits	**$ 66,281**	$ 27,472
Customer advances	**15,667**	13,617
Liabilities recognized in connection with business acquisitions (note 3)	**3,128**	1,719
Accrued interest	**2,528**	2,015
Deferred lease inducements	**1,572**	163
Other	**24,348**	4,367
	$ 113,524	$ 49,353

8. Other receivables

	2005	2004
Secured interest-bearing notes due from purchasers of disposed subsidiaries	**$ 4,611**	$ -
Secured interest-bearing loans due from minority shareholders of subsidiaries	**1,894**	4,003
Franchisee and customer receivables, certain of which are interest bearing	**572**	1,394
	$ 7,077	$ 5,397

9. Fixed assets and other assets

2005	Cost	Accumulated depreciation / amortization	**Net 2005**
Fixed assets			
Land	$ 2,303	$ -	**$ 2,303**
Buildings	8,855	1,813	**7,042**
Vehicles	15,277	8,794	**6,483**
Furniture and equipment	57,795	38,869	**18,926**
Computer equipment and software	36,937	22,943	**13,994**
Leasehold improvements	15,892	7,399	**8,493**
Total	$ 137,059	$ 79,818	**$ 57,241**
Other assets			
Investments	$ 4,652	$ -	**$ 4,652**
Financing fees	4,115	2,365	**1,750**
Total	$ 8,767	$ 2,365	**$ 6,402**

2004	Cost	Accumulated depreciation / amortization	Net 2004
Fixed assets			
Land	$ 2,273	$ -	$ 2,273
Buildings	7,829	1,475	6,354
Vehicles	17,661	10,372	7,289
Furniture and equipment	43,176	29,738	13,438
Computer equipment and software	30,044	16,233	13,811
Leasehold improvements	12,820	6,159	6,661
Total	$ 113,803	$ 63,977	$ 49,826
Other assets			
Investments	$ 815	$ -	$ 815
Financing fees	3,802	1,788	2,014
Total	$ 4,617	$ 1,788	$ 2,829

Included in fixed assets are vehicles and computer equipment under capital lease at a cost of $8,737 (2004 - $9,930) and net book value of $4,751 (2004 - $4,798).

10. Intangible assets

2005	Gross carrying amount	Accumulated amortization	**Net 2005**
Customer lists and relationships	$ 20,868	$ 3,094	**$ 17,774**
Franchise rights	20,940	3,183	**17,757**
Trademarks and trade names:			
Indefinite life	11,165	-	**11,165**
Amortized	12,517	1,748	**10,769**
Management contracts and other	3,357	1,290	**2,067**
Brokerage backlog	10,626	8,735	**1,891**
	$ 79,473	$ 18,050	**$ 61,423**

2004	Gross carrying amount	Accumulated amortization	Net 2004
Customer lists and relationships	$ 7,374	$ 1,692	$ 5,682
Franchise rights	20,698	2,314	18,384
Trademarks and trade names:			
Amortized	12,517	1,367	11,150
Management contracts and other	3,924	1,423	2,501
	$ 44,513	$ 6,796	$ 37,717

During the year ended March 31, 2005, the Company acquired the following intangible assets:

	Amount	Estimated weighted average amortization period in years
Customer lists and relationships	$ 14,145	11.6
Trademarks and trade names	11,165	Indefinite
Brokerage backlog	10,626	0.5
Franchise rights	142	14.0
	$ 36,078	-

Trademarks and trade names related to the Colliers International brand were recognized on the acquisition of CMN. The Company intends to continue to use this brand indefinitely. A brokerage backlog intangible asset was also recognized on the acquisition of CMN representing the fair value of the pipeline of pending commercial real estate brokerage transactions that existed at the acquisition date. This amount is being amortized to coincide with the expected completion dates of the underlying brokerage transactions.

