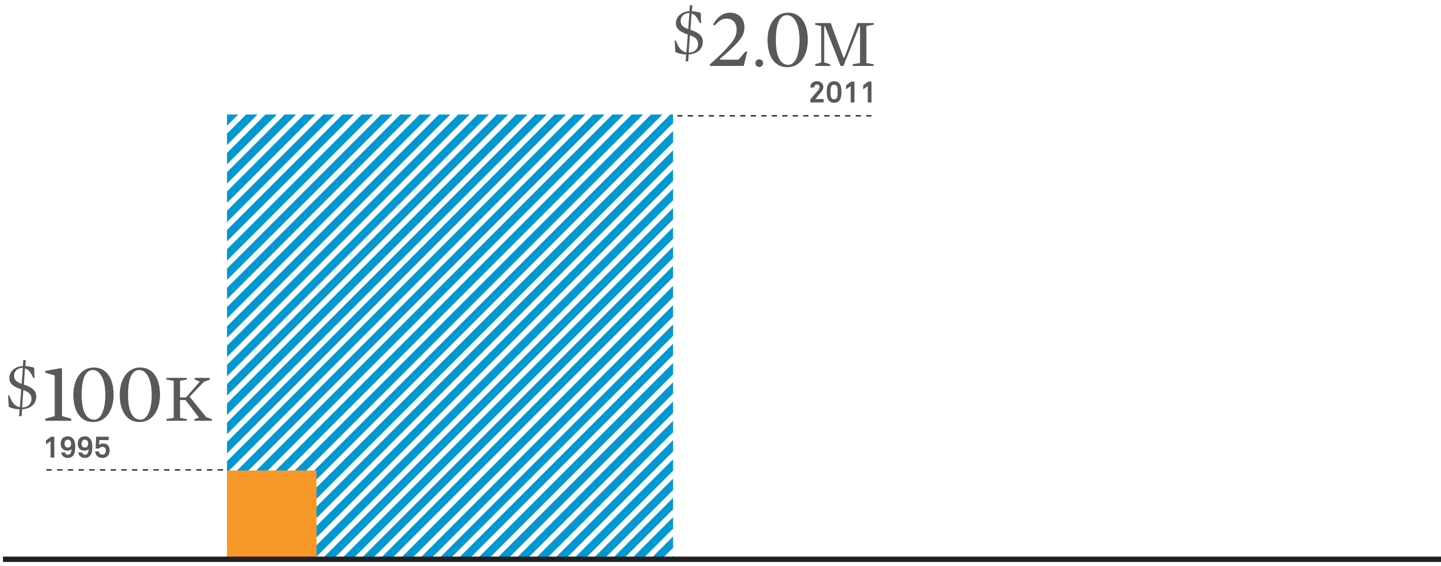
Creating value one step at a time

FirstService

Annual Report 2011

Why Invest in FirstService?



$100,000 invested in 1995 is worth $2.0 million today

LEADER IN GLOBAL REAL ESTATE SERVICES

- $2.2 billion+ in revenues
- Real estate services is one of the world's largest markets
- Market leading position with one of the world's most recognized brands in Colliers International
- Proven historical track record
- Significant opportunity for continued growth and value appreciation

THREE ENGINES FOR DIVERSIFIED GROWTH

- Colliers International is one of the top global players in commercial real estate
- FirstService Residential is North America's largest residential property manager
- Property Services delivers diversification though property preservation and distressed property management and property service franchising

PROVEN BUSINESS MODEL

- Attractive business fundamentals
- Partnership philosophy aligns business leaders with shareholders
- Growth strategy balances internal growth with strategic acquisitions

STRONG CASH FLOW & BALANCE SHEET

- Moderate leverage
- Ample growth capital

WORLD LEADER IN PROPERTY MANAGEMENT

- 2.3 billion square feet of commercial and residential property under management
- More than $7 billion in combined buying power, adding value to clients and creating competitive advantage
- Value added services and products include FirstService Financial, FS Energy and other combined buying opportunities

SUCCESSFUL TRACK RECORD

- $100,000 invested when the company listed on NASDAQ in 1995 is worth $2.0 million today
- Return on investment 20+% CAGR over 16 years

Contents

Colliers International

Under the Colliers International brand, FirstService operates one of the world's leading global real estate service organizations. Powered by a culture of service excellence and a shared spirit of enterprise, Colliers International integrates the resources of real estate specialists worldwide to accelerate its clients' success. Colliers International provides a full range of services to real estate users, owners, developers and investors worldwide, including sales and lease brokerage, investment sales, appraisal and valuations, institutional asset and property management, corporate solutions, hotel and hospitality consulting, and project management.

About FirstService Corporation

FirstService Corporation is a global leader in the rapidly growing real estate services sector, providing a variety of services in commercial real estate, residential property management and property services. As one of the largest property managers in the world, FirstService manages more than 2.3 billion square feet of residential and commercial properties through its three industry-leading service platforms: Colliers International, one of the largest global players in commercial real estate; FirstService Residential Management, the largest manager of residential communities in North America; and Property Services, including Field Asset Services, one of America's largest property preservation and distressed asset management companies and FS Brands, one of North America's largest providers of property services through franchise networks.

FirstService generates over US$2.2 billion in annual revenues and has more than 23,000 employees worldwide.

www.FirstService.com

Revenue

$995M

($1.1 billion including non-consolidated operations)

EBITDA

$52M

RECOGNIZED GLOBAL LEADER WITH WORLDWIDE COVERAGE

- 213 company-owned offices in 34 countries
- Affiliate offices in 28 countries
- Market leader in North America, Central & Eastern Europe, Latin America, Asia Pacific
- 1.0+ billion square feet under management with $1 billion annual operating budget

GROWTH STRATEGY

- Broaden service offerings
- Strengthen existing operations
- Expand into new markets
- Drive higher operating margins

INSTITUTIONAL REPUTATION

- Trusted advisors to corporate, government and private market clients worldwide
- Ranked No. 1 commercial real estate company by Commercial Property Executive
- Recognized thought leader in the commercial real estate industry
- Ranked in top 100 global players by International Association of Outsourcing Professionals

Colliers INTERNATIONAL

FirstService Residential Management

FirstService is the largest manager of residential communities in North America. It oversees client expenditures of more than $6 billion annually while administering the daily operations and maintenance of their properties. The goal of FirstService Residential is to enhance the value of the properties it manages while promoting the lifestyle experience of its residents. Services include traditional property management, developer consulting services, on-site staffing, rental and REO management and leasing, energy management services, leveraged purchasing programs, financial and insurance products, and other specialty services. This division also includes American Pool Enterprises, North America's largest commercial swimming pool and recreational facility management operation.

Revenue

$761M

EBITDA

$62M

LARGEST PLAYER IN NORTH AMERICA

- Low, medium and high-rise condominiums, cooperatives
- Large-scale and lifestyle homeowner associations
- Multi-family and investor-owned rentals
- 95% owner-occupied properties
- Leader in highly fragmented market, with 4% share

5,600 PROPERTIES UNDER MANAGEMENT

- 1.3+ million units under management
- 107 offices, 3 million+ residents
- $6+ billion annual spend

STABLE & RECURRING BUSINESS

- 85% of revenues under long-term contracts
- 95% + contract retention rates

GROWTH STRATEGY

- Build market share through service excellence and differentiated service offerings, including those that leverage purchasing power of growing client base
- Add recurring property services, high-quality financial services and other products and services
- Enter new geographic regions through acquisitions and new offices
- Drive greater operational efficiencies and client service capability through increased scale and centralization of selected back office functions

FirstService
Residential Management

AMERICAN POOL ENTERPRISES INC.

Property Services

Through Field Asset Services, FirstService provides property preservation and distressed property management services through a large network of third party contractors. Services are provided to some of America's largest government sponsored enterprises, residential mortgage lenders and servicers. The distressed property portfolio under management is valued at more than $9 billion.

FS Brands is the North American leader in property service franchising. These well-known franchise brands and company-owned operations generate more than $1 billion in system-wide sales. Stakeholders own direct equity in the franchises or service lines they operate, ensuring high levels of alignment and customer satisfaction.

Revenue

$469M

EBITDA

$62M

PROPERTY PRESERVATION & DISTRESSED PROPERTY MANAGEMENT

- Preserves and manages distressed REO properties through centralized asset management
- On-site services provided by independent third party contractors
- Clients include America's largest government sponsored enterprises, residential mortgage lenders and servicers
- 60,000+ properties under management

FS BRANDS

- Owns and operates 7 well-known service franchise networks
- 1,800 third-party franchisees and 9 company-owned operations
- $1.1 billion in system-wide sales

75% RECURRING REVENUE

- Long term contracts in property preservation and distressed property management
- Royalties from franchisees

GROWTH STRATEGY

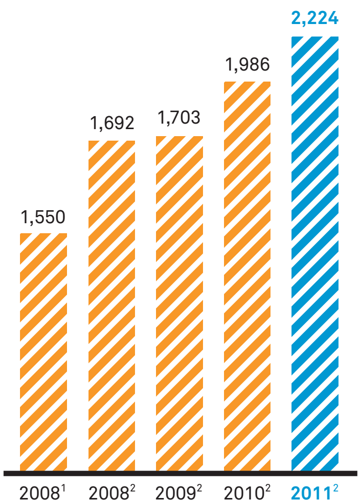
- Diversify services in property preservation and distressed property management
- Accelerate growth of FS Brands as the economy strengthens

FIELD ASSET SERVICES

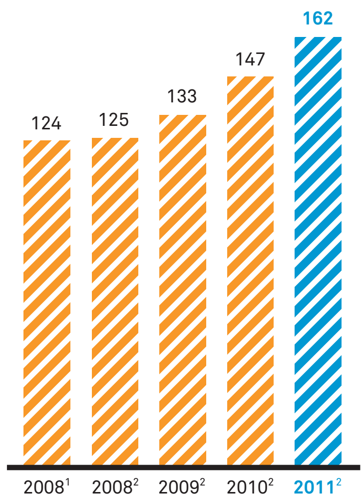
TenantAccess

FS Brands

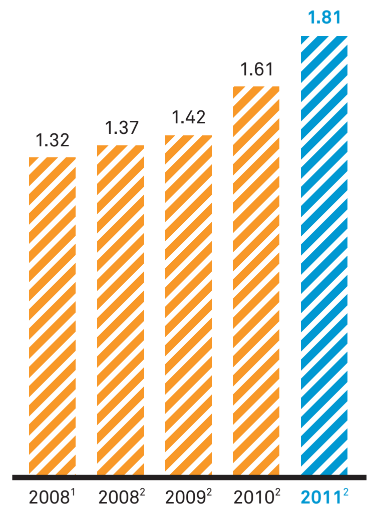
Revenues (US$ millions)
• 14% 5 Year CAGR



Adjusted EBITDA (US$ millions)
• 8% 5 Year CAGR



Adjusted EPS (US$)
• 9% 5 Year CAGR



Notes
1. Results for fiscal year ended March 31
2. Results for calendar years ended December 31

(US$ thousands, except per share amounts)

	Year ended December 31				Year Ended March 31
	2011	2010	2009	2008	2008
Operations					
Revenues	**$ 2,224,171**	$ 1,986,271	$ 1,703,222	$ 1,691,811	$ 1,549,713
Operating earnings	**98,061**	97,532	38,181	71,327	78,122
Net earnings (loss) from continuing operations	**101,743**	47,900	(7,279)	19,837	52,277
Net (loss) earnings from discontinued operations	**–**	–	(576)	45,297	(2,829)
Net earnings (loss)	**101,743**	47,900	(7,855)	65,134	49,448
Financial Position					
Total assets	**$ 1,233,718**	$ 1,129,541	$ 1,009,530	$ 990,637	$ 1,089,343
Long-term debt	**316,415**	240,740	235,994	266,369	356,030
Convertible debentures	**77,000**	77,000	77,000	–	–
Shareholders' equity	**243,619**	199,248	166,034	199,141	131,553
Common Share Data					
Diluted net earnings (loss) per common share from continuing operations	**$ 2.03**	$ 0.11	$ (1.85)	$ (0.19)	$ 0.89
Diluted weighted average outstanding (thousands)	**33,301**	30,367	29,516	29,914	30,547
Cash dividends per common share	**–**	–	–	–	–
Preferred Share Data					
Number outstanding (thousands)	**5,623**	5,772	5,772	5,772	5,979
Cash dividends per preferred share	**$ 1.75**	$ 1.75	$ 1.75	$ 1.75	$ 1.16
Other Earnings Data					
Adjusted EBITDA[1]	**$ 161,561**	$ 147,308	$ 133,067	$ 124,745	$ 123,614
Adjusted earnings per common share[2]	**1.81**	1.61	1.42	1.37	1.32

Notes
1. Adjusted EBITDA is defined as net earnings from continuing operations before income tax, interest, depreciation, amortization, goodwill impairment charges, other expense (income), acquisition-related items, stock-based compensation expense, cost containment expense and reorganization charges.
2. Adjusted earnings per common share is defined as diluted net earnings (loss) per common share from continuing operations, adjusted for the effect, after income tax, of non-controlling interest redemption increment, amortization, goodwill impairment charges, acquisition-related items, stock-based compensation expense, cost containment expense, reorganization charges and deferred income tax asset valuation allowances.

Jay S. Hennick Founder & CEO

Serving owners and occupiers of real estate on a global basis creates multiple opportunities for growth.

Our goal at FirstService has always been to create value for our shareholders, one step at a time. Year after year, we have followed a disciplined approach to growth, focusing our efforts and deploying our capital in global real estate services. Serving owners and occupiers of real estate on a global basis creates multiple opportunities for growth. FirstService is a world leader in real estate services and our market leadership positions us well to capitalize on growth opportunities today and in the future.

In 2011 we achieved another year of solid growth, as revenues finished the year at a record $2.2 billion. Colliers International led our growth with strong increases in revenues and profits, particularly in the Americas, Asia and Central and Eastern Europe as it continued to strengthen its brand, increase margins and integrate operations. FirstService Residential Management once again delivered solid results to both the top and bottom lines completing a number of important acquisitions and strengthening its position as North America's largest residential property manager. And in Property Services, despite the challenges in the US economy, we achieved much better than expected growth in our FS Brands franchise operations while at Field Assets, our distressed asset management operation, we came up short as foreclosure volumes decreased considerably toward the end of the year.

At its core, FirstService is a property management company that generates more than 60% of its revenues from property management contracts. For us, having a highly stable and predictable revenue stream takes away much of the cyclicality faced by others in the real estate services industry, while still providing abundant growth opportunities. With more than 2.3 billion square feet of commercial and residential real estate under management, FirstService is one of the world's largest property managers. This leadership position enables us to leverage our scale to create value for our clients – in energy, insurance, financial products and combined buying power – while creating significant competitive advantages for FirstService. You can read more about how we accomplish this on page 4 of this annual report.

Here are some highlights from 2011:

1. **Completed several acquisitions:** We completed several important acquisitions in 2011 including market leading service businesses in Minneapolis, Vancouver, Charlotte, Las Vegas and Toronto.

2. **Streamlined Property Services division:** After assessing the possible divestiture of our highly successful FS Brands franchise operations, we ultimately reaffirmed our commitment to this business because of our confidence in operating management and the potential we see as the US economy strengthens. One outcome was our decision to transition divisional management to the executive team at FirstService. This step not only reduced our annual operating costs, it also increased our operational efficiency translating into greater growth opportunities in the years to come.

3. **Redoubled our focus on Net Promoter® Scores:** In 2009, we began to explore the methodology around Net Promoter® Scores – a rigorous system designed to increase client loyalty by defining, assessing and improving our service delivery. The result has been higher customer retention rates and significantly improved customer satisfaction. In 2012 we plan to expand our efforts further to measure and enhance employee satisfaction. If we can use the Net Promoter® Score methodology to create a company-wide culture designed to delight customers, we will create the ultimate competitive advantage.

4. **Achieving outstanding results in sustainability:** Our sustainability efforts also accelerated in 2011, with FS Energy making the largest impact. Our unique and proprietary database allows us to track and measure historical energy consumptions and operating costs for the properties we manage. During the year, we delivered more than 350 Energy Report Cards resulting in 92 engagements, and we completed the largest multi-family residential aggregate buying program in New York City saving our clients about 9% of their baseline energy costs.

Overall we remain confident that our successful track record, proven business model, solid financial position and focus on global real estate services will continue to deliver strong returns for our shareholders in 2012 and beyond.

FirstService shareholders have done well over the years. A $100,000 investment when we listed on the NASDAQ in 1995 is worth more than $2.0 million today. That's more than a 20% annualized return over a 16 year period – an exceptional return by any standard. Overall we remain confident that our successful track record, proven business model, solid financial position and focus on global real estate services will continue to deliver strong returns for our shareholders in 2012 and beyond.

On behalf of the Board, I would like to thank all of our business leaders, partners and employees for their inspired work over the past year.

Jay S. Hennick
Founder & Chief Executive Officer

Managing commercial and residential properties is a core service offering of FirstService. Through Colliers International we manage 1.0+ billion square feet of commercial property worldwide. FirstService Residential manages 1.3+ billion square feet of residential properties in North America and our property preservation and distressed asset management business, Field Asset Services manages and maintains thousands of single-family properties in the US on a temporary basis for lenders and mortgage servicers.

With over 2.3 billion square feet of commercial and residential properties under management, FirstService is one of the world's largest property management companies. Last year's Annual Report described how we leverage this scale to create value for our clients in Energy, Insurance, Financial Products and Combined Buying Power. We accelerated that momentum in 2011 – here is an update on our accomplishments.

FS Energy

In 2008, we launched FS Energy with a commitment to reduce energy costs across our portfolio 25%. From launch to early 2011, milestones included:

- Creating a unique and proprietary database of historical energy use data for more than 450 high-rise buildings in New York City. This benchmarked all buildings in our portfolio, ranked by energy efficiency.
- Collaborating with two major US financial institutions to create a unique Energy Retrofit Financing Facility to provide loans to our clients for energy retrofit projects on a streamlined basis. These loans are serviced from energy retrofit cost savings.
- Expanding database to more than 700 high-rise buildings in the greater Chicago area and South Florida and establishing the foundation for FS Energy roll-out.

Accomplishments in 2011 include:

- Delivered 350 Energy Report Cards to individual clients. These ranked the building's energy efficiency and estimated energy cost savings potential if their property became "best in class".
- FS Energy presented detailed energy reduction plans to 105 clients.
- FS Energy was retained on 92 separate engagements including 65 capital improvement projects. These projects included oil to gas conversions, steam to boiler conversions, cogeneration, lighting retrofits, and control upgrades.
- FS Energy completed NYC's largest multi-family residential energy aggregation procurement program across 75% of our managed portfolio. Estimated savings to clients: $2.5 million annually.
- FS Energy facilitated capital financing for 11 major energy retrofit projects.
- Total estimated 2011 energy savings: $11.0 million or 9% of total NYC portfolio baseline energy costs.