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

2006	$ 5,521
2007	3,445
2008	3,315
2009	3,268
2010	3,133

11. Goodwill

	Residential Property Management	Commercial Real Estate Services	Integrated Security Services	Property Improvement Services	Business Services	Consolidated
Balance, March 31, 2003	$ 62,265	$ -	$ 26,988	$ 29,772	$ 54,599	$ 173,624
Goodwill resulting from adjustments to purchase price allocations	372	-	-	165	-	537
Goodwill resulting from contingent acquisition payments	664	-	341	560	-	1,565
Goodwill resulting from purchases of minority shareholders' interests	-	-	-	-	424	424
Goodwill acquired during year	168	-	231	7,622	-	8,021
Foreign exchange	-	-	78	339	991	1,408
Balance, March 31, 2004	63,469	-	27,638	38,458	56,014	185,579
Goodwill resulting from adjustments to purchase price allocations	831	-	25	389	(707)	538
Goodwill resulting from contingent acquisition payments	1,628	-	1,966	3,798	-	7,392
Goodwill resulting from purchases of minority shareholders' interests	-	-	-	1,876	-	1,876
Goodwill acquired during year	5,727	39,005	-	917	-	45,649
Goodwill disposed during year	(1,989)	-	-	(4,435)	-	(6,424)
Foreign exchange	-	(43)	57	-	1,916	1,930
Balance, March 31, 2005	**$ 69,666**	**$ 38,962**	**$ 29,686**	**$ 41,003**	**$ 57,223**	**$ 236,540**

12. Long-term debt

	2005	2004
Revolving credit facility	**$ 59,374**	$ -
8.06% Senior Secured Notes	**100,000**	100,000
6.40% Senior Secured Notes	**50,000**	50,000
Adjustment to Senior Secured Notes resulting from interest rate swaps (note 17)	**283**	6,805
Capital leases bearing interest ranging from 5% to 10%, maturing at various dates through 2010	**3,948**	4,128
Other long-term debt bearing interest at 4% to 10%, maturing at various dates through 2010	**6,410**	2,955
	220,015	163,888
Less: current portion	**18,206**	3,502
	$ 201,809	$ 160,386

As at March 31, 2005, US$34,325 and C$30,300 (US$25,049) was drawn on the revolving credit facility. The revolving credit facility was unused at March 31, 2004. Included in capital leases at March 31, 2005 and 2004 are obligations in Canadian dollars of $41 (US$34) and $2,222 (US$1,694), respectively. Included in other long-term debt at March 31, 2005 and 2004 are obligations in Canadian dollars of $1,737 (US$1,436) and $1,335 (US$1,018), respectively.

As at March 31, 2005, the Company's amended and restated credit agreement provided a US$90,000 committed senior revolving credit facility renewable and extendible in 364-day increments, and if not renewed, a two year final maturity. The revolving credit facility bore interest at 1.50% to 3.00% over floating reference rates, depending on certain leverage ratios. The average interest rate during fiscal 2005 was 3.7% (2004 - 3.5%). At March 31, 2005, the revolving credit facility had an outstanding balance of $59,374, had letters of credit committed in the amount of $10,632 and had $19,994 of available credit.

On April 1, 2005, the Company entered into an amended and restated credit agreement with a syndicate of banks to provide a US$110,000 committed senior revolving credit facility with a three year term to replace the existing US$90,000 facility. The amended revolving credit facility bears interest at 1.00% to 2.25% over floating reference rates, depending on certain leverage ratios. The covenants remained substantially unchanged relative to the prior revolving credit facility agreement. On the same date, the Company completed a private placement of US$100,000 of 5.44% fixed rate Senior Secured Notes (the "5.44% Notes") with a group of US institutional investors. The 5.44% Notes have a final maturity of April 1, 2015 with five equal annual principal repayments beginning on April 1, 2011. The proceeds of the private placement were used to repay outstanding balances on the revolving credit facility. The revolving credit facility requires a commitment fee of 0.25% to 0.50% of the unused portion, depending on certain leverage ratios.

The Company has outstanding US$100,000 of 8.06% fixed-rate Senior Secured Notes (the "8.06% Notes"). The 8.06% Notes have a final maturity of June 29, 2011, with seven equal annual principal repayments beginning on June 29, 2005. The Company also has outstanding US$50,000 of 6.40% fixed-rate Senior Secured Notes (the "6.40% Notes"). The 6.40% Notes have a final maturity of September 30, 2015 with four equal annual principal repayments commencing on September 30, 2012.

The Company has indemnified the holders of the 8.06% Notes, 6.40% Notes and 5.44% Notes (collectively, the "Notes") from all withholding taxes that are or may become applicable to any payments made by the Company on the Notes. The Company has interest rate swap agreements related to the Notes. See note 17 for information regarding hedge accounting.

The revolving credit facility and the Notes rank equally in terms of seniority. The Company has granted these lenders collateral including the following: an interest in all of the assets of the Company including the shares of the Company's 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 revolving credit facility and the Notes agreement are substantially the same. The covenants require the Company to maintain certain ratios including leverage, fixed charge coverage, interest coverage and net worth. The Company is prohibited from undertaking certain mergers, acquisitions and dispositions without prior approval.

After giving effect to the April 1, 2005 financings, 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:

2006	$18,206
2007	16,852
2008	16,389
2009	15,450
2010	14,746
Thereafter	138,089

13. 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 each 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, 2003	27,002,686	$ 60,198	1,325,694	$ 373	28,328,380	$ 60,571
Balance, March 31, 2004	28,174,036	68,184	1,325,694	373	29,499,730	68,557
Balance, March 31, 2005	**28,867,094**	**73,169**	**1,325,694**	**373**	**30,192,788**	**73,542**

On December 15, 2004, the Company completed a 2 for 1 stock split effected in the form of a stock dividend. All stock balances for all periods presented have been retroactively adjusted to reflect the stock split.

In February 2004, the Company approved a long-term incentive plan ("LTIP") for the Chief Executive Officer ("CEO"). Under the LTIP, the CEO is entitled to receive a payment upon the arm's length sale of control of the Company or upon a distribution of the Company's assets to shareholders. The payment amount is determined with reference to the price per Subordinate Voting Share received by shareholders upon an arm's length sale or upon a distribution of assets. The right to receive the payment may be transferred among members of the CEO's family, their holding companies and trusts.

The Company's contributed surplus account relates to stock option compensation expense accounting under SFAS 123. Contributed surplus is credited at the time stock option compensation expense is recorded. As stock options are exercised, contributed surplus is reduced and capital stock is credited.

During the year ended March 31, 2005, the Company repurchased 218,072 (2004 - nil and 2003 - 65,400) Subordinate Voting Shares under a Normal Course Issuer Bid filed with the Toronto Stock Exchange, which allowed the Company to repurchase up to 5% of its outstanding shares on the open market during a twelve-month period.

The Company has $2,148 (C$3,034) (2004 - $2,148 (C$3,034)) of interest bearing loans receivable related to the purchase of 730,000 Subordinate Voting Shares (2004 – 730,000 shares). The loans, which are collateralized by the shares issued, have a 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.

2006	$ -
2007	916
2008	467
2009	765
	$ 2,148

The Company has a stock option plan for certain officers and key full-time employees of the Company and its subsidiaries. Options are granted at the market price for the underlying shares on the date of grant. 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 US or Canadian dollars. At March 31, 2005, there were 1,844,000 options outstanding to 41 individuals at prices ranging from $6.00 to $17.29 (C$9.10 to C$21.40) per share, expiring on various dates through 2010. As at March 31, 2005, there were 333,500 options available for future grants.

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 (US$)		
	2005	2004	2003	**2005**	2004	2003
Shares issuable under options - Beginning of year	**2,288,630**	3,565,980	4,238,230	**$ 8.01**	$ 7.98	$ 6.60
Granted	**496,500**	266,000	203,000	**13.63**	8.00	7.79
Exercised for cash	**(911,130)**	(1,171,350)	(843,250)	**6.42**	6.27	3.71
Expired or forfeited	**(30,000)**	(372,000)	(32,000)	**10.43**	11.83	9.50
Shares issuable under options - End of year	**1,844,000**	2,288,630	3,565,980	**$ 10.83**	$ 8.01	$ 7.98
Options exercisable - End of year	**915,500**	1,335,866	1,753,012			

	Weighted average price per share (C$)		
	2005	2004	2003
Shares issuable under options - Beginning of year	**$ 11.96**	$ 11.71	$ 10.53
Granted	**19.28**	11.95	12.07
Exercised for cash	**9.08**	9.37	5.74
Expired or forfeited	**14.75**	17.67	14.72
Shares issuable under options - End of year	**$ 15.31**	$ 11.96	$ 11.71

The options outstanding as at March 31, 2005 to purchase Subordinate Voting Shares are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices (US$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (US$)	Number exercisable	Weighted average exercise price (US$)
$6.00 - $7.85	639,500	1.82	$ 6.93	449,750	$ 7.05
$9.82 - $11.02	475,000	3.83	11.36	124,000	11.28
$11.57 - $17.29	729,500	3.41	13.98	341,750	13.34
	1,844,000	2.91	$ 10.83	915,500	$ 10.12