FS Energy is becoming a knowledge leader in multifamily energy efficiency. It is collaborating closely with EPA/ Energy Star, Department of Energy, Environmental Defense Fund, New York City Mayor's Office, Institute for Market Transformation, University of Pennsylvania (research), local utilities and other municipalities and organizations to share data and best practices. In 2012, FS Energy plans to commence operations in Chicago and South Florida.

fs energy
Conserve. Save. Thrive.

CLIENT ENERGY COST
REDUCED
$11M
IN 2011

CAPITAL PROJECTS
LAUNCHED
IN 2011
= **65**

FirstService Financial

In 1997 we established FirstService Financial to leverage our size and expertise to create value for our property management clients. Over the years, our focus at FFI has narrowed to three areas that provide tangible value while creating significant competitive advantages for our operations: Insurance, Financial Products and Combined Buying Power.

Insurance

We manage over 6,000 residential and commercial properties in North America with an estimated insured value of $100 billion. Our extensive database tracks all policy and claims information across that portfolio. We have leveraged the data and commissioned actuarial reports that demonstrate our managed properties have better long-term claims experience than the broader market. This unique data enables us to offer risk management solutions that are unmatched in terms of coverage and price.

In 2011 we expanded our distribution capability so that we can offer our insurance expertise to all clients in North America. During the year we completed new insurance placements with over 600 clients – in each case offering better coverage at lower cost.

Insurance costs are a substantial component of our clients' operating budgets – averaging 10%. Our ability to reduce this cost has delivered significant value and created a tangible differentiator for FirstService.

Financial Products

Each of our 6,000 North American clients have operating bank accounts and most have separate reserve and escrow bank accounts. We have consolidated these separate accounts into select top tier banking institutions – creating value for our clients by eliminating bank fees on operating accounts and delivering significantly higher interest rates on reserve and escrow funds.

In 2011 the average daily deposits in our partner banks grew to over $1.5 billion. The consolidation of these accounts created more than $15 million in value, either through incremental returns to our clients or the elimination of fees. Our efforts to help our clients better manage their cash deposits has delivered significant value to them while creating another tangible differentiator for FirstService.

Combined Buying Power

The growth in our property management business has increased the scale of the operating budgets we manage to more than $7 billion annually. This has created a unique opportunity to seek cost rationalizations and bulk purchasing discounts on behalf of our clients. To leverage our aggregated purchasing capability, we launched a business intelligence application that enables us to data mine the financial information inherent in our managed portfolio. Business users at the property and corporate levels can now analyse expenditures at a high level – for example by expense type – as well as drilling down to the vendor details level.

In 2011, we used this information to renew or create new bulk-purchasing agreements with dozens of our largest vendors in areas that would generate the greatest return to our clients. This resulted in over $12 million of savings for our management clients. Our efforts around combining the buying power of all of our clients and translating that into significant savings for our clients is another tangible differentiator for FirstService.

FirstService Financial, Inc.

CLIENT VALUE FROM BANKING PROGRAM IN 2011

$15M+

$1.5 BILLION

AVERAGE DAILY DEPOSITS IN 2011

600

NEW INSURANCE PLACEMENTS IN 2011

FirstService Highlights & Growth

1989 Founding
Founder and CEO, Jay Hennick launches FirstService with Superior Pools, the swimming pool management business he started as a teenager. In 1999, merges Superior Pools into American Pool Enterprises, now the largest commercial swimming pool management organization in North America.

1989 Property Services
Acquires College Pro Painters franchise system to establish the foundation for Property Services platform, which grows into North America's largest provider of property services through franchise systems.

1993 Initial Public Offering
IPO on TSX raises $10 million. FirstService lists on the NASDAQ in 1995.

1993 Integrated Security
Acquires Intercon Security and establishes the Integrated Security platform. In 2000, adds Philadelphia-based Security Services & Technologies. Integrated Security platform grows rapidly and makes additional acquisitions in key US markets.

1995 Business Process Outsourcing
Acquires BDP Business Data Services and establishes the Business Process Outsourcing platform. Subsequently completes other acquisitions to diversify and expand across North America. In 2004, these businesses are re-branded as Resolve Corporation.

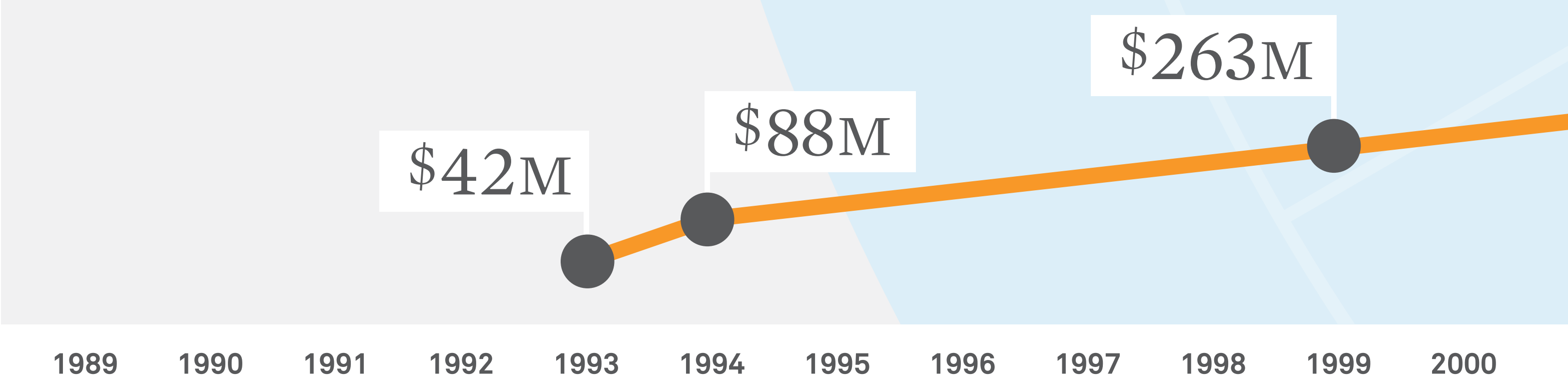
1996 FirstService Residential
Acquires Prime Management and The Continental Group and establishes the Residential Property Management platform. Further market leaders are added in key US markets making FirstService Residential the largest manager of residential properties in the US. In 2010, FirstService Residential expands into Canada. By 2011, it becomes the largest manager of residential properties in North America.

1997 Public Offering
FirstService completes $20 million equity offering.

2004 Commercial Real Estate
Establishes the Commercial Real Estate Services platform and becomes a global company with the acquisition of Colliers Macaulay Nicolls, the largest shareholder of privately held Colliers International. Additional acquisitions of commercial real estate service companies in US and worldwide expand operations and diversify revenues.

2006 Resolve Divestiture
FirstService refines focus on real estate services with divestiture of Resolve Corporation through an IPO. Sale proceeds represent annual return of 18% over the 11 year period of ownership.

2007 Field Asset Services
Adds Field Asset Services, a leading provider of property preservation services and distressed asset management for banks, mortgage lenders and servicers.



2008 Integrated Security Divestiture

FirstService further refines focus on global real estate services with the sale of Integrated Security platform. Sale proceeds represent annual return of 22% over the 15 year period of ownership.

2011 FirstService surpasses $2 billion mark

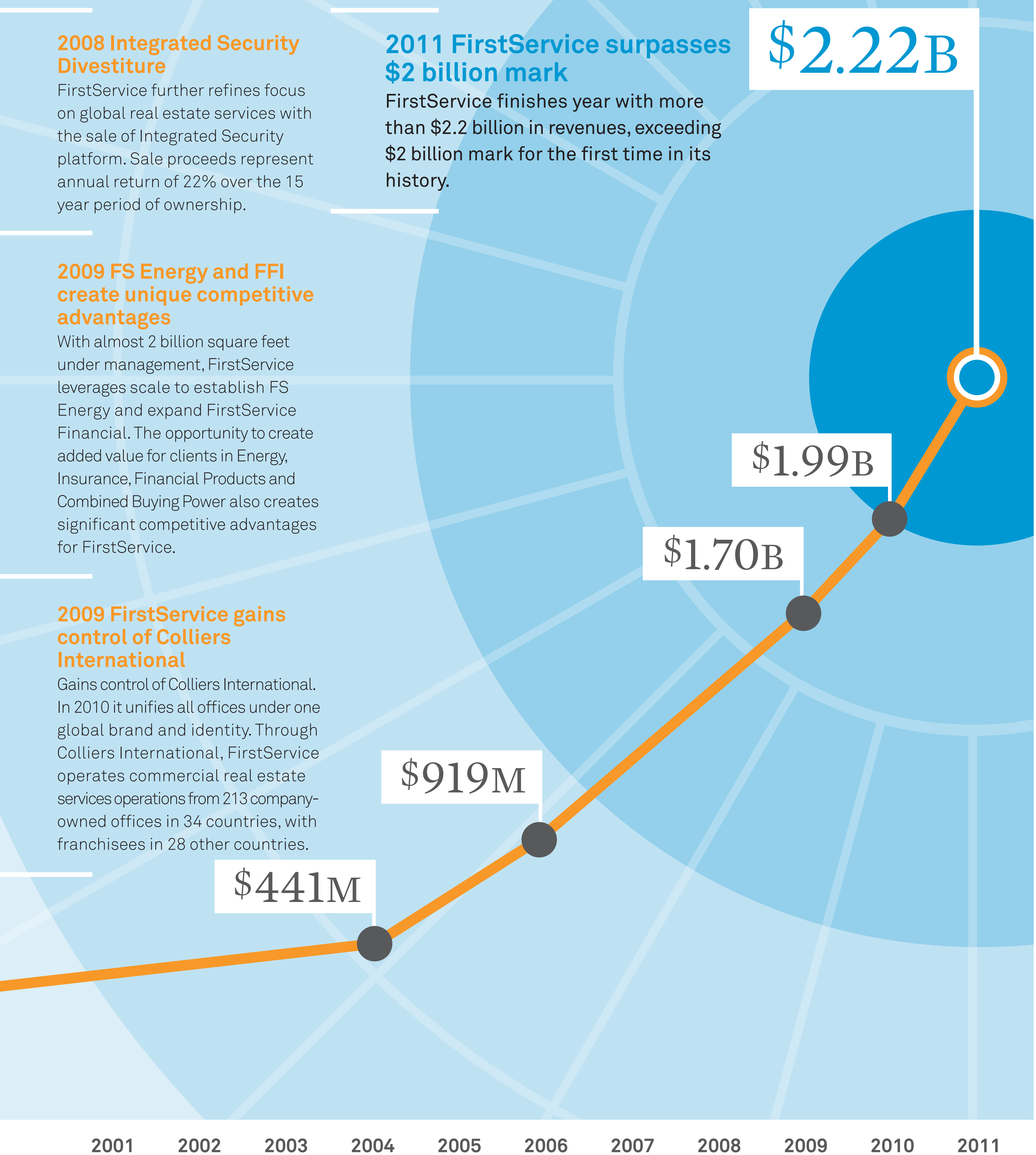
FirstService finishes year with more than $2.2 billion in revenues, exceeding $2 billion mark for the first time in its history.

2009 FS Energy and FFI create unique competitive advantages

With almost 2 billion square feet under management, FirstService leverages scale to establish FS Energy and expand FirstService Financial. The opportunity to create added value for clients in Energy, Insurance, Financial Products and Combined Buying Power also creates significant competitive advantages for FirstService.

2009 FirstService gains control of Colliers International

Gains control of Colliers International. In 2010 it unifies all offices under one global brand and identity. Through Colliers International, FirstService operates commercial real estate services operations from 213 company-owned offices in 34 countries, with franchisees in 28 other countries.



Directors & Officers

Board of Directors

David R. Beatty, O.B.E.[2,3,4]
Toronto, Ontario
Corporate Director,
Director of the Clarkson Centre
for Business Ethics

Brendan Calder[3,4]
Toronto, Ontario
Corporate Director,
Professor, "Getting-It-Done"
Rotman School of Management
University of Toronto

Peter F. Cohen[1,2,4]
Toronto, Ontario
President,
The Dawsco Group

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

Jay S. Hennick
Toronto, Ontario
Founder & CEO,
FirstService Corporation

Michael D. Harris[3]
Toronto, Ontario
22nd Premier of Ontario (1995-2002)
Senior Business Advisor,
Cassels Brock & Blackwell LLP

Steven S. Rogers
Mississauga, Ontario
President,
Four Box Holdings

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

Senior Officers

Peter F. Cohen
Chairman

Jay S. Hennick
Founder & CEO

D. Scott Patterson
President & COO

John B. Friedrichsen
Senior Vice-President & CFO

Douglas G. Cooke
Vice President, Corporate Controller
& Corporate Secretary

Elias Mulamoottil
Senior Vice-President, Strategy
& Corporate Development

Christian Mayer
Vice President, Finance

Neil D. Chander
Vice President, Tax

David Han
Director, Compliance
& Risk Management

Lynda A. Cralli
Assistant Corporate Secretary

Commercial Real Estate

Douglas P. Frye
CEO,
Colliers International

Residential Property Management

Gene Gomberg
CEO,
FirstService Residential

Mitchell Friedlander
CEO,
American Pool Enterprises

Property Services

Charles E. Chase
CEO,
FS Brands

Dale McPherson
CEO,
Field Asset Services

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Phone: 416.960.9500

Head Office, United States
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Dania Beach, Florida 33004

Legal Counsel

Canada
Fogler, Rubinoff LLP
United States
Olshan LLP

Independent Auditors

PricewaterhouseCoopers LLP

Lenders

Toronto-Dominion Bank
JPMorgan Chase Bank
Bank of Montreal
HSBC Bank Canada
The Bank of Nova Scotia
Royal Bank of Canada
CIBC
National Bank of Canada
Bank of America
U.S. Bank
Bank United

Registrar and Transfer Agent

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E-mail: info@equitytransfer.com

US co-transfer agent
Registrar and Transfer Company
Phone: 1.800.368.5948
E-mail: info@rtco.com

Investor Relations

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

Lynda A. Cralli
Assistant Corporate Secretary
Phone: 416.960.9500

Stock Exchange Listings

Common Shares:
NASDAQ Global Select Market (Symbol–FSRV)
Toronto Stock Exchange (Symbol–FSV)

Preferred Shares:
Toronto Stock Exchange (Symbol–FSV.PR.U)

Convertible Debentures:
Toronto Stock Exchange (Symbol–FSV.DB.U)

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

Earnings & Corporate News

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

Website: www.firstservice.com
Phone: 416.960.9500

Copies of FirstService's Annual Report 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 equity research coverage on FirstService:

BMO Capital Markets
CIBC World Markets
JMP Securities
Pacific International Securities
Raymond James
RBC Capital Markets
Sidoti & Company
TD Newcrest
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 Wednesday April 11, 2012 at 4:00 p.m. (ET) at The Design Exchange, 234 Bay Street, Toronto-Dominion Centre, Toronto, Ontario.

At its core, FirstService is a property management company that generates more than 60% of its revenues from property management contracts.

FIRSTSERVICE CORPORATION
Management’s discussion and analysis of results of operations and financial condition for the year ended December 31, 2011
(in US dollars)
March 1, 2012

The following Management’s discussion and analysis of results of operations and financial condition (“MD&A”) should be read together with the audited consolidated financial statements and the accompanying notes (the “Consolidated Financial Statements”) of FirstService Corporation (“we,” “us,” “our,” the “Company” or “FirstService”) for the year ended December 31, 2011. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). All financial information herein is presented in United States dollars.

The Company has prepared this MD&A with reference to National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators (the "CSA"). Under the U.S./Canada Multijurisdictional Disclosure System, the Company is permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. This MD&A provides information for the year ended December 31, 2011 and up to and including March 1, 2012.

Additional information about the Company, including the Company’s Annual Information Form, which is included in FirstService’s Annual Report on Form 40-F, can be found on SEDAR at www.sedar.com and on the U.S. Securities and Exchange Commission website at www.sec.gov.

This MD&A includes references to “Adjusted EBITDA” and “Adjusted earnings per common share”, which are financial measures that are not calculated in accordance with GAAP. For a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures, see “Reconciliation of non-GAAP financial measures.”

Consolidated review
FirstService generated solid consolidated operating results for the year ended December 31, 2011, benefitting from a mix of internal and acquired revenue growth. Consolidated revenues for 2011 were $2.22 billion, an increase of 12% over the prior year, primarily attributable to internal revenue growth. The Commercial Real Estate Services operations, our largest operating segment in terms of revenues, led with revenue growth of 15% as well as a strong improvement in profitability relative to 2010.

Diluted net earnings per common share calculated in accordance with GAAP were $2.03 versus $0.11 in the prior year. The 2011 results included the reversal of accumulated deferred income tax asset valuation allowances related to net operating loss carry-forwards in our US Commercial Real Estate Services operations (see discussion below), which reduced income tax expense by $49.7 million. Absent this reversal, GAAP diluted net earnings per share for 2011 would have been $0.57. Our Adjusted earnings per common share were $1.81 for the year, up 12% from $1.61 in the prior year; this measure excludes the impact of income tax valuation allowances in both periods.

We acquired controlling interests in six businesses during 2011. The aggregate initial cash purchase price for these acquisitions was $23.0 million and was comprised of complementary regional operations, five in the Residential Property Management segment and one in the Commercial Real Estate segment. We also acquired non-controlling interests valued at $56.6 million, primarily in the Property Services segment. The purchase prices of these acquisitions were funded with cash on hand and borrowings on our revolving credit facility.

During the year, we completed a strategic review and reorganization of our Property Services division. After being approached by parties interested in acquiring the franchise networks operations, we engaged financial advisors to investigate strategic alternatives. Upon exploring the alternatives, we concluded it was not in the best interests of shareholders to sell these operations. However, the key outcomes of the review were to transition managerial oversight of the division to the executive team at FirstService and to acquire the balance of the shares of the division that were not already owned, to reduce administrative costs and the non-controlling interest share of earnings going forward.

Results of operations – year ended December 31, 2011

Revenues were $2.22 billion for the year ended December 31, 2011, up 12% from 2010. The increase was comprised of internal revenue growth of 6%, positive impact of acquisitions of 4% and an increase of 2% as a result of foreign exchange, as the US dollar depreciated in value relative to local currencies at many of our operations around the world.

Operating earnings increased slightly in 2011 to $98.1 million from $97.5 million, while Adjusted EBITDA rose 10% to $161.6 million. Operating earnings for 2011 were impacted by $5.6 million of reorganization costs related to the Property Services segment, including severances and professional fees, as well as $4.6 million in acquisition-related items, primarily fair value adjustments on contingent acquisition consideration.

Depreciation expense was $30.7 million in 2011 relative to $28.3 million in the prior year. The increase was attributable to current year investments in information technology systems. Amortization expense was $20.3 million in 2011, up slightly versus the prior year as a result of recent acquisitions.

Interest expense decreased to $18.0 million from $18.3 million in the prior year. Our weighted average interest rate decreased to 4.8% from 5.8% in the prior year, as a result of increased borrowings on our revolving credit facility, which had lower floating interest rates compared to the prior year, combined with repayments of fixed interest rate senior notes. We also had an interest rate swap in place during the year to exchange the fixed rate on $40 million of notional value on our Senior Notes for variable rates. The swap resulted in a modest reduction in interest expense.

Other expense for 2011 included a net loss of $3.5 million from investments accounted for under the equity method in the Commercial Real Estate segment, including our 29.5% stake in Colliers International UK plc ("Colliers UK"). In addition, as of December 31, 2011, we determined that the carrying value of this investment was other-than-temporarily impaired and recorded an impairment loss of $3.1 million.

Our consolidated income tax rate for the year ended December 31, 2011 was (36)% versus 38% in 2010. The current year's rate was impacted by the reversal of deferred income tax valuation allowances (see discussion below), which reduced income tax expense by $49.7 million. The prior year's tax rate was affected by the recognition of an $11.8 million valuation allowance on deferred tax assets. After considering the impact of the valuation allowances, the tax rate for 2011 was approximately 29%, compared to 28% for 2010.

Net earnings for 2011 were $101.7 million, compared to $47.9 million in the prior year. The increase was primarily attributable to the reversal of the deferred income tax valuation allowance.

The Commercial Real Estate segment reported revenues of $994.6 million for 2011, up 15% relative to the prior year. Internal revenue growth measured in local currency was 8%, and was comprised primarily of increased investment sale and lease brokerage, property management and project management activity. Foreign exchange resulted in a revenue increase of 4% and growth of 3% was attributable to acquisitions. Regionally, North America revenues were up 16% (9% on a local currency basis and excluding acquisitions), Asia Pacific revenues were up 11% (3% on a local currency basis), and Europe & Latin America revenues were up 37% (17% on a local currency basis and excluding acquisitions). Adjusted EBITDA for 2011 was $51.9 million, at a margin of 5.2%, versus $39.5 million at a margin of 4.6% in the prior year. The margin increase was attributable to operating leverage and greater administrative efficiency, as well as $2.7 million of Colliers International re-branding costs incurred in 2010 that did not recur in 2011.

In the Residential Property Management segment, revenues were $760.5 million for 2011, an increase of 15% compared to the prior year. Recent acquisitions accounted for most of the increase, while internal growth was 6% and was attributable to net new property management client wins. The segment reported Adjusted EBITDA of $62.3 million or 8.2% of revenues for 2011, relative to $59.1 million or 8.9% of revenues in the prior year. The decline in margin was attributable to increases in operating costs outpacing the ability to pass price increases through to clients.

Our Property Services segment reported revenues of $468.9 million for 2011, an increase of 1% versus the prior year, comprised of internal growth. Adjusted EBITDA in the segment for 2011 was $61.7 million, down 10% relative to the prior year, and the margin was 13.2% relative to 14.8%. The margin decrease was attributable to additional costs from increases in the scope of client engagements in our property preservation and distressed asset management operations, as well as declines in property volumes during the second half of the current year.

Corporate costs for 2011 were $16.7 million relative to $22.3 million in the prior year. The current year's results were impacted by a reduction in performance-based executive compensation relative to the prior year. Performance-based compensation is based on year over year growth in Adjusted earnings per share.

Results of operations – year ended December 31, 2010

Our revenues were $1.99 billion for the year ended December 31, 2010, up 17% relative to 2009. The increase was comprised of internal revenue growth of 11%, positive impact of acquisitions of 3% and an increase of 3% as a result of foreign exchange, as the US dollar depreciated in value relative to local currencies at many of our global operations.

Operating earnings increased 155% in 2010, to $97.5 million, while Adjusted EBITDA rose 11% to $147.3 million. Operating earnings were primarily impacted by the Commercial Real Estate operations, which generated increases in revenues and reductions in rent and administrative payroll expenses on account of the cost containment efforts undertaken in 2009. In addition, prior year operating earnings were negatively impacted by $31.1 million of goodwill and intangible asset impairment charges and $13.5 million of cost containment expenses, both in our Commercial Real Estate operations. The cost containment charges related to workforce reductions and office lease terminations incurred to better match our infrastructure with expected future revenues.

Depreciation expense was $28.3 million relative to $26.8 million in the prior year. The increase was attributable to increased investments in information technology systems, primarily at our Commercial Real Estate operations.

Amortization expense was $19.6 million in 2010, the same amount as in the prior year. In the prior year, we incurred $1.5 million of accelerated amortization for intangible assets in our Commercial Real Estate segment's European operations, while in the current year we recorded additional amortization of intangibles acquired in connection with recent acquisitions.

Interest expense increased to $18.3 million from $13.9 million in the prior year. Our weighted average interest rate increased to 5.8% from 4.7% in the prior year, primarily on account of the issuance of Convertible Debentures in November 2009, which have a coupon interest rate of 6.5%, and an effective interest rate including amortization of financing fees of 7.4%. The proceeds from the Convertible Debentures were used to repay floating rate debt under our credit facility bearing interest at approximately 1.1%. We also had interest rate swaps in place during the year to exchange the fixed rate on up to $100.0 million of notional value on our Senior Notes for variable rates (as at December 31, 2010 - $50.0 million). The swaps resulted in a modest reduction in interest expense.

Other expense for the current year included a net loss of $4.0 million from investments accounted for under the equity method in the Commercial Real Estate segment, including our stake in Colliers UK, acquired in October 2009.

Our consolidated income tax rate for the year ended December 31, 2010 was 38% versus 123% in 2009. The current year's tax rate was affected by the recognition of an $11.8 million valuation allowance on deferred tax assets related primarily to operating loss carry-forwards. The 2009 rate was impacted by a non-tax deductible goodwill impairment loss as well as a valuation allowance. The most significant factor leading to the determination that a valuation allowance was necessary is uncertainty in the near-term outlook for taxable income in our US and European Commercial Real Estate operations. The tax losses have a statutory carry-forward period of up to 20 years. Excluding the impact of the valuation allowances in 2010 and 2009, and the goodwill impairment loss in 2009, the tax rate would have been 23% in 2010, relative to 35% in 2009. The remaining differences in the rates were attributable primarily to (i) taxable foreign exchange gains realized in 2009, which had the effect of increasing the 2009 tax rate and (ii) a reduction in the liability for unrecognized tax benefits in 2010 due to the expiration of statutes of limitations, which had the effect of reducing the 2010 tax rate. After considering all of the factors described above, the tax rates for both 2010 and 2009 would have been approximately 28%.

Net earnings from continuing operations were $47.9 million, compared to a loss of $7.3 million in the prior year. The increase was attributable to improvements in revenues at the Commercial Real Estate operations and the impact of the 2009 goodwill impairment charge.

The Commercial Real Estate segment reported revenues of $861.9 million for 2010, up 38% relative to the prior year. Internal revenue growth measured in local currency was 26%, and was comprised primarily of increased brokerage activity. Foreign exchange resulted in a revenue increase of 6% and growth of 6% was attributable to acquisitions. Regionally, North America revenues were up 40% (26% on a local currency basis and excluding acquisitions), Asia Pacific revenues were up 45% (33% on a local currency basis), and Europe & Latin America revenues were up 8% (6% on a local currency basis and excluding acquisitions). Acquisitions for 2010 were comprised of controlling ownership stakes in four regional operations located in the U.S. Midwest as well as a controlling interest in an operation in the Netherlands. Adjusted EBITDA was $39.5 million, at a margin of 4.6%, versus $6.4 million at a margin of 1.0% in the prior year. The margin increase was attributable to operating leverage and reductions in rent and administrative payroll expenses on account of cost containment efforts undertaken in 2009, partially offset by $2.7 million of Colliers International re-branding costs incurred in 2010.

In Residential Property Management, revenues were $662.0 million, an increase of 3% compared to the prior year. Recent business acquisitions accounted for all of the growth. Some clients made decisions to defer or cancel discretionary spending on landscaping and swimming pool restoration projects, resulting in a decline in ancillary service revenues, which was largely offset by an increase in contractual management revenues. Residential Property Management reported Adjusted EBITDA of $59.1 million or 8.9% of revenues, relative to $61.0 million or 9.4% of revenues in the prior year. The decline in margin was attributable to the reduction in ancillary service revenues which tend to be at higher profit margins than contractual management.

Our Property Services operations reported revenues of $462.1 million, an increase of 6% versus the prior year, comprised entirely of internal growth. Internal growth was attributable to royalties at our franchised operations as well as continuing strong revenues in our Field Asset Services property preservation and foreclosure services contractor network. Adjusted EBITDA for the year was $68.2 million, down 5% relative to the prior year, and the margin decreased to 14.8% from 16.4%. The margin decrease was attributable to Field Asset Services, which experienced significant operating leverage in early 2009 from a surge of new business as well as additional costs from increases in the scope of client engagements in the current year.

Corporate costs for 2010 were $22.3 million relative to $11.2 million in the prior year. The current year's cost increase was attributable to performance-based incentive compensation accruals combined with the adverse effect of foreign currency translation of Canadian dollar denominated expenses. Performance-based compensation was based on growth in full year Adjusted earnings per share less cost containment expenses, which increased 44%.

Results of operations – year ended December 31, 2009

The analysis of the results of operations for the year ended December 31, 2009 is presented compared to the twelve-month period ended December 31, 2008. References to "prior year" and "2008" are in respect of that period.

We reported revenues from continuing operations of $1.70 billion for the year ended December 31, 2009, an increase of 1% relative to 2008. The increase was comprised of an internal revenue decline of 2%, positive impact of acquisitions of 4% and a 1% decline as a result of foreign exchange, as the US dollar appreciated against local currencies at our global operations.

Operating earnings for 2009 decreased 46% relative to the prior year, to $38.2 million, while Adjusted EBITDA for 2009 was up 7% to $133.1 million. Operating earnings were negatively impacted by $31.1 million of goodwill and intangible asset impairment charges and $13.5 million of cost containment expenses in our Commercial Real Estate operations during the year ended December 31, 2009. The cost containment charges related to workforce reductions and office lease terminations incurred to better match our infrastructure with expected future revenues. The growth in Adjusted EBITDA was attributable to service mix, with strong revenue increases in the Property Services segment at higher margins than the other operating segments.

Depreciation expense was $26.8 million for 2009 relative to $24.4 million in the prior year. The increase was attributable to investments in information technology platforms in each of the three operating segments made over the past two years.

Amortization expense was $19.6 million in 2009, relative to $18.2 million in the prior year. The increase was primarily attributable to $1.5 million of accelerated amortization in our European operations within the Commercial Real Estate segment.

We recorded a goodwill impairment loss in the amount of $29.6 million during 2009. We were required to perform a goodwill impairment test during the quarter ended March 31, 2009 triggered by a deterioration of economic conditions in the Commercial Real Estate operations. In particular, we determined that there was impairment in the North American and Central Europe & Latin American reporting units within the Commercial Real Estate segment driven by (i) adverse economic conditions and sharply reduced brokerage activity which in turn reduced future expected cash flows and (ii) increased discount rates due to higher risk premiums being demanded by market participants. In relation to the valuation of the impaired reporting units for the goodwill impairment test as of March 31, 2009, discounted cash flow projections based on ten-year financial forecasts were used. The key assumptions in the forecast for the North American reporting unit were (i) a revenue decline of 8% for 2009 followed by annual increases beginning in 2010, reaching a steady state internal growth rate of 3% in 2015; (ii) the application of accumulated tax losses in the amount of $57 million against future earnings; (iii) a discount rate of 13.5% applied to future cash flows and (iv) a terminal growth rate of 2%. The key assumptions in the forecast for the Central Europe and Latin American reporting unit were (i) a revenue decline of 52% for 2009 followed by annual increases beginning in 2010, reaching a steady state internal growth rate of 5% in 2015; (ii) a discount rate of 14% applied to future cash flows and (iii) a terminal growth rate of 2%.

Interest expense for 2009 decreased to $13.9 million from $16.1 million in the prior year. Our weighted average interest rate decreased to 4.7% from 5.8% in the prior year, primarily on account of lower floating reference rates, fixed to floating interest rate swaps entered into during 2009 and ongoing annual principal repayments on our 8.06% Senior Notes.

Other income for 2009 included earnings from investments accounted for under the equity method in the Commercial Real Estate segment, including a 29.9% stake in Colliers UK plc, acquired in October 2009.

During 2009, we realized a gain of $4.5 million on the sale of our 7% stake in Resolve Business Outsourcing Income Fund (“Resolve”). In the prior year, we recorded a $14.7 million other-than-temporary impairment loss on this investment.

Our consolidated income tax rate for the year ended December 31, 2009 was 123% versus 53% in 2008. The 2009 tax rate was affected by (i) a non-tax deductible goodwill impairment loss and (ii) the recognition of a valuation allowance on deferred tax assets related primarily to operating loss carry-forwards. The most significant factor leading to the determination that a valuation allowance was necessary is uncertainty in the near-term outlook for taxable income in our US Commercial Real Estate operations, consistent with factors that led to the goodwill impairment charge. Excluding the impact of these two items, the tax rate would have been 35%, relative to 16% in the prior year. Our tax rate for both years reflects the continuing benefit of cross-border financing structures first implemented in fiscal 2000. Due to the change in yearend from March 31 to December 31 as of December 31, 2008, the benefit of the cross-border tax structure for 2008 was amplified, resulting in the unusually low tax rate of 16%.

The net loss from continuing operations was $7.3 million in 2009, relative to profit of $19.8 million in the prior year. The majority of the decrease is attributable to the goodwill impairment in our Commercial Real Estate segment. In addition, increases in operating earnings at our Property Services and Residential Property Management segments were more than offset by declines in our Commercial Real Estate segment.

The Commercial Real Estate segment reported revenues of $623.0 million for 2009, down 17% relative to the prior year. Internal revenues declined 20%, foreign exchange resulted in a revenue decline of 3% and growth of 6% was attributable to acquisitions. Adjusted EBITDA was $6.4 million, at a margin of 1.0%, versus the prior year’s Adjusted EBITDA of $30.7 million at a margin of 4.1%. The margin decline was primarily a result of significant declines in investment and sales brokerage volumes in all markets, but particularly the United States and Europe. During the year we took steps to contain costs and align our service capabilities with anticipated revenues. As a result, $13.5 million in cost containment charges were incurred relating to workforce reductions and office lease terminations.

In Residential Property Management, revenues were $645 million in 2009, an increase of 5% compared to the prior year. Internal growth was 4%, with a 6% increase in property management contract revenues offset by a modest decline in property services activity including landscape installation and painting. Recent business acquisitions accounted for 1% of the growth. Residential Property Management reported Adjusted EBITDA of $61.0 million or 9.4% of revenues, up from $54.3 million or 8.8% of revenues in the prior year.

Our Property Services operations reported revenues of $434.8 million for 2009, an increase of 32% versus the prior year, comprised entirely of internal growth. Internal growth was attributable to continuing strong volumes of residential property foreclosures at our Field Asset Services contractor network. Adjusted EBITDA for the period was $71.5 million, 59% higher than the prior period, and the margin increased to 16.4% from 13.7%. The margin increase was attributable to Field Asset Services, which experienced higher margins due to operating leverage associated with higher revenues.

Corporate costs for 2009 were $11.2 million relative to $9.2 million in the prior year. Costs in 2009 were flat in local currency terms, as a result of decisions by management to freeze salaries and discretionary expenses. Most expenses were incurred in Canadian dollars. The $2.0 million increase in US dollar terms was attributable to foreign currency translation losses in 2009 relative to gains in the prior year.

Discontinued operations included: (i) the Integrated Security Services segment, which was sold in 2008; (ii) the U.S. Mortgage Brokerage ("USMB") operation, formerly included in the Commercial Real Estate segment which was sold in 2009; and (iii) the Canadian Commercial Mortgage Securitization ("CCMS") operation, formerly included in the Commercial Real Estate segment, which was wound down in 2009. During 2009, in relation to CCMS, we sold all remaining mortgages for proceeds of $14.8 million and settled all outstanding interest rate derivative contracts for a cash payment of $10.1 million. Revenues from discontinued operations were $5.1 million and the net loss from discontinued operations was $0.6 million. As of December 31, 2009, all discontinued operations were either sold or wound down.

Reversal of deferred income tax asset valuation allowance

From 2008 to the third quarter of 2011, net operating loss carry-forwards for tax purposes accumulated in our Commercial Real Estate Services operations in the United States, giving rise to a deferred income tax asset. Our ongoing assessment of all available objective evidence, both positive and negative, supporting recoverability of these tax losses in accordance with GAAP resulted in the recognition of a full valuation allowance against the deferred income tax asset, reducing its net value to nil in each period.

Following the strategic review of our Property Services division, we reorganized the division which included significant purchases of non-controlling interests amounting to $30.0 million. Having completed this reorganization, we were able to complete a reorganization of our operations in the US during the fourth quarter. Accordingly, we evaluated whether it is more likely than not the deferred income tax assets in the US will be realized. As a result, we believe there is sufficient objective favourable evidence under GAAP to reverse the accumulated valuation allowance related to the US operations, resulting in a reduction of 2011 income tax expense in the amount of $49.7 million.

The reorganizations could not be affected without the acquisitions or consents of significant non-controlling interests, which acquisitions and consents were not fully completed until the fourth quarter of 2011. The reorganizations provided evidence of projected future taxable income and objective evidence of pro forma historical taxable income that outweighs the negative evidence of historical operating losses.

Selected annual information - last five fiscal periods
(in thousands of US$, except share and per share amounts)

	Year ended December 31				Nine months ended December 31	Year ended March 31
	2011	2010	2009	2008	2008	2008
Operations						
Revenues	$ 2,224,171	$ 1,986,271	$ 1,703,222	$ 1,691,811	$ 1,322,680	$ 1,549,713
Operating earnings	98,061	97,532	38,181	71,327	83,130	78,122
Net earnings (loss) from continuing operations	101,743	47,900	(7,279)	19,837	26,027	52,277
Net (loss) earnings from discontinued operations	-	-	(576)	45,297	48,840	(2,829)
Net earnings (loss)	101,743	47,900	(7,855)	65,134	74,867	49,448
Financial position						
Total assets	$ 1,233,718	$ 1,129,541	$ 1,009,530	$ 990,637	$ 990,637	$ 1,089,343
Long-term debt	316,415	240,740	235,994	266,369	266,369	356,030
Convertible debentures	77,000	77,000	77,000	-	-	-
Non-controlling interests	141,404	174,358	164,168	196,765	196,765	232,600
Shareholders' equity	243,619	199,248	166,034	199,141	199,141	131,553
Common share data						
Net earnings (loss) per common share:						
Basic						
Continuing operations	$ 2.13	$ 0.12	$ (1.85)	$ (0.19)	$ 0.12	$ 0.95
Discontinued operations	-	-	(0.02)	1.60	1.71	(0.03)
	2.13	0.12	(1.87)	1.41	1.83	0.92
Diluted						
Continuing operations	$ 2.03	$ 0.11	$ (1.85)	$ (0.19)	$ 0.11	$ 0.89
Discontinued operations	-	-	(0.02)	1.60	1.70	(0.04)
	2.03	0.11	(1.87)	1.41	1.81	0.85
Weighted average common shares outstanding (thousands)						
Basic	30,094	30,081	29,438	29,684	29,584	29,905
Diluted	33,301	30,367	29,516	29,914	29,755	30,547
Preferred share data						
Number outstanding (thousands)	5,623	5,772	5,772	5,772	5,772	5,979
Cash dividends per preferred share	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 1.31	$ 1.16
Other data						
Adjusted EBITDA	$ 161,561	$ 147,308	$ 133,067	$ 124,745	$ 124,361	$ 123,614
Adjusted earnings per common share	1.81	1.61	1.42	1.37	1.55	1.32

Results of operations – fourth quarter ended December 31, 2011

Consolidated operating results for the fourth quarter ended December 31, 2011 improved relative to the results experienced in the comparable prior year quarter in terms of revenues, Adjusted EBITDA and operating earnings. Commercial Real Estate revenues increased 12% versus the prior year quarter due to stronger sales and leasing transaction volumes, particularly in North America. Property Services revenues were down 11% versus the prior year period, due to a decline in distressed property volumes. Both operating earnings and Adjusted EBITDA increased more strongly than revenues in the fourth quarter on account of a significant improvement in margins in our Commercial Real Estate segment, attributable to operating leverage and reductions in administrative costs.