	Options outstanding			Options exercisable	
Range of exercise prices (C$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (C$)	Number exercisable	Weighted average exercise price (C$)
$9.10 - $12.50	639,500	1.82	$ 10.65	449,750	$ 10.82
$12.91 - $17.70	475,000	3.83	15.02	124,000	14.91
$18.44 - $21.40	729,500	3.41	19.58	341,750	18.69
	1,844,000	2.91	$ 15.31	915,500	$ 14.31

Prior to April 1, 2003, the Company had accounted for stock options under the intrinsic value method under APB 25. Had compensation expense for stock options been determined under the fair value method under SFAS 123 for all periods, pro forma reported net earnings and earnings per share would reflect the following:

	2005	2004	2003
Net earnings as reported	**$ 23,207**	$ 19,024	$ 18,440
Deduct: Stock-based compensation expense			
determined under fair value method, net of income taxes	**(1,826)**	(2,158)	(2,179)
Pro forma net earnings	**$ 21,381**	$ 16,866	$ 16,261
Pro forma net earnings per share:			
Basic	**$ 0.72**	$ 0.59	$ 0.59
Diluted	**0.68**	0.58	0.56
Reported net earnings per share:			
Basic	**$ 0.78**	$ 0.67	$ 0.66
Diluted	**0.74**	0.65	0.64
Assumptions:			
Risk-free interest rate	**3.2%**	3.0%	4.5%
Expected life in years	**4.4**	4.4	4.4
Volatility	**30%**	30%	30%
Dividend yield	**0.0%**	0.0%	0.0%

The weighted average fair values of options granted in 2005, 2004 and 2003 were $4.85 (C$6.20), $2.66 (C$3.59) and $2.55 (C$3.95) per share, respectively.

The Company has stock option plans at several of its subsidiaries. The impact of potential dilution from these plans is reflected in the Company's diluted earnings per share (note 15).

14. 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:

	2005	2004	2003
Income tax expense using combined statutory rate of approximately 40% (2004 - 40%; 2003 - 40%)	**$ 16,370**	$ 13,080	$ 11,842
Non-deductible expenses	**565**	576	735
Non-taxable proceeds of life insurance policies	**-**	-	(1,691)
Reduction in tax liability of prior years	**(1,133)**	-	-
Foreign tax rate reduction	**(4,464)**	(3,841)	(2,850)
Provision for income taxes as reported	**$ 11,338**	$ 9,815	$ 8,036

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

	2005	2004	2003
Canada	**$ 14,630**	$ 14,282	$ 13,659
United States	**23,466**	18,419	15,945
Foreign	**2,828**	-	-
Total	**$ 40,924**	$ 32,701	$ 29,604

The provision for income taxes comprises the following:

	2005	2004	2003
Current			
Canada	**$ 6,932**	$ 3,584	$ 1,376
United States	**8,479**	6,043	5,352
Foreign	**834**	-	-
	16,245	9,627	6,728
Deferred			
Canada	**(2,890)**	165	611
United States	**(2,017)**	23	697
Foreign	**-**	-	-
	(4,907)	188	1,308
Total	**$ 11,338**	$ 9,815	$ 8,036

The significant components of deferred income taxes are as follows:

	2005	2004
Deferred income tax assets		
Expenses not currently deductible	**$ 4,282**	$ 553
Provision for doubtful accounts	**2,136**	128
Inventory and other reserves	**-**	24
Loss carry-forwards	**8,992**	4,820
	15,410	5,525
Deferred income tax liabilities		
Depreciation and amortization	**29,695**	20,219
Prepaid and other expenses deducted for tax purposes	**320**	560
Financing fees	**107**	81
	30,122	20,860
Net deferred income tax liability	**$ 14,712**	$ 15,335

As at March 31, 2005, the Company had US and Canadian net operating loss carry-forward balances of approximately $21,423 and $1,326, respectively. These amounts are available to reduce future federal, state and provincial income taxes. Net operating loss carry-forward balances attributable to the US expire over the next twenty years while net operating losses attributable to Canada expire over the next seven years. Foreign net operating loss carry-forward balances of approximately $25,906 were acquired with the CMN acquisition. The benefit of the foreign balances has not been recorded in these consolidated financial statements, but would be recorded as an adjustment to the CMN purchase price if realized.

Cumulative undistributed earnings of US and foreign subsidiaries approximated $62,820 as at March 31, 2005 (2004 - $50,087).

15. Earnings per share

Earnings per share information for all periods presented has been retroactively adjusted to reflect the 2 for 1 stock split that occurred on December 15, 2004.