Net earnings for the fourth quarter of 2011 were also impacted by the reversal of deferred income tax asset valuation allowance (see discussion above), which reduced fourth quarter tax expense by $63.2 million.

Quarterly results - years ended December 31, 2011 and 2010
(in thousands of US$, except per share amounts)

	Q1	Q2	Q3	Q4	Year
Year ended December 31, 2011					
Revenues	$ 478,382	$ 565,472	$ 585,424	$ 594,893	$ 2,224,171
Operating earnings	8,623	28,140	32,466	28,832	98,061
Net (loss) earnings	(1,290)	10,932	13,774	78,327	101,743
Net (loss) earnings attributable to common shareholders	(9,877)	3,360	5,061	65,595	64,139
Net (loss) earnings per common share:					
Basic	(0.33)	0.11	0.17	2.19	2.13
Diluted	(0.33)	0.11	0.17	2.01	2.03
Year ended December 31, 2010					
Revenues	$ 402,391	$ 501,372	$ 530,418	$ 552,090	$ 1,986,271
Operating earnings	12,132	31,707	32,234	21,459	97,532
Net earnings	6,637	14,674	14,366	12,223	47,900
Net (loss) earnings attributable to common shareholders	(526)	2,294	5,370	(3,675)	3,463
Net (loss) earnings per common share:					
Basic	(0.02)	0.08	0.18	(0.12)	0.12
Diluted	(0.02)	0.08	0.18	(0.12)	0.11
Other data					
Adjusted EBITDA - 2011	$ 22,631	$ 46,812	$ 47,633	$ 44,485	$ 161,561
Adjusted EBITDA - 2010	20,066	44,578	45,668	36,996	147,308

Operating outlook
We are committed to a long-term growth strategy that includes average internal revenue growth in the 5-10% range, combined with acquisitions to build each of our service platforms, resulting in targeted average annual growth in revenues, Adjusted EBITDA and Adjusted earnings per common share in excess of 15%. Economic conditions will negatively or positively impact these percentage growth rates in any given year. Given current economic conditions, for 2012 we expect revenue and earnings growth within the above range across our operating segments.

Seasonality and quarterly fluctuations
Certain segments of the Company's operations are subject to seasonal variations. The seasonality of the service lines noted below results in variations in quarterly revenues and operating margins. Variations can also be caused by acquisitions or dispositions, which alter the consolidated service mix.

The Commercial Real Estate segment 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 brokerage operations comprised approximately 29% of 2011 consolidated revenues.

Liquidity and capital resources
The Company generated cash flow from operating activities of $80.2 million for year ended December 31, 2011, relative to $115.1 million in the prior year. Despite an improvement in net earnings in 2011, operating cash flow decreased due to additional working capital usage, particularly resulting from cash payments, early in the year, of liabilities related to broker commissions and employee incentive compensation that were accrued as of December 31, 2010. We believe that cash from operations and other existing resources, including the revolving credit facility

which was renewed on March 1, 2012 (see below), will continue to be adequate to satisfy the ongoing working capital needs of the Company.

During 2011, we invested cash in acquisitions as follows: $23.0 million in new business acquisitions, $1.6 million in contingent consideration payments related to previously completed acquisitions, and $56.6 million in acquisitions of non-controlling interests (“NCI”). The most significant purchase of NCI was in the Property Services segment, which was reorganized in mid-2011 in conjunction with a strategic review of those operations. We do not anticipate any significant purchases of NCI for 2012.

In relation to acquisitions completed during the past three fiscal periods, we have outstanding contingent consideration, assuming all contingencies are satisfied and payment is due in full, totalling $28.5 million as at December 31, 2011 (December 31, 2010 - $37.5 million). The contingent consideration liability is recognized at fair value upon acquisition and is updated to fair value each quarter, unless it contains an element of compensation, in which case such element is treated as compensation expense over the contingency period. The contingent consideration is based on achieving specified earnings levels, and is paid or payable after the end of the contingency period, which extends to December 2013. We estimate that, based on current operating results, approximately 85% of the contingent consideration outstanding as of December 31, 2011 will ultimately be paid.

Capital expenditures for the year were $37.4 million, which consisted primarily of investments in productivity-enhancing information technology systems in all three operating segments as well as office leasehold improvements. For 2012, we expect to decrease our investment in capital expenditures slightly, maintaining a focus on productivity-enhancing information technology systems primarily in our Commercial Real Estate and Residential Property Management operations.

During 2011, we purchased 639,770 Subordinate Voting Shares and 149,640 Preferred Shares on the open market, at a total cost of $24.1 million. These shares were subsequently cancelled. We continuously monitor the trading prices of our shares, among other factors, and have made no decisions to purchase additional shares in the future.

Net indebtedness as at December 31, 2011 was $295.6 million, versus $217.4 million at December 31, 2010. Net indebtedness is calculated as the current and non-current portions of long-term debt less cash and cash equivalents. Excluding the Convertible Debentures, which we may elect to settle in Subordinate Voting Shares, net indebtedness as at December 31, 2011 was $218.6 million.

As of December 31, 2011, our borrowings under our revolving credit facility were recorded as current liabilities because the underlying credit agreement was set to expire in less than one year, resulting in a working capital deficiency (current liabilities exceeding current assets). We had $60.9 million of available revolving credit as of December 31, 2011. On March 1, 2012, we entered into a revised credit agreement (the “New Credit Agreement”) with a syndicate of lenders. The New Credit Agreement increases the committed senior revolving credit facility to $350 million from $275 million and includes an uncommitted accordion provision allowing for an additional $100 million of borrowing capacity under certain circumstances. The New Credit Agreement has a five year term ending March 1, 2017 and bears interest at 1.25% to 3.00% over floating reference rates, depending on certain leverage ratios. The remaining terms were substantially unchanged from the prior credit agreement.

We were in compliance with the covenants required of our financing agreements as at December 31, 2011 and we expect to remain in compliance with such covenants going forward.

During the year ended December 31, 2011, we paid $10.0 million of dividends on the Preferred Shares. The annual Preferred Share dividend obligation for 2012, based on the number of Preferred Shares outstanding as of December 31, 2011, is $9.8 million. We also distributed $10.6 million to minority shareholders of subsidiaries during the same period, primarily to facilitate the payment of income taxes on account of those subsidiaries organized as flow-through entities.

The following table summarizes our contractual obligations as at December 31, 2011:

Contractual obligations	**Payments due by period**				
(in thousands of US$)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Long-term debt	$ 314,078	$ 214,858	$ 66,441	$ 32,500	$ 279
Convertible debentures	77,000	-	77,000	-	-
Interest on long term debt	17,407	8,950	7,582	875	-
Interest on convertible debentures	15,015	5,005	10,010	-	-
Capital lease obligations	2,337	1,515	796	26	-
Contingent acquisition consideration	28,500	3,729	24,771	-	-
Operating leases	253,340	63,182	92,680	46,709	50,769
Total contractual obligations	$ 707,677	$ 297,239	$ 279,280	$ 80,110	$ 51,048

At December 31, 2011, we had commercial commitments totaling $11.6 million comprised of letters of credit outstanding due to expire within one year. We are required to make semi-annual payments of interest on our Senior Notes and Convertible Debentures at a weighted average interest rate of 6.1%.

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.

One of our subsidiaries has issued options to purchase subsidiary shares to its management team. If and when stock options are exercised, the new minority shareholders will become party to a shareholders' agreement as described below.

In most operations where managers, employees or brokers are also minority owners, the Company is party to shareholders' agreements. These agreements allow us to "call" the minority position at a value determined with the use of a formula price, which is in most cases equal to a multiple of trailing two-year average earnings, less debt. Minority owners may also "put" their interest to the Company at the same price, with certain limitations including (i) the inability to "put" more than 50% of their holdings in any twelve-month period and (ii) the inability to "put" any holdings for at least one year after the date of our initial acquisition of the business or the date the minority shareholder acquired the stock, as the case may be. The total value of the minority shareholders' interests (the "redemption amount"), as calculated in accordance with shareholders' agreements, was as follows.

(in thousands of US$)	**December 31 2011**	December 31 2010
Commercial Real Estate	**$ 52,058**	$ 43,086
Residential Property Management	**61,322**	66,017
Property Services	**13,638**	51,322
	$ 127,018	$ 160,425

The amount recorded on our balance sheet under the caption "non-controlling interests" is the greater of (i) the redemption amount (as above) or (ii) the amount initially recorded as NCI at the date of inception of the minority equity position. As at December 31, 2011, the NCI recorded on the balance sheet was $141.4 million. The purchase prices of the NCI may be paid in cash or in Subordinate Voting Shares of FirstService.

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 judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified six critical accounting estimates: the determination of fair values of assets acquired and liabilities assumed in business combinations, impairment testing of the carrying value of goodwill, valuation of contingent consideration related to acquisitions, recoverability of deferred income tax assets, quantification of uncertain income tax positions, and the collectability of accounts receivable.

The determination of fair values of assets acquired and liabilities assumed in business combinations requires the use of estimates and judgment by management, particularly in determining fair values of intangible assets acquired. For example, if different assumptions were used regarding the profitability and expected attrition rates of acquired customer relationships, different amounts of intangible assets and related amortization could be reported. A 10% increase in the expected attrition rate of customer relationships acquired during the year ended December 31, 2011 would result in a decrease to intangible assets of $5.0 million and a reduction to annual amortization expense of $0.2 million.

Goodwill impairment testing involves making estimates concerning the fair values 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 judgment. We have eight reporting units determined with reference to service type, customer type, service delivery model and geography. Goodwill is attributed to the reporting units at the time of acquisition. Estimates of fair value can be impacted by sudden changes in the business environment, prolonged economic downturns or declines in the market value of the Company's own shares and therefore require significant management judgment in their determination. The determination of fair value is done with reference to a discounted cash flow model which requires management to make certain estimates. The most sensitive estimates are estimated future cash flows and the discount rate applied to future cash flows. Changes in these assumptions could result in a materially different fair value.

Contingent consideration is required to be measured at fair value at the acquisition date and at each balance sheet date until the contingency expires or is settled. The fair value at the acquisition date is a component of the purchase price; subsequent changes in fair value are reflected in earnings. Most acquisitions made by us have a contingent consideration feature, which is usually based on the acquired entity's profitability (measured in terms of Adjusted EBITDA) during a one to three year period after the acquisition date. Significant estimates are required to measure the fair value of contingent consideration, including forecasting profitability for the contingency period and the selection of an appropriate discount rate. Increasing forecasted profitability by 10% has the effect of increasing the fair value of contingent consideration outstanding as of December 31, 2011 by $1.1 million. Increasing the discount rate by 10% has the effect of reducing the fair value of the contingent consideration outstanding as of December 31, 2011 by $0.5 million.

Deferred income tax assets arise from the recognition of the benefit of certain net operating loss carry-forwards. Management must weigh the positive and negative evidence surrounding the future realization of the deferred income tax assets to determine whether a valuation allowance is required, or whether an existing valuation allowance should remain in place. These determinations require significant management judgment. Changes in judgments, in particular of US taxable earnings, could result in the recognition or derecognition of a valuation allowance which could impact income tax expense materially.

In the ordinary course of business, there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination by tax authorities based upon an evaluation of the facts and circumstances at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a tax authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

Accounts receivable allowances are determined using a combination of historical experience, current information, and management judgment. Actual collections may differ from our estimates. A 10% increase in the accounts receivable allowance would increase bad debt expense by $2.0 million.

Reconciliation of non-GAAP financial measures

In this MD&A, we make reference to "Adjusted EBITDA" and "Adjusted earnings per common share," which are financial measures that are not calculated in accordance with GAAP.

Adjusted EBITDA is defined as net earnings, adjusted to exclude: (i) income tax; (ii) other expense (income); (iii) interest expense; (iv) depreciation and amortization; (v) goodwill impairment charges; (vi) acquisition-related items; (vii) stock-based compensation expense; (viii) reorganization charges and (ix) cost containment charges. The Company uses Adjusted EBITDA to evaluate its own operating performance and its ability to service debt, as well as an integral part of its planning and reporting systems. Additionally, this measure is used in conjunction with discounted cash flow models to determine the Company's overall enterprise valuation and to evaluate acquisition targets. Adjusted EBITDA is presented as a supplemental measure because the Company believes such measure is useful to investors as a reasonable indicator of operating performance because of the low capital intensity of its service operations. The Company believes this measure is a financial metric used by many investors to compare companies, especially in the services industry. This measure is not a recognized measure of financial performance under GAAP in the United States, and should not be considered as a substitute for operating earnings, net earnings or cash flow from operating activities, as determined in accordance with GAAP. The Company's method of calculating Adjusted EBITDA may differ from other issuers and accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of net earnings to Adjusted EBITDA appears below.

(in thousands of US$)	Year ended December 31		
	2011	2010	2009
Net earnings (loss) from continuing operations	**$ 101,743**	$ 47,900	$ (7,279)
Income tax	**(26,807)**	29,228	39,066
Other expense (income)	**6,317**	3,007	(6,112)
Interest expense, net	**16,808**	17,397	12,506
Operating earnings	**98,061**	97,532	38,181
Depreciation and amortization	**50,926**	47,886	46,383
Goodwill impairment charge	**-**	-	29,583
Acquisition-related items	**4,649**	(871)	-
Stock-based compensation expense	**2,335**	2,761	5,424
Reorganization charge	**5,590**	-	-
Cost containment	**-**	-	13,496
Adjusted EBITDA	**$ 161,561**	$ 147,308	$ 133,067

Adjusted earnings per common share is defined as diluted net earnings (loss) per common share, adjusted for the effect, after income tax, of: (i) the non-controlling interest redemption increment; (ii) acquisition-related items; (iii) amortization of intangible assets recognized in connection with acquisitions; (iv) goodwill impairment charges; (v) stock-based compensation expense; (vi) cost containment charges; (vii) realized gain on available-for-sale securities; (viii) impairment loss on equity investments; (ix) reorganization charges; and (x) deferred income tax asset valuation allowances related to tax loss carry-forwards. The Company believes this measure is useful to investors because it provides a supplemental way to understand the underlying operating performance of the Company and enhances the comparability of operating results from period to period. Adjusted earnings per common share is not a recognized measure of financial performance under GAAP, and should not be considered as a substitute for diluted net earnings per common share, as determined in accordance with GAAP. The Company's method of calculating this non-GAAP measure may differ from other issuers and, accordingly, this measure may not be comparable to measures used by other issuers. A reconciliation of diluted net earnings (loss) per common share to Adjusted earnings per common share appears below.

(in thousands of US$)	Year ended December 31 2011	2010	2009
Diluted net earnings (loss) per common share from continuing operations	**$ 2.03**	$ 0.11	$ (1.85)
Non-controlling interest redemption increment	**0.42**	0.62	1.10
Acquisition-related items	**0.14**	0.03	-
Amortization of intangible assets, net of tax	**0.41**	0.40	0.39
Goodwill impairment charge	**-**	-	0.93
Stock-based compensation expense, net of tax	**0.05**	0.06	0.11
Cost containment, net of tax	**-**	-	0.30
Realized gain on available-for-sale securities, net of tax	-	-	(0.10)
Impairment loss on equity investment	**0.10**	-	-
Reorganization charge	**0.12**	-	-
Deferred income tax asset valuation allowance	**(1.46)**	0.39	0.54
Adjusted earnings per common share	**$ 1.81**	$ 1.61	$ 1.42

We believe that the presentation of Adjusted EBITDA and Adjusted earnings per common share, which are non-GAAP financial measures, provides important supplemental information to management and investors regarding financial and business trends relating to the Company's financial condition and results of operations. We use these non-GAAP financial measures when evaluating operating performance because we believe that the inclusion or exclusion of the items described above, for which the amounts are non-cash or non-recurring in nature, provides a supplemental measure of our operating results that facilitates comparability of our operating performance from period to period, against our business model objectives, and against other companies in our industry. We have chosen to provide this information to investors so they can analyze our operating results in the same way that management does and use this information in their assessment of our core business and the valuation of the Company. Adjusted EBITDA and Adjusted earnings per common share are not calculated in accordance with GAAP, and should be considered supplemental to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Non-GAAP financial measures have limitations in that they do not reflect all of the costs or benefits associated with the operations of our business as determined in accordance with GAAP. As a result, investors should not consider these measures in isolation or as a substitute for analysis of our results as reported under GAAP.

Stock-based compensation expense

One of our key operating principles is for senior management to have a significant long-term equity stake in the businesses they operate. The equity owned by senior management takes the form of stock, stock options or notional value appreciation plans, the latter two of which require the recognition of compensation expense under GAAP. The amount of expense recognized with respect to stock options is determined for the Company plan by allocating the grant-date fair value of each option over the expected term of the option. The amount of expense recognized with respect to subsidiary operation plans and notional value appreciation plans is re-measured quarterly.

Impact of recently issued accounting standards

On January 1, 2011, the Company adopted a consensus of the Emerging Issues Task Force ("EITF") on multiple-deliverable revenue arrangements (ASU 2009-13). This consensus provides amendments to the existing criteria for separating consideration in multiple-deliverable revenue arrangements, and is expected to result in more separation of revenue elements than under existing accounting guidance. The consensus also requires enhanced disclosures of the nature and terms of an entity's multiple-deliverable arrangements, significant estimates, timing of delivery or performance and the general timing of revenue recognition. The adoption of this consensus did not have a material effect on the Company's results of operations, financial position or disclosure.

Effective January 1, 2011, the Company adopted an EITF consensus on the disclosure of supplementary pro forma information for business combinations (ASU 2010-29). The consensus specifies that when an entity completes a business combination, the entity should disclose revenue and earnings of the combined entity as though the business combination occurred as of the beginning of the comparable prior annual reporting period. The consensus also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to the business combination included in the pro forma revenue and earnings. The adoption of this consensus impacted the Company's pro forma disclosures on acquisitions.

Effective July 1, 2011, the Company adopted updated Financial Accounting Standards Board ("FASB") guidance on testing goodwill for impairment (ASU 2011-08). This updated guidance simplifies the testing for goodwill impairment as it permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The adoption of this updated guidance changed the manner in which goodwill testing is performed and did not have a material effect on the Company's results of operations, financial position or disclosure.