The following table reconciles the numerators used to calculate diluted earnings per share:

	2005	2004	2003
Net earnings from continuing operations	**$ 22,645**	$ 19,662	$ 18,453
Dilution of net earnings resulting from assumed exercise of stock options in subsidiaries	**(569)**	-	-
Net earnings from continuing operations for diluted earnings per share calculation purposes	**$ 22,076**	$ 19,662	$ 18,453
Net earnings	**$ 23,207**	$ 19,024	$ 18,440
Dilution of net earnings resulting from assumed exercise of stock options in subsidiaries	**(569)**	-	-
Net earnings for diluted earnings per share calculation purposes	**$ 22,638**	$ 19,024	$ 18,440

The following table reconciles the denominators used to calculate earnings per share:

	2005	2004	2003
Shares issued and outstanding at beginning of year	**29,499,730**	28,328,380	27,550,530
Weighted average number of shares:			
Issued during the year	**381,309**	241,324	296,282
Repurchased during the year	**(103,665)**	-	(4,692)
Weighted average number of shares used in computing basic earnings per share	**29,777,374**	28,569,704	27,842,120
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	**689,597**	621,952	1,152,970
Number of shares used in computing diluted earnings per share	**30,466,971**	29,191,656	28,995,090

16. Other supplemental information

	2005	2004	2003
Products and services segmentation			
Revenues			
Products	**$ 142,371**	$ 108,983	$ 96,219
Services	**669,919**	484,799	412,456
Total	**812,290**	593,782	508,675
Cost of revenues			
Products	**$ 86,215**	$ 67,722	$ 57,633
Services	**440,408**	340,605	287,891
Total	**526,623**	408,327	345,524
Franchised operations			
Revenues	**$ 79,541**	$ 64,947	$ 57,497
Operating earnings	**15,574**	11,369	11,121
Initial franchise fee revenues	**3,459**	4,467	3,822
Cash payments made during the year			
Income taxes	**$ 16,854**	$ 13,388	$ 7,667
Interest	**11,073**	5,156	7,916
Non-cash financing activities			
Increases in capital lease obligations	**$ 1,986**	$ 1,352	$ 1,565
Other expenses			
Rent expense	**$ 26,340**	$ 15,679	$ 14,280

17. Financial instruments

Concentration of credit risk

The Company is subject to credit risk with respect to its accounts receivable, other receivables, interest rate swaps and foreign exchange contracts. Concentrations of credit risk with respect to the 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 several countries. The counterparties to the interest rate swaps and foreign exchange contracts are investment-grade financial institutions that the Company anticipates will satisfy their obligations under the contracts.

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 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.

As at March 31, 2005, the Company had interest rate swap agreements to exchange the fixed rates on a portion of the Notes for variable rates. On the 8.06% Notes, one interest rate swap exchanged the fixed rate on $75,000 of principal for LIBOR + 250.5 basis points and a second exchanged the fixed rate on $25,000 for LIBOR + 445 basis points. The terms of the swaps match the term of the 8.06% Notes with a maturity of June 29, 2011. On the 6.40% Notes, the Company had an interest rate swap agreement to exchange the fixed rate on $20,000 of principal for a variable rate of LIBOR + 170 basis points. The term of the swap matches the term of the 6.40% Notes with a maturity of September 30, 2015.

In December 2004, the Company settled a swap on $30,000 of principal on the 6.40% Notes at a cost of $nil. After the end of the fiscal year, in May 2005, the Company settled the swap on $20,000 of principal on the 6.40% Notes for a net loss of $48. The loss will be deferred and amortized over the remaining life of the underlying debt.

The swaps are being accounted for as fair value hedges in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The swaps are carried at fair value on the consolidated balance sheets, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value of the swaps; the associated gain or loss is recognized currently in earnings. The fair values of the swaps are 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 swaps fluctuates and, as at March 31, 2005, the fair values represented a gain of $283 (2004—$6,805).

Foreign exchange risk

The Company from time to time uses foreign exchange contracts to fix Canadian dollar expenses relative to US dollar revenues. As at March 31, 2005, eight such contracts were open, with maturities extending to March 30, 2006. Details are summarized below.