In May 2011, the FASB issued updated guidance to achieve common fair value measurement and disclosure in US GAAP and IFRS (ASU 2011-04). This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between US GAAP and IFRS. The update changes certain fair value measurement principles and enhances disclosure requirements, particularly for level 3 fair value measurements. This guidance is effective for the Company on January 1, 2012. The Company is in the process of evaluating its adoption and disclosure implications, but is not expected to have a material effect on the Company's results of operations or financial position.

In June 2011, the FASB issued updated guidance on the presentation of comprehensive income (ASU 2011-5). This guidance requires entities to present the total of comprehensive earnings, the components of net earnings, and the components of other comprehensive earnings either in a single continuous statement of comprehensive earnings or in two separate but consecutive statements. Regardless of whether an entity chooses to present comprehensive earnings in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive earnings to net earnings in the statement(s) where the components of net earnings and the components of other comprehensive earnings are presented. The guidance does not change the items that must be reported in other comprehensive earnings or when an item of other comprehensive earnings must be reclassified to net earnings. ASU 2011-5 will be applied retrospectively by the Company effective January 1, 2012, except for the requirement to present reclassifications from other comprehensive earnings to net earnings by item on the face of the financial statements, which has been deferred. The adoption of the guidance is expected to result in a change in disclosure of comprehensive earnings from within the statement of shareholders' equity to a separate statement of comprehensive earnings.

Impact of IFRS

On January 1, 2011, many Canadian companies were required to adopt International Financial Reporting Standards ("IFRS"). In 2004, in accordance the rules of the CSA, the Company elected to report exclusively using U.S. GAAP. Under the rules of the CSA, the Company is permitted to continue preparing its financial statements in accordance with U.S. GAAP and, as a result, did not adopt IFRS on January 1, 2011.

Financial instruments

We use financial instruments as part of our strategy to manage the risk associated with interest rates and currency exchange rates. We do not use financial instruments for trading or speculative purposes. As at the date of this MD&A, the Company had one interest rate swap in place to exchange the fixed interest rate on $40.0 million of notional value on its Senior Notes for a floating rate.

Transactions with related parties

Please refer to note 22 to the Consolidated Financial Statements for information regarding transactions with related parties.

Outstanding share data

The authorized capital of the Company consists of an unlimited number of preference shares, issuable in series, of which are authorized an unlimited number of Preferred Shares, 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. The holders of the Preferred Shares are not entitled, except as otherwise provided by law or in the conditions attaching to the Preferred Shares as a class, to receive notice of, attend or vote at any meeting of the shareholders of the Company. Each Multiple Voting Share is convertible into one Subordinate Voting Share at any time at the election of the holders thereof. The Preferred Shares are redeemable for cash or convertible into Subordinate Voting Shares at the option of the Company at any time as set out in the Articles of the Company.

The Company also has outstanding US$77.0 million aggregate principal amount of Convertible Debentures. The Convertible Debentures mature on December 31, 2014 and accrue interest at the rate of 6.50% per annum payable semi-annually in arrears on June 30 and December 31 in each year, commencing June 30, 2010. At the holder's option, the Convertible Debentures may be converted into Subordinate Voting Shares at any time prior to the close of business on the earlier of the business day immediately preceding either the maturity date and the date specified by FirstService for redemption of the Convertible Debentures. The conversion price is US$28.00 for each Subordinate Voting Share, subject to adjustment in certain circumstances. The Convertible Debentures will not be redeemable before December 31, 2012. On and after December 31, 2012 and prior to December 31, 2013, the Convertible Debentures may be redeemed in whole or in part from time to time at FirstService's option, provided that the volume weighted average trading price of the Subordinate Voting Shares on the Toronto Stock Exchange (converted into a US dollar equivalent) during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the conversion price. On and after December 31, 2013 and prior to the maturity date, FirstService may, at its option, redeem the Convertible Debentures, in whole or in part, from time to time at par plus accrued and unpaid interest. Subject to specified conditions, FirstService has the right to repay the outstanding principal amount of the Convertible Debentures, on maturity or redemption, through the issuance of Subordinate Voting Shares. FirstService also has the option to satisfy its obligation to pay interest through the issuance and sale of Subordinate Voting Shares. A summary of additional terms of the Convertible Debentures is set out in the section entitled "Description Of The Securities Being Distributed" contained in the Company's (final) prospectus dated November 3, 2009 qualifying the distribution of the Convertible Debentures, which section is incorporated herein by reference.

During 2011, the Company purchased for cancellation a total of 639,770 Subordinate Voting Shares (at an average price of $31.74 per share) and 149,640 Preferred Shares (at an average price of $25.00 per share) under an approved normal course issuer bid.

As of the date hereof, the Company has outstanding 28,615,560 Subordinate Voting Shares, 1,325,694 Multiple Voting Shares and 5,622,634 Preferred Shares. In addition, as at the date hereof: (a) 1,895,550 Subordinate Voting Shares are issuable upon exercise of options granted under the Company’s stock option plan; and (b) 2,750,000 Subordinate Voting Shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding Convertible Debentures (using the conversion price of US$28.00 for each Subordinate Voting Share), with a maximum of 3,871,290 Subordinate Voting Shares being issuable upon conversion of the Convertible Debentures following certain "change of control" transactions.

Canadian tax treatment of preferred dividends

For the purposes of the enhanced dividend tax credit rules contained in the *Income Tax Act (Canada)* and any corresponding provincial and territorial tax legislation, all dividends (and deemed dividends) paid by us to Canadian residents on our Preferred Shares are designated as “eligible dividends”. Unless stated otherwise, all dividends (and deemed dividends) paid by us hereafter are designated as “eligible dividends” for the purposes of such rules.

Disclosure controls and procedures

Our Chief Executive Officer and Chief Financial Officer, with the assistance and participation of other Company management, have evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Canada by National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings and in the United States by Rules 13a-15(e) and 15d-15(e) of the United States Securities and Exchange Act of 1934, as amended (the “Exchange Act”)) as of December 31, 2011 (the “Evaluation Date”). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures were effective to give reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under Canadian securities legislation and the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified therein; and (ii) accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have excluded six entities acquired by the Company during the last fiscal period from our assessment of internal control over financial reporting as at December 31, 2011. The total assets and total revenues of the six entities represent 3.3% and 0.9%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2011.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2011, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2011, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2011, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report dated March 1, 2012 which accompanies the Company's audited consolidated financial statements for the year ended December 31, 2011.

Changes in internal control over financial reporting

During the year ended December 31, 2011, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Additional information

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

Forward-looking statements

This MD&A contains forward-looking statements with respect to expected financial performance, strategy and business conditions. The words "believe," "anticipate," "estimate," "plan," "expect," "intend," "may," "project," "will," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management. Forward-looking statements involve significant known and unknown risk and uncertainties. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Factors which may cause such differences include, but are not limited to those set out below and those set out in detail in the "Risk Factors" section of the Company's Annual Information Form, which is included in the Company's Annual Report on Form 40-F:

- Economic conditions, especially as they relate to credit conditions and consumer spending.
- 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.
- Competition in the markets served by the Company.
- Labour 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 foreign exchange rates in relation to the US dollar on the Company's Canadian dollar, Australian dollar and Euro denominated revenues and expenses.
- Our ability to make acquisitions at reasonable prices and successfully integrate acquired operations.
- Political conditions, including any outbreak or escalation of terrorism or hostilities and the impact thereof on our business.
- Changes in government policies at the federal, state/provincial or local level that may adversely impact our businesses.

We caution that the foregoing list is not exhaustive of all possible factors, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on these forward-looking statements. 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. We disclaim any intention and assume no obligation to update or revise any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

FIRSTSERVICE CORPORATION

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and management discussion and analysis ("MD&A") of **FirstService Corporation** (the "Company") and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America using the best estimates and judgments of management, where appropriate. The most significant of these accounting principles are set out in Note 2 to the consolidated financial statements. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

The MD&A has been prepared in accordance with National Instrument 51-102 of the Canadian Securities Administrators, taking into consideration other relevant guidance, including Regulation S-K of the US Securities and Exchange Commission.

The Board of Directors of the Company has an Audit Committee consisting of three independent directors. The Audit Committee meets regularly to review with management and the independent auditors any significant accounting, internal control, auditing and financial reporting matters.

These consolidated financial statements have been audited by PricewaterhouseCoopers LLP, which have been appointed as the independent registered public accounting firm of the Company by the shareholders. Their report outlines the scope of their examination and opinion on the consolidated financial statements. As auditors, PricewaterhouseCoopers LLP have full and independent access to the Audit Committee to discuss their findings.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of its effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has excluded six individually insignificant entities acquired by the Company during the last fiscal period from its assessment of internal control over financial reporting as at December 31, 2011. The total assets and total revenues of the six individually insignificant controlled entities represent 3.3% and 0.9%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2011.

Management has assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2011, based on the criteria set forth in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as at December 31, 2011, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as at December 31, 2011, has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm as stated in their report which appears herein.

/s/ Jay S. Hennick
Chief Executive Officer
March 1, 2012

/s/ John B. Friedrichsen
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of FirstService Corporation

We have audited the accompanying consolidated balance sheets of FirstService Corporation as of December 31, 2011 and December 31, 2010, and the related consolidated statements of earnings (loss), shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited FirstService Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded six entities acquired by the Company from its assessment of internal control over financial reporting as at December 31, 2011 because these entities were acquired by the Company in purchase business combinations during the year ended December 31, 2011. We have also excluded these entities acquired by the company during the year ended December 31, 2011 from our audit of internal control over financial reporting. The total assets and total revenues of these majority owned entities represent 3.3% and 0.9%, respectively, of the related consolidated financial statement amounts as at and for the year ended December 31, 2011.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FirstService Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, FirstService Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control - Integrated Framework issued by COSO.

/s/ PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants

Toronto, Canada
March 1, 2012

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(in thousands of US dollars, except per share amounts)

Years ended December 31		**2011**		2010		2009
Revenues	**$**	**2,224,171**	$	1,986,271	$	1,703,222
Cost of revenues (exclusive of depreciation and amortization shown below)		**1,436,214**		1,221,323		1,062,406
Selling, general and administrative expenses		**634,321**		620,401		526,669
Depreciation		**30,661**		28,280		26,833
Amortization of intangible assets		**20,265**		19,606		19,550
Goodwill impairment charge (note 11)		**-**		-		29,583
Acquisition-related items (note 5)		**4,649**		(871)		-
Operating earnings		**98,061**		97,532		38,181
Interest expense		**17,975**		18,347		13,923
Interest income		**(1,167)**		(950)		(1,417)
Other expense (income), net (note 6)		**6,317**		3,007		(6,112)
Earnings before income tax		**74,936**		77,128		31,787
Income tax (note 16)		**(26,807)**		29,228		39,066
Net earnings (loss) from continuing operations		**101,743**		47,900		(7,279)
Net loss from discontinued operations, net of income tax (note 4)		**-**		-		(576)
Net earnings (loss)		**101,743**		47,900		(7,855)
Non-controlling interest share of earnings (note 13)		**14,692**		15,420		4,397
Non-controlling interest redemption increment (note 13)		**12,941**		18,916		32,602
Net earnings (loss) attributable to Company (note 17)		**74,110**		13,564		(44,854)
Preferred share dividends		**9,971**		10,101		10,101
Net earnings (loss) attributable to common shareholders	**$**	**64,139**	$	3,463	$	(54,955)
Net earnings (loss) per common share (note 18)						
Basic						
Continuing operations	**$**	**2.13**	$	0.12	$	(1.85)
Discontinued operations		**-**		-		(0.02)
	$	**2.13**	$	0.12	$	(1.87)
Diluted						
Continuing operations	**$**	**2.03**	$	0.11	$	(1.85)
Discontinued operations		**-**		-		(0.02)
	$	**2.03**	$	0.11	$	(1.87)

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

FIRSTSERVICE CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands of US dollars)

As at December 31	**2011**	2010
Assets		
Current assets		
Cash and cash equivalents	**$ 97,799**	$ 100,359
Restricted cash	**4,493**	4,337
Accounts receivable, net of allowance of $19,700 (December 31, 2010 - $18,752)	**286,019**	262,654
Income tax recoverable	**9,661**	7,211
Inventories (note 7)	**11,831**	9,140
Prepaid expenses and other current assets	**23,874**	23,036
Deferred income tax (note 16)	**16,527**	12,893
	450,204	419,630
Other receivables	**6,684**	8,452
Other assets (note 8)	**10,344**	19,352
Fixed assets (note 9)	**94,150**	86,134
Deferred income tax (note 16)	**87,940**	22,922
Intangible assets (note 10)	**188,909**	193,194
Goodwill (note 11)	**395,487**	379,857
	783,514	709,911
	$ 1,233,718	$ 1,129,541
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	**$ 82,114**	$ 72,263
Accrued liabilities (note 7)	**272,106**	273,894
Income tax payable	**3,214**	3,261
Unearned revenues	**19,448**	22,143
Long-term debt - current (note 12)	**216,373**	39,249
Deferred income tax (note 16)	**995**	1,094
	594,250	411,904
Long-term debt - non-current (note 12)	**100,042**	201,491
Convertible debentures (note 12)	**77,000**	77,000
Contingent acquisition consideration	**10,166**	12,088
Other liabilities	**29,077**	20,277
Deferred income tax (note 16)	**38,160**	33,175
	254,445	344,031
Non-controlling interests (note 13)	**141,404**	174,358
Shareholders' equity		
Preferred shares (note 14)	**140,561**	144,307
Common shares (note 14)	**110,821**	106,473
Contributed surplus	**27,970**	26,782
Deficit	**(63,958)**	(110,553)
Accumulated other comprehensive earnings	**28,225**	32,239
	243,619	199,248
	$ 1,233,718	$ 1,129,541

Commitments and contingencies (notes 14 and 21)

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

On behalf of the Board of Directors,

/s/Bernard I. Ghert
Director

/s/Jay S. Hennick
Director

FIRSTSERVICE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of US dollars, except share information)

	Preferred shares		Common shares				Accumulated	
	Issued and outstanding shares	Amount	Issued and outstanding shares	Amount	Contributed surplus	Deficit	other comprehensive earnings	Total shareholders' equity
Balance, December 31, 2008	5,772,274	$ 144,307	29,333,484	$ 86,913	$ 25,899	$ (59,061)	$ 1,083	$ 199,141
Comprehensive earnings:								
Net earnings	-	-	-	-	-	(7,855)	-	(7,855)
Foreign currency translation adjustments	-	-	-	-	-	-	18,339	18,339
Less: amount attributable to NCI	-	-	-	-	-	-	(701)	(701)
Comprehensive earnings								9,783
NCI share of earnings	-	-	-	-	-	(4,397)	-	(4,397)
NCI redemption increment	-	-	-	-	-	(32,602)	-	(32,602)
Subsidiaries' equity transactions	-	-	-	-	(773)	-	-	(773)
Subordinate Voting Shares:								
Stock option expense	-	-	-	-	1,833	-	-	1,833
Stock options exercised	-	-	246,755	3,645	(1,119)	-	-	2,526
Tax benefit on options exercised	-	-	-	-	188	-	-	188
Issued for purchase of NCI	-	-	44,671	436	-	-	-	436
Preferred Shares:								
Dividends (note 14)	-	-	-	-	-	(10,101)	-	(10,101)
Balance, December 31, 2009	5,772,274	144,307	29,624,910	90,994	26,028	(114,016)	18,721	166,034
Comprehensive earnings:								
Net loss	-	-	-	-	-	47,900	-	47,900
Foreign currency translation adjustments	-	-	-	-	-	-	14,360	14,360
Less: amount attributable to NCI	-	-	-	-	-	-	(842)	(842)
Comprehensive earnings								61,418
NCI share of earnings	-	-	-	-	-	(15,420)	-	(15,420)
NCI redemption increment	-	-	-	-	-	(18,916)	-	(18,916)
Subsidiaries' equity transactions	-	-	-	-	(31)	-	-	(31)
Subordinate Voting Shares:								
Stock option expense	-	-	-	-	2,575	-	-	2,575
Stock options exercised	-	-	311,950	6,404	(1,853)	-	-	4,551
Tax benefit on options exercised	-	-	-	-	63	-	-	63
Issued for purchase of NCI	-	-	381,414	9,075	-	-	-	9,075
Preferred Shares:								
Dividends (note 14)	-	-	-	-	-	(10,101)	-	(10,101)
Balance, December 31, 2010	5,772,274	$ 144,307	30,318,274	$ 106,473	$ 26,782	$ (110,553)	$ 32,239	$ 199,248

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

FIRSTSERVICE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of US dollars, except share information)

	Preferred shares		Common shares				Accumulated	
	Issued and outstanding shares	Amount	Issued and outstanding shares	Amount	Contributed surplus	Deficit	other comprehensive earnings	Total shareholders' equity
Balance, December 31, 2010	5,772,274	$ 144,307	30,318,274	$ 106,473	$ 26,782	$ (110,553)	$ 32,239	$ 199,248
Comprehensive earnings:								
Net earnings	-	-	-	-	-	101,743	-	101,743
Foreign currency translation adjustments	-	-	-	-	-	-	(4,185)	(4,185)
Less: amount attributable to NCI	-	-	-	-	-	-	171	171
Comprehensive earnings								97,729
NCI share of earnings	-	-	-	-	-	(14,692)	-	(14,692)
NCI redemption increment	-	-	-	-	-	(12,941)	-	(12,941)
Subsidiaries' equity transactions	-	-	-	-	310	-	-	310
Subordinate Voting Shares:								
Stock option expense	-	-	-	-	2,335	-	-	2,335
Stock options exercised	-	-	262,750	7,112	(1,922)	-	-	5,190
Tax benefit on options exercised	-	-	-	-	465	-	-	465
Purchased for cancellation	-	-	(639,770)	(2,764)	-	(17,544)	-	(20,308)
Preferred Shares:								
Purchased for cancellation	(149,640)	(3,746)	-	-	-	-	-	(3,746)
Dividends (note 14)	-	-	-	-	-	(9,971)	-	(9,971)
Balance, December 31, 2011	**5,622,634**	**$ 140,561**	**29,941,254**	**$ 110,821**	**$ 27,970**	**$ (63,958)**	**$ 28,225**	**$ 243,619**

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

FIRSTSERVICE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of US dollars)

Years ended December 31	**2011**	2010	2009
Cash provided by (used in)			
Operating activities			
Net earnings (loss)	**$ 101,743**	$ 47,900	$ (7,855)
Net loss from discontinued operations	**-**	-	576
Items not affecting cash:			
Depreciation and amortization	**50,926**	47,886	46,383
Goodwill impairment charge	**-**	-	29,583
Deferred income tax	**(64,512)**	(7,440)	(3,178)
Loss (earnings) from equity method investments	**3,475**	4,046	(1,548)
Stock option expense	**2,335**	2,761	2,649
Other	**7,611**	(3,927)	1,635
Incremental tax benefit on stock options exercised	**(465)**	(63)	(188)
Changes in non-cash working capital:			
Accounts receivable	**(22,452)**	(39,078)	(38,301)
Inventories	**(2,359)**	299	1,114
Prepaid expenses and other current assets	**(1,796)**	1,348	(2,614)
Accounts payable	**10,956**	4,603	3,383
Accrued liabilities	**(7,325)**	66,184	49,063
Income tax payable	**(1,383)**	(3,331)	3,271
Unearned revenues	**(2,946)**	764	(6,203)
Other liabilities	**6,406**	(6,901)	5,527
Discontinued operations	**-**	-	(2,248)
Net cash provided by operating activities	**80,214**	115,051	81,049
Investing activities			
Acquisitions of businesses, net of cash acquired (note 3)	**(22,975)**	(34,710)	(16,831)
Investment in equity securities (note 8)	**-**	-	(13,955)
Purchases of fixed assets	**(37,400)**	(32,460)	(24,234)
Changes in restricted cash	**(156)**	702	5,201
Other investing activities	**1,685**	343	2,925
Discontinued operations	**-**	-	1,343
Net cash used in investing activities	**(58,846)**	(66,125)	(45,551)
Financing activities			
Increase in long-term debt	**207,816**	86,540	110,162
Repayment of long-term debt	**(133,854)**	(84,793)	(143,965)
Issuance of convertible debentures	**-**	-	77,000
Financing fees paid	**-**	(128)	(3,801)
Purchases of non-controlling interests	**(56,621)**	(39,058)	(42,602)
Sale of interests in subsidiaries to non-controlling interests	**1,014**	848	356
Contingent acquisition consideration paid	**(1,623)**	(318)	-
Proceeds received on exercise of stock options	**5,190**	4,551	2,526
Incremental tax benefit on stock options exercised	**465**	63	188
Dividends paid to preferred shareholders	**(9,971)**	(10,101)	(10,101)
Distributions paid to non-controlling interests	**(10,617)**	(8,654)	(13,293)
Repurchases of Subordinate Voting Shares	**(20,308)**	-	-
Repurchases of Preferred Shares	**(3,746)**	-	-
Net cash used in financing activities	**(22,255)**	(51,050)	(23,530)
Effect of exchange rate changes on cash	**(1,673)**	2,705	7,761
(Decrease) increase in cash and cash equivalents	**(2,560)**	581	19,729
Cash and cash equivalents, beginning of year	**100,359**	99,778	79,642
Amounts held by discontinued operations, beginning of year	**-**	-	407
	100,359	99,778	80,049
Cash and cash equivalents, end of year	**$ 97,799**	$ 100,359	$ 99,778

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

1. Description of the business

FirstService Corporation (the "Company") is a provider of real estate-related services to the commercial, institutional and residential markets in North America and various countries around the world. The Company's operations are conducted in three segments: Commercial Real Estate ("CRE") Services, Residential Property Management and Property Services. The Company operates as Colliers International within CRE; FirstService Residential Management, American Pool Enterprises and various regional brands within Residential Property Management; and Field Asset Services and several franchise brands within Property Services.

2. Summary of significant accounting policies

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("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 the determination of fair values of assets acquired and liabilities assumed in business combinations, recoverability of goodwill and intangible assets, estimated fair value of contingent consideration related to acquisitions, recoverability of deferred income tax assets, quantification of uncertain tax positions and the collectability 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, its majority-owned subsidiaries and those variable interest entities where the Company is the primary beneficiary. Where the Company does not have a controlling interest but has the intent and ability to exert significant influence, the equity method is used. Inter-company transactions and accounts are eliminated on consolidation.

Cash and cash equivalents
Cash equivalents consist of short-term interest-bearing securities, which are readily convertible into cash and have original maturities at the date of purchase of three months or less.

Restricted cash
Restricted cash consists of cash over which the Company has legal ownership but is restricted as to its availability or intended use, including funds held on behalf of clients and franchisees.

Inventories
Inventories are carried at the lower of cost and market. Cost is determined using the weighted average method.

Fixed assets
Fixed assets are carried at cost less accumulated depreciation. The costs of additions and improvements are capitalized, while maintenance and repairs are expensed as incurred. Fixed assets are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset group may not be recoverable. An impairment loss is recorded to the extent the carrying amount exceeds the estimated fair value of an asset group. Fixed assets are depreciated over their estimated useful lives as follows:

Buildings	20 to 40 years straight-line
Vehicles	3 to 5 years straight-line
Furniture and equipment	3 to 10 years straight-line
Computer equipment and software	3 to 5 years straight-line
Leasehold improvements	term of the lease to a maximum of 10 years

Investments in securities
The Company classifies investments in securities under the caption "other assets". Investments in equity securities are accounted for using the equity method or cost method. The equity method is utilized where the Company has the ability to exercise significant influence on the investee. Realized gains or losses and equity earnings or losses are recorded in other income (expense). Equity securities, including marketable equity securities as well as those accounted for under the equity method and cost method, are regularly reviewed for impairment based on both quantitative and qualitative criteria that include the extent to which cost exceeds fair value, the duration of the market decline, the Company's intent and ability to hold until forecasted recovery, and the financial health and prospects for the issuer. Other-than-temporary impairment losses on equity securities are recorded in earnings.

Financial instruments and derivatives
Derivative financial instruments are recorded on the consolidated balance sheets as other assets or other liabilities and carried at fair value. From time to time, the Company may use interest rate swaps to hedge a portion of its interest rate exposure on long term debt. Hedge accounting has been applied and 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 item 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 and the underlying item is not, the resulting gain or loss is deferred and recognized over the remaining life of the underlying item using the effective interest method.

Fair value
The Company uses the fair value measurements framework for financial assets and liabilities and for non-financial assets and liabilities that are recognized or disclosed at fair value on a non-recurring basis. The framework defines fair value, gives guidance for measurement and disclosure, and establishes a three-level hierarchy for observable and unobservable inputs used to measure fair value. An asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The three levels are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Observable market-based inputs other than quoted prices in active markets for identical assets or liabilities
Level 3 – Unobservable inputs for which there is little or no market data, which requires the Company to develop its own assumptions

Financing fees
Financing fees related to the revolving credit facility, Senior Notes and Convertible Debentures are deferred and amortized to interest expense using the effective interest method.

Goodwill and intangible assets
Goodwill represents the excess of purchase price over the fair value of assets acquired and liabilities assumed in a business combination and is not subject to amortization.

Intangible assets are recorded at fair value on the date they are acquired. Indefinite life intangible assets are not subject to amortization. Where lives are finite, they are amortized over their estimated useful lives as follows:

Customer lists and relationships	straight-line over 4 to 20 years
Franchise rights	by pattern of use, currently estimated at 2.5% to 15% per year
Trademarks and trade names:	straight-line over 15 to 35 years
Management contracts and other	straight-line over life of contract ranging from 2 to 15 years
Brokerage backlog	as underlying brokerage transactions are completed

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

Goodwill and indefinite life intangible assets are tested for impairment annually, on August 1, 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.

On July 1, 2011, the Company adopted new guidance on testing goodwill for impairment (see note 24). Impairment of goodwill is tested at the reporting unit level. The Company has eight reporting units determined with reference to business segment, customer type, service delivery model and geography. Impairment is tested by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Where it is determined to be more likely than not that its fair value is greater than its carrying amount, then no further testing is required. Where it is determined to be more likely than not that the carrying amount exceeds the fair value then a two-step goodwill impairment test is performed. In the first step, the reporting unit's carrying amount, including goodwill, is compared to the estimated fair value of the reporting unit. The fair values of the reporting units are estimated using a discounted cash flow approach. The fair value measurement is classified within Level 3 of the fair value hierarchy. 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. Certain assumptions are used to determine the fair value of the reporting units, the most sensitive of which are estimated future cash flows and the discount rate applied to future cash flows. Changes in these assumptions could result in a materially different fair value.

Impairment of indefinite life intangible assets is tested by comparing the carrying amount to the estimated fair value on an individual intangible asset basis.

Convertible debentures

The Company issued Convertible Debentures in November 2009 (see note 12). The Convertible Debentures are accounted for entirely as debt as no portion of the proceeds is required to be accounted for as attributable to the conversion feature. Interest on the Convertible Debentures is recorded as interest expense. The earnings per share impact of the Convertible Debentures is calculated using the "if-converted" method, if dilutive, where coupon interest expense, net of tax, is added to the numerator and the number of potentially issuable common shares is added to the denominator.

Non-controlling interests

Non-controlling interests ("NCI") are redeemable securities and accordingly, the NCI is recorded at the greater of (i) the redemption amount or (ii) the amount initially recorded as NCI at the date of inception of the minority equity position. This amount is recorded in the "mezzanine" section of the balance sheet, outside of shareholders' equity. Changes in the NCI amount are recognized immediately as they occur.

Revenue recognition and unearned revenues

(a) Real estate brokerage operations

Commission revenues from sales brokerage transactions are recognized at the time the service has been provided and the commission becomes legally due, except when future contingencies exist. In most cases, close of escrow or transfer of title is a future contingency, and accordingly, revenue recognition is deferred until this contingency is satisfied.

Commission revenues from real estate leasing are recognized once obligations under the commission arrangement are satisfied. Terms and conditions of a commission arrangement include execution of the lease agreement and satisfaction of future contingencies such as tenant occupancy. In most cases, a portion of the commission is earned upon execution of the lease agreement, with the remaining portion contingent on a future event, typically tenant occupancy; revenue recognition for the remaining portion, contingent on occupancy, is deferred until all contingencies are satisfied.

(b) Franchisor operations
The Company operates several franchise systems within its Property Services segment. Initial franchise fees are recognized when all material services or conditions related to the sale of the franchise have been performed or satisfied. Royalty revenues are recognized based on a contracted 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.

(c) Service operations other than real estate brokerage and franchisor operations
Revenues are recognized at the time the service is rendered. Certain services including but not limited to real estate project management and appraisal projects in process, are recognized on the percentage of completion method, in the ratio of actual costs to total estimated contract costs. In cases where anticipated costs to complete a project exceed the revenue to be recognized, a provision for the additional estimated losses is recorded in the period when the loss becomes apparent. Amounts received from customers in advance of services being provided are recorded as unearned revenues when received.

Stock-based compensation
For equity classified awards, compensation cost is measured at the grant date based on the estimated fair value of the award. The related stock option compensation expense is allocated using the graded attribution method. For liability classified awards, the fair value of the award is measured each period it is outstanding and changes in fair value are recorded as compensation expense.

Notional value appreciation plans
Under these plans, subsidiary employees are compensated if the notional value of the subsidiary increases. Awards under these plans generally have a term of up to ten years and a vesting period of five years. The increase in notional value is calculated with reference to growth in earnings relative to a fixed threshold amount plus or minus changes in indebtedness relative to a fixed opening amount. The calculation is designed to motivate and reward employees to grow earnings and repay indebtedness and is not measured by or linked to the growth in value of the subsidiary's stock. If an award is subject to a vesting condition, then graded attribution is applied to the intrinsic value. The related compensation expense is recorded in selling, general and administrative expenses and the liability is recorded in accrued liabilities.

Foreign currency translation
Assets, liabilities and operations of foreign subsidiaries are recorded based on the functional currency of each entity. For certain foreign operations, the functional currency is the local currency, in which case the assets, liabilities and operations are translated at current exchange rates from the local currency to the reporting currency, the US dollar. The resulting unrealized gains or losses are reported as a component of accumulated other comprehensive earnings. Realized and unrealized foreign currency gains or losses related to any foreign dollar denominated monetary assets and liabilities are included in net earnings.

Income tax
Income tax has been provided using the liability method whereby deferred income tax assets and liabilities are recognized for the expected future income tax consequences of events that have been recognized in the consolidated financial statements or income tax returns. Deferred income 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 reverse, be recovered or settled. The effect on deferred income 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 unless it is more likely than not that realization of a deferred income tax asset will occur based on available evidence.

The Company recognizes uncertainty in tax positions taken or expected to be taken in a tax return by recording a liability for unrecognized tax benefits on its balance sheet. Uncertainties are quantified by applying a prescribed recognition threshold and measurement attribute.

Income tax is 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.

The Company classifies interest and penalties associated with income tax positions in income tax expense.

Business combinations
All business combinations are accounted for using the purchase method of accounting. Transaction costs are expensed as incurred.

The fair value of the contingent consideration is recorded on the balance sheet at the acquisition date and is re-measured at fair value at the end of each period until the end of the contingency period, with fair value adjustments recognized in earnings. However, if the contingent consideration includes an element of compensation to the vendors (i.e. it is tied to continuing employment or it is not linked to the business valuation), then the portion of contingent consideration related to such element is treated as compensation expense over the expected employment period.

3. Acquisitions

2011 acquisitions:
The Company completed six individually insignificant acquisitions, five in the Residential Property Management segment and one in the CRE segment. In Residential Property Management, the acquired firms operate in North and South Carolina, Vancouver, Las Vegas, Toronto and Minneapolis. The CRE business operates in California. The acquisitions expand the Company's geographic presence to new and existing markets.

Details of these acquisitions are as follows:

		Aggregate Acquisitions
Current assets	**$**	**1,819**
Long term assets		**1,277**
Current liabilities		**(4,235)**
Long-term liabilities		**(1,779)**
Non-controlling interests		**(7,238)**
	$	**(10,156)**
Cash consideration	**$**	**22,975**
Acquisition date fair value of contingent consideration		**3,482**
Total purchase consideration	**$**	**26,457**
Acquired intangible assets	**$**	**16,586**
Goodwill	**$**	**20,027**

2010 acquisitions:
The Company completed ten individually insignificant acquisitions, five in the CRE segment and five in the Residential Property Management segment. In Residential Property Management, the acquired firms operate in New York City, Nevada, Houston, Calgary and Vancouver. Four of the CRE businesses operate in the US Midwest and one in the Netherlands. Several of these acquisitions expand the Company's geographic presence to new markets.

Details of these acquisitions are as follows:

		Aggregate Acquisitions
Current assets	$	10,308
Long term assets		2,707
Current liabilities		(10,582)
Long-term liabilities		(7,430)
Non-controlling interests		(30,146)
	$	(35,143)
Note consideration	$	475
Cash consideration		31,928
Acquisition date fair value of contingent consideration		11,672
Total purchase consideration	$	44,075
Acquired intangible assets	$	46,751
Goodwill	$	32,467

In connection with the acquisition of a Netherlands-based commercial real estate firm completed in November 2010, a long-term liability of $375 related to a defined benefit pension plan was assumed. The plan assets comprise an insurance contract. As of December 31, 2011, the estimated fair value of plan assets and the projected benefit obligation were $3,648 and $3,974, respectively. The assumptions used in determining the projected benefit obligation included a discount rate of 4.5% and salary growth of 2.0%.

2009 acquisitions:
The Company completed three individually insignificant acquisitions in the Residential Property Management and Property Services operating segments during the year ended December 31, 2009. Details of these acquisitions are as follows:

		Aggregate Acquisitions
Current assets	$	253
Long term assets		357
Current liabilities		(543)
Long-term liabilities		(472)
Non-controlling interests		(318)
	$	(723)
Note consideration	$	420
Cash consideration		4,467
Acquisition date fair value of contingent consideration		949
Total purchase consideration	$	5,836
Acquired intangible assets	$	3,448
Goodwill	$	3,111

Acquisition-related transaction costs for the year ended December 31, 2011 totaled $861 (2010 - $1,158; 2009 - $54) and were recorded as expense under the caption “acquisition-related items”.

In all years presented, the fair values of non-controlling interests were determined using an income approach with reference to a discounted fair cash flow model using the same assumptions implied in determining the purchase consideration.

The purchase price allocations of acquisitions resulted in the recognition of goodwill. The primary factors contributing to goodwill are assembled workforces, synergies with existing operations and future growth prospects. For acquisitions completed during the year ended December 31, 2011, goodwill in the amount of $11,441 is deductible for income tax purposes (2010 - $15,067; 2009 - $1,929).

The Company typically structures its business acquisitions to include contingent consideration. Certain vendors, at the time of acquisition, are entitled to receive a contingent consideration payment if the acquired businesses achieve specified earnings levels during the one- to four-year periods following the dates of acquisition. The ultimate amount of payment is determined based on a formula, the key inputs to which are (i) a contractually agreed maximum payment; (ii) a contractually specified earnings level and (iii) the actual earnings for the contingency period. If the acquired business does not achieve the specified earnings level, the maximum payment is reduced for any shortfall, potentially to nil.

For acquisitions made after December 31, 2008, unless it contains an element of compensation, contingent consideration is recorded at fair value each reporting period. The fair value recorded on the consolidated balance sheet as at December 31, 2011 was $12,844 (see note 20). The estimated range of outcomes (undiscounted) for these contingent consideration arrangements is determined based on the formula price and the likelihood of achieving specified earnings levels over the contingency period, and ranges from $14,800 to a maximum of $17,400. The compensation element is recorded on a straight line basis over the contingency period and, as at December 31, 2011 totaled $3,900 (2010 - $1,532), and was recorded in "Other liabilities" on the balance sheet. The estimated range of outcomes related to the compensation element is $9,400 to a maximum of $11,100. These contingencies will expire during the period extending to December 2013. During the year ended December 31, 2011, $1,806 was paid with reference to such contingent consideration (2010 - $318; 2009 - nil). In addition, as at December 31, 2011, the Company had recorded in "Accrued liabilities" $3,109 of consideration payable related to acquisitions where all contingencies had been resolved (2010 - nil).

The contingent consideration on acquisitions completed before January 1, 2009 is recorded when the contingencies are resolved and the consideration is paid or becomes payable, at which time the Company records the fair value of the consideration paid or payable as additional costs of the acquired businesses. The total contingent consideration recognized for the year ended December 31, 2011 was $60 (2010 - $350; 2009 - $10,513). Contingent consideration paid during the year ended December 31, 2011 was $60 (2010 - $2,782; 2009 - $12,364) and the amount payable as at December 31, 2011 was nil (2010 - nil). As at December 31, 2011, there was no contingent consideration outstanding (2010 - $8,400) in respect of pre-January 1, 2009 acquisitions.

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 consideration for the acquisitions during the year ended December 31, 2011 was financed from borrowings on the Company's revolving credit facility and cash on hand.

The amounts of revenues and earnings contributed from the date of acquisition and included in the Company's consolidated results for the year ended December 31, 2011, and the supplemental pro forma revenues and earnings of the combined entity had the acquisition date been January 1, 2010, are as follows:

	Revenues	Net earnings
Actual from acquired entities for 2011	$ 21,098	$ 1,569
Supplemental pro forma for 2011 (unaudited)	2,252,521	65,237
Supplemental pro forma for 2010 (unaudited)	2,096,049	8,342

Supplemental pro forma results were not adjusted for any non-recurring items.

4. Dispositions

In July 2008, the Company completed the sale of the businesses comprising its Integrated Security Services ("ISS") segment. Included in discontinued operations for the year ended December 31, 2009 was an after-tax gain of $791 on the final settlement of ISS working capital.

In December 2008, the Company decided to sell its Chicago-based US mortgage brokerage and servicing operation ("USMB") due to adverse credit market conditions. USMB was previously reported within the Commercial Real Estate Services segment. The Company wrote the net assets of USMB down to fair value less cost to sell as of December 31, 2008, with a loss in the amount of $11,021, which included a deferred income tax valuation allowance of $1,501. In May 2009, the Company completed the sale of USMB and received aggregate consideration of $2,000. The after-tax loss on the disposal for 2009 was $367 (net of income taxes of nil). USMB has been reported as discontinued operations.