Buy currency	Canadian dollars
Sell currency	US dollars
Notional value	$ 8,000
Weighted average exchange rate	1.2356
Gain included in earnings	$ 200

Fair values of financial instruments

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to the short maturity of these instruments, unless otherwise indicated. The following are estimates of the fair values for other financial instruments:

	2005		2004	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Other receivables	**$ 7,077**	**$ 7,067**	$ 5,397	$ 5,379
Long-term debt	**219,732**	**236,491**	157,083	175,085
Interest rate swaps	**283**	**283**	6,805	6,805
Foreign exchange contracts	**200**	**200**	219	219

18. Commitments and contingencies

(a) Lease commitments

Minimum operating lease payments are as follows:

Year ending March 31	
2006	$ 31,503
2007	26,449
2008	22,436
2009	18,293
2010	14,126
Thereafter	50,716

(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 at fair value determined with the use of a formula price, which is usually equal to a multiple of average net earnings before extraordinary items, minority interest share of earnings, income taxes, interest, depreciation, and amortization for a defined period. 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, if any, would be accounted for using the purchase method. The total obligation if all call or put options were exercised as at March 31, 2005 was approximately $70,000 (2004 - $30,000). Approximately $25,000 of the increase between fiscal 2004 and fiscal 2005 is attributable to the current year's acquisitions.

(c) Contingencies

In the normal course of operations, the Company is subject to routine claims and litigation incidental to its business. Litigation currently pending or threatened against the Company includes disputes with former employees and commercial liability claims related to services provided by the Company. The Company believes resolution of such proceedings, combined with amounts set aside, will not have a material impact on the Company's financial condition or the results of operations.

19. Related party transactions

During the year, the Company paid $530 (2004 - $544; 2003 - $847) in rent to entities in which an officer of the Company has equity interests. In addition, the Company paid $746 (2004 - $514; 2003 - $853) in rent to entities controlled by minority shareholders of subsidiaries. The transactions were completed at market rates.

20. Segmented information

Operating segments

The Company has five reportable operating segments. The segments are grouped with reference to the types of services provided and the types of clients that use those services. The Company assesses each segment's performance based on operating earnings or operating earnings before depreciation and amortization. Residential Property Management provides property management, maintenance, landscaping and other services to residential community associations in the United States. Commercial Real Estate Services provides brokerage and advisory services to clients in North America, Australia and several other countries. Integrated Security Services provides security systems installation, maintenance, monitoring and manpower to primarily commercial customers in Canada and the United States. Property Improvement Services provides franchised and Company-owned property services to customers in the United States and Canada. Business Services provides marketing support and business process outsourcing services to corporate and institutional clients in Canada and the United States. Corporate includes the costs of operating the Company's headquarters.

Included in total assets of the Commercial Real Estate Services segment is $3,797 (2004 and 2003 – nil) of investments in subsidiaries accounted for under the equity method.

2005	Residential Property Management	Commercial Real Estate Services	Integrated Security Services	Property Improvement Services	Business Services	Corporate	Consolidated
Revenues	**$ 275,229**	**$ 120,535**	**$ 143,160**	**$ 111,779**	**$ 160,914**	**$ 673**	**$ 812,290**
Depreciation and amortization	**5,170**	**9,868**	**2,819**	**3,071**	**6,088**	**179**	**27,195**
Operating earnings	**18,917**	**1,276**	**7,468**	**16,796**	**16,262**	**(9,151)**	**51,568**
Other income, net							**375**
Interest expense							**(11,019)**
Income taxes							**(11,338)**
Minority interest							**(6,941)**
Net earnings from continuing operations							**22,645**
Net earnings from discontinued operations							**562**
Net earnings							**$ 23,207**
Total assets	**150,080**	**100,634**	**86,598**	**107,063**	**170,293**	**12,060**	**626,728**
Total additions to long-lived assets	**21,412**	**77,255**	**3,684**	**10,437**	**3,462**	**357**	**116,607**

2004	Residential Property Management	Commercial Real Estate Services	Integrated Security Services	Property Improvement Services	Business Services	Corporate	Consolidated
Revenues	$ 228,790	$ -	$ 122,748	$ 89,361	$ 152,449	$ 434	$ 593,782
Depreciation and amortization	4,219	-	1,948	2,270	6,450	149	15,036
Operating earnings	15,515	-	6,481	12,669	11,852	(7,032)	39,485
Other income, net							1,116
Interest expense							(7,900)
Income taxes							(9,815)
Minority interest							(3,224)
Net earnings from continuing operations							19,662
Net loss from discontinued operations							(638)
Net earnings							$ 19,024
Total assets	110,439	-	75,198	102,802	144,677	4,437	437,553
Total additions to long-lived assets	6,566	-	2,953	19,966	6,047	340	35,872