In January 2008, the Company decided to exit its Canadian commercial mortgage securitization operation ("CCMS") due to adverse credit market conditions. CCMS was previously reported within the Commercial Real Estate Services segment. The exit was complete as of March 31, 2008 except for the disposal of the remaining mortgage loans receivable. The last remaining mortgage assets were disposed of in 2009. This operation has been reported as discontinued operations.

Operating results	2009
Revenues	
USMB	$ 4,438
CCMS	623
	5,061
Operating (loss) earnings before income taxes	
USMB	$ (831)
CCMS	580
	(251)
Provision for income taxes	749
Net operating loss from discontinued operations	(1,000)
Net gain on disposal of ISS (after tax)	791
Net loss on disposal of USMB (after tax)	(367)
Net loss from discontinued operations	(576)
Net loss per common share from discontinued operations	
Basic	$ (0.02)
Diluted	(0.02)

5. Acquisition-related items

Acquisition-related expense (income) is comprised of the following:

	2011	2010	2009
Settlement of acquisition-related liability	**$ -**	$ (4,496)	$ -
Contingent consideration compensation expense	**2,819**	1,532	-
Contingent consideration fair value adjustments	**969**	935	-
Transaction costs	**861**	1,158	-
	$ 4,649	$ (871)	$ -

The settlement of the acquisition-related liability was related to a potential sales tax liability of an acquired entity over which the statute of limitations lapsed during the year ended December 31, 2010.

6. Other expense (income)

	2011	2010	2009
Loss (earnings) from equity method investments	**$ 3,475**	$ 4,046	$ (1,548)
Other-than-temporary impairment of investment	**3,092**	-	-
Gain on sale of investment	**-**	-	(4,488)
Other	**(250)**	(1,039)	(76)
	$ 6,317	$ 3,007	$ (6,112)

During the year ended December 31 2011, as a result of a sustained decline in the market price of the shares of the Company's investment in Colliers International UK plc (see note 8), an other-than-temporary impairment charge of $3,092 was recorded in the statement of earnings.

During the year ended December 31, 2009, the Company sold its investment in Resolve Business Outsourcing Income Fund, realizing a gain of $4,488.

7. Components of working capital accounts

	December 31, 2011	December 31, 2010
Inventories		
Work-in-progress	**$ 5,497**	$ 2,860
Finished goods	**2,119**	2,079
Supplies and other	**4,215**	4,201
	$ 11,831	$ 9,140
Accrued liabilities		
Accrued payroll, commission and benefits	**$ 184,493**	$ 193,823
Accrued interest	**1,888**	2,160
Customer advances	**4,246**	3,178
Contingent acquisition consideration	**2,678**	1,224
Other	**78,801**	73,509
	$ 272,106	$ 273,894

8. Other assets

	December 31, 2011	December 31, 2010
Equity method investments	**$ 3,441**	$ 13,222
Financing fees, net of accumulated amortization of $6,419 (December 31, 2010 - $5,308)	**2,635**	3,824
Other	**4,268**	2,306
	$ 10,344	$ 19,352

The Company holds 29.5% of the shares of Colliers International UK plc, a publicly traded commercial real estate business in the United Kingdom which it acquired in October 2009 at a cost of $13,955. The shares are accounted for under the equity method. The carrying value of the shares as at December 31, 2011 was nil (2010 - $8,993) (see notes 6 and 20).

9. Fixed assets

December 31, 2011

	Cost	Accumulated depreciation	**Net**
Land	$ 3,093	$ -	**$ 3,093**
Buildings	14,442	4,455	**9,987**
Vehicles	26,030	19,827	**6,203**
Furniture and equipment	63,504	44,305	**19,199**
Computer equipment and software	98,535	66,123	**32,412**
Leasehold improvements	47,414	24,158	**23,256**
	$ 253,018	$ 158,868	**$ 94,150**

December 31, 2010

	Cost	Accumulated depreciation	Net
Land	$ 3,070	$ -	$ 3,070
Buildings	13,790	3,984	9,806
Vehicles	24,586	18,021	6,565
Furniture and equipment	59,806	38,668	21,138
Computer equipment and software	83,487	51,743	31,744
Leasehold improvements	38,261	24,450	13,811
	$ 223,000	$ 136,866	$ 86,134

Included in fixed assets are vehicles, office and computer equipment under capital lease at a cost of $5,466 (2010 - $6,984) and net book value of $2,948 (2010 - $3,240).

10. Intangible assets

December 31, 2011

	Gross carrying amount	Accumulated amortization	**Net**
Customer lists and relationships	$ 152,824	$ 48,683	**$ 104,141**
Franchise rights	37,246	12,648	**24,598**
Trademarks and trade names:			
Indefinite life	20,702	-	**20,702**
Finite life	40,176	9,179	**30,997**
Management contracts and other	20,010	11,548	**8,462**
Brokerage backlog	2,240	2,231	**9**
	$ 273,198	$ 84,289	**$ 188,909**

December 31, 2010

	Gross carrying amount	Accumulated amortization	Net
Customer lists and relationships	$ 148,408	$ 41,321	$ 107,087
Franchise rights	37,899	10,995	26,904
Trademarks and trade names:			
Indefinite life	20,758	-	20,758
Finite life	38,857	8,828	30,029
Management contracts and other	17,541	9,509	8,032
Brokerage backlog	3,981	3,597	384
	$ 267,444	$ 74,250	$ 193,194

During the year ended December 31, 2011, the Company acquired the following intangible assets:

	Amount	Estimated weighted average amortization period (years)
Customer lists and relationships	$ 13,015	10.0
Franchise rights	97	9.4
Trademarks and trade names	3,060	19.6
Management contracts and other	998	6.7
	17,170	11.5

The following is the estimated annual amortization expense for recorded intangible assets for each of the next five years ending December 31:

2012	$ 19,310
2013	16,551
2014	14,847
2015	14,402
2016	13,868

11. Goodwill

	Commercial Real Estate Services	Residential Property Management	Property Services	Consolidated
Balance, December 31, 2009	$ 125,502	$ 128,071	$ 86,654	$ 340,227
Goodwill arising from contingent acquisition consideration	-	626	-	626
Goodwill acquired during the period	18,776	13,691	-	32,467
Other items	-	(1,723)	(757)	(2,480)
Foreign exchange	8,540	227	250	9,017
Balance, December 31, 2010	152,818	140,892	86,147	379,857
Goodwill acquired during the period	279	19,748	-	20,027
Other items	(289)	(787)	(215)	(1,291)
Foreign exchange	(2,093)	(911)	(102)	(3,106)
Balance, December 31, 2011	**150,715**	**158,942**	**85,830**	**395,487**
Goodwill	180,298	158,942	85,830	425,070
Accumulated impairment loss	(29,583)	-	-	(29,583)
	$ 150,715	**$ 158,942**	**$ 85,830**	**$ 395,487**

A test for goodwill impairment is required to be completed annually, in the Company's case as of August 1, or more frequently if events or changes in circumstances indicate the asset might be impaired. No goodwill impairments were identified in 2011 or 2010.

In 2009, the Company was required to perform goodwill impairment tests due to a continuing deterioration of economic conditions negatively impacting the performance of the Commercial Real Estate segment. The Company determined that there were impairments in the North America and Central Europe & Latin America reporting units within the reportable segment driven by adverse economic conditions and sharply reduced brokerage activity. The fair values of the reporting units were determined using discounted cash flow models, which fell within Level 3 of the fair value hierarchy and were based on management's forecast and current economic trends. The amount of the impairment loss related to the two reporting units was $29,583 (net of income tax of nil).

12. Long-term debt and convertible debentures

	December 31, 2011	December 31, 2010
Revolving credit facility	**$ 180,057**	$ 68,600
8.06% Senior Notes	**-**	14,284
6.40% Senior Notes	**50,000**	50,000
5.44% Senior Notes	**80,000**	100,000
Unamortized gain on settlement of interest rate swaps	**386**	563
Adjustment to senior notes resulting from interest rate swap	**332**	(377)
Capital leases maturing at various dates through 2013	**2,337**	2,530
Other long-term debt maturing at various dates up to and beyond 2016	**3,303**	5,140
	316,415	240,740
Less: current portion	**216,373**	39,249
Long-term debt - non-current	**$ 100,042**	$ 201,491
Convertible Debentures	**77,000**	77,000
	$ 177,042	$ 278,491

On September 6, 2007, the Company entered into an amended and restated credit agreement with a syndicate of banks to provide a $225,000 committed revolving credit facility with a five-year term ending September 7, 2012 (see note 25). During the year ended December 31, 2011, the Company accessed an accordion feature within the credit agreement to expand the amount of the revolving credit facility by $50,000 to a total of $275,000. The amended revolving credit facility bears interest at 0.75% to 1.30% over floating reference rates, depending on certain leverage ratios determined quarterly. The weighted average interest rate for 2011 was 1.1% (2010 - 1.1%). The revolving credit facility had $60,851 of available un-drawn credit as at December 31, 2011 ($120,389 was un-drawn at December 31, 2010). As of December 31, 2011, letters of credit in the amount of $11,592 were outstanding ($13,511 as at December 31, 2010). 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 $50,000 of 6.40% fixed-rate Senior 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 also has outstanding $80,000 of 5.44% fixed-rate Senior Notes (the “5.44% Notes”). The 5.44% Notes have a final maturity of April 1, 2015 with five equal annual principal repayments which began on April 1, 2011.

The Company has indemnified the holders of the 6.40% Notes and 5.44% Notes (collectively, the “Notes”) from all withholding tax that is or may become applicable to any payments made by the Company on the Notes. The Company believes this exposure is not material as of December 31, 2011.

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 Company’s shares of its subsidiaries; an assignment of material contracts; and an assignment of the Company’s “call” rights with respect to shares of the subsidiaries held by non-controlling interests.

The covenants of the revolving credit facility and the Notes agreements 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.

The Company has issued and outstanding $77,000 principal amount of 6.50% Convertible Unsecured Subordinate Debentures ("Convertible Debentures") with a maturity date of December 31, 2014. At the holder's option, the Convertible Debentures may be converted at any time prior to maturity into Subordinate Voting Shares based on an initial conversion rate of approximately 35.7143 common shares per $1,000 principal amount of Convertible Debentures (which represents an initial conversion price of $28.00 per share). The Company may also, at its option, redeem the Convertible Debentures at any time on or after December 31, 2012. Subject to specified conditions, the Company has the right to repay the outstanding principal amount of the Convertible Debentures, on maturity or redemption, through the issuance of Subordinate Voting Shares. The Company also has the option to satisfy its obligation to pay interest through the issuance and sale of Subordinate Voting Shares. The Convertible Debentures are unsecured and contain no financial ratio covenants.

The effective interest rate on the Company's long-term debt and Convertible Debentures for the year ended December 31, 2011 was 4.8% (2010 - 5.8%). The estimated aggregate amount of principal repayments on long-term debt required in each of the next five years ending December 31 and thereafter to meet the retirement provisions are as follows:

2012	$	216,373
2013		33,841
2014		110,396
2015		32,525
2016 and thereafter		280

13. Non-controlling interests

The minority equity positions in the Company's subsidiaries are referred to as non-controlling interests ("NCI"). The NCI are considered to be redeemable securities. Accordingly, the NCI is recorded at the greater of (i) the redemption amount or (ii) the amount initially recorded as NCI at the date of inception of the minority equity position. This amount is recorded in the "mezzanine" section of the balance sheet, outside of shareholders' equity. Changes in the NCI amount are recognized immediately as they occur. The following table provides a reconciliation of the beginning and ending NCI amounts:

		2011		2010
Balance, January 1	**$**	**174,358**	$	164,168
NCI share of earnings		**14,692**		15,420
NCI share of other comprehensive earnings		**(171)**		842
NCI redemption increment		**12,941**		18,916
Distributions paid to NCI		**(10,617)**		(8,654)
Purchases of interests from NCI, net		**(57,037)**		(46,480)
NCI recognized on business acquisitions		**7,238**		30,146
Balance, December 31	**$**	**141,404**	$	174,358

The Company has shareholders' agreements in place at each of its non-wholly owned subsidiaries. These agreements allow the Company to "call" the non-controlling interest at a price determined with the use of a formula price, which is usually equal to a fixed multiple of average annual net earnings before extraordinary items, income taxes, interest, depreciation, and amortization. The agreements also have redemption features which allow the owners of the NCI to "put" their equity to the Company at the same price subject to certain limitations. The formula price is referred to as the redemption amount and may be paid in cash or in Subordinate Voting Shares. The redemption amount as of December 31, 2011 was $127,018 (2010 - $160,425). The redemption amount is lower than that recorded on the balance sheet as the formula price of certain NCI are lower than the amount initially recorded at the inception of the minority equity position. If all put or call options were settled with Subordinate Voting Shares as at December 31, 2011, approximately 4,900,000 (2010 - 5,600,000) such shares would be issued.

14. Capital stock

The authorized capital stock of the Company is as follows:

An unlimited number of Preferred 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 issued and outstanding:

	Preferred Shares		*Subordinate Voting Shares*		*Multiple Voting Shares*		*Total Common Shares*	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Balance, December 31, 2010	5,772,274	$ 144,307	28,992,580	$ 106,100	1,325,694	$ 373	30,318,274	$ 106,473
Balance, December 31, 2011	5,622,634	$ 140,561	28,615,560	$ 110,448	1,325,694	$ 373	29,941,254	$ 110,821

Each 7% Cumulative Preference Share, Series 1 (a “Preferred Share”) has a stated amount of $25.00. Preferred Share dividends are payable quarterly on or about the last day of each quarter. The Company may redeem each Preferred Share for $25.00 payable in cash, or alternatively the Company may convert each Preferred Share into Subordinate Voting Shares based on a price of $25.00. Holders of the Preferred Shares have no redemption or conversion rights.

Pursuant to an agreement approved in February 2004, the Company agreed that it will make payments to its Chief Executive Officer (“CEO”) that are contingent upon the arm’s length sale of control of the Company or upon a distribution of the Company’s assets to shareholders. The payment amounts will be 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 payments may be transferred among members of the CEO’s family, their holding companies and trusts. The agreement provides for the CEO to receive each of the following two payments. The first payment is an amount equal to 5% of the product of: (i) the total number of Subordinate and Multiple Voting Shares outstanding on a fully diluted basis at the time of the sale and (ii) the per share consideration received by holders of Subordinate and Multiple Voting Shares minus a base price of C$5.675. The second payment is an amount equal to 5% of the product of (i) the total number of shares outstanding on a fully diluted basis at the time of the sale and (ii) the per share consideration received by holders of Subordinate Voting Shares minus a base price of C$11.05. Assuming an arm’s length sale of control of the Company took place on December 31, 2011, the amount required to be paid to the CEO would be $58,188.

15. Stock-based compensation

The Company incurred stock-based compensation expense of $2,335 during the year ended December 31, 2011 (2010 - $2,761; 2009 - $5,424).

Company stock option plan
The Company has a stock option plan for certain officers and key full-time employees of the Company and its subsidiaries, other than its CEO. Options are granted at the market price for the underlying shares on the date of grant. Each option vests over a four-year term, expires five years from the date granted and allows for the purchase of one Subordinate Voting Share. All Subordinate Voting Shares issued are new shares. As at December 31, 2011, there were 517,750 options available for future grants.

Grants under the Company’s stock option plan are equity-classified awards. Stock option activity for the years ended December 31, 2011, 2010 and 2009 was as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Shares issuable under options - December 31, 2008	1,580,755	$ 18.24		
Granted	321,000	11.85		
Exercised	(246,755)	10.11		
Shares issuable under options - December 31, 2009	1,655,000	$ 18.22		
Granted	520,000	19.15		
Exercised	(311,950)	14.59		
Forfeited	(12,750)	16.23		
Shares issuable under options - December 31, 2010	1,850,300	$ 19.03		
Granted	308,000	30.78		
Exercised	(262,750)	19.87		
Shares issuable under options - December 31, 2011	1,895,550	$ 20.83	2.26	$ 13,048
Options exercisable - End of period	951,350	$ 20.66	1.41	$ 6,672

As at December 31, 2011, the range of option exercise prices was $11.74 to $33.25 per share. Also as at December 31, 2011, the aggregate intrinsic value and weighted average remaining contractual life for in-the-money options vested and expected to vest were $13,048 and 2.0 years, respectively.

The following table summarizes information about option exercises during years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Number of options exercised	**262,750**	311,950	246,755
Aggregate fair value	**$ 8,510**	$ 6,741	$ 4,070
Intrinsic value	**3,320**	2,190	1,544
Amount of cash received	**5,190**	4,551	2,526
Tax benefit recognized	**$ 1,119**	$ 699	$ 536

As at December 31, 2011, there was $3,632 of unrecognized compensation cost related to non-vested awards which is expected to be recognized over the next 4 years. During the year ended December 31, 2011, the fair value of options vested was $2,606 (2010 - $2,434; 2009 - $2,140).

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, utilizing the following weighted average assumptions:

	2011	2010	2009
Risk free rate	**1.0%**	1.4%	1.3%
Expected life in years	**4.75**	4.75	4.75
Expected volatility	**39.4%**	39.8%	38.8%
Dividend yield	**0.0%**	0.0%	0.0%
Weighted average fair value per option granted	**$ 10.73**	$ 6.85	$ 4.14

The risk-free interest rate is based on the implied yield of a zero-coupon US Treasury bond with a term equal to the option's expected term. The expected life in years represents the estimated period of time until exercise and is based on historical experience. The expected volatility is based on the historical prices of the Company's shares over the previous four years. The dividend yield assumption is based on the Company's present intention to retain all earnings in respect of the Common Shares.

Subsidiary stock option plans

The Company has stock option plans at its Commercial Real Estate subsidiary entitling the holders to acquire up to a 16.1% interest in the subsidiary. Grants under the subsidiary stock option plans are liability classified awards because the underlying stock is also classified as a liability (see note 13). The fair value of the liability relating to these awards is calculated each period using the Black-Scholes option pricing model. The fair value of the liability related to these awards as at December 31, 2011 was nil (2010 – nil) and compensation expense recognized related to the awards for the year ended December 31, 2011 was nil (2010 – nil).