2003	Residential Property Management	Commercial Real Estate Services	Integrated Security Services	Property Improvement Services	Business Services	Corporate	Consolidated
Revenues	$ 203,515	$ -	$ 107,548	$ 70,850	$ 126,373	$ 389	$ 508,675
Depreciation and amortization	4,009	-	1,502	1,875	5,620	150	13,156
Operating earnings	11,196	-	5,834	11,227	14,153	(4,978)	37,432
Other income, net							1,106
Interest expense							(8,934)
Income taxes							(8,036)
Minority interest							(3,115)
Net earnings from continuing operations							18,453
Net loss from discontinued operations							(13)
Net earnings							$ 18,440
Total assets	107,998	-	64,803	83,923	117,432	14,875	389,031
Total additions to long-lived assets	10,991	-	3,942	7,749	7,781	41	30,504

Geographic information

Revenues in each geographic segment are reported by customer location. Amounts reported in geographic regions other than the United States and Canada are primarily denominated in Australian and US dollars.

	2005	2004	2003
United States			
Revenues	**$ 525,035**	$ 418,789	$ 359,105
Total long-lived assets	**244,447**	204,715	182,941
Canada			
Revenues	**$ 241,905**	$ 174,993	$ 149,570
Total long-lived assets	**85,009**	68,408	68,710
Other			
Revenues	**$ 45,350**	$ -	$ -
Total long-lived assets	**25,748**	-	-
Consolidated			
Revenues	**$ 812,290**	$ 593,782	$ 508,675
Total long-lived assets	**355,204**	$ 273,123	$ 251,651

21. Impact of recently issued accounting standards

SFAS No. 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* was issued in November 2004 and is effective for the Company's fiscal year beginning on April 1, 2006. This standard deals with recognizing certain inventory-related costs as current period expenses. The Company is currently evaluating the impact of this new accounting standard.

SFAS No. 123 (revised 2004), *Share-Based Payment* was issued in December 2004 and is effective for the Company's fiscal year beginning on April 1, 2006. This standard deals with the expensing of stock-based compensation. The Company is currently evaluating the impact of this new accounting standard.

SFAS No. 153, *Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29* was issued in December 2004 and is effective for the Company's fiscal year beginning on April 1, 2006. This standard amends certain exceptions where the measurement amount of nonmonetary assets exchanged is other than fair value. The Company is currently evaluating the impact of this new accounting standard.

22. Reconciliation to Canadian GAAP

The following adjustments are required to reconcile these consolidated financial statements to Canadian generally accepted accounting principles:

(i) *Deficit elimination*. On September 15, 1997, the shareholders of the Company approved a reduction of the stated capital attributable to the Company's capital stock by $5,683, thereby eliminating the Company's deficit as at March 31, 1997. While permitted under Canadian GAAP, this elimination is not permitted under United States GAAP.

(ii) *Currency translation adjustments*. Under United States GAAP, currency translation and certain other transactions must be reported in an equity account called "other comprehensive earnings". Under Canadian GAAP, such an account does not exist, and currency translations are reported in an equity account called "currency translation adjustments". The Company's foreign currency translation adjustments account is similar to the other comprehensive earnings account in all material respects.

(iii) *Accounting for interest rate swaps*. Under Canadian GAAP, hedge accounting does not require interest rate swaps to be recorded on the balance sheet. However, the earnings impact of interest rate swaps is identical under Canadian and United States GAAP.

There are no material reconciling items between United States and Canadian GAAP that impact the consolidated statements of earnings. Below is a continuity schedule of retained earnings under Canadian GAAP:

	2005	2004
Balance, beginning of year	**$ 87,655**	$ 68,631
Net earnings	**23,207**	19,024
Subordinate Voting Shares purchased for cancellation	**(2,168)**	-
Balance, end of year	**$ 108,694**	$ 87,655

The tables below provide a reconciliation of the Company's affected consolidated balance sheet accounts from United States GAAP to Canadian GAAP:

As at March 31, 2005	**United States GAAP**	Reconciling adjustments	**Canadian GAAP**
Assets			
Interest rate swaps	**$ 283**	$ (283)	**$ -**
Subtotal non-current assets	**377,958**	(283)	**377,675**
Total assets	**$ 626,728**	$ (283)	**$ 626,445**
Liabilities			
Long-term debt - non-current	**$ 201,809**	$ (283)	**$ 201,526**
Subtotal non-current liabilities	**258,075**	(283)	**257,792**
Shareholders' equity			
Capital stock	**73,542**	(5,683)	**67,859**
Retained earnings	**103,011**	5,683	**108,694**
Subtotal shareholders' equity	**185,871**	-	**185,871**
Total liabilities and shareholders' equity	**$ 626,728**	$ (283)	**$ 626,445**

As at March 31, 2004	United States GAAP	Reconciling adjustments	Canadian GAAP
Assets			
Interest rate swaps	$ 6,805	$ (6,805)	$ -
Subtotal non-current assets	290,320	(6,805)	283,515
Total assets	$ 437,553	$ (6,805)	$ 430,748
Liabilities			
Long-term debt - non-current	$ 160,386	$ (6,805)	$ 153,581
Subtotal non-current liabilities	196,084	(6,805)	189,279
Shareholders' equity			
Capital stock	68,557	(5,683)	62,874
Retained earnings	81,972	5,683	87,655
Subtotal shareholders' equity	155,101	-	155,101
Total liabilities and shareholders' equity	$ 437,553	$ (6,805)	$ 430,748

There are no material reconciling items between United States and Canadian GAAP that impact the consolidated statements of cash flows.

Directors & Officers

Board of Directors

David R. Beatty, O.B.E. [3,4]
Toronto, Ontario
Corporate Director,
Director of the Clarkson Centre for Business Ethics

Brendan Calder [2,3,4]
Toronto, Ontario
Corporate Director,
Effective Executive in Residence,
Rotman School of Management
University of Toronto

Peter F. Cohen [1,2,3,4]
North York, Ontario
President,
Dawsco Capital Corp.
(Real Estate and Investment Company)

Bernard I. Ghert [2]
Toronto, Ontario
Founder,
Ghert Foundation

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

Steven Rogers
Mississauga, Ontario
Chief Executive Officer,
The Franchise Company, Inc.
(Subsidiary of the Corporation)

1 Chairman
2 Audit Committee
3 Executive Compensation Committee
4 Nominating and Corporate Governance Committee

Directors & Officers

Senior Officers

Peter F. Cohen
Chairman

Jay S. Hennick
Founder, President and Chief Executive Officer

D. Scott Patterson
Executive Vice-President

John B. Friedrichsen
Senior Vice-President and Chief Financial Officer

Roman Kocur
Managing Director, Corporate Development

Michael Natale
Vice President, Performance and Risk Management

Douglas G. Cooke
Corporate Controller and Treasurer

Christian Mayer
Manager, Financial Reporting & Analysis

Kevin Roy
Director, Corporate Development

Neil D. Chander
Director, Tax Planning and Compliance

Michael H. Appleton, Q.C.
Corporate Secretary

Lynda A. Cralli
Assistant Corporate Secretary

Residential Property Management

Gene Gomberg
Chief Executive Officer

Richard M. Strunin
President

Charles D. Sollins
Chief Operating Officer

Commerical Real Estate Services

Douglas P. Frye
Chief Executive Officer

Integrated Security Services

Frank Brewer
Chief Executive Officer

Property Improvement Services

Steven Rogers
Chief Executive Officer

Business Services

Lawrence Zimmering
Chief Executive Officer

Tom Aiton
Co-Chief Executive Officer

Corporate Information

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Chartered Accountants

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HSBC Bank Canada
JPMorgan Chase Bank
Royal Bank of Canada
The Toronto Dominion Bank

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  Ph 416.960.9500

Public Relations

Edelman Public Relations Worldwide

Stock Exchange Listings

FirstService shares are listed and traded on:

- NADSAQ National Market (Symbol-FSRV)
- The Toronto Stock Exchange (Symbol-FSV.SV)

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

Earnings & Corporate News

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

- www.firstservice.com
- Ph 416.960.9500

Copies of FirstService's Annual Report, Annual Information Form and Quarterly filings 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
- Dundee Securities Corporation
- National Bank Financial
- Pacific International Securities
- Raymond James Inc.
- TD Securities Inc.
- William Blair & Co.

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

Notice of Shareholders' Meeting

The annual meeting of the shareholders will be held on Monday, June 27, 2005 at 4:00 p.m. at The Toronto Stock Exchange Conference Centre, The Exchange Tower, 130 King St. West, Toronto, Ontario.

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