16. Income tax

Income tax differs from the amounts that would be obtained by applying the statutory rate to the respective year's earnings before tax. These differences result from the following items:

	2011	2010	2009
Income tax expense using combined statutory rate of 28% (2010 - 31%, 2009 - 33%)	**$ 21,158**	$ 23,909	$ 10,489
Permanent differences	**4,554**	2,933	1,942
Tax effect of flow through entities	**(3,462)**	(2,768)	(796)
Goodwill or other investment impairment charge	**874**	-	9,643
Impact of changes in foreign exchange rates	**(679)**	(1,426)	4,718
Adjustments to tax liabilities for prior periods	**940**	1,499	(2,600)
Effects of changes in enacted tax rates	**52**	2,049	(854)
Changes in liability for unrecognized tax benefits	**(342)**	(5,881)	1,418
Stock-based compensation	**(386)**	(39)	(37)
Foreign state and provincial tax rate differential	**(1,763)**	(3,829)	(2,795)
Withholding tax	**486**	396	517
Other taxes	**901**	678	453
Loss (earnings) from equity method investments	**605**	1,348	(321)
Non-taxable income	**-**	(1,398)	-
Change in valuation allowances	**(49,745)**	11,757	17,289
Provision for (recovery of) income taxes as reported	**$ (26,807)**	$ 29,228	$ 39,066

Earnings before income tax by jurisdiction comprise the following:

	2011	2010	2009
Canada	**$ 33,331**	$ 22,446	$ 30,112
United States	**21,172**	32,508	5,680
Australia	**21,791**	21,698	11,443
Foreign	**(1,358)**	476	(15,448)
Total	**$ 74,936**	$ 77,128	$ 31,787

The provision for (recovery of) income tax comprises the following:

	2011	2010	2009
Current			
Canada	**$ 4,630**	$ 4,758	$ 2,244
United States	**21,625**	24,667	32,247
Australia	**7,206**	6,795	3,365
Foreign	**3,708**	448	1,795
	37,169	36,668	39,651
Deferred			
Canada	**(275)**	(5,441)	878
United States	**(63,049)**	29	(576)
Australia	**(729)**	(1,418)	269
Foreign	**77**	(610)	(1,156)
	(63,976)	(7,440)	(585)
Total	**$ (26,807)**	$ 29,228	$ 39,066

The significant components of deferred income tax are as follows:

	2011	2010
Deferred income tax assets		
Loss carry-forwards	**$ 76,422**	$ 68,074
Expenses not currently deductible	**15,179**	12,966
Stock-based compensation	**4,084**	3,940
Basis differences of partnerships and other entities	**11,316**	1,093
Allowance for doubtful accounts	**4,752**	4,751
Inventory and other reserves	**853**	615
	112,606	91,439
Less: Valuation allowance	**(8,139)**	(55,624)
	104,467	35,815
Deferred income tax liabilities		
Depreciation and amortization	**37,880**	33,293
Unrealized foreign exchange gains	**168**	518
Prepaid and other expenses deducted for tax purposes	**995**	189
Financing fees	**112**	269
	39,155	34,269
Net deferred income tax asset	**$ 65,312**	$ 1,546

Since 2008, the Company has recognized valuation allowances with respect to deferred income tax assets in its Commercial Real Estate operations, primarily in the United States, due to a history of operating losses. During the fourth quarter of 2011, the Company completed a reorganization of certain operations in the United States to improve administrative efficiency and achieve other benefits. This reorganization was previously not considered prudent or feasible as the acquisitions and/or consents of significant non-controlling interests were required to complete the reorganization, which acquisitions and consents were not completed until the fourth quarter of 2011. The reorganization provided objective evidence of projected future taxable income and pro forma historical taxable income that outweighs the negative evidence of historical operating losses. In addition, the projection of future taxable income results in the utilization of net operating losses well before the 20-year loss carry-forward limitation. As a result, a valuation allowance in the amount of $48,351 related to the United States Commercial Real Estate operations was reversed as of December 31, 2011.

As at December 31, 2011, the Company had gross operating loss carry-forward balances in the United States, primarily in the Commercial Real Estate segment, of approximately $143,875 (2010 - $112,115) prior to a valuation allowance of $4,092 (2010 - $110,342). Also in the United States, the Company also had gross capital loss carry-forward balances which amounted to $692 (2010 - $10,446) as at December 31, 2011 prior to a valuation allowance of $692 (2010 - $10,446).

As at December 31, 2011, the Company had gross Canadian operating loss carry-forward balances of approximately $52,353 (2010 - $55,246) prior to a valuation allowance of $2,857 (2010 - $1,145). These amounts are available to reduce future federal and provincial income taxes.

Net operating loss carry-forward balances attributable to the United States and Canada expire over the next 14 to 20 years.

The Company had gross foreign operating loss carry-forward balances as at December 31, 2011 of approximately $29,442 (2010 - $27,901), prior to a valuation allowance of $26,784 (2010 - $26,641).

Foreign gross capital loss carry-forward balances in Australia amounted to $9,389 (2010 - $9,634) as at December 31, 2011 prior to a valuation allowance of $9,389 (2010 - $9,634).

Cumulative unremitted earnings of US and foreign subsidiaries approximated $158,308 as at December 31, 2011 (2010 - $146,947).

A reconciliation of the beginning and ending amounts of the liability for unrecognized tax benefits is as follows:

Balance, December 31, 2009	$ 14,390
Increases based on tax positions related to the current period	944
Reduction for lapses in applicable statutes of limitations	(7,614)
Balance, December 31, 2010	7,720
Increases based on tax positions related to the current period	1,903
Decreases for tax positions of prior periods	(659)
Reduction for lapses in applicable statutes of limitations	(1,362)
Balance, December 31, 2011	$ 7,602

Of the $7,602 (2010 - $7,720) in gross unrecognized tax benefits, $7,602, (2010 - $7,720) would affect the Company’s effective tax rate if recognized. For the year ended December 31, 2011, a recovery of $238 in interest and penalties related to provisions for income tax was recorded in income tax expense (2010 - recovery of $994; 2009 - expense of $125). As at December 31, 2011, the Company had accrued $160 (2010 - $398) for potential income tax related interest and penalties.

Within the next twelve months, the Company believes it is reasonably possible that $438 of unrecognized tax benefits associated with uncertain tax positions may be reduced due to lapses in statutes of limitations.

The Company’s significant tax jurisdictions include the United States, Canada and Australia. The number of years with open tax audits varies depending on the tax jurisdictions. Generally, income tax returns filed with the Canada Revenue Agency and related provinces are open for three to four years and income tax returns filed with the U.S. Internal Revenue Service and related states are open for three to five years. Tax returns in Australia are generally open for four years.

The Company does not currently expect any other material impact on earnings to result from the resolution of matters related to open taxation years, other than noted above. Actual settlements may differ from the amounts accrued. The Company has, as part of its analysis, made its current estimates based on facts and circumstances known to date and cannot predict changes in facts and circumstances that may affect its current estimates.

17. Net earnings (loss) attributable to Company

The following table sets out the net earnings (loss) attributable to the Company's common shareholders:

	2011	2010	2009
Amounts attributable to the Company:			
Net earnings (loss) from continuing operations	**$ 74,110**	$ 13,564	$ (44,373)
Net loss from discontinued operations	**-**	-	(481)
Net earnings (loss)	**74,110**	13,564	(44,854)
Preferred share dividends	**9,971**	10,101	10,101
Net earnings (loss) attributable to common shareholders	**$ 64,139**	$ 3,463	$ (54,955)

18. Net earnings (loss) per common share

Earnings per share calculations cannot be anti-dilutive, therefore diluted shares are not used in the denominator when the numerator is in a loss position. The following table reconciles the numerator used to calculate earnings per common share:

	2011	2010	2009
Net earnings (loss) attributable to common shareholders	**$ 64,139**	$ 3,463	$ (54,955)
Assumed interest savings on conversion of dilutive Convertible Debentures, net of tax	**3,604**	-	-
Net earnings (loss) for diluted earnings per share calculation purposes	**$ 67,743**	$ 3,463	$ (54,955)

The Convertible Debentures were dilutive in 2011, but anti-dilutive in all other periods presented. The following table reconciles the denominator used to calculate earnings per common share:

	2011	2010	2009
Shares issued and outstanding at beginning of period	**30,318,274**	29,624,910	29,333,484
Weighted average number of shares:			
Issued during the period	**218,418**	455,708	104,091
Repurchased during the period	**(443,081)**	-	-
Weighted average number of shares used in computing basic earnings per share	**30,093,611**	30,080,618	29,437,575
Assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method	**457,404**	286,193	78,580
Assumed conversion of dilutive Convertible Debentures	**2,750,000**	-	-
Number of shares used in computing diluted earnings per share	**33,301,015**	30,366,811	29,516,155

19. Other supplemental information

	2011	2010	2009
Franchisor operations			
Revenues	**$ 74,429**	$ 69,382	$ 66,966
Operating earnings	**16,110**	10,334	8,641
Initial franchise fee revenues	**5,857**	4,677	5,662
Cash payments made during the period			
Income taxes	**$ 43,897**	$ 43,809	$ 33,270
Interest	**16,240**	18,301	13,470
Non-cash financing activities			
Increases in capital lease obligations	**$ 1,540**	$ 1,240	$ 1,722
Other expenses			
Rent expense	**$ 65,992**	$ 57,600	$ 48,957

20. Financial instruments

Concentration of credit risk

The Company is subject to credit risk with respect to its cash and cash equivalents, accounts receivable and other receivables. 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 various countries.

Interest rate risk

The Company maintains an interest rate risk management strategy that uses interest rate hedging contracts from time to time. 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 affect the fair value of the hedging contracts as their value depends on the prevailing market interest rate. Hedging contracts are monitored on a monthly basis.

As of December 31, 2011, the Company was party to an interest rate swap agreement to exchange the fixed rate on a portion of its debt to a floating rate. On the 5.44% Senior Notes, an interest rate swap exchanges the fixed rate on $40,000 of principal for LIBOR (6 month in arrears) + 387 basis points. The terms of the swap match the term of the 5.44% Senior Notes with a maturity of April 1, 2015.

The interest rate swap is being accounted for as a fair value hedge. The swap is carried at fair value on the balance sheet, with gains or losses recognized in earnings. The carrying value of the hedged debt is adjusted for changes in fair value attributable to the hedged interest rate risk; the associated gain or loss is recognized concurrently in earnings. So long as the hedge is considered highly effective, the net impact on earnings is nil.

The following tables provide fair value information of the hedging instrument and the effect of the hedging instrument during the period:

	2011	
Derivative designated as hedging instrument	Balance sheet location	Fair Value
Interest rate swaps	Other assets (non-current)	$ 332

During 2010, the Company settled two interest rate swap agreements for a cash gain in the amount of $669. This gain is amortized over the remaining life of the underlying debt which has a final maturity of April 1, 2015.

Fair values of financial instruments

The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2011:

	Carrying value at December 31, 2011	Fair value measurements Level 1	Level 2	Level 3
Interest rate swap asset	$ 332	$ -	$ 332	$ -
Contingent consideration liability	12,844	-	-	12,844

The fair value of the interest rate swap liability was determined using widely accepted valuation techniques. The inputs to the measurement of the fair value of contingent consideration related to acquisitions made after December 31, 2008 are Level 3 inputs. The fair value measurements were made using a discounted cash flows approach; significant model inputs were expected future operating cash flows and discount rates. Changes in the fair value of the contingent consideration liability are comprised of the following:

Balance, December 31, 2010	$ 13,312
Amounts recognized on acquisitions	3,482
Fair value adjustments (note 5)	969
Resolved and settled in cash	(1,806)
Resolved and recorded in "Accrued liabilities"	(3,109)
Foreign exchange	(4)
Balance, December 31, 2011	$ 12,844
Less: current portion	$ 2,678
Non-current portion	$ 10,166

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:

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Other receivables	**$ 6,684**	**$ 6,684**	$ 8,452	$ 8,452
Investment in Colliers International UK plc	**-**	**-**	8,993	12,677
Long-term debt	**316,415**	**332,918**	240,740	258,930
Convertible debentures	**77,000**	**83,930**	77,000	95,865

Other receivables include notes receivable from minority shareholders and other non-current receivables. The investment in Colliers International UK plc is included under the balance sheet caption “Other assets”.

21. Commitments and contingencies

(a) Lease commitments

Minimum operating lease payments are as follows:

Year ended December 31		
2012	$	63,182
2013		53,684
2014		38,996
2015		27,732
2016		18,977
Thereafter		50,769

(b) 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.

22. Related party transactions

During the year ended December 31, 2011, the Company paid $3,363 (2010 - $2,812; 2009 - $2,556) in rent to entities controlled by minority shareholders of subsidiaries. In addition, $15,821 (2010 - $16,036; 2009 - $5,925) of service revenues were earned from entities controlled by minority shareholders of subsidiaries and $370 (2010 - $169; 2009 - $1,030) of expenses were paid to entities controlled by minority shareholders of subsidiaries.

As at December 31, 2011, the Company had $3,954 of loans receivable from minority shareholders (2010 - $6,004) and $2,720 of loans payable to minority shareholders (2010 - $2,950).

23. Segmented information

Operating segments

The Company has three reportable operating segments. The segments are grouped with reference to the nature 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. CRE provides commercial property brokerage and other advisory services to clients in North America and in various other countries around the world. Residential Property Management provides property management and related property services to residential communities in North America. Property Services provides franchised and Company-owned property services to customers in North America. Corporate includes the costs of operating the Company's corporate head office.

Included in total assets of the CRE segment at December 31, 2011 is $3,072 (2010 - $12,360) of investments in subsidiaries accounted for under the equity method. The reportable segment information excludes intersegment transactions.

2011	Commercial Real Estate Services	Residential Property Management	Property Services	Corporate	Consolidated
Revenues	$ 994,579	$ 760,501	$ 468,903	$ 188	$ 2,224,171
Depreciation and amortization	22,073	18,022	10,692	139	50,926
Operating earnings (loss)	22,379	47,202	45,421	(16,941)	98,061
Other expense, net					(6,317)
Interest expense, net					(16,808)
Income taxes					26,807
Net earnings					101,743
Total assets	$ 576,268	$ 423,328	$ 210,898	$ 23,224	$ 1,233,718
Total additions to long lived assets	14,997	49,071	6,441	68	70,577

2010	Commercial Real Estate Services	Residential Property Management	Property Services	Corporate	Consolidated
Revenues	$ 861,917	$ 662,033	$ 462,141	$ 180	$ 1,986,271
Depreciation and amortization	23,362	14,605	9,544	375	47,886
Operating earnings (loss)	14,694	46,670	58,671	(22,503)	97,532
Other expense, net					(3,007)
Interest expense, net					(17,397)
Income taxes					(29,228)
Net earnings					$ 47,900
Total assets	$ 514,060	$ 359,247	$ 217,692	$ 38,542	$ 1,129,541
Total additions to long lived assets	78,068	41,182	6,650	273	126,173

2009	Commercial Real Estate Services	Residential Property Management	Property Services	Corporate	Consolidated
Revenues	$ 622,996	$ 645,251	$ 434,838	$ 137	$ 1,703,222
Depreciation and amortization	25,031	11,561	9,447	344	46,383
Operating earnings (loss)	(61,665)	49,399	62,028	(11,581)	38,181
Other expense, net					6,112
Interest expense, net					(12,506)
Income taxes					(39,066)
Net earnings from continuing operations					(7,279)
Net earnings from discontinued operations					(576)
Net earnings					$ (7,855)
Total assets	$ 389,703	$ 350,025	$ 204,769	$ 65,033	$ 1,009,530
Total additions to long lived assets	15,281	24,941	13,595	438	54,255

Geographic information

Revenues in each geographic region are reported by customer locations. Amounts reported in geographic regions other than the United States, Canada and Australia are primarily denominated in US dollars and Euros.

	2011	2010	2009
United States			
Revenues	**$ 1,523,912**	$ 1,406,713	$ 1,282,129
Total long-lived assets	**476,530**	469,465	427,217
Canada			
Revenues	**$ 310,912**	$ 246,809	$ 178,587
Total long-lived assets	**91,821**	76,502	56,460
Australia			
Revenues	**$ 171,873**	$ 164,486	$ 112,369
Total long-lived assets	**54,701**	55,291	40,341
Other			
Revenues	**$ 217,474**	$ 168,263	$ 130,137
Total long-lived assets	**55,494**	57,927	56,740
Consolidated			
Revenues	**$ 2,224,171**	$ 1,986,271	$ 1,703,222
Total long-lived assets	**678,546**	659,185	580,758

24. Impact of recently issued accounting standards

On January 1, 2011, the Company adopted a consensus of the Emerging Issues Task Force ("EITF") on multiple-deliverable revenue arrangements (ASU 2009-13). This consensus provides amendments to the existing criteria for separating consideration in multiple-deliverable revenue arrangements, and is expected to result in more separation of revenue elements than under existing accounting guidance. The consensus also requires enhanced disclosures of the nature and terms of an entity's multiple-deliverable arrangements, significant estimates, timing of delivery or performance and the general timing of revenue recognition. The adoption of this consensus did not have a material effect on the Company's results of operations, financial position or disclosure.

Effective January 1, 2011, the Company adopted an EITF consensus on the disclosure of supplementary pro forma information for business combinations (ASU 2010-29). The consensus specifies that when an entity completes a business combination, the entity should disclose revenue and earnings of the combined entity as though the business combination occurred as of the beginning of the comparable prior annual reporting period. The consensus also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, non-recurring pro forma adjustments directly attributable to the business combination included in the pro forma revenue and earnings. The adoption of this consensus impacted the Company's pro forma disclosures on acquisitions.

Effective July 1, 2011, the Company adopted updated Financial Accounting Standards Board ("FASB") guidance on testing goodwill for impairment (ASU 2011-08). This updated guidance simplifies the testing for goodwill impairment as it permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The adoption of this updated guidance changed the manner in which goodwill testing is performed and did not have a material effect on the Company's results of operations, financial position or disclosure.

In May 2011, the FASB issued updated guidance to achieve common fair value measurement and disclosure in US GAAP and IFRS (ASU 2011-04). This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between US GAAP and IFRS. The update changes certain fair value measurement principles and enhances disclosure requirements, particularly for level 3 fair value measurements. This guidance is effective for the Company on January 1, 2012. The Company is in the process of evaluating its adoption and disclosure implications, but is not expected to have a material effect on the Company's results of operations or financial position.

In June 2011, the FASB issued updated guidance on the presentation of comprehensive income (ASU 2011-5). This guidance requires entities to present the total of comprehensive earnings, the components of net earnings, and the components of other comprehensive earnings either in a single continuous statement of comprehensive earnings or in two separate but consecutive statements. Regardless of whether an entity chooses to present comprehensive earnings in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive earnings to net earnings in the statement(s) where the components of net earnings and the components of other comprehensive earnings are presented. The guidance does not change the items that must be reported in other comprehensive earnings or when an item of other comprehensive earnings must be reclassified to net earnings. ASU 2011-5 will be applied retrospectively by the Company effective January 1, 2012, except for the requirement to present reclassifications from other comprehensive earnings to net earnings by item on the face of the financial statements, which has been deferred. The adoption of the guidance is expected to result in a change in disclosure of comprehensive earnings from within the statement of shareholders' equity to a separate statement of comprehensive earnings.

25. SUBSEQUENT EVENT

On March 1, 2012, the Company entered into a revised credit agreement (the "New Credit Agreement") with a syndicate of lenders. The New Credit Agreement increases the committed senior revolving credit facility to $350,000 from $275,000 and includes an uncommitted accordion provision allowing for an additional $100,000 of borrowing capacity under certain circumstances. The New Credit Agreement has a five year term ending March 1, 2017 and bears interest at 1.25% to 3.00% over floating reference rates, depending on certain leverage ratios. The remaining terms were substantially unchanged from the prior credit agreement.